

Research on the Influence of Third-Party Payments on the Business Operations of Commercial Banks

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Abstract. With the development of e-commerce and the rise of online shopping, third-party payment institutions have gradually developed in recent years. Third-party payments are not just a simple payment channel, and they are widely used in various fields such as agency receipt and payment, investment finance, and online loans, virtually bringing a strong impact on the business and operations of commercial banks. The definition, characteristics, operating model and development status of third-party payments are firstly elaborated in the article, and the positive and negative effects of third-party payments on the business operations of commercial banks emphasis is then analyzed in details. Finally, the study finds out that they bring some negative impacts on commercial bank assets, liabilities and intermediary business, despite the third-party payments are helpful for commercial banks to accumulate customer resource information and promote their improvement of electronic banking business. Some practical suggestions for commercial banks to improve their competitiveness are also put forward at the end of this article.

Keywords: Third-party payments, commercial bank, business operation.

1. Introduction

With the rise of online shopping and the prosperity of e-commerce, the traditional payment and settlement methods of banks are increasingly difficult to meet the payment demands of e-commerce. In this context, third-party payments come into being. With the expansion of market share and transaction scale of third-party payment institutions, they have expanded their service in various financial sectors such as peer-to-peer lending (P2P lending), fund, and insurance with their own big data advantages, providing more and more cross-border financial products and opening up all kinds of life links such as living payment, credit card repayment, education, medical and offline payment. Third-party payments now seem to be the preferred payment method for consumer online transactions and offline payments. According to the statistics of the official website of the People's Bank of China, as of the end of June 2017, there were 247 third-party payment institutions operating in the market.

At present, traditional bank counter payments and offline payments are gradually being replaced by diversified third-party payments. Third-party payments are not only a guarantor between customers and banks as it was originally created, but their scope of service have a great deal of overlap with commercial banks' asset, liability and intermediate businesses. In order to deal with the impact of third-party payments on their business, commercial banks have successively launched a number of e-banking service systems. However, apart from this, there are also some other problems exist: how should commercial banks better cope with the third-party payment institutions' expropriation of their market share, how to handle the cooperation and competition with third-party payment institutions, and how to seek new breakthroughs in the development situation of going hand-in-hand with this type of internet finance and traditional commercial banks? The answer seems particularly important.

2. The Concept of Third-Party Payments

2.1 The Definition of Third-Party Payments

According to the "Administrative Measures for the Payment Services Provided by Non-financial Institutions" set by People's Bank of China, third-party payments refer to "monetary funds transfer services provided by non-financial institutions as intermediaries among the recipients, including online payment, issuance and acceptance of prepaid cards, bank card receipts and other payment

services determined by the People's Bank of China." Specifically, third-party payment institutions are companies with strong financial strength and good credit standing that sign contracts with major banks and use bank services to provide users and merchants with liquidation services. The main form of third-party payments business is to establish a fund payment platform between buyers and the sellers. After buyers purchase their goods, the money is transferred to the virtual account of third-party payment platforms. Then, third-party payment platforms notify sellers the payment status of buyers and prompt sellers to deliver the goods. When buyers receive the goods and check that are not damaged, they can notify third-party trading platforms to transfer the money to sellers. At this time, the trading activity is terminated. Third-party payments in this article include internet payment and mobile payment achieved by third-party payment platforms.

2.2 The Characteristics of Third-Party Payments

Compared with commercial banks, there are four main characteristics of third-party payments (as shown in Table 1). First is the convenience and quickness. Merchants and customers can directly implement transactions on the internet and mobile terminals, while the service speed of counter in commercial banks are slow. Second is the low cost. The fees charged by third-party payment institutions are lower or even free of charge than bank transfer fees. Third is that the operation is simple and easy to accept. Regardless of registration or payment, third-party payments are very simple in its operations. Fourth is that third-party payments have credit assurance? Traditional banks only provide funds to perform their payment and settlement services, while third-party payments supervise and guarantee the transaction behavior of both parties to prevent fraudulent transactions.

Table 1. Comparison of characteristics of third-party payments and commercial banking operations

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

2.3 The Payment Modes of Third-Party Payments

At present, China's third-party payment modes mainly include two types: independent gateway mode and providing security mode.

