Research on Chinese Commercial Banks' Capital Structure Optimization

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Abstract. Optimize the capital structure is the fact that the premise of improving corporate governance. This paper describes the status of the capital structure of Chinese commercial banks, analyzes the main problems of Chinese commercial banks supplement existing capital structure, optimization strategies proposed capital structure of commercial banks in China, China's policy of commercial banks and other wealthy significant ownership concentration, such as optimization of innovative recommendations.

Introduction

The capital structure of the model can have a significant impact on the Company's operating performance. This effect can be divided into two cases: one is the direct impact that the capital structure, the financing risk and the cost of capital can directly affect business performance; while another case is the indirect impact, mainly on the company's first impact on the governance structure, and then have an impact on business performance through the governance structure. The pace of development of China's listed banks initially very slow. Under conditions of economic system reform, the bank's capital structure gradual adjustments, operating performance has gradually improved. However, compared with the world's developed countries, Chinese commercial banks are currently many problems still exist. Which is very important point is that the capital structure is irrational, resulting in bank governance structure disorder, ultimately resulting in a Chinese commercial banks to improve the performance space was limited.

Status of the Capital Structure of China's Commercial Banks

Capital structure refers to the owner of the rights and interests of creditors proportional relationship, it indicates the ratio between the corporate structure and the various sources of financing, and their mutual combinations. Capital connotation Unlike commercial banks, the company's capital, commercial banks have not only equity capital, can also have a certain proportion of debt capital, has the characteristics of a dual capital, commercial banks will be called owner's equity capital or core capital level, debt capital is generally referred to as secondary capital or supplementary capital. The overall condition of the capital structure of Chinese commercial banks, mainly in the following aspects:

First, China's commercial banks with core capital-based regulatory capital, the bank's core capital formation in the country into Youyi establishment of paid-in capital based. Since 1998, the country to promote the joint-stock reform of state-owned banks, through the issuance of special treasury bonds, foreign exchange capital injection, peel-performing assets, public offerings, asset restructuring and other ways to improve the state-owned bank's capital adequacy ratio, paid-up capital, capital reserves and the size of all interests expanding rapidly.

Second, the ability of endogenous capital accumulation, in accordance with the accounting system to extract the surplus reserves, retained earnings, has also become an important source of equity capital for commercial banks in China. With the continued rise in non-performing assets of commercial banks stripping, enhance the level of bank management and financial requirements, banks' profitability improved significantly. 2011, Industrial and Commercial Bank of China ranked first in the British Bankers' magazine's most profitable bank. Although a breakdown of the various components of equity capital continued to rise, the rate of expansion of scale of assets or faster than...
the rate of accumulation of endogenous capital. And as a representative of the State-owned banks contributed to the Central Huijin to issue special treasury bonds also bearing pressure is very large, state-owned shares in the profit-sharing ratio remains high at around 40%.

Third, the use of long-term subordinated debt, hybrid debt capital instruments, widening the commercial banks to replenish capital channels, improve the commercial banking subsidiary capital levels.

**Chinese Commercial Banks' Capital Structure Complement the Main Problems**

**Capital Replenishment Mechanism is not Perfect.** Sound banking capital replenishment mechanism should be supplemented by the existing types of capital instruments to complement existing methods for various kinds of capital capital replenishment motivation to achieve capital replenishment effective manner. Currently, the banks have been common to replenish capital financing through the capital market. However, many commercial banks still lack capital replenishment planning, research for the implementation of Basel after the Chinese how to replenish capital is not deep enough, still the capital replenishment management of commercial banks as an emergency rather than a normal way of working is managed. Although the CBRC issued a notice on the commercial banks to improve capital replenishment mechanism required commercial banks to develop and improve capital management plan, but the behavior of the recapitalization of commercial banks as a contingency into normal behavior, the establishment of a normal capital replenishment mechanism, in the current remains an important task. This reflects the bank's capital replenishment mechanism is not sound condition, capital market investors to supplement the bank's failure to form a normalized expectations.

**Capital Management Inexperience.** Several large banks in the same year intensive advance financing and refinancing, this situation is very rare in the world, to a certain extent it clear that we failed to take precautions to prepare in advance. Lack of awareness of the dynamic capital management, lack of early establishment of a reasonable capital management objectives, to the capital in an emergency, loan to deposit ratio touch line, need only think of the emergency. Share this regard with the banks time to change relatively closely related to the listing, the possibility of future financing period of several banks overlap significantly; on the other hand, banks also operate homogenization are not unrelated, because the failure to achieve different operations, the extent of the banks capital consumption is also comparable.

