Research and Analysis on the Development Strategy of Investment Banking Business of Commercial Banks in China

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Abstract. Against the backdrop of the growing financial industry, the development of investment banking has become an inevitable trend for commercial banks, and certain results have been achieved so far. However, in recent years, there are some issues regarding the development of investment banking business operations in commercial banks identified in the study, such as insufficient product innovation and insufficient business risk management capability. This paper analyzes the environment using the "PEST" analysis. Finally, the development direction is summarized by sorting out the development status, problems and reasons, enhancing innovation capabilities and borrowing the power of fintech can all provide good ideas for commercial banks to develop their investment banking business. This paper can provide ideas for other commercial banks facing the problem of developing investment banking business.

Keywords: Commercial bank; Investment banking; Transformation of commercial banks.

1. Introduction

1.1. Research Background

In recent years, with the increasingly fierce competition in the market, the investment banking business of commercial banks has become more and more diversified and its scale has risen from small to large. Investment banking has gradually become an important part of commercial banks. Industrial and Commercial Bank of China (ICBC) has put forward the strategy of "big investment banking". ICBC has been pushing forward the integration of traditional and emerging businesses, the organic linkage between domestic and overseas, and the development of banking and non-banking businesses. CITIC Bank put forward the development vision of "building the best integrated financing service bank", and made clear the development idea of strengthening the linkage between commercial banking and investment banking, as well as the linkage between on-balance sheet and off-balance sheet. Ping A Bank proposes to take the path of "commercial banking + investment banking + investment" while promoting the strategic transformation of retailing, and vigorously develops integrated finance. Nevertheless, commercial banks still show many problems in the development of investment banking business, such as: policy obstacles, risk control of non-adaptation, gaps in the management mechanism and so on. Therefore, examining how commercial banks can develop their investment banking business becomes crucial, so that commercial banks can adjust their own problems and develop in the direction of better investment banking business in the future.

1.2. Literature Review

Up to now, a number of banks, including state-owned banks, joint-stock banks and city commercial banks, have controlled or invested in securities companies; participated in the establishment of fund management companies or held funds; and set up insurance companies and trust companies. However, in terms of business varieties, the development of investment banking business by banks is still relatively small, mainly focusing on three areas. They are named bond underwriting, financial consultancy and structured financing, the overall positioning is to assist the development of traditional commercial banks' deposit and loan business. Liu Hao (2023) analyzes the investment banking business of four commercial banks and found that financing-based business is the main development path for investment banking in commercial banks, such as merger and acquisition loans, merger and

acquisition funds, government industrial funds, etc., and concludes that the financing-type business in the investment banking business is very crucial for the investment banking business system of commercial banks [1]. At the same time, Wang Jian He Chen and Chen Junliang (2021) show that the comprehensive business model of "commercial banking + investment banking" can help banks find new economic growth points, expand market share, and also increase the international competitiveness of commercial banks [2]. Zhang Yongxu (2022) takes Bank of Communications Wenzhou Branch as the research object, and studies how to use its own advantages to break through the bottleneck of scale and profit growth, and find the right transformation and development path for corporate business [3]. Yang Li (2022) takes Lanzhou Bank as the research object and proposes to utilize the scale advantage, network advantage, customer advantage, management advantage, etc., and seeks to promote the development of investment banking business through competitiveness enhancement [4].

