

# China's Village and Township Banks: Establishment and Development Challenges

MEN Chuang<sup>†</sup>

## Abstract

The Village and Township Banks (VTBs) have been established as part of the financial inclusion initiative in response to the withdrawal of major banks from rural areas in China's central and western regions since 2007. As of the end of 2021, there were 1,651 VTBs established nationwide, covering over 60% of the county-level regions. However, the VTBs are facing significant management challenges as evident from the bank runs that occurred in Henan province in 2022. This paper reflects on the history of VTBs and examines possibilities for management with greater stability to meet the financial needs of residents and small businesses in rural areas. Additionally, it also highlights the importance of strengthening bank governance during the process of becoming regionally integrated financial institutions.

**Keywords :** Village and Township Banks, Financial Inclusion, Rural Finance,  
Small Business Finance

## 1. An Overview

The establishment of China's Village and Township Banks (VTBs) in rural areas began in 2007. Since the state-owned commercial banks burdened with a large number of non-performing loans were forced to withdraw their branches from rural areas in the late 1990s, China Banking Regulatory Commission (CBRC) had to promote the

---

<sup>†</sup> 大阪産業大学 経済学部 国際経済学科 教授  
草稿提出日 2023年7月31日  
最終原稿提出日 2023年8月6日

establishment of small financial institutions in response to the absence of financial services in rural regions. As the policy objective of financial inclusion initiative, VTBs were introduced to maintain financial services in rural areas. Additionally, the establishment of new rural financial institutions such as Loan Companies and Rural Mutual-aid Cooperatives was also encouraged.

VTBs, which are mainly funded and operated by commercial banks, have advantages over Loan Companies and Rural Mutual-aid Cooperatives in terms of funding and management. The first of VTBs, Sichuan Yilong Huimin Village and Township Bank, was established under the control of Nanchong City Commercial Bank in 2007. Subsequently, many city commercial banks and rural commercial banks started establishing VTBs to seek business opportunities in rural areas. On the other hand, the CBRC also encouraged large banks, including state-owned commercial banks and joint-stock commercial banks, to establish VTBs starting from 2008.

In line with these efforts, the CBRC launched a policy objective in 2009 to promote the establishment of new rural financial institutions, setting goals for the establishment of

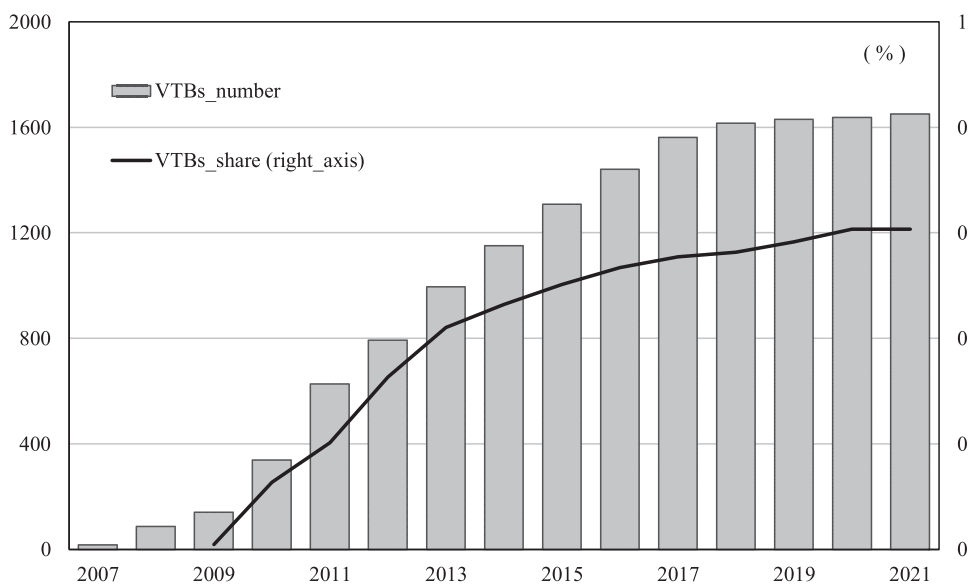


Figure 1. The Number of VTBs and Market Share in Chinese Banking Industry

Sources: Village and Township Banks Working Committee of China Banking Association (2019, 2020) and The National Administration of Financial Regulation (<https://xkz.cbirc.gov.cn/>).

1,294 institutions by the end of 2011.<sup>1)</sup> These institutions were intended to include 1,027 VTBs, 106 loan companies, and 161 rural mutual-aid cooperatives.

