

Talking about the Transformation and Development of Commercial Banks under the Background of Internet Finance

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Abstract: In recent years, with the rapid development of Internet technology, Internet financial products in the form of third-party payment, Internet banking, P2P, etc. have been emerging and rapidly growing. This emerging business model and profit-making methods are in dislocation with commercial banks pattern. The long-term development of this new type of financial industry will inevitably have a huge impact on commercial banks, and it will also have an impact on the traditional way of doing business of commercial banks, and it will have positive significance for their transformation and development. This article will analyze the impact of internet finance on traditional commercial banks based on the definition of the concept of internet finance and the introduction of business models, and then put forward the development direction and countermeasures of commercial banks in the process of transformation.

Keywords: Internet finance; commercial banks; impact; transformation.

INTRODUCTION

Preface

In recent years, with the continuous development of Internet finance, there are numerous companies involved in Internet finance, such as Tencent, Alibaba and Tencent. These enterprises quickly invaded the Internet finance field through their own existing advantages, Alipay balance treasure, P2P loans, WeChat change money and other financial products came into being [1].

The development of internet finance has, to a certain extent, formed a huge impact on the traditional business of commercial banks. If left unchecked, internet finance will certainly replace some of the commercial banks. Therefore, the transformation and development of traditional commercial banks are imperative. This article will analyze and explore the impact of internet finance on commercial banks, and give some suggestions for the transformation of commercial banks.

Internet finance concept

Internet finance is not just a simple combination of the Internet and finance. It is not only different from the indirect financing of commercial banks, but also different from the direct financing model of the financial market, but it is a new model based on the Internet network and IT technology as a platform. Openness, equality, collaboration, sharing, etc. Internet spirit and philosophy. Alibaba founder Ma Yun said in his speech "Foreign Proactive and Internet Finance Forum": Making credit is the essence of finance. Internet finance itself is to establish a creditable system [2]. In short, the Internet finance referred to in this article refers to the way in which

Finance Capital needs to rely on relevant Internet technologies.

Characteristics and Patterns of Internet Financial Services

Payment and settlement model

The main business of the payment and settlement model is third-party payment. The third-party payment institution establishes a guarantee system that is independent of merchants and banks, and provides transaction parties with temporary funds and transaction guarantees to provide merchants and consumers with payment and settlement services. Typical products include Alipay, Wechat and Tenpay

Network financing mode

The network financing models mainly include P2P loans and crowdfunding. The P2P loan transaction model is personal to individual. Borrowers can issue their own loan needs through qualified intermediary. The borrower borrows interest on the borrower's borrowing the deadline for the selection of loan targets. The general procedures for P2P loans are relatively simple and their quotas are relatively small [3]. Typical products are people who loan, pat loans and so on.

Internet Finance Mode

The network financing model is an emerging financial model, which is the network sales of financial or wealth management products such as funds, brokers, and insurance. It has the characteristics of low threshold, high profitability and high liquidity. Usually Internet companies and fund companies or financial companies cooperate to sell the company's financial or wealth management products on the Internet, and some fund companies or wealth management companies establish their own network platforms to sell their own wealth management products online. Typical balances, such as balance treasure, financial pass, change money pass.

Internet Banking Model

The model of online banking is that commercial banks set up websites on the Internet, provide banking services and services for micro enterprises and individual customers, set up small credit loans, sell financial products, and complete the business processes of commercial banks online. The

advantages of internet banking are saving time and reducing transaction costs

Impact of Internet Finance on Commercial Banks
Impact of Third Party Payments on Banking Business

The rapid development of Internet technology and the emergence of third-party trading platforms have seriously affected the development of traditional commercial banks. The emergence of third-party payment platforms will increase the flow of deposits from users to the banks, which will lead to the outflow of current deposits from banks. The so-called outflow of bank demand deposits means that users deposit more liquidity funds into third-party payment platforms for normal use transaction. In recent years, the third-party payment industry in China has developed rapidly (see chart 1). Since 2013, the transaction scale of third-party payment markets 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. It is conservatively estimated that in 2017, the scale of third-party payment transactions in China exceeded 100 trillion yuan.

