

## Analysis on Bank Performance Based on Channel Transition

Ya-Mei Guan\*

Nanjing University of Finance and Economics, Nanjing  
City, 210023 China  
Email:guanyamei@sina.com

Wen-Qin Sun

Nanjing University of Finance and Economics, Nanjing  
City, 210023 China

**Abstract-**Development of third-party payment has had some substitution effect on the intermediate business of commercial bank, meanwhile development of the network financing platform has reduced the loan demand of small and micro businesses from commercial bank to some extent, and hindered the business expansion of commercial banks in the field of small and micro credit. So there is no doubt to explore a new way to analysis the financial performance based on channel transition as soon as possible to make sure that the banks could catch up the fast development of micro business.

**Keywords-** Network financing, Channel transition, Performance analysis

### I. INTRODUCTION

The rapid development of Channel Transition has had a profound impact on traditional commercial banks in a series of businesses such as deposits, financial management and loans, and challenged the traditional business model of commercial banks. Development of third-party payment has had some substitution effect on the intermediate business of commercial banks, meanwhile development of the network financing platform has reduced the loan demand of small and micro businesses from commercial bank to some extent, and hindered the business expansion of commercial banks in the field of small and micro credit. On the other hand, faced with the impact of the channel transition, commercial banks actively respond and quickly recognize the importance of Internet technology on the future of the financial industry.

### II. THE CONTENT AND FEATURES OF BANK CHANNEL TRANSITION

#### A. The Content of Bank Channel Transition

Bank channel transition is a new financial model to complete the financial services such as fund financing, settlement and fund purchase through the Internet technology and mobile communications technology. Third-party payment is one of the earliest mode of channel transition, in recent years, P2P sites, crowd funding, small loans from electricity providers, Internet fund sales and other forms of channel transition pattern have generated and gained rapid development. Broadly speaking, financial services connected with Internet can be called channel transition mode. The pre-existing online banking is just transferring the traditional business of commercial banks online to offline, which is an extension of traditional business on the Internet, strictly speaking, and can't be

classified as Channel Transition. So in the narrow sense channel transition does not include online banking.

### III. FEATURES OF BANK CHANNEL TRANSITION

#### B. Convenience

Channel transition in particular the development of mobile Internet, makes a lot of financial services completed only by phone for example paying utility bills, etc., which was previously required to handle in bank branches, but now can be done only by the client such as phone Alipay at any time. In addition, a major reason for the rapid development of Internet fund sales represented by Yu Ebao is that Yu Ebao is binding with Alipay which allows users to easily and quickly transfer between Yu Ebao and the bank card.

#### C. Low Cost of Financial Services

Traditional commercial banks depend on a large number of employees and widely distributed outlets to provide financial services. While in the channel transition mode, the entity branch is no longer important, and the demand for labor is also significantly less. In addition, the channel transition institutions have advanced information technology with lower business costs compared to the commercial banks. Therefore, it can provide a large number of financial services at low cost.

#### D. Lack of Supervision, High Business Risk

Channel transition as a new form of financial service, currently our regulation on it has obvious flaws. With the rapid development the high risk comes along. Taking P2P for an example, according to statistics of Smartqian website it shows that in China 119 net loan platforms had issues in June 2015, accounting for 5.7% of all P2P platforms, furthermore 9 net loan platforms have problems within a month.

### IV. THE CURRENT DEVELOPMENT STATUS OF OUR BANK CHANNEL TRANSITION

#### A. Development Status of Third-Party Payment

Third-party payment refers to the system that Internet companies build to help customers complete the payment and settlement with advanced Internet technology by acting as the settlement interface to the bank. It arises to solve the credit problems of buyers and sellers in the e-commerce online transactions, along with upgrades of communications

technology and popularity of smart phones, it gradually covers mobile phone recharge, credit card payments, utilities payment and other fields.

#### *B. Development Status of P2P Net Loan*

The so-called P2P credit, simply speaking, is a mechanism for financing activities where the lending is conducted between the individual and the individual through the network financing platform. Most P2P network platforms only act as information intermediaries to provide connectivity for the demander and supplier of funds, but also a small number of P2P platforms provide security services for the financing transaction on their platforms. P2P lending is in essence online private lending. Since 2010, domestic P2P net loan platforms have continued to emerge.

#### *C. Development Status of Crowd Funding*

Crowd funding refers to a kind of network financing that the sponsor conducts public financing to carry out a project by the Internet platform. "Demo Hour" was established in July 2011, which China's first crowd funding website platform. Since then, a large number of similar sites have appeared, as of the end of July 2015, the crowd funding platform included in Smartqian was totally 243. Currently, there are four main crowd funding models of development which are equity crowd funding, bond crowd funding, reward crowd funding, public crowd funding.

#### *D. Sales status of Internet Fund*

Since June 2013, sales of Internet fund represented by Yu Ebao have gained rapid development. Internet Fund focuses on the field of money fund which can be bought by 1 yuan and has no entry barriers for investors. With the popularity of smart phones and mobile Internet, the way that Internet fund can be purchased by mobile APP has greatly facilitated the sale of the Internet fund. Funds of investors can quickly transfer between bank accounts and Yu Ebao and as such, which makes demand deposits enjoy the interest rates fixed deposit without losing the flexibility to use the funds.