The independent gateway model refers to the third-party payment platforms that do not equip with guarantee function. The platforms connect consumers, merchants, and numerous banks and only provide users with solutions for payment services and payment systems. Under this mode, such mode is subdivided into three operating modes: integrated mode, vertical mode, and swiping credit mode. The integrated operation mode is represented by "quick money". This kind of platform is simply defined as an electronic payment platform and only provides payment methods such as cash on delivery and offline settlement. The vertical operation mode is represented by "YeePay", which is a "format converter" among different payment methods in different industries. This mode provides a cross-industry universal solution. The swiping card operation mode is represented by "Lacarra", that is, it provides a credit-card service when the user can not use the electronic service.

The mode of providing guarantees is represented by Alipay and Tenpay, relying on a large-scale e-commerce platforms to establish cooperative relationships with commercial banks, establishing

payment and credit intermediaries between consumers and merchants, and providing them with a safety payment channel which is convenient, quick and low-cost.

In general, the independent gateway mode is more oriented toward corporate customers, while the mode of providing guarantees is oriented toward individuals. But no matter what kind of mode, third-party payments are based on procedure fees, service fees, advertising fees, and interest on deposited funds to make profits.

3. The Development Status of Third-Party Payments

Third-party payments originated from the independent sales organization system of United States. In 1996, in order to cope with the development boom of e-commerce and make up for the inability of commercial banks to cover personal acquiring business areas, the world's first third-party payment company was born in the United States, followed by a group of third-party payment companies such as Amazon Payments and PayPal. Among them, PayPal is the most prominent. In 1998, PayPal was officially established. In 2002, PayPal was acquired by eBay, the world's largest online C2C trading platform, then the company became one of the world's most famous third-party payment institutions. Since the 21st century, the vigorous development of e-commerce in the United States has further promoted the development of third-party payment institutions such as PayPal, Amazon Payment, and Google Checkout.

At present, the internet payment and mobile payment in China present a duopoly pattern. In the field of mobile payment, Alipay and Tenpay (wechat payment, QQ wallet) occupy an absolute superiority. In the third quarter of 2017, in the mobile payment market, Alipay, Tencent Financial, Openblock, Lianlian Pay, Union Mobile Pay, Yeepay, Quick Cash, and Baidu Wallet hold a higher market share, of which Alipay accounted for 53.73%, and Tencent Financial accounted for 39.33%.

At present, China's third-party payment market has kept a good momentum of development. According to the statistics of the Research Institute of Foresighted Industries, since 2013, the transaction scale of the third-party payment market in China has grown at an average annual growth rate of 50%. In 2016, the total transaction scale of the third-party payment industry in China reached 59.7 trillion yuan, a year-on-year growth rate of 124.27%. In the first three quarters of 2017, the transaction volume of third-party mobile payment market in China reached 71.3 trillion yuan.

4. The Impact of Third-Party Payment on Business Operation of Commercial Banks

4.1 The Positive Impact

4.1.1 Easy to Accumulate Customer Resource Information

As an intermediary, third-party payment platforms connect businesses, consumers, and banks, thereby accumulating large and stable user groups and massive transaction information data. Cooperating with major commercial banks, third-party payment machines can obtain the payment and registration information of banks' customers, while commercial banks can use powerful information collection and processing capabilities of third-party payment platforms to discriminate and control quality customers based on platform data, effectively solving the problem of information asymmetry.

4.1.2 Promote the Improvement of E-commerce Business

The over-reliance of commercial banks on physical banking outlets and the rigid and complex internal processes of commercial banks have seriously hampered the development of commercial banks. For this reason, commercial banks have launched a series of electronic banking services. However, as the business scope of third-party payments break through the B2B field, they have achieved good results in B2C and even funds, insurance, and online lending. This has brought great pressure on commercial banks, and has "forced" commercial banks to provide newer and better products and more convenient services to meet the diverse and individualized needs of people in the

context of the internet age. As a result, commercial banks have successively introduced online banking, mobile banking, and self-service terminals to improve existing electronic banking services. Various commercial banks have also opened personal loan processing and inquiries, flow recharge, living payment, withdrawal of transfer accounts and electronic receipts and other services. The competitive relationship between third-party payments and commercial banks has enabled commercial banks to continuously develop and improve the electronic banking business, and the competitiveness of commercial banks has also increased.

4.2 The Negative Impact

4.2.1 The Impact on Assets Operation

The asset business of commercial banks mainly refers to the activities that banks use to release the funds they absorb and to earn income, mainly including loans, discounting, securities investment, and financial leasing.

