The Impact of Internet Finance on Commercial Banks and Countermeasures

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Abstract. Relying on the continuous rapid development of China's Internet information technology, the Internet financial industry is also developing and growing. This emerging financial force has had a considerable impact on the traditional business of Chinese commercial banks. This article starts with the meaning of Internet finance, analyzes the impact of Internet finance on the three traditional businesses of commercial banks, and proposes corresponding countermeasures to contribute to the rapid development of commercial banks and the sustained and healthy development of the financial industry.

Keywords: Internet Finance; Commercial Banks; Traditional Business; Impact Countermeasures; Development.

1. Introduction

Internet finance does not provide a brand-new service model for the financial industry, but by copying financial functions, it forms a competitive relationship with commercial banks and has an impact on their specific businesses. Based on the study of relevant theoretical knowledge, literature review, and investigation and research, this article reveals the impact and challenges of commercial banks in the competition and proposes improvements. By combining the knowledge learned, survey data, and the review of related documents such as "Finance and Trade Finance", "Modern Enterprise", "Contemporary Economy", "Times Finance", "Modern Economic Information", how to conduct commercial banks and Internet finance Cooperation and Win-win cooperation, business expansion, and innovation of Customer-centric financial products put forward suggestions, hoping to promote the complementary advantages and disadvantages of business and Internet finance, and achieve the effect of coordinated development.

2. The Meaning of Internet Finance

Internet financial service is an emerging network financial service model that uses mobile Internet information technology and other mobile communication technologies to realize financial services such as network finance, payment, and information service intermediary. Internet finance integrates modern Internet technology and traditional finance organically and closely. Relying on technologies such as cloud computing and big data to form a functional financial format and service system on an open Internet platform, it is a cross-border integration between the Internet and finance, covering financial market systems and financial services based on network platforms Systems, financial organization systems, financial product systems, and network financial supervision systems, and have financial models such as inclusive finance, platform finance, information finance, and fragmented finance that are different from traditional finance. Internet finance has not changed the nature of finance. It has realized the extension, upgrades, and innovation of traditional finance in concepts, ideas, processes, and businesses through network technology.
3. **Features of the Internet**

3.1 **Internet Finance is a Kind of Inclusive Finance, Which has Realized the Popularization of Financial Demand**

"Internet Finance" provides an inclusive financial service. The lack of competition in the traditional financial industry has led to a lack of "inclusive finance". This is also one of the areas where the reform of the financial system needs to be continuously deepened. Internet finance of "openness, equality, cooperation, and sharing" has the characteristics of inclusive finance. It breaks the high threshold of the financial industry, meets the "long tail market" (small and medium customer groups and small and micro-financial service needs) of the traditional financial industry with features such as flexibility, convenience, and availability, and expands the scope of small and micro-financial services Breadth and depth. Of course, the "long tail" effect in inclusiveness is also a double-edged sword. While promoting the vigorous development of Internet finance, it also hides new risk characteristics. For example, the “tail” market groups have relatively weak financial risk awareness and anti-risk capabilities, and are more prone to irrational behavior; the convenient operation of online finance, sensitive information, and wide audience characteristics make risk spread faster, and risks will be quickly exposed after exposure spread.

![Fig 1. Distribution of main body and long tail](image1)

3.2 **Internet Finance is Platform Finance with Low Operating Costs**

Internet platform has greatly shortened people's time and space distance and formed a new financial ecological environment. The Internet platform has realized the "three streams in one" to facilitate customers' access to services. The trend of financial development is decentralization. Compared with the traditional financial industry, the initial cost of platform finance is very low, leading to an endless stream of homogeneous platforms. The operating marginal cost of platform finance is also extremely low, the marginal cost of adding a customer is almost zero; the degree of openness is extremely high, and it can be reached by having the Internet; the economies of scale are significant, and the average cost drops rapidly as the number of customers rises, which makes the platform Finance tends to integrate the market.

![Fig 2. The cost curve of an Internet financial format](image2)
3.3 Internet Finance is a Kind of Information Finance

The Internet has penetrated all aspects of people's daily life, and if there is action, it will leave traces. Internet browsing traces have become one of the important resources of contemporary society. Internet finance uses cloud computing technology to mine, identify, organize, and process massive amounts of data, greatly improving the ability of data mining and analysis, enabling the credit level of Internet financiers to be efficiently identified, and accelerating the completion of the entire risk pricing process. It is also conducive to improving the level of providing personalized services to customers, making marketing positioning more accurate.

3.4 Internet Finance is Fragmented

Internet finance pools individual idle time and can form greater value. Mobile network technology makes the use of these "surplus" more convenient. In the field of Internet finance, the fragmentation of finance is the general trend. For completely different customer groups, Internet finance can accumulate less and more, and rationally allocate resources, time, and costs to achieve economies of scale.

