The Necessity and Business Strategy of Developing Investment Banking Business in Chinese Commercial Banks

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Abstract. The research background is the promotion of interest rate liberalization, deepening market opening, and urgent need for transformation. The research significance is to improve the theoretical system, provide strategies for practice, and provide references for policies. The research topic is to follow the logical mainline from necessity analysis to strategy construction, and comprehensively demonstrate the development of investment banking business. Combining macro environmental changes with micro banking practices, comprehensively considering multiple factors. Systematically demonstrate the strategic value and implementation path of investment banking business, with clear organization. The research method is literature review, which sorts out the theoretical framework related to the investment banking business of commercial banks. Comparative analysis method, comparing the differences in banking practices between domestic and foreign banks. Case analysis method, in-depth analysis of typical bank business practices. The research conclusion is that developing investment banking business is an inevitable choice for commercial banks to cope with the impact of interest rate marketization and an important path for transformation. It is necessary to break through the bottleneck of developing investment banking business through strategic focus, organizational restructuring, and talent construction measures.

Keywords: Commercial banks, finance, investment banks, regulatory agencies.

1. Introduction

With the acceleration of global economic integration and the continuous deepening of China's financial market openness, the competitive landscape of the financial industry is undergoing profound changes. As a core component of the financial system, commercial banks have long relied on traditional deposit loan interest rate spreads to generate profits. However, in recent years, with the continuous promotion of interest rate marketization reform, this profit model has become unsustainable. In this context, developing investment banking business has become an important path for Chinese commercial banks to achieve strategic transformation and enhance comprehensive competitiveness [1].

This study aims to explore in depth the necessity and feasible path for Chinese commercial banks to develop investment banking business, systematically analyze the opportunities and challenges they face in the current financial environment, and propose targeted business strategies and development suggestions

This study conducts a systematic exploration of the necessity, practical foundation, major challenges and operational strategies for Chinese commercial banks to develop investment banking business. Firstly, starting from the macro-financial environment, it analyzes the impact of interest rate liberalization, adjustment of regulatory policies and development of capital markets on the business model of commercial banks, and clarifies the strategic value of developing investment banking business [2]. Secondly, combined with the current development status of investment banking business of Chinese commercial banks, it sorts out the main business models, product systems and market practices, and evaluates the achievements and existing problems in the process of business expansion [3]. Finally, through the analysis of typical cases, it verifies the feasibility and effectiveness of relevant strategies, in order to provide theoretical support and practical reference for the steady development of investment banking business of Chinese commercial banks [4].

This study adopts a combination of literature research, comparative analysis, case analysis and other research methods to ensure the systematic, scientific and practical guidance value of the research. At the same time, by selecting representative commercial banks in China, individuals will deeply analyze their strategic choices, business models, product innovations, and risk management practices in the process of expanding investment banking business, in order to enhance the practicality of the research

This article is divided into seven chapters, conducting a systematic study on the necessity and business strategies of developing investment banking business for Chinese commercial banks. The first chapter is the introduction section, which introduces the research background, research objectives, research significance, research content, research ideas, research methods, and overall structure of the paper. Chapter 2 starts from the theoretical level, elaborates on the basic connotation and development characteristics of investment banks, explores the theoretical basis of comprehensive operation of commercial banks, and analyzes its enlightenment to China based on international experience. Chapter 3 provides an in-depth analysis of the necessity for Chinese commercial banks to develop investment banking business, with a focus on exploring the driving forces behind interest rate liberalization, support for the real economy, and enhancing the comprehensive competitiveness of banks. Chapter 4 outlines the current development status of China's commercial banks' investment banking business, covering policy environment, major banking practices, business models, and product innovation. Chapter 5 focuses on the main challenges currently faced by commercial banks in promoting investment banking business, including regulatory restrictions, talent shortages, inadequate risk control capabilities, and immature market demand. Chapter 6 proposes targeted business strategies, covering development strategy formulation, organizational structure optimization, talent system construction, and product and customer management innovation. Chapter 7 summarizes the research findings, draws conclusions, proposes policy recommendations, and looks forward to future research directions, in order to provide theoretical support and practical reference for the stable development of investment banking business of Chinese commercial banks.

