

The Significance and Path Choice of Financial Innovation Strategy of State-owned Commercial Banks

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Abstract: This paper probes into the significance of the implementation of financial innovation strategy by state-owned commercial banks and puts forward some suggestions for its implementation. Firstly, the significance of financial innovation of state-owned commercial banks is analyzed: financial innovation is the need of adapting to the new technological revolution and the embodiment of implementing the management concept. At the same time, it is also the main way to enhance competitiveness and expand the scope of business. It is of great significance for strategic landing, self-promotion and financial openness. Secondly, it analyzes the problems existing in the current state-owned commercial banks' financial innovation strategy. Finally, the paper proposes the path choice for developing financial innovation, and believes that state-owned commercial banks implement financial innovation strategies and enhance their competitiveness. It is necessary to strengthen the cultivation of innovative talents, strengthen the support of financial science and technology, do a good job in the overall planning of financial innovation, give play to the role of front-line employees, learn from the experience of foreign financial innovation, and expand the scope of financial innovation.

1. Introduction

Finance is the core of the modern economy, and financial innovation is one of the driving forces for the financial industry and the entire economy. Since the 1970s, the pace of financial innovation has greatly changed the way and content of the financial systems of various countries. Finance and financial innovation have increasingly become the "two wings" for promoting economic growth. The symbiotic relationship between finance and economy is more closely related. Financial innovation has become the main means of business development and risk management of commercial banks in various countries. Factors such as regulatory relaxation, technological advancement, intensification of competition, and exchange rate and interest rate changes are recognized as the main drivers of financial innovation. In 1997, Santomero put forward the concept of "all financial" which is more comprehensive and profound than "all financial" under the condition of mixed operation. The theory holds that the whole finance is a higher financial operation mode than the mixed financial operation mode. It is a new form of finance, which is higher than all-round banking and banking and insurance financing, takes the form of virtual enterprise as the organizational form, takes the structural integration of all-financial products as the micro-basis, and realizes the complete individualization of financial products as the fundamental purpose. It is not only the innovation of financial operation mechanism (system), but also the innovation of financial products, but also the innovation of financial market demand. This concept predicts the future development and innovation direction of the world financial industry forward-looking, and the financial development over the past two decades has also proved the correctness of this theory. Guo Shuqing, chairman of China Banking and Insurance Regulatory Commission, pointed out at the 10th Lujiazui Forum in 2018 that financial innovation is conducive to meeting the multi-level and personalized needs of financial consumers, supporting the development of real economy and preventing financial risks.

Under the background of the increasing openness of financial market, the acceleration of interest rate marketization and the adjustment of economic structure, the competition among financial

institutions becomes more intense. As an important part of the financial system, state-owned commercial banks are also facing major issues of reform and development in the innovation of the financial system. Financial innovation is an important strategy to promote the development of state-owned commercial banks. How to implement and implement the financial innovation strategy in practical work also has far-reaching significance for the development of state-owned commercial banks.

Party Zhenhua et al. (2019) conducted a study on how state-owned commercial banks transformed traditional business ideas in the era of Internet finance and financial innovation in the support of small and micro enterprises. Che Yu (2019) believes that financial innovation has become a hot spot in the development of modern financial markets, and studies how commercial banks can cope with the financial risks that may arise under financial innovation. It can be seen that the literature on the implementation of financial innovation strategies for state-owned commercial banks is still scarce. Under the circumstances that financial innovation has become a major trend, it is necessary to study the financial innovation of state-owned commercial banks. Firstly, this paper analyses the significance of financial innovation of state-owned commercial banks, and probes into the deficiencies of current state-owned commercial banks in financial innovation. Finally, the paper puts forward some suggestions on how to implement the financial innovation strategy in an all-round way and how to control the risks in the process of financial innovation, so as to expound the implementation of the financial innovation strategy by state-owned commercial banks.

