

Research on the Impact of the Development of Third-Party Payment Platforms on Commercial Banks

Ke, Ren^{1,*}

¹Vanke Meisha Academy, Shenzhen, Guangdong Province, China, 518000

*Corresponding author. Email:renke@stu.vma.edu.cn

ABSTRACT

With the rapid development of technological products in the information age, mobile phones, computers, and other mobile devices have become indispensable communication tools in our lives. At the same time, electronic commerce has made consecutive progress and innovation, and electronic payment has mostly replaced traditional cash transactions. Therefore, the status and role of third-party payment platforms in the economic market are becoming more and more important. Nevertheless, flourishing development of third-party payments inevitably brings some influences on commercial banks. Firstly, this article will introduce background information, business model and current development status of both third-party payment platforms and commercial banks. Then, the article will elaborate on the advantages and drawbacks of third-party payments. After that, the article will analyze the impacts to commercial banks from intermediate services, asset businesses and liability business. Finally, the paper will put forward suggestions for the future development of commercial banks in the era of Internet finance based on the actual situation of China, and try to provide some solutions to their future collaboration. This research provide more proofs to identify the influences brought by third-party payments platforms, also encourages traditional commercial banks to find the optimum approach to improve its business volume.

Keywords: *the third party payment platform, traditional banks, Internet finance, influence, corporate strategy*

1. INTRODUCTION

As a way of transaction, the third-party payment platform has become mainstream in the 21st century. In order to further investigate the influence of third-party payment platform's effects on traditional banks in China, the author collects papers from previous research to do an in-depth analysis, and also provides corresponding strategies. The essay will discuss the current development status of advanced payment platforms and traditional banks simultaneously. Then, it compare and contrast these two systems and explain the strengths and drawbacks. Focusing on the impact of third-party payment platforms on traditional commercial banks, the author will discuss it in three parts and provide possible solutions toward present situations.

2. OVERVIEW OF THIRD-PARTY PAYMENT PLATFORMS

Under the high-paced development of the internet industry, the third-party placement platform emerged

and achieved rapid development. It is an independent mediator that has an abundant economic foundation and a well-deserved reputation. It constructs a mobile platform that supports various ways of settlement such as long-distance payment, scan to pay[6]. The most representative is Alipay, Tenpay, and Jingdong Finance. It provides transaction protection between e-commerce websites and banks to ensure successful online transactions.

Third-party payment platforms are usually classified as Hosted mode and independent mode[3]. Besides, the main payment methods are Third-party payment gateway and e-commerce transaction platform gateway. Different payment methods can perfectly meet the needs of different types of transactions. Currently, the payment platforms are not only responsible for simply paying, but also cover multiple services that revolve around finances.

For example, Alipay includes insurance, funds, securities, and credit. Generally, payment platforms can be responsible for daily payment, shopping and

entertainment, and wealth management. Mostly, it presents as an APP. After real-name registration, users can pay by entering codes. It provides customers more

convenient experience since both sellers and buyers don't have to create different accounts for a certain commerce platform.

Table 1. Comparison of characteristics of third-party payments and commercial banking operations (Liao, 2018)

Classification	Comparison of the characteristics			
Third-party payment	Convenient and quick	Low cost and free transfer within a certain amount	Simple and easy operation	Credit assurance; supervise the conduct of both parties' transactions; prevent transaction fraud
Commercial banks	Complex business processes; long queue times; slow service	A fee will be charged for payment transfer	The online banking operation is complicated. You need to download the certificate, install the U-Shield, log in to the online banking interface, and enter the payment password.	Equip with the fund payment function; the quality of the goods cannot be guaranteed; credit problems

In 1998, the first third-party payment in China emerged which is called PayEase and it is already 23 years until now. Now, the third-party payment has already constructed a comprehensive business chain that is able to combine multiple services into one APP. "From 2013-2019, the scale of third-party payment comprehensive payment transactions increased from 17.75 trillion yuan to 248.51 trillion yuan. Besides, as of the end of 2020, China has 853 million mobile payment users, which increased 87.44 million users from March 2020, accounting for 86.5% of mobile Internet users[7]." The flexibility of third-party payment provides society with payment services, promotes market competition, and becomes an indispensable part of human life.

3. OVERVIEW OF TRADITIONAL COMMERCIAL BANKS

Traditional commercial banks are financial institutions with the purpose of making profits, raising funds from a variety of financial liabilities, and operating a variety of financial assets, with a credit creation function. It is a saving institution rather than an investment institution, which is responsible for deposits, loans, exchange, savings, and other businesses to undertake credit intermediaries. The business objects of commercial banks are not ordinary commodities, but currency and capital. It does not directly engage in the manufacture and circulation of commodities, but for the production of commodities and provides financial services[4].