2. Theoretical Basis for the Integrated Development of Investment Banks and Commercial Banks

2.1. Basic Connotation and Development Characteristics of Investment Banks

As a crucial component of the modern financial system, investment banks primarily perform the function of capital intermediation and focus on capital market services. These services encompass high-end financial businesses such as securities underwriting and issuance, mergers and acquisitions (M&A) and restructuring, asset management, financial advisory services, and derivative design [5]. Unlike traditional commercial banks, investment banks do not center their operations on deposit and loan services; instead, they generate revenue from service fees, commissions, and capital appreciation through specialized financial services. In recent years, amid the accelerated global trends of financial liberalization, digitalization, and mixed-operation (also known as "comprehensive operation" in some academic contexts), the business scope of investment banks has been steadily expanding, exhibiting the developmental traits of diversification and integration [6].

2.2. Theoretical Basis for Comprehensive Operation of Commercial Banks

Commercial banks' transformation towards comprehensive operation and development of investment banking business is supported by a solid theoretical foundation. First, the theory of economies of scope points out that by expanding related diversified businesses, financial institutions can achieve resource sharing, cost reduction and efficiency improvement, thereby enhancing overall profitability [7]. Investment banking business and traditional commercial banking business have a high degree of synergy in terms of customer resources, information processing and risk management, which helps to improve banks' comprehensive financial service capabilities [8]. Therefore, the

development of commercial banks towards comprehensive operation is not only an inevitable choice in response to changes in the market environment, but also a logical extension in terms of theoretical logic [9].

3. Analysis of the Necessity of Developing Investment Banking Business for Chinese Commercial Banks

3.1. Realistic Needs to Address the Challenges of Interest Rate Marketization

Interest rate liberalization is a key direction of China's financial reform, whose core lies in forming a reasonable interest rate level through market mechanisms and improving the efficiency of financial resource allocation [10]. However, with the continuous expansion of the floating range of deposit and lending interest rates, the traditional profit model of commercial banks—relying on net interest margins from deposits and loans—has been severely impacted. Net interest margins have continued to narrow, putting commercial banks under unprecedented pressure regarding profitability [11]. Against this backdrop, developing investment banking business has become an important means for commercial banks to diversify their income sources and mitigate the impact of interest rate liberalization [1].

3.2. Supporting the Construction of the Real Economy and Multi level Capital Markets

The development of investment banking business by commercial banks is of great significance for supporting the real economy and promoting the development of a multi-level capital market [12]. Currently, China's economy is in a critical stage of transformation and upgrading, and corporate financing needs are showing a diversified trend. Relying solely on traditional credit services can hardly meet the financing and service requirements of enterprises at different development stages [13]. Investment banking business can provide enterprises with diversified financial services such as equity financing, bond issuance, mergers and acquisitions (M&A) and restructuring, and asset securitization, which helps optimize enterprises' capital structure and promote resource integration and industrial upgrading [14].

3.3. Strategies for Enhancing the Comprehensive Financial Competitiveness of Banks

Against the backdrop of increasingly fierce competition in the financial industry, the development of investment banking business by commercial banks has become a key strategic choice to enhance their comprehensive financial competitiveness [15]. The profit space of traditional deposit and loan business has been continuously narrowing, while customers' demand for diversified and customized financial services has been increasing. This has forced commercial banks to accelerate their transformation toward comprehensive operation [12]. By expanding investment banking-related business, commercial banks can integrate services such as credit, asset management, financial advisory, and bond underwriting, and build financial solutions covering the entire life cycle of enterprises, thereby improving their customer service capabilities and customer stickiness [16].

4. Analysis of the Current Situation of Investment Banking Business Development by Chinese Commercial Banks

4.1. Current Status of Policy and Regulatory Environment and Regulatory System

In recent years, the policy and regulatory environment for Chinese commercial banks to develop investment banking business has been continuously optimized, but it is still restricted by the separate supervision system [17]. At present, China's financial system is still dominated by the "One Bank and Two Commissions" supervision model: commercial banks are supervised by the China Banking and Insurance Regulatory Commission (CBIRC), while investment banking businesses involving the securities market are supervised by the China Securities Regulatory Commission (CSRC). This

separate supervision structure has, to a certain extent, restricted the in-depth integration of commercial banks with the capital market [18,19].

