

Interest Rate Liberation Reform and Small and Medium-sized Commercial Banks Development —Statistical Analysis Based on Listed Small and Medium-sized Commercial Banks

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Abstract: Interest rate liberation reform in China has been the crucial stage, and this reform has a great impact on small and medium-sized commercial banks. Because small and medium-sized commercial banks are facing the homogeneity, spreads narrowed, and lower profits and so on, it is very crucial to transform the profitability pattern. The significance of solving this problem is that it is related to the survival and development of many small and medium-sized banks. This paper takes the listed small and medium-sized banks as sample, and it analyses the business income structure, net interest spread, and net interest margins during the three years of 2012-2014. On the basis of drawing lessons from foreign experience, it points out that the development of small and medium-sized banks need to implement the strategy of differentiation, transformation profit model, and business transformation etc. The innovation of the paper is new data and new suggestion.

Keywords: Interest rate liberation, small and medium-sized commercial banks, profit model, intermediary business

I. INTRODUCTION

With the advancement of China's financial reform, interest rate liberation has the crucial stage. Interest rate liberation influences on small and medium-sized commercial banks greatly. From the international experience, it is the most critical and the risk is also one of the largest segments. The loan interest rate has been fully liberalized. And the floating ceiling of deposit interest rate is canceled. Almost all banks adjust the interest tables and the differential interest rate appears gradually, so competition between banks has intensified. The Deposit Insurance System has been launched, the system guarantees for further advance of interest rate liberation. In the long run, the interest rate liberation reform is helpful to optimize the allocation of resources, reduce financing costs of enterprises, promote the economic sustainable development and promote the reform of commercial banks etc. In the short term, small and medium-sized commercial banks suffer from some pain in the reform. As a result of competition, the pressure of loan interest rates downward and deposit interest rates upward may appear, which can lead to spreads narrowed and profit declining. This is a huge test for small and medium-

sized banks. In addition, the two-year macroeconomic growth becomes slow and the entity economy is common, which makes risk of the banks become larger. Under the background of profound changes in the external business environment, by analyzing the data of listed small and medium-sized banks to explore how to adjust management strategy, profit model and business structure etc., in order to realize ascension of the comprehensive competition ability and sustainable growth of bank value. This is a pressing problem.

Shusong Ba (2012) argues that, compared with the big banks, small and medium-sized banks trap in a node number, low brand awareness, narrow income channel, weak bargaining power, and lack of talent etc, so in response to the interest rate impact they will be far greater than the big banks. Specific effects include high spreads profit model unsustainable, operating risk sharply, increased capital added pressure, increasing the difficulty of pricing, the difficulty of risk management and the internal management problems [1]. Ping Lian (2013) argues that, under the background of interest rate liberation, the transformation of small and medium-sized commercial banks mainly involves three aspects: the transformation of development mode, the

transformation of business model and the transformation of management. On the change of the pattern of development, commercial banks will pay attention to the quality and efficiency of the connotation of the intensive development. On the management transformation, although the contents, means and emphasis of commercial banks will be different, fine, high efficiency and intensive management mode should be consistent aim of all banks. But in the transformation of business operation mode, direction and path of the development of the banks is not the only. Banks can make a choice according to its own characteristics [2].

Based on the listed small and medium-sized banks as sample, through the 2012-2014 annual report data analysis and theoretical analysis, the paper provides some development recommendations for small and medium-sized commercial banks.

II. DATA ANALYSIS

A. Revenue Structure

From horizontal direction of Tables 1 to 3, interest net income proportion of each bank declines in 2012-2014, but it still accounts for absolute advantage. Proportion of intermediary business income increases year by year, from 10% to 30%, the highest is the Minsheng bank (CMB), up to 31.99%. This shows that since 2012 the intermediary business in the banks has developed rapidly, the effect of the business structure adjustment is obvious. In 2014 the proportion of average of intermediary business income from 8 listed small and medium-sized banks was 23.64%. There is broad space for development. From the vertical development, every bank is different. CMB develops best.

Table 1. Joint-stock banks income structure in 2014 %.

Bank name	Net interest income	net charges and commissions	other net income
CITIC	75.97	20.30	3.73
CEB	74.19	24.39	1.42
HXB	84.52	13.65	1.83
PB	72.26	23.67	4.07
CMB	79.71	26.95	5.52
PDB	79.71	17.33	2.96
CIB	76.51	21.65	1.84
CMBC	68.01	28.23	3.76

Table 2. Joint-stock banks income structure in 2013 %.

Bank name	Net interest income	net charges and commissions	other net income
Bank	81.9	16.1	2.0
CITIC	77.88	22.90	(0.78)
CEB	86.0	14.0	0.0
HXB	78.0	20.0	2.0
PB	74.59	22.01	3.40
CMB	85.16	13.90	0.94
PDB	78.6	21.7	(0.3)
CIB	71.7	25.8	2.5

Table 3 Joint-stock banks income structure in 2012 %.

Bank name	Net interest income	net charges and commissions	other net income
CITIC	84.4	12.5	3.1
CEB	83.9	15.8	0.3
HXB	88.8	10.2	1.0
PB	83.1	14.4	2.5
CMB	77.95	17.41	4.64
PDB	88.44	10.54	1.02
CIB	82.4	17.1	0.5
CMBC	74.8	19.9	5.3

Table 4. Charges and commissions-- contrast analysis between Minsheng bank and Huaxia bank in 2014 %.