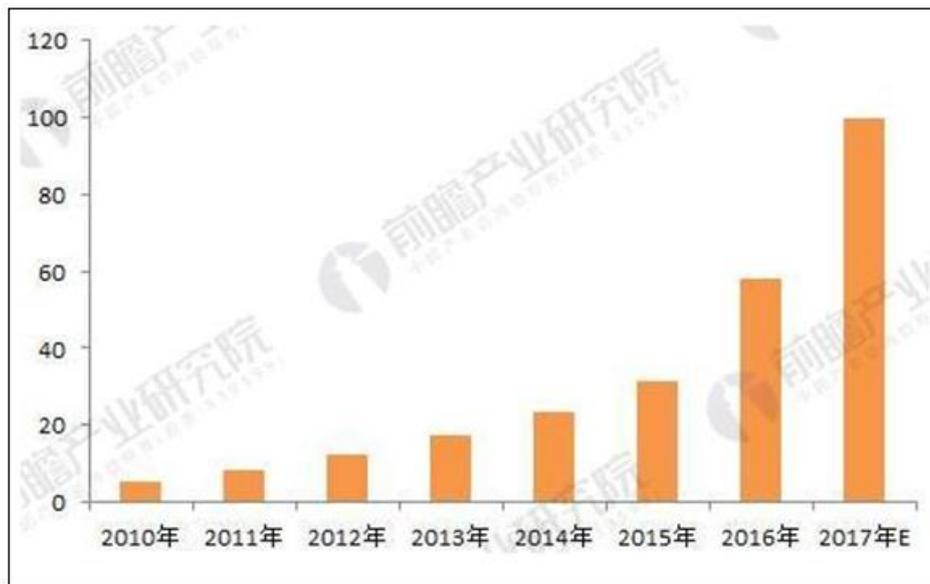


Chart-1: China's third-party payment market transaction size between 2010 and 2017 (unit: trillion yuan)
 Source: Forward-looking Industry Research Institute

支付类型	原方式	传统银行模式	第三方支付模式
普通支付	POS机	银行获得 0.34%-1.12% 的手续费收入 (发卡行+收单行合计)	银行获得 0.2%-0.4% 的交易佣金
	网银	银行直接收取约 0.5%-1% 或 2-50 元/笔的线上商户交易佣金	银行获得 0.2%-0.4% 的交易佣金
转账汇款	网银/柜台	银行获得 0.2%-0.4% 的交易佣金	银行获得 0.1%-0.4% 的交易佣金

Chart-2: The Impact of Third Party Payments on Commercial Banks

Chart-2 is the difference between the traditional bank payment model and third-party payment model. The bank issues POS machines to merchants. When the customers pay for the cards, the bank will charge about 2% of the fee, and this part of the cost is borne by the merchant. The distribution of fees will generally be in accordance with the ratio of 2:1:7, of which 20% belong to banks providing POS machines, 10% to China Union Pay, and 70% to all issuing banks. If the POS subordinate unit and the issuing bank act in the same bank, then the bank can obtain 90% of the fee income in this business. However, if the customer chooses a third-party payment platform for payment, this will directly affect the benefits of bank charges. Using Alipay transfer, then the issuing bank can get 70% of the fee income. Generally, Alipay will charge 0.3%~0.5% of the fee rate for each transfer business, that is, the card issuer can get 0.2%~0.4% of the fee income Rate of fees. The bank's traditional transfer business has been severely affected by the huge transaction volume paid by third parties, and the total fee and service fee revenue has been declining [4].

Impact of Network Financing on Banking Business

Financing business is the most common type of business in the Internet financial development

model, and it is also a type of business that is more infiltrated by traditional commercial banks. The P2P network loan is the main business of Internet finance financing. P2P online lending is an innovative method that differs from previous financing methods. It opens up other financing channels for SMEs with financing needs, solves the loan difficulties faced by individuals and SMEs due to loan quotas, and effectively supplements the business. Loan business ignored by banks. Under the traditional credit model, the commercial bank loan process is relatively complex and consumes more resources in terms of human resources and process procedures. However, P2P online loan can immediately provide the borrower and lender with a trading platform to avoid the financial intermediary and the low cost of borrowing, which at the same time to seize the potential customers of commercial banks, but also threatened the commercial banks to threaten the lending business.

In the whole year of 2016, the transaction volume of the online banking industry reached RMB 2,038.382 billion, which is an increase of 110% compared to the entire year of 2015. The cumulative turnover exceeded RMB 3 trillion.

