Research on Competitive Advantages of Commercial Banks of China

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Abstract. With the accelerated pace of global economic integration and the implementation of "Belt and Road" policy of China, the degree of opening to the outside world is gradually increasing. China's banking industry is directly facing the international mature financial market, and the pressure of competition becomes bigger and bigger. This paper aims to refer to many international and domestic evaluation standards to construct a reasonable evaluation index system and make a reasonable evaluation of the competitiveness of China's listed commercial banks. The paper also makes the relevant analysis for the evaluation results.

Research Background and Significance

Research Background. At present, China has many commercial banks listed on the stock exchange of Shanghai and Shenzhen, and the rapid development of commercial banks makes the competition in the banking industry more and more intense. At the same time, with the accelerated pace of global economic integration and the implementation of "Belt and Road" policy of China, the degree of opening to the outside world is gradually increasing.

It is a common concern of the governments and bank system how to effectively evaluate the competitive power of the listed commercial banks in China and find the solutions to enhance the competitive power according to the difference of the competitive advantages.

Research Significance. At present, China has formed a comprehensive commercial bank system, including four big state-owned commercial banks, some joint-stock commercial banks as well as many urban commercial banks and urban rural credit cooperatives. This article will objectively evaluate the competitive level of domestic listed commercial banks to help them to understand their own shortcomings and enhance their competitive advantages to provide important references for their development.

Theoretical Analysis of the Subject

The competitive power of the commercial banks is composed of profit margins, asset liquidity management, capital adequacy degree, enterprise management level and so on. The profit margins of the commercial banks can increase the security to enhance the customer's acceptance and appeal to more customers.

Case Study of the Subject

The selected six commercial banks are composed Pingan Bank listed in Shenzhen Exchanges and China Minsheng Bank, China Merchants Bank, Huaxia Bank, Bank of China and Industrial Bank Co., Ltd listed in Shanghai Exchanges. Among them, Shenzhen Development Bank, as one of the predecessors of Pingan Bank is the first listed commercial bank in China.

Analysis of Capital Adequacy. The capital adequacy of each listed commercial banks of China in 2016 is shown in Table 1.

Table 1. Capital adequacy of listed commercial banks of China in 2016

	Capital adequacy (%)	Equity/Asset (%)	Equity/Loans (%)
Pingan Bank	11.53	6.85	14.07
China Minsheng Bank	11.73	5.97	14.31
China Merchants Bank	12	6.79	12.37
Huaxia Bank	11.36	6.5	12.57
Bank of China	14.28	8.19	14.91
Industrial Bank Co., Ltd	12.02	5.82	17.66

Data sources: annual reports of the banks in the above table in 2016

Analysis of Profit Margins. The profit margin of each listed commercial banks of China in 2016 is shown in Table 2.

Table 2. Profit margins of listed commercial banks of China in 2016

	Return of asset (%)	Capital recovery rate (%)	Profit margin (%)	Asset utilization (%)
Pingan Bank	0.77	11.18	23.77	3.65
China Minsheng Bank	0.94	13.86	31.43	2.63
China Merchants Bank	1.09	15.47	29.84	3.52
Huaxia Bank	0.9	12.91	30.86	2.72
Bank of China	1.01	12.38	38.06	2.66
Industrial Bank Co., Ltd	0.95	15.33	34.59	2.58

Data sources: annual reports of the banks in the above table in 2016

Analysis of Asset Quality. Generally speaking, the more the asset quality is, the bigger the competitive power of the commercial bank is. The asset quality of listed commercial banks of China in 2016 is shown in Table 3.

Table 3. Asset quality of listed commercial banks of China in 2016

	Non-performing loan ratio (%)	Provisioning coverage ratio (%)	Loan-to-provision ratio (%)
Pingan Bank	1.74	155.37	2.71
China Minsheng Bank	1.68	155.4	2.62
China Merchants Bank	1.87	180.02	3.37
Huaxia Bank	1.67	158.73	2.65
Bank of China	1.46	162.82	2.87
Industrial Bank Co., Ltd	1.65	210.51	3.48

Data sources: annual reports of the banks in the above table in 2016

Analysis of Asset Liquidity. The liquidity performances of sample commercial banks in the paper are shown in Table 4.

Table 4. Asset Liquidity situation of listed commercial banks of China in 2016

	Liquidity ratio (%)	Loan-to-deposit ratio (%)
Pingan Bank	47.62	75.21
China Minsheng Bank	39.64	79.86
China Merchants Bank	59.42	85.79
Huaxia Bank	31.45	88.92
Bank of China	45.6	77.08
Industrial Bank Co.,Ltd	59.35	72.5

Data sources: annual reports of the banks in the above table in 2016

Index Score and Comprehensive Score

Through the above analysis of each secondary index of the six primary indices, we obtain the individual scores and total scores of each primary index of the commercial banks according to the evaluation index system of the competitiveness of China's commercial banks constructed in the paper. The results are shown in Table 5.

