Impact of Internet Finance on Commercial Banks in China

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Abstract

After the COVID-19 in 2020, China and the world are facing major changes unseen in a century. In this context, studying the impact of Internet finance on the traditional banking industry has important theoretical and practical significance. This article first studies the current development of Internet finance, then focuses on the impact of Internet finance on traditional commercial banks, and proposes corresponding countermeasures. Draws the following conclusions: Internet finance mainly includes three modes: Internet payment, Internet financial management and Internet financing. The emergence of Internet finance has both positive and negative impacts on traditional commercial banks. In the face of negative impacts, commercial banks should change their business philosophy, strengthen their own innovation capabilities, reduce the income dependence of traditional spreads, and actively seek cooperation with Internet financial companies.

Keywords

Internet; Finance; Commercial Bank.

1. Introduction

In the report of the 19th National Congress of the Communist Party of China, the "Internet" was mentioned many times, indicating that the Internet occupies an important position in my country’s social and economic development. Since the COVID-19 in 2020, the Internet has played a pivotal role in fighting the epidemic, further accelerating the wave of digitalization in my country. According to the 47th "China Statistical Report on Internet Development " released by the China Internet Network Information Center, as of December 2020, the number of Internet users in my country has reached 988.99 million, which is 85.4 million more Internet users than in March 2020. The Internet penetration rate reached 70%, accounting for two-thirds of the total number of people in the country. The number of mobile phone netizens reached 985.76 million, accounting for 99.7% of the total netizens, which means that mobile phone users in my country have basically achieved full network coverage. Part of the reason for the increase in the number of Internet users in 2020 is the conversion of users from teenagers to minors and the elderly. In addition, the new crown epidemic has also accelerated the all-round digital wave of individuals, enterprises and governments. For individuals, the epidemic has increased users' willingness to use the Internet. During the epidemic, users are more inclined to lifestyles such as online shopping and online food delivery than offline shopping. On the corporate side, online office and online transactions have risen rapidly. On the government side, the government's digital emergency response capabilities and online government service capabilities have been continuously "tempered" under the epidemic, and the online service index has entered the world's leading ranks.

It can be seen from Table 1 that in 2020, the growth of personal Internet applications in my country will be relatively stable. Affected by the COVID-19, online payment shows great potential for development. In 2020, the user scale of online payment and online shopping will increase the most, with growth rates of 11.2% and 10.2% respectively. As of December 2020, the number of online payment users in my country was 854 million, an increase of 86.36 million
compared with March 2020, accounting for 86.6% of the total netizens; The number of mobile network payment users reached 853 million, an increase of 87.44 million from March 2020, accounting for 86.5% of mobile Internet users. Online payment assists merchants in accurately pushing information through the aggregation of supply chain services, helping the development of the digital economy. The in-depth integration of mobile payment and inclusive finance has narrowed the gap between my country’s east and west and urban and rural areas through popularized applications, and promoted the digital dividend to benefit the public, and effectively improved the availability of financial services. After the COVID-19 in 2020, China and the world are facing major changes unseen in a century. In this context, studying the impact of Internet finance on the traditional banking industry has important theoretical and practical significance.

Figure 1: China's Internet scale and Internet penetration rate
Source: The 47th "China Statistical Report on Internet Development " released by the CNNIC

Figure 2: The scale of mobile Internet users in my country and the proportion of mobile Internet users in the overall Internet users
Source: The 47th "China Statistical Report on Internet Development " released by the CNNIC
Table 1. User scale and utilization rate of various Internet applications by netizens from March 2020 to December 2020

