Which is More Advantageous in Financial Technology and Traditional Finance? Evidence from JD Finance

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Abstract. In recent years, Internet finance and financial technology have been the fastest growing sectors in the national economy. We provide some evidence through the analysis of JD Finance to explain how financial technology affects traditional finance. We show that the eight characteristics of JD financial technology are significantly different from traditional finance. We find that the biggest problem for different types of transactions in traditional financial and FinTech may be the regulatory dilemma, as it is difficult to obtain data on their respective purchasing behaviors and market reactions.

Introduction

After the 2008 financial crisis, internet finance and its subsequent stages of financial technology rapidly developed to sweep every corner of the financial market. Internet finance brings a series of financial innovations. Peer-to-peer lending and insurance, crowdfunding, and social payments are all growing in popularity to meet the evolving choices and needs of consumers and businesses. With the rise of social networks in China, the internet finance and financial technology (FinTech) have continued the explosive growth. In 2018, the amount of financing for Internet finance companies was 87.75 billion Yuan (RMB). The third-party payment market reached RMB 43,835.7 billion Yuan (RMB) until 2018Q3.Moreover, the valuation of Internet financial platforms such as Ant Financial, JingDong Finance (JD Finance) and Lujin Institute has grown rapidly. The recent valuation of Ant Financial has reached trillions. In addition, the Expert forecasts that the internet finance sector will grow at an average annual rate of 40 percent over the next few years and is expected to account for more than 8 percent of the country’s gross domestic product (GDP) by 2020.

With the breakout of the P2P lending crisis in 2015 and strictness tendency of regulations in 2016, the Internet finance industry has come to the differentiation stage. This is a relatively healthy stage that is necessary for future development and transition. The future of Internet finance will transform to financial technology(FinTech). We understand that scholars should be very careful in making rational expectation by summarizing what is already happening in the business world after some careful observations.

Why does Internet finance or financial technology (FinTech) provide services at a lower cost and price? The latest research finds a key trade-off associated with two important roles of efficient platform design: guiding consumers to their most desired product while also strengthening seller incentives to lower prices. With the increasing importance of internet platforms, such as eBay, Amazon, Uber, and Airbnb, to the overall economy, the researchers assess the efficiency of different platform designs in a variety of contexts is a promising direction for further work

(Dinerstein, Michael and Einav 2018). In certain circumstances benefit distribution via FinTech may lower transaction costs, enable higher frequency payments, and provide new socioeconomic benefits. It could also improve the privacy, transparency, traceability, and security of disbursements, contributing to more efficient and equitable financial benefit distribution (Thompson and Benjamin S 2017). This advantage is even more pronounced after big data is applied in financial technology. Related research explores the hypothesis that big data disproportionately benefits big firms. Because they have more economic activity and a longer firm history, internet finance companies have produced more data. With the improvement of data processing technology, abundant data attracts more financial analysis. Data analysis improves investors' forecasts and reduces equity uncertainty, reducing the firm's cost of capital. When investors can process more data, large firm investment costs fall by more, enabling large firms to grow larger (Begenau and Juliane 2018).

The paper is divided into four parts. The first part is an introduction, a review of the background and literature. The second part analyzes the specific advantages of financial technology, and selects JD Finance and its crowdfunding platform to explain the impact of Internet finance on traditional finance. The third part compares the differences between traditional finance and internet finance. The fourth part is the conclusion and has a related outlook.

Analysis of the Advantages of FinTech-taking JD Finance as an Example

Definition of Financial Technology (FinTech)

Substantial advances in financial technology and FinTech product models have then created important opportunities for growth with increased efficiency and earnings for the emerging Internet finance company based on the above analysis; although, this has also created significant new threats especially in terms of market and consequent regulatory and supervisory dislocation, disconnection, division, depletion, and distraction.

FinTech was originally used to refer to Financial Services Technology Consortium to promote the efficiency of financial services and financial products. Financial technology is mainly defined as emerging business models, new technology applications, new product services, etc., which are driven by emerging technologies such as big data, blockchain, cloud computing, and artificial intelligence, which have a major impact on financial markets and financial services. The term was initially used to signify technological cooperation between new market entrants and incumbent firms, although, many now only discuss FinTech in terms of disruption. FinTech can generally be understood in terms of the electrification and digitalization of banking and financial record, bank accounts and ledgers, and their use in innovative and unconventional ways. FinTech can be defined either in terms of market function, market institutions, market technology, market structure, or market impact and disruption.

The Advantages of JD Finance

JD Finance is one of China's largest Internet finance platforms. Customers become possible due to three reasons in JD Finance platform. First, IT progress stimulates new finance technologies and reduces service costs. Second, competition stimulates innovation in management and finance techniques of JD Finance. Third, Financial technology has led to the emergence of a large number of Internet financial products. FinTech innovation makes large JD Finance more likely to develop Internet finance. Due to the accumulated advantages in techniques, Human Resources and financial licenses, future development of Internet finance may be largely dominated by JD Finance. At the same time, many small IT and Internet finance companies may be wiped out. Ironically, traditional financial institutions have responded slowly to this trend, although new IT companies who enter the finance domain early may serve as forerunners paving the way for this transformation, but will not ultimately survive.

