

Strategies for Increasing Non-Interest Income and Their Impact on Profitability: A Case of Chinese Commercial Banks

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ABSTRACT

China's banking sector has experienced groundbreaking methods of diversifying revenues other than conventional interest revenues. In this study, we examine important strategies commercial banks in China have taken to generate non-interest revenues and their impact on profitability. Through research on innovations in wealth management, fee-based business development, and digital banking services, this study demonstrates banks' adaptation to narrowing margins and complex regulatory environments. The research demonstrates that state-owned and joint-stock banks best integrate such strategies with digital transformation, cross-border services, and targeted wealth management products being drivers of financial performance in China's new banking paradigm.

Keywords: Chinese Commercial Banks, Non-Interest Income, Digital Banking, Wealth Management, Financial Innovation, Banking Transformation, Technology Integration, Cross-Border Financial Services

INTRODUCTION

The 2008 global financial crisis initiated a profound shift in China's banking sector that compelled banking institutions to restructure their revenue generation strategies outside traditional interest-based schemes (Das et al., 2013). The shift has been characterized by widespread financial restructuring, business innovations, and stronger regulatory frameworks to enhance capital adequacy in major banking institutions such as Bank of China and China Construction Bank (PWC, 2023). Even with these developments, Chinese commercial banks still face many challenges. These are reduced interest margins, stricter regulation of shadow banking, and more competition in a fast-changing financial environment (Zhu, 2021). Under these circumstances, finding new ways of generating money that do not depend on interest has become very important for staying profitable and growing incrementally. As the Chinese economy is restructuring its focus towards more market-oriented and high-quality growth, its commercial banks need to reconsider their revenue generation model amidst difficult economic circumstances like feeble growth and changing investment trends (Al-Haschimi & Spital, 2024). The paper discusses the main methods being adopted by Chinese commercial banks to increase non-interest revenue and evaluates how these methods affect their total profits in the peculiar banking setup of China.

Chinese Banking Background

China's banking industry has undergone tremendous transformation since the 2008 global financial crisis, and liberalization of interest rates has been part of the key reforms that revolutionized the competitive landscape of the industry and patterns of profitability. People's Bank of China (PBOC) revolutionized the way banks price deposits and lending (Kang et al., 2024). The floor lending rate was abolished in July 2013 and in October 2015, the ceiling on the deposit rate was abolished. This was a landmark decision that bridged the gap in the interest rate and boosted competition among financial institutions (Kang et al., 2024). The liberalization has resulted in a more competitive environment in which banks have to increasingly rely on non-interest revenue streams to sustain their profitability as their traditional model of revenue is under threat (Das et al., 2013). In 2023, the PBOC continued to shake up the market by reducing the reserve requirement ratio and reforming the way the loan prime rate (LPR) is determined. This has reduced the average corporate loan interest rate to 3.88%, a record low since records began (PWC, 2023).

Chinese banking regulation has become more complex with additional regulatory bodies and more stringent prudential requirements. In 2023, Chinese authorities formalized a full regulatory framework with the creation of the National Financial Regulatory Administration (NFRA), superseding the China Banking and Insurance Regulatory Commission (Guo & Knaack, 2024). The Rules on Capital Management of Commercial Banks, issued in November 2023 and implemented in January 2024, have further refined capital regulatory standards to strengthen risk management and improve service to the real economy (PWC, 2023). These reforms occur within the context of China's broader financial policy priorities, which include a push toward supply-side structural reform, common prosperity, and high-quality development (Guo & Knaack, 2024). Regulatory constraints now demand that banks maintain higher capital adequacy ratios while simultaneously directing credit toward strategic sectors like technology, green finance, and inclusive finance (PWC, 2023).

