

# Innovation and Optimization of Commercial Bank Marketing Strategies Amidst Interest Rate Liberalization

Hanyang Liu

Miami University, Oxford, Ohio, USA

**Abstract.** The ongoing deepening of interest rate liberalization reforms in China eliminates the traditional deposit-loan interest rate differential protection, which forces commercial banks to confront new forms of profit model reshaping and competition pressure. In this new environment, it is difficult for commercial banks to adopt their usual old-fashioned, product-oriented, and price-war-type of rough marketing strategy. This paper will fully examine the new challenges brought by the interest liberalization to the commercial banks marketing, and explore new ways for marketing strategy innovation and improvement. A study has demonstrated that commercial banks would have to shift from a traditional product-led method towards a customer value-led one; it talks about advancements such as differentiated service, digital marketing, tailored administration, and risk-dependent pricing. Through the establishment of a CRM system throughout the customer's lifecycle, the deepening of FinTech application, optimizing channel synergy, and establishing an active, rational pricing model, commercial banks can improve market competitiveness, achieve sustainable development, and provide strong support for the steady operation of China's financial industry.

**Keywords:** Interest Rate Liberalization; Commercial Banks; Market Marketing; Innovation; Customer Value.

## 1. Introduction

Interest rate liberalization is also the key of China's financial system reform, which mainly aims at giving birth to an interest rate formation mechanism which will be decided by market supply and demand. After the removal of constraints on fluctuations in deposit and loan rates, the traditional interest margin that commercial banks depend on has been squeezed, which increases the competition within the commercial banking sector and between different industries[1]. The traditional operation mode and marketing strategies of commercial banks, especially, are very dependent on "price rigidity" under policy protection. This large-scale and uniform marketing method, in the new situation of fully liberalized interest rates and complete openness of information, has brought many problems such as slow response, poor customer experience, and high costs. Therefore, commercial banks have to make a strategic shift to develop a market marketing system that is customer centric and innovative[2]. We need to recognize the competition differently and strive for survival as well as quality in this new competition environment. This article will first talk about how the process of interest rate liberalization impacts commercial banks marketing, then it will propose some concrete ways to innovate and improve their market marketing approaches.

## 2. Challenges and Impacts of Interest Rate Liberalization on Commercial Bank Marketing

Interest rate liberalization represents an important structural change for the banking industry. From before, prices were directly controlled but now the prices will be determined by market forces. Immediate and most visible is NIM's wide narrowing down. The structural compression of core profit drivers essentially changes the commercial bank's business calculus and is bound to transform the current extensive growth model to an intensive efficiency- and innovation-driven model[3]. This kind of operation has a long tail to the current marketing framework, pointing out so many problems.

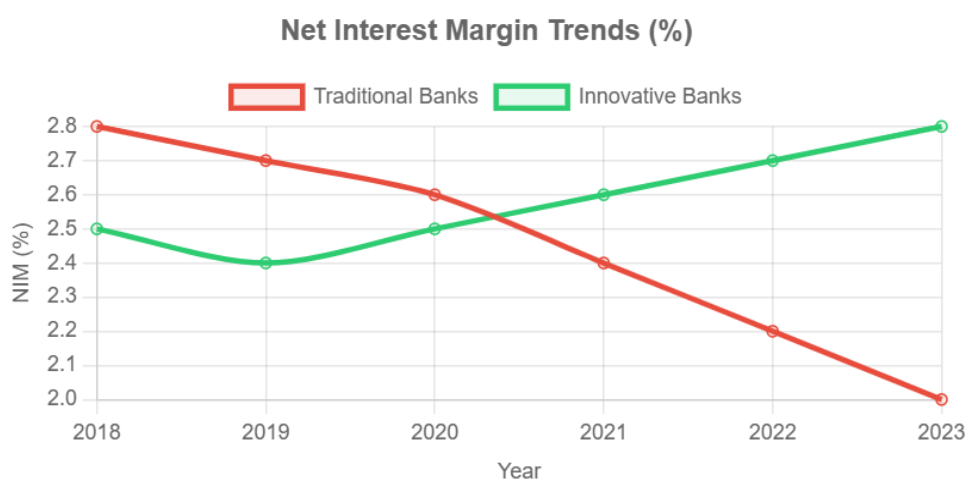
Firstly, product homogenization is getting more serious, and a price war starts. In a policy-protected, high-margin environment, banks had little incentive for true product innovation. Deposit and loan rates are fully liberalized, banks tend to fight in fiercely in price war - raising deposits rate