The loan threshold of commercial banks is high with complicated procedures and high costs. For small and micro enterprises and individual users with difficulties in financing and a single loan channel, it is difficult for them to successfully obtain suitable loans from commercial banks. However, third-party payment platforms can solve this problem. Third-party payments, based on the support of the network economy, use their data on upstream and downstream transactions in a large number of industrial chains to provide important reference information for assessing the credit status of enterprises and individuals. These platforms then select high-quality users through large data technologies to provide financing service for them. At the same time, third-party payments, with the advantages of big data information processing, can design products with low cost, simple approval procedures, and low barriers to entry, and meet the demands of small and micro enterprises and individuals for short-term loans and small credit requirements. This greatly reduce the cost of third-party payment services for network lending, expand service groups, improve service efficiency, and significantly overtake the lending market of commercial banks [1].

4.2.2 The Impact on Liability Business

The liability business of commercial banks refers to the activities that commercial banks use to raise funds needed for daily banking operations through external liabilities, which are mainly composed of self-owned capital, deposits and borrowings. The size of the liability business determines the size of the funds held by commercial banks, affecting their lending, financial management and other services.

The biggest impact of third party payments on liability business is to divert current deposits from commercial banks and bring challenges to fixed deposits and wealth management funds. The function of commercial banks is mainly to meet the demands of savings and wealth management of some large enterprises, ignoring the needs of users of small and micro enterprises, while third-party payment institutions use this part of “grassroots” user resources to provide better, more flexible and more profitable savings and wealth management products to occupy customer resources, greatly improving their ability to absorb deposits. The money originally put in banks by users is transferred to third-party payment platforms, which not only can obtain higher interest income, but also can be flexibly transferred to and transferred out, and the handling fee is also lower. Although part of the funds paid by the third-party will eventually flow back into the commercial banking system, some commercial bank deposits do have been diverted, which weakens the status of commercial banks to some extent.

4.2.3 The Impact on Intermediate Business

The intermediary business of commercial banks refers to that these banks, as the intermediary or agent, do not use or use less bank funds to deal with receipts and payments, consulting, agency, guarantees, leasing, and other commissioned matters for customers, providing various types of financial services and charge a fee for these services. Third-party payments have a large number of advantages in technology, information, and agency networks. Depending on the nature of intermediary, they continuously implement various intermediary services such as payment transfer,

credit card repayment, mobile phone recharge, fund agent, and funds trusteeship, which bring a big impact on the intermediary business of commercial banks.

(1) Settlement Business

The settlement business, also known as payment and settlement, of commercial banks refers to the act of collecting and paying through the transfer of funds from a bank account. However, third-party payment platforms are constantly squeezing the business share of banks for settlement services. Third-party payments have a wide range of payment and settlement services. For example, Alipay, TenPay, Yeepay, and Quick Cash, which can provide corporate customers with various types of funds settlement products such as large-sum payments and one-to-many batch payment, and provide personal customers with living payment service. In addition, the payment and settlement services of third-party payments are easy to understand, and only one account can handle affairs that previously required more than one bank card or even multiple banking offices to deal with. Although the high service efficiency, the business fees are low, thus third-party payments are very convenient for the people. According to 2014 Research data, the most commonly used payment methods for internet users in China were online banking direct payments and third-party online payments. The proportion of online banking direct payments were 34.4%, and the third party payments were 39.7%. Most users selected quick payment or used their account balance to make payment, only a small number of users chose to jump to the bank card for payment [2].

For online internet payment, third-party payment platforms have become the first choice for users because of their advantages of quickness, convenience and low cost. Third-party payments breaks through the mode of online development and offline payment, which extremely rich offline payment scenario. Users gradually develop the habit of using mobile payment tools in offline stores such as restaurants, supermarkets, and convenience stores. The proportion of netizens using mobile phones for payment has reached 50.3%, opening the era of "no wallet". In addition, offline payment has a strong downward potential. In fourth- and fifth-tier cities, the proportion of netizens using mobile phones for payment has reached 43.5% and 38% respectively, and such proportion in rural areas has reached 31.7%. With the continuous expansion of third-party payment services, payment and settlement services have become a key for the competition between third-party payments and commercial banks.

(2) Agent Service of Commercial Banks

The agency service of commercial banks refers the service that commercial banks accept a commission from customers and act for them to handle the economic affairs they designated by, providing financial services, and charging a certain fees. Third-party payment pound at the collection and payment service and agency security and insurance service of commercial banks.

