

Challenges and Countermeasures for Payment and Settlement Services of Commercial Banks in the Context of Internet Finance

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ABSTRACT

The internet has developed at a surprisingly fast pace over the years, many conventional businesses cannot render the services as currently expected by people, or keep up with the pace at which the internet develops. Given this situation, commercial banks take the initiative to keep pace with internet development and roll on some innovative internet-enabled services. In this paper, a SWOT analysis is performed on payment and settlement of commercial banks in the context of internet finance, then some challenges and causes of commercial banks are revealed, including the challenges in respect of management, technology and third-party payment, and some appropriate measures are suggested as a response to the impact of internet finance on payment and settlement of commercial banks, such as the efforts to build a well-fit regulatory system, provide more guarantees for online information security, and solicit more talents with internet expertise.

Keywords: *Internet; Payment and Settlement; Commercial Banks; Financial Risk*

1. INTRODUCTION

Along with the appearance of internet finance and the ongoing penetration of third-party payment, conventional commercial banks cannot render payment and settlement services currently expected by people. As public needs for user-friendly, fast payment and settlement services at affordable commission charges are prevailing, commercial banks must keep up with the time if they want to survive in the intensified competition. Given the present scenario of internet finance, main challenges from payment and settlement services rendered by commercial banks are investigated, root causes are uncovered and some appropriate countermeasures with long-term vision are recommended

2. SWOT ANALYSIS OF PAYMENT AND SETTLEMENT SERVICES RENDERED BY COMMERCIAL BANKS IN THE CONTEXT OF INTERNET FINANCE

Payment and settlement services are rendered by commercial banks for corporate and individual accounts to make monetary payment and settle funds in the form of bills, remittances, collections, L/C, and credit cards. These services are the core part of bank services and its main source of income is contributed from the commission charges for services rendered to different accounts.

2.1. Strengths

2.1.1. Extensive client resources and strong financial power

In banking sector of China, thanks to the general services rendered previously, most commercial banks have accumulated extensive client resources, and they operate businesses within a radiant sphere and have established numerous branches and points of service, which in turn helps them solicit some client resources under the internet scenario. Capitalizing on the internet-based client resources, commercial banks get an upper hand in developing customers, products, services and channels on the internet, thus delivering an extensive range of client resources for payment and settlement services.

Table 1 Distribution of total assets in the Chinese banking sector by a quarter in 2019 (unit: in RMB 100 million)

	2019 Q1	2019 Q2	2019 Q3	2019 Q4
Banking financial institutions	2758237	2815794	2846673	2900025
Large commercial banks	1124432	1144037	1159661	1167770
Joint-stock commercial banks	480782	497915	501138	517818
Urban commercial banks	352269	359767	360714	372750
Rural financial institutions	361137	364814	370621	372157
Other financial institutions	439618	449260	454539	469530

2.1.2. Sophisticated technology, fully equipped software and hardware amenities

Since China adopted the reform and opening-up policy, conventional commercial banks have made tremendous efforts to seek self-improvement and get mature now, and each division fulfilled their own duties to demonstrate strong financial power. In addition, commercial banks tried to identify and uncover problems, seek improvement and continuous innovation, keep abreast of the time and modern trend. They have access to sophisticated technology, fully equipped software and hardware amenities, and a wealth of resources, and each division fulfills its duties, exploits the strengths vested in the big data age, and operates business at fast speed, affordable cost and in service-oriented manner.

2.2. Weaknesses

All members of commercial banks perform duties, job responsibilities are well-allocated at each level, and the management is concerned about risk control. Work has to be checked, undersigned and consented by several members before approval is granted, which means that the working efficiency is low. Work may be granted approval after a few days or up to a week. Further, many small and medium-sized banks are still using old-fashioned payment method, requesting complicated procedures, and only providing one payment option, implying an inefficient payment process. However, payment and settlement under the scenario of internet finance coincidentally seek a simple, fast and convenient process, which is sharply contrasted with that rendered by conventional commercial

banks. For example, QR code scanning, face scan payment and other popular options are highly convenient and fast.

2.3. Opportunities

In the internet finance ecosystem, there are plenty of opportunities here and there as long as participants are innovation-minded and work hard. The fast-track development of internet finance has mounted some stress on those commercial banks operating with traditional model. Under this circumstance, commercial banks operating with traditional model are stimulated to get out of conventions, but draw references from the internet finance, pursue innovation in business operation, and collaborate with internet finance providers to achieve win-win results. For example, commercial banks may refer to online services available on the internet finance, and put some services with complicated procedures on the internet, which not only expedites the review process and improves working efficiency, but also saves time for clients and delivers a better experience.