<table>
<thead>
<tr>
<th>Application</th>
<th>Number of users (104 people)</th>
<th>Utilization rate</th>
<th>Number of users (104 people)</th>
<th>Utilization rate</th>
<th>Growth rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020.03</td>
<td></td>
<td></td>
<td>2020.12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instant messaging</td>
<td>89613</td>
<td>99.2%</td>
<td>98111</td>
<td>99.2%</td>
<td>9.5%</td>
</tr>
<tr>
<td>Search Engines</td>
<td>75015</td>
<td>83.0%</td>
<td>76977</td>
<td>77.8%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Online news</td>
<td>73072</td>
<td>80.9%</td>
<td>74274</td>
<td>75.1%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Telecommuting</td>
<td>-</td>
<td>-</td>
<td>34560</td>
<td>34.9%</td>
<td>-</td>
</tr>
<tr>
<td>Online shopping</td>
<td>71027</td>
<td>78.6%</td>
<td>78241</td>
<td>79.1%</td>
<td>10.2%</td>
</tr>
<tr>
<td>Online takeaway</td>
<td>39780</td>
<td>44.0%</td>
<td>41883</td>
<td>42.3%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Online payment</td>
<td>76798</td>
<td>85.0%</td>
<td>85434</td>
<td>86.4%</td>
<td>11.2%</td>
</tr>
<tr>
<td>Online investment</td>
<td>16356</td>
<td>18.1%</td>
<td>16988</td>
<td>17.2%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Online game</td>
<td>53182</td>
<td>58.9%</td>
<td>51793</td>
<td>52.4%</td>
<td>-2.6%</td>
</tr>
<tr>
<td>Web video</td>
<td>85044</td>
<td>94.1%</td>
<td>92677</td>
<td>93.7%</td>
<td>9.0%</td>
</tr>
<tr>
<td>Short video</td>
<td>77325</td>
<td>85.6%</td>
<td>87335</td>
<td>88.3%</td>
<td>12.9%</td>
</tr>
<tr>
<td>Network music</td>
<td>63513</td>
<td>70.3%</td>
<td>65825</td>
<td>66.6%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Network literature</td>
<td>45538</td>
<td>50.4%</td>
<td>46013</td>
<td>46.5%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Webcast</td>
<td>55982</td>
<td>62.0%</td>
<td>61685</td>
<td>62.4%</td>
<td>10.2%</td>
</tr>
<tr>
<td>Ride-hailing</td>
<td>36230</td>
<td>40.1%</td>
<td>36528</td>
<td>36.9%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Online education</td>
<td>42296</td>
<td>46.8%</td>
<td>34171</td>
<td>34.6%</td>
<td>-19.2%</td>
</tr>
</tbody>
</table>

Source: The 47th "China Statistical Report on Internet Development " released by the CNNIC

2. Internet finance development

"Internet finance" does not exist abroad. It first appeared at the China Finance Forty Forum in 2012. Since the concept of "Internet Finance" was put forward, relevant documents have emerged in endlessly. Their definition of Internet finance can be summarized as a new financial model based on traditional finance, combined with emerging Internet information technology, to achieve higher public participation, more convenient operations, and more innovative products. It mainly includes three modes: Internet payment, Internet financial management and Internet financing.

2.1. Internet payment

Internet payment refers to the behavior that customers use computers, mobile phones and other devices to initiate payment instructions through the Internet to realize the transfer of money and funds in order to purchase specific goods or services. The main manifestations are online banking, third-party mobile payment, etc. Since 2013, third-party mobile payment has become the most important payment method among third-party payments. With the rapid development of third-party payment platforms, more businesses in commercial banks overlap with third-party payment institutions, and the two compete with and promote each other.

According to iResearch's 2020 China Third-Party Payment Industry Analysis Report, it can be seen that the scale of third-party payment transactions has grown rapidly in recent years. The transaction volume of third-party payment services increased from 6 trillion yuan in 2014 to 226.1 trillion yuan in 2019. It is estimated that the scale of third-party payment transactions will reach 249.2 trillion yuan in 2020. In addition, between 2016 and 2019, the transaction size of online e-commerce payments increased from 965.4 billion yuan to 1982.09 billion yuan, an increase of 105.3%. In the same period, the transaction size of offline QR code payment increased from 83 billion yuan to 738.53 billion yuan, an increase of 8792.2%. The huge...
difference in the growth rate of online e-commerce payment and offline QR code payment reflects the transformation of Internet companies from pure online payment to online and offline integration. At present, the most important third-party mobile payments in the market are Alipay and Licaitong, which account for 54.4% and 39.4% of the market respectively. The rapid development of third-party payment is bound to have a huge impact on the payment and settlement business of commercial banks.

![Figure 3. 2014-2020e China's third-party mobile payment scale (Source: Iresearch)](image)

### 2.2. Internet financial management

Internet financial management refers to the management of financial products through the Internet to obtain certain benefits. Current and regular financial management are the two main financial management models launched by Internet financial companies. Yu'ebao and Monetary Fund are current wealth management mainly used by users; regular wealth management is generally a regular wealth management developed by various wealth management platforms. According to the 47th "China Statistical Report on Internet Development " released by the China Internet Network Information Center, as of December 2020, Internet wealth management users have reached 169 million, with a utilization rate of 17.2%. At present, China's Internet wealth management has entered a stage of standardized development. Affected by the new asset management regulations, the Internet wealth management market has generally shown the coexistence of "rapid development" and "structural adjustment". In recent years, in order to compete with Internet financial companies, traditional commercial banks have also launched many Internet “baobao” products, and have become the main issuers of “baobao” products. Generally speaking, regardless of whether it is an Internet financial enterprise or a traditional banking industry, the Internet wealth management business is developing rapidly.

