A new direction in Chinese banking

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Shifting from primarily servicing larger enterprises to individuals and small businesses presents Chinese banks with a major challenge.
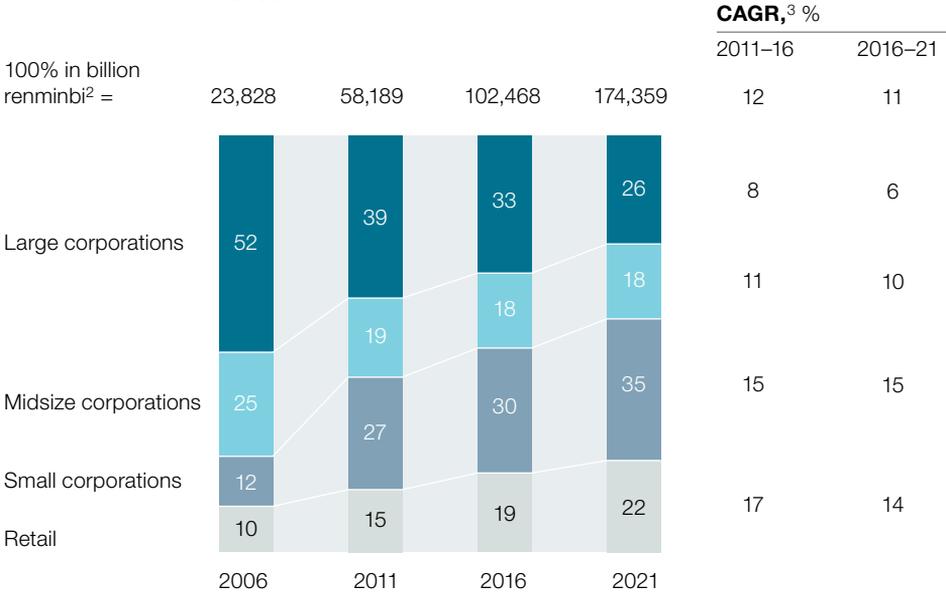
After several years of seemingly clear sailing for China, bank analysts are now fretting about the nonperforming loans that the 2009 economic stimulus left behind and the proliferation of wealth-management products manufactured by underregulated trust companies. These problems are real, but bank executives face a much bigger longer-term challenge.

Using international benchmarks, China's historic growth patterns, and our understanding of upcoming reforms, we have developed projections suggesting that the structure of China's banking market will continue to change at an unprecedented rate as business opportunities shift from large state-owned enterprises to small and midsize businesses and the newly enlarged ranks of middle-class consumers (exhibit). The implications for the business and organizational models of banks, and for the capabilities they'll need to succeed in this new environment, are profound. Regardless of the impact of the cyclical issues worrying analysts at the moment, the profits of those banks unable to respond to the structural shift in the sector will come under growing pressure. ○

A more balanced business mix for Chinese banks

Share of bank loans by type of borrower,[1] %

	2006	2011	2016	2021	CAGR,[3] % 2011–16	CAGR,[3] % 2016–21
100% in billion renminbi[2] =	23,828	58,189	102,468	174,359	12	11
Large corporations	52	39	33	26	8	6
Midsize corporations	25	19	18	18	11	10
Small corporations	12	27	30	35	15	15
Retail	10	15	19	22	17	14

[1]Figures may not sum to 100%, because of rounding; data for 2016 and 2021 are forecasts.
[2]In 2011, on average, 6.46 renminbi = $1.
[3]Compound annual growth rate.

Source: People's Bank of China; China Banking Regulatory Commission; McKinsey analysis

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