2. The Significance of Financial Innovation of State-owned Commercial Banks

2.1. Financial Innovation is the Need of Adapting to the New Technological Revolution

From the middle of the 18th century to the end of the 20th century, three technological revolutions took place successively in human history, which originated from the western countries and were innovated and led by them. These three technological revolutions pushed human society into a prosperous era. In the 21st century, mankind is facing unprecedented global energy and resources crisis, global ecological and environmental crisis, global climate change crisis and other multiple challenges, which triggered the fourth technological revolution. New technological revolution will greatly change the operation of social economy, industrial restructuring and enterprise competition are inevitable. KPMG, a well-known international accounting firm, put forward in Meet Eve: Your Smart Virtual Assistant and the Bank of the Invisible Future that banks and their services may "disappear" by 2030. A human assistant like Siri ("Eve") will take over the customer's life and financial services, the bank's customer service, sales and IT departments will disappear, and professional services will be further developed. In fact, the impact of Internet finance on traditional finance has already begun to take shape in recent years. At the end of 2014, Ma Yun once said in a summit forum at the beginning of Ant Financial that "if the bank does not change, we will change the bank", which may become a reality. The role of the new technological revolution in economic society is to change people's information transmission and interaction methods, greatly improve the efficiency of information acquisition, reduce the cost of information acquisition, change the basis of decision-making, and expand the scope of decision-making. Thus completely overturning the traditional decision-making mode and thinking mode, its impact will be far-reaching.

2.2. Financial Innovation is an Important Embodiment of Implementing the "Customer-centric" Business Philosophy

Creating value by providing goods or services is the basic rule for the survival of a market economy. In the modern market economy, each market economy entity usually consciously or unconsciously takes "customer-centric" as its basic business philosophy. From the perspective of humanistic philosophy, world-renowned management scientist Drucker believes that enterprises should understand enterprises from the perspective of people. Human factors should be more important than profit factors, and the purpose of enterprises is to create customers. American

strategic management scholars Cary Hamel and CK Prahalad mentioned in the book "The Big Future of Competition": "Enterprises must survive and develop, they must go over customers. Farther, because customers are generally lacking in vision." The above views clearly reflect the basic concept of customer-centered. Providing services is the eternal theme of modern commercial banks and an important way to achieve strategic value. Without high quality and comprehensive products and services, we can not achieve higher value creation goals. Financial innovation can not only provide customers with a wide range of alternative financial products, but also reflect good service in the process of product and service delivery.

2.3. Financial Innovation is an Important Way to Improve Market Competitiveness

Customer service quality and risk control ability are the core competitiveness of modern commercial banks. Without financial innovation, it is impossible to provide customers with advanced and personalized products. The popularization and generalization of service content will gradually lose its attraction to customers, and will also face fierce market competition. For a long time, the products and services of domestic commercial banks have a serious homogenization trend, which leads to vicious competition in the business field. Especially every spring, every bank will have a "deposit war". The reason why banks compete so much is that the deposit rate in China is not market-oriented. That is, the deposit and loan spreads are too high. When the deposit interest rate is not marketized and the loan interest rate is marketized, it means that whoever grabs the deposit will take the spread and maintain high returns. In the long run, most banks are lying on the basis of eating spreads and losing the power of innovation. However, with the further deepening of interest rate marketization, the gradual enrichment of various wealth management products, the gradual rise of small and medium-sized banks, the comprehensive development of capital markets, and the changes in Chinese savings habits. The traditional profit model of domestic commercial banks faces serious challenges. Only by strengthening financial innovation can we provide high-quality and "tailor-made" products and services according to the needs of our customers, and enhance their ability to compete with other financial institutions.

