

The Impact of Internet Finance on Traditional Finance and the Analysis and Outlook of the Development Background

Anqi Cheng^{1,* ,†}, Jiale Shen^{2,†}, Xinlei Wu^{3,†}

¹School of Foreign Language, Beijing Institution of Technology, 100000, China

²Yew Chung International School of Shanghai, Shanghai, 200127, China

³Chemical Engineering and Technology, Eastern China University of Technology, Nanchang, 330013, China

*Corresponding author. Email: 201820100107@mail.ecust.edu.cn

† These authors contributed equally

ABSTRACT

With the rapid development of digital technology, Internet finance has gradually become the mainstream trend in the development of the financial industry. This paper aims to analyze the influence of Internet finance on different aspects of the traditional financial industry in the current society. PEST analysis is adopted to look at Internet finance from different perspectives including Policy, Economy, Social, and Technology. Four of the factors constitute the main reasons for the birth and rapid development of Internet finance. Furthermore, the study also identified the cooperation between Internet Finance and traditional commercial bank by analyzing the acquisition of customers based on Internet Finance and the use of big data. Internet finance has entered an era of diversification, which is also the main trend of the financial industry in the future driven by the background of the times.

Keywords: Internet finance, fintech, big data

1. INTRODUCTION

In the 21st century, the development of Internet technology has subverted many traditional business models. The ensuing e-commerce has changed the direction of market development and people's daily life. As an industry that relies on numbers and data, finance has ushered in great reforms with the advancement of technology. Internet finance breaks through the constraints of time and geography, making financial services closer to everyone, and the coverage of customers has also become wider. Not only that, payment, lending, and wealth management in modern society are all part of Internet financial products. The shadow of Internet finance, which is ubiquitous in life, has also become the reason for the birth of this paper.

Zhang studied the impact of the rapid development of Internet finance in China on China's traditional financial industry. Zhang first analyzed the characteristics of Internet finance and the problems existing in the traditional banking industry. Then Zhang summarized the impact of the Internet financial model on traditional commercial banks, including accelerating changes in

traditional banking practices, promoting interest rate marketization, and broadening customer channels. Finally, Zhang proposed the development strategies of commercial banks in the context of Internet finance [1]. Zhu used the profit data of several commercial banks to illustrate the impact of Internet finance on the consumer credit business of traditional commercial banking. Then Zhu proposed that traditional commercial banks have the advantages of a wide customer base and lower credit risk compared to Internet financial credit. Finally, Zhu explored the development direction of the credit business of traditional commercial banks in the context of Internet finance [2]. Chen introduced the status quo of the booming Internet finance, taking the balance treasure launched by Alipay and Tianhong fund as an example. Then Chen discussed the difference between Internet Finance and traditional finance and its challenges to traditional commercial banking. Finally, Chen put forward the development ideas of traditional commercial banks under the wave of computer technology and Internet finance [3].

Qiu reviewed the development history of Internet finance and analyzed the impact on traditional banking.

Based on summarizing the concept, features, and functions of internet finance, it describes the impact of the development of internet finance on traditional commercial banks in terms of strategy, customer channels, financing, pricing, and financial disintermediation. Qiu also pointed out that the development of internet finance will not shake the traditional business model and profitability of commercial banks in the short term, but in the long run, commercial banks should make full use of internet finance to achieve new development. At the same time, the continued healthy development of the Internet finance industry depends on the self-discipline and active innovation of Internet finance companies [4]. Wang researched the evolution of the supply chain finance model in the “Internet+” era. It firstly defined the concept of supply chain finance and introduces different types of participants in the evolution of the supply chain finance model, risk control, and other aspects of the development of the existing supply chain financial model. Combing the various subjects and the development of the internet’s evolution path supply chain finance, their views and suggestions on the future development of supply chain finance on this basis are put forward. Wang pointed out that in the era of “internet+”, the development of e-commerce and networking technology promotes the evolution of supply chain finance. Supply partners can reap the end-to-end benefits available through effective SCF solutions [5]. Zhang and Sun discussed the ways of financing under the traditional financing mode and the reasons why it is hard to get financing. introduces three representative financing modes, analyzes their characteristics and operating modes, and summarized the effect of Internet finance on SME financing, so that the problem of high financing cost and financing difficulties for SMEs can get the correct understanding. It also analysis the financing channels of SMEs on the Internet platform and analyzes their impact on the financing of SMEs, and then gives some policy recommendations, such as improving the laws and regulations of Internet Banking, increasing government support, changing its financing structure [6].