However, the establishment of VTBs did not progress as smoothly as planned, and the number of approved VTBs by the end of 2011 was only around 620. For this reason, the CBRC called on not only regional banks, but also state-owned commercial banks and foreign banks, to promote the establishment of VTBs. The CBRC also eased the conditions for establishing multiple VTBs in different regions by the same bank. In 2011, as a result of these efforts, major banks such as China Construction Bank and Bank of China began exploring the mass establishment of VTBs.

As pointed out by Men (2012), the establishment of VTBs during this period was similar to the situation in the establishment of urban credit cooperatives in the 1980s. Many financial institutions including foreign banks and large banks like state-owned commercial banks and China Development Bank, increased their involvement in setting up VTBs. These efforts were evident in the decrease in the number of areas without financial services, from 2,945 regions in 2009 to 1,696 townships by the end of 2011.

Although there was progress in the establishment of VTBs, it was not achieved the goal of reaching 1,500 institutions until 2017 as set by the CBRC in 2011.<sup>2)</sup> However, despite being small in scale, VTBs faced difficulties in building stable financial businesses. Since 2017, there have been cases where several VTBs established by the same bank were sold collectively to other banks. For instance, China Development Bank and Commonwealth Bank of Australia sold their respective VTBs, while China Construction Bank transferred 27 of its VTBs to Bank of China for 160 million Yuan.<sup>3)</sup>

After archiving 1,600 in number in 2018, there has been little new progress in the establishment of VTBs. By the end of 2021, a total of 1,651 VTBs had been established in China. However, in some VTBs, the lack of regulation on management led to instances where investors controlling the banks misappropriated funds through the borrowers. Furthermore, when they sought to increase their financial strength by attracting

---

1) "Xinxing Nongcun Jinrong Jigou 2009-2011 Nian Zongti Gongzou Anpai" (2009-2011 Overall Work Plan for New Rural Financial Institutions).

2) "Guanyu Tiaozheng Cunzhen Yinhang Zujian Hezhun Youguan Shixiang De Tongzhi" (Notice on the Adjustment of the Establishment and Approval of Village and Township Banks).

3) See the website of Bank of China,

[https://www.boc.cn/aboutboc/ab8/201808/t20180828\\_13469239.html](https://www.boc.cn/aboutboc/ab8/201808/t20180828_13469239.html).

depositors from outside the region, they posed the risk of spreading financial risks across the country. According to a survey by the China Banking and Insurance Regulatory Commission (CBIRC), most of the 200 banks with the highest operational risks were VTBs (Men, 2023). How to deal with the management risk of VTBs has become a major issue for regulatory authorities.

## 2. Regional Distribution and Performance

Deregulation of market access conditions allowed the number of VTBs to surpass 1,600 in 2018. However, in the subsequent years, there was only minimal growth, with the number increasing by just over 10 each year. Consequently, the CBIRC shifted its policy focus from promoting quantity growth to stabilizing the management of VTBs and expanding their business coverage areas. In 2018, the CBIRC allowed VTBs to operate in multiple counties and proposed that investment banks could hold shares in VTBs instead of commercial banks as primary initial investors. However, the policies, which expanded the number of VTBs and their market share through deregulations, also led to regional imbalances in their development and difficulties in managing investing entities.

