

Impacts of Internet Finance on Traditional Commercial Banks and Countermeasures

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ABSTRACT

Boosted by information technology and big data technology, Internet finance is gaining momentum across China, drawing throngs of users. Internet finance provides financial services that have low requirements, diverse modes and high efficiency, bringing about large impacts to traditional commercial banks. Against this backdrop, commercial banks should analyze in depth the opportunities and challenges that new financial service modes bring to the traditional banking services to find their positions in amid the fierce competitions, improve their competitive force and move towards innovation.

Keywords: *Internet finance, tradition, commercial bank, impact, countermeasure*

1. INTRODUCTION

With the support of advanced information technology (IT) and communication technology, Internet finance combines Internet with finance and makes new financial services like online investment, payment and cash flow possible, providing new user experience. The fast progress of Internet finance, however, leads to increasing competition in the financial sector and stress on traditional commercial banks that are usually weak in business modules and service capacity. Thus, it is necessary to identify the impacts of Internet finance on traditional commercial banks, find solutions to maintain progress amid the fierce competition.

2. MAJOR SERVICE MODES OF INTERNET FINANCE

With advanced information technology, communication technology and big data technology and traditional financial services, Internet finance has gained fast development, with increasing users, expanding business modules, improved service quality, taking up a large share in the financial market. the major service modes of Internet finance in China are as follows.

2.1. Internet-based traditional financial services

Traditional commercial banks principally serve as an intermediate medium for financial integration to provide relevant services. As Internet finance moves forward,

however, this intermediate role is undermined and the development space of the traditional financial services shrinks. Internet-based traditional financial services are an inevitable result of combination of IT and the Internet, and online banks and mobile banks of traditional banks have already been widely accepted. Currently, Internet-based traditional banking services are manifested in the following three business modes: first, creating an online trading platform for the bank; second, cooperating with other e-commerce platforms or Internet finance organizations. For instance, the “Yirongtong” product that Industrial and Commercial Bank of China (ICBC) and Alibaba released jointly provide loan-lending services for small- and microenterprises, and underwriting services for traditional banks, which have solved the loan-borrowing problems of small businesses. The third mode is to introduce financial derivatives online, i.e., banks can put their offline products online for trading [1]. Internet-based traditional banking services provide more convenience to users, as users can get the services they expect through the online platforms anytime and anywhere as they wish, free from limits on the time and locations, and thus save their time that they need to spend in waiting along the queue in the bank in the past.

2.2. Third-party payment platforms

Third-party payment means to sign contracts with banks regarding the traded products, make guarantees for third-party organizations by dint of the reputation of the

bank, and the third-party organization provides the service [2]. Third-party payment has solved the problem of lack of trust between the buyer and the seller. With a third party as the middle man, the buyer and the seller can make transactions safely, and the third party, as the middle man, needs to safekeep the capital and supervise the transactions, but it does not need to take any financial risks. Third-party payment makes transactions more convenient and safer; and the buyer no longer needs to have an account for different banks before making payments; instead, they just need to have an account for the third-party platform, which reduces the transaction cost and streamlined the process. Alipay is a typical example of third-party payment platforms.

2.3. Big data finance

Big data finance is a new mode that combines big data technology with financial services. Big data finance, through big data technology, extracts user preferences, consumption capacity and consumption habits to predict the users' consumption behaviors in a scientific manner [3]. Widely adopted in banking, insurance and securities industries, big data finance can accurately identify user needs and provide customized services, which overturns the traditional business-oriented financial service mode and realizes user need-oriented targeted services.

2.4. P2P online lending

P2P services are person-to-person lending services. In Internet-based P2P services, the lender and the borrower reach agreements and complete the transactions under the legal regulations. The borrower needs to pay back the principal and the interests before the time stipulated in the agreement, and pay the service fees of the platform; the lender completes the transactions and collects the interests, but meanwhile faces some risks.

2.5. Internet crowdfunding

Internet crowdfunding is a collaborative behavior based on the Internet to collect and use money. Different from P2P, Internet crowdfunding collects funds through a specific crowdfunding platform for certain purposes. The features of Internet crowdfunding include low requirements, diversified forms, strong publicity effect and engagement of the public. Shuidichou is a typical example in this regard.

2.6. Internet financial portals

Internet financial portals gather financial products onto a website portal so that the users can capture specifics of all financial products and make choices accordingly. Through this portal, users can search the financial products or services they need instead of going to the official websites of banks or financial websites, so

that they can quickly find what they need and enjoy improved user experience.

3. IMPACTS OF INTERNET FINANCE ON TRADITIONAL COMMERCIAL BANKS

3.1. Impacts of Internet finance on deposit business of banks

The most salient advantages of Internet finance in terms of deposit business are that it has lower requirements, less procedures, and high interests. Take Yu'eobao released by Alipay as an example. Yu'eobao is a product released jointly by Alipay and Tianhong Fund. On Yu'eobao, the users can withdraw or deposit any time they want, enjoy a high interest rate, and realize online Internet management. As the business modules and services expand, Alipay have launched a bunch of products for financial management, funds and gold transactions. On Alipay, users can fulfill many types of transactions, so Alipay enjoys an increasing user base and a rising market share. As a result, some cash is flowing from traditional commercial banks to Internet finance platforms, resulting in losses of customers and money, and therefore more pressure on the part of commercial banks.

