

Su Ning: Fostering modern credit culture in China

Speech by Mr Su Ning, Deputy Governor of the People's Bank of China, at the International Conference on "Public Policy for Credit Reporting System", Beijing, 28 September 2004.

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Ladies and Gentlemen,

I am very pleased to attend the International Conference on "Public Policy for Credit Reporting System: Strengthening Dialogue and Cooperation between the Government and the Private Sector". Credit reporting system is essential to the modern financial system and plays a significant role in financial and economic development. In the recent 20 years, credit reporting system has received increased attention from the government and the private sector of all countries. This conference jointly sponsored by the World Bank and the People's Bank of China (PBC) conforms to the needs of development of the credit reporting system in the world. The conference will not only enable participating countries to share the experience and lessons in their respective development but also strengthen dialogue and cooperation between the government and the private sector. I'd like to take this opportunity to talk briefly about evolution of credit culture in China.

Over thousands of years, the brilliant culture of the Chinese people has nurtured the rich literature on credit culture. The Confucian school attached great importance to the values of credit culture. For example, The Analects of Confucius stated in one chapter, if the common people lose confidence in the government, then the state will have no foundation for its existence. In another chapter, it wrote, if the government advocates credibility, it will gain confidence from the common people. The Analects of Confucius has touched on the credit culture in many other parts, e.g. the saying of "If a person has no credibility, then he will not be appointed for posts", and that of "A person shall insist on keeping his word and seeing his actions through to the end", etc.

With the social and economic development, China's credit culture has been confronted with unprecedented challenges. They are mainly reflected in two aspects. First, the foundation of China's traditional credit culture lies in the mutual trust between individuals through contacts. Ethics and the close relationship between individuals form the foundation of China's traditional credit culture. Such credit culture only meets the needs of economic activities within limited scope, and could no longer meet the needs when the scope for economic transactions has widened from a small community to the whole country or even the whole world. Second, before the introduction of reform and opening policy, the production and transaction activities of enterprises and the banking credit business are under the planned economy. The sole ownership by the state blurred the relationships of interest by different participants of transactions, which not only weakened China's traditional credit culture, but also influenced the evolution of China's traditional credit culture to the modern credit culture. Therefore, establishing China's modern credit culture in line with the development of socialist market economy is of urgent necessity as the reform and opening policy is steadily promoted.

The main difference between "modern credit culture" and "China's traditional credit culture" lies in its unique social, institutional, professional and commercial features. Credit is hence no longer solely based on the assessment of individuals of the borrower who they know personally but also on assessment of others that the borrower has no direct contact at all, is no longer solely based on ethics but also on legal and institutional rules, is no longer solely based on information obtained from face-to-face contacts but also on the analysis and judgment of a specialized third-party, and no longer is limited to the use of borrower and lender, but also acquires the nature of public goods. These features of modern credit culture develop it into a huge industry and hence have a far-reaching impact on the social and economic life.

The Chinese government is fully aware of the importance of establishment of China's modern credit culture. The Third Plenum of the 16th Central Committee of CPC has put forward clearly that "efforts shall be made to establish and improve the social credit system, in a bid to form the social credit system supported by ethics, based on property rights and safeguarded by laws, which constitutes necessary conditions for constructing the modern market system" and that "efforts shall also be made to speed up construction of the corporate and personal credit service system in accordance with the direction of improving laws and rules, operating by franchise, commercial management and specialized services." Corporate and personal credit is the foundation and core for social credit. Premier Wen Jiabao has emphasized on several occasions that efforts shall be made to speed up the

construction of unified national basic database for corporate and personal credit reporting, to step up credit reporting legislation, to promote development of credit reporting sector, to actively develop specialized credit reporting agencies, to open the credit reporting market step by step by setting priorities, to establish gradually the system of punishment against default on credit, to standardize operation of credit reporting agencies and to strengthen supervision and management of the credit reporting market. In 2003, with the approval of the State Council the PBC established the Credit reporting Bureau, responsible for planning, management and publicity of the national credit reporting industry for loans. The PBC is now making great efforts in upgrading and standardizing China's credit reporting industry.

The PBC has been well aware of the importance of construction of modern credit culture. In 1997, the PBC began preparation for setting up the credit registration and consulting system and formed the unified national credit registration and consulting system at end-2002. By end-June 2004, the system has had entries of 4.2 million borrowing entities with RMB loans close to RMB14 trillion and accounting for 82.3 percent of total RMB loans by financial institutions in the same period. The system covers all existing lending institutions in China. In recent years, this system has become an instrumental tool for lending institutions in preventing financial risks, lowering credit costs and enhancing loan efficiency. On July 1, 2000, under the active involvement and support of the PBC, Shanghai Municipality took the lead in the pilot implementation of united personal credit reporting system. More than one million residents in Shanghai had their personal credit reporting recorded in the system, the first of similar events in China. Recently, the PBC has sped up construction of the central basic credit reporting system. The system will form a national enquiry network of basic credit reporting based on the experience of the pilot implementation in Shanghai and "the credit registration and consulting system by banks" that has been put into operation. The system will first and foremost provide service for banks in enquiry of credit reporting, and will gradually open according to laws to other qualified credit reporting agencies and other institutions with legal purpose of access.

To meet the requirements of development of China's market economy, China's system of credit reporting agencies shall, in general, be composed of a small number of big and basic credit reporting agencies possessing national basic credit reporting and a number of regional and specialized credit reporting agencies providing value-added services and with distinct features. The system will integrate resources, share information and arouse proper competition in the link of credit data gathering. It will also turn on distinct characteristics and bring about equitable competition in terms of credit rating and survey and consultancy etc. There will thus form a multi-level and multi-directional system of credit reporting agencies that not only makes full use of various resources and brings into play the economy of scale but also satisfies different needs for credit reporting.

The healthy development of credit reporting market is impossible without effective supervision by the government. Supervision by the government is the important guarantee for enforcement of credit reporting laws and rules, for protecting personal benefits of consumers, for promoting healthy development of credit reporting industry and for safeguarding national economic information security and social stability. In the preliminary stage of the credit reporting industry, supervision by the government might be quite strong. With improvement of credit reporting laws and rules and the credit reporting market, the industry will be oriented toward combining supervision by the government with self-discipline of the industry itself.

The publicity and education of credit culture is also important means of cultivating credit reporting market. The extensive publicity of modern credit culture calls for the concerted efforts of the government, units and individuals. The purpose of publicity and education is that enterprises and individuals will understand the importance of credit reporting, use credit reporting in a correct manner and participate actively in credit culture. In the course of cultivating China's modern credit culture, the PBC has been fully aware of the import of strengthening publicity and education among the public including lending institutions and is now strengthening its works on this aspect.

Finally, I'd like to emphasize the importance of legislation for the credit reporting industry. The modern credit culture should be based on the legal safeguard. Legislation of the credit reporting industry lays the foundation for construction of the social credit system as well as the modern credit culture. Only through legal rules will it be possible to ensure healthy and sustained development of the credit reporting industry, and will China's long-lived traditional credit culture develop and evolve into modern credit culture.

While we are speeding up construction of the social credit system, China has the honor to be the host country for "The Fourth Global Conference of Personal Credit reporting" and the International

Conference of "Public Policy for the Credit Reporting System: Strengthening Public-Private Dialogue and Partnership". We believe that the convening of the two meetings will surely promote construction of China's credit system, and also contribute to the development of credit reporting industry in the world.

Wish a complete success of this conference! Wish all participants a pleasant stay in Beijing!

Thank you!