2. Macro-environmental Analysis of Commercial Banks' Investment Banking Development

2.1. Political Environment

The Commercial Bank Law and the Securities Law laid the institutional foundation for commercial banks to operate investment banking business in China. The People's Bank of China (PBOC) started to fulfil the authority of the central bank to carry out financial supervision in 1983, and a centralized and unified market supervision system was established in China in 1997. Since 2003, the China Banking Regulatory Commission (CBRC) was formally established, China's "one line, three chambers" of industry-specific regulatory model was formally established, and China's financial regulatory system has been continuously improved. 2017 is a watershed year for regulation, and China ushered in the era of "strong regulation" of finance in 2017. In 2017, the CBRC issued a number of provisions to rectify the chaotic phenomenon, and put the strengthening of financial supervision in an important position. In 2018, China's new rules on asset management came into force, and the regulatory pattern of "one committee, one line, two chambers and one bureau" was established, and China's financial regulatory framework is gradually taking shape. China's financial industry continues to develop with the help of relevant policies, but with the passage of time, a series of increasingly strict regulatory policies introduced by China also means that the business development of commercial bank investment banking business will be subject to greater restrictions. China's investment banking business for commercial banks still have a gap in the regulation, China's commercial banks can operate investment banking business is relatively limited, some conservative regulatory approaches can hinder investment banking in commercial banks [5].

2.2. Economic Environment

As can be seen from the GDP data released by the State in previous years, although China's GDP has been growing, the growth rate has been slowing down. After experiencing the stage of rapid economic development, China ushered in the high-quality development of the economy, and the economic growth gradually stabilized. The growth rate of China's per capita GDP basically stabilized at about 8% after 2015. Despite the impact of the epidemic, China's economy has been hit, China's GDP year-on-year growth in 2020 was only 2.3% [6]. However, with the normalization of the epidemic, China's economy has recovered, and in the first half of 2023, China's GDP was 5,930,340,000,000 yuan, with year-on-year growth reaching 5.5% [7]. This provides a stable and favorable external economic environment for commercial banks to develop investment banking business. At the same time, similar to some other countries in the world, China is also facing economic problems such as slow economic growth. China's economic development has been characterized by problems such as overcapacity, economic downturn, decline in asset quality of commercial banks,

and increase in non-performing rate [8]. Banks' profit margins are constantly being squeezed, and commercial banks need to seize the opportunity to boost economic growth.

2.3. Social environment

With the gradual growth of China's per capita GDP, and the increasingly stable form of the economy, China's national understanding and recognition of investment banking business is also increasing, and more people are willing to believe in investment and financial products. At the same time, people's concept of financial management is also developing, more and more people see the benefits that investment banking business can bring, and are no longer satisfied with the traditional business of commercial banks [9]. In daily life, many people will get higher returns through financial products such as stocks. On the other hand, with the rapid development of social economy, people's income level has gradually increased. In the first half of 2023, the national per capita disposable income of 19,672 yuan, a nominal increase of 6.5% over the same period of the previous year, and after deducting the price factor, the real growth was 5.8% [10]. People have more money for savings and investment. On top of basic savings, people can afford more new types of financial products. At this time, investment banking business such as buying bonds, funds and stocks became a good choice for the people. This also lays a good foundation for commercial banks to further promote investment banking.

2.4. Scientific And Technological Environment

The constant advancement of science and technology has been a clear boost to the banking business, the progress of science and technology can help banks to a greater extent to meet the needs of customers. The change in payment methods can prove this, from the previous cash to swipe the card to the current cell phone bank online payment, technology to help people live more conveniently, and the bank can reasonably utilize the power of science and technology so as to satisfy more customers. Meanwhile, the development of financial technology can promote the transformation of commercial banks. The development of technology brings new products and services, and the emergence of 5G chips as well as blockchain, cloud computing, big data, artificial intelligence-based technologies has greatly optimized the banking business [11]. Artificial intelligence can help banks perform complex calculations and analysis, and can also give customers more objective and detailed explanations in terms of services. Some scholars have also found that Internet financial products have the advantages of strong flexibility, low operating costs, convenience and speed, etc., in the future development, these advantages undoubtedly help commercial banks gradually realize the transformation and upgrading of commercial banks in the future development [12].

3. Problems and Causes of China's Commercial Banks' Investment Banking Business

3.1. Existing Problems

3.1.1. Insufficient product innovation ability

Lack of innovation in investment banking is one of the reasons why commercial banks have not been able to develop their investment banking business successfully [13]. The single structure of investment banking business is also one of the shortcomings of commercial banks [14]. As the financial market continues to move forward, the investment banking business also needs to progress to meet the needs of more customers. In the long run, commercial banks need to carry out more investment banking business through continuous innovation to continuously meet the needs of customers and improve their competitiveness in the industry.

