The Impact of Internet Finance on Traditional Banking

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Abstract. With the in-depth development of the information age, the Internet is posing a more and more important influence on human society, which, by the meantime, brings about great impact on traditional bank system. Beginning with the definition and characteristics of Internet finance, this paper mainly observes the developmental direction of internet finance and the correlations between the Internet and traditional banking industry. Finally, we put forward its future developing directions.

Introduction

The development of the Internet has laid a solid foundation for the speed and approaches of information exchange, which people gradually pay more attention to nowadays. Information technology has injected new vitality into the financial industry. Since the Internet Plus Initiative was proposed in 2015 in China, the combination of traditional banking and information technology has created new business formats, which are generally called the Internet finance. This paper discusses the profound impact of internet finance on China's financial system, and makes suggestions about the blueprint for the development of the banking industry.

Literature References

China's Internet finance industry developed explosively since 2012. Progress of information technology and accommodative regulations jointly explain the explosive development [1,2]. Regulation tightened after the small-scale P2P lending crisis in 2015 [3]. Under the Internet financial modes, market plays such a critical role that it helps reduce the government's economic regulation and supervision, avoiding the possibility of government regulation failure [4]. With the deepening of interest rate marketization, the financial market can be more functional and interest rates are more transparent. This attracts a large number of investors to invest funds in Internet finance to obtain higher profits. In this situation, the banks’ main source of profit—liabilities will suffer a lot, which will force banks to reform the deposit interest rate market. Therefore, Internet finance will help improve the interest rate market [5,6].

Internet Finance Modes

Internet finance modes are embodied in the payment business, financing business and investment business. Third-party payments have an impact on traditional bank payment services. Internet financing is more efficient in information collection, and it costs lower and operates more conveniently. Internet investment business continues to create profitable wealth management products, which to a certain extent stimulates traditional banks to improve their deposit business.

The Characteristics of Internet Finance

Compared with the traditional financial modes, Internet finance has the advantages of strong availability of financial resources, symmetry of transaction information and de-mediation of
resource allocation. The so-called availability of financial resources is a concept corresponding to a term called "financial exclusion", which refers to the difficulty in accessing financial institutions under traditional commercial banking modes. However, the emerging Internet financial mode enables every enterprise to break through the limits of transaction scales as well as to find more suitable financial resources conveniently, which alleviates financial exclusion.

Asymmetry of transaction information is one of the main drawbacks of traditional banking. Banks are only financing intermediaries for deposits and loans. The suppliers and the demanders of funds often do not get to know each other. The resulting adverse selection and moral hazard issues tend to trigger bank lending risks, such as the non-performing loans. Under the Internet financial modes, both enterprises and individuals can collect information on the Internet platform, where every entities’ credit status is clear. It reduces information asymmetry.

Another point is that resource allocation is de-mediated. Internet finance has changed the traditional financing modes that both the supply and demand sides of the fund have to make a deal via banks. It forms an innovative and convenient environment for information matching, pricing and trading through the network platform.

The Functions of Internet Finance

The functions of internet finance can be summarized into platform functions, payment functions, financing functions and information functions. The four functions complement and influence each other to form an organic system itself.

The platform function is intended to be an online financial platform on which clients have more freedom to choose to complete financial activities such as payment, investment, loans as well as purchasing wealth management products only with a click of a mouse. It is so convenient and fast, significantly reducing energy and time costs.

The payment function is the closest to everyone's daily life. Alipay, for instance, has deeply penetrated into all aspects of everyday life. The financing function is the core of Internet finance. With the rise of the Internet financial modes, the concept of “self-finance” came into being, greatly improving the efficiency of financial resource allocation.

Finally, the information function refers to flattening and restructuring the massive, scattered and redundant information through the Internet, and improving the efficiency of public data using.

The Symbiotic Relationship between Internet Finance and Traditional Commercial Banks.

Internet finance can be divided into six major modes: third-party payment, peer to peer online lending, big data finance, crowdfunding, financial information institutions, and internet financial portals.

The emergence and initial growth of Internet finance benefited from the cooperation with commercial banks, but it was also “squeezed out” by them due to its rapid development reducing the interests of commercial banks. Although Internet finance and commercial banks have overlapping business and there are intense competitions, it is not a zero-sum game. That is to say, the "win-win" cooperation is feasible. And it will also be the only way for the future development of commercial banks.

| Main modes                  | International modes                           | Domestic modes                      |
|-----------------------------|-----------------------------------------------|------------------------------------|
| Third-party payment         | Paypal, Amazon, Payment                       | Alipay, Tenpay                     |
| Supply chain finance        | Ebay, Amazon Lending, Kabbage                 | Ali Small Loan, Suning Small Loan  |
| Peer to peer lending        | Lending Club, Prosper                         | Renrendai, Paipaihai               |
| Crowdfunding                | Kick Starter, Punders Club                   | Tianshihui, Renrentou              |
| Financial information       | First Direct                                  | Suning Bank, MYbank                |
| institutions                |                                               |                                    |
The Impact of Internet Finance Modes on Traditional Banking

Firstly, it will expand the business of the bank. The traditional banking depends mainly on the number of clients, and the Internet-driven financial sector is providing favorable conditions for this, laying a solid foundation for better enriching the traditional banking business. The Internet financial modes conform to the growing requirements of the times, have a variety of information resources, and give clients more services as well as guarantees. Compared with traditional banks, it has a broader development space. And its impact on the traditional banking business is embodied in many aspects.