There are mainly two types of operating models in a commercial bank. The first one is financing short-term commercial funds, which are characterized by short loan periods and high liquidity. Consumers can borrow deposits at a lower interest rate, and release loans at a higher interest rate. Commercial banks can earn profits from the differences between deposits and loans. The

other one is integrated. Commercial banks not only finance short-term commercial funds but also finance long-term fixed capital, that is, engage in the investment banking business. Between these two models, the first one is safer. In addition, there are mainly four functions in a commercial bank. The first one is regulating the economy. It means that commercial banks adjust the shortage of funds in various sectors of society through their credit intermediary activities, and at the same time realize adjustments in economic structure, consumption ratio investment, and industrial structure under the guidance of the central bank's monetary policy. The second one is credit creation, which enables it to absorb deposits and then issue loans. Third, credit and payment intermediary, which is the most fundamental function of a commercial bank. The essence of this credit intermediary is to concentrate all kinds of idle currencies in the society into the bank through the bank's debt business and then invest it in various sectors of the economy through the asset business. The payment intermediary is through the transfer of deposits on the account, payment on behalf of customers, cash payment for customers, etc. Last but not least is financial service. Through the development of financial service, promotes the expansion of asset-liability business, and combines asset-liability business with financial services to broaden business areas.

Commercial banks are essential for China's economic development since they are crucial mediators in the financial industry. Since entering the 21st century, the expansion and development of the Chinese banking industry have been remarkable. However, there are still some problems in operation-- Third-party payment platforms have brought huge challenges to the banking industry. With the development of the capital market, the dual innovation of products and services has become a necessary means to breakthrough. Achieving sustainable growth and strategic transformation has

become an inevitable choice for the banking industry to reach a higher stage.

4. ADVANTAGES OF THIRD-PARTY PAYMENT PLATFORM

4.1. High income and strong liquidity of funds

Third-party payment platforms are superior in demanding deposits and obtain high returns. For example, Yu'eobao's seven-day annualized rate of return is 4.1420%, while the five-year fixed deposit rate of commercial banks is only 5.1%[6]. Also, the convenience of third-party platforms is another strength since customers can complete the transfer of funds in and out on the mobile phone according to their needs at any time, which can save the customer's manpower and material resources.

4.2. Acting as a medium of exchange

The transaction process of the third-party platform is that after the buyer purchases the goods online, the buyer can choose a third party to pay. Before the transaction is completed, customers' money is still stored in the third-party platform, which can effectively

prevent credit and operational risks during the fund transfer.

4.3. Low transaction costs

Compared with traditional commercial banking, the transaction cost of third-party payment is relatively low. For example, a cross-bank transfer of less than 20,000 yuan in Alipay does not require transaction fees[6]. However, there are different service charges based on different operations in commercial banks. At the same time, the third-party payment platform can help save users' various costs, such as time costs and direct transaction costs, because customers do not need to go to the card-holding bank to finish the transfer.

4.4. Wide business coverage

The third-party payment platform has now become a platform covering multiple financial fields, not just a payment medium that provides intermediary services. It not only focuses on online shopping transactions but also insurance, funding, insurance, credit and loan, etcetera. Currently, third-party payment has already been involved in our daily needs with users in different age stages.

Table 2 Users' knowledge toward current laws Unit: person

Knowledge Degree	Number of People
Knowledgable	12
General understanding	84
Don't understand	257

Data Sources: Collected from survey

5. WEAKNESSES OF THIRD-PARTY PAYMENT

5.1. Potential risks of users' accounts

With the rapid changes in network technology, once the security level of the payment platform does not reach the corresponding level, risks such as information leakage and financial theft are prone to occur. During the payment process of the user, the verification information needs to be transmitted and verified. Therefore, there is a risk of interception by a Trojan horse virus, and the password may be stolen, resulting in financial losses. During the payment process, some consumers are used by fraudsters because they are not familiar with the payment process. As stated by Federal Deposit Insurance Corporation (FDIC), "deposit relationships with payment processors can expose financial institutions to risks not present in typical commercial customer relationships, including greater strategic, credit, compliance, transaction, legal, and reputation risk[2]."

5.2. Insufficient legal norms

In response to the rapid development of third-party payment, China has promulgated the Electronic Signature Law of the People's Republic of China(2004), Administrative Measures for Payment and Settlement Organizations(2005), E-Commerce Model Specifications(2008), Administrative Measures for Institutional Online Payment Services (2015) and the Measures for Reporting and Rewarding Violations of Payment and Settlement Activities (2016), many rules have played a certain role, but have not completely resolved all security issues[4]. At the same time, users' awareness of relevant laws and regulations is low, which makes users cannot clarify the interests and obligations of the parties to the transaction.