4.2. Development of Investment Banking Business of Major Commercial Banks

In recent years, major Chinese commercial banks have actively promoted the development of investment banking business, and gradually formed a diversified business layout and differentiated development paths [6]. Large state-owned commercial banks, such as Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB), and Bank of China (BOC), have relied on their strong capital strength, extensive customer base, and robust comprehensive service capabilities to build strong competitiveness in fields such as bond underwriting, financial advisory, M&A loans, and asset securitization, with their business scale and market share leading the industry [20]. Joint-stock commercial banks, such as China Merchants Bank (CMB) and China CITIC Bank, have performed prominently in product innovation and customer service, focusing on building a distinctive and professional investment banking business system, and have concentrated efforts on small and medium-sized enterprise (SME) financing, green finance, and support programs for technology-innovative enterprises [21]. Generally speaking, the investment banking business of Chinese commercial banks has gradually moved from the initial stage to large-scale and professional development. However, there are still certain gaps among different banks in terms of business depth, product structure, and profitability, leaving considerable room for improvement in the future.

5. Challenges and Issues Faced by Chinese Commercial Banks in Developing Investment Banking Business

5.1. Regulatory Restrictions and Institutional Barriers

In the process of developing investment banking business, Chinese commercial banks face relatively strict regulatory restrictions and institutional barriers, which have become key factors restricting their business expansion [11]. At present, China still implements a financial supervision system featuring "separate operation and separate supervision". The Commercial Bank Law explicitly restricts commercial banks from directly engaging in businesses such as securities and equity investment, making it difficult for banks to deeply participate in the capital market [19]. Therefore, the constraints of the supervision system not only affect the in-depth expansion of investment banking business of commercial banks, but also restrict the improvement of their comprehensive financial service capabilities to a certain extent. It is urgent to promote adaptive reform of the supervision system through institutional optimization and policy coordination.

5.2. Insufficient Professional Talents and Risk Control Ability

In the process of developing investment banking business, Chinese commercial banks generally face the challenges of insufficient reserve of professional talents and weak risk control capabilities [3]. Investment banking business is highly professional and complex, involving multiple fields such as mergers and acquisitions (M&A) and restructuring, asset securitization, bond underwriting, and structured financing. It requires practitioners to have solid knowledge of finance, accounting and law, as well as strong market analysis and project execution capabilities [14]. However, at present, commercial banks have a relative shortage of professional talents in the field of investment banking business. Most of the existing employees are transferred from the traditional credit department, and they have insufficient mastery of the operation mechanism of the capital market and product design capabilities, which restricts the in-depth expansion of the business [5].

5.3. Market Environment and Immature Customer Base

China’s capital market is still in the process of continuous maturation. The imperfections in investor structure, corporate financing concepts and financial infrastructure have made Chinese

commercial banks face the challenge of immature market environment and customer base in developing investment banking business [13]. Therefore, the imperfection of the market environment and the limitations of the customer base have become important factors restricting the high-quality development of investment banking business of commercial banks [7].

6. Business Strategy Suggestions for the Development of Investment Banking Business by Chinese Commercial Banks

6.1. Building a Clear Investment Banking Business Development Strategy

Establishing a clear development strategy for investment banking business is the primary task for commercial banks to achieve high-quality development of their investment banking business [4]. Commercial banks should align with their own resource endowments, market positioning and customer needs to clarify the strategic direction and development path of investment banking business. First, they should integrate investment banking business into the bank's overall development strategy, establish its core position in the comprehensive financial service system, and promote the "commercial bank + investment bank" coordinated development model [16]. Second, they should formulate differentiated business development strategies based on the type and development stage of the bank [20]. By building a systematic and implementable development strategy for investment banking business, banks can not only enhance the forward-looking and systematic nature of business development, but also establish a clear development direction and competitive advantage in the fierce market competition.

