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The Future Development Prospects, Reform and Reconstruction of Commercial Banking Business Under the Background of Digital Currency

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ABSTRACT

As a symbol of the development of the times in recent years, digital currency has attracted worldwide attention. It is undeniable that the rise of digital currency has brought new opportunities to the world economy, however it has also brought an impact on traditional economic methods, especially commercial banks. This article discusses how commercial banks can change strategies, restructure, and improve development in the context of digital currency development.

Keywords: *digital currency, commercial bank, development, reform, reconstruction*

1. INTRODUCTION

The development process of digital currency has always received extensive attention from the international community. Since 2014, China has organized market institutions to conduct distributed research and development. On the other hand, China has conducted in-depth research on operation systems, key technologies, circulation environment, regulatory and legal issues and so on[1]. In 2017, the Bank for International Settlements provides the concept of "fiat digital currency", which is the year when the research and development of digital currency has entered a new stage. With the approval of the State Council, the People's Bank of China organizes relevant market institutions to implement distributed research and development of legal digital currency which called DC/EP (Digital Currency/Electronic Payment), and integrates with research and development institutions to achieve financial technology research results. The birth of digital currency is regarded as another major revolution in currency. Digital currency is about to become the underlying building and important infrastructure in the digital economy era, which will have a huge impact on the transformation of financial formats and the update of financial tools.

As a participant in the issuance, circulation, and transfer of legal digital currency, commercial banks are also participants in the transfer of DC/EP between banks. The emergence of DC/EP will have many impacts on commercial banks, such as restructuring the account system of commercial banks, payment business, cash business, cross-border settlement business and anti-money laundering business and so on. Therefore, commercial banks must stand at the starting point of the emergence of digital currency, carefully follow the trend of the future development of financial business, and do a excellent job of system construction and layout in advance, so as to give full play to the basic role of digital currency. At the same time, it also should rebuild the financial business layout and improve the market position of the institution.

2. DIGITAL CURRENCY

2.1 The concept of digital currency

In order to fully understand the digital currency, we must have a simple understanding of legal currency and non-statutory currency.

Legal tender is a currency which relies on the law to make it a legal currency. It is also a specific "government debt" supported by government credit, which is issued and maintained by central banks of various countries. In some countries, in addition to their own legal tender, the strong currencies of other sovereign countries are also allowed to have the function of legal tender, thereby creating a kind of "local currency substitution."[2] In China, the only legal currency is RMB, which is also a kind of credit currency. Certainly, some precious metal commemorative coins also have the function of legal currency in accordance with the law. Credit RMB is generally a relatively vague concept, and its specific boundaries are constantly changing. The pervious view believed that only the currency issued by the central bank was legal tender, which was later gradually expanded into the base currency (reserve currency). The bank deposit currency is a kind of private debt currency, because in theory there is a possibility of bankruptcy. Later, the definition of legal tender was changed. People believed that legal tender is a comprehensive system and can be issued by central banks, depository financial institutions, and non-financial companies. However, different entities issue legal tenders with different currency attributes and credit ratings, thus a broader deposit

currency was emerged[3]. Different from legal tender, non-statutory currency refers to a medium of exchange between private individuals. It only requires the approval of both parties to the transaction, but cannot be issued to the public through any channels. In many countries, the issuance of private currency is prohibited by law. However, the relevant laws and regulations of some countries are relatively vague. After the establishment of the modern central bank system, although legal tender has obtained a monopoly, private currency still has room for its existence. For example, when the government's fiat currency credit collapses, or a specific group, scenario and transaction is more suitable for private currency, non-statutory currency will be used. After understanding legal currency and non-statutory currency, it is easy to have a clearer understanding of digital currency.