2.4. Financial Innovation is an Important Means to Expand Business Space

With the continuous advancement of financial marketization and financial openness, the proportion of traditional banking business is gradually decreasing, and the competition of various financial institutions is also more intense. As a result, profit margins have been seriously threatened. The current macroeconomic regulation and control and slowing of economic growth have made most domestic banks appreciate the pressures faced by traditional banking. Some banks are gradually withdrawing from industries such as high pollution, high energy consumption, overcapacity, real estate, and low-end manufacturing. Since 2017, financial deleveraging has made the shadow banking business shrink dramatically. The growth of assets and transactions of state-owned commercial banks has slowed down or declined, which is called "asset shortage". These factors have forced banks to re-open business battlefields, such as inclusive finance, Housing leasing and other businesses favored by commercial banks. However, such business generally has the characteristics of high cost, high risk and small quota. Commercial banks need to strengthen financial innovation to adapt to the new situation. It should be said that how to create a new business area is an important issue for state-owned commercial banks. Financial innovation can effectively overcome the dilemma of shrinking traditional banking business, and bring broader service space and value creation space for state-owned commercial banks.

2.5. Financial Innovation is an Important Means to Deal with Financial Openness

Since the reform and opening up, China's banking industry has gradually opened its doors to domestic and foreign financial institutions. Especially after China's accession to WTO, private enterprises and joint-stock enterprises have joined the financial institutions one after another. Foreign banks also show strong desire for the financial institutions in which they invest. At the same time, Chinese banks also have an urgent need to introduce foreign capital. At the Boao Forum for Asia held in April 2018, President Xi Jinping announced China's decision to take a series of

major new measures to expand its opening up. Yi Gang, President of the People's Bank of China, announced 11 Financial Opening measures to be launched this year. Four of them involve the opening of the banking sector. It is foreseeable that there will be huge room for China's economic and financial opening in the future, and domestic commercial banks will face the dual opportunities and pressures of “bringing in” and “going out”. The mature business model and management experience of financial institutions in western developed countries will pose a direct threat to domestic financial institutions. Therefore, state-owned commercial banks must make every effort to improve their capabilities, including financial innovation, in order to cope with the challenges brought about by financial openness.

3. Current problems in the Implementation of Financial Innovation in State-owned commercial Banks

Although the financial innovation of China's commercial banks is at the initial stage, due to its rapid development, there are still many problems in its implementation.

3.1. Financial Innovation Lacks Internal Motivation

Because many state-owned banks have a low level of understanding of financial innovation, they have not raised it to the strategic level of development, and they have not regarded financial innovation as the key to bank development. Rather, it is seen as a supplement and extension of traditional business, and the financial innovation of state-owned banks lacks internal motivation.

3.2. The Products of Financial Innovation are Few and Homogeneity is Serious.

At present, many state-owned banks have serious homogeneity of financial innovation products, lack of characteristics, and basically do not have core competitiveness. According to the official website data of the four major state-owned banks, Table 1 lists the composition of e-banking. From the list, we can see that there are still fewer e-banking products of state-owned banks. And there is a more serious homogenization phenomenon, which can not only improve the competitiveness of state-owned banks. And to a certain extent, it restricts the development of state-owned banks.

Table 1 Composition of E-banking Products of Four State-owned Banks

Bank for economic construction	Online Banking Service	Mobile banking	Telephone banking	SMS Finance	WeChat bank	Self help bank	Home bank	Electronic payment
Industrial and Commercial Bank of China	E-Bank Online Banking	Rongce Bank Mobile Bank	Telephone banking	SMS Finance	Electronic Bank Wechat		Fusion e Union	
Agricultural Bank	Online Banking Service	Palm bank	Telephone banking			Self help bank		
Bank of China	Online Banking Service	Mobile banking	Telephone banking					

3.3. Lack of High-quality Professionals

Financial innovation requires high-quality professionals, and the lack of talent will hinder the process of financial innovation. According to statistics, the total number of employees of commercial banks in China reached 1.24 million in 2017. Table 2 below lists the four state-owned banks' employees' academic qualifications. The proportion of highly educated personnel in CCB is 7.5%. The proportion of highly educated personnel in ICBC, Agricultural Bank and Bank of China

is 5.2%, 4.6% and 6.9%, respectively. From the data of this table, it can be concluded that the proportion of highly educated personnel in state-owned banks is not high, and there is still a lack of high-quality, professional financial innovative talents.