### V. ADVANTAGES OF CHANNEL TRANSITION ON THE PERFORMANCE OF COMMERCIAL BANKS

#### *A. Accelerate Business Restructuring of Commercial Banks*

At present, China's commercial banks still focus on key account, and the credit to small and micro businesses and individuals is clearly insufficient. Commercial banks have stringent credit review system, small and micro businesses and individuals are lack of guarantee and the individual has little demand of funds, resulting in higher credit costs and risks of commercial banks, so small and micro businesses and individuals are often hard to obtain credit funds from commercial banks. However, Internet financing greatly reduces information costs got from capital providers and money demander, making it possible to open up the long tail customers.

#### *B. Promote the Reform and Innovation of China's Commercial Banks*

Faced with the impact of the channel transition,

commercial banks are increasingly aware of the importance of Internet technology. "Catfish effect" caused by channel transition on traditional banking forces commercial banks to speed up the reform process and change business ideas. More and more financial institutions begin to develop their own channel transition business and, the channel transition into their own business system.

#### *C. Optimize Market Structure of China's Commercial Banks*

Currently in the field of commercial banks the former four state-owned commercial banks still occupy obvious dominance. Channel transition is a rare opportunity for small and medium commercial banks, if SMCBs can form their own advantages in the field of new channel transition, it is possible to improve their unfavorable situations when competing against big banks. In the short term, commercial banks are affected by channel transition and they have been fully aware of the importance of Internet technology for the financial industry today.

All commercial banks have accelerated financial innovation and launched their own channel transition products, which to a certain extent, carry out their business and increase their sources of income, especially in the performance of intermediary business. In the long run, channel transition can effectively enhance the profitability of commercial banks.

### VI. DISADVANTAGES OF CHANNEL TRANSITION ON THE PERFORMANCE OF COMMERCIAL BANKS

#### *A. Analysis of Effect Mechanism*

Deposits in Commercial banks are the basis of their operating and the interest income of commercial banks still reaches 70%. If the development of channel transition pushes up deposit rates of commercial banks, it will affect the profitability of commercial banks. Since the innovative products of channel transition combine "payment transaction" and "asset value", and achieve the financial management of "odd funds", they have caused the biggest impact on demand deposits of commercial banks.

#### *B. Analysis of Impact Situation*

##### *1) Analysis of the Impact of Internet Fund*

Internet Fund represented by Yu Ebao has turned demand deposits of commercial bank into fixed deposits. Thus, the impact of the Internet fund sales on commercial bank deposits is structural impact, and the fact that demand deposits is changed to fixed deposits forces commercial banks increase costs to obtain such deposits.

##### *2) Analysis of the Impact of Third-Party Payment*

During online shopping process, third-party payment acts as the credit intermediary between buyers and sellers, and as buyers and sellers receive and settle the payment at different time, which brings large amounts of sedimentary money received but unpaid for the third-party payment. For storage problems of reserve received by third-party payment platform, "Storage and deposit approach of reserve of the payment institution's customers" promulgated by People's

Bank of China requires third-party payment institutions must open special reserve deposit accounts where the reserve should be deposited to the account. From this provision we can see sedimentary money in the account of third party payment institutions can be converted to deposits of the commercial bank, to a certain extent, increasing the interest expenditure of commercial banks.

## VII. STRATEGIES OF DEALING WITH THE CHANNEL TRANSITION OF COMMERCIAL BANKS

### A. *Strategies of Loan Business*

In the traditional business model, China's commercial banks pay more attention to large customers, capital mostly comes from large enterprises, therefore public business is their main source of income. From the composition of Interest income of various commercial banks, company loans and advances both account for about half of the total income. In comparison, the financial system of Western countries is more perfect, competition between banks is more intense and commercial banks emphasis more on retail business. Taking US Citibank as an example, personal business income account for half of the entire bank profits. With upcoming interest rate marketization, coupled and the impact of the channel transition, China's commercial banks should actively develop personal business and look for new profit growth point.

### B. *Strategies of Deposits*

Interest rate of Commercial bank's deposit is only one-tenth of Yu Ebao's, low yield is the root cause of the flow of demand deposits to Internet Fund. Faced with the rapid development of Internet Fund, commercial banks have followed up, and launched similar products. In addition, commercial banks can also cooperate with larger fund companies and provide personalized financial products based on the current balance, thereby enhancing customer loyalty.

### C. *Strategies of Intermediate Business*

Currently, although non-interest income of China's commercial banks increases every year, the proportion is still low. To improve the profit model of commercial banks, we must further strengthen the proportion of non-interest income. Commercial banks should actively develop the intermediate business market, further develop income

sources of the intermediate business. From existing main intermediate business, settlement, remittance and other traditional businesses is still the main source of intermediary business revenue. While some services of high technical content and income such as counseling are yet to be developed. Commercial banks should actively develop more intermediary businesses such as information consulting, financial planning with relatively high technology content apart from traditional intermediary businesses such as settlement and foreign exchange to increase the intermediate business income sources.

### D. *Strategies of Human Resource Management*

Channel transition is now in the intersecting position between the IT and the financial industry, which raises higher requirements for the people. The talent should not only be familiar with the financial sector, but also familiar with the Internet industry. Traditional commercial banks' employees generally have financial backgrounds and are lack of IT & financial complex talents. After all, the competition of this emerging field is mainly about personnel. Commercial banks should be fully aware of the impact of Internet technology on the financial industry, focus on training compound talents and pays more attention to the complex background of the personnel in the training and introduction.

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