or reduce the loan rate to win the customer[4]. And this short-sighted strategy cuts down on profit without developing a sustainable point of difference that competitors can't just copy price wise. Core dilemma lies in the fact that marketing solely relying on price won't work and a prompt turnaround must happen toward other forms of differentiation centered around service quality and product sophistication.

Second, a shift gives clients a great deal more haggling power. Digital platforms have caused information asymmetry to fall sharply. Comparison tools have become more common. Customers are very sensitive to rates and have low switching costs, so they are quite likely to “shop around” for the best rates across different kinds of financial providers: traditional banks, foreign banks, and FinTech platforms. And this calls for commercial banks to go from transactional marketing to relationship marketing, where value comes from the complete, lasting connection and advisory support, not just from the item itself. Marketing needs to be a complicated process of communicating value and explaining why this bank is better as opposed to what this bank is selling.

Lastly, new markets need dynamic risk based pricing, we will work hard to do a better job on it It's over for uniform pricing at different risk levels. Free market of interest rates requires that each specific transaction of credit, as well as different customer segments, the cost of credit should truly reflect its own credit risk, liquidity risk and operational cost. Marketing strategies have no connection with risk control, a poor product price will result in the product being selected by inferior and suffering losses. Thus, bank marketing has to apply advanced quantitative models so that bank interest rate is precise, competitive and profitable on a unit basis.

Finally, it is necessary to have extreme marketing efficiency and very strict costs controls. Less fat profit margins mean that every penny spent on marketing has to be as efficient as possible. The traditional mass media campaigns and the expansive branch networks which once accompanied them have come to dominate. Commercial banks have to depend on data analysis to identify high-potentially customers and use low-cost electronic pathways for providing services. Refined Management (Jing Xi Huan guan Li): Marketing is in a time of high stakes, each marketing dollar must produce a measurable, profitable return, turning the marketing department into a performance-driven, data-centric organization.



**Figure 1.** Net Interest Margin (NIM) Trends Before and After Interest Rate Liberalization

### 3. Core Transformation of Commercial Bank Marketing Strategy Innovation: From Product Orientation to Customer Value Orientation

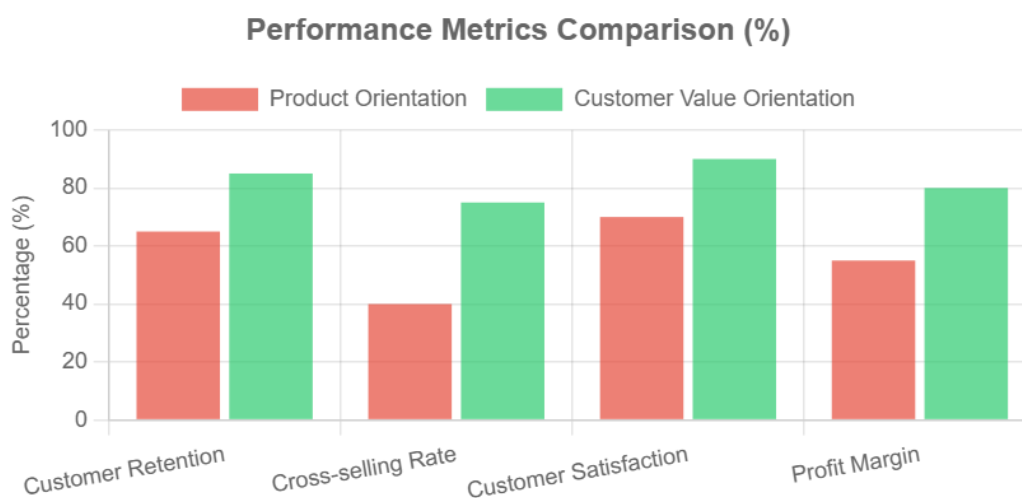
The most fundamental strategic response to interest rate liberalization is a paradigm shift in marketing philosophy: an irrevocable transition from "Product-Centricity" to "Customer Value-Centricity." This is more than a slogan; it represents a deep-seated change in operational focus, resource allocation, and organizational culture[5]. A product-centric bank views customers as passive

recipients of its standardized offerings; a customer value-centric bank sees itself as a co-creator of financial well-being, tailoring solutions to meet dynamic needs across the entire customer lifecycle.