Major state-owned commercial banks in China have responded to narrowing interest margins by diversifying their revenue streams through expanded non-interest income activities. The "Big Four" state banks—Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB), Bank of China (BOC), and Agricultural Bank of China (ABC)—have progressively shifted from a loan-dependent revenue model toward greater emphasis on fee-based services, wealth management products, and investment banking activities (Das et al., 2013; Zhu, 2021). This strategic pivot mirrors global banking trends but operates within China's distinctive dual-track financial system, where state-owned banks coexist alongside joint-stock commercial banks, often with different regulatory treatment and implicit guarantees (Zhu, 2021). The growth in Commercial banks' profitability in China is increasingly linked to the development of wealth management products (WMPs), which have emerged as competing substitutes to traditional deposits by offering market based higher interest rates to grab funds (Kang et al, 2024). WMPs constitute a major part of the banks non interest income portfolio, but simultaneously pose some stability risks because of their links to shadow banking activities (Kang et al, 2024; Zhu, 2021).

METHODOLOGY

This research has developed a detailed methodology to better assess the non interest income strategies of Chinese banks by obtaining data from a number of reputable sources. Information has been collected from government documents including People's Bank of China statistical yearbooks, China Banking and Insurance Regulatory Commission annual reviews (now NFRA), along with economic information from National Bureau of Statistics. These are complemented by publicly accessible financial reports of major Chinese commercial banks (2015-2024), industry reports produced by firms like PricewaterhouseCoopers, and academic research carried out on China's banking sector reform (Das et al., 2013; PWC, 2023). The collection of data attentively analyzes figures related to revenue from fees, performance of wealth management products, investment banking services, and online finance projects among various types of banks. They are the "Big Four" state-owned banks, joint-stock commercial banks, and city commercial banks.

The framework of analysis uses several profitability measures specific to the Chinese banking context to evaluate non-interest income initiatives. They include non-interest income to total income ratio, return on assets (ROA), risk-adjusted return measures, and fee income growth rates (PWC, 2023). The methodology also entails comparing different types of banks and discusses how changes in rules, for example, permitting interest rates to move freely and the need for adequate capital, have affected the evolution of non-interest income (Kang et al., 2024; Zhu, 2021). This framework helps in checking how well specific non-interest income policies work and how they help the bank make money overall. It also takes into account China's banking system's specific features, including government intervention, different groups in the markets, and changes in rules (Guo & Knaack, 2024; Al-Haschimi & Spital, 2024).

Main Methods for Growing Non-Interest Income Wealth Management Shifts

The Chinese business banks are developing their wealth management business to tap into China's fast-growing private wealth market. The market accounted for RMB 278 trillion of individual investable assets as of 2022 and is expected to surpass RMB 300 trillion by 2024 (China Merchants Bank, 2023).

This provides a good chance for banks to increase their non-interest income by offering specialized services to high-net-worth individuals (HNWIs). There were 3.16 million HNWIs with RMB 101 trillion of investable assets in 2022 (China Merchants Bank, 2023).

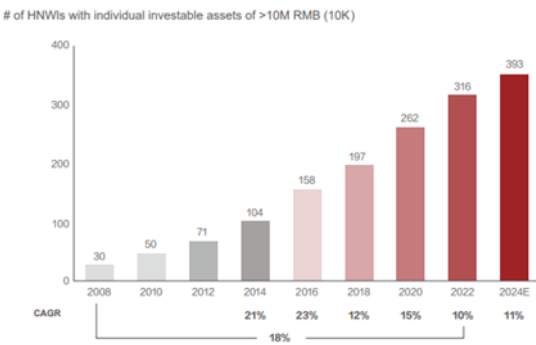


Figure 1: Number of HNWI in China (China Merchants Bank, 2023).

Banks are aiming at special deposit products for high-end customers who are not willing to take risks. Traditional banks are increasingly facing competition from family office services that have grown tremendously in Greater China. In Greater China, the average assets managed by family offices totaled RMB 29.7 billion (FSDC & Tsinghua PBCSF, 2022). Chinese banks are getting ready for pension business to support China's quickly growing number of elderly. There will be roughly 402 million people, 28% of China's population, above the age of sixty in 2040 (Liu, 2025). In 2022, the government launched individual retirement accounts (IRAs) as the third pillar of China's pension system. The accounts had almost 30 million people signed up in just three months (Liu, 2025). Banks now see an enormous opportunity to create wealth management products for this new segment and earn steady fees from them (Amaglobeli et al., 2020; Reuters, 2023).

