

# Intermediary Business Report of China Banking Industry, 2007-2008

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## Abstracts

With the continuous buildup in the revenue proportion of the intermediary business to bank's total, developing the intermediary business has become the priority of the banking industry. At present, the ratio of non-interest revenue to the bank's total in major countries is all around 20% and that of some individual banks is even as high as 70%. So the non-interest revenue has become an extremely important factor in deciding the total revenue of a bank. Our research shows that the average ratio of non-interest revenue to the total of a bank in the United States of America and Canada is 45%, that in European countries is 44% and that in Australia is 28%. The more developed a country's economy is, the higher the ratio of non-interest revenue will be in the country.

In China, every listed bank had a big growth in business performance in the first half of 2007. The rapid growth in the revenue of the intermediary business has become another reason for the surge in profit of a bank, in addition to the conventional interest revenue.

Take service charge and commission, the most typical revenue in the intermediary business, for instance, in the first half of 2007, the combined income from service charge and commission of the Bank of Communications reached RMB3.63 billion, 2.24 times the figure in the same period of 2006, that of the China Merchants Bank stood at RMB3.01 billion, 2.28 times the figure in the first half of 2006 and that of the China Citic Bank arrived at RMB715 million, up 77% year on year.

According to statistics, half of the intermediary business revenue of the listed banks was related to fund commission service in the first half of 2007. The unusual surge in service charge and commission has led to a big rise in ratio of the intermediary business revenue to the total. At present, the China Merchants Bank's proportion of the

intermediary business revenue to the total in all banks in China is the highest, reaching 16%, 1.7 percentage points higher against the end of 2006, followed by 11.34% from the Bank of Communications, 9.0% from China Citic Bank, 9.0% from Shenzhen Development Bank, and 6.5% from Industrial Bank. All of them had a growth more or less.

The unusual surge of the handling charge and the commission leads to a big increase of the intermediary business revenue ratio. Currently, China Merchants Bank gets the highest intermediary business ratio for 16%, 1.7 percentage points higher than the end of the first half of year. The second one is Bank of Communications with the ratio of 11.34%, CITIC Industrial Bank 9.09%, Shenzhen Development Bank 9% and Industrial Bank 6.5%. All of them got an increase more or less.

China's top five banks, namely the Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank and Bank of Communications, the combined revenue of intermediary business amounted to 91.3% of China's top 12 banks' total at the end of 2006.

Although the intermediary business in China has developed very fast in recent years, there still exists a big gap between China and developed countries no matter in the quantity or in the quality. On the one hand, the proportion of intermediary business revenue to the total in most of the commercial banks in China is about 10%, much lower than the U.S. and Europe, and even compared to Asian countries like Japan and Singapore, the proportion is still lower. On the other hand, the varieties of intermediary business in China's commercial banks are very limited, focused only on the conventional products, like settlement, agiotage, bill payment service, credit card, letter of credit and bill of draft and so on, and the high-tech and high value-added intermediary business regarding the consulting service, investment and financing and derivative trading is much needed.

Therefore, to accelerate the development of intermediary business has become a crucial issue to China's banking industry. We should promote the establishment of automatic clearing system in the same city to automatize accounts process and we should also make more efforts to develop private banking business and asset securitization so as to lay a solid foundation for future development.

## Contents

### **1 OVERVIEW OF INTERMEDIARY BUSINESS**

- 1.1 Definition
- 1.2 Classification
  - 1.2.1 Payment & settlement business
  - 1.2.2 Bank card business
  - 1.2.3 Commission service business
  - 1.2.4 Guarantee business
  - 1.2.5 Pledge business
  - 1.2.6 Swap business
  - 1.2.7 Fund custodian business
  - 1.2.8 Consulting business

### **2 STATUS QUO OF INTERMEDIARY BUSINESS OF CHINA BANKING INDUSTRY**

- 2.1 Development of intermediary business
- 2.2 Analysis of development characteristics
  - 2.2.1 Mode of spread earnings
  - 2.2.2 Notable increase of bank's asset quality
  - 2.2.3 To exert unique advantages according to local conditions
  - 2.2.4 To establish good relationship between banks and clients
- 2.3 Problems China faces in the development of intermediary business
- 2.4 Proposals on China's development of intermediary business

### **3 DEVELOPMENT OF INTERMEDIARY BUSINESS OF FOREIGN BANKS**

- 3.1 Characteristics
- 3.2 Intermediary business of American banks
- 3.3 Intermediary business of Japanese banks
- 3.4 Intermediary business of Indian banks
- 3.5 Intermediary business of European banks
- 3.6 Intermediary business development of Chinese and foreign banks
  - 3.6.1 Business scope and its varieties
  - 3.6.2 Intermediary business revenues of Chinese and foreign banks
  - 3.6.3 Technology and service