### 2.3. Internet financing

Before 2019, P2P network lending was the main form of Internet financing, but with the introduction of new asset management regulations, all P2P network lending platforms have been closed. Online crowdfunding, Online installment and Consumer finance are currently the more common financing businesses. According to the latest statistics from Renchuang Consulting, as of January 2020, there are 66 crowdfunding platforms in operation in my country. Based on statistics on the types of platforms in operation, there are 23 non-public equity financing platforms on the Internet, 24 equity platforms, 8 property rights platforms, 7 comprehensive platforms, and 4 public welfare platforms. The internet financing products of
traditional commercial banks in my country are mainly internet consumer finance, internet installment and small and micro internet credit loans. The internet financing products of traditional Chinese commercial banks are mainly internet consumer finance, internet installment and small and micro internet credit loans. Some of these products can already be handled completely online, such as Orange e financing issued by Ping An Bank; but some products only apply for loans online, and the subsequent approval and signing process is still completed offline.

3. Impact of internet finance on traditional banking

3.1. Opportunity

Internet finance provides a technical foundation for broadening the population of financial services. The core technology of financial services lies in data processing. Internet finance realizes the perfect combination of data processing technology and the development of the financial industry, which helps banks deal with low-end customer population risk diversification and diversified business characteristics, and enhances the enthusiasm of banks to serve small and medium customers.

Internet finance provides new solutions for improving customer service. Commercial banks can discover potential customers and potential needs in advance through data mining and analysis, develop financial products and services that meet customer needs, and proactively provide services to customers.

Internet finance helps expand banking business and customer channels. For traditional banking business, customers are the basis for the operation of traditional banking and other financial institutions. The emergence of the Internet is more conducive to traditional commercial banks to expand their customers.

Internet finance strengthens the price discovery function of traditional finance. In traditional banks and other financial institutions, they cannot effectively respond to the marketization of interest rates. In the operation of the Internet financial model, it is possible to make a more objective response to the price preference above the market supply and demand, which is a huge turning point and progress for the traditional banking business.

3.2. Challenge

The emergence of Internet finance has impacted the status of commercial banks as payment intermediaries. The long-term payment and settlement functions of commercial banks have not only expanded the scope of social transactions, but also reduced social transaction costs, which has become a stimulating factor for the efficient operation of today's economy. However, the innovation of Internet finance has given new connotations to the payment and settlement function, and has challenged the payment function of traditional commercial banks. As Internet financial products are closer to consumer demand, it has caused an impact on the long-term monopoly of payment and settlement functions of banks, forming the current pattern of coexistence of third-party payment and traditional bank payment, and the market share of third-party payment has a trend of increasing year by year.

The influence of Internet finance on the intermediary business of traditional commercial banks. Intermediary business income is an important source of income for commercial banks, mainly including payment and settlement, investment and financial management, bank cards, cost consulting, commitment business and guarantee business. The rise of the third-party payment business is gradually eroding the intermediate business income of commercial banks. Payment and settlement services from transfer and remittance to payment of electricity bills, insurance payment, and phone bill recharge can all be operated through third-party payment. In addition, third-party payment platforms cooperate with fund companies to enter fund sales channels
where commercial banks are in a monopoly position. For example, Alipay launched the Yu’ebao fund direct sales platform, which penetrated the Internet and wealth management products, and became a new channel for fund sales. Moreover, the channel sales cost is lower than that of commercial banks, which is more attractive to fund companies and reduced the intermediate business income of commercial banks.

The impact of Internet finance on the demand deposit business of traditional commercial banks. Commercial bank deposits mainly include demand deposits and time deposits. Due to low interest rates, large deposit-loan spreads and high profits, demand deposits have always been the key deposit business of commercial banks. The interest rates of various currency fund wealth management products of Internet finance are higher than that of demand deposits in commercial banks, which are more attractive to investors and divert the demand deposit business of banks. It is foreseeable that a large amount of demand deposits will be transferred to the currency fund pool in the future, and the impact on commercial banks will continue to increase.

