

# Intermediate business of commercial banks in China based on the comparative analysis of the first half of 2012 and 16 listed commercial banks semi-annual report data

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**Abstract** –With market-oriented interest rate, financial disintermediation acceleration, narrow spread, the traditional commercial bank profit source declining, commercial bank management for accelerating the development in the future direction of the transformation, steering intermediate business, this is commercial bank unavoidable realistic problem. This paper mainly use in the first half of 2012 and 16 listed commercial banks half of the annual report data comparative analysis, put forward our country commercial bank intermediate business development present situation and deficiency, draw lessons from foreign advanced experience of commercial banks , make positive proposals for our country's commercial banks future transformation.

**Keywords** –Listed commercial bank ; Intermediate business ; Interest rate liberalization ;Comparative analysis

## 1. Introduction

The first half of 2012, the international economic and financial situation is austere and complex change constantly, the domestic economy enters growth downlink channel, GDP growth rate continued to fall, real estate received national strict control, economy grows dynamical inadequacy, business and financial difficulties. The people's Bank of China respectively in June 8th and July 6th will be the first to cut interest rates, financial institutions deposit interest rate floating range limit is adjusted to 1.1 times the benchmark interest rate, and the financial institutions lending rate floating range limit is adjusted to 0.7 times the benchmark interest rate, interest rate liberalization stepped materiality pace, interest rate management difficulty to increase. At the same time, this year, the people's Bank of China to continue the implementation of differential reserve rate dynamic adjustment policy, controlling bank credit growth, the growth in bank credit restriction. The marketization of interest rate is accelerating, credit growth is limited under the dual influence, bank net interest income growth under impact. Since 2012 February, the national banking " standard management " special work continued development, implementation of " seven no" loan business rules and business " four open" principle, the commercial bank management service charges will tend further strict, intermediate business income growth under impact. In June 8, 2012, the China Banking Regulatory Commission issued a " commercial

bank capital management approach (Trial) ", to raise capital adequacy requirements, strict definitions of capital, enlarge capital risk coverage range, carry out at rising on January 1, 2013, capital regulation further tightened, the capital pressure increase.

With market-oriented interest rate reform process accelerated, commercial bank lending rate to float downward and liabilities costs rise, leading to bank interest income reduce, if the intermediate business cannot maintain high growth, so commercial bank performance in high growth is difficult to continue. In the current non interest income, intermediate business income accounted for greater, and intermediate business, fee and commission income this one traditional business types and contribution of the vast majority of performance. However, the first half of 2012 the capital market, the stock market, such as investment funds market prices continued dismal, regulators regulate the banking charges made listed bank intermediate business growth is lack of power, five big bank fees and commission income general are single-digit growth, even Bank of China income falls, this phenomenon in recent years are extremely rare.

In this paper, Industrial and Commercial Bank of China(ICBC), China Construction Bank(CCB), Agricultural Bank Of China(ABC), Bank of China(BOC), Bank of communications(BCM) five large state-owned commercial banks referred to as the big five; China Minsheng Bank(CMBC), China Merchants Bank(CMB), Industrial bank(CIB), China CITIC Bank(CITIC), China

Everbright Bank(CEB), Shanghai Pudong Development Bank(SPDB), Ping An Bank (PAB)and Huaxia Bank(HXB) the eight national joint-stock commercial bank joint-stock firms. The Bank of Beijing(BOB), Bank of Nanjing(NJCB) and Bank of Ningbo(NBCB) the three city commercial banks referred to as city firm.

