

## Probe into the Development Password of Small and Medium-Sized Commercial Banks

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### Abstract

For a long time, China's banking industry is mainly composed of large state-owned commercial banks, but its importance is more prominent from the perspective of economic restructuring and economic transformation. At present, there are more than 4000 small and medium-sized banks in China, with total assets reaching 80 trillion yuan, accounting for almost one third of all commercial banks. With the development of Internet finance and the rapid changes of national policies, where should commercial banks go?

### Keywords

Commercial Bank; Banking Operations; Development of Commercial Banks.

## 1. Introduction

With the continuous progress of the society, under the guidance of powerful policies and cruel market competition, foreign banks with strong funds, efficient operation efficiency, advanced management concepts, mature business models and the special identity of "outsiders" will certainly show their hands and feet on the Chinese market, a cake that has long been coveted. Although China's commercial banks account for almost all of the domestic market share, their business and capital capabilities are very strong. But compared with foreign international banks, it is like a well nourished young man fighting against a soldier who has been through the battlefield. Although there is still a powerful mother, the government, to protect her, it is an inevitable rule and trend for her to withdraw from the platform.

## 2. Current Situation of Commercial Banks in China

### 2.1. It is the Polarization of Non-Performing Loans

Official data shows that the highest non-performing ratio of listed banks is 2.28%, and the lowest is about 0.8%, which is above the ice level. In fact, the non-performing ratio of some urban commercial banks and rural commercial banks has reached a surprising level, and some of the data released by the regulatory authorities have reached more than 40%. This does not rule out that some banks' five level classification reactions are not true, and there are people covering up non-performing loans, indicating that in terms of non-performing rate management, The internal management of commercial banks has a long way to go, and the pressure on profitability is enormous.

## 2.2. The Growth of Credit Business Slowed Down

Under the impact of mutual funds, the growth rate of credit business of various commercial banks has slowed down significantly in recent years due to the weakening of the real economy, the intensification of industry competition, the encroachment of market share, and the concentration of customers due to the head effect. The overall growth rate has slowed down, but the differentiation is serious. The traditional banks lack the power to develop. The new banks have a unique way. A more brutal fight in the credit business of future commercial banks will be inevitable.

## 2.3. Financial Innovation is Changing with Each Passing Day

Product innovation, mechanism innovation and process innovation are the main characteristics of commercial banks, which are also the breakthrough direction under the fierce competition. In terms of the choice of credit customers, the shift from large and strong to small and beautiful is mainly reflected in the continuous decline in the amount of loans per household, the close attention of the regulatory authorities, and also in the commercial banks' risk diversification strategy considering their own operations. Everyone has seen the advantages of small amount diversification and the huge blue ocean market of the Long Tail. This is a good opportunity, which will continue to grow in the future.

## 2.4. It is the Career Development of Employees

The golden license of the bank has the natural advantage of doing credit, and the gold content continues to increase. In the last two years, there was a rumor that a mutual gold license could conservatively stir up tens of millions of yuan, indicating that the banking industry will not cool down in the short term, and it is still in an unshakable position in the financial market. The scarcity of the industry has driven the competition among employees. It is also rumored that entering the bank requires tens of thousands of yuan for public relations activities, and prices are clearly marked according to different banks.

## 3. Challenges Faced by Commercial Banks

First of all, China had already joined the World Trade Organization (WTO) in 2001. At that time, China should be in line with the world and open its doors to the world. However, our national conditions were not suitable at that time, and computers could not be popularized. Chinese leaders applied to the WTO for a 15 year protection period, which was used to adjust China's economic structure.

During the period when Premier Zhu Rongji presided over China's economic reform, he frankly admitted to the foreign media that China's banks did not have the conditions for real commercial banks. China will open its financial sector a few years later. When China's banks truly have the capacity of commercial banks, they will open the financial sector to the world. At present, only a small number of foreign banks can be introduced as "pilots".