3.2. Impacts of Internet finance on credit business of commercial banks

As online lending platforms increase in these years, online lending has become a popular lending channel, which poses great shocks to the credit business module of traditional commercial banks. Credit business is a major module of commercial banks and plays a crucial part in the revenue of banks. As Internet platforms grow, they are taking a larger market share. In particular, they provide an optimal solution for small and microbusinesses who often find it hard to get loans from banks. Online lending platforms do not have the red tape and complicated procedures that commercial banks often are blamed for, which reduces the difficulty for loan lending and thus provides substantial support for small and microenterprises.

The rise of online lending platforms also has also triggered a range of risks. Since 2008, online lending platforms have been busted one after another. Due to lack of legal supervision and protection, many users of these platforms have suffered economic losses. In view of this, many banks have learnt the lessons from these platforms and provided quick-lending services for small and microenterprises. With credit guarantee from traditional commercial banks, the risks of online lending platforms are removed. As a result, these quick-lending services win favor from the users and are taking up an increasing share in the lending market [4].

3.3. Impacts of Internet finance on the intermediate business of banks

Third-party payment platforms have overturned the traditional payment ways, and with the support of IT and big data technology, online payment becomes fast, safe and convenient, posing a great shock to the intermediate business of traditional commercial banks. On one hand, these platforms have greatly affected the payment products of traditional commercial banks. Third-party payment platforms like Alipay and WeChat have become regular payment methods, which reduces the market share of payment products released by traditional commercial banks. On the other hand, third-party payment platforms are providing a more elaborate set of services. On these platforms, users can make payments for daily consumptions, pay facility bills and recharge their phones. This greatly affects the brokerage businesses that traditional commercial banks provide.

4. DEVELOPMENT STRATEGIES OF COMMERCIAL BANKS UNDER THE IMPACTS OF INTERNET FINANCE

4.1. Collaborating with Internet finance to realize win-win cooperation

There is no denying that Internet finance has brought about tremendous shocks to traditional commercial banks and the financial industry. In the foreseeable future, Internet finance will continue to grow, attract more users and reach sustainable development. To achieve stable development in this context, traditional commercial banks need to make use of the advantages of Internet finance platforms and reach strategic collaboration with these platforms, so that the advantages of both parties can be fully wielded and create new opportunities.

For instance, in 2017, China Construction Bank (CCB) entered into partnership with Alibaba and Ant Finance, through which the customers can buy financial products, apply for or use credit cards of CCB on Alipay [5]. In 2019, as the ETC services was promoted nationwide, CCB again collaborated with Alipay to provide the convenient ETC signing services, which improved user experience. In these successful cases for collaboration between traditional banks and Internet finance platforms, both parties have made the best of their respective advantages and improved their respective market competitive force. In such collaborations, banks can provide guarantees for the products of Internet finance platforms by dint of their advantages in business management, functions and reputation; while Internet finance platforms can solve the problems of offline business provided by banks by dint of their flexible, diversified and convenient services [6]. Traditional

commercial banks should, in the future, deepen their cooperation with Internet finance platforms, release more quality products, improve their service quality, identify user needs more accurately, improve user experience and thereby blaze a new trail for innovation.

4.2. Accelerating innovative upgrading of product structure based on user needs

The rise and dominance of Internet finance in the market are attributable to its user need-oriented philosophy. With Internet finance, the users can solve problems or complete the transaction in a few steps, which is unattainable in the services provided by traditional commercial banks. As Internet finance and relevant products emerge, traditional commercial banks must capture the market dynamics, convert the business-oriented mode to the user need-oriented mode, improve their service quality, accelerate structural upgrading of their products, release more products that meet the users' new needs.

For example, commercial banks, by dint of their features and advantages, develop bank currency funds and realize quick transactions on Internet finance platforms; they can also collaborate with their own insurance companies to develop some low-requirement but diverse insurance products. They can keep up with the times to update their products, meet the new needs of customers, desert the backward management ideas, and combine online and offline forces to develop channels for promotion and sales, and thereby achieve a larger market share [7].

4.3. Improving service quality and optimizing user experience

In essence, traditional commercial banks are intermediate service providers, and their service awareness, ideas and capacity play a decisive role in their development. In the past, due to lack of user need-oriented awareness, the banks' services are often with poor quality and lead to poor user experience. As Internet finance develops, online business and trading are actualized, which is fast and free from limits of time and space, thereby it wins favor from the users, and as a result, more and more users turn from traditional banks to Internet finance platforms. This leaves large impacts on the commercial banks and pushes the banks to upgrade their service philosophy and quality.

In this logic, traditional commercial banks should adopt the user need-oriented service philosophy, desert the backward service ideas, improve their service quality, and optimize their management mode, business mode and service mode. On the one hand, they should provide more convenient services for users, develop online platforms, optimize the business settling procedures, save the time that users used to spend in waiting in the bank halls and

improve user satisfaction [8]. On the other hand, they should make use of big data technology to make accurate analysis of the users' consuming habits, preferences and capacity, obtain user needs, provide customized services, improve user care, organize user care events, push targeted messages to users, thereby realizing refined and customized services and management. In this way, the connections between the bank and the users are strengthened, and the banks will enjoy more competitiveness in the market.

5. CONCLUSIONS

The rise of Internet finance has led to big challenges and opportunities for traditional commercial banks. To gain ground in the market, traditional commercial banks need to identify the pros and cons Internet finance, update their service philosophy, strengthen connection between the traditional services with Internet finance services, expand their business scope, develop more new products, improve their service quality and thereby reach sustainable development.

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