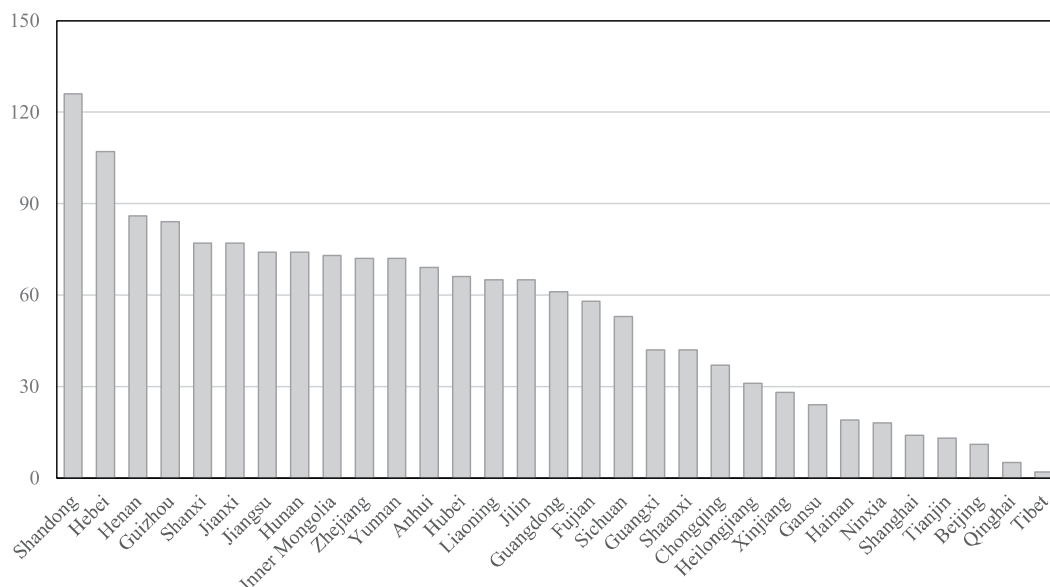
### • *Regional Distribution*

Figure 2 illustrates the number of VTBs in each province based on data from the National Administration of Financial Regulation (NAFR). VTBs are distributed across 31 provinces of China. Among them, Shandong, Hebei, and Henan have the highest number of VTBs with 126, 107, and 86 banks, respectively. Guizhou, Shanxi, Jiangxi, Jiangsu, Hunan, Inner Mongolia, and Yunnan rank 4th to 10th, with 84, 77, 77, 74, 74, 73, and 72 banks, respectively. The provinces with the fewest village and town banks are Qinghai and Tibet, with only 5 and 2 banks, respectively.

Provinces with a larger number of VTBs, such as Shandong, Hebei, and Henan, experienced rapid growth in the number between 2011 and 2013, when the deregulations of VTBs establishment were implemented. In 2011, the CBIRC issued a policy proposing the batch establishment of VTBs managed by subsidiaries of commercial banks, aiming to address the insufficient number of VTBs during their development stage.<sup>4)</sup> The

---

4) “Shangye Yinhang Cunzhen Yinhang Ziyinhang Guanli Zanzing Banfa” (Interim Measures for the Administration of Subsidiary Banks of Commercial Bank in VTBs).



**Figure 2. The Provincial Distribution of VTBs**

Sources: The National Administration of Financial Regulation (<https://xkz.cbirc.gov.cn/>).

primary initial investors of batch establishment included not only major state-owned banks but also various types of financial institutions jointly investing in creating VTBs. This led to a lack of effective regulations for the institutional investors that established VTBs.

During this period, Henan Province saw an increase in the establishment of VTBs. In 2011, Henan Province newly established 23 VTBs, bringing the total number of banks to 40, covering 51 counties in the region. Meanwhile, the registered capital of VTBs was relatively low. VTBs established in cities were required to have a minimum registered capital of 50 million Yuan, while those established in counties should have no less than 30 million Yuan, and those established in towns should have no less than 10 million Yuan. In contrast, newly established private banks were required to have a minimum registered capital of at least 1 billion Yuan. This is also a major reason for the generally inadequate capital of VTBs (VTBs Working Committee of China Banking Association, 2019).

#### • **Business Performance**

According to the regulations of the CBIRC, commercial banks are the primary initial investors of VTBs, and the market access conditions have been eased to allow commercial banks to hold a significant number of VTBs through subsidiaries. However,

the investor structure of VTBs is complex, and specific information about individual VTBs is not available from public sources. The only available data is from some commercial banks' annual reports, where they disclose information about the VTBs they hold, enabling an analysis of the operational status of VTBs held by different initiators.<sup>5)</sup>

Li (2022) collected financial information of VTBs held by various banks as of the end of 2021, including Bank of China, Pufa Bank, Minsheng Bank, Shanghai Rural Bank, Everbright Bank, Huaxia Bank, and CITIC Bank. The specific details are presented in Table 1.

Among them, Bank of China, Pufa Bank, Minsheng Bank, Shanghai Rural Bank, Everbright Bank, Huaxia Bank, and CITIC Bank hold 124, 28, 35, 3, 3, 3, and 1 VTBs, respectively. Bank of China has the largest number of VTBs among all financial institutions in China and has established a subsidiary to manage its VTBs. Pufa Bank has set up 28 VTBs, distributed in 19 provinces across the country. Minsheng Bank has established 29 VTBs with over 84 branches. Shanghai Rural Bank has 35 VTBs under its umbrella, distributed in three provinces: Shandong, Hunan, and Yunnan.

Everbright Bank holds 3 VTBs: Shaoshan Everbright Village and Township Bank,

**Table 1. The Financial Information Statistics of VTBs by Primary Initial Investors (2021)**

	100 million Yuan						
	Number of VTBs	Total Asset	Deposit	Loans	Net Asset	Profit	NPLs Rate (%)
Bank of China	124	983.2	545.6	692.4	138.3	9.9	1.3
Pufa Bank	28	396.0	317.7	240.1	48.5	1.4	n.a.
Minsheng Bank	29	394.7	329.3	244.5	n.a.	2.1	n.a.
Shanghai Rural Bank	35	326.3	271.3	187.7	34.3	2.9	n.a.
Everbright Bank	3	27.1	n.a.	n.a.	5.3	0.1	n.a.
Huaxia Bank	3	29.1	23.4	21.0	3.4	0.3	n.a.
CITIC Bank	1	22.7	16.7	18.6	3.7	0.4	n.a.