With the strong promotion of reform, the rapid development of China's society, the continuous growth of the national economy, and the further opening of the financial industry, as of 2013, the CBRC has approved 20 foreign banks to transform their domestic branches into foreign-funded corporate banks, of which 12 foreign-funded corporate banks have completed restructuring and opened their businesses to engage in comprehensive foreign exchange and RMB business, including the RMB business for Chinese citizens. These include HSBC Bank, Standard Chartered Bank, Bank of East Asia, Citibank, Hang Seng Bank, Mizuho Industrial Bank of Japan, Mitsubishi Tokyo UFJ Bank of Japan, Singapore DBS Bank, Bank of the Netherlands, Wing Hang Bank, Overseas Chinese Bank of Singapore, JPMorgan Chase Bank of America. Among them, HSBC, Citigroup and Standard Chartered Bank are more than other foreign banks in China's first tier cities.

This year is the last year of the 15 year protection period. The protection period ends in July this year. Although the protection period does not mean a clear line, all adjustment and protection measures and domestic policy protection are invalid. However, a comprehensive and nationwide opening up is bound to accelerate the process. At the same time, the frustrations and difficulties of China's application to join the TPP this year will inevitably strengthen the government's will to reform and open up.

At present, there are relatively few contacts and cooperation with foreign banks in China, from enterprises to individuals. With the development of time, the scale of foreign banks continues to expand, and branches spread, there will be more and more contact opportunities. When people gradually come into contact with a new, efficient or novel commercial bank, which is relatively overstaffed, slow to operate, difficult to handle and slow to handle, and some hidden problems compared with domestic banks, the great challenges of China's commercial banks will gradually emerge.

Ten years ago, no one could have imagined that today's society is progressing so fast, and it is also difficult for us to predict what extent the society will develop after ten years.

#### **4. Development Trend of Small and Medium-Sized Commercial Banks**

The main source of income of commercial banks is deposit and loan business. The interest margin between deposits is earned through indirect financing and information asymmetry. This way of making money lying down made the bank once a golden bowl in the eyes of everyone. Hong Qi, the president of Minsheng Bank, once lamented that "the figures of the entire banking industry over the years are indeed very beautiful. The capital demand of the entire enterprise and the pressure on the enterprise's operation are very great. China's banking industry is unique, with high profits and low non-performing ratio. Everyone feels a bit rich and heartless. The profits of enterprises are so low, and the profits of banks are so high, so we sometimes have too high profits, and we are embarrassed to announce them." This kind of high-profile speech can be described as pulling the foot of hatred.

The good times did not last long. In the following years, China's banking industry immediately faced the pressure of transformation. The way of making money that used to lie down was gone forever, and gradually formed a new trend of banks.

When determining the size of a bank, the scale of assets is usually used as a measure. In China, small and medium-sized commercial banks refer to national commercial banks, regional joint-stock commercial banks, and urban commercial banks (including urban credit cooperatives and rural credit cooperatives) other than the five major commercial banks of ICBC, ABC, CCB, and BOCOM. With the continuous improvement of China's banking industry's opening to the outside world, the deepening of interest rate marketization reform, and the rapid development of financial technology, the development of China's commercial banks has transited from "scale speed" to "quality benefit". The China Financial Stability Report (2021) of the People's Bank of China points out that 4400 banks have been classified, among which the credit rating of large banks is rated as good, but some banks have certain risks. Among the small and medium-sized commercial banks, the credit ratings of foreign and private banks are relatively high; The second is urban commercial banks, with high-risk financial institutions accounting for 10%.

After more than 30 years of development, China's commercial banks have gradually formed a relatively complete system, which has played an important role in promoting the development and perfection of China's financial system and the economic development of the region where urban commercial banks are located. After a series of reforms and development, urban commercial banks have basically formed a relatively complete system and scale. Small and medium-sized commercial banks actively promote financial technologies such as artificial intelligence, big data, cloud computing and blockchain to reduce costs, increase income and

improve efficiency, with a view to "overtaking at curves" in the field of digital economy. With the development of the times, small and medium-sized commercial banks must seize the development opportunities to achieve digital transformation. After years of development, the four major banks in China are still dominated by the four major banks, and their leading advantages are obvious. From the time of listing, Bank of China is earlier than Industrial and Commercial Bank of China, Agricultural Bank of China and China Construction Bank, while Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China and China Construction Bank are all located in Beijing.

