

A Study of the Impact of Internet Finance on the Performance of Commercial Banks

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Abstract: In the recent years, with the rapid and efficient development of Internet technology, Internet financial services represented by third-party payment, online loans, crowdfunding, Internet insurance, and wealth management business have sprung up, and the general environment of the domestic financial market is undergoing great changes. The Internet financial boom is rapidly sweeping the entire financial industry. Compared with the traditional financial industry, Internet finance can bring huge profit margins for financial institutions as well as consumers. In the rapidly changing Internet environment, commercial banks should be more active in responding to the challenges brought by the Internet boom and seize the opportunity to follow the trend. This paper firstly clarifies the concept of Internet finance and commercial bank performance, so as to better define Internet finance and commercial bank performance in this paper. Secondly, it analyzes the relevant theories on the impact of Internet finance on commercial bank performance, and finally draws conclusions and puts forward suggestive measures. So as to promote the win-win cooperation and coordinated development of Internet finance and commercial banks.

With the development and progress of China's Internet technology, the Internet financial model is constantly innovating and developing rapidly. Compared with the traditional financial model, Internet finance has greater advantages in data and information collection and mining, system technology, transaction costs, capital channels, capital allocation efficiency and other aspects. Internet finance can use the mobile Internet and information platform to realize capital payment, capital circulation and information transmission, which greatly facilitates the traditional financial transaction mode. From the objective level, Internet finance is a manifestation of financial disintermediation, which effectively crosses the limitations of time and space and realizes the innovation of financial services. Internet finance has the characteristics of "large transactions, small and micro single transactions, all-weather, all-round, one-stop", which reduces the entry threshold of the financial industry to a certain extent, effectively meets the diversified needs of financial services, and makes up for the shortcomings of the traditional financial market, which also encourages traditional commercial banks to play a leading role in lending, financial management, payment and settlement. Based on this, this paper will analyze the impact of Internet finance on the performance of commercial banks in detail.

1. The concept of internet finance and commercial bank performance

Internet finance refers to the use of the Internet as a medium, through big data technology to realize the transfer of funds between different subjects. Internet finance still belongs to the financial industry in essence, is an innovative product of traditional finance under the rapid development of the Internet field, and is a powerful tool to enhance the efficiency and security of financial business. The Internet platform can provide customers with more extensive and faster financial information and financial services, and customers can obtain more accurate financial information and more comprehensive financial services at a lower cost^[1].

The operational performance of commercial banks can be defined as the operational efficiency and development efficiency in a certain cycle, in which the operational efficiency is mainly measured by financial indicators such as profitability, safety and liquidity of commercial banks, and the development efficiency refers to a kind of growth potential of commercial banks in the process of production and operation in the future. The dimensions of commercial bank performance evaluation include four aspects, including service to national development goals and the real economy, development quality, risk prevention and control, and operational efficiency, etc^[2]. The evaluation focuses on service to the real economy, service to key areas and weak links in the economy, as well as economic efficiency, shareholder returns, and asset quality. The results of the performance evaluation of commercial banks are an objective reflection of the comprehensive evaluation of the overall operation of commercial banks, and should be used as an important basis for the improvement of the operation and management of commercial banks and the comprehensive assessment and evaluation of the persons in charge of them, and as the main basis for determining the remuneration of the persons in charge of commercial banks and the total amount of wages of commercial banks.

At the beginning of the 21st century, the Internet wave swept through all walks of life, and China's financial industry also began to carry out Internet transformation. Due to the relatively short development time, the credit system and laws and regulations of China's Internet finance are still immature, and the default cost of financial institutions is low, so the potential risk is higher. Customers need to provide real identity information when conducting financial transactions through the Internet, but many small Internet financial platforms in China lack the ability to protect customer information, and even sell customer information, so the risk of information leakage is higher.