For collection and payment services, third-party payments have a lower handling fee than commercial banks. In order to accumulate customer resources, third-party payment institutions initially adopted a fee-free approach for market expansion. This move has enabled them to quickly occupy a certain market share, and has also reduced the frequency of users' use of online banking. With the increase in market share, third-party payment platforms began to charge a small fee for computer terminal transfers and mobile-phone terminal withdrawals, while mobile phone-end transfers are still free of charge. In this regard, commercial banks cut online banking transfer fees in August 2014. At the end of February 2016, they also adjusted the mobile banking transfer fees. Now commercial banks have implemented online and mobile banking fees for small-scale cross-bank transfers. The real-time arrival policy has also been implemented.

Security and insurance agency services have always been an important source of income for the intermediary businesses of commercial banks. By taking the advantage of good credit guarantee and broad network coverage, commercial banks are monopolized in the field of fund agency service. However, since June 2011, the China Securities Regulatory Commission has promulgated the "Measures for the Sale of Securities Investment Funds (Revised Draft)". Third-party payment companies such as Alipay and Tenpay have all obtained fund sales licenses, and have since flooded into fund sales.

Third-party payments have a huge user group. The internet can be used by them for mass promotion, which has lower costs but better publicity. Compared with banks, third-party payment fund transactions are more convenient and faster, with lower transaction commission fees. Therefore, a large number of customers choose to purchase funds through third-party payment platforms. After the third-party payment platforms entered the fund market, the fund company and third-party payments are jointly changing the traditional sales model from offline of commercial banks to the online of third-party payments. The sales of funds have risen greatly and both have achieved a win-win situation. Although commercial banks have seen an increase in the number of fund agency service, their revenue has been declining. This has great relations with third-party payment platforms to grab market share.

(3) Bank Card Business

The bank card business of commercial banks refers to a business that commercial banks have issued to the society with credit payment instruments that have all or part of functions such as consumer credit, transfer settlement, and access to cash. The emergence of third-party payment platforms has greatly reduced the frequency of people using bank card transactions.

No matter if it is a payment or transfer, the business must be carried in the past with a bank card. Now it is only necessary to use a computer or mobile phone to bind a bank card on a third-party payment platform; third-party payment platforms such as “Alipay” give users a lot of deals and discounts, and users can enjoy more benefits without using bank cards. In addition, compared with the traditional bank cards payment, third-party payments provide more credit guarantees, thus enhancing the security of payment. The personal registered users of Alipay have exceeded the number of individual customers of ICBC, CCB, and ABC. The large customer base provides a huge business potential and profit space for third-party payment platforms.

The biggest impact of third-party payments on the bank card business of commercial banks is to divert the credit card users of commercial banks. Third-party payment platforms have launched a “virtual credit card”. This type of “virtual credit card” only needs to be opened on third-party payment platforms without going to a bank outlet, which allows it to have a very strong ability to absorb deposits without having to wait for processing. It is also very flexible to use. In a word, third-party payment platforms have replaced the credit card online and mobile acquiring business to a certain extent by taking their advantages and resources, diverted the credit card users, realized the settlement of funds, and had a greater impact on the bank card business income of commercial banks.

5. Countermeasures for Commercial Banks to Deal with Third Party Payment Impact

In the face of the impact of third-party payment institutions, commercial banks should make full use of their competitive advantages and seek cooperation opportunities.

5.1 Strengthen Cooperation with Third-party Payments

Although third-party payments largely supersede commercial banks, they are actually produced in internet finance which is only a supplement and extension of traditional finance. The development of third-party payments cannot be separated from commercial banks. Therefore, there is ample room for cooperation between traditional commercial banks and third-party payment platforms. Commercial banks should make use of the advantages of third-party payments and conduct more harmonious cooperation with their own positive influences, thus supplementing and perfecting their own businesses. For example, commercial banks take advantage of third-party payments own credit evaluation system and credit database to select qualified third-party payment institutions to cooperate, share a large number of end-user information they have, and understand the customer’s consumption patterns, source and amount of capital transactions. At the "2018 Consumer Finance Industry New Trends" forum, Ants Financial Service personnel revealed that they are going to open Ants Check Later and Ants Borrow services in this year, and try to cooperate with banks and other financial

institutions, and make a strict risk assessment. If banks can deepen cooperation with third-party payment institutions in all aspects, the results will much be better than either of them alone.

5.2 Enhance Product Innovation

The biggest advantage of third-party payments for commercial banks lies in the vigorous development in the field of innovative finance. Therefore, commercial banks need to strengthen innovation and continuously improve the completeness, convenience, flexibility, and diversity of product functions to meet the diverse needs of different customers.