## 2. Intermediate business of Chinese Commercial Bank comparative analysis

### 2.1 16 listed commercial banks intermediate business income overall situation

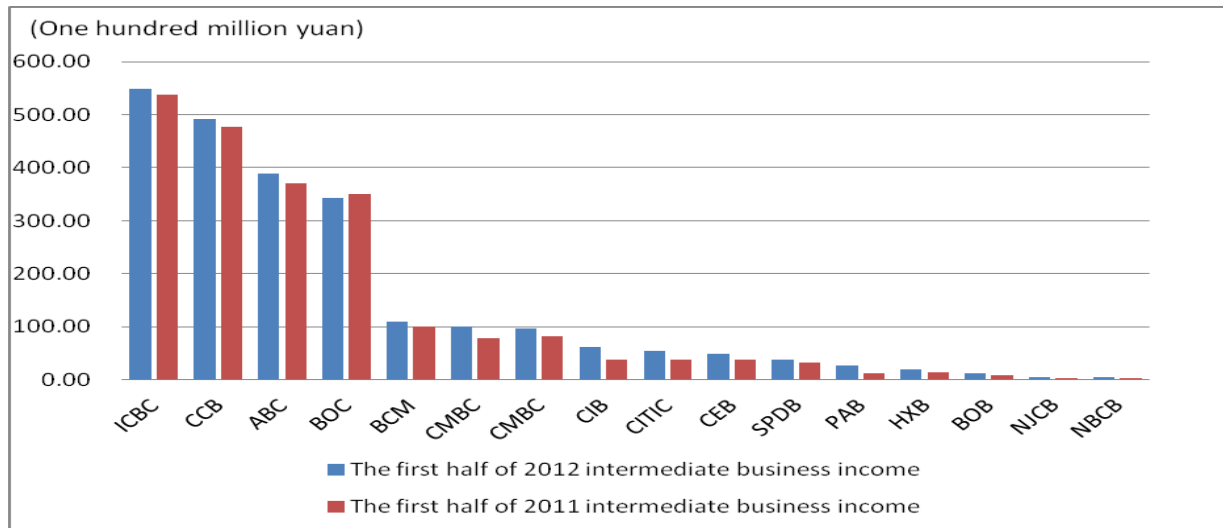


Figure 1. 16 listed commercial banks intermediate business income

Source: 16 listed commercial banks semi-annual report in 2011 and 2012

Figure 1 shows, the five major lines of intermediate business income in the leading position. From total amount, five banks hold obvious superiority, with a broad customer base, sales network throughout the country, a good brand reputation, in the bank card, agents and financial management, consulting and asset custody business are in the lead, the intermediate business income of absolute advantage is difficult to shake. Five big line of industrial and Commercial Bank of China, income up to 54804000000 yuan, followed by the Construction Bank of China for 49243000000 yuan, Agricultural Bank

of China for 38929000000 yuan, Bank of China for 34250000000 yuan, Bank of communications for \$10962000000 in last. Joint-stock firms, Minsheng Bank for 10030000000 yuan ranked first, followed by the China Merchants Bank, Industrial bank, China CITIC Bank, China Everbright Bank, Shanghai Pudong development Bank, Ping An Bank, Huaxia bank located in the last only 1999000000 yuan. City Commercial Bank, the Bank of Beijing 1247000000 yuan to rank first, followed by the Bank of Nanjing 489000000 yuan and the Bank of Ningbo 434000000 yuan.

