

Study on Conflicts and Integration between Internet Finance and Traditional Finance

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Abstract—With the support of financial deepening and financial disintermediation theory, the Internet finance has been on a right track gradually. The "new financial intermediation" theory has promoted the development of Internet finance, compared to the traditional finance where it is involved in hot competitions; it has been gradually transitioned to a stage of mutual integration and complementation. The Internet-based finance makes use of big data and cloud computing to solve the information asymmetry, which has reduced financial transaction costs and improved financial efficiency; owning comparative advantages in the long tail client and the fragmented financial channels. While the rich experience of traditional finance in risk management and capital operation set a solid foundation for the stable development of the financial industry. Traditional financial credit, strong capital strength, integrated to the technique, transmission and costs of Internet finance, relying on the online data mining, process and computing and offline assistance in decision making have jointly promoted the healthy and stable development of the financial systems in China, and provided financial support for the economic transformation and the adjustment of economic structure in the country so as to achieve a stable economic growth.

Keywords—Internet finance; traditional finance; conflict; integration

I. INTRODUCTION

Internet finance started with a third-party payment in China, in 2007, the establishment of the first online loan platform opened the prelude to the Internet finance in the country, as of the end of 2015, there were 2565 online loan platforms. Based on the Internet finance the enterprises concerned own advantages in the innovation mechanism compared to the traditional finance, which may make use of the feedback from consumers through big data for innovation as quickly as they can and improve the Internet financial operation. With the support of information technologies as "cloud computing and big data", the payment, financial management and micro-credit of the Internet finance has comparative advantages compared with the traditional finance, which solves the information asymmetry in the financial industry, reduces financial costs and improves the financial efficiency. As such, the traditional finance is facing a great pressure in operation, yet the Internet finance, with advantages in low-amount financial management and easy loans, has started a hot competition with the traditional finance. However, the Internet finance is in a lack

of financial supervision and access control, after a disorder and immoderate expansion, the Internet financial industry has been in a series of risks such as escape of online loan platforms, bankruptcy, failing to cash in maturity and so on, consumers become much more concerned about the risks of Internet finance. Traditional finance has rich experience in the risk management, which can improve the capabilities of Internet finance in the risk control. Starting with the comparison between the Internet finance and the traditional finance, this article conducts studies on advantages of the Internet finance and the traditional finance, as well as the conflicts and integration between the two, and shows that traditional financial credit, strong capital strength, integrated to the technique, transmission and costs of Internet finance, relying on the online data mining, process and computing and offline assistance in decision making, have jointly promoted the healthy and stable development of the financial systems in the country.

II. COMPARISON BETWEEN INTERNET FINANCE AND TRADITIONAL FINANCE

A. Internet Finance

Sun Jie, He Chen (2015) think that at the time of big data, under the background of information fragmentation, media transparency (everyone is a "we media") and personalized demand, diverse disintermediation have appeared in the financial industry as client disintermediation, information disintermediation, channel disintermediation, capital disintermediation and the like, which make financial business easy to do unlike the past period when it had to rely on financial institutions and workers to achieve business, as such a new financial mode, namely Internet finance, has emerged. Initially Xie Ping, Zou Chuanwei (2012) proposed that Internet finance would be a third-party financing model, differing from the indirect financing between commercial banks and the direct financing in capital market, which is called "Internet financial mode", namely modern information technologies as mobile payment, social network, search engines and cloud computing are used in the financial industry, officially the Internet finance is defined as a new financial business mode where traditional financial institutions and Internet enterprises make use of Internet technologies and information communication technologies to achieve financing, payment, investment and information services. Main types of the

Internet finance include Internet payment, online lending, equity financing, Internet fund marketing, online insurance, online trust and online consumption finance. Sun Hao (2013), when studying the Internet financial models, proposed a SoLoMo financial service model, namely social, local and mobile, which will become main service methods of the Internet finance in the future.