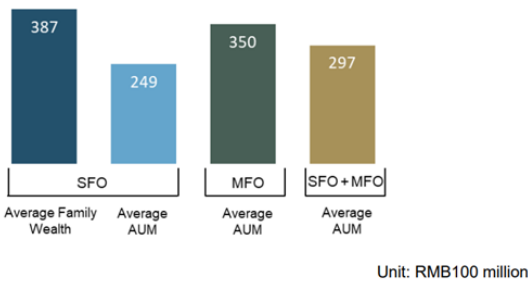


Figure 3: Family Net Worth and AUM of Family Offices (N=25)(FSDC & Tsinghua PBCSF, 2022)

Fee-Based Service Expansion

Chinese commercial banks are strategically expanding their fee-based services to capitalize on China's increasing global economic presence, particularly through Belt and Road Initiative (BRI) opportunities. Since its launch in 2013, the BRI has expanded to include over 150 countries and 30 international organizations, with over \$1 trillion in infrastructure investments (Feingold, 2023). This has created significant opportunities for Chinese banks to offer specialized trade finance services for international infrastructure projects, with particularly robust demand in Southeast Asia, Central Asia, and Africa, where Chinese banks can leverage financial support from the Silk Road Fund and other BRI financing vehicles (He, 2020). Banks are positioning themselves as essential intermediaries for cross-border RMB settlement, which has grown dramatically from accounting for only 10-15% of China's goods trade during 2017-2021 to 26% by the end of 2023, with the RMB recently surpassing the Japanese yen to become the fourth most active currency for global payments (Mackel et al., 2024).

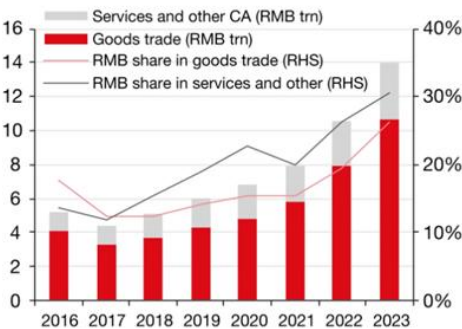


Figure 2: RMB settlement and shares in China's current account transactions (Mackel et al., 2024)

These cross-border settlement services generate substantial fee income through transaction processing, foreign exchange services, and documentary credits (Perez-Saiz & Zhang, 2023). Additionally, Chinese banks have developed specialized corporate advisory services to assist in SOE restructuring, leveraging their expertise in navigating complex regulatory frameworks to facilitate debt-to-equity conversions, cross-border payment mechanisms, and foreign exchange approvals, as demonstrated in recent successful restructuring cases involving multinational bank creditors and Chinese companies (Deloitte, 2024; Sutherland & Sutter, 2025). Supporting such initiatives, Sutherland & Sutter (2025) list China's extensive cross-border finance initiatives. China's overseas development finance between 2008 and 2021 reached some \$498 billion, nearly that of World Bank lending of \$601 billion over the same period. China's global outward foreign direct investment (FDI) stock increased exponentially to \$34.7 billion (0.5% of world total) in 2001 to \$2.9 trillion (7% of world total) in 2022. Cross-border contracts have remained stable in areas like agriculture, energy, minerals, finance, infrastructure, technology, and shipping with average project commitments by China Export-Import Bank and China Development Bank declining to \$461 million in 2021 from \$580 million in 2016, reflecting the country's transitioning economy.

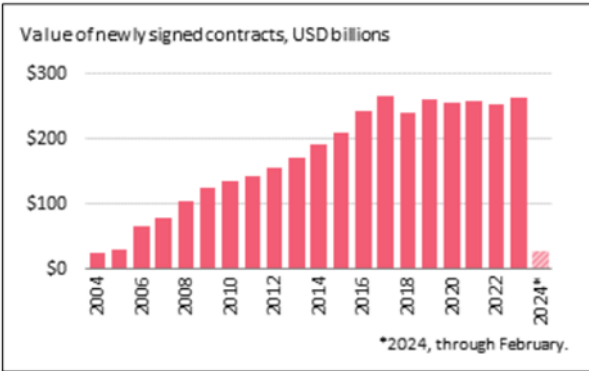


Figure 4: China’s Overseas Signed Contracts by Value (Sutherland & Sutter, 2025)

Digital Banking Initiatives

Chinese commercial banks are rapidly integrating digital platforms into their service offerings to create new streams of non-interest income through partnerships with China's dominant technology ecosystems. Banks have established strategic collaborations with WeChat and Alipay, whose combined services command 95% of China's mobile payment market and connect hundreds of millions of users (Taylor, 2023).