In order to make this transition, commercial banks will have to build up a robust and intelligent Full Lifecycle CRM System. The system is fueled by big data analysis and artificial intelligence analysis, rather than just demographic analysis, it goes deep into behavioral data, psychographics data, and so on. It's about building up a view of a customer in real time, 360 degrees so we can predict the need rather than chase after it with a reactively sell.

It's carried out by different levels of personalization. On the Acquisition side, AI-powered Lead Scoring makes sure marketing resources go to prospects that will be the most profitable and have the lowest credit risk. During the relationship deepening stage, marketing is needs-based solution selling. Take a mortgage product for example, rather than only marketing mortgage products, the bank markets an overall house ownership solution that combines financing, insurance, investment planning to renovate the house, and automatic payment system[6]. High Net Worth Individuals (HNWIs) focus on the high-end market, and everything in their marketing is made-to-order, including everything from trust planning to cross-border wealth management and philanthropy advisory. Areas where the banks non-interest income can excel.

Also, a customer value-focused strategy builds customer loyalty through a great experience, which is a strong non-price barrier to competing efforts. To consistently deliver this kind of easy-to-use, empathetic service at every step means the bank could reach a higher level of customer satisfaction. And this loyalty will be reflected as the higher CLV of customer, because loyal customers would rather cross-sell higher margin non-interest products (such as funds, insurance, wealth products) than to leave. This would ensure the stability of core-interest income of banks. Essentially the new marketing mandate will be to monetize trust & relationship vs. transaction.



**Figure 2.** Customer Value vs Product Orientation Strategy Comparison

#### 4. Key Paths for Optimizing Commercial Bank Marketing Strategies

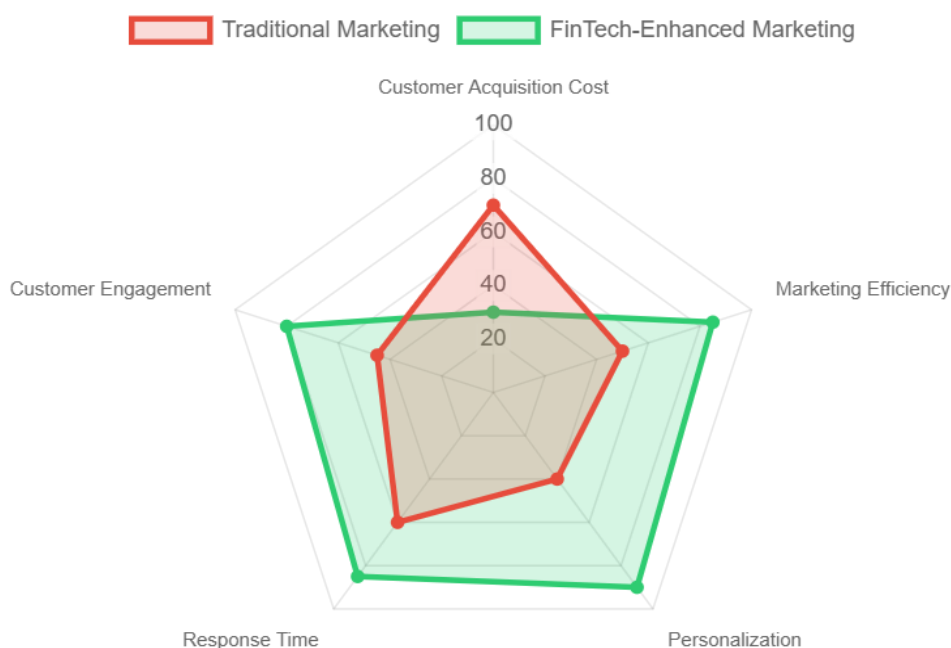
The shift is towards customer value and should come along with tactics innovations across the whole marketing mix. The optimization paths are intertwined, depending much on technology to do that for us.