Digital currency is a virtual currency developed on the basis of legal tender. In fact, the innovation of mobile payment tools and the emergence of electronic wallets in financial institutions have reflected the changes in account and currency patterns, but have not yet jumped out of the work of central bank credit and bank credit[4]. Moreover, with the development of e-commerce, increasingly number of non-financial institutions are involved in the field of electronic payment services. The multi-purpose electronic payment tools issued by them have changed the currency attributes of the corresponding accounts, and they need to choose according to liquidity, which affects the boundary of the deposit currency[5]. Since the 1980s, online payment systems based on specific cryptography have attracted attention. Bit born in 2009 is a private currency supported by algorithmic credit in the digital context. Usually, most of the digital currencies we talk about are the last encrypted digital currencies. The reason why governments pay attention to them is because the previous private currencies were relatively limited in scale and function, and their impact was controllable. However, with the development of the times and economic progress, digital currencies have also brought some bad influences.

2.2 The meaning of digital currency

The emergence of digital currency marks the progress of social science and technology. At the same time, the establishment of digital currency issuance and circulation system is of great significance to the development of national economy and commercial banks. The main contents are as follows:

Improve transaction efficiency and trust. Different from non-statutory digital currency, legal digital currency is a currency guaranteed by sovereign states according to their own needs and combined with existing technology to guarantee national credit. This digital currency is protected by China Constitution. Therefore, under the premise of ensuring the mutual trust of competitors, legal digital currency can better measure the relationship between commodities and value, so that transaction efficiency and the trust can be improved[6].

Guarantee the safety of monetary funds. Legal digital currency not only has the advantage that traditional currencies are protected by national sovereignty, but also has the advanced nature of digital currency. It also has significant value in preventing money laundering, hacking, counterfeiting, and tax evasion. In particular, China has recently vigorously promoted the "The Belt and Road" strategy. Some countries along the route have unstable economics and uneven political situations. The centralized financial system cannot prevent the risks of war and terrorist activities in West Asia, the Middle East and other regions. If the block chain technology construction method is used to protect the digital currency, this problem can be prevented.

Supervise the flow of funds. Legal digital currency can completely control the flow of funds, facilitate the central bank to count the currency creation process, strengthen the supervision of economic activities and achieve specific policy control purposes, so that can truly realize financial big data[7]. In terms of the implementation of monetary and fiscal policies, digital currencies can grasp the dynamics of funds in a timely manner and quickly evaluate the implementation of policies to facilitate adjustment and optimization of related policies. Meanwhile, digital currency can help regulators to target and support microscopic areas.

2.3 Future prospects of digital currency

The main reason why digital currency is not popular is that digital currency brings benefits to the economy and also brings crisis. Due to the instability of digital currency, the risk of investment and digital currency will increase. However, digital currency has become a global digital asset and investment product, and it also has good development prospects. The main content as follows:

(1) Become a financial tool in a specific scenario. At present, value transmission between different clearing systems on a global scale has the disadvantages of long time and high cost, and digital currency. Digital currency can solve this problem well as a medium of global flow.

(2) Become a new type of payment network.

(3) Become a broader and more imaginative development trend for innovation. It is mainly used in distributed transactions, smart contracts, Internet of Things and other fields to help these fields develop faster.

3. THE DEVELOPMENT OF COMMERCIAL BANKS IN THE CONTEXT OF DIGITAL CURRENCY

3.1 Commercial Banking Reform

In the context of digital currency, the development of bank cash flow has been affected to a certain extent, so

commercial banks must make appropriate changes to adapt to the new opportunities of the times.

With the rapid development of financial technology, the competitive environment inside and outside commercial banks has undergone major changes. The traditional business model is no longer suitable for the new development requirements, so appropriate changes are needed. In the context of the new era, Chinese commercial banks are keeping up with the development of the times and entering the Bank 3.0 era, actively exploring and practicing the "bank +" model, and seeking a win-win development path is an inevitable requirement of the new era[8]. In 2018, China Pudong Development Bank launched the first API Bank Unbounded Open Bank in the banking industry. It integrates scene finance into the Internet ecology through API architecture, and connects finance and various industries around customer needs and experience to form cross-border services, forming an open and sharing system and build a win-win ecosystem. In addition, China Merchants Bank executives stated at the press conference that China Merchants Bank is focusing on building a retail business platform, gradually opening up users and payment systems, and realizing the convergence of finance and multiple scenarios through connection methods such as API, H5 and App jump and so on. Reform and transformation are the important way for commercial banks to get rid of their dependence on the past business management model. Banking reform requires commercial banks to clarify their development concepts, establish a competitive and sustainable business model, and at the same time create professional and refined middle and back office management capabilities. Only in this way, we can meet the challenges of the digital currency era.

