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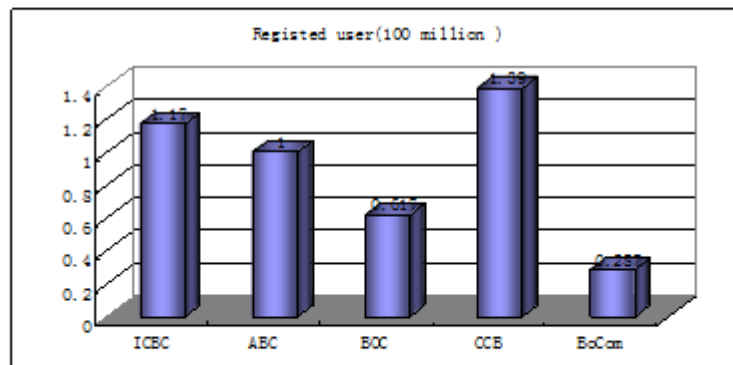


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Mobile Banking experiences high growth in China in recent years

■ Top Five Large Banks (Registered Users)

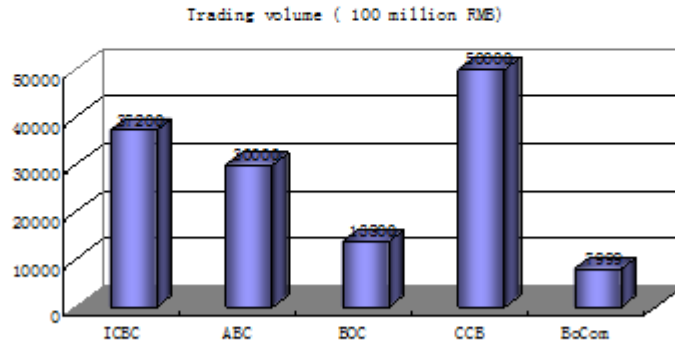


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LOGO

Mobile Banking experiences high growth in China in recent years

■ Top Five Large Banks (Trading Volume)

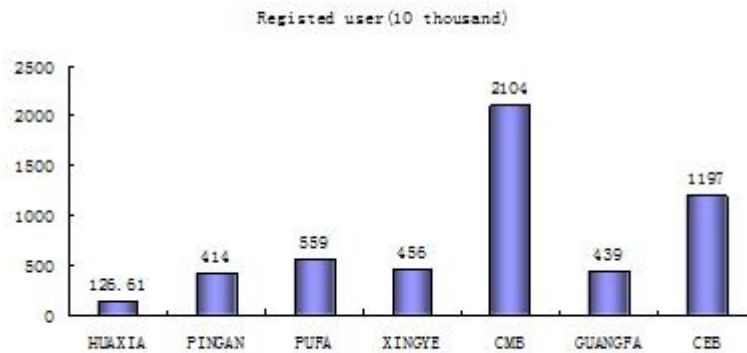


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LOGO

Mobile Banking experiences high growth in China in recent years

■ Other Major Medium size Banks (Registered user)

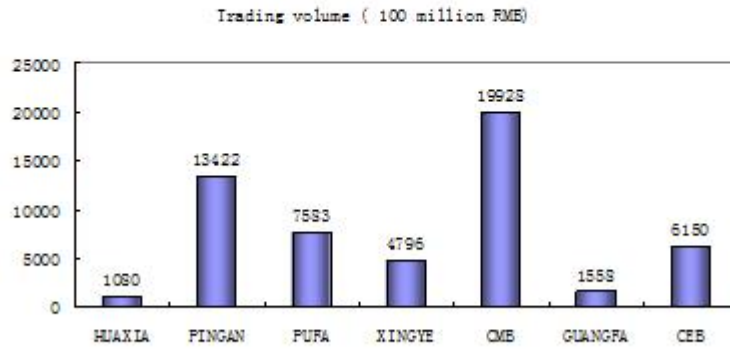


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Mobile Banking experiences high growth in China in recent years

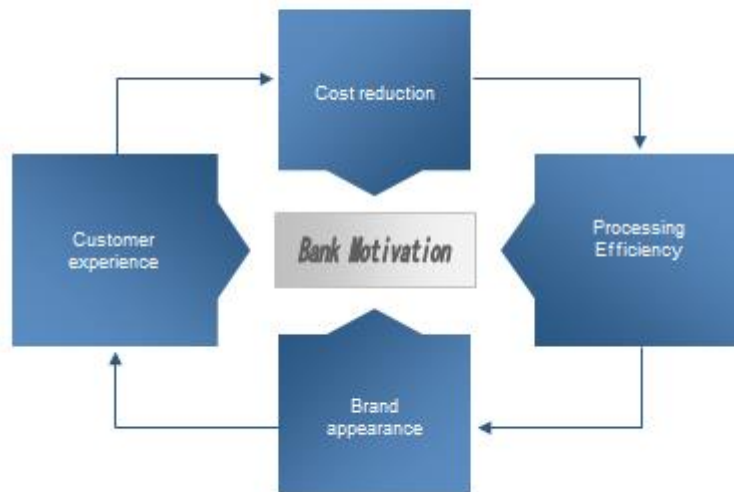
Other Major Medium size Banks (Trading Volume)