##### (1) Deepening Digital Marketing via FinTech Integration

The integration of FinTech is the engine that drives the modern bank marketing optimization. Digital channels are not just other options for physical branches anymore, they're the main way customers talk and give us information. Commercial banks need to make genuine commitment towards an Omni-Channel strategy wherein all touchpoints like mobile app, website, smart ATM and human advisors should be made one by a single data platform so as to provide a single personalised experience.

particularly when Marketing need to use AI, Machine learning ML for Hyper-personalized using ML algorithms to analyze real time transactional data and behavioral data in order for an NBO suggestion to appear smoothly within the mobile banking app or website portal It moves marketing from the big campaign to the moment in time micro-marketing. It will make conversion rate much higher and reduce cost per acquisition. And also, technologies such as Robotic Process Automation (RPA), Chatbots have to be adopted in order to manage basic service inquiries and product fulfillment tasks, allowing fully trained professionals to concentrate on advisory and high-value relationship building - the only true differentiator in a liberalized market. And digitalization is both cost-cutting strategy and value-adding strategy.

**Marketing Efficiency Comparison (Higher is Better)**



**Figure 3.** Impact of FinTech Integration on Marketing Efficiency

(2) Implementing a Dynamic, Risk-Informed Pricing Mechanism

Scientific pricing is the convergence point of risk management, financial engineering, and marketing strategy in the liberalized environment. The key step replaces simple heuristic pricing with a Dynamic Risk-Adjusted Pricing (DRAP) model. This model is comprehensive and contains

**Internal Funds Transfer Pricing (FTP):** To guarantee that every part of the company, every business unit, is being charged its true cost of funding, which will become the true starting point for profit calculations.

**Credit Risk Quantification:** Using advanced model, such as PD/LGD/EAD models, to accurately determine the EL for each lending decision, and adding it to the interest rate as a mandatory risk premium.

**Operational and Regulatory Costs:** The costs of originations, servicing and mandatory capitals (base letc).

**Customer Lifetime Value Overlay:** To allow for a targeted short-term margin cut on very good customers promising lots of future cross selling.

Marketing team using the DRAP can break away from standard rate sheets and adopt flexible data-validated pricing matrices It allows the bank to offer very competitive rates on the low-risk, high value borrowers while also avoiding the problem of adverse selection through a transparently riskier rate[7]. This change turns pricing from being just a selling tool to becoming a complex weapon for getting resources used best and making the most money.

(3) Promoting Robust Channel Synergy and Customer Experience Optimization

When it comes to the customer journey in banks nowadays, it’s hard to contain it in one channel: A good marketing strategy must be smoothly combined and choreographed on all delivery mechanisms known as Omni-Channel Integration. to avoid friction and have it be consistent[8].

Commercial banks need to think about the role of the physical branch afresh. Now branches ain’t just transactional factories…they’ve become high-touch financial Advisory Hubs, brand Experience Centers. Digital tools such as tablets that relationship managers use can immediately give them access to all customer profiles, so that when they have a face-to-face meeting with the customer, it will naturally pick up from where the customer left off on the internet. And internally, there is channel synergy as well, meaning sales and service-based incentives should be consistent across all channels so that employees are given credit and rewarded for a satisfied customer and total relationship value regardless of the channel in which the final transaction was made[9]. This all-encompassing method of service distribution improves the bank's goods from simple commodities into a high-quality, dependable, and coordinated financial association, so developing long term obstacles towards low cost opponents.

(4) Expanding Non-Interest Income Marketing and Comprehensive Solution Selling

With interest rate margin under pressure, if there is no success for NII businesses, it will affect the lifeline of the bank. The marketing thrust has to be forcefully directed at things that will bring in fees, commissions and advisory earnings.