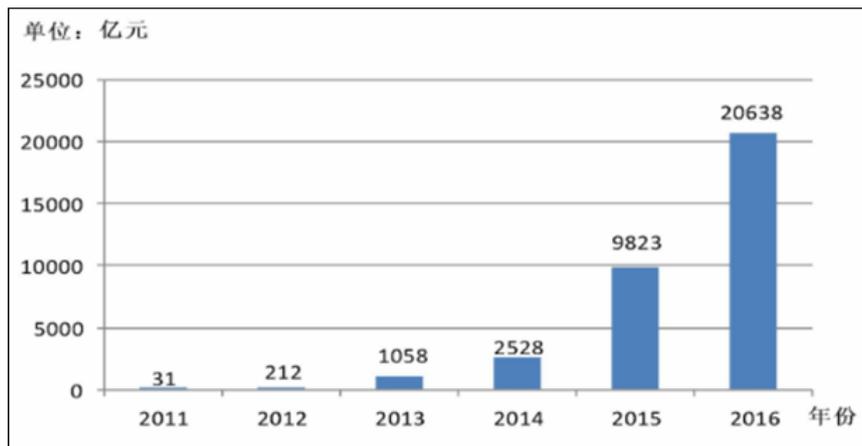


Chart-3: Scale of online loans for 2011-2016

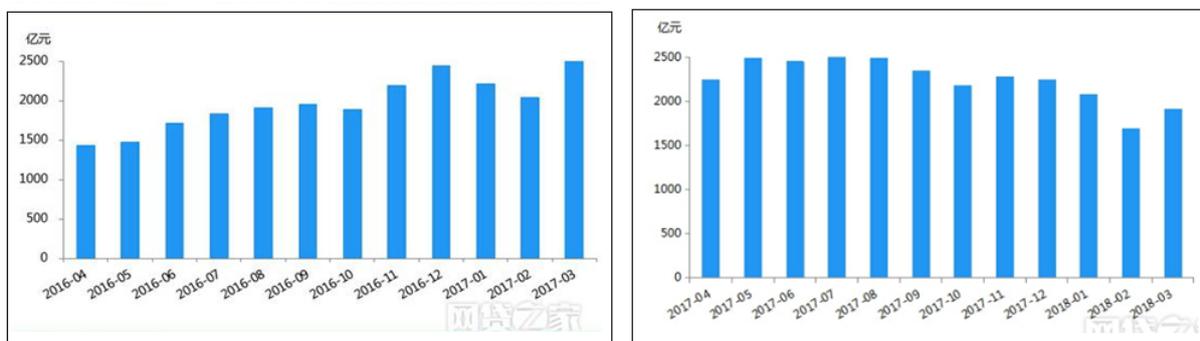


Chart-4: Chart of the trading volume of P2P online loan industry in China from April 16 to March 18 in China
Source: Home Credit

Since 2011, China's P2P network loan industry has seen a rapid increase, and the scale of online loan has grown at a very high speed. It has increased by 665.7 times in 6 years, and the average annual growth rate has reached 295.50%, especially from 2011 to 2012. The year-on-year increase was 683.87%. After that, the growth rate gradually slowed as the scale of online loans expanded. The rapid development of online loans has affected the commercial bank's loan business. Although online loans are only small loans that temporarily cannot cause great insults to the commercial bank loan business, this behavior has already started the debt business and intermediary business of commercial banks challenge.

The Impact of Internet Finance on Banking Business

With the continuous development of Internet finance and the continuous increase in users, the Bank is also strengthening the development of funds, financial management and other aspects. It essentially has the characteristics of commercial bank deposits, which has caused a relatively large impact on the deposit business of commercial banks. Internet finance

has more advantages when it competes with commercial banks. For example, commercial banks have a strict market access system. At present, Internet finance can construct accounts even without confirming customer identities; in addition, the benefits of Internet finance are obviously higher. The bank's deposit business income, even if the small amount of money can also be financial management. Throughout this entire operation process, Internet finance has achieved the attraction of deposits, and has developed a series of financial service products, enabling a large number of scattered customers to manage their financial products through Internet financial products. This undoubtedly has an impact on the deposit business of commercial banks. According to relevant statistics, in 2017, the scale of the Internet wealth management market has exceeded 14 trillion yuan, and is expected to exceed 18 trillion yuan in 2018. Since 2013, the scale of Internet finance has been increasing rapidly. In 2014, it was 223% higher than last year. In 2015, it was 293% higher than last year. Afterwards, although the upward trend has slowed, it still shows a steady upward trend every year. See chart 5 below for details