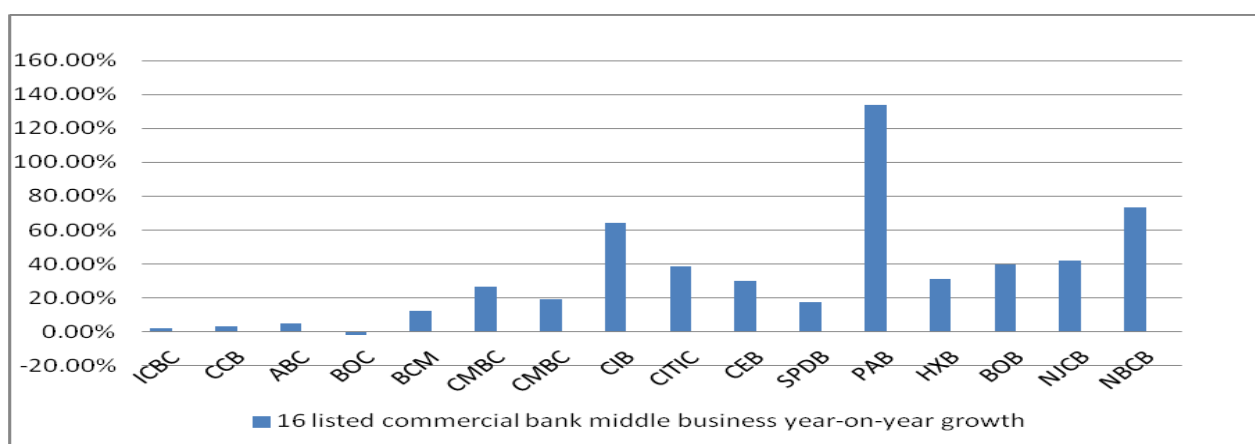


Figure 2. 16 listed commercial banks middle business year-on-year growth

Source: 16 listed commercial banks semi-annual report in 2011 and 2012

Figure 2 shows, the 16 listed banks in 2012 the first half of the net fee and commission income 235336000000 yuan, the average increase of 33.48% compared with the same period last year, an average of about 50% increase compared to the first half of this year the banks of the net fee and commission income growth

rate dropped dramatically, especially for large banks. Lead to the net fee and commission income considerably shrink reason mainly comes from three aspects: one is the domestic economic slowdown, the two is the capital market remains in the doldrums, three supervision to increase the bank does not regulate the operation of rectifying. Since this year, supply and demand

environment changed significantly, credit demand lasts fatigued and weak, causing the procyclicality and credit-related consulting business has shrunk significantly. In particular by the total volume of import and export trade slowdown, exchange rate fluctuations and other factors, led to the five line settlement and clearing business income amplitude hasten delay. On the other hand, regulators to increase the bank does not regulate the operation of the rectifying, strictly limit the collection of financial consultant fees and fees, also make the related investment banking revenues, exposed to the impact of intermediate business, and compared with the same period in 2011 formed tremendous contrast.

The industrial and commercial bank, construction bank, agricultural bank, Bank of communications, the net fee and commission income year-on-year growth of only 1.88%, 3.30%, 4.83% and 9.14%, the Bank of China net fee and commission income fell 2.07%. The first half of the year, the intermediate business income of year-on-year increase in more than 45% of only three banks, respectively is Ping An Bank 133.92%, Ningbo Bank 73.33%, Industrial Bank 63.98%. Ping An Bank during the reporting period, although affected by the 'seven to' normative influence, consultancy fee income to drop considerably, but due to the combined factors, as well as the scale and customer expansion, rapid growth of the bank card business, financial product innovation, the promotion of service quality and other factors, fees net income overall growth situation is good. The Bank of Ningbo to high growth, partly because of the reason of low base, the first half of 2011 the net fee and commission income is 250000000 yuan, 2012 first half year-on-year rise 430000000 yuan. Industrial Bank's ongoing "line of professional reform" worthy of attention, around "enterprise financial lines", "retail line" and "financial market lines" specialization reform to be started in the round, laying a solid customer base, improve operational efficiency.