The shift needs to be away from purely pushing products to a full financial planning and solution selling. To retail clients, it means linking lending products with the sort of high-margin goods like mutual funds, insurance, retirement planning. For companies, it’s more about a strong “Bank as a Partner” model, which includes services like treasury management cross border settlement investment banking advisory (M&A bond issuance)and supply chain financing[10]. Complex services bring up the fee income and get the bank stuck into the clients environment making it hard for a competitor to pull away. Marketing effectively in this arena depends on specialist talent--expert wealth managers, corporate finance analysts, technical product specialists--who are sold as the bank’s core intellectual brand value.

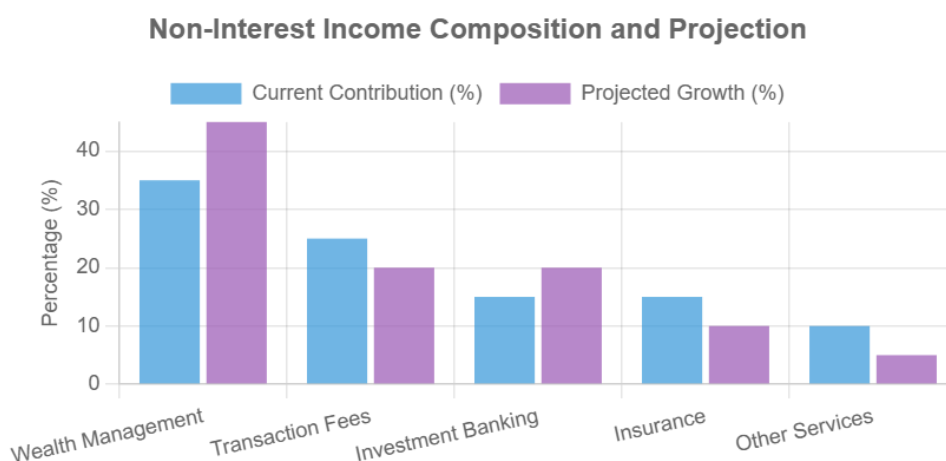


Figure 4. Non-Interest Income Growth Projection

5. Conclusion and Outlook

The liberalization of interest rate is not just a technical adjustment, it’s a huge, structural reform of the Chinese banking industry. The erosion of the traditional interest margin is an existential challenge, which forces commercial banks to fundamentally break free from the legacy, scale-based business models, which enjoyed a regulatory shelter. From this result, these findings tell us that the success in navigating through this new competitive environment can be done through the innovation and strategizing of the market marketing. This is premised on a change in philosophy from sell the

product to build a relationship based on customer value. Commercial banks must be fundamentally competitive differentiation, not by ephemeral price wars, but from long-term value of superior service efficiency, and personalization and strong digital delivery.

Commercial banks future survival is dependent on them taking the strategic path talked about: First of all, for the smooth integration of FinTech, it has to go beyond merely digitalizing and seep into the core of the business, making hyper-personalized marketing possible and slashing costs. Secondly, we must use dynamic, risk-adjusted pricing (DRAP) models. These are the means by which the bridge between good risk management and a good marketing strategy can be achieved. Third is non stop chases of NII (Non-Interest Income); selling all kinds of complicated and expensive services like fancy wealth and corporate counselling; this will determine how lasting a bank's sources for making money are from interest rates jumping around. These 3 have to have an all-channel approach that guarantees a smooth and uniform experience for the customer, transforming customer happiness into the best safeguard against competition.

Looking forward, how commercial banks will evolve their marketing approach will largely hinge on two major trends: building ecosystems and owning the data. The time for a solo contest is going by; banks have to proactively look for teamwork with tech companies, online stores, and other sorts of financial groups to make banking services get mixed into the consumer's daily routine and business processes right from the start. This Bank-as-a- Platform model widens the reach of the market and forms an extremely beneficial network effect, making customers unwilling to abandon it. And more importantly, as information becomes the most valuable asset that marketing must do is things like private data, ethics and governance matters. Who can make use of customer data precisely target them and still maintain strict compliance standards while gaining the customers' trust is the ultimate competition field. Only through unceasingly improving such kinds of strategic innovations can commercial banks strengthen themselves in the swiftly changing financial scene and carry out their key part in bolstering the stability and development of the actual economy.

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