Source: Li (2022).

5) There are only two VTBs listed on the National Equities Exchange and Quotations (NEEQ), also known as the "New Third Board". Websites such as China Monetary Network and China Bond Information Network have not disclosed annual reports for VTBs.

Jiangsu Huai'an Everbright Village and Township Bank, and Jiangxi Ruijin Everbright Village and Township Bank. Huaxia Bank also has 3 VTBs: Beijing Daxing Huaxia Village and Township Bank, Kunming Chenggong Huaxia Village and Township Bank, and Sichuan Jiangyou Huaxia Village and Township Bank. CITIC Bank has only one VTB, Zhejiang Lin'an CITIC Village and Township Bank.

Despite Bank of China having 124 VTBs with a total asset value of 98.32 billion Yuan, the VTB managed by CITIC Bank stands out with the highest average level of assets and profitability among all the performance indicators. In comparison, Bank of China's VTBs have the lowest total asset and profitability levels among all the primary investor banks. On the other hand, Pufa Bank and Minsheng Bank, with 28 and 29 VTBs respectively, have an average asset size of around 1.4 billion Yuan and 1.3 billion Yuan. Their loan and deposit scales also exceed 800 million Yuan and 1.1 billion Yuan. However, their profitability levels are relatively lower, with Pufa Bank's VTBs, which are mostly located in western regions, having an average profit of less than 5 million Yuan, Bank of China's VTBs having an average profit of around 8 million Yuan, and Minsheng Bank's VTBs having an average profit of nearly 9 million Yuan. Bank of China disclosed its non-performing loan ratio, which stands at 1.3%, while data for other banks' VTBs is not available.

There is limited available data for most VTBs regarding their performance indicators and non-performing loans. However, based on the data provided by the VTBs Working Committee of the China Banking Association (2020) for VTBs at the end of 2019, the average total assets were 1 billion Yuan, with deposits totaling 830 million Yuan and loans amounting to 650 million Yuan. The average non-performing loan ratio for VTBs was 3.7%, which is not the highest in the Chinese banking industry and is lower than the 3.9% recorded by rural commercial banks. It's worth noting that VTBs held by the Bank of China have relatively smaller deposit and loan scale, resulting in their non-performing loan ratios being significantly below the average level of VTBs.

### **3. Bank Runs in Henan**

The bank runs of VTBs in 2022 originated in Henan Province. According to Liu (2022), within a month from early April 2022, three more bank runs occurred on VTBs

triggered by frozen deposits in online accounts worth 40 billion Yuan (\$6 billion) and affecting 400,000 depositors, including two in neighboring Anhui province. Remarkably, five out of the six troubled VTBs share the same major shareholder bank, Xuchang Rural Commercial Bank. During this period, depositors faced difficulties in withdrawing their deposits, leading to a situation where depositors from all over the country gathered in Henan in late April, attempting to withdraw their deposits. Not being able to withdraw their life savings has led to protests by depositors, increased the nationwide risk of runs on small banks (Liu, 2022).

The local government's role in this protest is noteworthy and has raised significant concerns about bank run. Faced with an influx of depositors eager to withdraw their savings, the local government, responsible for maintaining social stability, took action by using its authority to change the trip codes of depositors.<sup>6)</sup> This was done in an attempt to restrict inter-regional travel of depositors. However, this action caused widespread unease because it involved irregular use of the restrictions and measures meant for epidemic management. As the situation unfolded, the local government was compelled to take the extraordinary step of temporarily paying the deposits to prevent potential social unrest, as it faced various pressures from the public. The misuse of the trip code measure, initially intended for Covid management, to prevent protests further complicated the matter. This situation has prompted financial regulatory authorities to reevaluate policies concerning these banks, including agricultural finance, in order to prevent similar runs in the future (Men, 2023).