## 2.2 16 listed commercial banks intermediate business income in sales revenue accounted analysis

As can be seen from table 1, five big bank intermediate business income accounted for the proportion of business income is showing a downward trend, five big line of construction bank declined from 24.32% in 2011 to 21.69% in 2012, down 2.63% biggest drop. The smallest drop is the Bank of communications 1.33%. Industrial and Commercial Bank of China, Bank of China and the Agricultural Bank drop respectively 2.48% and 1.98% and 1.61%. Drag on the intermediate business income growth is the main factor and the loan related business income to glide considerably, and the loan charges related business revenue decline reason is at the beginning of this year, China Banking Regulatory Commission formulated regulatory rules, new regulations forbade to loan fees, borrowing tying seven behavior, as well as requirements and other charges four project open, this it is often said of the "seven no, four". Joint-stock firms in Minsheng Bank fell 0.89%, while Ping An Bank due to the combined factors increase to a maximum of 4.37%. While in the city commercial banks, three city firm than there are growth, the Bank of Ningbo with a 1.87% increase in first, followed by the Bank of Nanjing 0.37% and Beijing 0.20% bank. From the intermediate business income in revenue in the proportion, joint-stock firms are chasing the big five, suggesting that the joint-stock commercial banks pay more attention to the development of intermediate business, in the absence of dimensions advantage condition to a more flexible mechanism to improve the innovation of intermediate business income. For example, the deep development of the first in China to launch the "supply chain financial" services, Societe Generale's first acting on individual physical gold trading, investment bank is the earliest developed a dual currency card, online banking and "cash management" and other products. The next two kinds of commercial banks' intermediate business income gap will be narrowed. While the city firm in supervision strengthened, the domestic market economic downturn, still can improve proportion, that city firm to overcome their own economies of scale of the inferior, with more high quality services, the innovation of financial products to attract customers.

**Table1.** 16 listed commercial banks intermediate business income, operating income, ratio analysis

Name of Bank	Rank	The first half of 2012 intermediate business income	The first half of 2012 operating income	The first half of 2012 intermediate business income/operating income	The first half of 2011 intermediate business income	The first half of 2011 operating income	The first half of 2011 intermediate business income/operating income	year-on-year growth
ICBC	1	548.04	2654.86	20.64%	537.91	2326.88	23.12%	-2.48%
CCB	2	492.43	2270.05	21.69%	476.71	1960.33	24.32%	-2.63%
ABC	3	389.29	2097.33	18.56%	371.36	1841.58	20.17%	-1.61%
BOC	4	342.50	1796.27	19.07%	349.74	1661.10	21.05%	-1.98%
BCM	5	109.62	736.42	14.89%	100.44	619.37	16.22%	-1.33%
CMBC	6	100.30	514.56	19.49%	79.19	388.56	20.38%	-0.89%
CMBC	7	97.32	571.19	17.04%	81.63	460.56	17.72%	-0.68%
CIB	8	62.18	412.21	15.08%	37.92	262.46	14.45%	0.63%
CITIC	9	54.05	441.71	12.24%	38.98	353.00	11.04%	1.20%
CEB	10	49.38	304.79	16.20%	38.01	229.30	16.58%	-0.38%
SPDB	11	38.77	400.03	9.69%	32.98	318.65	10.35%	-0.66%
PAB	12	27.79	196.26	14.16%	11.88	121.41	9.79%	4.37%
HXB	13	19.99	194.52	10.28%	15.27	158.66	9.62%	0.66%
BOB	14	12.47	133.07	9.37%	8.94	97.47	9.17%	0.20%
NJCB	15	4.89	47.72	10.25%	3.45	34.91	9.88%	0.37%

NBCB	16	4.34	49.62	8.75%	2.50	36.36	6.88%	1.87%
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Source: 16 listed commercial banks semi-annual report in 2011 and 2012

Note: ranking is in the first half of 2012 and 16 listed commercial banks intermediate business income

Intermediate business income to net fee and commission income represented.

Operating income = net interest income + fee and commission income + investment + exchange + fair value changes.