3.5 Internet Banking is a Client Financial

Internet finance takes "customer first" as its dogma, which is mainly reflected in the following aspects: (a) All user-centric product thinking. For Internet products, whether they truly adhere to the supremacy of users, accurately understand and meet their needs is the key to whether the product can ultimately occupy the market. The Internet must maintain a sense of participation, respect, and accomplishment of users. (B) Traffic thinking that only has traffic is valuable. Phil Libin (CEO of Evernote) once said: The easiest way to make 1 million people pay is to get 1 billion users. This highlights the value of Internet traffic. (C) Free is free-thinking for better charging. Internet finance will be charged in another form after it is free, such as basic services free, value-added service charges, or directly connect the upstream and downstream of the industry chain, and the middle level will be free.

4. Internet Financial Impact on the Traditional Business of Commercial Banks

The key to the influence of the Internet on the retail industry is that the Internet, as a channel, better and more directly connects the upstream and downstream of the product value chain, disintermediating the main body of the traditional retail industry. The path that Internet finance affects commercial banks is similar. Its path of influence poses a challenge to the three traditional upstream and downstream businesses of the commercial bank's value chain and ultimately leads to the disintermediation of commercial banks.

4.1 Internet Banking Commercial Bank Deposits Shunt

As one of the main ways commercial banks absorb public deposits, the deposit business is mainly affected by the third-party payment platform that has gradually emerged in recent years. The third-party payment platform has attracted a large number of users with its flexibility and convenience. In 2013, when Yu'e Bao was born, Internet finance began to impact the traditional deposit business of commercial banks. After that, platforms such as WeChat Liaoqiantong, Baidu Wallet, and Tenpay continued to rise. Such platforms can not only provide traditional banking services such as deposit transfers but also provide users with other convenient life services. Therefore, they are loved by users. Most traditional bank users deposit funds into third-party payment platforms. Compared with
traditional commercial banks, the deposit business of third-party payment platforms also has the advantage of relatively high-interest rates. Therefore, some traditional bank users will choose third-party payment platforms to obtain more interest, instead of abandoning the traditional bank counter model.

Although commercial banks have also launched platforms such as mobile banking to provide customers with online services, most users still prefer the high-interest rates and convenience of third-party payment platforms. If commercial banks do not work out corresponding countermeasures, as the age of netizens grows, third-party payment platform users will continue to increase, the increase in the number of customers of commercial banks will be restricted, and the development of commercial bank deposit services will also be restricted. Deposit business, as the foundation of loan business and intermediary business, once affected, will be extremely unfavorable to the long-term development of commercial banks.

4.2 Internet Finance Impacts the Loan Business of Commercial Banks

Loan business, as one of the traditional businesses of commercial banks, not only brings profits to the bank but also helps many users who are in urgent need of money to solve their urgent needs. For example, people will use bank loans to buy a house or a car. With the rise of the Internet loan industry, the traditional loan business of commercial banks has also begun to be affected. The online loan industry of Internet finance also has the characteristics of convenience and efficiency. Since 2013, the loan transaction volume of Internet finance has been increasing. In 2013, the loan transaction volume was 105.8 billion yuan, and by 2019, the transaction volume had reached 964.911 billion yuan. In some years, the growth rate of online loan transaction volume even exceeded 100%. Although online loan transaction volume has declined in recent years, it is still a relatively large amount. In contrast, the total amount of commercial bank loans has continued to decline.

The Internet credit industry represented by P2P online lending continues to innovate. It solves the problem of difficult and expensive financing for small and medium-sized enterprises, lowers the threshold of financing, and improves the efficiency of loans, providing users with more diversified choices. Although scandals about the online lending industry have continued in recent years, with the continuous improvement of relevant laws and regulations, the online lending industry is constantly on the right track, which will have a greater impact on the traditional loan business of commercial banks.

4.3 Internet Finance Weakens the Intermediary Business of Commercial Banks

Intermediary business refers to the general term for the business that commercial banks charge fees for customers to handle payments and other entrusted matters, and it is also an important way for traditional financial institutions to make profits. In recent years, with the rise of third-party payment platforms, the intermediary business of commercial banks has been hit hard. According to the data released by the Central Bank in July 2019, in the first quarter of 2019, non-bank payment institutions processed 11,148.532 billion online payment transactions with an amount of 5.80 billion yuan, an increase of 34.80% and 13.44% year-on-year respectively. Among them, Alipay, Tencent Finance, and UnionPay Commerce ranked the top three in China's third-party payment institutions' comprehensive payment market transaction share with market shares of 45.58%, 32.95%, and 9.34% respectively. Although commercial banks have stepped up the promotion of bank cards in recent years, lowered the fees and commissions for intermediary business, and increased their intermediary business transaction volume, there is still a big gap compared with third-party payment platforms.