**Regulatory Standards Set too High.** 2006 Bashusong noted that the definition of either setting regulatory standards or regulatory indicators, there have been many cases of both significantly higher than international standards. Regulators may be intended to reinforce supervision of bank risk, but if to grasp properly, they may impact on the soundness of the banking system. Taking into account the new regulatory standards significantly higher than international standards, and in fact currently listed banks have basically lost equity financing capacity, introduction of new regulatory standards and strictly enforced, will not help the listed banks in the capital market misappropriating continue to increase capital strength, and would weaken the bank's lending capacity, affecting the real economy. The new regulatory standards before the official launch will face downward revision of pressure on the capital adequacy requirements are likely to maintain the current level.

**Financing Instruments More Single.** At present, China's banking capital structure primarily common stock, preferred stock and the lack of other qualified debt capital instruments, high financing costs, the lack of flexibility to adjust the assets of commercial banks tools can expand the size of the assets, it is difficult to reduce. Chang Gang pointed out that commercial banks should supplement the capital mainly through the improvement of internal asset management and by extracting profits, etc. to supplement, rather than in the capital market, bond market misappropriating as the main channel. For example, take the compression loans, recover bad assets, reduce shrinkage and other forms of asset front denominator;, or by improving the management level, a substantial increase in profitability, with its own profit created to supplement the capital, in the form of the molecule achieved by increasing the capital adequacy ratio regulatory requirements. On one hand, the regulatory authorities can not raise the capital adequacy ratio of
commercial banks regulatory standards, on the other hand misappropriating its additional capital through the market given the green light to play this numbers game only embedded greater financial risk, can only be detrimental to the commercial Bank and China banking.

**Corporate Bond Market is not Yet Mature.** Immature corporate bond market is mainly reflected in the following two aspects: First, regulations and systems is lagging behind. Second, the amount of corporate bonds listed on the size of the body is small, the issue of a relatively long process, liquidity is not strong, making this the most important form of financing in Western countries in China's capital market is still relatively small proportion of slow development. Therefore, China's listed companies can more choice issuance, allotment of equity financing.

**Optimization Strategy of Chinese Commercial Banks Capital Structure**

The capital structure optimization is the fact that the premise of improving corporate governance, which aims to set reasonable equity capital and debt capital formation relationship of checks and balances between the different stakeholders to address the various types of agency problems. Commercial bank capital adjustment options, the introduction of foreign strategic investors is the main aspect of the equity capital of Chinese commercial banks to adjust in order to solve the problems in the banking governance deeper root.

**Improve the Capital Market Mechanisms.** Improved support inseparable equity capital markets reform and governance structure of Chinese commercial banks, brokerage commission system currently exists a number of drawbacks, not only the commission of structural distortions caused by excessive taxes stock market, and the loss of institutional design efficiency and fairness, is not conducive to small investors. To improve the capital market mechanism first asked to solve the problem of China's stock market, stock market segmentation, which is an important factor in the implementation of external governance constraints bank shareholders, for which it is necessary to improve the system as soon as China's capital market, which overcome the defects, reducing each fueled the help or the kinds of mechanisms, including the introduction of supplementary provisions on the size of non-lifting stocks and executives stock traded as soon as possible, to effectively protect the interests of small investors and so on. To this end we are actively developing investment banking, equity promote the restructuring of commercial banks; through the gradual improvement of the system of laws and regulations, strengthen the supervision of banks.

**Establish a Scientific Mechanism for the Bank's Internal Governance.** In considering China's current background and the actual operating conditions of commercial banks, according to the principle of "three will be set up to coordinate the development of the separation of powers," in order to build the internal mechanism of corporate governance as the focus, build a reasonable division of labor, effective checks and balances, the right to responsible for distinct modern commercial bank operating mechanism of corporate governance. The establishment of a proper goal, is the foundation of a successful career. All activities must remain firm under the guidance of a clear target. In this process, the following points should be noted: First, we must strive to better deal with the relationship between the Board and the party committee, both to improve the party's ability to control the market economy, but also improve the ability to adapt to the modern enterprise system; secondly, a reasonable adjustment structure of the Board, to further strengthen the independence of the Board, the establishment of specialized professional committee; director to coordinate the interests of shareholders, to strengthen the powers of foreign directors, independent directors, directors of small shareholders to participate in corporate governance, to fully protect their interests; Finally, efforts seeking new ways to achieve the role of government change.