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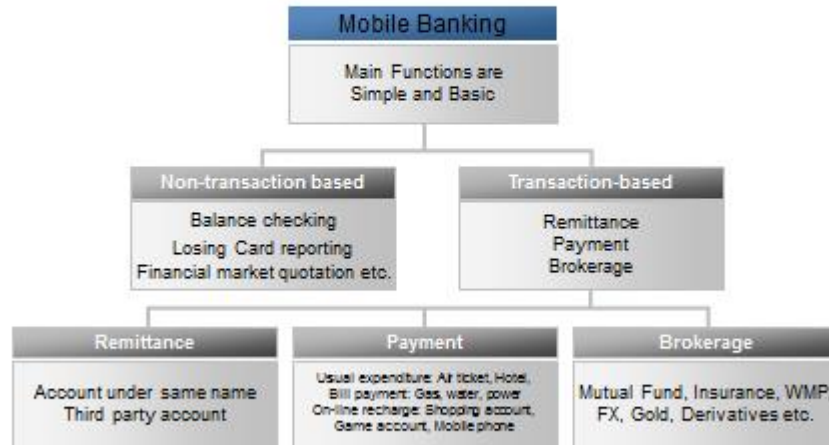
Commercial banks expect Mobile banking as a new growth engine of retail business



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LOGO

Mobile banking mainly covers simple and basic financial product and service



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LOGO

Mobile banking mainly covers simple and basic financial product and service

- Some Innovative attempts
 - On-line collateralized loan
 - Bank issue on-line loans by taking borrower's undue Time deposit or Treasury bond as collateral
 - QR code remittance
 - Payee receives fund by scanning the QR code created from Payer's account information through Mobile phone application downloaded from bank.
 - ATM Cash-taking without Card
 - Taking cash from ATM by inputting password and SMS code received by mobile phone

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LOGO

What is the driving force?

Market driving rather than Policy promoting

- Internet Population
- Smart phone user
- Telecom operator
- Technology innovation



LOGO

■ Driving force

■ Demand side

- Fast growth and high proportion of internet population
- Mobile internet is replacing the traditional internet
- Smart phone is fast popularizing in China
- On-line shopping and payment

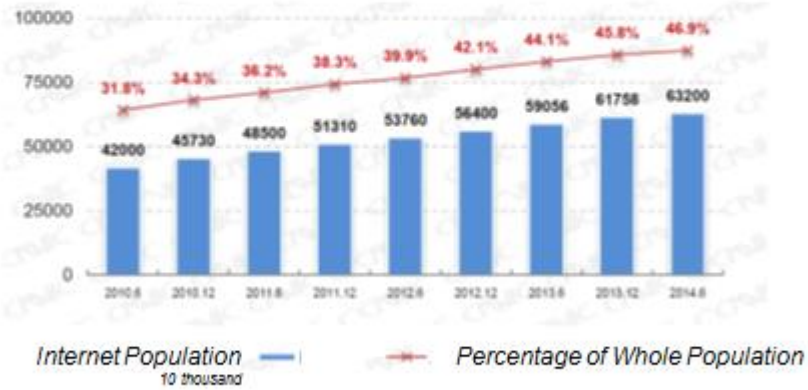
■ Supply side

- Telecom operators enhance the infrastructure, increasing bandwidth and decreasing tariff cost
- Dropping price of smart phone
- Various App and software

LOGO

Driving Force and Constraint

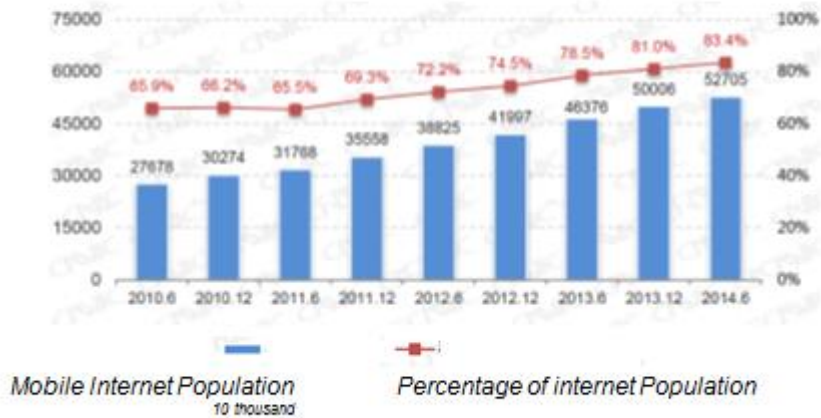
Internet population In China by June 2014



