The State-owned Commercial Bank Competitiveness Analysis

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Abstract. Commercial banks, especially state-owned commercial banks are the main body of the financial system in our country. The cornerstone of the banks survival and development is competitiveness. In this paper I discussed the competitive abilities in two aspects: profitability and assets quality. The purpose was to reveal some hidden crises under the brilliant performance in state-owned commercial banks. Though state-owned commercial banks were the most profitable business, the profit growth was shrinking because of the fall in asset quality. The paper used the quantitative and qualitative analysis, the combination of theory and case analysis to find questions and solve problems. This led us to the conclusion that the key to enhance competitiveness of state-owned commercial banks is only to reduce the bad assets on the basis of profitability.

Introduction

Commercial banks are special kind of enterprises because their commodities are currency. The main services provided by the commercial banks are deposits and loans. This paper will summarize the concept of commercial banks as: main business is deposits and loans, at the same time provide intermediary financing service charges to enterprises and personal.

State-Owned Commercial Bank

China's state-owned banks include Bank of China, Construction Bank of China, Industry and Commercial Bank of China and Agriculture Bank of China. Because of their state-owned property and the abundant capital, the sensitivity of the international and domestic economic and social changes lurks the important status of the domestic financial sector.

The Commercial Bank Profitability

The profitability of the commercial banks refers to the ability of profit for its owners; it is a comprehensive reflection of the commercial bank management situation. The discretion of the earnings ratio determines the income of the shareholders and the ability of banks that make up the loss and provide sufficient capital.

The Analysis of the State-Owned Commercial Banks Competitiveness

The advantages of state-owned commercial banks, first of all, were fully integrated and have maintained good momentum in the business. Secondly, the state-owned banks based on their own long history and abundant capital, were relatively larger, more abundant strength and more likely to gain the trust of the customers. Thirdly, the state-owned banks relied on the policy support to occupy the traditional advantages in the competition among the various types of banks. ICBC developed rapidly in recent years, was listed as the top of the big banks in the world by British "Banker" in 2015, at the same time the largest global high-quality enterprise by Forbes, among the global systemically important banks. In the process of development, ICBC gradually establish and strengthen the fundamental status of commercial banks, diversify multi-level management pattern in a domestic leading position. This paper will choose ICBC as the main object to analyze the financial situation of the state-owned banks; it would have certain representative and pertinence.
Profit Analysis

The ratios of bank profitability mainly include the average return on total assets, the weighted average return on equity, weighted average return on net assets after deducting non-recurring profit and loss, net profit margins, net interest rate of return, intermediate business income accounted for, the cost income ratio, etc. The table below for the 2011-2014 reflects the important profit changes of ICBC:

<table>
<thead>
<tr>
<th>Ratio</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on asset(%)</td>
<td>1.44</td>
<td>1.45</td>
<td>1.44</td>
<td>1.4</td>
</tr>
<tr>
<td>Return on equity(%)</td>
<td>23.44</td>
<td>23.02</td>
<td>21.92</td>
<td>19.96</td>
</tr>
<tr>
<td>Fees and commissions net income/Operating income</td>
<td>21.37</td>
<td>19.75</td>
<td>20.75</td>
<td>20.11</td>
</tr>
<tr>
<td>Cost/Income</td>
<td>29.38</td>
<td>28.56</td>
<td>28.03</td>
<td>26.75</td>
</tr>
<tr>
<td>Net profit(billion)</td>
<td>208.4</td>
<td>238.7</td>
<td>263</td>
<td>276.3</td>
</tr>
</tbody>
</table>

With the above data we can analyze that return on equity continue to decline in recent years, the reason mainly is net profit growth had a declining trend. The net profits of commercial banks are obtained by total profit minus the income tax expenses; profit is mainly calculated by operating profit plus some other projects, so the key to analyze the change of commercial bank net profit is to analyze the change of operating profit. Below is the revenue and operating cost changes of ICBC from 2011 to 2014:

<table>
<thead>
<tr>
<th>Index</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income(million)</td>
<td>475,214</td>
<td>536,945</td>
<td>589,637</td>
<td>658,892</td>
</tr>
<tr>
<td>Operating cost(million)</td>
<td>204,214</td>
<td>229,487</td>
<td>252,591</td>
<td>299,280</td>
</tr>
</tbody>
</table>

From above we can see that the ratio of costs and income were both on the decline. Because of the controlling and saving costs of ICBC, on the other hand it showed the growth in operating income was larger. The cause of the change was mainly because the enlargement of service scope and variety of financial products innovation were upgraded. Among them, the expansion of service scope mainly refers to: in 2011, the service covered 33 countries and regions, a total of 239 overseas branches, total assets of $124.7 billion overseas institutions, foreign institutions pre-tax profit of $1.373 billion. But by 2014, the service expanded to 41 countries and regions, the total number of overseas branches grew to 338, total assets of $236 billion overseas institutions. In 2011, the fee and commission net income were reported 109.1 billion yuan, but in 2014, the net income rose to 132.5 billion yuan. Fees and commissions in 2014 were lower than in 2011, it shows that the revenue growth have certain advantages in recent years, on the other hand also shows that the level of intermediary business development remained further improving and the growth was more dependent on some traditional business structure.