### **4 ANALYSIS OF INTERMEDIARY BUSINESS OF KEY CHINESE BANKS**

- 4.1 Intermediary business development of Bank of China
  - 4.1.1 Bank Profile
  - 4.1.2 Analysis of its intermediary business development
- 4.2 Intermediary business development of Agricultural Bank of China
  - 4.2.1 Bank Profile
  - 4.2.2 Analysis of its intermediary business development
- 4.3 Intermediary business development of Industrial and Commercial Bank of China
  - 4.3.1 Bank Profile
  - 4.3.2 Analysis of its intermediary business development
- 4.4 Intermediary business development of China Construction Bank
  - 4.4.1 Bank Profile
  - 4.4.2 Analysis of its intermediary business development
- 4.5 Intermediary business development of Bank of Communications
  - 4.5.1 Bank Profile
  - 4.5.2 Analysis of its intermediary business development
- 4.6 Intermediary business development of China Merchants Bank
  - 4.6.1 Bank Profile
  - 4.6.2 Analysis of its intermediary business development
- 4.7 Intermediary business development of China Minsheng Bank
  - 4.7.1 Bank Profile
  - 4.7.2 Analysis of its intermediary business development
- 4.8 Intermediary business development of Industrial Bank
  - 4.8.1 Bank Profile
  - 4.8.2 Analysis of its intermediary business development
- 4.9 Intermediary business development of China Citic Bank
  - 4.9.1 Bank Profile
  - 4.9.2 Analysis of its intermediary business development
- 4.10 Intermediary business development of Hua Xia Bank
  - 4.10.1 Bank Profile
  - 4.10.2 Analysis of its intermediary business development

## **5 TREND OF INTERMEDIARY BUSINESS DEVELOPMENT OF CHINA BANKING INDUSTRY**

- 5.1 Development opportunities
- 5.2 Trend of all-round development

## Selected Charts

### SELECTED CHARTS

Chart: Intermediary Business Revenue of China Banking Industry, 2000-2006

Chart: Analysis of Profit of Key Commercial Banks, 2002-2006

Chart: Proportions of Intermediary Business Revenue and Interest Income of Key Commercial Banks, 2003-2006

Chart: Growth Differentiation of Interest Income and Service Charge Revenue of China's Commercial Banks, 2006

Chart: Composition of Non-interest Revenue of the U.S. Commercial Banks

Chart: Revenue Sources of Japanese Banking Industry, 2000-2006

Chart: Revenue Structure and Economic Growth of Japanese Banking Industry

Chart: Proportion of Non-interest Revenue of Indian Commercial Banks

Chart: Proportion of Non-interest Revenue of Bank of China, 2003-2006

Chart: Proportions of Non-interest Revenue Breakdown of Bank of China, 2003-2006

Chart: Insurance Agent Service and Handling Charge Income of Agricultural Bank of China

Chart: Number of Golden Grain Card and Its Transactions of Agricultural Bank of China

Chart: Revenue of Service Charge and Commission of China Construction Bank

Chart: Net Interest Income from Corporate Clients of China Construction Bank

Chart: 20071H Revenue of Net Service Charge of China Construction Bank

Chart: Growth of Net Service Charge & Commission of China Construction Bank in 20071H

Chart: 20071H Revenue of Service Charge & Commission of Bank of Communications

Chart: Changes of Spread Level of China Minsheng Bank in the Recent Years

Chart: Pledge Business Development of Industrial Bank

Chart: Proportion of Non-interest Revenue of Hua Xia Bank

Chart: Structure of Net Non-interest Revenue of Hua Xia Bank

Chart: Changing Trend of Revenue Sources of China's Banking Industry in Coming 5 Years

Table: 20071H Revenue of Bank Card Business of China's Banking Industry

Table: Development of Financial Derivatives of China's Commercial Banks

Table: Total Market Value and Growth Rates of Trust Funds from China's Commercial Banks in 2007

Table: 20071H Revenue of Trust & Custody Business of Bank of China

Table: 20071H Revenue of Wealth Management Business of Bank of China

Table: 2007 Revenues of Service Charge from China's Commercial Banks

Table: 2007 Proportions of Service Charge to Operating Revenues from China's Commercial Banks

Table: Classification of Intermediary Business by Degree of Risk

Table: Proportions of Non-interest Income of Commercial Banks in Major Countries

Table: Revenue of Commercial Banks in U.S.A. in 2006

Table: Changes of Revenue Structure of Commercial Banks in U.S.A. in 1980-2006

Table: Proportion of Non-interest Revenue of Bank of America in 2001-2006

Table: Partial Financial Data of Indian Banking Industry in 2006

Table: Proportions of Intermediary Business Revenue of Large Banks in Asian-Pacific Region

Table: Business Scope of Commercial Banks in China and Developed Countries

Table: Number of Foreign-invested Banks in China

Table: Proportions of Non-interest Revenue of Various Commercial Banks in China, EU and U.S.

Table: Classification of Revenue Sources of Banking Industry in Key Countries and Regions in 2005

Table: 2006 Revenue of Non-interest Revenue of ICBC

Table: 2006 Composition of Net Service Charge & Commission of ICBC

Table: 2006 Other Non-interest Revenue of ICBC

Table: 20071H Composition of Non-interest Revenue of ICBC

Table: 20071H Composition of Service Charge & Commission of ICBC

Table: 20071H Other Non-interest Revenue of ICBC

Table: Revenue of Service Charge & Commission of China Minsheng Bank in 2005-2006

Table: 20071H Revenue of Service Charge & Commission of China Minsheng Bank

Table: 2006 Revenue of Service Charge & Commission of Industrial Bank

Table: Development of Trust Business of Industrial Bank in 2006

Table: 20071H Revenue of Service Charge & Commission of Industrial Bank

Table: 2006 Revenue of Service Charge & Commission of Hua Xia Bank

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