Guo analyzes the development status and trend of Internet finance. By comparing with traditional finance, the author puts forward three salient features of the development of The Internet in China. At the same time, the research puts forward three effective countermeasures for the development of the Internet economy [7].

Li and Zhao explain that Internet finance promotes the development of the macroeconomy through examples of network credit, network financing, and capital allocation. But at the same time, because of its lack of regulation, financial stability can be adversely affected. Given this phenomenon, the research gives reasonable suggestions [8].

Zhang explains the connotation of Internet finance and different Internet financing modes and the impact of Internet finance on the financial services of small and micro enterprises from both positive and negative aspects. The research puts forward the view that Internet finance cannot replace traditional banks [9].

2. POLITICS

Internet finance is a new type of finance in China, which can cause many risks due to the lack of formal laws and regulations, so how do we mitigate those risks at the policy level?

2.1 Improving the Relevant Laws

Perfecting the existing laws and regulations, At present, the existing laws and regulations are not strong enough to punish internet crimes, so government should increase the intensity of punishment for Internet crime. At the same time, the Internet fair trade rules should be made. Because of the Internet financial and related logistics, big data, mobile communications, and other industries do overall consideration. In development planning, tax incentives, access to facilities, system construction, personnel training, management, and other aspects of the industry, specific and strong policy-oriented measures should be introduced as soon as possible.

2.1.1 Promoting the Cooperation of Internet Financial Regulatory

To carry on comprehensive Internet financial risk supervision, a timely coordination pattern is differentiated and mixed into two kinds of supervision. Combining the credit system, structured data collected by traditional financial institutions, and structured, semi-structured, and unstructured data collected by Internet financial enterprises, sing big data technology to establish the Internet financial companies pay to use the public Internet credit system.

2.2 Economy

As the world's second-largest economy, China's economy has maintained a steady and upward development trend. The stable development of the macroeconomy has provided the Internet with the most basic conditions for financial innovation and the development of Internet finance.

2.2.1 China's national income and consumption demand of Chinese people has increased.

In recent years, China's economy has entered a new normal, and the growth rate of investment and exports has fallen. China's economy is undergoing a period of

economic transformation that is driven by investment and exports to driven by consumption. According to data from the National Bureau of Statistics of China, China's consumption rate averaged 53.4% from 2011 to 2019. Despite the impact of the new crown pneumonia epidemic in 2020, the proportion of final consumption expenditure in GDP will still reach 54.3%. As of the end of 2020, the per capita disposable income of Chinese residents reached RMB 32,189, an increase of 4.7% compared to the previous year.

2.2.2 The process of interest rate marketization continues to accelerate.

Since the reform and opening, China has steadily promoted the marketization of interest rates, established and improved an interest rate formation mechanism determined by market supply and demand, and the central bank has guided market interest rates through the use of monetary policy tools. The marketization of deposit and loan interest rates signifies that interest rates can be determined by the market's actual needs, enhancing the role of the market in economic development. Driven by the marketization of interest rates, microfinance in China's Internet finance can review loan interest rates based on market interest rates.

2.2.3 The importance of electronic money in the monetary system has increased

With the development of information technology, the replacement of traditional currencies by electronic money has become the mainstream trend in the world. The increasing popularity of electronic money also provides important support for the rapid development of China's financial Internet finance.

2.3 Social

2.3.1 Changes in residents' lifestyles and habits

Changes in residents' consumption concepts. Due to the improvement of residents' living conditions and the continuous upgrading of residents' consumption levels, offline shopping has been unable to meet consumers' offline needs. The emergence and development of online consumption have promoted the development of Internet finance.

