

# The Development and Problems Faced by Intermediary Business of Commercial Banks in China

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## Abstract

The intermediary business of commercial banks in China has developed rapidly, and the intermediary business of commercial banks in China is also facing unprecedented challenges. In order to adapt to the development trend of international banks, improve the international competitiveness of Chinese commercial banks, and develop emerging businesses such as intermediary business, it has become an inevitable choice for the reform and development of Chinese commercial banks. However, factors such as institutional deficiencies, inadequate knowledge updates, lack of technological content, weak financial awareness, and increased financial risks have constrained the development of various emerging businesses. This article conducts research on the current development status and problems of intermediary business in commercial banks, and further explores the direction and strategies for developing intermediary business.

## Keywords

Intermediary Business; Commercial Banks; Current Situation Problems and Solutions.

## 1. Introduction

After the transformation of China's rural commercial banks, the effectiveness of intermediary business has begun to show signs. However, due to the late start and low starting point, coupled with the long-term constraints of various factors, the financial innovation ability of rural commercial banks has always been unable to keep up with the needs of economic development, resulting in a severe situation for the development of intermediary business. Intermediary business is not isolated, and most products are strongly related to external macroeconomic trends, fluctuations in various professional markets, changes in regulatory policies, and customer consumption habits. In recent years, the external operating environment of banks has undergone significant changes, with some products significantly affected and the overall growth rate of intermediary business gradually declining.

The international environment is becoming more complex, with various markets experiencing ups and downs, and the profit margins of some products are narrowing. The uncertainty overseas also has an impact on domestic capital markets, exchange rate markets, commodity markets, and so on. Products that are closely related to the market, such as funds, international settlements, proxy exchange rates and interest rates, precious metals, etc., will inevitably fluctuate and fluctuate with market changes. The business volume of some products will rapidly shrink and the profit space will narrow. With the development of financial globalization and economic integration, especially the development of international capital markets and the decline of international interest rates, the development of intermediary business has become an important strategy for the development of the international banking industry in the 21st century.

## 2. Literature Review

The Basel II Capital Accord proposes a regulatory framework with three pillars: capital adequacy ratio, government regulation, and market constraints. Better promote the development of intermediary business in banks. According to Article 3 of the Commercial Bank Law of China, commercial banks may engage in some or all of the following businesses: absorbing public deposits[1]; Granting short-term, medium-term, and long-term loans; Handle domestic and international settlements; Handle bill acceptance and discounting; Issuing financial bonds; Agency issuance, agency redemption, and underwriting of government bonds; Agency payment and insurance business; Provide safe deposit box services and other businesses approved by the banking regulatory authority of the State Council. To promote the development of intermediary business.

Recently, China Merchants Bank, China Construction Bank, and Bank of China have successively raised the fees for interbank ATM withdrawals in some regions. Analysts believe that although developing intermediary businesses and reducing the serious dependence of bank profits on deposit loan spreads is the trend, developing intermediary businesses is not only limited to increasing fees through "price hikes", but should also focus on emerging businesses such as bond underwriting, asset custody, cash management, and third-party deposit management to comprehensively consolidate the source of intermediary business profits.

Lian Ping, Chief Economist of Bank of Communications, said that although increasing transaction fees can help improve the income structure of banks, he "will not have too optimistic estimates" about the general increase in bank transaction fees[2]. On the one hand, the adjustment projects of various banks have limited contributions to the overall profitability improvement of intermediary business, and currently, the main source of bank profits is still the difference between deposits and loans, with intermediary business accounting for only over ten percent; Kane (1987) and Miller (1985) proposed to avoid management oriented financial innovation, pointing out that regulation of financial institutions can accelerate financial innovation. The goal of any business organization is profit, and financial institutions must constantly innovate in order to develop their business and achieve profitability.

## 3. The Development Status of Intermediary Business in Commercial Banks in China

With the continuous development and expansion of financial internationalization, the intermediary business of commercial banks in China is becoming more and more mature. It has not only become the core pillar business of banks, but its development status to a certain extent reflects the income structure, competitiveness level, and operational status of commercial banks.

(1) Preliminary establishment of intermediary business management system, interactive development between intermediary business and traditional banking business

With the regulations of relevant national departments, commercial banks have generally established intermediary business management committees and comprehensive intermediary business management departments to accelerate the development of intermediary business, and have initially formed an intermediary business organizational system that is in line with the characteristics of intermediary business development and the actual situation of each bank. We have established a management and operational system for intermediary business, with the intermediary business committee system as the main body and unified coordination and division of labor as the main content[3].

