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RESEARCH ON THE DEVELOPMENT COURSE OF INTERNET FINANCE AND ITS IMPACT ON THE EARNINGS OF COMMERCIAL BANKS

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ARTICLE DETAILS

ABSTRACT

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Internet finance, mainly based on Internet money funds, has been developing rapidly in recent years and has obvious influence on commercial banks. Based on commercial bank management theory, this paper analyzes the properties, characteristics and advantages of Internet monetary fund financial product, and then makes an empirical study on the effect of Internet money fund on the performance of commercial banks in China. The research results show that the Internet money fund not only has caused a certain amount of impact to fund products and businesses of similar types of commercial banks in China, but also has a substitution effect on the payment business and deposit business of commercial banks, which further influence the business performance of the banks. However, due to tighter regulation and lower liquidity, there is also resistance to the future development of Internet finance.

1. INTRODUCTION

1.1 Research background

Since 2013, Internet finance has developed rapidly. Internet finance products represented by third-party payment, Crowdfunding, P2P lending, mobile payment and Yu'eobao have flourished. The essence of financial products such as Yu'eobao is the promotion and sale of money funds through Internet channels. Though the form changes, the essence is money fund. In other words, these financial products are not that different from other monetary funds. However, the fund redemption adopts "T+0" trading mechanism, which fully embodies the advantages of high efficiency, convenience and high yield of Internet finance, making it well received. Taking Tianhong Asset Management as an example, as of September 2017, the total volume of products such as Yu'eobao and Yushangbao exceeded 1.66 trillion yuan, more than the sum of individual demand deposits of four commercial banks, namely, China Merchants Bank, Shanghai Pudong Development Bank, China Citic Bank, and China Minsheng Banking Corp Ltd. The high-speed development of Internet finance threatens the traditional business model and intermediary service status of commercial banks. How to deal with the challenges of the Internet age is a major problem for commercial banks.

1.2 Research significance

In the background of the financial industry being hit by the Internet, it is of great practical significance to study the development of Internet finance. What will happen to the financial industry in China? What role should Banks play in the rise of Internet finance? And how should Banks innovate to meet the challenges of Internet finance. These are the problems that Banks need to solve during the development of the Internet era.

2. The concept and characteristics of Internet finance

2.1 The concept of Internet finance

The definition of Internet finance is widely debated and has not been settled. Internet finance is a new type of financial model that is independent of traditional commercial banks. Based on Internet information technology, this model weakens the function of traditional financial instruments and further saves manpower cost, thus making financial markets work efficiently. A researcher tends to put forward that Internet finance has become a financial mode in the information age, which is emerging finance that combines the Internet with finance and uses Internet and mobile communication technology to realize the functions of financing, payment and information intermediary [1]. A group of scientists have divided the Internet finance in China into six modes: third-party payment, P2P lending, big data finance, information financial institutions, Internet finance portal [2]. In other study, researchers point out that the Internet threatens the monopoly of payment services of commercial banks and forms a diversified competition pattern [3].

2.2 The characteristics of Internet finance

Compared with traditional finance, Internet finance has no different role in meeting customer demand and allocating financial resources, but differs in the means of market transactions, capital flows and the efficiency of financial assets allocation. A study states that Internet finance can improve resource allocation efficiency and reduce transaction cost [4]. In other study, the researcher believes that the rise of mobile banking and the Internet finance model represented by P2P credit business meets the financial needs of ordinary users, which is a useful complement to the existing banking system. Some of them points out that Internet finance brings about not only the change of financial field, but also the change of the deeper financial thoughts and ideas [5].

According to a study, the characteristics of Internet finance are the high availability of financial resources, the relative symmetry of transaction information and the disintermediation of resource allocation [6]. These characteristics make it different from traditional finance, which also results in the impact on the deposit transfer and earnings of commercial bank, thus further accelerating financial disintermediation, promoting interest rate liberalization, and effectively helping small and micro enterprises raise funds, etc. A research on Bank of America shows that the intensity of bank branches and online banking are complementary to each other, and the application of online banking has a positive effect on bank performance [7]. Some of researcher put up forward that banks should gradually play the role of “financial all-round steward” and “financial services integrator” [8]. Existing research ignores the role of financial consumer behavior changes in commercial bank reform, but financial consumer is the terminal of commercial banking service as well as the ultimate source of its earnings.