3.1.2. Inadequate risk management capacity in investment banking operations

Commercial banks are lacking in the construction of risk management system for investment banking business [15]. At the same time, compared with traditional commercial banks, investment banking needs a more complete and detailed risk management system. Previously, Silicon Valley

Bank, as a typical bank of "commercial bank + investment bank", its main business is to provide financial services for high-tech enterprises. But on March 10, 2023, Silicon Valley Bank declared bankruptcy. The main reason for the bankruptcy of Silicon Valley Bank was the increase in credit risk. Its customers were under great pressure during the epidemic, resulting in reduced repayment capacity and increased defaults.

3.2. Causes of The Problem

3.2.1. Inadequate regulatory policies

Some scholars analyze the impact of JS Bank Hebei Branch by regulatory policies. Before 2018, the development trend of JS Bank Hebei Branch's investment banking business was steadily rising, and the income and business scale of the investment banking business were also on an upward trend. However, since the beginning of 2018, along with the landing of the new regulations on asset management and the implementation of a series of supporting regulatory policies, the income of JS Bank Hebei Branch's investment banking business declined significantly.

3.2.2. Relatively outdated concept of development

The importance of the functions of "asset management intermediary" and "financing advisor intermediary". At present, commercial bank consultants lack the ability to market investment banking business [16]. The staff should fully recognize the importance of developing investment banking business for the development of the bank, constantly analyze the current market trends, and explore the needs of potential customers [17]. Most of the marketing staff are still marketing mainly in the traditional way, and will not actively and proactively explain the funds, stocks and other businesses. Thus, they miss a lot of potential customers.

4. Future Development Strategies

4.1. Enhancing Innovation Capacity

Improving innovation will help the future development of commercial banks. First of all, commercial banks can innovate from the type of products, enrich the content of investment banking products, make the types of investment banking products more diversified, and launch special products to attract customers' attention. Secondly, commercial banks can innovate from the service, so that customers can get a better service experience, optimize the service system, improve the flexibility of the service, make the whole service more comprehensive and specific, solve the customer's problems more efficiently, and improve customer satisfaction. Finally, commercial banks should keep up with the changes in the market environment and other general environment, seize the opportunity and continue to innovate.

4.2. Leveraging The Power of Fintech For Investment Banking Development

With the rapid development of information technology, the trend of banking business online is becoming more and more obvious. In the previous few years of the epidemic era, people worked online and dealt with all kinds of things online. Nowadays, the epidemic has been normalized, but people have become accustomed to the "online" mode, and online has also become a general trend. Commercial banks need to seize the opportunity to use the power of financial technology to meet the needs of customers, for example, through the cell phone of big data will be classified, followed by more specific and precise services, the integration of financial technology and banking business development investment banking business.

5. Conclusion

5.1. Key Findings

In this paper, the relevant literature on the development mode of investment banking business of commercial banks is sorted out and summarized. Most domestic scholars agree that commercial banks develop investment banking business and believe that investment banking business is crucial to the development of commercial banks. Then, it explains why commercial banks should develop investment banking business by analyzing the political, economic, social and scientific and technological environments respectively. Then, based on the current development situation, the problems of insufficient product innovation ability and insufficient risk management ability of investment banking business are derived and the possible causes of the problems-regulatory policies and development concepts are analyzed. Finally, a reasonable future development strategy is proposed in light of the actual situation to help the development by improving the innovation ability and leveraging the power of fintech.

5.2. Future Studies

In addition, the situation of China's commercial banks is not the same, in the future should be combined with the background of the times and the actual situation of the banks and then analyze the development of conclusions at a deeper level. For example, in terms of regulatory policy, with the continuous improvement of financial regulatory policy and the introduction of new policies, scholars need to continue to analyze and research, and constantly optimize the direction of investment banking in commercial banks.

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