Figure 6: China's Most Popular Digital Payment Services

These partnerships enable banks to leverage existing digital ecosystems to offer embedded financial services, generate transaction fees, and gather valuable consumer data for creating personalized financial products (ResearchAndMarkets.com, 2025). The development of e-CNY (digital yuan) represents another significant opportunity for banks to diversify revenue, with pilot programs now operating in 23 cities and the digital currency transaction volume reaching 7 trillion yuan (approximately \$986 billion) by mid-2024 (Huang, 2024). Despite competition from established payment platforms, banks are incentivized to promote e-CNY adoption since they serve as designated operators who earn fees for providing digital wallet and e-CNY exchange services (Huld, 2022). For example, In Q3 2023, Alipay and WeChat Pay dominated China's mobile payment landscape, recording transaction volumes of RMB 118.19 trillion and RMB 67.81 trillion, respectively, and capturing over 94% of the total market share. UnionPay, associated with a significant state-owned card payment network, secured the third position, with 45% of respondents utilizing its services (Daxue Consulting, 2024).

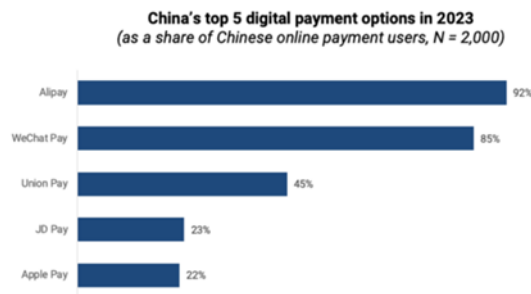


Figure 5: China's top 5 digital payment options in 2023 (Daxue Consulting, 2024)

These rural-focused digital services address financial inclusion needs while generating fee income from previously underserved populations, with mobile banking proving particularly effective in areas lacking traditional branch infrastructure (Zhu et al., 2021). Research indicates that digital financial inclusion initiatives can help reduce urban-rural disparities in financial services access and healthcare expenditures, creating both social benefits and new revenue opportunities for banks (Zhang et al., 2024).

Profitability Impact Analysis

The operation of non-interest income business is relatively disparate among different types of Chinese commercial banks. The state-owned banks and joint-stock banks are doing relatively better than small city commercial banks. Shi et al. (2023) illustrate that the performance of Chinese commercial banks significantly relies on their ability to generate revenues from different sources, especially from non-interest income business. The "Big Four" state-owned banks—ICBC, CCB, BOC, and ABC—are very good at making money without depending on interest charges. They use their huge networks and strengths to achieve that. Wang et al. (2024) found that state-owned banks and joint-stock banks generally operate better and more effectively, with the majority of these banks reaching their highest level of efficiency. This competitive advantage derives largely from their capacity to produce full wealth management offerings, online banking initiatives, and fee-generating services beyond plain lending programs.

How banks adopt non-interest income strategies is totally diverse in different types of banks and locations. Grau-Vera and Rubio (2024) assert that one must research the risk associated with new financial strategies, especially for the transformation occurring in Chinese banks. Liu et al. (2022) inform us that different non-interest income strategies adopted by banks can bring relief to the stress on traditional interest earnings as well as managing the risk associated. The report mentions that digital banking initiatives and cross-border financial services can help improve performance and lower risk. For example, innovating e-CNY (digital yuan) and partnering with technology platforms like WeChat and Alipay have helped banks impose fees and reach consumers. However, these strategies have pitfalls since banks need to balance innovation carefully while dealing with risk management and regulation.

Regional features play a very important role in the way that non-interest income strategies work and flourish in the different economies of China. The importance of network effects and bilateral relations is also identified by Ma et al. (2023) in where one spends money, and this relates to broader bank strategies. The northwestern, northeastern, central, eastern, and southwestern regions all have their own distinct features which impact the ability to create non-interest income. Zhu et al. (2021) say that digital financial inclusion has helped reduce financial gaps between cities and rural areas, and mobile banking works well where there are not many banks. The differences in how regions develop economically, the technology available, and the market conditions create a complicated environment for banks. National banks that have large networks across the country can use shared ways to make profits more effectively without charging interest. Smaller regional banks, conversely, must create more localized solutions that cater to specific market needs and technological competencies.