Source: CINNIC 2014 REPORT

Driving Force and Constraint

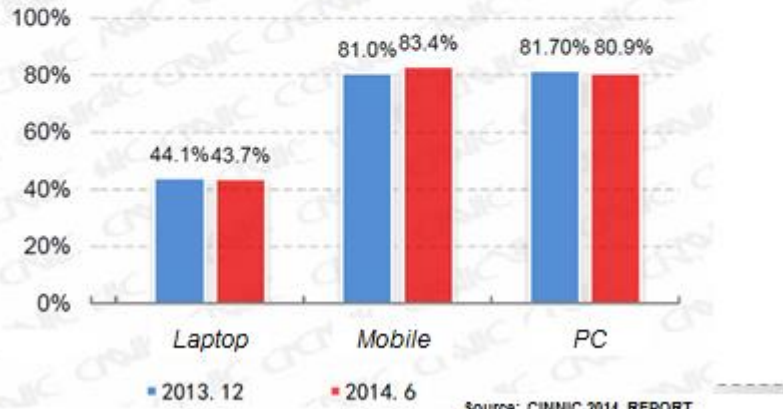
Mobile Internet population In China by June 2014



Source: CINNIC 2014 REPORT

Driving Force and Constraint

Device Preference of Internet surfing
In China by June 2014



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Driving Force and Constraint

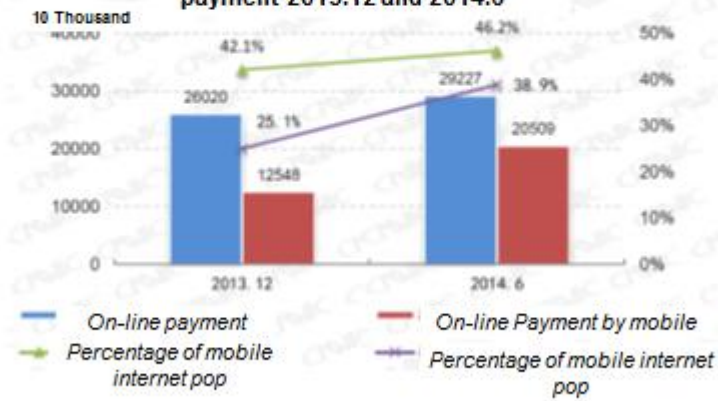
On-line shopping activity
in the first half of 2014 In China



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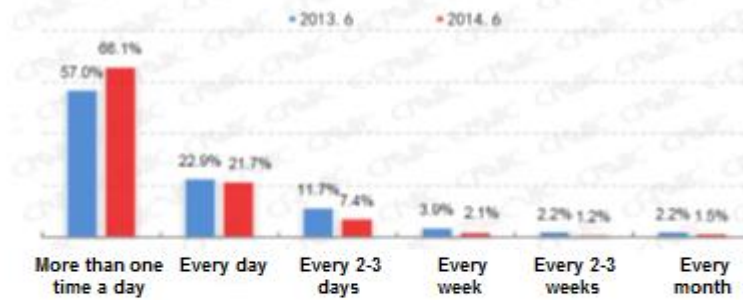
Driving Force and Constraint

On-line payment/On-line mobile payment 2013.12 and 2014.6

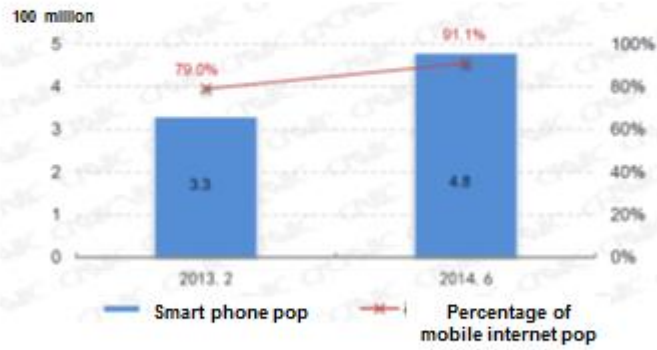


Driving Force and Constraint

Frequency of internet browse by mobile phone
In China



Driving Force and Constraint



Driving Force and Constraint



Driving Force and Constraint

Security concern



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Driving Force and Constraint