**Improve Loan Quality, Reduce Non-performing Loan Ratio.** The lower asset quality, the greater the risk weighting of assets, capital adequacy ratio is lower. Banking Bureau of the relevant documents, a loan is a bad assessment indicators, in addition to banks also have corresponding indicators, lending rates will directly affect the poor operating results of banks, and the banks to reduce non-performing loans ratio, to reduce the risk increase profitability. Chinese commercial banks should take effective measures to improve asset quality. As the non-performing loan ratio is the ratio of non-performing loans and the loan balance, apparently, even the quality of the bank's
stock of non-performing loans are not changed for the better, as long as the surge in new loans, it will reduce the rate of poor play an immediate effect. To control the risk of new loans, non-performing assets ratio improved to prevent the rebound and balances must be to build a sound and effective internal control mechanisms.

**Distribution Structure of Risk-adjusted Assets.** Commercial banks to increase investment securities, the main form of personal housing mortgage loans and other low-risk weighting of assets business include: optimizing asset structure, adjust the asset mix, which is to maintain the asset size, capital requirements for an effective way to reach the bottom line is do not break. The main way of commercial banks to reduce the total risk assets by reducing the proportion of risky assets share in total assets. At present, China is the regulatory framework for banking banking, securities and insurance sub-sector management, capital markets and foreign capital instruments can be applied very small, resulting in asset investment in China's commercial banks is relatively simple. The proportion of credit assets to total assets is higher this structure mainly, in the case of loans as the main income, asset size will result in expanding the capital adequacy ratio of commercial banks continued to decline. Chinese commercial banks to improve profitability, liquidity, asset management and to minimize the risk. Chinese commercial banks operating in accordance with the status quo and future development direction, asset management needs from the following aspects: to actively expand investment business, to further strengthen its investment portfolio, in policies and laws permitting equity fund companies, futures companies and securities companies, fund management entrusted to actively expand channels, strengthen the financial advisory business.

**Issuance of Subordinated Long-term Debt, Optimize the Structure of Subsidiary Capital.** Listed and non-listed Chinese banks can be directed commercial banks to issue subordinated bonds, subordinated bonds issuance, allotment, issue convertible bonds are very convenient, therefore subordinated bonds more flexible, less restrictions imposed; subordinated debt has initiative to help commercial banks to adjust to the solvency and liquidity arrangements; due to the cost of debt is the tax deduction, so you can enjoy the benefits brought by shareholders through debt capital, subordinated debt issued another advantage is that it does not will dilute the level of profit after tax income of the bank, it is precisely because of these reasons, banks use financial leverage a large space, and therefore will bring a higher level of benefit shareholders. In the current market environment, our country can take certain measures to promote the development of commercial bank subordinated debt: the perfect bond credit rating system and information disclosure, and actively promote the bank subordinated bonds issued and outstanding, and standardization of debt markets, to develop and strengthen commercial bank foreign institutional investors, foster market liquidity of subordinated debt, subordinated debt to strengthen supervision of financial risks.

**Optimize the Concentration of Shareholding Commercial Banks in China.** Diversified investment entities Chinese commercial banks. State-owned shares is the largest shareholder of Chinese commercial banks, state-owned shares of the operating commercial banks in China shareholding commercial bank to reverse changes in the relationship between performance, but a higher proportion of state-owned shares Holding, will also lead Expropriation effect, thereby making changes in shareholders' price manipulation, for its management will also have unfavorable factors, such confusion will lead to lax management, poor chaotic operations and efficiency. Thus, due to the dominance of state shares as a commercial bank shares, the shares will be reduced accordingly so that a corresponding increase in the bank's operating performance. However, China is not in a mature market economy, facing the defect market economy, reducing state shares stake will not easily be achieved, in this case, commercial banks should be properly diversified investment promotion body technology, and insist on the basis of state-controlled, state-controlled overcome some of the drawbacks to truly achieve investment diversification commercial banks to improve the efficiency of commercial banks.

**Conclusion**

When capital structure decisions, Chinese commercial banks will certainly unlike China general business. China's commercial banks, financing decisions and business decisions is closely related to
its capital structure decision-making process can not be put aside business strategy, and must consider the special nature of the industry. This paper presents some of the richest major innovative policy proposals, such as optimizing the concentration of shareholding commercial banks in China, a subsidiary capital structure optimization, optimization of internal and external environment of commercial banks reform of property rights, reasonable adjustments to the capital structure to strengthen the capital adequacy ratio, accelerate the development of multi-level capital markets to promote the standardization of capital markets, reasonable adjustments to the capital structure.

References

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