5.3. Viciously competitive market

At present, serious homogeneity of competition is a significant problem of third-party payment. Before 2011, third-party payment platforms were only a few giants,

but as the central bank began to issue licenses, a number of companies have grown to more than 300[4]. The potential profitability allows many competitors to enter the market, but the competitiveness of some small companies is relatively weak. In order to occupy a favorable market share and improve their own profitability, some companies use vicious competition—deliberately lower commissions—which damages the reputation of third-party payment platforms and leads to the loss of passenger flow.

6. THE IMPACT OF THIRD-PARTY PAYMENT PLATFORMS ON TRADITIONAL COMMERCIAL BANKS

6.1. The impact on liability business

By raising funds needed for daily banking operations through external liability, which are mainly composed of self-owned capital, deposits and borrowings, commercial banks are able to build up their liability business. This section is significant to a commercial bank since “the size of the funds held by commercial banks, affecting their lending, financial management and other services[3].”

The most significant impact of third-party payments is that it diverts current deposits from commercial banks, putting fixed deposits and wealth management funds in jeopardy. Commercial banks' main function is to meet the demands of some large enterprises' savings and wealth management, whereas third-party payment institutions use this part of "grassroots" user resources to provide better, more flexible, and profitable savings and wealth management products, greatly improving their ability to absorb deposits[3]. The money that consumers originally deposited in banks is transferred to third-party payment platforms, which not only provide better interest rates but also allow for more flexible transfer in and out, as well as a cheaper handling charge.

6.2. The impact on asset operation

Commercial banks' asset business mainly includes loans, discounting, securities investment, and financial leasing, which are the activities that banks use to release the funds they absorb and to earn income. The third-party payment platform has a diversion effect on the loan business of commercial banks. Due to the leakage effect, deposits of commercial banks are inevitably diverted by third-party payment institutions. Although there are relevant regulations (Customer Provisions Deposit Management Measures of Payment Institutions (2013)) clarified that third-party payment institutions must deposit the full amount of the customer provision in the special deposit account for provision and shall not embezzle, occupy or borrow without authorization, there are still people who choose to deposit part of their funds in financial products such as

Yu'eobao and Alipay[4]. For loans, many third-party payments focus on providing online loan financing platforms for SMEs (Small and Medium Enterprise) and individuals since there are complicated approval procedures when loaning in banks. There are data illustrates that in 2010, the scale of online loans paid by third parties reached 14 billion yuan, which has great growth potential. Banks cannot meet SMEs' short, fast, and frequent financing needs and third-party payment usually can be a great choice[1].

6.3. The impact on intermediate business

A major source of bank profits is intermediate business, such as settlement, guarantees, transactions, and consulting. However, with the continuous narrowing of commercial banks' interest spreads of deposit and loan, also the continuous expansion of third-party payment platform business areas, bank payment and settlement market shares have been largely seized, and even marginalized[5]. The third-party payment platform has formed a relatively independent account system with similar functions to banks. It can provide customers with various fund settlement products such as large down payment, automatic multi-level transaction splitting and one-to-many batch payment. The ability to provide the same or similar services from the bank at a lower price enables third-party payments to form a crowding effect on the bank's settlement and other intermediate businesses. In addition, the third-party payment platform develops services such as medical insurance payment by laying out POS networks and agency charging systems, creating new competition for banks[1]. Besides that, after users register a payment account, they can easily perform fund management, credit card repayment, online funds, insurance and other services similar to bank functions. Therefore, third-party payment becomes a great replacement for traditional commercial banks.

7. SUGGESTIONS FOR THE DEVELOPMENT OF COMMERCIAL BANKS UNDER THE PROSPERITY OF THE THIRD-PARTY PAYMENT PLATFORM

7.1. Expand the scope of Intermediate Business

In a rapidly developing society, people pay more attention to timeliness. Accordingly, commercial banks should promptly develop financial products on the Internet and continuously enhance Internet banking and electronic money systems. At the same time, banks can directly intervene in the electronic payment chain to broaden the channels with customers. In addition, commercial banks can establish a comprehensive mobile financial platform and expand cooperation with third parties such as funds, securities, and merchants. Thus,

the functions of the mobile client platform are not limited to banking, but an integrated e-commerce application platform integrating finance, stock trading, and shopping, and expanding the value of commercial banks.

7.2. Innovate new products

In order to cope with the impact of Internet finance, commercial banks should research the characteristics, operation mode, capital operation, risk control, and marketing ideas of Internet financial wealth management and develop related products. Besides, commercial banks should launch competitive wealth management products based on their own characteristics. With the help of the Internet and advanced technical means, banks can combine the characteristics of the service object and fully consider the customer's asset status, risk tolerance, liquidity arrangement, life cycle characteristics, etc, to develop online and offline personalized financial products.