### 2.3 16 listed commercial banks intermediate business income constitute a specific project case analysis

**Table2.** 16 listed commercial banks intermediate business income constitute a specific project grew

Name of bank	Clearing and settlement	Bank card	Agency business	Promise guarantee	Consulting	Asset custody	Characteristics of business
ICBC	1.50%	30.40%	20.00%	-50.00%	13.60%	-6.70%	Personal financial management and private banking, public finance
CCB	-13.72%	16.64%	-8.06%	-6.77%	0.82%	0.68%	Financial products, electronic bank
ABC	3.00%	53.10%	37.60%	-16.20%	-30.30%	33.50%	electronic bank
BOC	8.95%	39.48%	-3.46%	-20.84%	-45.61%	11.40%	Foreign exchange trading price
BCM	5.63%	28.66%	-16.23%	42.24%	-3.78%	15.84%	none
CMBC	90.01%	133.64%	171.93%	-4.81%	-31.45%	37.89%	Financing lease
CMBC	14.29%	15.97%	3.57%	41.70%	-55.06%	65.58%	none
CIB	84.83%	33.69%	-2.70%	231.69%	25.79%	330.72%	Leasing business, trust business
CITIC	76.56%	72.40%	45.77%	-32.91%	13.75%	52.67%	Financial services
CEB	5.33%	132.90%	21.53%	-7.23%	-1.09%	61.85%	Financial services, underwriting acceptance
SPDB	-36.83%	36.70%	85.85%	40.12%	-57.36%	61.00%	none
PAB	42.41%	244.52%	222.58%	none	-35.64%	102.00%	Financial services
HXB	-7.23%	-13.13%	-5.52%	79.94%	-66.89%	90.09%	Financial services
BOB	102.54%	28.31%	73.05%	36.73%	-26.43%	none	Investment banking, financial services
NJCB	104.42%	21.01%	42.74%	38.66%	-1.72%	32.69%	Bond underwriting
NBCB	3.92%	25.25%	115.36%	113.40%	-15.90%	none	none
average	30.35%	56.22%	50.25%	32.38%	-19.83%	63.52%	none

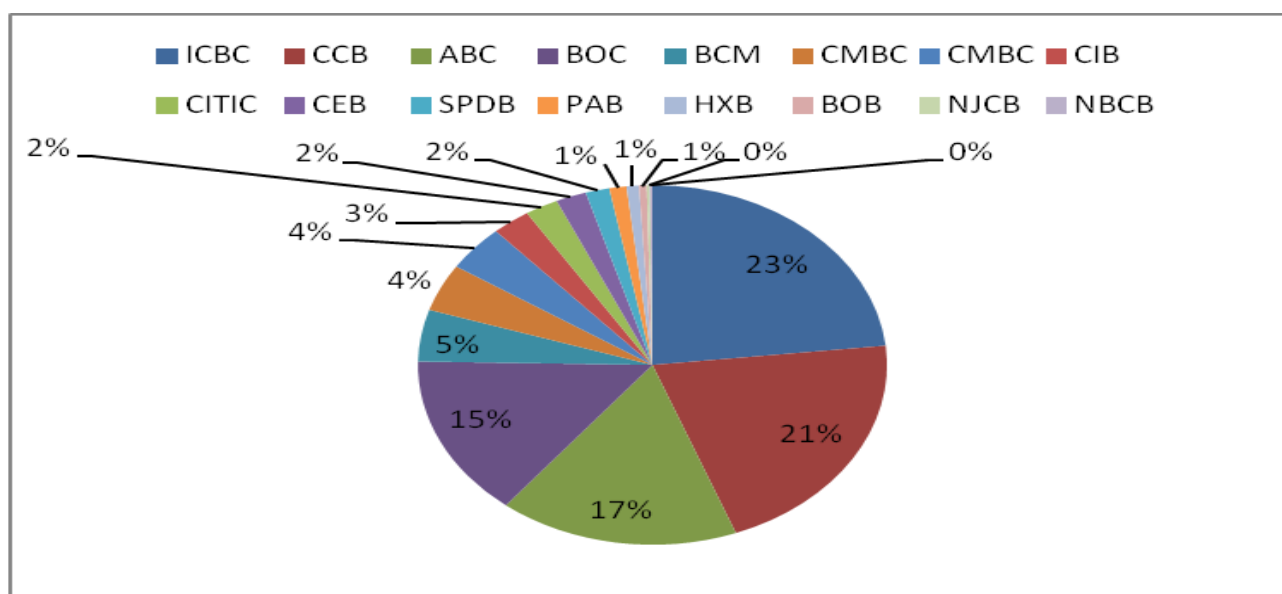
Source: 16 listed commercial banks semi-annual report in 2011 and 2012

