

# The Impact and Countermeasures of Internet Finance on the Traditional Business of Commercial Banks in China

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**Abstract.** With the rapid development and deep application of Internet technology, Internet Financial industry has grown rapidly. The emergence of many types of Internet financial enterprises and products and the explosive growth of their business volume have caused tremendous impact and pressure on the traditional business of commercial banks. Traditional commercial banks should keep up with the trend of the Internet era, actively adjust their development strategies, strengthen their own security advantages, attach great importance to the cultivation of compound talents, strengthen cooperation with internet financial enterprises, actively innovate and enhance services, so as to remain invincible in the Internet financial wave.

## Introduction

The emerging field of Internet Finance is the combination of traditional financial industry and Internet technology in the context of the rapid development of the Internet. Internet finance is based on the use of big data, which enhances the transparency of financial market and promotes financial innovation. Internet financial system is rich in layers, which enables users to handle business without the constraints of time and space, and makes services more efficient and convenient. Therefore, for traditional commercial banks, how to deal with the impact of Internet finance and think about the business innovation under Internet information technology is an urgent problem to be solved.

## 1 Development Model of Internet Finance

At present, there are four main modes of Internet Finance. Firstly, the crowd-funding mode, that is, to set up a collection project and publish it on the Internet platform, to raise funds from the public. Secondly, the third-party payment model, well known Alipay, WeChat payment, Baidu wallet, Tenpay, etc are the Internet financial products under this mode. Thirdly, P2P network loan platform, which plays an important role in meeting the loan needs of small and micro enterprises and individual entrepreneurs. Fourthly, the Internet Monetary Fund, which is based on the Internet platform, is more convenient than the traditional monetary fund, and has higher financial return than the traditional bank. "Yu'E Bao" is one of the typical representatives.

## 2. The Impact of Internet Finance on the Traditional Business of Commercial Banks in China

There are many kinds of products in Internet finance, but the most representative one is Yu'E bao, which has a far-reaching impact on the business of traditional commercial banks in China.

### 2.1 The Traditional Deposit Business of Banks is Facing the Pressure of Diversion.

Before the emergence of the Internet finance, people preferred to deposit funds in banks for the sake of the security and income. But after the emergence of Yu'E Bao et al, with the advantages of higher interest rates, easy access to deposit, online purchase, payment and transfer, security and so

on, it has seized part of the deposit market, which reduced the scale of bank loan funds and the income obtained through interest. These have had an impact on the traditional monopoly profit model of banks. In order to cope with this situation, banks have to accelerate the pace of transformation, actively carry out product innovation, and strengthen cooperation with Internet financial enterprises.

## **2.2 The Banks have to Reform and Innovate Traditional Service Modes**

At present, the bank still takes counter outlet service mode as the main mode. Although with the introduction of intelligent equipment, many business dealt with by the counter has been reduced, the service mode of the bank is still relatively backward, there is no essential innovation, and more talents are needed to complete the service, so the service cost is high. Internet financial enterprises can provide services to customers without service outlet. They use large data, computers and other technologies to operate, which greatly reduces the cost of services and provides users with more convenient and efficient services. This has a certain impact on the traditional service model of banks, forcing banks to innovate and reform the traditional service model, reducing service costs and improving profit margins.

## **2.3 The Customers of Bank Financial Products have Lost.**

For investors, non-fixed-term financial products such as Yu'E Bao have the advantages of higher interest rates and more convenient withdrawal. Meanwhile, with the ultra-low threshold for investment, they have attracted a large number of idle funds in society. In contrast, the expected annual return of traditional financial products of banks is much lower, the purchase threshold is higher, and the time of purchase and redemption is not convenient. All these will result in the exclusion of small decentralized social funds and a large loss of customers, thus the sales market is affected.

## **2.4 Weakening the Payment Media Function of Banks**

As a representative product of Internet finance, Yu'E Bao is mainly responsible for the capital savings pool in Alipay. Its advantages are mainly embodied in two aspects: first, higher interest rates than current deposits and daily interest accrual; second, powerful and convenient online payment function. Therefore, with the rapid development of Yu'E Bao, the payment media function of traditional banks will inevitably be greatly impacted.

## **2.5 Impact on Loan Business of Commercial Banks**

Internet financial products such as P2P loans weaken the role of loan intermediaries, provide a platform to directly contact investors and fund demanders. The funds and interest generated are directly circulated between borrowers and lenders. Individuals and small and micro enterprises are the main customer groups of P2P network loan platform. The process of lending is simple and the speed is fast. In contrast, the loans of traditional commercial banks are safer and more standardized, but they have high requirements for borrowers and complicated procedures. Therefore, with the rapid development of P2P in recent years, commercial banks that focus on developing personal loans and SME loans will be greatly affected. However, because of the high requirements of capital security and loan compliance, large commercial banks, which mainly lend to large enterprises and key projects, will not suffer fatal damage from the vigorous development of P2P online lending.