2. Relevant theories on the impact of Internet finance on the performance of commercial banks

2.1 Substitution effects

Internet finance has unique advantages in the field of business, such as lower transaction costs, open and transparent information, convenience, and strong flexibility, and it is because of these unique advantages that it has a greater impact on the status of traditional banks as the main body of payment. Influenced by Internet finance, traditional commercial banks have seen a diversion in deposit business and a decline in the number of loan business. In addition, due to the lower actual operating costs of Internet finance, it causes fluctuations in the bank's asset business, liability business, and intermediary business, and therefore has a substitution effect on the various businesses of traditional commercial banks^[3]. Analyzing the theory of undifferentiated curve for Internet finance and traditional finance, when the level of total consumer effect is unchanged, if there are differences in the functions and uses of financial products, consumers will undoubtedly choose the most favorable way of business. Internet financial products can attract consumers by

virtue of their own advantages, which will lead to a decline in the sales of traditional financial products and produce a substitution effect, as shown in Figure 1.

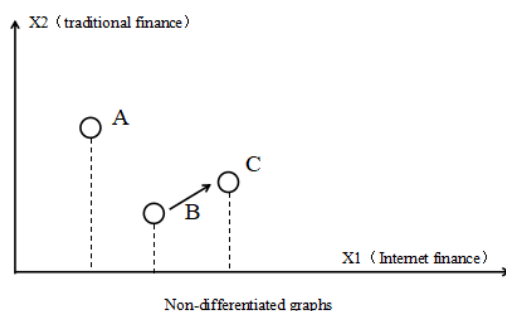


Figure 1: Non-differentiated graphs (traditional finance)

2.2 Complementary effects

Due to the emergence of Internet finance, China's financial market has become more diversified, and consumers are increasingly relying on the Internet for investment and financing, insurance and financial management, further aggravating the disconnection with banks^[4]. In the long run, under the influence of this new product and simple model, commercial banks can quickly adapt to the changes occurring in the financial market by formulating new strategic plans, product innovation, optimizing internal structure, adjusting customer groups, and transforming profit models. Traditional commercial banks need to quickly adapt to the changes in the financial market in order to occupy the market and hold on to the target customer groups, minimize the loss of customers and business, minimize the impact of Internet finance on the performance of commercial banks, and enable them to develop comprehensively and stably. In the undifferentiated curve diagram, this process is shown as the process of moving from point B to point C, and the overall effect of this process will be enhanced.

3. The negative impact mechanism of internet finance on commercial bank performance

3.1 Weakening the intermediation position of traditional banks

Due to the asymmetry of information in the early days, traditional commercial banks can provide services for customers as intermediaries, facilitating the completion of capital transactions between creditors and debtors, and ultimately realizing the effective allocation of funds. Before the advent of Internet finance, traditional commercial banks occupied a very important position in the public's daily life, and people could almost only rely on them for financial services. However, with the rapid and high-quality development of China's commercial banks in recent years, the position of commercial banks as intermediaries has been continuously weakened. Especially now in the era of highly developed and popularized Internet, the financial tools mainly represented by Alipay and WeChat have greatly reduced people's dependence on traditional commercial banks, and users can complete the payment only on their cell phones, which is more efficient and fast. People can invest and consume without leaving their homes, which makes the position of commercial banks further impacted^[5].

3.2 Affecting the various operations of traditional banks

Impact on asset business. Asset business mainly refers to the process by which commercial banks utilize the deposits they have taken in and obtain profits. The asset business of traditional

commercial banks in China mainly includes investment and lending business, among which lending business is the most important asset business activity of traditional commercial banks, which can bring huge interest income for them. With the development of Internet finance, the financial tools mainly represented by Alipay have reduced the users' dependence on traditional commercial banks and facilitated the public's food, clothing, housing and transportation. More and more traditional financial businesses are following the trend, resulting in the intermediary status of traditional commercial banks being affected^[6].