At the same time, e-commerce live broadcasting emerged as The Times required, and a large number of young consumers have formed the consumption habit of shopping in the live broadcasting room. According to data from Taobao, the number of users of Li Jiaqi's webcast on October 20 exceeded 200 million, and the cumulative transaction volume exceeded 10 billion yuan. The continuous development of e-commerce has also promoted the progress of Internet finance.

2.3.2 Internet finance is highly recognized by the public

With the further expansion of the Internet coverage of the population, the scale of the Internet financial market and the number of users have increased significantly. As of June 2019, the number of Internet financial users in China had reached 170 million, accounting for 19.9 percent of the total number of Internet users. The number of online payment users reached 633 million, accounting for 74.1 percent of all Internet users. This shows that third-party payment and Internet financial products have been recognized by the public in terms of social recognition.

2.3.3 The pandemic has affected people's consumption and investment

The epidemic promoted the formation and further strengthening of users' willingness and habit of online application. After the epidemic, Internet financial users rebounded and recovered their growth. According to CNNIC data, by December 2020, the number of Internet financial management users had reached 170 million, recovering or even exceeding the number of users before the epidemic. The epidemic has also accelerated the upgrading of financial institutions and the enrichment of online services. After the epidemic, people's demand and willingness for online financial management will further increase.

2.4 Technology

How has the development of technology in recent years established the emergence of Internet finance? This system, called the electronic payment system, is fundamental to Internet finance. The evolution of electronic payments can be traced back to 1918 when the Federal Reserve Bank first transferred money by telegraph. The technologies involved in the different phases can be grouped into four main stages. The first stage is the internal use of computers for transactions between different banks. The second stage is the settlement of funds between the bank's computers and those of other institutions. Settlement can involve payroll payments from other companies. The third stage is based on Internet terminals, which begin to demonstrate the main models of Internet finance. Finally, electronic payments enter a new level, which allows direct transfers and settlements via the Internet, which establishes the structure of Internet finance and e-commerce.

3. THE IMPACT OF THE INTERNET ON TRADITIONAL FINANCE

3.1 The way of acquiring customers of Internet finance and its influence on traditional bank deposits and loan

3.1.1 The impact of Internet finance on deposit and loan business of commercial banks

Under the impact of Internet finance, the ability of commercial banks to absorb deposits decreases and their loan costs rise. The main source of financing for commercial bank loan is people's deposits. China's bank deposit rates have always been low. Currently, the one-year term rate is about 3.25 percent. However, ordinary people have demands for deposit and loan investment, high-interest rates, and asset preservation, so the low-interest rate of banks is not enough to attract the masses. Internet finance captures this point and provides small and micro users with various small and personalized financial plans. With the advantages of higher yield than bank deposits, convenient purchase and redemption, and no threshold for investment, most people with limited assets choose the investment funds launched by these Internet financial platforms. As a result, commercial banks lose many scattered deposits, resulting in a decline in the ability to absorb and deposit. However, the credit business of banks is continuing. A large number of deposits are transferred to Internet financial platforms, forcing banks to carry out capital turnover through the money fund market in large quantities, resulting in the rise of credit capital cost. The small and microcredit business of commercial banks will be impacted.

We take the credit service launched by Alibaba as an example, which gives unsecured credit loan of different amounts based on the actual operation of Alibaba sellers' stores. The advantages of this business are as follows: the loan application process is simple and easy to operate, no collateral is required, the repayment procedure is simple, and the loan interest rate is between 10% and 18%, far lower than private lending. It can be seen that The amount of Alibaba's registered store loan are not large, which belongs to small and microcredit. The launch of this business will directly affect the process and operation mode of small and microloan of commercial banks and form a competitive situation with commercial banks in the small and microcredit market.

3.1.2 Thinking about acquiring customers based on Internet finance

Internet finance has continuously introduced humanized, convenient, and efficient financial service schemes. Different from the 20% of customers in the "80/20 rule" of bank financial services, Internet finance still strive for 80% of small and micro users.