# **3. Countermeasure of Chinese Commercial Banks to Internet Finance**

It is undeniable that Internet finance has brought tremendous development opportunities as well as tremendous impact on traditional business of commercial banks. Faced with the situation that financial markets are divided and profits are reduced, commercial banks are bound to optimize and transform their traditional business, and constantly carry out self-reform and product innovation. We should fully consolidate and carry forward the advantages of safety, stability and integrity of commercial banks, gradually use new technologies such as large data and cloud computing in the Internet era, innovate management mode, and realize the refinement and intellectualization of risk management and performance evaluation.

## **3.1 Adjusting Development Strategy.**

Firstly, in order to strengthen the function of payment intermediary, commercial banks must

combine the advantages of Internet in improving efficiency and meeting demand, actively strengthen their own technical means, optimize financial products, and enhance customers' sense of experience. Secondly, we should strengthen the function of financing intermediary. In order to provide more personalized services to customers with different preferences, commercial banks must actively integrate customer information and analyze customer preferences.

### **3.2 Changing the Service Model and Improving Service Efficiency.**

Firstly, change the service mode and construct the O2O banking mode. Commercial banks should simplify business procedures and strengthen online processing of financial business. With the help of some small networks to build community banks, some businesses that can be handled online are handled online, and those that cannot be handled online are provided through community banks, thus efficient and convenient services could be provided.

Secondly, improve efficiency and pay attention to the comfort of customer experience. With the progress of society, cashless transactions have developed rapidly. It is common for people to use bank cards, Wechat wallets or Alipays for transactions, which is due to people's pursuit of convenience in life. Traditional commercial banks should adapt to the development of the times, actively integrate into the environment, so that customers can enjoy better service.

Thirdly, continue to strengthen the level of financial services. Commercial banks should use the thinking of Internet finance to serve our customers. In terms of technology, different tools and platforms should be provided for different users. Financial products should be differentiated and subdivided to meet the different long-term and short-term investment needs of different types of customers. Experience in the use of financial products should be continuously optimized, and more products with simple and fast handling methods and quick cash withdrawal should be introduced.

### **3.3 Strengthen the Innovation of Financial Products and Improve the Marketing Methods.**

First of all, improve the ability of product innovation. Commercial banks can learn from the experience of foreign banks and expand the product content to more fields within the scope of law. In the face of consumers with different income levels, in order to meet the different needs of consumers, commercial banks should develop financial products with different periods and structures, and provide personalized services.

Secondly, improve the marketing methods of products. In the era of Internet finance, commercial banks should strengthen the online marketing channels of financial products, strengthen the combination of online and offline, and use "large data" technology to dig deeply into the characteristics and preferences of each customer, so as to provide unique services for each customer, which can save time and improve efficiency.

Third, set up risk control system. Prevention mechanism is the first line of defense for risk control. The establishment of prevention mechanism includes the collection of customer information, obtaining the assets, credit and family structure information of customers, predicting customer's risk preference and risk tolerance, so that to avoid unnecessary losses due to information asymmetry. Establishing a compensation mechanism for losses is the second line of defense for risk control. Because the income of financial products is affected by the value of investment products, in order to reduce the possible losses caused by financial products, banks should draw the corresponding reserves regularly, which can play a certain compensation role when the income of financial products declines.

### **3.4 Strengthen the Construction of Off-line Service Channels.**

Firstly, we should speed up the construction of electronic banking, increase the number of offline outlets of electronic payment, innovate electronic banking products according to market demand, pay attention to the relationship between security and efficiency, reduce banking costs and increase profits. Secondly, speed up the construction of self-service channels and enhance ATM's market share. Although Internet finance is more efficient in transferring funds and dealing with business, the self-help channels of commercial banks can not be completely replaced. Therefore, commercial banks should speed up the construction of self-service channels, increase the deployment of ATM and BST equipment, strengthen the function of off-line equipment, and divert customer flow. In addition, we can learn from China Construction Bank and use remote intelligent technology and

services to set up an "unmanned bank" to ensure the comfort of customers, so that customers can enjoy the whole process of intelligent services.

### **3.5 Construct a Perfect Loan Mode for Small and Micro Enterprises and Adjust Customer Structure.**

Commercial banks in China usually only provide loans to large and medium-sized enterprises, and most of them are state-owned. Commercial banks should constantly adjust customer structure, improve the model of loans for small and micro enterprises, launch a loan platform with their own characteristics (such as the "small business e-home" of China Merchants Bank), closely follow the pace of development of the times, and strive to explore an optimal profit model to win a larger market.

### **3.6 Strengthen Cooperation with Third-Party Internet Financial Enterprises.**

Commercial banks should actively cooperate with Internet financial enterprises, in order to achieve a win-win situation. They can share customer resource information and jointly build an online financing platform for small and micro enterprises. Commercial banks can determine their credit rating and credit quota according to the transaction flow and evaluation information of small and micro enterprises in e-commerce platform, so as to screen out high-quality customer groups, which will help small and micro enterprises to obtain financing and achieve win-win situation.

### **3.7 Focus on the Training of Compound Talents.**

Commercial banks of our country should focus on introducing Internet technology talents, so as to better avoid the emergence of hidden dangers of risk control, and set up relevant departments to innovate and develop financial products that meet the needs of the times. Meanwhile, traditional commercial banks should pay more attention to the selection of talents who master information technology when recruiting talents, so as to create a compound talent team.

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