The popularity of third-party payment platforms has been very wide. From teenagers to elderly people in their 50s and 60s, almost everyone will have Alipay on their mobile phones. Around 2015, when walking on the street, you can see Alipay promotion specialists coming to promote Alipay's collection code. Nowadays, more bank specialists come to promote POS machines and will be rejected by most store merchants. With the networking of living payment and shopping payment, the business scope of commercial banks is constantly being compressed. Compared with the flexible, convenient, and low-rate third-party payment, the commercial bank's intermediate business has
almost no advantage, which also makes commercial banks work in the business. Staff pressure doubled. Third-party payment platforms are constantly expanding their business scope and looking for breakthroughs.

5. Countermeasures for the Commercial Banking System to Respond to the Impact of Internet Finance

5.1 Promote Strategic Cooperation to Achieve Win-win Results and Strengthen Cooperation with Internet Technology Companies

As everyone knows, if any industry wants to develop in the long term, its development and innovation are far from enough. The same industry or cross-industry cooperation is what the times need, and we must be good at extracting the essence and removing the dross from cooperation. The same is true for commercial banks. Instead of blindly seeking development through innovation, it is better to seek cooperation in competition to achieve a Win-win situation. The development of commercial banks must not only strengthen inter-industry cooperation but also strengthen cross-border cooperation to achieve the integrated development of financial and non-financial. Just like Internet finance, the integration of finance and the Internet allows customers to not only enjoy the many conveniences brought by the Internet, but also the services brought by the financial market. Such cross-border cooperation is what the future needs.

Internet technology companies are both competitors and partners for commercial banks. In the Internet era, Chinese commercial banks should actively seek suitable Internet technology companies as partners. First, strengthen cooperation in technology. For network technology companies, technology and information technology are the basic reasons for development, and a series of businesses they have launched is also based on big data. For commercial banks, technology and information technology are their weak points of development. The development of commercial banks must rely on modern information technology industries. Therefore, Chinese commercial banks should actively cooperate with technology companies to develop more software systems suitable for banks. Second, in the process of cooperating with network technology companies, it can also strengthen the sharing of information resources for customers. Internet technology companies have a large amount of online customer data and transaction information, and commercial banks have mastered data on many large enterprises. Strengthening cooperation with each other can better complement each other's advantages and provide more opportunities for the innovative development of financial services.

5.2 Customer-centric Innovative Financial Services

(A) Improve customer experience. Every time a customer completes a financial activity, the commercial bank needs to enter the customer’s information, needs, and experience feedback into the customer analysis system, establish a personal profile of each customer, analyze the needs of different customers and subdivide them, and be demand-oriented. To provide customers with professional, refined and personalized financial services, thereby greatly improving customer experience. (B) Simplify business processes and provide all-weather services. Reduce the time cost incurred by customers in conducting financial activities and improve customer experience; provide a 24-hour online financial service platform that allows customers to enjoy good online financial services even outside of offline business hours. (C) Increase communication channels to closely contact customers. Commercial banks need to make full use of online and offline resources to achieve close contact with customers, so they can more efficiently meet customer needs. Online feedback websites can be built, and professional customer service or AI can be used to answer customer questions. Offline, commercial banks can set up communication desks at various bank branches, so that customers can conveniently communicate with bank staff about the problems they encounter and want to consult so that commercial banks can better improve service quality and customer satisfaction.
5.3 Strengthen the Specialization of Talents and Cultivate Compound Talents

Nowadays, the rise of Internet finance has led to the expansion of the demand for financial professionals, and the demand for talents is rising. Traditional commercial banks must improve the professionalism of internal personnel while looking for external talents, to alleviate the problem of tight talent supply. Internal cultivation and external absorption are carried out at the same time to ensure that the level of professionalism is always maintained at a high level. With the development of the Internet, commercial banks want to integrate the Internet with their own business, not only financial professionals but also computer talents.

6. Conclusion

The vigorous development of Internet finance is irreversible. Commercial banks’ deposits, loans, and intermediary businesses have all been impacted, but the crisis is a turning point. Challenges and opportunities coexist. Commercial banks should be aware of their shortcomings in the collision and competition. Work hard to improve and actively seek new development. Commercial banks should combine their business characteristics, cooperate with Internet technology companies with an open, inclusive, and Win-win attitude, continue to expand their business scope, improve service models, always be Customer-centric, and not forget the training and construction of talent teams. Only in this way can we adapt to the rapidly changing market and achieve new development in the fierce competition. The collision and integration of Internet finance and commercial banks, competition, and cooperation will innovate financial models, will lead to a new financial trend, and will further promote the development of China's financial industry.

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