Take JD's crowdfunding platform as an example. JD crowdfunding provides innovation of the product's development for consumers. This kind of Internet finance innovation enables entrepreneurs to use JD crowdfunding as a tool to screen for valuable projects and thereby improve investment decisions. All-or-nothing reward crowdfunding schemes such as those used by JD Finance and other crowdfunding platforms implement the crucial features of financial goals. In particular, they are consistent with the idea that these schemes are used to improve the identification of valuable entrepreneurial projects. This promotes social welfare.

The Characteristics of FinTech

At least two feasible development paths for JD Finance can be seen. First, it can be expected that large IT companies, such as Alibaba, Tencent, Baidu(BAT) and JD Finance still have data, capital and technology advantages. They can also apply for finance licenses. A combination of their technology, data and capital advantages can ensure significant competitive advantages in providing financial services. Small new technology companies do have some opportunities in the Internet finance industry. As long as they can offer key services and form a competitive advantage in a carefully targeted market segment, they can fit into the market. One possible way is to cooperate with large companies to take advantage of the capital and data resources. For example, Alibaba, Tencent and JD Finance have the largest datasets, accumulated through their internet financial transactions and media networks. Small firms can cooperate with these giants to gain access to their data. On the one hand, JD Finance relies on its own data and technology advantages to stabilize the financial market, and on the other hand, expands its market share by cooperating with small Internet finance companies.

Second, JD Finance can also cooperate with traditional financial institutions. Traditional financial institutions have their capital, financial service and data advantages. At the same time, traditional financial institutions, such as the major banks, have not only developed advanced financial techniques but also accumulated a large amount of data. They can easily develop new IT platforms, using some financial technology means of JD Finance to provide better financial services to more customers. Therefore, JD Finance may cooperate with them in the design of consumer scene finance and internet financial products. JD Finance can also purchase some of the new finance companies to take advantage of their developed IT and finance techniques. With the completion of interest rate liberalization in 2015 and the development of the bond market, JD Finance faces the pressure to seek more business opportunities. It has incentive to extend their market scope. Table 1 shows the eight characteristics of JD Finance’s FinTech compared with traditional finance.

Table 1 The eight characteristics of FinTech

	JD Finance’s FinTech	traditional finance
Background	Knowledge Economy, Information Revolution	Industrial Age
Business foundation	Full transparency of information	Information asymmetry
Business model	Decentralization	Centralization
customer relations	Equal and networked	service exchange relationship
Customer mode	Differentiated custom “long tail”	a few high net worth customers
time and space	24 hours point to point	Certain time, space, and region
Organizational effect	Strong network externalities	Lack of externalities
Community relations	Invisible and virtual	Tangible and physical

The Difference between Financial Technology and Traditional Finance

Internet finance mainly focuses on long-tail customers who are not available in traditional financial services or who are considered to be unimportant. They make use of the scale effect brought by the information technology revolution and the lower marginal cost to make long-tail customers to obtain effective financial services in small transactions, market segments, etc.

Traditional financial institutions and Internet financial institutions are actively using Internet technologies, but the design of the models is different. The former has a deep foundation of physical services, and expands offline to the line, and strives to make full use of the original foundation to improve the convenience of services. Most of the FinTech sectors is based on online services. At the same time, it also focuses on expanding from online to offline, and uses convenient service methods to make the business deeper and more practical.

Traditional financial institutions are subject to stricter supervision, and they need to guarantee mortgage registration and post-loan management. Internet financial companies have a higher degree of marketization. They have won the trust by establishing transparent rules and establishing a mechanism for public supervision. However, more and more Internet finance companies' risk control and audit mechanisms are increasingly moving closer to banks. Like JD Finance, they all have their own professional and strict risk control team to check the borrowing projects at all levels to ensure the safety of funds.

Traditional financial institutions have significant advantages in terms of capital, capital, risk management, and customers and outlets. Internet finance companies have different advantages such as different customer channels, good customer experience, fast business promotion, low marginal cost, and significant economies of scale.

Conclusions

In this paper we found that financial technology will play an increasingly important role and influence in the national economy. We presented some evidence about the penetration of FinTech, the way it affects traditional finance, and the nature of Fintech sectors. The evidence we present should be viewed as an initial pass, both because it is based on a large Internet finance platform-JD Finance, and because digital and networked technologies are used in early stage.

Going forward, we see several important issues that financial technology will increase efficiency at lower prices and costs. Financial technology has applied big data, blockchain, cloud computing and so on, which has spawned emerging business models, new technology applications, new product services, etc.. The management and technological innovation of JD Finance brought by financial technology can indeed provide products with low price and cost, especially JD’s crowdfunding platform. Then we get eight characteristics of real-time, network, decentralization and virtualization of financial technology.

Traditional financial institutions and financial technology platforms have their own advantages in conducting financial business. They can cooperate in many fields, although they also compete for market share. Another issue relates to innovation and competition in online business. Consumers use Internet finance platforms such as Ali, Tencent and JD on mobile devices—even if they are at home—find products through the app, rather than through the business department of a financial institution. This suggests that advertising and marketing will be different on mobile devices. So far, we do not see much in terms of different purchase behavior or responses to marketing (e.g., our Daily Deals results). But given the early stage of mobile technology, one might expect significant room for innovation in this area. More and more innovations and virtual financial transactions will bring problems to regulation, which may be a topic that scholars and practitioners need to study in the future. This may also prompt practitioners to take note of the emerging concerns as the FinTech application is transforming from a marginal to a mainstream.

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