The method for commercial banks to reform is to transform their business philosophy and effectively balance benefits and risks. Banks are risky businesses, and high returns often mean high risks. The key to the problem is how to achieve a balance between returns and risks. For a long time, China's economy has maintained double-digit growth and is generally in a period of economic upswing. It has not experienced the downward phase of the economic cycle. Bank profitability has not fully reflected the cost of risk. Therefore, bank reform and transformation must adhere to the concept of effective balance between benefits and risks, and maintain banks steady development, realizing medium and long-term shareholder value appreciation. Concept transformation is to return to the basic logic and origin of bank management, abandon the traditional development model, and return to value growth. This is the basic guarantee for the success of bank transformation.

3.2 Commercial Bank Restructuring

In the context of digital currency, banks want to accelerate the implementation of management transformation, in addition to the method of reforming the bank's philosophy, it is also a acceptable way to choose bank restructuring. The main methods for commercial banks to restructure are as follows：

Form a strategic-oriented resource allocation plan. This requires commercial banks to be guided by business strategy, prioritize their resource input, and form a resource allocation plan for risk appetite, capital, financial expenses, human resources, and IT data that matches the strategy. During the implementation of the specific plan, two resource pools can be built, one is the normal operation resource pool, and the other is the strategic resource pool. Normal resource allocation is mainly used to support daily business operation and management, while strategic resource allocation is mainly used for major strategic directions such as the implementation of major strategies, the development of new business models, and the building of new capabilities.

Improve the professional and refined management capabilities of the middle and back offices. This requires commercial banks to be strategically oriented to enhance the professional management capabilities of the middle and back offices such as risk management, asset liability, pricing management, human resources, information technology, and operation management to strengthen management coordination, and enhance execution in the transformation process. In a certain sense, bank management transformation embodies the key to the transformation process.

Optimize the organizational structure and governance model. The design of the bank's organizational structure and governance model is a complex system project that must be adapted to the strategic direction, development stage and other factors, at the same time it need to do dynamically adjusted according to changes in the internal and external environments. The main method is to implement professional management for investment banking, supply chain finance and other businesses under the premise of regulatory compliance.

3.3 Future development prospects of commercial banks

(1) Online operation

In this financial environment of the information explosion , the increasingly popular technology and innovative technologies have become important factors that promote the reform of the new era of banking[9]. The psychological expectations of customers for banking services continue to increase, far beyond meeting the needs of daily consumption scenarios. Traditional banks cannot adapt to the trend of modern e-banking. Almost all of them are transforming. The most common one is intelligence. The generation of various smart terminals can not only help customers handle business on their own, but also serve the purpose of diverting customers and improving work efficiency.

Therefore, a large number of novel electronic devices have been put into use, such as face recognition self-service card opening machines. The creation of smart electronic devices

allows bank customers to execute transaction projects in a simple and effective manner. At the same time, mobile payment has gradually begun to become the main payment tool in daily life. Banks must make full use of smart phones to interact with customers, and strive to market mobile banking to stimulate emerging consumer forces. With the growth of online development, the trend of fewer and fewer physical outlets in the future will become the mainstream. Therefore, if a commercial bank wants to attract a customer base, it must work hard to provide a personalized and intelligent scene experience and interact well with customers. In general, with the advent of the network economy and the popularization of the Internet, the foundation on which traditional banks depend for survival has undergone irreversible changes. Facing the fierce competition and turbulence in the banking industry caused by the network economy, bankers in the era of the network economy should have a sharper vision and advanced thinking and must completely change management concepts, business methods, organizational structures, and strategic guidance to adapt to e-commerce needs of the Internet, and promote the development of the network economy.