2.4. Threats

Conventional banks make transformation in a similar way to internet businesses because both of them strive to be high value-added financial service solution providers. Internet finance follows the path from payment and settlement, loan and money transfers, to insurance and funds, which resembles that of conventional commercial banks. In addition, internet finance participants capitalize on internet advantages, which seriously threaten the survival and growth of commercial banks. Third-party payments represented by Alipay and WeChat are user-friendly and fast, user can make payment by cellphone without cash, free of commission charge, or bind a bank card on APP, or withdraw funds from APP to bank card, small-sum transfers are also free of commission charge, and any sum in excess of the limits incurs a small amount of commission charge. These third-party payment options blow a great hit on the payment and settlement services rendered by conventional commercial banks.

3. PAYMENT AND SETTLEMENT SERVICES OF COMMERCIAL BANKS IN THE CONTEXT OF INTERNET FINANCE

3.1. Absence of well-fit regulatory system

At present, the Chinese internet finance sector develops at a fast rate and the state government has also released some regulatory policies for internet finance setup, but the regulatory administration system lags behind the fast-track development of the internet. In this concern, there is no

well-fit regulatory system as applicable to the main challenges in the payment and settlement management of commercial banks under the scenario of internet finance. For example, the regulatory system applicable to some large-sized, well-established third-party payment platforms is well-considered, but the regulatory system applicable to some small-sized third-party payment platforms is not well-fit. These platforms lure potential clients by high interest, give them sweets to get trust, then solicit more clients, finally run away and disappear after they can more funds. This is a typical trick they use. [1] This suggests that some small-sized internet finance platforms have some loopholes that can be exploited by ill-intended persons. In this regard, the regulated internet environment is an essential factor for commercial banks to render payment and settlement services.

3.2. Deficiencies in network information security

Under the scenario of internet finance, clients are most concerned about payment security which has a direct bearing with client trust and product use. A good payment setup is a prerequisite for delivering a good product experience. The security of payment and settlement setup of commercial banks in the context of internet finance is an essential factor for stable development.[2] In China, some policies intended to maintain the internet security have been released, but our internet finance environment still have some deficiencies in security, resulting in leakage of client information under this situation. Some ill-intended persons seek improper gains by using leaked information, which in turn causes heavy loss to clients. Such events crop up here and there. Therefore, an attempt to maintain the security of client information of commercial banks under the scenario of internet finance is the primary way of earning client trust, as well as an essential factor of the security and development of payment and settlement services of commercial banks under the scenario of internet finance.

3.3. Third-party payment limitation

Influence of third-party payment on commercial banks: first, it results in loss of existing client resources of commercial banks, clients are the essential factor that decides the survival and development of a bank. Commercial banks have operated for years and provided general services to form an extensive range of client groups. Further, third-party payment gradually develops, big data is used to integrate and analyze public needs, and products are updated and renewed to serve public needs. Today, third-party payment is not limited to transfers, payments and other features, but rolls out financial insurance, life payment, medical health, city service and other innovative services to attract more potential clients, while reducing the loss of existing and potential clients; second, reduce the

profits from the payment and settlement services rendered by commercial banks. The income of the payment and settlement services rendered by commercial banks mainly comes from account management fees and transfer charge. However, the extensive use of third-party payment blows a great hit on traditional services of commercial banks, resulting in a lower profit level. Prior to the market penetration of third-party payment, most individual businesses and companies trade by POS, and banks earn commission charges according to the trade volume. The gradual penetration of third-party payment has led to the phase-out of POS transactions, third-party payment options represented by Alipay and WeChat, featuring convenient, fast process at affordable commission charges are preferred.

3.4. Challenge in technology

The payment and settlement rendered by commercial banks under the scenario of internet finance is a new field, in which there is a strict requirement with talents and technology. Current members at commercial banks are more qualified than those in some small and medium-sized banks, but this is far from what we want. Commercial banks have to recruit more talents with internet expertise, if they want to creatively develop new products and services under the scenario of internet finance. Further, existing employees at most commercial banks still have a basic understanding of internet finance, and are not clear about how it operates. In this stage, businesses are in desperate need of talents with expertise in this new field, who can enhance the knowledge of this new field, develop more new products for the benefits of businesses and improve innovation competence.

4. SUGGESTIONS ON IMPROVEMENT OF PAYMENT AND SETTLEMENT SERVICES OF COMMERCIAL BANKS IN THE CONTEXT OF INTERNET FINANCE

4.1. Build a well-fit regulatory system

At present, the deficiencies of the regulatory system applicable to payment and settlement services of commercial banks under the scenario of internet finance are likely to be exploited by some ill-intended persons, which will undermine the goodwill and obstruct the normal operation. In this concern, efforts should be intensified to build a well-fit regulatory system applicable to the internet financial security, allow commercial banks to render payment and settlement services stably, release applicable provisions, and keep up with the pace at which internet finance develops. Additional efforts should be made to focus on the regulatory system applicable to some small-sized third-party payment platforms, and establishing and fit a long-acting regulatory system applicable to internet

finance, to the extent that it can operate effectively over a long period, detect any illegal activities at any time and solve problem immediately.