As Liu (2022) pointed out, regulatory authorities are not only concerned about the financial risks but also the potential social instability caused by the failures of VTBs. To improve the operations of small rural banks, regulators have taken various measures. Since 2018, they have addressed 627 high-risk rural banks and disposed of nonperforming loans amounting to 2.6 trillion Yuan (\$385 billion), surpassing the total amount of the previous decade. In a collaborative effort, the CBIRC, the Ministry of Finance, and the People's Bank of China (PBOC), the central bank, injected 133.4 billion Yuan (\$19.7

---

6) Trip code management is a system that limits movement within and between regions. It does so by altering the color of individuals' trip codes based on their COVID-19 status and close contacts. This process is facilitated through a mobile app similar to the one used for vaccination certificates. When an individual tests positive for COVID-19 or becomes a close contact, their trip code changes from green to red, signaling the need for restrictions on their movement.



billion) into 289 rural banks. The PBOC has rated these banks as the riskiest among all banking institutions. In other words, close to 7.5 percent of small banks are already at the highest level of risk—and the problems may run even deeper than that (Liu, 2022). Moreover, the CBIRC has encouraged high-quality banks, insurance companies, and other qualified institutions to participate in the mergers and restructuring of small rural banks.

Despite some easing of tensions after the Henan bank protests, the potential financial crisis has not been entirely eliminated. According to CBIRC statistics, as of July 2022, there were 1,651 VTBs in China, accounting for 36% of the banking system in terms of numbers, with nearly two hundred of them facing excessive non-performing loans and significant financial risks. Addressing these financial risks for VTBs will be an unavoidable policy consideration for financial authorities in China.<sup>7)</sup>

The establishment of financial institutions in rural areas has always been a challenge, not only in China but also elsewhere. In response, the financial authorities in China allowed commercial banks, including foreign banks, to take the lead in setting up VTBs. Although VTBs comprise 84 percent of China's banking institutions, they held just 13 percent of the total assets in the banking sector by the end of 2021. These banks were envisioned as a pillar of microfinance to support farmers and small businesses in rural China. However, after 15 years of policy experimentation, the Chinese financial system now has 1,651 VTBs, which makes them the most numerous financial institutions in the banking system. However, individually, they are relatively small and have weak risk management.

## References

- (1) Li, Y. 2022. "Guan Kui 1600 Duo Jia Cun Zhen Yin Hang: Ta Men Huo De Zen Me Yang?" [A glimpse into more than 1,600 Village and Township Banks: how are they doing?]. *21st Century Business Herald*.  
<https://m.21jingji.com/article/20220516/herald/0ea0a567c5495d78cd62236a0ead447f.html>
- (2) Liu, Z. Z. 2022. "China's Village Bank Collapses Could Cause Dangerous Contagion: Local problems threaten to spread into a serious crisis." *Foreign Policy*.  
<https://foreignpolicy.com/2022/07/27/china-village-banks-economic-growth-dangerous->

---

7) "1651Jia Cunzhen Yinhang Xianzai Zenmeyang? Quanguo 122jia Gao Fengxian" [How about the 1651 VTBs? 122 high risks?]. <https://www.yicai.com/news/101450297.html>

contagion/

- (3) Men, C. 2012. “Doukou・Keizai: Ginkou” [Trends・Economy: Banking]. In *China Yearbook 2012*, edited by Institute of China Affairs. Tokyo: The Mainichi Newspapers Press.
- (4) Men, C. 2023. “Doukou・Keizai: Ginkou” [Trends・Economy: Banking]. In *China Yearbook 2023*, edited by Institute of China Affairs. Tokyo: Akashi Shoten Press.
- (5) Village and Township Banks Working Committee of China Banking Association. 2019. *Cun Zhen Yin Hang Shi Nian Fa Zhan Bao Gao (2006-2016)* [Ten-year Development Report of Village and Township Banks (2006-2016)]. Beijing: China Financial Publishing House.
- (6) Village and Township Banks Working Committee of China Banking Association. 2020. *Zhong Guo Cun Zhen Yin Hang Hang Ye Fa Zhan Bao Gao* [China's Village and Township Bank Industry Development Report 2019-2020]. Beijing: China Financial Publishing House.

## 要約

2007年以降、中国の中西部農村地域における大手銀行の支店撤退に伴い、その代替として「村鎮銀行」の設立が進められてきた。2021年末時点では、中国全国に1,651社の村鎮銀行が設立され、60%以上の県レベル地域をカバーしている。しかし、2022年に河南省や安徽省で起こった取り付け騒ぎから明らかなように、村鎮銀行の経営は大きな問題を抱えていることがわかる。本稿では、村鎮銀行の設立経緯を振り返りながら、農村地域の住民や中小企業の金融ニーズを満たすことを通じて、安定した経営基盤を築く過程について考察する。そして、地域密着型の金融機関を目指す過程で、銀行のガバナンスを強化する重要性を指摘する。

キーワード：村鎮銀行，金融包摂，農業金融，中小金融機関