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Private Banking Transformation at China Merchants Bank: Operating Models, Risks, and Service Pathways

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Abstract. This study examines how China Merchants Bank (CMB) can translate growth in its private-banking client base into sustainable professional services. Customer relationship management and Modern Portfolio Theory provide the conceptual foundation, while a focused literature review and a documentary case study assess public disclosures for the 2024-2025 reporting period. UBS serves as an international reference rather than a directly comparable benchmark. The analysis identifies four complementary operating priorities: product distribution, relationship continuity, family-wealth coordination, and digital support. CMB reports progress in integrated and digital services, but growth in private-banking clients alongside a decline in retail wealth-management fee income in 2024 shows that client growth and reported fee income may diverge. Because these indicators cover different business scopes, they do not establish private-banking profitability. The proposed transformation pathway combines documented household-needs assessment, clearer specialist responsibilities, transparent links between fees and continuing service, and controlled pilots of AI-supported advice subject to professional review. Evaluation should focus on client outcomes, service use, risk controls, and delivery costs. The study relies on public information and lacks internal client records and stand-alone private-banking profit data, which limits causal inference and generalization.

Keywords: Private banking, China Merchants Bank, customer relationship management, asset allocation, digital transformation

1. Introduction

A business owner may require working capital for the business, household liquidity, diversified investments, and a plan for involving the next generation in financial decisions. A well-performing fund cannot address all of these needs. Private banking therefore depends on understanding how a client's assets, liabilities, spending plans, and family commitments interact rather than evaluating purchased products in isolation.

Using China Merchants Bank (CMB), a national joint-stock commercial bank, as the focal case, the study asks how a growing private-banking client base can support professional services that clients continue to use and pay for. Research addresses customer relationships, portfolios, family offices, and automated advice, but these strands must be connected to client needs, staff

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responsibilities, and revenue incentives in the Chinese banking context. The objective is a practical operating framework that can be tested rather than a single model intended to fit every bank.

The research uses a focused literature review and documentary case comparison. Chinese- and English-language research on private banking, customer relationship management, portfolio management, family wealth, and digital advice was selected for relevance to the research question, identifiable methods and evidence, and verifiable publication information. Recent peer-reviewed studies receive priority, while foundational theories provide context.

Bank annual reports provide financial indicators and descriptions of strategy and service delivery. Regulatory documents clarify requirements for asset management, product distribution, and risk control. The case analysis covers the 2024 and 2025 financial years, offering current evidence across consistent annual reporting periods, although two years cannot establish a long-term trend.

CMB is the main case and UBS is an international reference because its disclosures describe advisory and discretionary mandates, recurring fees, and specialist support. The comparison considers client positioning, service scope, fee arrangements, organizational coordination, digital tools, and risk control. Differences in client populations, regulatory regimes, and reporting scopes are treated explicitly, and revenue is not used as a direct measure of service performance. The absence of interviews, client account records, and stand-alone private-banking profit data limits the findings to qualitative assessment and practical recommendations.

The analysis proceeds through six sections covering the literature, the development of private banking in Chinese commercial banks, operating models, operating risks and their causes, domestic evidence and an international reference, and transformation pathways for CMB.

2. Literature review

2.1. Private banking coordinates client needs and portfolio decisions

Private banking is defined here as coordinated wealth services delivered by designated teams to high-net-worth clients. It is neither a higher tier of ordinary retail banking nor equivalent to asset management, which concentrates on investment portfolios. Private bankers may coordinate investment, financing, and succession planning without providing every legal or tax opinion directly. CMB classifies clients with an average monthly daily asset balance of at least RMB 10 million as private-banking clients; this threshold is a bank-specific definition rather than an industry standard [1].

Customer relationship management (CRM) treats client relationships as a strategic, cross-functional responsibility supported by shared information and coordinated processes [2]. In private banking, this approach requires a common record of client objectives, constraints, and service commitments, reducing dependence on a single relationship manager. CRM does not by itself remove conflicts between commission incentives and client interests; incentive design and supervision remain necessary.