Table 5. Index score of listed commercial banks of China in 2016

Primary index	Secondary index	Full marks	Pingan Bank	China Minsheng Bank	China Merchants Bank	Huaxia Bank	Bank of China	Industrial Bank Co., Ltd
Capital adequacy degree	Capital adequacy	100	45.3	47.3	50	43.6	72.8	50.2
	Equity/Asset	60	50.8	43.76	50.32	48	60	42.56
	Equity/Loans	40	40	40	40	40	40	40
	Total	200	136.1	131.06	140.32	131.6	172.8	132.76
Profit margins	Return of asset	60	38.2	48.4	57.4	46	52.6	49
	Capital recovery rate	50	12.95	19.65	23.68	17.28	15.95	23.33
	Profit margin	50	50	50	50	50	50	50
	Asset utilization	40	13.2	5.04	12.16	5.76	5.28	4.64
	Total	200	114.35	123.09	143.24	119.04	123.83	126.97
Asset quality	Non-performing loan ratio	80	78.72	79.04	78.03	79.09	80	79.2
	Provisioning coverage ratio	60	60	60	60	60	60	60
	Loan-to-provision ratio	60	15.1	14.2	21.7	14.5	16.7	22.8
	Total	200	153.82	153.24	159.73	153.59	156.7	162
Asset liquidity	Liquidity ratio	100	41.52	70.56	0	37.8	49.6	0
	Loan-to-deposit ratio	100	5.16	0	0	0	0	16
	Total	200	46.68	70.56	0	37.8	49.6	16
Management level	Shareholder strength	50	40	30	40	40	50	40
	Market sensitivity	100	85	100	100	85	100	85
	Internal control and management standardization	50	38	38	50	38	50	50
	Total	200	163	168	190	163	200	175
Enterprise ability	Innovation ability	100	60	100	100	80	100	80
	Brand Influence	100	80	80	100	80	100	80
	Total	200	140	180	200	160	200	160

According to the index score of each commercial bank and the index weight set in the previous section, we obtain the comprehensive value of each bank. The results are shown in Table 6.

Table 6. Comprehensive score of listed commercial banks of China in 2016

Primary index	Weight (%)	Pingan Bank	China Minsheng Bank	China Merchants Bank	Huaxia Bank	Bank of China	Industrial Bank Co., Ltd
Capital adequacy degree	10	6.81	6.56	7.02	6.58	8.64	6.64
Profit margins	30	17.16	18.47	21.49	17.86	18.58	19.05
Asset quality	20	15.38	15.33	15.98	15.36	15.67	16.2
Asset liquidity	10	2.34	3.53	0	1.89	2.48	0.8
Management level	15	12.23	12.6	14.25	12.23	15	13.13
Enterprise ability	15	10.5	13.5	15	12	15	12
Total	100	64.4	69.98	73.73	65.91	75.37	67.81

According to the comprehensive score table, the score rank order of the six banks is: Bank of China (75.37), China Merchants Bank (73.73), China Minsheng Bank (69.98), Industrial Bank Co., Ltd (67.81), Huaxia Bank (65.91) and Pingan Bank (64.40). The highest comprehensive score bank in the sample banks is Bank of China, and the lowest is Pingan Bank.

Bank of China occupies to the first place in the six sample banks with the mark of 75.37. It has strong advantages in the aspects of capital adequacy degree, management level and enterprise ability. The stable operation of Bank of China lies in the improvement of enterprise management level. It carries out the development concept of “innovation, coordination, green development, opening up and sharing”, achieving good performance in optimizing the quality and efficiency of service and accelerating the innovation of business model and risk management. China Merchants Bank occupies to the first place in the single item of profit margins and enterprise ability. It has affinities with the new strategic direction of “Light Bank”, which can enhance the asset utilization. However, the control ability of non-performing loan is decreasing and the asset quality has declined compared with 2015. Compared with Bank of China and China Merchants Bank, the capital adequacy degrees of China Minsheng Bank, Industrial Bank Co., Ltd, Huaxia Bank and Pingan Bank are still significant gap. The low loan-to-provision ratio of China Minsheng Bank in the asset quality aspect may lead to negative influence on the asset utilization. In the regard of liquidity, the problem of too high liquidity of Industrial Bank Co., Ltd would bring about negative influence on the capital utilization efficiency.

The management level of Huaxia Bank is relatively low, needing the further improvement of internal control management system and the professional overall management to orderly enhance the ability of risk management and control.

Pingan Bank ranks the last among the selected banks, and its rating indices are seriously imbalanced. The bank needs to make relatively big adjustments in its financial strategy in the future. The product structure needs to be more reasonable and the management and innovation ability need to be optimized.

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