The size of Internet finance grows quickly year by year in the country, and its growth rate is much higher than that of traditional finance. The most representative characteristic of the Internet finance is online payment, that is, a third-party payment and online lending (including P2P online lending and non-P2P online micro-credit). Mobile payment can be made anytime and anywhere, even needing no any bank card, "One mobile phone for all". The development of science and technology has been changing the life styles of the people, it benefits from the developed Internet through which capital transfer can be achieved completely via mobile phones. However, going with the development of network and information, financial security has attracted more attentions, a smart phone may access to almost all the information and funds of a user, and the frequent events concerning Internet financial platforms such as collapse, escape and so on consumers need to pay more attentions to how to safeguard the funds, it will be involved in the core factor for survival of the Internet finance, namely- risk management.

TABLE 1 DEVELOPMENT TREND OF INTERNET FINANCIAL MODES IN RECENT FIVE YEARS (UNIT: 100 MILLION YUAN)

Item	2011	2012	2013	2014	2015
E-payment ¹	—	35600	10607800	14046500	—
Incl: mobile	—	—	96400	225900	—
Online lending	31	212	1058	2528	9823
Online lending benefits	18.9%	19.13%	21.25%	17.86%	13.29%
Online insurance	81.99	106.24	291.15	858.9	—
Crowd funding	—	—	3.35	21.58	114.24
Online shopping	7845.3	11870.9	18924.9	28145.1	39550
Platforms under normal operation	50	200	800	1575	2595
Platforms under abnormal operation	10	6	76	275	896

Data source: The People's Bank of China, WDZJ, Yingcanzixun.

B. Traditional Financial Mode

Traditional finance has undergone a long-term development, most have strong funds and the background of state-owned enterprises, supported by commercial banks,

¹ E-payment refers to a payment business made by users through online banking, phone bank and mobile bank, including online payment, phone payment and mobile payment.

insurance companies, securities funds companies, small loan companies, for which the People's Bank of China serves as the final lender for protection. Traditional finance is based on its large-scale operating stations and the large scale production and sales, which exists and depends on the basis of the information asymmetry for commercial interests. Wang Tingting (2015) facing internal and external factors as national new development strategy, supervision guide, interest rate marketization, financial disintermediation, Internet finance and the like, the transformation of commercial banks to transaction banking has been a measure for traditional finance facing the current economic and financial situations. Facing the status quo where the Internet finance is prevailing and gradually sizing its business, it has more problems to be solved. Before the emergence of the Internet finance, the financial Internet was an innovation of the traditional finance, namely, it depended on financial institutions (entities), using Internet functions and technical means to improve the efficiency of traditional finance, such as the online banking and mobile banking of the traditional financial system. But under the new economic situation, the government is devoted to the transformation of economic structures and adjusting some industries with overcapacities, yet the overcapacity-related enterprises, relying on high capacities, obtained a great number of credit supports from traditional finance in the past. During the transformation, the risks of commercial banks increased, the banking stations of commercial banks decreased, in the future, it will be much difficult for the development of traditional financial institutions.

III. CONFLICT BETWEEN INTERNET FINANCE AND TRADITIONAL FINANCE

Through the information technology, Internet finance may achieve anytime, anywhere the funds lending, payment transfer, financial management so on, owning advantages of low costs and high speed. In the Internet financial filed, the platforms, having financial strength and customers, have also introduced financial service related to financial institutions, e-commerce, mobile operating platform and so on, which bring higher pressure on the operation of traditional finance. The comparative advantage of Internet finance is the base to compete with traditional finance, and it has the inherent advantages that traditional finance can not break the supervision, which is a main reason for the conflict between Internet finance and traditional finance.