Examples of Successful Implementation

Ping An Bank's Technology-Driven Service Model is a clear expression of digital transformation in Chinese banking. Through the use of advanced technologies, the bank has revolutionized how it operates by incorporating AI and digital tools (Ping An Group, 2020). The bank's digital strategy covers several fields, such as AI-powered customer service, risk management, and product development. By 2020, Ping An Bank had AI assistants that improved client service by 365.1% year on year, with nearly 90% of credit card matters completed automatically (William De Vijlder, 2021).



Figure 6: AI in Banking. (<https://digitaldefynd.com/IQ/ai-in-banking-case-studies/>)

The bank's investment in technology extends to more than just efficiency, with over 40% of applications migrated to cloud platforms and a common financial platform employing microservice architectures in over 200 projects (Ping An Group, 2020). This technological strategy has also led to extensive cost reductions, with the potential to save some RMB 1.5 billion within five years due to improved infrastructure. The digitalization strategy of the bank fits within broader market directions, aiming for customer experience, personalization, and fusion of technologies as cornerstones of modern financial services (Shi et al., 2023; Wang et al., 2024).

Bank of Communications' Cross-Border Strategy is a prime example of the changing strategy of Chinese banks in building worldwide financial networks. With a branch in Dubai International Financial Centre (DIFC), BOCOM shows a high level of sophistication in international financial integration (Traffic Digital, 2024). The bank is also going global because it holds many assets outside China, which stood at RMB 1.24 trillion and represented 8.79% of its total assets in June 2024. During the China International Import Expo (CIIE), BOCOM demonstrated novel cross-border financial solutions, including digital yuan transactions and technologies for linking different central bank digital currencies (CBDC) (China International Import Expo Bureau, 2024). Its strategy is ahead of traditional banking, encompassing digital finance innovation, green finance, and technology-enabled financial services. With the launch of specialized funds targeting emerging industries like integrated circuits and commercial space exploration, BOCOM demonstrates visionary thinking that integrates financial services with technological innovation. This plan is consistent with overall trends described by Ma et al. (2023) and Liu et al. (2022) regarding the importance of technological integration and network-based financial strategies.

CONCLUSION

China Merchants Bank's Wealth Management Transformation illustrates how Chinese commercial banks are shifting emphasis to generate profits in new ways. The bank has capitalized on China's rapidly expanding private wealth market, with RMB 278 trillion in individual investable assets as of 2022 (China Merchants Bank, 2023). By targeting high-net-worth individuals (HNWIs) and developing sophisticated wealth management products, the bank has established a multifaceted service system. China Merchants Bank will be in a position to serve China's 3.16 million high net worth population who have RMB 101 trillion of investable assets

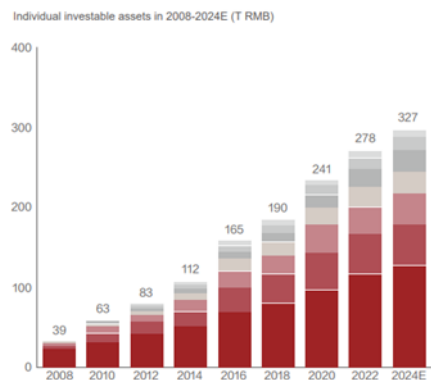


Figure 7: Total size of individual investable assets in China. (China Merchants Bank, 2023)

The plan is to offer structured deposit products, develop family office business, and build whole pension management solutions. The plan takes into consideration the population changes, especially with almost 402 million individuals

in China being sixty and older by the year 2040 (Grau-Vera & Rubio, 2024). The bank has developed new "Product + Service" packages that have been successful in reaching out to customers. Nearly 64% of retail customers are utilizing health and senior care services. The average customer in this segment has 3.37 contracts and RMB 55,900 in assets under management, which is significantly higher than customers who don't use these services.

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