Item	CMB	HXB
1 card service fee	28.95	21.85
2 agent fee	22.85	18.82
3 Entrusted business commission	19.21	11.20
4 Credit commitment fees and commissions	10.40	15.67
5 financial advisory service	8.53	26.88
6 settlement fee	5.55	0.47
7 financing lease fee	0	3.22
8 other	0.30	1.89
9 total	100.0	100.0

Table 4 shows that, Minsheng Bank's card service fee, agent fee, entrusted business commission are larger. And the percentage of bank card service fees, agency fees, entrusted business commission, credit commitment fees and commissions is higher. From the table, we have seen that the front five items are major intermediary business income parts of small and medium commercial banks. Other small and medium-sized banks can expand in the above five aspects according to oneself circumstance.

B. Net Interest Spread (NIS)

Table 5. Net interest spread in 2012-2014 %.

	2014	2013	2012
CITIC	2.19	2.40	2.61
CEB	2.06	1.96	2.34
HXB	2.52	2.50	2.52
PB	2.40	2.14	2.19
CMB	2.33	2.65	2.19
PDB	2.27	2.26	2.87
CIB	2.23	2.23	2.39
CMBC	2.41	2.30	2.94
Average	2.30	2.31	2.51

C. Net Interest Margin (NIM)

Table 6. Net interest margins in 2012-2014 %.

Bank	2014	2013	2012
CITIC	2.40	2.60	2.81
CEB	--	--	--
HXB	2.69	2.67	2.71
PB	2.51	2.31	2.37
CMB	2.33	2.65	2.87
PDB	2.27	2.26	2.39
CIB	2.23	2.23	--
CMBC	2.41	2.30	2.75
Average	2.41	2.43	2.65

From the statistic data, in 2013, net interest margins in seven of the eight banks decline, including four in 2014 net interest margins appears to rise. But from the overall average, from 2012 to 2014, net

interest margin is falling, the initial declines slightly, then gradually stable.

III. INTERNATIONAL EXPERIENCE

From the international experience, interest spread firstly contract, then smooths, and then widens, eventually it gradually stabilizes according to the macroeconomic operation, policy regulation and the change of the economic cycle, fluctuations and volatility in financial markets [3]. After interest rate liberation in Japan, the average spread is from 2.29% to 1.72%; South Korea's average rate is from 3.79% to 1.67%. From international experience and lessons, we can gain the following enlightenment.

A. The Price Competition Could not Continue

When the price lies in certain level, it will be steady and competition will turn to other aspects. Internationally, the competition between banks has transformed from market share to integrated services.

B. Encourage and Guide the Financial Innovation of Banks

From an economics point of view, innovation means differentiation, certain monopoly and the new profit growth point. Innovation can bring excess profits.

C. Develop Intermediary Business Quickly

After interest rate liberation in USA, intermediary business income of the commercial banks accounting for the proportion of total income also changed a lot. Medium-sized Banks increase from 35% to 50%, small Banks are stable at around 30%. At present the intermediate business income of the small and medium-sized banks in China accounts for less than 30% on average, so it has the very big development space.

IV. CONCLUSION

An economist points out that the interest rate liberation is a win-win choice. As long as small and medium-sized banks try their efforts to adjust themselves, they still have very big development space.

A. Differential Business Strategy

At present our country's banking is in the market structure of monopolistic competition; the key is differentiation and dislocation competition. Banking services include three levels: core service, convenience service and supportive service [4]. Core services can provide core interests, such as deposits, loans service. Convenient services enable customers to better consumption, such as credit card business, online banking, agent business, etc. Supportive services provide clients with a higher value of the

services, such as investment consulting, financial management, etc. The core service is mainly on the different deposit and lending rates. Differentiation of the other two aspects reflects professional and convenient services. Small and medium-sized banks should adhere to customers as the center, provide customers with first-class financial services experience and pay attention to the non-price competition.

B. *Diversified Profit Pattern*

With the steady progress of comprehensive operation, banks can gradually involve in many fields, such as funds, insurance, leasing, trust etc, which provides a large space for the development of banks [5]. Small and medium-sized banks should carry out diversified and differential profit pattern. That is to say, they should develop intermediate business; strengthen the wealth management and so on.

C. *Business Transformation*

On the one hand is to strengthen intermediate business; on the other hand is to do small micro enterprise loans. In accordance with the principle of differentiation, adaptability and coordination, transformation direction of the small and medium-sized banks is differentiation, characterization and retail [6]. Medium-sized banks focus on services for small and medium-sized enterprises and constantly create characteristics. Small banks focus on small and micro enterprises and pursuit local development based on community.

D. *Enhancing the Level of Integrated Services*

Small and medium-sized banks should improve

service levels and close the distance with the customers through fine management, diversified assessment and professional training, which makes customers feel at home. As the increase of the number of banks, customers would compare the bank services, and then make a wise choice. After the unpleasant experience of financial services, no matter whether the customer complaints, the end result is vote with their feet, namely the cancellation of the bank account in a bank. Therefore, it is crucial to improve comprehensive service level. In addition, banks in the process of dealing with customers don't get rich quickly and recommend many such as wealth management products to customers. Banks should make customers feel sense of respect and then customers can trust banks.

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