7.3. Strengthen Cooperation with Third-party payments

(1) Commercial banks and third-party payment platforms can cooperate in the provision of funds business. For commercial banks, they can manage customer reserves and invest in other projects, thereby increasing their intermediate income and improving the credibility of third-party payment platforms.

(2) The cooperation between commercial banks and third-party payment platforms can jointly establish a customer credit system. Since commercial banks were established earlier than third-party payment platforms, they have abundant funds and a completed risk supervision system. At the same time, third-party payment institutions have a strong ability to absorb deposits and a large amount of customer information[3]. The cooperation between the two parties can reduce the cost of information collection, and easily grasp the information of loan customers, and also increase the transaction rate of loan business. Furthermore, third-party payment platforms can obtain a large number of funds to carry out other businesses and achieve diversified services development.

7.4. Enhance commercial banks 'own security

Since third-party payment institutions conduct payment transactions through online platforms, criminals are prone to take advantage of network loopholes to launder money, illegally cash out, and illegally raise funds. Therefore, commercial banks should strengthen risk awareness and maintain a balance between safety, profitability, and liquidity. Security assurance can bring a good reputation among customers, so commercial banks can expand their competitive

advantage. Security can be achieved in two aspects. The first one is to strengthen security and confidentiality protection in customer information. Personal information leakage and theft of customers are always concerned by users. Therefore, commercial banks must solve this problem first. Also, while cooperating with third party payments or other businesses, commercial banks should provide secure network pathways to prevent third-party payment institutions and other websites from breaching the border. Secondly, in order to protect the safety of trading money, commercial banks should improve internal system management. Third-party payment has the potential to capital accumulation, lack of effective liquidity management, which facilitates the illegal transfer of funds[3]. For this reason, whether it's for lending, daily cash transactions, or the purchase of bank goods, commercial banks should analyze customers' technological risk tolerance capacity, authenticate and identify client identities, and monitor their account funds activities in real-time. Last but not least, commercial banks should promote fraud prevention information through all kinds of means, including teller introductions, SMS, official Weibo, and WeChat alerts.

8. CONCLUSION

This paper aims to analyze the impact brought by third-party payment platforms and give some suggestions accordingly. This article uses literature reading and data collection methods to collect resources for analysis. After reading different lectures and analyzing data, we can get the following conclusions: 1)third-party payments divert current deposits and loan business from commercial banks 2)bank's payment and settlement market shares have been marginalized. In order to resolve these problems, commercial banks can try to cooperate with third-party payment to achieve mutual benefit. Besides, commercial banks should the scope they covered in business and so innovate new products for this market. At the same time, commercial banks should ensure their security for users to earn a good reputation.

REFERENCES

- [1] Bei, W. (2011). The Impact of Third-Party Payment Platform on Commercial Bank's Management, 40–44. <https://www.ixueshu.com/document/2a4988f76dae95af318947a18e7f9386.html>.
- [2] Benardo, M. B., Weatherby, K. M., & Wirtz, R. J. (2011). Managing Risks in Third-Party Payment Processor Relationships. *Supervisory Insight*, 3-12. <https://www.fdic.gov/news/financial-institution-letters/2008/fi08127a.html>.

- [3] Liao, J. (2018). Research on the influence of Third-Party Payments on the Business Operations of Commercial Banks. *Advances in Social Science, Education and Humanities Research* (Vol. 236, pp. 166–174).
<https://www.atlantis-press.com/article/25900514.pdf>.
- [4] Yuan, Y., & Wang, M. (2017). Analysis of the status and development of the third-party payment business — — Taking Alipay as an example. *Modern Business*, 24–27.
<http://www.tzsti.com:85/Qikan/Article/Detail?id=673248913>.
- [5] Zhang, M. (2017). Analysis and countermeasures of the influence of third-party payment platform on the online banking business of commercial banks. *Network Finance*, 31–34.
<https://www.ixueshu.com/document/99b122264be0bcee1534f0a072798532318947a18e7f9386.html>.
- [6] Qiong, Z. (2019, August 6). The development of China's third-party payment and its influence on the banking industry.
https://www.fx361.cc/page/2019/0806/5382166.shtml?__cf_chl_managed_tk__=pmd_b862920627267d34be50e8d23c0bccbc0d0b745a-1628642773-0-gqNtZGzNAs2jcnBszQiO.
- [7] Market scale, competition pattern and development trend of China's third-party payment industry in 2021. *eastmoney.com*. (2021, June 16).
<http://finance.eastmoney.com/a/202106161962992823.html>.