Assets Qualities

In 2014, under the complicated external economic environment, commercial banks profit slowed down, general assets quality faced the adverse pressure situation. China Banking Regulatory Commission (CBRC) released the data that non-performing loan balance was 982.5 billion yuan by the end of the first quarter of 2015, compared with the previous quarter increased 139.9 billion yuan. Bad loan ratio of 1.39% was up 0.15% in the year. The state-owned commercial bank's net profit growth rate of only 1.39%, 1.39%, 1.49% and 1.39%.
Table 3. Major commercial banks bad loan ratios in 2014.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Name</th>
<th>Bad Loan Ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Agricultural Bank of China</td>
<td>1.54</td>
</tr>
<tr>
<td>2</td>
<td>China Citic Bank</td>
<td>1.3</td>
</tr>
<tr>
<td>3</td>
<td>Bank of Communications</td>
<td>1.25</td>
</tr>
<tr>
<td>4</td>
<td>Construction Bank of China</td>
<td>1.19</td>
</tr>
<tr>
<td>5</td>
<td>China Everbright Bank</td>
<td>1.19</td>
</tr>
<tr>
<td>6</td>
<td>The Bank of China</td>
<td>1.18</td>
</tr>
<tr>
<td>7</td>
<td>China Minsheng Bank</td>
<td>1.17</td>
</tr>
<tr>
<td>8</td>
<td>Industry and Commercial Bank of China</td>
<td>1.13</td>
</tr>
</tbody>
</table>

Bad loan ratio refers to the financial institution non-performing loans account for the proportion of the total loans. For commercial banks, the bad loan can make the bank to loss profits, weak the bank's profitability. It plays a lot of negative influence to the development of commercial bank management.

In 2014, the bad loans of 92.277 billion yuan of the company was up to 1.1%, the reasons for this phenomenon might be some companies on the outside of economic environment had slow growth trend. The market appeared the slow capital turnover led to frequent company defaults.

**Influence Factor**

Four state-owned commercial banks, including Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, are principal part of banking in China. It was useful to study the factors affecting profit ability and assets quality for the state-owned commercial banks regarding the high ratio of bad loans and the opening of China banking industry to foreign banks.

**Risk Management Ability**

Risk management ability has been emphasized. The state-owned commercial banks face the credit risk, liquidity risk, market risk, etc. Credit risk mainly reflect the quality of bank assets. If a bank's assets can bring higher profits, the bank's asset quality is relatively higher, at the same time there are small risks. The opposite is poor.

**Business Factors**

The profits of commercial banks can be divided into interest income and non-interest income. Non-interest income mainly refers to the intermediary business revenue. Loan interest income comes mainly from the traditional business. The interest income depends on the number of bank deposits and
loans. The savings and loan business still are the main income source in our state-owned commercial banks.

**Operating Efficiency**

Usually measured by management expense ratio, that is the cost of the revenue per unit cost. The ratio is lower, the management fees and other operating expenses are lower, the bank's operating efficiency is higher. It means the bank may have a higher level of profitability.

**Assets**

The bank's competitiveness on its assets reflects the economies of scale and scope. The state-owned commercial banks gathered more resources and gained more competitive advantage than the other banks. But on the other hand, the increase of banks expansion also could brought difficulties to management and improved their management costs.

**Some Suggestions**

At present, the overall profitability of state-owned banks is relatively good, but also contains a lot of shortcomings. Such as the composition of intermediary business is single and simple, mainly depends on the fees and commissions, the service is still in a lower level. Relative to other banks, state-owned banks pay more attention on large state-owned enterprises and depend on traditional industries, often ignore the emerging industry, the development of personalized user such as campus. Our advice are as follows:

**To Further Improve Intermediary Business**

Intermediary business is a disposal ability to optimize resources and also is a important channel to enhance the capacity of bank debt, increase revenue and resist risk. Development of intermediary business can efficiently run and promote the social capital and bring excess profits for the customer, at the same time intermediary business has a low cost, small risk, many varieties, wide range of services, can bring more stable profits to the bank and improve the profitability of the Banks.

**Break Through the Traditional Development Pattern**

State-owned banks should adopt positive coping measures, cooperating with the national industrial adjustment and upgrade strategy to create new customers and opportunities. State-owned banks can also attempt strategic layout of the real estate, transportation, energy, mineral, modern agriculture, modern logistics, health care, culture, tourism and other industry chain. Cooperate the local enterprises to promote regional industrial upgrading. Into these new industry, commercial banks need open the market in the mode or approach of the market.

**Strengthen Cost Controls**

Improve profitability divide into two aspects basically: increase revenue and reduce running cost. State-owned commercial banks should consider rational distribution network and the number of workers in the present scale. It is necessary to enhance the working efficiency of the staff. Furthermore, they should reasonable control the bank's non-interest spending, save the cost of management and operation on the basis of quality of services.

**To Amplify the System of Risk Supervision and Operations**

Improve profitability must establish the same specification of loan loss provision standard, and carry on the strict supervision by the branch. This can ensure the quality of loan loss preparation to reflect a bank loan level, and reflect the risk level of state-owned commercial banks further.
Securitization of Bad Assets

Improve the quality of bank assets is to carry out the securitization and usufruct transfer of bad assets. Through the ways hope can improve the velocity of bank's loan and the ability of supporting the real economy. Increase the quality of bank assets also needs to promote market-oriented, diversify, the ability of comprehensive disposal of bad assets.

Summary

The state-owned commercial bank competitiveness analyses are based on the research of the mainly affecting factors: profitability and assets quality. These can help the relevant departments of the state-owned commercial banks to measure their strength actually from the market closely. And formulate development strategies with emphasis to strengthen the weak links, improve profitability and the competitiveness. Only under the premise of reducing bad assets ratio gradually, keep profits growing can reflect the real commercial banks competitive ability. So enforcing the system of credit risk management to reduce the amount of bad assets is the four state-owned commercial banks’ main work, and also ensures to reduce our country's financial risks.

References