The influence of Internet finance on the credit scale of traditional commercial banks. With the continuous development of Internet technology and the continuous expansion of personal living space, the individualized demand for financial services is also increasing. Internet finance companies use big data to grasp customer psychology, and in response to the actual needs of customers, use cloud computing, big data and mobile Internet technology to innovate financial products, and continue to introduce financial products that meet customer needs. In addition, Internet finance companies carry out customer marketing activities in a targeted manner, making it easier to gain consumers' favor. Starting from the early financial Internet, the development of the Internet has gradually matured. The rise of Internet payment, Internet financial management and Internet financing continue to erode the core business of commercial banks, especially the efficiency and convenience of financing channels have a greater impact on commercial banks whose main source of income is interest differential income.

4. Suggestion

Traditional commercial banks should change their business philosophy. Commercial banks should fully understand the impact of technological changes, face up to the impact of Internet finance, and actively respond to them. Maintain keen market insight at all times to avoid the traditional "fixed thinking model" from adversely affecting the development of commercial banks. Look at problems from a development perspective, continue to learn and make continuous progress, re-examine the traditional banking business from different strategic heights, have the courage to carry out technological innovation, give priority to the development of mainstream banking business, focus on improving customer service levels, and comprehensively improve customer satisfaction, to lay a solid foundation for achieving sustainable development goals.

Traditional commercial banks should strengthen their own innovation capabilities. On the one hand, commercial banks should improve their data acquisition capabilities. Pay attention to the recruitment of financial technology positions, increase the recruitment of financial compound talents, and improve the training mechanism to achieve the goal of data self-sufficiency. On the other hand, commercial banks can build an online interactive system. Including the use of instant messaging tools, forums, Weibo and other tools to build an interactive space for answering questions, a platform for soliciting opinions and an experience evaluation system, etc., to provide customers with targeted consulting services, to continuously improve the deficiencies in the service, to improve customer satisfaction, and to improve Customer stickiness.
Traditional commercial banks should reduce their dependence on income from traditional spreads. On the one hand, commercial banks should improve the efficiency of settlement business. Vigorously promote the scientific and informatization of settlement business, and quickly and safely issue drafts, promissory notes and checks. Realize the scientific use of current resources. For example, traditional commercial banks have complete treasury facilities and high safety index, which can provide customers with security services for valuables and securities. On the other hand, commercial banks should vigorously expand intermediary business. Regarding the development of intermediary business as a long-term task of adjusting business structure, realizing business transformation, improving service levels, and reducing operating risks. Adhere to customer-centric and market-oriented, vigorously develop low-risk, high-value-added intermediate business that is conducive to the use of commercial banks' advantages, so as to increase the proportion of intermediate business income. We will comprehensively carry out cooperation between bank-Insurance, bank-bank, bank-government, and bank-enterprise cooperation, strive to expand the scope of agency business, and actively and steadily establish guarantee, commitment, custody, and consulting businesses in accordance with laws and regulations. Actively and steadily carry out business such as bond investment, central bank bills, repurchase arbitrage, etc., make the treasury business better and stronger, and increase the proportion of treasury business income and the level of comprehensive income.

Traditional commercial banks should strengthen cooperation with Internet financial companies. One is to strengthen cooperation in payment functions. Banks accumulate customer information through third-party payment institutions, while Internet finance companies increase customer trust through cooperation with banks. Both parties can provide customers with better services by learning from each other's strengths. The second is to strengthen cooperation in credit and capital information. Internet financial credit requires banks to operate normally. This relationship has laid a good foundation for bank-enterprise cooperation. Internet financial companies use the Internet to collect a large amount of financial information. For banks, this information can help them understand customers' investment preferences, investment channels, and various funding needs. In addition, banks have strengthened cooperation with Internet financial companies, and can learn data processing and other technologies from them.

5. Conclusion

The rapid development of Internet finance has brought a lot of impact on traditional commercial banks. But at the same time, it also brings certain opportunities for the development of commercial banks. Under the impact of the COVID-19, the world is facing major changes unseen in a century. The traditional banking industry can only remain invincible in the competition if it changes its business philosophy, strengthens its own innovation capabilities, reduces the income dependence of traditional spreads, and actively seeks cooperation with Internet financial companies. In addition, the Internet has become an indispensable part of the social infrastructure, and the Internetization of finance is inevitable. In order to promote the healthy development of Internet finance, prevent risks and safeguard the rights and interests of financial consumers, relevant industries must strengthen industry self-discipline, the state must speed up legislation, and regulatory agencies must innovate regulatory models and regulatory concepts to jointly create a good financial environment.

References