Table 2 Qualifications of Employees in Four State-owned Banks

Banking and its composition	Bank for economic construction		Industrial and Commercial Bank of China		Agricultural Bank		Bank of China	
	Number	Proportion	Number	Proportion	Number	Proportion	Number	Proportion
General staff	369183	100.0	466346	100.0	503083	100.0	285059	100.0
Postgraduate and above	27866	7.5	24250	5.2	23142	4.6	19726	6.9
Undergraduate	203608	55.2	225711	48.4	214313	42.6	179502	63.0
Junior College	106602	28.9	150630	32.3	162999	32.4	69298	24.3
Below specialist	31107	8.4	65755	14.1	102629	20.4	16533	5.8

4. Route Choice for Fully Implementing Financial Innovation Strategy

Based on the above analysis of the status quo of the implementation of financial innovation strategy by state-owned commercial banks, this paper puts forward some path suggestions for the full implementation of financial innovation strategy.

4.1. Strengthening the Training and Reserve of Innovative Professionals

Because commercial banks have different operation characteristics from general industrial and commercial enterprises, the demand for professional talents becomes more important. Talents in economy, finance, accounting and law are indispensable to commercial banks. Moreover, financial innovation in commercial banks is more demanding than general business operations, requiring not only strong professional knowledge, but also more comprehensive work experience. This puts forward higher requirements for commercial banks. The lack of innovative professionals has largely limited the innovation activities of domestic commercial banks. As an innovative professional, it is necessary to fully grasp the knowledge of finance, economy, law, accounting, industry, etc., to understand the international and domestic financial markets, and to be proficient in the use of various financial instruments. Especially financial derivatives, but also have a wealth of work experience. Obviously, there are not many such composite talents. State-owned commercial banks should increase their training and development of innovative professionals in order to meet the needs of future financial innovation and competitiveness.

4.2. Strengthening the Supporting Role of Science and Technology in Financial Innovation

The development of science and technology has greatly changed the face of economic society. The three major changes brought about by the new technological revolution to the future society are informationization, decentralization and knowledge. In recent years, the scientific and technological progress in the financial field can be said to have sprung up everywhere and is in the ascendant. On the one hand, many financial institutions in the world have all upgraded their scientific and technological strength and level, and increased investment in science and technology. According to relevant data, between 2010 and 2015, the funds flowing into this field have exceeded 50 billion US dollars. Among them, the annual inflow of funds in 2015 reached 22 billion US dollars. In 2015, Deutsche Bank announced that it would launch a computerized investment advisory service to follow the trend of investment management consultants such as BlackRock. On the other hand,

some emerging financial intermediaries, especially the development of Internet finance, rely on their own unique information technology advantages, which has caused a greater impact on traditional commercial banks. In China, the rise of third-party mobile payment has led to a decrease in the use of credit and debit cards, and poses a threat to the ability of commercial banks to access customer data, which is regarded as the key to emerging financial and consumer business models. Faced with this situation, state-owned commercial banks must break through the traditional management mode of "pulling deposits and running customers", and re-examine the extensive and profound impact of the scientific and technological revolution on human society from a comprehensive perspective. Welcome the revolution of science and technology with a positive attitude, embrace the revolution of science and technology, comprehensively enhance the ability of applying science and technology, comprehensively promote the role of science and technology in promoting financial development, especially in supporting financial innovation.

4.3. Strengthen the Overall Planning of Financial Innovation

Financial innovation belongs to the high-end link of financial institutions, which requires high technology. State-owned commercial banks should establish a sound innovation system and a sound working mechanism. Therefore, it is indispensable to strengthen the overall study of financial innovation. We should also take financial innovation as a systematic, long-term and lasting work, carry out systematic planning and design, and form the overall financial engineering thinking. Personnel involved in financial innovation should not only understand the business variety, operation process, system and regulations of the bank, but also the relevant situation of the same industry. More importantly, they should understand the potential needs of customers, that is to say, they should be familiar with the "pain points" of the clients. At the same time, financial innovation also needs to strengthen the summary and distillation of past experience, from specific and special issues to abstract and general theory and experience, and then use these experiences to guide practical work.