First of all, banks must improve service methods and enrich service varieties, and provide "financial supermarket" services in the business system. Facing the pressure of capital and technology, the banking industry must restructure its business system. It must use the network as the business development platform and the banking business as the core to build a "financial supermarket" in the fields of insurance, securities, funds and other financial services.

Secondly, in terms of operating methods, the banking industry should closely integrate traditional marketing channels with network marketing channels. On the one hand, financial products are becoming increasingly diversified and personalized, and face-to-face interaction between bank sales staff and customers is indispensable, and online banks, which are good at handling standardized businesses in high-efficiency and large quantities, will also become more and more important. Status. On the other hand, the development of marketing methods can not only use new online service methods to maintain original customer resources, but also help improve the starting point of online banking.

Third, in terms of business philosophy, the banking industry must transform from focusing on products to focusing on customers[10]. As customers' personalized needs and expectations for banking products and services become higher and higher, commercial banks are forced to start from customer needs and provide customers with personalized financial products and financial services.

Finally, in terms of strategic orientation, banks must integrate their relationships with other financial institutions and strive to become a financial gateway to the network economy. The network economy has put forward integration and coordination requirements for the financial service industry. Various financial institutions will share resources in the form of establishing financial portals to achieve the goal of improving financial work efficiency. The online financial portal is a combination of the online services of multiple financial institutions, and there is a direct connection with the transaction systems of various financial institutions. Its establishment and operation is a process from conflict to coordination among various financial service institutions, which is of special significance for the transformation of China's financial industry to integration and omnipotence.

(2) Resource integration

The requirements of the new era for diversified business models determine that commercial banks cannot be limited to a single business. In addition to basic savings and loans, they must also fully develop mixed fund operations such as stocks, funds, bonds and other related financial management projects. Generally speaking, if different transparency, different risk levels, multiple investment return methods, and diversification financing models can be effectively adopted by commercial banks, it can greatly improve various business indicators and capital flows in the future. The Internet financial financing platforms that have emerged in recent years have become strong opponents of commercial banks in the lending field due to their high liquidity, stable platform background, precise risk control capabilities and new operating models.

(3) New channel cooperation

As mentioned earlier, with the rapid development and popularization of Internet technology, P2P network lending platforms have rapidly expanded in recent years and become a highly influential new micro-credit model. There are several reasons why it can successfully occupy the lending market:

First, the platform's efficient and accurate risk control model and convenient application procedures have greatly optimized the entire evaluation process.

Second, the high applicability of its risk control model effectively reduces loan approval time, thereby reducing operating costs.

Third, P2P has a good and convenient customer experience, simple and standardized application procedures and better prices, which greatly improves customer loyalty. With the enhancement of P2P platform risk pricing capabilities, its investment, consulting, and management capabilities are gradually improving. In this situation, commercial banks should actively seek cooperation. Use the platform's excellent risk control evaluation system and considerable loan demand to combine the asset advantages of commercial banks to fully find and evaluate the cost of loan customers and risk assessment. With the development of P2P platforms and the continuous learning and improvement of commercial banks, they will experience a phase of integration based on cooperation and reference, and will eventually re-differentiate their business areas based on their respective advantages and target different risk customers. Commercial banks have the advantage of operating scale assets, and the guarantee of capital makes them have a higher risk tolerance. As the learning of related technologies deepens, banks will have stronger management and profitability to deal with high-risk borrowing. In short, multilateral cooperation with P2P

platforms will become an important trend in the future development of commercial banks.

4. CONCLUSION

In the perception of the new generation of consumers, the bank has gradually transformed from the concept of a place to ubiquitous diversified services, an all-round bank that meets the needs of customers at any time and place. Under the influence of digital currency, commercial banks have gradually begun the Bank 3.0 era, and the operation of banks is undergoing a fundamental change. This is a period of transition from products, processes, and physical operations to providing customers with required services in a timely manner to improve customer consumption.The course is place to behavior. Only by grasping the changes in technology and information can we usher in a new era for commercial banks. Therefore, commercial banks should follow the trend of the times actively and effectively, so as to meet greater challenges.

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