In order to cope with market competition and strive for more high-quality customer resources, commercial banks will inevitably strengthen the interaction between intermediary business

and traditional deposit and loan business, that is, while enriching the connotation of traditional business services such as settlement and agency, accelerate the innovation of intermediary business products, gradually improve the degree of cross integration between new intermediary business related financial products and asset liability business, and thereby enhance the contribution of bank intermediary business to profits.

(2) The business scale is rapidly expanding. The variety of business continues to increase, resulting in an increase in business revenue

Over the past 20 years, with the increase of intermediary business types, the trading volume has shown a rapid growth trend. Taking RMB settlement business as an example, it has reached 65.715 billion yuan in 2018, which is 25.11 times that of 2001. Especially the development of the credit card market has attracted more attention. In 1997, the national credit card transaction volume was only 20 million yuan. By the end of 2018, the credit card transaction volume of only four state-owned commercial banks had exceeded 6615.1 billion yuan[4].

According to statistics, by the end of 2018, Industrial and Commercial Bank of China had launched 861 types of intermediary business, making it currently the bank with the most types of intermediary business in China.

In 1978, the average proportion of non interest spread income of commercial banks in China to total income was less than 1%. By the end of 2018, this proportion had reached around 17%.

(3) Innovation is used to support the development of intermediary business, and the comprehensive development of intermediary business operations

The development of intermediary business in commercial banks is a rapidly changing process, in which innovative financial products that meet market demand continue to emerge, and financial product services are becoming increasingly refined and standardized. Commercial banks maintain the vitality of intermediary business through product and technological innovation, continuously enhance the irreplaceability of products, and build core competitiveness that commercial banks find difficult to replicate.

From the development history of banks, commercial banks have gone through a transition from operating a single financial product to operating numerous financial products, from managing currency primarily to managing information primarily, from earning interest rate differentials on deposits and loans primarily to earning service income, and have transformed into a new type of financial institution with vertical specialization, horizontal diversification, and flat organization, linked by information technology. The intermediary business, both in terms of products and systems, has adapted to the needs of banking industry transformation and is gradually moving towards a path of comprehensive services[5].

(5) The following chart shows the proportion of intermediate business income of a state-owned commercial bank in China in 2020

Total of settlement, agency, guarantee, bank card, real estate, financial entrusted loan, consulting fund, and others.

Income proportion (%) 23.75 15.11 2.98 12.22 3.61 15.71 5.07 1.35 20.2 100.

The above chart clearly reflects the development status of intermediary business in commercial banks. The income from intermediary business has gradually increased and its proportion in the total income has also greatly increased.

#### 4. The Problems in Intermediary Business of Commercial Banks in China

Although the development of intermediary business in commercial banks in China is booming in various aspects, and the data is getting better year by year, there are still many problems in the actual process, and there is also a significant gap with the development of intermediary business in developed countries. The development of intermediary business in Chinese

commercial banks is constrained by various factors, and the development of intermediary business in Chinese commercial banks shows obvious characteristics such as decentralization, low efficiency, low initial and technological content.

(1) Intermediate business income is low, accounting for a low proportion of total income, and there is a significant gap compared to developed countries

The development of intermediary business in China's banking industry started relatively late, and the level of attention is far less than that of developed market economy countries. In the 1990s, domestic commercial banks truly began to develop intermediary business. Due to the constraints of traditional business concepts and the limitation of separate operations, domestic commercial banks still rely on traditional deposit and loan business, and the development of intermediary business is relatively slow[6]. For a long time, commercial banks in our country have regarded deposit and loan business as a key focus of development, and the difference between deposits and loans has been regarded as the main profit growth point for commercial banks. From the perspective of business strategy, intermediary business has not been regarded as one of the three driving forces for the development of commercial banks under modern economic conditions. There is insufficient understanding of financial innovation and the development of intermediary business, and only intermediary business is regarded as a subsidiary of on balance sheet business and an additional business of commercial banks. Intermediary business has always been viewed as a means of expanding low-cost deposits rather than a point of profit growth. The income level of intermediary business in China is significantly lower than that of developed countries. Research shows that the average asset profit margin of commercial banks in the United States is 12.86 times higher than the average level of the four major state-owned commercial banks in China.

(2) Lack of business products and innovation

Compared to developed Western countries, the intermediary business of commercial banks in China started relatively late and has only experienced rapid development in recent years. However, due to the restrictions of separate operations, the proportion of intermediary business income to total income is relatively low, and the variety is limited to settlement, exchange, collection and payment with simple operation and low technical content, as well as labor-intensive products such as credit cards, letters of credit, and documentary bills.