Table two shows, Clearing and settlement, bank card, agency business, promise guarantee, consulting, asset custody of these six items of business to occupy an intermediate business the big half of the country. The asset custody business average year-on-year growth of 63.52% ranked first, bank card business, agency business, clearing and settlement business, promise guarantee business will show growth. While consulting business dropped by an average of -19.83%, mainly due to 2012 since February, countrywide bank " does not regulate the operation " special work continued development, implementation of " seven no" loan business rules and business " four open" principle, the commercial bank service charge management will tend further strictly, consultant management fee income growth shock. From 16 listed commercial banks is transverse look quite, the Industrial Bank of the six intermediate project year-on-year growth is much higher than that of other banks, mainly due to the company operating the pace of transition toward sound, wealth management, investment banking, management other new business to develop

vigorously. Ping An Bank since two lines integration effect, cross selling and gradually improve, highlights the potential of retail.

On the characteristics of business, industrial and Commercial Bank of the personal finance and private banks, justice for property business, the Construction Bank will finance products, electronic banking, electronic banking Agricultural Bank, Bank of China foreign exchange trading will be spread business, Minsheng Bank will be leasing business, industrial bank will be leasing business, trust business, China CITIC Bank the financial business, China Everbright Bank financial services, underwriting acceptance business, Ping An Bank will finance business, Huaxia Bank will finance business, the Bank of Beijing investment banking, financial services, Bank of Nanjing will bond the main underwriting business disclosure of semi-annual report in 2012.

### 2.4 16 listed commercial banks market share analysis



**Figure 3.** 16 listed commercial banks market share proportion

Source: 16 listed commercial banks semi-annual report in 2011 and 2012

From the graph 3 can see, industrial and Commercial Bank of China with 23% of the market share first, the other four five line, construction bank, agricultural bank, Bank of China, Bank of communications were 21%, 17%, 15%, 5% of the market share of two or three, four or five. Five big line of intermediate business income adds up to 81% market share to monopolize the market share, main reason is because in the intermediate business development, because possession of outlets and scale advantages, the traditional state-owned large line of business in this project has a larger advantage. Brand, the state-owned banks have extensive customer base, and service quality has improved, so easy to obtain higher brand awareness.

### 3. Suggestions for intermediate business of commercial banks in China

#### 3.1 Change the traditional management concept; accelerate the development of the intermediate business

China's commercial banks are in the traditional deposit and loan business for the main business, more than 90% of the main sources of profits depend on the assets and liabilities of the business, intermediate business income proportion is too small. While in a foreign country such as USA, Japan, Britain and other countries, development of intermediate business of commercial banks has been very mature, the intermediate business income accounted for the proportion of gross income accounted for about 40%. With China's accession to the WTO, foreign banks gradually opening up and market-oriented interest rate reform thorough development, the traditional assets and liabilities business profit pressure benefit more and more, the increasingly fierce competition. Push the commercial banks have to change the traditional management concept, vigorously developing the intermediate business of commercial banks in the future as a new profit growth point. At the same time, the state-owned commercial

banks, joint-stock commercial banks and city commercial banks should adopt poor dissimulation strategy, pay attention to customer demand difference, the different customer groups asset scale and risk preference for market segmentation, increase financial product R & D and innovation strength, to provide customers with real needs of financial products.