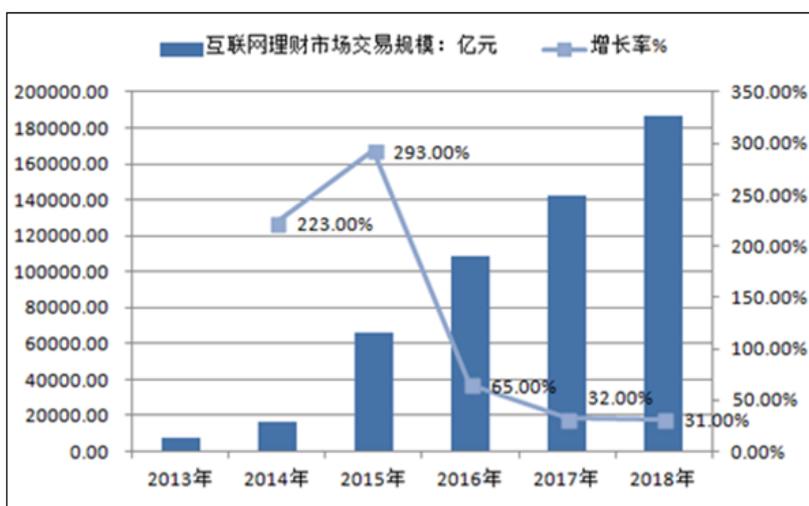


Chart-5: 2013-2018 Internet Financial Market Transaction Size

Data Source: Public Data Collation

The traditional bank's demand deposits have been hit in the process of enriching Internet wealth management. These demand deposits have become financial transactions through the Internet and become deposits of agreement deposits again into banks. In this process, commercial banks are forced to pay high fees. Interest rates, which lead to increased costs [5].

Countermeasures and Suggestions for the Transformation and Development of Commercial Banks in the Background of Internet Finance Cooperation with Internet finance companies

Business should strengthen cooperation with Internet finance companies. Internet finance companies

have a large number of customer bases and technology bases, and banks have sound internal mechanisms and professional practitioners [6]. The two can work together to promote mutual progress and achieve a win-win situation. Commercial banks can rely on their massive credit transactions and basic financial data to grade and classify small and medium-sized enterprises (SMEs), thereby minimizing risks and reducing the cost of screening quality companies. Jointly build an online financing platform to provide preferential financing services for SMEs and attract SMEs to commercial bank loans. 4.2 Strengthening and speeding up the construction of e-banking

In order to deal with the impact of Internet finance. Commercial banks should do the following: improve the innovation capability of electronic banking products, develop electronic banking products suitable for market demand, actively participate in electronic commerce, and launch electronic banking products suitable for small and medium-sized enterprises. Commercial banks should pay attention to the development of e-banking, formulate e-banking development strategy plans, and improve e-banking service capabilities and service methods. We will adjust the structure, establish an electronic banking department, and strengthen talent development. Banks should take full advantage of the convenience and speed of electronic channels to further enhance customer experience. Accelerate the migration of traditional products from the personal finance department to electronic channels, expand the coverage of e-channel support for traditional outlets, and actively promote the transformation of electronic channels from transaction access to an interactive integrated marketing platform.

Diversification of service channels

In recent years, commercial banks have invested a great deal of financial and human resources in the construction of outlets. After continuous improvement, the overall service environment has become better. Commercial bank outlets have shifted from transaction accounting to sales services, greatly enhancing service functions. The improvement of hardware construction has made the service facilities further improved. At present, various commercial banks should make full use of the development of technology, especially Internet technology, further widen the service boundary, carry out online and offline services, and make service channels more efficient. Diversification. Simplifying the manual business, reducing labor costs and operating costs, and increasing the replacement rate of human-machines are all things that various commercial banks must do. We must increase investment in online banking, mobile banking, and self-service equipment, expand service coverage, and increase the convenience of services.

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