

# ***Comparative Analysis and Influencing Factors of Comprehensive Competitiveness of Urban Commercial Bank in Jiangsu and Zhejiang Areas***

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**Abstract:** In the fierce competition of the market economy, it is difficult for small and medium-size enterprises (SMEs) to obtain enough financing, which affects their further development, and urban firms can help them. This paper selects several urban business firms in Jiangsu and Zhejiang regions, compares their comprehensive strength and explores the influencing factors, and draws the conclusion that the economic development level, government policies, the positioning of banks and strategic investors will all have an effect on the comprehensive strength of urban commercial banks. This paper also gives some suggestions that the government should be more responsible to regulate the urban banks, banks should choose whether to need strategic investors according to their own conditions, and the urban commercial banks should insist on providing financing services for small and medium-size companies, so as to promote the coordinated development of regional finance.

**Keywords:** bank, urban commercial bank, Jiangsu, Zhejiang

## **1. Introduction**

In China, urban commercial banks are developed from the reform of financial institutions such as urban credit unions. Among the many listed companies of urban commercial banks, the majority of them are banks in Jiangsu and Zhejiang regions. At present, most banks in Jiangsu, Zhejiang and Shanghai are controlled by the local government and provide financing services for small and medium-size enterprises (SMEs). Private urban commercial banks emerged in Zhejiang Province, and ten urban commercial banks in Jiangsu Province were reorganized into Bank of Jiangsu. However, the level of development of urban commercial banks is uneven in different regions, and the comprehensive strength gap between urban commercial banks is huge, even in the more economically developed Jiangsu and Zhejiang regions. This paper aims to promote the coordinated development of Jiangsu and Zhejiang regional finance by analyzing the comprehensive strength of Jiangsu and Zhejiang urban commercial banks and its influencing factors and explore the factors that affect its comprehensive strength.

## 2. Comparison of Comprehensive Ability

This paper compares the operating conditions of listed companies in the third quarter of 2022 and makes a list of analysis and compares the comprehensive strength of the banks selected in the table by using the data in the Table 1.

Table 1: Comparison of some data of urban firms in Jiangsu and Zhejiang regions.

Name	Return on equity	Loan to deposit ratio	Provision coverage ratio	Non-performing loans Ratio	Increase rate of business revenue	Net profit growth rate
Jiangsu Bank	12.41%	–	360%	0.96%	14.88%	31.31%
Nanjing Bank	12.52%	75.86%	397%	0.91%	16.13%	21.28%
Suzhou Bank	9.16%	80.11%	533%	0.88%	11.49%	25.92%
Hangzhou Bank	11.71%	77.22%	584%	0.77%	16.47%	31.82%
Ningbo Bank	12.06%	79.87%	520%	0.77%	15.21%	20.16%

Annotation: indicates that the data is not published.

Data source: Third quarter 2022 report of Jiangsu bank, Nanjing Bank, Hangzhou Bank and Ningbo Bank.

### 2.1. Comparison of Profitability

Profitability represents the core competence of a bank. Considering the large difference in stock prices among commercial banks, the profitability of each bank is compared by comparing average annual return on equity instead of earnings per share. Return on equity is an important metric for assessing the profitability of publicly traded companies. It refers to the relationship between profit and average shareholder equity. The higher the index, the greater the return on investment. The lower the return on equity, the less profitable the owner's equity. This index measures the ability of one's own capital to generate net income. As can be seen from the above table, among the selected banks, Nanjing bank has the strongest profitability, followed by Jiangsu Bank, and the profitability of Suzhou bank is weak.

### 2.2. Comparison of Mobility Risk

Liquidity risk has a significant negative impact on the creation of unit asset liquidity in Chinese banking industry [1]. The loan-to-deposit ratio is used to measure liquidity in this paper. The loan-to-deposit ratio of a bank is the ratio of total loans to total deposits. The higher the loan-to-deposit ratio, the better for bank profitability, because deposits must pay interest, i.e. the so-called cost of capital. If a bank has a large number of deposits but few loans, it means that its costs are high while its income is low, and the bank's profitability is low. As can be seen from the above table, among the selected banks, the Bank of Suzhou has the highest loan-deposit ratio (80.11%) and the lowest liquidity, while the Bank of Nanjing has the lowest loan-deposit ratio (75.86%). It is worth mentioning that the Bank of Jiangsu has not released its loan-to-deposit ratio, which is estimated to be higher than that of the Bank of Suzhou based on previous data. As can be seen from the above table, among the selected banks, the Bank of Suzhou has the highest loan-deposit ratio (80.11%) and the lowest liquidity, while the Bank of Nanjing has the lowest loan-deposit ratio (75.86%). It is worth

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### **2.3. Comparison of Credit Risk**

Credit risk is the most common and main risk in commercial banks' operations. Credit is the foundation of bank production. The provision coverage rate is an important index for China Banking Regulatory Commission to supervise the credit risk status of commercial banks [2]. The provision coverage ratio refers to the utilization ratio of reserves for non-performing loans that may occur in commercial banks. The higher the ratio, the better commercial banks' ability to withstand credit risks. In the data selected in the above table, the provision coverage rate of urban firms in Jiangsu and Zhejiang regions is generally higher. Hangzhou Bank, the highest, has a provision coverage of nearly 600%. The Bank of Jiangsu, the lowest, also reached 360%, while China's standard is more than 150%. The provision coverage expands the space for earnings management. There may be operational profits of commercial banks, and then the ratio is deliberately raised or lowered. So this paper also chooses the ratio of non-performing loans to compare them. Commercial banks face a relatively stable macroeconomic environment, which is conducive to lowering their non-performing loan ratio of [3]. Table 1 above shows that the non-performing loan ratio of the Bank of Jiangsu is the highest, but only 0.96%, while the non-performing loan ratio of the Bank of Ningbo and the Bank of Hangzhou is the lowest, only 0.77. Generally speaking, the selected banks in the table have relatively low credit risk.