6.2. Improving Organizational Structure and Talent System Construction

Improving organizational structure and talent system construction is a key link for commercial banks to promote the professional and market-oriented development of investment banking business [22]. Currently, the investment banking business of most commercial banks still relies on the traditional credit management system, lacking an independent and efficient organizational operation mechanism, which restricts the flexibility and innovation capability of the business [5]. To address this, banks should establish specialized investment banking departments or set up independent subsidiaries, form an organizational structure with separated front, middle and back offices, clear responsibilities and efficient operation, and enhance the professionalism and independence of business operation [18]. At the same time, they should optimize the internal collaboration mechanism, promote the coordinated development of business lines such as investment banking, asset management, credit and wealth management, and realize resource integration and customer sharing.

6.3. Strengthening Product Innovation and Customer Relationship Management

Strengthening product innovation and customer relationship management is a key measure for commercial banks to enhance the competitiveness and customer stickiness of their investment banking business [15]. Currently, the investment banking business of Chinese commercial banks still focuses on basic products such as bond underwriting and financial advisory services, with severe homogeneous competition and a lack of high-value-added and customized product systems [6]. Therefore, banks should focus on market demand, strengthen product innovation, and actively expand innovative businesses such as asset securitization, M&A funds, green finance, REITs (Real Estate Investment Trusts) and supply chain finance to enhance service depth and professional capabilities. In addition, they should strengthen the customer relationship maintenance mechanism, and improve customer loyalty and comprehensive contribution through long-term follow-up services, resource integration and value-added [16]. Driven by the dual engines of product innovation and customer relationship management, commercial banks will effectively enhance the market competitiveness and sustainable development capabilities of their investment banking business.

7. Conclusion

This paper conducts a systematic study on the necessity and operational strategies for Chinese commercial banks to develop investment banking business, and draws the following main conclusions. First, against the backdrop of the continuous advancement of interest rate liberalization, financial integration and capital market reform, the development of investment banking business by commercial banks has become a strategic choice to optimize profit structure and enhance comprehensive competitiveness. Second, at present, the investment banking business of Chinese commercial banks has initially taken shape, but it still faces many challenges in terms of regulatory restrictions, organizational structure, professional talents and market environment. The study shows that commercial banks should leverage their own resource and channel advantages, accelerate the transformation to the "commercial bank + investment bank" coordinated model, and improve their service capabilities and market influence in the capital market.

To further promote the development of investment banking business of Chinese commercial banks, efforts should be made from the policy level to optimize the institutional environment, improve the regulatory framework and expand business space. First, regulatory authorities should conform to the development trend of financial integration, appropriately relax restrictions on commercial banks' development of investment banking business, and explore the "comprehensive license" management model on the premise of controllable risks to enhance the flexibility of business expansion. Second, it is necessary to promote the construction of a regulatory coordination mechanism, strengthen policy coordination between the China Banking and Insurance Regulatory Commission (CBIRC) and the China Securities Regulatory Commission (CSRC), unify business standards, and reduce regulatory arbitrage and institutional barriers.

This study indicates that developing investment banking business is a strategic inevitability for Chinese commercial banks to cope with interest rate liberalization and enhance comprehensive competitiveness. In the future, relevant research can further integrate Boot's theory on the synergy mechanism of universal banks to conduct an in-depth analysis of the specific functional path of the "commercial bank + investment bank" model in China's unique market environment; meanwhile, based on the risk warnings of Li & Marinč and the regulatory ideas of Barth et al., it can construct a dynamic risk assessment model and adaptive regulatory framework for investment banking business with more Chinese characteristics. On the basis of systematically analyzing the necessity and operational strategies for Chinese commercial banks to develop investment banking business, this study provides several future directions for further deepening relevant research. First, with the continuous adjustment of regulatory policies, future research can conduct an in-depth study on the coordinated development model between commercial banks and capital markets under the background of comprehensive financial operations and its impact on financial stability. Second, in terms of business risk management, the market, operational and compliance risks involved in investment banking business are more complex, so it is necessary to further explore a risk assessment and management system for investment banking business that is applicable to China's banking system. It can draw on the experience of mature international markets, conduct in-depth comparisons of the differences in regulatory frameworks and business models of commercial banks' investment banking business across different countries, and extract a development path more suitable for the characteristics of China's financial market. At the same time, with the rise of emerging issues such as green finance and carbon neutrality, future research can also explore the innovative paths and development potential of commercial banks' investment banking business in supporting sustainable development.

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