Impact on liability business. Absorbing deposits from depositors is the most important liability business of commercial banks. Before the arrival of the Internet financial era, China's traditional commercial banks mainly rely on the advantages of network and scale to reduce interest costs. But now with the development of Internet finance, some products with low threshold and high yield, such as balance treasure, profit treasure, etc., continue to divert the deposit business of traditional commercial banks, many users began to transfer, the traditional commercial banks used to have the advantage or no longer.

Impact on intermediation. Intermediary business, also known as risk-free business (low risk), is business in which the bank undertakes payments and other commitments on behalf of its customers without the use of its own funds and receives a fee for doing so. The most common are traditional exchange, letter of credit, collection, and buying and selling on behalf of customers. The basic feature of the intermediary business is that the business activities do not require the use of funds, and there is no borrowing and lending credit relationship with customers (service business). Compared with traditional payment and settlement methods, third-party payment has the advantages of low cost, convenience and rapidity, and is more capable of meeting the needs of users, which further leads to the payment and settlement business of banks receiving a serious squeeze from Internet finance. However, the bank's current business income is largely dependent on its intermediary business, so the rapid development of Internet finance will inevitably have a greater impact on the traditional bank credit card business, which in turn will have a certain impact on the bank's performance.

4. Positive Impact Mechanism of Internet Finance on Commercial Banks

4.1 Promoting product innovation in commercial banks

The rapid development of Internet financial products in the traditional commercial banks have an impact at the same time also forced traditional commercial banks to make changes. As Jack Ma said, "If banks don't change, we'll change the banks". Nowadays, the rapid development of Internet finance also makes commercial banks realize that the future of the financial industry will be developed around the Internet. Based on the above, traditional commercial banks will continue to launch their own payment and settlement business, insurance products and other businesses to cope with the changes in the general environment of the market, thus forcing commercial banks to innovate. In addition, Internet finance only has a greater impact on some of the basic functions of the Internet bank with transfer business, query business, etc., therefore, leaving the traditional commercial banks to make progress in a broader space. If banks want to improve their operational efficiency, they need to continuously upgrade and improve their systems and develop new and more convenient functions to attract customers and generate revenue.

4.2 Promotion of technological innovation in commercial banks

Third-party payment platforms are rapidly undermining the monopoly of traditional commercial banks in the payment field due to their unique flexibility, efficiency and low-cost advantages. The

cloud computing of big data allows Internet finance companies to analyze their customer information, so as to accurately grasp the needs of each customer in order to better manage them. However, compared with traditional commercial banks, although they have a large amount of customer information, it is not reasonably and efficiently utilized. Therefore, traditional commercial banks should change their development strategy in time, design products based on customer needs, and get rid of the current difficulties through technological innovation to better provide customers with quality services.

4.3 Promoting the transformation of customer orientation by commercial banks

At present, the object of Internet financing is mainly small and medium-sized enterprises, because it is difficult for banks to assess the risk credit of small and medium-sized enterprises and individuals, and the loan demand of small and medium-sized enterprises and individuals is characterized by short time and small amount, and many of them can't provide collaterals, which makes the commercial banks reluctant to lend money to these enterprises and individuals. The rapid development of Internet finance for commercial banks to broaden the business channels, commercial banks can use the Internet financial tools to provide financial services to small and medium-sized enterprises and individuals. At present, many banks have also begun to use Internet technology for product innovation and business upgrading, in order to reduce the threshold of loans, simplify the business process, commercial banks are accelerating the transformation of customer orientation, so as to realize self-innovation.