A. Conflicts in Financial Information

The Internet finance is a revolution of information technology in the financial field, which is a challenge to the traditional financial field from the internal structure, and makes the possibility that the traditional finance is surpassed in the information collection become a reality. Relying on the information, the traditional finance is a fund agent through reducing the information asymmetry between capital supply and demand, and provides guarantees for loaner and loanee with the credit of its own so as to reduce the risks. Yet based on big data and cloud computing, the Internet finance adopts online virtual platforms to analyze the information of loaner and loanee to obtain the possibility of default. The two sides

will compensate for the risks according to the data analysis so as to reduce the information asymmetry and the possibility of default, which brings a great impact in the information to the traditional finance. Without the advantages in information, the role of the traditional finance as agent will be greatly reduced. The "new financial intermediation" theory becomes the base for the development and existence of the Internet finance which has been a carrier for the new financial agency.

In the time of Internet finance, financial institutions have been replaced by Internet companies for financial services, and the carriers of financial services have changed; under the background of big data and cloud computing, data have become main elements for business development, especially in the Internet financial industry, the data acquisition, calculation and application have already become main business and profit-making units. Traditional finance obtained information in the past through financial institutions throughout the country and the world, and customer managers went to local markets for information so as to provide information exchange services for loaner and loanee. Under the impact of Internet finance, it is difficult for the traditional financial to access to information besides, the costs are higher, and its time and efficiency in information process is far from the Internet, the information transmission is relatively slow, as a result, the Internet finance occupies a great advantage in the information integration, which is a great shock to the financial agency function of the finance.

B. Conflicts in Payment and Transfer

Zheng Liansheng (2015) The third-party payment has not only affected the bank's service channels, but also caused a direct competition between Internet finance and traditional finance in credit creation and financing services. The third-party payment has brought a disruptive impact on the payment and transfer of the traditional finance, reduced the stickiness of customers to the traditional finance, and caused the decreased dependence of clients in the traditional financial field on financial institutions, leading to a direct competition between Internet finance and traditional finance in customers. The financial service of traditional finance depends on the banking stations (entities), on which, the clients have higher dependence before the Internet finance; however, the Internet based third-party payment has all functions of payment and transfer made at anytime and anywhere without costs, and it is unnecessary for users to spend time or energy waiting in line at banking stations, besides, traditional financial payment needs a high cost, the advantages of Internet finance in payment and transfer make the customers far away from the banking stations gradually, which makes it more difficult for the traditional finance to attract customers.

C. Conflicts in Financial Management

The core value of Internet finance relies on its openness, interaction, equality and cooperation, as well as incentive user experience, the data can be used to drive the operation and rebuild the market, users, products and value chains. Internet finance is based on social platforms whose users are more than customers of any traditional financial institution, the product information released on the social platforms not only saves the

costs of product promotion, but also attracts more people to participate, catching the opportunities to mine customers in the marketing. The vast amount of user information makes the Internet financial enterprises have special targets in the product development and marketing, besides, and customized products can be provided for customers. During the data-driven operations, the timely feedback from users can be used for product updates and improvement so as to increase customers' sticking, and making customers rely on Internet finance closely. Based on the information technology and rich information, the product development can save costs, the targeted products can meet customers' needs and the sales can be achieved easily. The R&D costs and marketing fees of traditional financial are much higher than that of the Internet finance, the high access of products blocks the customers who may bring a long tail effect, which causes the further shrinking of customers of traditional finance, and the conflicts between Internet finance and traditional finance are becoming hotter than ever. The most typical event for the conflict between the Internet finance and the traditional finance was that the deposits in traditional finance were in a higher loss due to the Yu'eobao marketing in 2013, finally several state-owned banks jointly released policies to limit the amount to be transferred from bank funds to the Alipay account, so as to reduce the speed of capital outflows and enable traditional financial institutions to take measures to maintain adequate capital.

For the whole financial system, it needs to be stabilized for development, and the conflicts within the financial systems will inevitably lead to a big loss both in the Internet finance and the traditional finance, endangering the stability of the financial system, which is not a result that financial consumers, investors, financial services agents and governments expect to reach. With the Internet finance being regulated regularly, in the future, the Internet finance and the traditional finance will be integrated gradually for development, which will complement mutually and develop jointly in competition.