(3) Unreasonable income structure, low level of structure

For a long time, commercial banks in China have not regarded the development of intermediary business as a main business and a new source of profit growth, and the strict separation of business management and other factors have greatly restricted the development of the banking industry. The direct consequence of these restrictions is that domestic commercial banks have weak financial innovation capabilities. In the development of retail intermediary business varieties that have already been carried out, the goal is not to maximize profits, but as a means of absorbing customer deposits[7]. This situation has led to a low contribution rate of intermediary business profits to bank profits. In the current total revenue of various commercial banks in our country, interest income accounts for over 90%. This income structure is one of the main reasons why the asset profit margin of commercial banks in China has been continuously declining since the 1990s.

(4) Lack of specialized talents and lack of standardization in fees

In the process of exploring and developing intermediary business, a group of versatile talents with broad knowledge, strong professional abilities, rich practical experience, and the ability to explore, understand technology, and manage are needed, which is difficult to adapt to the rapid development needs of intermediary business. At the same time, commercial banks lack a unified fee indicator in carrying out intermediary services. In order to compete for

intermediary services to pay fees on behalf of customers, the ownership of intermediary service fee standards is unclear, and there are also some problems with fee vouchers.

#### (5) Facing fierce market competition

With the gradual opening up of finance, the coexistence, development, and win-win situation between Chinese and foreign banks will be the mainstream of the market. In the competition with foreign financial institutions, the strategic choices of Chinese banks themselves are of utmost importance. Through in-depth analysis of the comparative competitive advantages of both sides, it is not difficult to find that the complementary advantages of Chinese and foreign banks outweigh the overlapping advantages. But competition will still unfold in areas such as financial wholesale business and high-quality large customers. While facing fierce competition, commercial banks in our country must also face changes in regulatory policies and market demand, mainly reflected in: changes in central bank policies[8]; Retail, corporate business, and cooperation with non bank financial institutions.

## 5. Countermeasures and Suggestions for the Development of Intermediary Business in Commercial Banks in China

Generally speaking, commercial banks should develop comprehensive development plans for intermediary businesses based on their own advantages, and play the role of bank settlement and agency centers at a higher level. By establishing a business management organization and a system for project initiation and acceptance of new products, the institutionalization and standardization of intermediate business product development can be achieved, ensuring that the developed financial products truly meet customer needs and achieve expected benefits. Commercial banks should be market-oriented, customer-centric, and carry out intermediary business according to local conditions. On the basis of continuing to do traditional business well, they should strengthen complementarity and promotion with intermediary business. By continuously adhering to the innovation of intermediary business products and accelerating the construction of electronic infrastructure, we can further improve the technological content of intermediary business products and establish a financial network information system. When developing intermediary business, commercial banks in our country also need to pay attention to six aspects of relationships: correctly handling the relationship between traditional business and intermediary business; Properly handling the relationship between market expansion and business management; Properly handling the relationship between input and output; Properly handling the relationship between quantity and quality; Properly handling the front desk.

To better promote the sustained and rapid development of intermediary business in commercial banks in China, the following development strategies should be implemented:

#### (1) Accelerate product development and innovation

In short, commercial banks should accelerate the development and innovation of their intermediary business products to meet the needs of customers at different levels. Accelerate the pace of innovation in intermediary business products, adhere to the principles of market demand, bank capability, and business efficiency[9]. Commercial banks should implement a differentiated competitive strategy based on the economic development status of their main service areas and the development status of intermediary businesses, avoid product homogenization, segment customer groups, and fully tap into potential market demands. Carry out profitable intermediary businesses such as financial management, credit evaluation, consulting, agency financing, and debt swaps for both companies and individuals. Commercial banks should improve their service level, enhance service quality, use various marketing methods, cultivate and develop new customer groups, and achieve the healthy development of intermediary business.

#### (2) Improve organizational system

Improving the organizational system mainly requires the following two aspects: on the one hand, strengthening the construction and leadership of intermediary business organizational structures, establishing specialized high-level intermediary business coordination organizations and specialized intermediary business daily supervisory agencies, strengthening the planning, development, and unified coordination responsibilities of intermediary business, forming an integrated organizational system, and improving the comprehensive sales ability of various products. On the other hand, it is necessary to develop a training plan for intermediate business management talents, placing the cultivation of intermediate business management talents in an important position; Improve the comprehensive quality of intermediary business management personnel, focus on strengthening the construction of customer manager teams, and strengthen the cultivation of intermediary business marketing talents[9]. To provide strong support for the rapid, healthy, and orderly development of intermediary business.