Secondly, Internet finance modes help with market interest rates. The Internet-driven financial development is more in line with the needs of the times, meeting the requirements of clients, and is more standardized and market-oriented. The interest rate market is an important part of China's economic system reform, which plays a vital role in integrating with the international market and creating a more favorable market environment. In the transparent Internet financial operating environment, the degree of information asymmetry is reduced, and both borrowers and lenders rely on their own will to conduct transactions.

Thirdly, Internet finance modes weaken the financial intermediary status of banks. The traditional banking in fact plays an intermediary role in financial transactions. When Internet finance had not arisen, banks were single and had a monopoly status. In order to maximize profits, banks let interest rates deviate from the real market rates and even charged a certain fee in transactions. Their quality of services was often inferior, and internal management was inefficient, which hindered the development of the financial industry. The Internet finance modes just make up for those shortcomings by simplifying the process, improving efficiency, and further improving the circulation of financial market information, thus providing favorable conditions for development of the financial industry.

Lastly, it improves resource allocation efficiency. The resource allocation efficiency of the traditional banking modes is low, and it is difficult for small companies and individuals to finance via banks. Internet finance modes have an advanced information database, which has clients’ credit background and business information in the file, and can use the existing information to do the traditional banking business such as loans more quickly and easily. Internet finance has an advantage of efficient information flow integration. Through big data and cloud computing technology, large enterprises can fully understand the credit ratings of small enterprises and individual clients, and establish a database of credit system to reduce the risk of defaults in financing. With funds poured into enterprises with high credibility and good yields, the efficiency of resource allocation in Internet financial modes will be improved and transaction costs will be reduced.

The Trends of the Banking Industry under the Internet Financial Modes

It is of great importance to strengthen the construction of financial infrastructure to ensure the safe and efficient operation and overall stability of the financial market. The country will no longer pay the bill for those big state-owned banks. In particular, the inclusion of the RMB in the SDR basket means that China’s openness to the capital market has increased to a new stage. Traditional commercial banks not only face the competition from emerging forces in the domestic market, but also competitions against foreign financial companies. Banks are supposed to have a deep sense of crisis. Commercial banks must take advantage of the Internet technology to optimize their own businesses for further long lasting development.

Network Development of Traditional Banking Services

The future development of the traditional banking industry should proactively learn from the advantages of the Internet financial modes, adopt simple service procedures, conform to the needs of the times, and lay a solid foundation for its own development. If traditional banking industry wants to develop rapidly, it must integrate the science and technology of Internet financial modes,
break through the traditional business modes’ downsides, especially improve the deficiencies and shortcomings in procedures, and most importantly, innovate actively in science and technology reform. The shortcomings of the traditional banking industry mainly lie in the high cost of its operation, poor service and low efficiency. Therefore, it is a top priority to profoundly improve in these respects in the future.

**Technological Innovation and Institutional Innovation**

Although the development of the traditional banking industry has stalled, it has also achieved certain results from a long-run perspective. However, China’s computer technology and Internet technology are substantially copied from foreign countries, which is not conducive to the combination of traditional banking industry and Internet financial modes. Therefore, effective technological innovation and institutional innovation in the traditional banking industry is the top priority. Further work is supposed to be done such as analyzing the data and information, meeting the existing requirements, potential requirements and future requirements of users, and creating a new financial system under the Internet background.

**Risk Control in Internet Financial Modes**

Although Internet finance conforms to the development of the times, there are still defects that cannot be ignored, such as the uncertainty of its future risks. Traditional banking industry should also flexibly adjust its modes while drawing on its advantages, and optimize market structure. Therefore, when carrying out reforms, the traditional banking industry should pay more attention to its own conditions, take the right direction of the market economy. The Internet financial supervision mechanism should be improved to deal with controllable and uncontrollable risks as much as possible. We will curb risk expansion, explore measures that can better suppress risks, and use technology to conduct essential risk control on defective financial modes.

**Cooperation and Competition**

Throughout the past and the present, good communications and cooperation create human well-beings, so is the situation in banking sector. If someone can't learn from others’ strengths, he can't fully adapt to the society. Internet can be defined as a network of interconnections, the essence of which is indeed the intricate connection between various cross-border industries. Traditional banking industry needs to break through the original development modes, prohibit monopoly situations, and actively cooperate with enterprises in the field of electronic information technology to achieve mutual goals.

**Conclusions**

The internet finance driven has incomparable advantages conforming to the needs of the times, and it has rich information resources and simple trading procedures. The emergence and development of the Internet finance has not only improved the economy, but also changed the market structure of the banking industry, which is conducive to better financial products and services. The competitions are getting more and more intensive. In order to sustain a steady development of financial industry in the future, it’s of great importance that traditional banking system cooperates with internet finance and learn from each other. In conclusion, strong internet infrastructure, strict regulations and standards, financial innovation and risk management are the most essential approaches.

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