4.2. Level up the network information security

We often hear about some ill-intended persons hacking user information or defrauding users to steal their money. How to guard against these situations? First, companies who undertake the responsibility of protecting user information should level up the network security and fence against hackers from hacking user information; second, enhance user's awareness of security, educate users about the customary tricks exploited by ill-intended persons to defraud information and money, prevent them against frauds; finally, banks may set up user authentication questions whenever a user wants to transfer money, the money can be transferred successfully only after correct answer is informed. This can prevent ill-intended persons from stealing money on the internet. For some suspicious transfers detected, security officers should promptly freeze the user account, and only unfreeze it after calling user to confirm this is a personal transaction. Otherwise, this account is deemed to be at risk, the specified procedure should apply. For some large transfers, security officers should call the police right away. "Efforts should be made to create a secure and good payment environment, where clients can use and pay at ease." This is the only way to seeking secure and sound development in the current internet age.[3]

4.3. Collaboration with third-party payment platforms

Given the limitations of third-party payment, commercial banks must seek optimization, renew services and products, and take the initiative to collaborate with third-party payment platforms, draw references from them, learn from their special strengths in fast, independent and convenient procedures, and infuse strengths with each other, until a win-win result is attained. This allows commercial banks to be immune to strong impact. As every coin has two sides, third-party payment may threaten the intermediary services rendered by commercial banks, it also brings some opportunities. To some extent, the back-end system of third-party payment is only operated with the support from bank. In view of the influence of third-party payment, conventional banks with prototyped thinking suddenly become aware of the importance of internet, keep up with the pace of internet development, deepen the reform of existing systems and services, and seek innovation and self-improvement. From the principle of complementarity, both sides are advised to make up the weaknesses of the other party by exploiting own strengths, and to collaborate each other for finding a new common presence in the context of internet finance, after they have set out clear positions. For example, commercial banks can capitalize

on client resources, financial strength, security among other strengths, while third-party payment platforms can capitalize on convenience and innovation features. Commercial banks can readily serve some large-sized businesses, while third-party payment platforms can readily serve some small-sized businesses and individuals. Both sides are advised to complement strengths each other, update and renew an integrated platform that suits the needs of all clients, ranging from Fortune 500 companies to individual accounts, with "third-party payment platforms functioning as front-end, and commercial banks functioning as back-end", which can cover the clients all over China under the skirts of commercial banks and third-party payment platforms. [4]Commercial banks may also exploit the internet to collaborate with third parties, including Douyin.com, Kuaishou.com, Weibo.com and other popular internet platforms. Place product ads on these internet platforms to promote innovative products, enlarge the potential clients and turn them to existing clients, until a win-win result is attained.

4.4. Solicit talents with internet expertise

Talents are key members of a company for business growth and expansion, who create better products for the company interests. However, with respect to the new field of payment and settlement services under the internet scenario, commercial banks also have to solicit more talents with internet expertise, who are capable of solving technical issues and creating better products for the company interests. Some lectures on the knowledge of internet finance may be also held to deliver relevant knowledge to traditional employees, answer the questions they ask, and give them a clear idea of how the internet works. Due to limited talent resources, commercial banks may provide higher salary and more benefits, and also provide learning opportunities to keep their knowledge updated and aligned with the pace of technology development, in order to attract and retain them. Banks should also install software devices with advanced features, capitalize their capital and client resources, solicit versatile talents to develop new technologies, improve internet service level, provide additional pages and links for online payment, and seek self-improvement and work hard to hold the world-class technology.

5. CONCLUSION

Under the Internet financial background, Pudong Development Bank's innovative payment and settlement business-"E enterprise pay" implementation effect is worthy of affirmation. Payment and settlement business is the innovative foundation of Commercial Banks in the Internet age. In the context of Internet finance, the development of the payment and settlement business of commercial banks has the advantages of numerous customer resources, complete implementation of software

and hardware, advanced technology, etc., it also has the weakness of thinking mode solidification, business process cumbersome, customer loss and so on. At the same time, in the transformation process of commercial banks, the imperfect supervision system, network information security, third-party payment restrictions are also problems it will encounter. When something goes wrong, there has to be a solution. Banks can improve the supervision system, strengthen network information security, introduce more Internet talents to protect the interests of customers. In the transformation process of SPDB, it actively launched the "e-pay" integrated with the Internet, so that customers can enjoy the convenience brought to them by the Internet age, customers can use the platform without restrictions of space, time and place, automatic investment financial management, online electronic bill inquiry and so on.

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