The impact of Internet finance on commercial banks is based on its ability to rapidly acquire financial consumers, which accelerates financial democratization and financial liberalization. However, other researcher comes up with a different point of view [9]. She believes that there are few studies on the progress of Internet finance from the perspective of financial function, which is precisely the key to Internet enterprises to enter the financial field. It is because of its impact on commercial banks that financial functions are far more stable than financial institutions.

3. THE DEVELOPMENT OF INTERNET FINANCE

3.1 The analysis of resident demand deposit

In response to the booming development of Internet finance in recent years, a sampling questionnaire survey was conducted based on user habits and market share. There were 500 samples, covering all walks of life from students to social workers, which could illustrate the development of Internet finance better. As can be seen from the figure, Internet money funds account for half of the total number of people between the ages of 16 and 25 and overall, making it a priority for people to save demand deposits.

The intention survey of current deposit of the resident between 16-25

The intention survey of current deposit of the city resident

Figure 1: The intention survey of current deposit of the city resident

3.2 The analysis of the market situation of Internet finance

Taking Tianhong Asset Management as an example, with only half a year of establishment, it has assets of more than 500 billion yuan. As of September 2017, the total volume of products such as Yu'e Bao and Yushangbao exceeded 1.66 trillion yuan, more than the sum of individual demand deposits of four commercial banks, namely, China Merchants Bank, Shanghai Pudong Development Bank, China Citic Bank, and China Minsheng Banking Corp Ltd. Shanghai Pudong Development Bank had a

personal deposit of only 0.187 trillion yuan in 2017. And from the whole industry, from year 2013 to 2016, China's third-party Internet payment market climbed from 2 trillion yuan to 19.13 trillion yuan, with an average annual growth rate of 571%, showing an explosive growth trend. The average yield on the money market was 3.89 percent on average. Although it has declined due to the release of Liquidity Risk Management Regulations for Open Securities Investment Funds, it is still well above the current deposit rate announced by the People's Bank of China.

货币基金平均7日年化收益率走势

Figure 2: The average of seven days annualized return in the money fund market

Source: Wind News

In China's third-party Internet payment transaction scale structure in the second quarter of 2016, funds, network shopping, airline tickets, Business-to-Business e-commerce (B2B), telecommunication payment, and online games accounted for 19.8%, 13.4%, 6.6%, 4.1%, 3.0%, and 1.3% respectively and others (including Internet finance and other new industries) accounted for 51.9%. The new industry, dominated by Internet finance, is in the growth stage, with a large increase in quarterly transaction volume and mainly Internet payment. The proportion of the transaction volume in this quarter is more than half and has become the main driving force of the Internet payment growth.

Figure 3: China's third-party Internet payment transaction scale structure during 2015Q2-2016Q2

Source: iResearch

4. THE INFLUENCES OF THE PROGRESS OF INTERNET FINANCE ON THE DEVELOPMENT MODE OF COMMERCIAL BANKS

As traditional finance is governed by interest rates, the pricing mechanism is not flexible, instead, it faces the risk of customer loss. Compared with traditional finance, Internet finance has the advantages of lower transaction costs, fast information processing, convenient payment method and more flexibility. Other study points out that the influence of Internet finance on commercial banks in China is mainly in three aspects: weakening the intermediary status of commercial banks, affecting the asset business of

commercial banks and increasing the business risk of commercial banks [10]. A group of the researcher think that in the background of financial reform marketization and diversification of investment channels, the trend of financial disintermediation is irreversible. The acceleration will disperse the deposit and loan business that commercial banks rely heavily on and the financing cost of financial bonds is being pushed up. As a result, commercial banks will be under increasing pressure from capital sources. A narrow-spread means that traditional banks' ability to make profits is falling [11-14].

5. CONCLUSION

Based on the above analysis, although Internet finance has been developing in China for only ten years, its convenience and efficiency, attractive interest rate and easy to be understood have caused a certain amount of impact on the traditional financial industry and the personal deposit business of commercial banks. Some scholars believe that it will change the "gene" of traditional finance in essence. Traditional commercial banks have not been fatally struck by the rise of Internet finance, but the rapid innovation of Internet finance and the birth of high return mode have put the commercial banking system at risk. Therefore, based on the irreversible development trend of the Internet, commercial banks must adapt to the trend of marketization and programming, change the original concept of risk control and combine with the emerging Internet industry to develop and innovate. In the meantime, commercial banks should change their services and business philosophy, use the database for data mining, analyze the customers through the establishment of dynamic model and strive for providing personalized service to different customers.

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