Internet finance adopts a data-driven customer acquisition mode and accurately locates customers and corresponding services according to big data. Pay attention to user welfare, meet user needs, through personalized activities to convert registered users into active users. Marketing is cheap and efficient.

3.2 Influence of big data

The development of Internet Finance is inseparable from the impact of big data. While big data provides diversified support for economic development, it also brings traditional financial companies into a revolution. Big data can meet the demand of consumers and improve their experience. Big data, cloud computing, and other technologies can analyze customer needs well, enabling the company to make countermeasures in the shortest time.

The traditional commercial banks must follow the trend of big data. Otherwise, new players who entered the financial services industry and exploited the technological gap of traditional firms, such as banks, would fully take over the control of the finance industry [11]. Even though we are now knowing that financial institutions can access big data to make business decisions, the time that they started to consider and develop this technique was still quite late and limited. Unlike Google or Apple, companies that can easily access and gain huge amounts of data, traditional commercial banks have been gathering data only from their banking relationship with clients [11]. The amount of data that commercial banks own is narrow, and more cooperation is needed between commercial banks and Big data companies (BDCs).

3.3 The cooperation between internet finance and the traditional finance industry

Internet finance mainly serves small and dispersed customers whose costs are too high for the traditional financial industry, these kinds of customers are not within the scope of traditional finance industry. However, Internet finance fills this gap of the customers.

Internet finance is more of an intermediary business model of third-party payment platforms, which is the expansion and extension of traditional financial settlement links. Meanwhile, people can use the big data and technological advantages of Internet finance to help traditional finance comprehensively establish a customer credit investigation system. Internet finance can also accelerate the development of China's interest rate liberalization reform. The following are suggestions for the cooperation between traditional finance and Internet finance.

3.3.1 Technology combination

The traditional financial industry can use the technology and big data resources of the Internet financial industry to establish and identify a complete credit investigation system, which reduces the operating cost of the traditional financial industry. At the same time, the use of the Internet and big data technology can also improve customer experience, improve service efficiency.

3.3.2 Broadening the business

Chinese traditional firms should actively learn from the advertising and marketing capabilities of Internet companies, expand storage activities, such as Ant Forest, etc, and attract customers' attention to new savings and financial services through activity games. At the same time, commercial banks should change the relatively single profit model, and gradually promote insurance, fund, and other businesses.

3.3.3 Building reputation

Due to the lack of historical reputation of Internet finance, customers always have doubts about its trust. Traditional finance, with its strict supervision, reserve system, Deposit Insurance Regulations, and other methods, has sufficient guarantee for customer funds. The cooperation between the two will give customers a strong sense of trust

4. SOLUTION

4.1 The relationship between Internet finance and fintech

Although intermediation has been removed from the financial platform built by Internet finance, the essence of its lending cannot be changed. The extent to which financial risk has been enlarged has undoubtedly led to new thinking. Fintech development is different from Internet finance. The core of its development is to improve the efficiency, experience, and scale of financial services, reduce costs scientifically and reasonably, and strictly manage and control risks. In the era of fintech, financial services will comprehensively manage big data and solve asymmetric problems from the source of information. In Internet technology and communication technology is increasingly mature, under the condition of the comprehensive management on the large data, fundamentally widening the channels of financial services, the maturing of the cloud computing gives to each according to his need of resources possible, financial services in the cloud is widely applied to the financial services business, financial business. For the application of artificial intelligence technology, the financial industry has achieved remarkable results, intelligent identification systems, intelligent customer

service, financial supervision, risk evaluation, and other aspects, have achieved good results. Artificial intelligence technology is incomparable to the traditional manual operation era, eliminating the labor cost, the error rate in manual operation is greatly reduced, and the work efficiency is greatly improved. In the financial service business, the application of blockchain technology has realized the decentralized data management mode, and fully realized the characteristics of openness, freedom, and data immutable. Internet finance mainly serves small and dispersed customers whose costs are too high for the traditional financial industry, these kinds of customers are not within the scope of traditional finance industry. However, Internet finance fills this gap of the customers.