IV. INTEGRATION OF INTERNET FINANCE AND TRADITIONAL FINANCE

The core value of Internet finance relies on its openness, interaction, equality and cooperation, as well as incentive user experience, the data can be used to drive the operation and rebuild the market, users, products and value chains. Traditional finance is lagging behind the Internet finance in data collection and process, besides, the traditional finance has a large organizational framework, the finance from innovation to practice needs a series of approvals and the innovation has no time limit, besides, the traditional finance has a great base number in customer and capital. The risks related to product feedback, update, innovative ideas and so on are incomparable for the Internet finance. Therefore, the stable operation of traditional finance makes it own advantages in the risk control, the Internet finance has real-time innovation and feedback to rebuild the market, users, products and value chain, which are needed by the traditional finance, so in the future, the two may have online and offline advantages to complement and integrate mutually, which can bring another wave for the development of the financial system.

A. The Integration between Internet Finance and Traditional Finance at the Long Tail Market

Zhou Huaimin (2012) summarized that the long tail theory had positive activation and negative activation in the long tail, the theory was proposed by Chris Andersen, who thinks that with the premise of adequate storage, wide circulation channels and open information, the market shares of products which are in a low demand or not well sold can be of equal strength with or even exceed the market shares of products which are in a low quality but well sold, the advantages in costs can be used to expand the market, which is the connotation of the long tail theory. Wang Wei, Zheng Yangyang (2015). The long tail economy focuses on the product variety and coordination for reducing cost, the advantages of Internet finance in costs are basis to extend the financial long tail market, through the unlimited copies and information transmission, networking and virtual financing stations to reduce the financial costs. The philosophy of traditional finance is to maximize the benefits, in the 80/20 rule, 20% of high-end customers will bring 80% of profits for enterprises, the private banking customers and VIP customers within the customer groups can bring the maximum profits for the traditional finance, so its high-end financial products are mainly aiming at the customers, and the remaining 80% of ordinary customers can not access to high-quality financial services due to operational costs. However, supported by the information technologies, the Internet finance can extend to the market edges of traditional financial industry and create new markets so as to meet the financial needs of the remaining 80% of ordinary customers who traditional finance can not meet. The traditional finance fails to mine and exert the long tail effect of the long tail customer market, which create an impersonal external condition for the emergence and development of Internet finance.

Wu Xiaojie (2015) The Internet finance has a function of "wealth management (namely risk allocation)" to finance, namely extending the customer chain (long tail market customer) downward to offer in low costs a financial product marketing network on the basis of wealth management, promote the idle money operation of customers and expand the scale of customers of welfare management. The Internet finance is based on the long tail market, and its impact on the traditional finance does not directly cut off the customers of the traditional finance. In the long tail market, the long-term neglect by the traditional finance makes has made the Internet finance take it as a starting point for business breakthroughs and a base for customer accumulation, thus the customers will be attracted from the traditional finance to the Internet finance.

In the long tail market, due to the increase in operating costs, the traditional finance can be integrated to the Internet finance, relying on the advantages of the Internet finance in customer information collection and mining, it may identify customers' demand, achieve product innovation via the Internet channels, increase the high-end customer base and maximize the profits.

B. Integration between Innovative Field and Financial Industry

The innovation of Internet financial institutions is reflected in the new Internet financial enterprises, such as credit system, payment system, data mining and processing system, e-commerce, logistics, mobile Internet, service industry integrated to the financial system. The division is much detailed and specialized. In the future, the Internet finance will, relying on its professionals, undertake more business of the traditional finance, meanwhile, the traditional finance will outsource some areas that it fails to well do to the Internet financial enterprises, such as customer data mining, etc, the traditional finance is devoted to the financial industry and how to use the huge amount of money in lending so as to create greater wealth for the society.