One of the most obvious features of third-party payments is the user-friendly operation. Although commercial banks have successively launched a series of e-banking services to cope with the competition from third-party payments, they are still less convenient than third-party payment services. The existing online banking of commercial banks only serves as a traditional banking service channel. Neither are they do not completely shake off the limitations of traditional business functions, nor introduce new products and new applications that restructure commercial banking business processes directly to the characteristics of customers. In addition, the characteristics of personalized services cannot be reflected on the user interface. It is only a simple imitation of the interface of the traditional business processing system, attracting customers by change and novelty [3]. Commercial banks should simplify business operations, make accurate marketing for different customer groups and provide different product services.

In terms of asset business, commercial banks need to introduce more financial innovation products that adapt to the times and to a variety of customers in accordance with market demand, accelerate innovative practices in products such as wealth management, loans, and online installments, improve customer experience, enhance customer stickiness, and consolidate the dominance of payment services. In the liability business, commercial banks have also introduced current products which are similar to “Yu’e Bao”. These products have better risk floating and similar returns, but the initial amount (generally 50,000 yuan) is relatively high, blocking the purchase of medium and small Customer group [4]. In general, commercial banks should increase their attention to the market of small- and medium-sized enterprises and individual users and introduce a number of balance management products with low threshold, simple operation, and considerable benefits. They also need to gradually formulate suitable loan standards, reduce the loan threshold, and simplify loan processing.

5.3 Expand the Scope of Intermediate Business

Commercial banks should expand their scope of intermediate business from the following aspects. (1) In-depth study of the characteristics of e-commerce processes in different industries, providing personalized electronic payment solutions for different vertical industries such as aviation, railways, tourism, insurance, etc., and strengthening the development of lifestyle payments, such as open living payment, movie tickets payment and other payment channels[5]; (2) Pay attention to the development of mobile payment. On the one hand, it can further explore the types of mobile banking services. On the other hand, it also can strengthen the cooperation and innovation with internet companies and occupy the mobile payment field; (3) Follow the pace of overseas market expansion of third-party payment institutions, give full play to commercial banks' advantages in cross-border settlement of RMB, and carry out cross-border settlement services such as foreign card collection and overseas online acquisition; (4) Broaden the service area of bank card business, optimize the use of card environment, improve service efficiency, expand the scale of bank card transactions, and achieve the purpose of increasing bank card fee[6].

5.4 Strengthen Commercial Banks Own Risk Prevention

Third-party payments arise from internet finance and have inherently high risks. Commercial banks themselves operate on the principle of security, liquidity, and profitability. They have a good reputation among customers. Therefore, commercial banks should strengthen their own risk prevention to expand their competitive advantage. The specific operation mode is the following two

aspects. The first is to strictly do a good job in customer information security and confidentiality. Commercial banks must first solve the problem of personal information leakage and theft of customers in their own businesses. At the same time, when carrying out various cooperation businesses with third-party payment institutions, they must do a better job of protecting customer information.

When establishing a business relationship for the first time in the authentication of a customer, customers need to pass the personal identification of third party payments and commercial banks. In addition, commercial banks should build secure network channels to prevent third-party payment institutions and other websites from crossing the border. The second is to strengthen internal system management to ensure the safety of trading funds. Third-party payments will be prone to capital accumulation, lack of effective liquidity management, and it is very likely to facilitate the illegal transfer of funds and cash with great potential in financial risks. Therefore, whether it is for lending, daily cash transactions or the purchase of bank products, commercial banks should assess the technical risk tolerance ability of customers, verify and identify customer identities through electronic channels, and monitor their account funds activities in real time. In addition, commercial banks should promote fraud prevention knowledge through a variety of channels such as teller introductions, SMS, website, official Weibo and WeChat alerts [7].

6. Conclusions and Policy Suggestions

At present, third-party internet payments and mobile payment in China have witnessed a rapid development, which has brought a strong impact on commercial banking business operations. On the positive side: It is easy for commercial banks to accumulate customer resource information and promote their complete electronic banking business. On the negative side: the development of third-party internet payment diverts the current deposits of commercial banks, pose threats to general time deposits and wealth management funds, seize the loan share of commercial banks and affect commercial banks' operations in bank cards, agents, and settlements.

Therefore, in the future, commercial banks should make full use of their own competitive advantages to consolidate their dominance in the financial sector by strengthening their cooperation with third-party payment, increasing product innovation, expanding the scope of their intermediate business, and enhancing their own risk scope. In short, under the new normal economic background, the competing relationship between the two has important practical significance for the healthy development of China's entire financial system [8].

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