5. Development strategies of commercial banks in response to the Internet financial model

5.1 Practice "customer-oriented", product and service innovation from the objective level

The Internet financial model has become an irreversible development trend in the Internet era, in such a competitive environment, the traditional commercial banks in order to enhance their comprehensive competitiveness, enhance the economic efficiency of the commercial banks, should always implement the "customer-centric", do a good job of product and service innovation and change. Commercial banks should always carry out "customer-centric" and do a good job in product and service innovation. In the face of the impact of Internet finance, commercial banks should actively explore innovative ways of development, actively develop innovative network banking service mode, and enhance the image of Internet network banking services. Commercial banks should build a "combination model of online and offline outlets", promote the reform of Internet banking outlets on the basis of improving hardware and software facilities, build a convenient and convenient Internet banking financial service platform, and enhance service intensity. First, for the offline branch service, it should be equipped with an interactive service electronic display screen at the teller window, interactively displaying staff information, service commitments, and warmly introducing products, so as to better meet the personalized and differentiated financial service needs of different customers. For example, the distribution map of outlets in the urban area is publicized, so that customers can combine their needs and choose the nearest outlets for financial services, especially for older customers, which can facilitate the financial service needs of such customers; the electronic filling machine is equipped to save customers' time and effectively strengthen the efficiency of the financial project services; the automatic card issuance machine and the cell phone banking demonstration machine are set up to strengthen the promotion and guidance of cell phone banking, and the customer process self-help service is introduced. We need to launch the customer process-based self-service card application business, improve the efficiency of customers' card application, configure a modern internal

interconnection call system. We need to truly realize the seamless connection between bank managers, tellers, financial managers and related management personnel, ensure seamless service for customers, and strengthen the service efficiency of offline outlets.

Secondly, for the online platform, we should actively learn from and refer to the current Internet financial enterprise platform to build an online financial service platform with commercial bank characteristics. Commercial banks should constantly innovate online financial service products, actively engage in services such as shopping websites and financial management websites, and regularly launch diversified micro-loan financial products, investment financial products and insurance products to meet people's needs, so as to truly demonstrate the social credibility of commercial banks and attract more individuals and small and micro enterprises to buy financial products. We need to increase the number of users of financial products, and effectively improve the comprehensive competitiveness and profitability of commercial banks through innovative financial service models and financial products.

5.2 Vigorously cultivate financial professionals, enhance the quality of financial services commercial banks

In the Internet financial environment, in order to achieve innovative development, it is necessary to accelerate the construction of professional talent. Commercial banks should be combined with the actual development of commercial banks, clear the current trend of Internet development, improve the level of banking talent team in the new era, and constantly enhance the business ability of employees; Do a good job assessment of employees in the financial service industry, and assess talent financing, securities qualification assessment, work ability and many other aspects; Conduct training and guidance on the shortcomings of network personnel, change the traditional concept of talent cultivation, and focus on the operation of staff channel system and business ability training; Scientifically carry out post training activities, guide employees to cultivate their expertise through actual job operation, and train financial professionals with high comprehensive quality through job rotation practice. In the era of Internet finance, commercial banks should also combine the needs of new projects and new businesses to enhance the professional level of Internet financial service talents. Under the deep integration and innovation of financial products and Internet technology, science and technology, in order to vigorously promote the Internet financial products of commercial banks and promote the improvement of the quality of service, we should do a good job in promoting many businesses such as polymerization payment, cloud flash payment, e-payment, etc., and cultivate a group of financial professionals who can satisfy the needs of new businesses and new services. We should analyze the common problems of Internet financial service projects such as polymerization payment, cloud flash payment and e-payment, and organize personnel to understand the common problems of Internet financial platforms and Internet financial projects, so as to lay the foundation for high-quality financial project services and create a team of talents with excellent basic knowledge, strong service skills and high comprehensive quality.

6. Conclusion

From the objective level, Internet finance has brought certain negative impact on the performance of China's commercial banks, directly affecting the stable development of commercial banks. In order to effectively transform the disadvantages brought about by the Internet financial model, commercial banks should actively change their concepts, turn challenges into opportunities, realize product and service innovation based on customers, make efforts to optimize the offline financial services and innovate online financial projects, vigorously cultivate financial professionals, show the credibility advantages of commercial banks, vigorously expand the field of Internet

financial services, and promote the stable and sustainable development of commercial banks and promote the stable and sustainable development of commercial banks.

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