Wu Xiaojie (2015) Commercial banks adopt Internet technologies for improvement and innovation of existing payment tools and systems, the Internet platforms-based third party payment and payment tools, out of traditional banking systems, have become key elements for the Internet finance, which act actively to improve traditional financial tools through "offering price information" and so on, besides, the Internet platforms may reflect financial prices adequately and correctly in real time through advanced computer information and technologies. Zheng Liansheng (2015) with the emergence of Internet finance and acceleration of interest rate marketization, financial factors are marketized quickly, the internal and external integration is achieved in the financial industry, the horizontal integration and the vertical specialization of the financial system have become a new trend for the financial industry. Finance should serve the business, in the time of Internet, if the value of new enterprises, organizational units, as well as some abstracted intangible assets, creativity, wisdom need to encash, it has to rely on the financial strength to a large extent, such as financial products, service innovation and so on, all of which need the Internet with great innovation, adaptability and flexibility to achieve, so that the Internet finance opens a time to encash the wisdom. With the realization of horizontal cross-border operations, the borders between finance and other industries are weakened gradually, due to the deep integration between Internet finance and traditional finance, the financial industry will form a special financial service structure characterized of professional, integrated and customized.

The traditional finance is based on credit, and the data are the most important factor for the enterprise to survive. Lu Minfeng, Shi Lixia (2015) In the time of big data, customer data, transaction and management data are in an explosive growth. It needs to improve the data mining capabilities of the traditional finance to mine the value in business expansion, decision-making, operation and risk control through the data mining. The Internet finance starts with the Internet, which is a cross-border operation of the Internet in the financial industry, for the Internet enterprises, the advantage with the most core competitiveness is the capability of data mining and develop the information on the basis of "cloud computing". In the time of information technology, owning information will own the market, the datas are basic resources for the financial industry. Therefore, the traditional finance and the Internet finance can

achieve deep cooperation in the application of big data in order for innovation, mine the enormous value in the data, build an information-based finance, integrate the internal and external data of the financial system and achieve the financial transformation.

C. *Integration of Risk Control between Traditional Finance and Internet Finance*

Finance is a cross-time value exchange of funds, the time period for the value exchange may bring a risk that it is unable to fulfill at maturity, so the financial business itself is a risk operation, how to conduct controls over the risks is involved in the survival of financial enterprises. During the traditional operation, the ideas of and means for risk control and macro supervision are relatively mature, besides, the traditional finance is potentially guaranteed by the People's Bank of China and local governments, and there are no cases where traditional financial institutions close down which cause loss of investors. As a newly born thing, the Internet finance still has more risks for the risk control and governmental supervision are in exploration. In the future, the Internet finance will be a supplement to the traditional finance, and the traditional finance, relying on the accumulated and strict risk control methods, will provide supports to the Internet finance, so that the Internet finance will not cause a destructive financial revolution and guarantee the integrated financial system to provide financial service and better serve the economy.

V. CONCLUSION

Wu Xiaoqiu (2015) The Internet finance makes the traditional financial model develop from the discrete finance to a continuous one. The continuous finance makes the essence of finance be much embodied. Through the well connected tools for financial service, the Internet spirit shown represents the future of financial system. The traditional financial relies on the Internet finance to achieve the continuity of products and services; customers' feedback is achieved in time, the data mining and application of the Internet finance make it applicable to satisfy diverse needs of customers; the customers' demands are updated to a financial service idea with the value guided and customers centered for the enterprises. With the help of risk management concepts and risk control in the traditional finance, the Internet finance will continuously improve the industrial operation, besides, the simultaneous promotion of financial supervision will well regulate the development of the Internet finance in the future, and there will be no Internet financial events due to the lack of systems. During the industrial integration and financial reforms, the traditional finance and the Internet finance will promote and supplement mutually for integration and innovation so as to form a steady financial system. Under the background of new economic norm, it needs to better play the role of finance to drive the real economy and achieve a smooth transition of the economy in the country.

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