Modern Portfolio Theory explains that portfolio risk depends on how assets move together, not just on the risk of each asset [3]. A business owner already concentrated in one industry may add exposure to the same risk without achieving meaningful diversification. This hypothetical example is not evidence about a CMB client. Portfolio analysis should also consider illiquid business ownership, liabilities, and near-term household spending, because a mathematically efficient allocation may still be unsuitable for a family.

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2.2. Research connects family wealth and digital advice

CRM organizes service around the client, while portfolio theory explains diversification and risk-return trade-offs [2, 3]. Evidence from Chinese household survey data further indicates that expectations and risk preferences affect household asset allocation [4]. Together, these findings imply that advisers should consider existing property exposure, business ownership, liquidity needs, and investment beliefs alongside the standard risk questionnaire. Household evidence is relevant but cannot be assumed to represent high-net-worth private-banking clients.

Family-wealth research extends the analysis to family objectives and intergenerational transfer. A systematic review finds that the literature emphasizes service providers more than families themselves [5]. This imbalance highlights the need to test whether available services actually correspond to family goals rather than assuming that a broad service menu demonstrates value.

Digital-advisory research examines both investment outcomes and service delivery [6, 7]. The evidence indicates that technology effects depend on context. Conversational interfaces may strengthen trust, while client participation can increase confidence in human advice [8, 9]. Digital access and professional judgment therefore perform different functions. Automated tools can organize information and support monitoring, but sensitive recommendations still require an accountable professional who can address incomplete information and conflicting family interests.

3. Development of private banking in Chinese commercial banks

3.1. Regulatory reform expanded private banking responsibilities

CMB opened its first private-banking center in Shenzhen in August 2007, providing an early domestic benchmark. The 2018 asset-management framework later strengthened net asset value management and prohibited guarantees of principal and returns in asset-management business [10]. Investment losses and client communication consequently became more important service concerns. Recent CMB and Industrial and Commercial Bank of China (ICBC) disclosures also describe family services and digital support in addition to product distribution.

China's six large state-owned commercial banks are ICBC, Agricultural Bank of China, Bank of China, China Construction Bank, Bank of Communications, and Postal Savings Bank of China. CMB belongs to the national joint-stock group. Ownership does not determine service quality or innovation. ICBC describes services for technology entrepreneurs, family wealth, and philanthropy, while CMB emphasizes coordination between corporate and private banking [11]. The shared priorities require closer analysis of team responsibilities and delivery mechanisms.

3.2. Organizational structure separates service and product roles

Organizational analysis should distinguish the private-banking service team, distribution channels, and product-management entities. Relationship managers may coordinate advice, specialists may support complex needs, and risk and compliance functions may review activities. Revenue can arise from distribution, management or advisory services, and related banking activities, sometimes across different entities. Table 1 therefore separates private-banking client numbers from the broader retail wealth-management income measure.

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Table 1. CMB client growth and retail wealth income

Indicator and scope	2024	2025
Private-banking clients	169,100	199,326
Annual change in client numbers	+13.61%	+17.87%
Retail wealth fees and commissions (RMB billion)	20.19	23.79
Annual change in these retail fees	-25.24%	+17.85%

4. Private banking development models

4.1. Four models provide complementary capabilities

Table 2 groups private banking into four operating models. These models represent different priorities rather than required stages of development. A product-led model provides selection and transaction access with a visible revenue source, but service may end with distribution. A relationship-led model emphasizes continuity and client understanding, although continuity weakens when knowledge remains with one employee. The classification is analytical and does not claim that every bank follows one pure model.

A family-wealth model extends attention to the household, business, and intergenerational transition; providing related services does not necessarily make a bank an independent family office. A digital-platform model can reduce information-processing and monitoring costs, but a risk questionnaire cannot represent every disagreement within a family. Research on family needs and AI-enabled financial advice supports these distinctions [5, 7]. CMB's development direction is best understood as combining capabilities rather than replacing one model with another.