(3) Market oriented, rational allocation of resources, and formation of a coordinated operation mechanism of interconnection, interaction, and mutual assistance

The development of intermediary business in commercial banks should be market-oriented, strengthen the overall optimization of business management processes, and improve the rapid response ability of business management systems to the market; Implement a responsibility system for promoting intermediate business in the area of line management; Implement project managers and account managers[10].

Organic unity of product managers; Implement a contact person system for financial products, responsible for product guidance, interpretation, and other program design.

(4) Expand marketing channels

Like other enterprises, commercial banks cannot simply attract all consumers with their own products when expanding their intermediary business. They must strengthen market segmentation, focus on customers, and guide the market to develop and position intermediary business products. With the help of marketing mix tools, various advertising media are used to promote intermediary business products through various channels and promotional methods, so that customers can understand the functions and service methods of the bank's intermediary business products, and other intermediary business marketing management[11].

(5) Improve the comprehensive pricing ability of commercial banks

When pricing intermediary business products, commercial banks must establish the principle of efficiency first to match services with prices. Quickly change the current abnormal model of low fees and even free agency in banks to achieve the best return rate. When conducting cost accounting and expected revenue calculation, different pricing strategies are strictly based on different business objectives, operating stages, market demand, industry pricing, and other factors.

Commercial banks should develop intermediary business development plans based on their own development status and take corresponding measures, such as recent, medium-term, and long-term measures, to carry out intermediary business in an orderly and healthy manner.

## **6. To Achieve Sustainable Development of Intermediary Business in Commercial Banks**

(1) The Sustainable Development Connotation of Intermediary Business

The sustainable development of intermediary business refers to the sustainable and sustainable development of intermediary business, as well as the sustainable and sustainable resource environment that intermediary business relies on. Its connotation lies in: the development of intermediary business should include both qualitative and quantitative development, both of which are indispensable and neglected[12]; The issue of quality and

quantity in intermediary business is a contradictory unity. According to the requirements of sustainable development theory, in order for Chinese commercial banks to achieve sustainable development of intermediary business, they must first establish a market-oriented, customer-centric, and efficiency oriented business philosophy.

Secondly, it is necessary to establish an internal control mechanism that operates in accordance with the law, standardizes operations, and operates steadily. When setting development goals for intermediary businesses, banks should consider the internal and external environment of the bank. To coordinate internal and external relationships, it is necessary to achieve rapid improvement of intermediate business while also taking into account the sustainable development of intermediate business. The set goals should not be too high, exceed the carrying capacity of the environment, or be too low, so that existing environmental factors cannot be fully utilized.

(2) Several pairs of relationships that should be handled correctly

Handle the relationship between asset, liability, and intermediary businesses well. China's commercial banks are vigorously developing intermediary business, and the first thing they need to solve is how to maximize the utilization of asset and liability business resources that have developed for decades[13]. We need to change our previous business philosophy of focusing on asset and liability businesses while neglecting intermediary businesses, and truly place intermediary businesses in an equally important position as asset and liability businesses.

Handle the relationship between development and structural adjustment well. The development of intermediary business should not only increase in scale and variety[14], but also increase the proportion of intermediary business in total operating income, strengthen the accumulation of quantity, and pay attention to the structural adjustment of intermediary business. What are the products for the development of intermediary business? Which areas? Which industries? Which customers? There should be a strategic arrangement. On the basis of comprehensively carrying out agency and settlement intermediary businesses, we will establish different types of intermediary businesses according to customer needs in different regions, such as letter of credit business, guarantee business, financial advisory business, investment banking business, factoring business, safe deposit box business, securities clearing business, online banking business, etc.

## 7. Summary

Overall, the intermediary business of commercial banks in China is gradually developing and progressing in such a fiercely competitive market. With the establishment of management systems, intermediary business and traditional business are developing in an interactive manner. The variety, scale, and revenue of business are also rapidly increasing and expanding. The injection of innovation assistance has made intermediary business increasingly refined and standardized, achieving objective social benefits. However, in the practical process, factors such as institutional deficiencies, inadequate knowledge updating, lack of technological content, weak financial awareness, and increased financial risks have constrained the development of various emerging businesses. This has affected the stable development of intermediary business. In response to this situation, commercial banks in China have introduced a series of policy measures, such as accelerating product development and innovation, improving organizational and relevant legal and regulatory systems, establishing reasonable coordination and incentive mechanisms, expanding marketing channels, and transforming traditional public attitudes, to stabilize the development of intermediary business and achieve sustainable development.

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