In the future 2022, due to the uncertainty and complexity of the external environment and the impact of various policies, the company's net profit will decline, and it is expected that the annual net profit will increase by 6.5%. The business performance, business performance and asset quality of China's commercial banks will remain basically stable. At the same time, the transformation of new and old driving forces is accelerating, and new business types, structures and new growth points will continue to gather momentum.

At present, digital and intelligent banking outlets have become an important trend in the development of banking business. If a bank outlet wants to regain popularity, it must adjust to the needs of local customers, such as site selection, business model, etc. In recent years, China's banking industry has paid more and more attention to financial technology investment. In the process of promoting digital transformation, commercial bank outlets have also achieved significant results.

## **5. To Survive in the Crevice of Banks, Transformation has Become a General Trend**

Under China's national conditions, the position of traditional banks can be described as "high". So what difficulties did the bank encounter in recent years, which prompted her to start the transformation. Let Zhixiao tell you slowly:

### **5.1. Under the Interest Rate Marketization, The Deposit and Loan Interest Margin Narrowed, and the Golden Rice Bowl of Banks was Gradually Eroded**

From the asset side, the over issuance of M2 currency is the fundamental reason for the decline of the bank's asset side income. To put it simply, the loans in the hands of banks cannot be released. In the fierce competition, banks have to compete for services and prices to obtain high-quality assets. In this case, the income of the bank's asset side is seriously squeezed.

From the liability side, due to the increasingly marketization of deposits, the emergence of new products such as Yu'e Bao has diverted the financial management of traditional commercial banks. The impact of the development of Internet finance on banks has led to an irreversible rigid rise in bank liabilities.

The decline of asset side income and the rise of liability side cost have squeezed the bank's credit business, greatly reducing the bank's profits.

### **5.2. The Customers at the Financing End of Commercial Banks are Losing**

The diversification and directness of financial market financing make the traditional financing methods of banks no longer favored. High quality enterprises and listed companies can finance through bond financing, private equity financing, asset securitization (ABS), the New Third Board, listing and other ways.

What kind of diversification does the current financing trend show? We can simply summarize as follows:

- Large groups provide overseas (international) financing. (such as HNA Group and Fuxing Group)
  - Large enterprises finance from the market. (For example, IPO of large enterprises.)
  - Small enterprises financing from the private sector
  - Emerging industries and venture capital enterprises financing private equity, VC and Angel
- As securities, insurance, funds and asset management have entered the traditional credit business, private microfinance, P2P and pawnshops have begun to develop. These new financing methods reduce the dependence on banks, which directly affects the interest income of banks and indirectly affects the financing costs of banks.

### 5.3. It's not Easy for the Old Banks to be "Lenient in Access and Strict in Control"

The access policy of the state for banks has been gradually relaxed, but the supervision of banks has become increasingly strict. More and more urban commercial banks and rural commercial banks enter the market to share the cake, reducing the market share between state-owned banks and joint-stock banks; At the same time, more and more strict policies, such as deleveraging and shrinking off balance sheet, have also made life difficult for traditional banks.

### 5.4. Poor Industrial Capacity in the Cold Winter

Entering the economic downturn stage, the business ability of the industry has declined rapidly, and the bank financing cost is higher than the profit obtained by the industry. As a result, the non-performing ratio of the bank has risen, which has increased the bank risk. It is even worse for the bank to move forward with difficulty.

It is gradually realized that the traditional business scope has been "encroached". Now, banks are expanding their business scope towards non-traditional banks, and the licensing field of non-traditional banks is expanding, and they are gradually developing towards multi-functional and comprehensive businesses. It not only focuses on solving financing needs, but also focuses on the direction of investment.

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