Table 2. Operating priorities and limitations of four models

Model	Main value	Main limitation
Product-led	Selection and transaction access	Sales incentives can distort advice
Relationship-led	Continuity and client understanding	Dependence on individual managers
Family wealth	Household and business coordination	Specialist costs and role boundaries
Digital platform	Shared information and monitoring	Incomplete data and opaque advice

4.2. Service intensity should match client complexity

Service intensity should reflect the complexity of client needs. A client with straightforward objectives and a preference for self-directed decisions may need efficient tools and periodic reviews. Business succession involving several family members requires more specialist coordination. Both arrangements can fall within private banking, but clients should receive a clear description of the service, responsibilities, fees, and safeguards rather than additional privileges based only on asset level.

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5. Operating risks and underlying causes

5.1. Incentives can conflict with advisory responsibilities

Banks may face conflicting objectives when product sales, asset retention, and long-term family needs are pursued together. Evidence from a Spanish investment firm shows that changes in adviser compensation affected the funds selected by clients. This finding demonstrates the importance of incentive design in financial advice. Performance-based incentives may discourage time spent on complex family circumstances that generate little immediate income. The evidence supports an industry-level risk of tension between sales targets and advisory duties, but it does not establish CMB's internal appraisal practices or misconduct at the bank [12].

5.2. Specialist capacity and AI require clear accountability

Professional capacity depends on specialist expertise as well as staff numbers. Succession planning, corporate financing, and portfolio construction require different skills. Relationship managers therefore need to identify specialist needs, refer cases promptly, and receive recognition for effective collaboration. In this study, a capability gap remains a potential industry risk rather than an established weakness at CMB. A bank-specific conclusion would require evidence such as staff qualifications, vacancy rates, workloads, referral completion, and the availability of specialist support.

CMB already reports AI assistants for relationship managers, so the relevant issue is not whether technology exists. The operational questions concern whether tools identify missing information, retain the basis for recommendations, protect data, and escalate complex decisions. A task-based framework for artificial intelligence helps distinguish automated information processing from sensitive interpersonal judgment [13]. Human accountability remains necessary when recommendations affect suitability, family interests, or significant financial decisions.

6. Domestic evidence and international reference

6.1. Client growth and fee income measure different outcomes

CMB's 2024 results illustrate the need for caution. The number of private-banking clients increased by 13.61%, while retail wealth-management fees and commissions decreased by 25.24%. The annual report attributes the decline in group wealth-management income to lower insurance-channel fees and changes in fund fees and holdings [13]. Client growth and reported fee income can therefore diverge. Because the two measures cover different scopes, they cannot establish private-banking revenue per client or a decline in private-banking profitability.

Retail wealth-management fees recovered by 17.85% in 2025 [1]. This result is inconsistent with a simple narrative of continuous decline, but it also does not prove successful service transformation. Market conditions, product mix, and pricing can affect income. A stronger assessment would track continuing service use, client understanding of risk, complaints, retention, and the cost of maintaining advisory teams.

6.2. International comparison clarifies continuing service mechanisms

UBS provides a useful qualitative reference, although the institutions are not directly comparable. CMB delivers private banking through its retail banking structure and emphasizes asset allocation,

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family financing needs, and services for entrepreneurs. UBS distinguishes discretionary mandates, under which the bank makes investment decisions, from advisory mandates, under which the client retains decision authority. Their fee disclosures also differ: CMB reports retail wealth-management income by product category, whereas UBS separately reports asset-based fees and transaction-based income [11]. These reporting differences do not show that either model is superior. Both institutions describe specialist coordination, digital tools for advisers, portfolio services, and suitability controls. CMB emphasizes cooperation between corporate and private banking, while UBS combines regional client service with centralized investment guidance. The relevant lesson is that fees should correspond to defined continuing services, specialist support, and client protection. Public disclosures do not establish that either institution consistently produces better client outcomes.

The comparison concerns service mechanisms rather than rankings based on currencies or incomparable reporting scopes. CMB can examine continuing advisory arrangements while adapting fees and mandates to local regulation and clients' willingness to pay. The foreign model is a reference, not a template.