4.4. Playing the Role of Front-line Personnel in Financial Innovation

The purpose of financial innovation is to provide better financial products or services, and therefore ultimately to be reflected in specific products and businesses. Financial innovation is not a closed-door car, whimsical, self-entertainment, but to focus on the actual business operations and the public's service needs. Generally speaking, the most experienced of social needs should be front-line employees, which are closest to the society. Therefore, financial innovation needs to be recognized and experienced by front-line employees at the grassroots level. State-owned commercial banks should integrate various information obtained from front-line workers. At the same time, we should strengthen the analysis and research of service content, service process and related systems, comprehensively synthesize and refine them, and obtain valuable information. Then we should find the right entry point and carry out financial innovation in a targeted way, so that financial innovation and social needs can be integrated in an all-round and organic way. The huge grass-roots service network and front-line employees of state-owned commercial banks are huge wealth deposits, which should be fully utilized in the process of financial innovation.

4.5. Enhancing the Reference and Introduction of Foreign Financial Innovation

In the field of financial innovation, there are both similarities and differences among financial institutions in different countries. It is an important way to speed up financial innovation by drawing on and introducing some excellent achievements of foreign financial institutions in the field of financial innovation. In fact, there are many financial innovations in foreign financial institutions in various fields, such as business varieties, risk management and so on. They are also widely used and promoted in practice. The innovation activities of foreign financial institutions are quite active. Take Canada as an example, the "sub-account management system" of Export Development Corporation (EDC) - the practice of setting up national accounts to undertake policy business and corporate accounts to undertake commercial business. Farm Credit Canada (FCC) provides financing for farmers who are just starting to manage agriculture, including the First Step

Loan to support young farmers. Cash Flow Optimizer Loan, which provides improved cash flow for agricultural operators, “return loans” for those who buy farms and those who want to exit agricultural operations and sell farms (Transition) Loan). "Payday Loan" for those who have a fixed job but want to run agriculture at the same time. The “1-2-3 Growth Loan” (1-2-3-Grow Loan) provided by farmers who have a certain time interval between the original investment and the income earned. The meticulous design of its products is closely related to social needs and is worth learning and learning from within.

4.6. Continuously Expand the Scope of Financial Innovation

According to the different fields of financial innovation, financial innovation can be divided into concept innovation, system innovation, system innovation, product innovation, organizational innovation, technological innovation and so on. It can be said that there is a possibility of innovation in any field of financial activities. State-owned commercial banks must establish an open mind and carry out all-round innovation activities in concepts, products, processes, systems, organizations, technologies, and management. In recent years, state-owned commercial banks have carried out useful explorations in many aspects mentioned above, and initially demonstrated the important functions and functions of financial innovation. For example, state-owned commercial banks gradually introduced the risk management concept of foreign banks and introduced a series of management methods of the Basel Accord. Some state-owned banks have introduced foreign standard management systems, internal control systems, Six Sigma methods and other management ideas and management tools, and process transformation and innovation in various links. Some banks are in process reengineering, holding subsidiaries and new products and methods introduced in different business areas.

5. Conclusion

This paper analyzes the significance of financial innovation by state-owned commercial banks and obtains the conclusion that state-owned commercial banks are necessary for financial innovation strategies. Secondly, it analyzes the problems existing in the current state-owned commercial banks' financial innovation strategy, such as the ability to implement the strategy needs to be improved. Finally, the paper puts forward the path choice of developing financial innovation, and holds that state-owned commercial banks should implement the strategy of financial innovation and enhance their competitiveness. From the strategic landing to the strategic implementation, we should make a good overall plan of financial innovation, strengthen the training of innovative talents, strengthen the support of financial science and technology, give full play to the role of front-line employees, draw lessons from foreign financial innovation experience, and expand the scope of financial innovation.

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