PC internet

Anti-virus
Firewall
Two-factor authentication
IP tracking

Difficult to be stolen



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LOGO



PC internet: two-factor authentication

USB key

Token

SMS password



LOGO



- Anti-fraud: What has been done.
 - SMS password is a must-choice
 - Amount limitation on money transferring to third-party account
 - Suspicious behavior monitoring and intervention
 - Risk reminding and user education

- Other technology for mobile phone
 - Mini USB key
 - Fingerprint
 - Voice print

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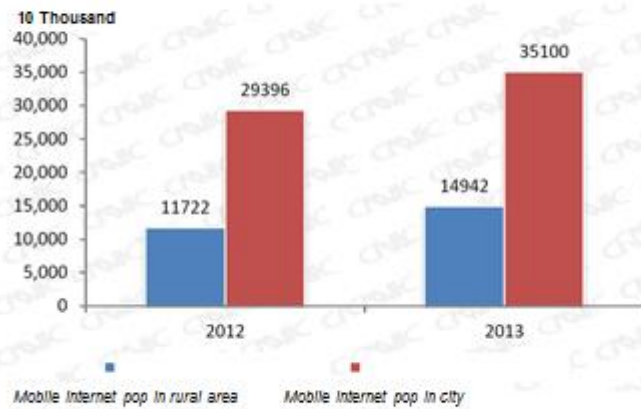
Driving Force and Constraint

Internet pop allocation between city and rural area in China



Driving Force and Constraint

Mobile internet pop allocation between city and rural area in China



Driving Force and Constraint

- Imbalance of mobile banking development between urban and rural area
- In rural area, both internet and financial service infrastructure is insufficient
 - Limited bandwidth
 - Smart phone
 - Self-protection skill under internet environment
 - cash using
 - Telecom fee
 - Unaffordable budget on IT infrastructure by small rural financial institutions

Policy Framework and consideration



Policy Framework and consideration

- Major regulation principle follows “Administrative rule on E-banking” issued in 2006
 - On-line banking, telephone banking, Mobile banking are included.
 - Unnecessary for receive E-banking license since 2007
 - Foreign banks need branch existence and localized data storage for the needs of supervision and legal issues.
 - Risk management requirements
 - IT governance and policies in place
 - Information security and data protection
 - User Identification and Electronic signature
 - Single URL link and Call service number to client
 - Annual security assessment by independent institution

Policy Framework and consideration

- Notice on E-banking risk management issued in 2007
 - For fund transfer to a third-party account (more than RMB 5000yuan in one day), two factor authentication should be applied.
 - Basic factor—something customer know
 - Assistant factor—something customer have
 - USB key (IC chips)
 - Token
 - SMS OTP
 - Matrix card
 - Security education and risk alert.
 - Scanning phishing website

Policy Framework and consideration

- Notice on E-banking customer information protection issued in 2010
 - For on-line payment, when the third party is responsible for the authentication, banks should be authorized by account holder through counter or other effective electronic channels.
 - Without authorization from account holder, bank should not provide customer name, ID number, mobile number, telephone number and correspondence address to third party.
- Notice on cooperation between Banks and Payment service company issued in 2014
 - Both banks and Payment company should complete authentication process before customer create links between bank account and payment channel provide by payment company
 - Only two-factor authentication account can activate payment company service.

Policy Framework and consideration

- Mobile banking will grow faster than traditional E-banking model
 - Mobile phone is easy to buy and use
 - People spend more time on mobile internet
- Large potential of mobile internet population growth in rural area
 - Easier than PC internet
 - New solutions for banking network (Saving the cost to set branch)
 - Fitting the financial needs in rural area: small amount, basic financial product
 - Technology progress will strengthen security capability
- More flexible regulatory policies for on-line scenario should be considered
 - On-line account creating ---- through the counter ----VTM
 - On-line financial product selling ----- risk tolerance assessment ----complex product
 - On-line credit card issuance ----- credit investigation -----limited on-line scenarios (such as small amount shopping)
- It's not banking business, but a whole financial ecological system.

Policy Framework and consideration

Promoting cooperation

Banks and non-banking institution
Banks and telecom
Banks and technology company
Large banks and small rural financial institutions

Promoting internet-based financial business model

P2P lending
On-line Micro loan firm
Payment agency
Mobile branch

Refreshing rules and regulations

Face to face Real-name account registration by PBOC
Due-diligence requirements on loan issuance
Promoting new authentication instruments and technology
Strengthen anti-fraud and anti-money laundering mechanism

Thank you

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Banking Innovation Department
China Banking Regulatory Commission