7. Transformation pathways for CMB

7.1. Documented needs assessment strengthens client service

A documented household-needs assessment could reduce the gap between product sales and broader client objectives. With informed consent, relationship managers should record investable assets, liabilities, business ownership, liquidity needs, major spending plans, family decision roles, and relevant constraints. A business owner whose wealth is concentrated in an operating company may need liquidity and risk diversification before additional exposure to similar assets. This hypothetical example links CRM with portfolio analysis: asset allocation should follow documented objectives and constraints. Missing information should be recorded and pursued rather than treating private-banking eligibility as proof that the client's circumstances are fully known.

Implementation can be monitored through three indicators. Needs-record completeness is measured as the percentage of assessments containing all required information. Scheduled-review completion is measured as the percentage of reviews completed by the due date. Referral completion is measured as the percentage of cross-department referrals completed within the agreed period.

7.2. Roles pricing and digital controls support implementation

A review should occur annually and after a material change in household circumstances. A referral should count as complete only when a specialist response, the responsible owner, and the agreed next step are documented. Team roles also require clear separation. A relationship manager should coordinate the case, an investment adviser should review the portfolio, and appropriately qualified specialists should address legal, tax, trust, or succession issues within the permitted scope. Each referral should identify an owner, a deadline, and the client decision required. This structure reduces repeated explanations and unclear responsibility, while avoiding unnecessary high-cost family-wealth services for clients with straightforward needs.

Pricing should be linked to continuing services such as portfolio review, risk assessment, and annual planning, with clear disclosure of fees, exit terms, and safeguards against duplicate charges. Staff appraisal should consider retention, completed reviews, complaint resolution, and compliance alongside revenue. Investment performance should be interpreted against market conditions and a stated risk benchmark rather than judged only by absolute returns. Higher short-term interest rates

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do not justify unnecessary transactions. These measures would align commercial incentives more closely with documented client service.

Digital tools should be introduced through controlled testing. AI can organize verified information, flag missing data, and identify overdue reviews, but an accountable professional should validate client-facing advice and record its basis, amendments, and escalation. Research on digital trust supports explainable recommendations and continued access to a person [8, 10]. Fluent language output is not a substitute for professional judgment, suitability review, or documented responsibility.

7.3. Pilot evaluation requires comparable measures

Implementation could begin with three months of service design and baseline measurement, followed by a six-to-nine-month pilot in selected teams and a review after one year. This sequence is a proposal rather than an announced CMB plan. Evaluation should track service cost per household, retention, complaints, net new money, and changes in market value. Growth in assets accompanied by excessive client loads or complaints would not indicate success.

Pilot comparisons must also address selection bias. Inviting only the most loyal clients would make higher retention a weak indicator of effectiveness. Comparison groups should be similar in assets, prior service use, and risk preferences, while changes in assets should separate new client funds from market appreciation. Remaining differences should be acknowledged. Results would guide further improvement rather than support an immediate causal claim.

8. Conclusion

The study examines how CMB can convert growth in its private-banking client base into sustainable professional services. Public disclosures show investment, family-wealth, and digital capabilities, but client growth alone does not measure service quality or profitability. The four operating models are complementary: product access provides reach, relationship management provides continuity, family-wealth services coordinate complex needs, and digital tools support information processing and monitoring. A stronger operating framework would place documented needs assessment and case coordination with relationship managers while reserving specialist judgment for appropriately qualified professionals. Service value should be assessed through client outcomes, continuing use, risk controls, and delivery cost as well as revenue.

The recommended pathway combines household-needs records, defined referral responsibilities, transparent links between fees and continuing service, balanced staff appraisal, and controlled digital pilots. UBS illustrates how continuing advisory roles and mandates can be described, but these arrangements require adaptation to Chinese regulation and client preferences. CMB-specific claims should remain limited to evidence disclosed by the bank; industry risks and international findings should not be presented as verified internal weaknesses.

The study is limited by its reliance on public documents and the absence of client account records, internal appraisal data, and stand-alone private-banking profit data. Reporting differences also constrain financial comparison between CMB and UBS, while international studies may not transfer fully to Chinese private banking. Future research could combine client and manager interviews, subject to informed consent, with authorized internal service data. Pilot evaluation should track retention, complaints, suitability results, service cost, and comparable non-pilot groups before broader implementation is considered.

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