### **2.4. Comparison of Future Performance Growth Capacity**

An important measure of future performance is the rate of net profit growth. The growth stock valuation model believes that the growth rate of net profit is the core index of stock valuation [4]. The net profit growth rate index has wide applicability. For example, the growth rate of net profit reflects the increase in the value of the company. Above table clearly shows that, the net profit of the Bank of Jiangsu and the Bank of Hangzhou grew the fastest, both exceeding 31%, while that of the Bank of Ningbo was the slowest, also exceeding 20%.

## **3. Factors of Comprehensive Capacity of Commercial Banks**

### **3.1. The Effect of Economy Level**

Financial development and economic development are mutually promoting. Economic development is the basis of financial development, and financial development can promote economic development. The good development of commercial banks in Jiangsu, Zhejiang and Shanghai is convenient for enterprises to raise financing. The developed economy of Jiangsu, Zhejiang and Shanghai is an important factor for the leading development of finance in Jiangsu, Zhejiang and Shanghai. Although Jiangsu and Zhejiang are geographically close and have similar economic strength, the per capita income of Zhejiang is significantly higher than that of Jiangsu. As can be seen from the above tables, the non-performing loan ratio of urban commercial banks in Zhejiang is oppositely low, and the provision coverage ratio is relatively high, so the operation is more stable and the corresponding valuation is also relatively high. In summary, local per capita economic level and

overall economic level are important factors affecting the development level of urban commercial firms.

### **3.2. The Impact of Government Policy**

Macroeconomic fluctuations will make the government introduce policies frequently to maintain economic stability, but at the same time, it will also lead to the increase of economic policy uncertainty and lead to the increase of banks' risk bearing level [5]. As a urban business bank controlled by local government, the influence of government behavior can not be ignored. Generally speaking, the influence of government behavior not only pushes the reform of urban commercial banks and promotes financial development, but also interferes with the independent operation of urban commercial banks, which is lack of efficiency. As the controlling shareholder and actual controller of banks, the government should introduce appropriate policies to facilitate the better development of banks and better serve private enterprises. Administrative intervention of local government. As a local commercial bank, the government intervenes more than other banks. The higher the proportion of government shares, the higher the degree of intervention is. On the one hand, local governments will entrust their own related businesses to urban commercial banks. They will also require legal persons in their jurisdiction, especially public institutions and state-owned enterprises, to handle various financial businesses in urban commercial banks through economic and even administrative means, which brings stable customers and business to urban commercial banks. On the other hand, in the process of providing public services and building infrastructure, local governments will rely on urban commercial banks for financing, use urban commercial banks to alleviate financial difficulties, and may intervene in the operation of urban commercial banks. This will affect the urban business efficiency, but also may increase the risk of operation. As Jiangsu, Zhejiang and Shanghai are located at the forefront of opening up, the local finance is relatively abundant, so the competitiveness indicators of the urban business firms with a high proportion of local government shares are also good.

### **3.3. The Impact of Banks Positioning by Themselves**

Urban commercial banks are facing more and more severe competition environment. They not only have to compete with state-owned joint-stock banks, joint-stock commercial banks and foreign banks, but also are challenged by postal reserve banks, rural banks and small loan companies. In Jiangsu, Zhejiang and Shanghai, where the private economy is very developed, SMEs are the backbone of the market economy as well as the important customer source of urban firms. The urban commercial banks in Jiangsu, Zhejiang and Shanghai have established a symbiotic and prosperous relationship with the industrial cluster of SMEs. According to their own advantages, they can obtain the information of local industrial policies and small and medium-sized enterprises at a lower cost, and provide more accurate characteristic financial services for small and medium-sized enterprises. The fundamental purpose of Bank of Jiangsu is to base itself on Jiangsu Province, serve the society, vigorously support local economic development, and make contribution to the construction of a harmonious society. Bank of Hangzhou is positioned as the backbone of Zhejiang to build the national "financial service center for SMEs" and "private wealth management and investment center". In Zhejiang, the cluster effect is more obvious, SMEs and urban firms are more closely connected.

### **3.4. The Influence of Strategic Foreign Investment**

The introduction of strategic investors is conducive to the realization of equity diversification, reducing insider control and giving play to the role of equity constraints. In the background of our

country vigorously attracting foreign capital in order to efficiently use foreign capital resources to promote economic development, as the new participants in the capital market, how foreign capital shareholders will affect the invested enterprises' decision-making, and how to better use foreign capital resources is significant to our country [6]. The purpose of introducing foreign strategic investors is to promote the reform of corporate governance structure and establish modern enterprise system. For instance, Bank of Hangzhou used to be controlled by foreign investors, with foreign ownership of more than 30%. During this period, Bank of Hangzhou developed rapidly, significantly outperforming its peers.

#### 4. Conclusion

In general, the urban business indicators in Jiangsu, Zhejiang and Shanghai are good, with strong competitiveness. The competitiveness of Zhejiang's urban commercial bank is ahead of Jiangsu. Economic development, government behavior, bank positioning, the introduction of strategic investors will have a greater impact on the development of urban commercial banks. This paper holds that the commercial banks in Jiangsu, Zhejiang and Shanghai should develop cooperatively for mutual benefit and win-win. Secondly, the government should strive to improve the operation efficiency of urban commercial banks and fulfill the responsibilities of major shareholders. Banks should choose whether to introduce strategic investors according to their own situation and should not blindly follow the trend. Last but not least, urban commercial banks should stick to serving SMEs to help them better finance.

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