#### 3.2 Strengthen the intermediate business of commercial bank and the innovation of financial products

The pace of the times change rapidly, to capture the market heights must undertake the product, business innovation and upgrading of. We should learn from western commercial banks of mature experience, reduce the cost of product development, shorten the cycle of product innovation, simultaneously unifies our country commercial bank middle business development actual situation, it puts forward the following suggestions: one is the development of electronic banking business. To accelerate the new field, new markets, new customer penetration, development of electronic bank business in total, strengthening the innovation of products and services application. For example, the bank is committed to building a network of financial, financial, financial, mobile voice self-help financial business, financial and other five major online financial service system for customers to provide a flexible, efficient, safe and convenient electronic financial services. The two is to strengthen the development of the business of investment bank. With the rapid development of the future financial disintermediation, more and more enterprises will choose the direct financing as means of financing, investment banking business development foreground is very wide. For example, China Merchants Bank through increased marketing efforts, enhance product and service innovation, and vigorously expand the short-term financing bonds, medium-term notes, ultra short-term financing bonds, non-public directional issuance of debt financing instruments such as underwriting business;

through to expand the focus of M & a financial, IPO and PE financial adviser, investment bank financial business innovation. Three is to vigorously develop the personal financial management business and private banking. As the residents of wealth and income increase, high net worth clients financial needs of increasingly strong. So banks need to grasp the market demand, strengthen the financial product innovation, in order to have the market competitiveness of products to attract customers. For different regions, different markets, establishing differential exclusive product release mechanism, promoting market expansion. At the same time rich private banking exclusive product line, realize the exclusive products provide normalization, systematization. Push proxy trust, consulting business development, meet the private banking customers personalized products and services demand.

### 3.3 Speed up the training of new financial talents

Intermediate business involved in the financial, legal, accounting, taxation and other fields, need a large number of be familiar with financial market business, with good insight into customer needs, understand the market laws and regulations of high-quality compound talents, to bank personnel quality raised taller requirement. The commercial banks should pay attention to the intermediate business personnel to open and use, to take the theory and practice of combining methods, strengthen pair of intermediate business personnel training, improve staff quality. At the same time the bank staff in market activities to establish modern financial awareness, continue to understand and master the international financial industry 's latest developments and innovations, in order to adapt to the operation of a commercial bank off-balance sheet business needs.

### 3.4 To strengthen internal management, the financial risk and prevention of intermediate business

The intermediate business of commercial bank risk is relatively small, but not without risks, benefits and risks are always accompanied by. The development of the intermediate business of commercial bank is a double-edged sword. Has expanded the bank business space and range, but on the other hand, because of the poor transparency, etc. it has the huge risk. So we must correctly handle the intermediate business development and risk management relations. Many intermediary business without the financial regulations of the strict restrictions, especially financial derivative tools of intermediate business, as long as both parties recognize each other, can reach an agreement, this business in the absence of financial legal and regulatory conditions exist great risk. Therefore, first of all need to improve off-

balance sheet accounting and management method, make the off-balance-sheet business transparency, intermediate business to improve controllability. Secondly, different types and features of the intermediate business and establish corresponding risk weights and risk factor, the intermediate business into the asset risk management system. Finally, to strengthen the internal control of intermediate business risk management, avoid moral risks, overcome information asymmetry, perfect intermediary business rules and operating process, through strict internal control mechanism intermediate business risk control in the smallest range.

## 4. Conclusions

Compared with the developed countries, the domestic banking business mainly rely on the deposit and loan business, through a big asset scale profit growth. This model not only capital consumption, increase bank refinancing pressure; but also improve the profit of the deposit and lending rate sensitivity, leading to the performance change radically, volatility and risk increase. In the face of increasingly approaching the reform of interest rate marketization, financial disintermediation of rapid development, and the higher the regulatory requirement of capital adequacy ratio, the domestic banking industry to the intermediary business transformation will be inevitable, intermediate business is expected to become a new profit growth point of banking industry.

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## Vitae

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