There is no doubt that the development of both Internet finance and fintech comes from Internet technology, but the difference between the two is that the former focuses on the transformation of financial operation mode and the transformation of customers' consumption habits, while the latter, starting from financial services, focuses on creating and improving financial products and services by using advanced scientific and technological means. It is a new industrial revolution guided by the mobile Internet. Fintech is a development process that constantly breaks and reconstructs the boundaries and research paradigms of financial disciplines. Fintech is profoundly changing the form of the financial industry, actively making a comprehensive layout in the traditional financial industry, and gradually becoming the commanding height of future financial development. It is an important milestone for the development of the entire financial industry.

To a certain extent, fintech is the extension and reinvention of Internet finance, which is the beginning of financial services. Development must be improved by technological innovation and creation, and fintech is the symbol of technological innovation. In the development of Internet finance at the present stage, the probability of occurrence of risks is getting higher and higher, and the disadvantages of Internet finance appear frequently. Due to the advantages and disadvantages coexist nature of the Internet itself, the customer in the network transaction security is worrying, information disclosure, appear easily and also an extremely high risk of online payment, such as the network platform of borrowing (that is, the P2P network credit), the network financial fraud often happens. This is not only the important factors hindering the development of the Internet financial, but also the source of intensified contradictions. In the development of fintech, finance and technology are integrated. The advanced technological means are used to create and innovate financial businesses from multiple perspectives. For example, high-tech technologies such as face recognition and fingerprint recognition are integrated into third-party payment, which is an important embodiment of the greater value created by fintech. With the application of cloud computing, big data, artificial

intelligence, and blockchain in the financial industry, innovative technical solutions are applied to the financial industry, and the development of fintech is bound to bring new vitality to the financial services industry.

4.2 Main measures for the common development of Internet finance and fintech

With the rapid development of Internet finance, the number of financial customers is constantly increasing, and the range of financial services is also constantly increasing expansion, in the form of such rapid development, the combination of Internet finance and fintech, the coordinated development of the two, is bound to promote the further development of the financial industry. Given this situation, the following two aspects will be discussed on the coordinated progress of Internet finance and fintech.

First, in the context of Internet finance, online lending platforms are developing rapidly. With the convenience of social networks, lending platforms are facing more development. However, both borrowers and lending platforms need to bear financial risks and losses. Information asymmetry between lenders and borrowers has also become a major source of increased risk. From the perspective of fintech, at present, the use of big data to do well in information collection, management, and analysis can realize visualization, and then provide warning signals for all participants in the Internet lending market.

Second, in the context of the Internet financial environment, by creating a more flexible investment platform, it has become a popular investment model among Chinese investors. In particular, people's attention to the crowdfunding platform, become a focus. The development process is not as smooth as expected. In crowdfunding, due to the asymmetric information between the two sides, it is inevitable to face certain risks, especially the trade financing channels that have more financing difficulties. In the current financial background of science and technology, the use of blockchain technology can effectively achieve the international factoring, domestic credit, and other information between transfer. And it can also realize the electronic process, effectively making up for the loss of information asymmetry in the situation and avoiding risk.

5. CONCLUSION

At present, traditional financial is facing Internet financial shocks, compared with the traditional commercial banks, Internet finance has advantages in terms of custom receive, decrease cost, business flexibility, it also has disadvantages such as the relevant laws and regulations imperfection, higher risk, etc. The traditional financial industry should assess the situation, cooperate with Internet banking and fintech actively,

develop and improve the construction of big data to improve the efficiency, experience, and scale of financial services, and reduce costs scientifically and reasonably. However, it is also necessary to pay attention to compliance risks in the development of big data and create and innovate financial businesses from multiple angles through advanced technical means in fintech to avoid customer property losses caused by data leakage. At the same time, the government should improve relevant laws and regulations to protect the rights and interests of customers.

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