

# Development Analysis between the Internet Finance and the Traditional Banking

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**Abstract:** *Although the Internet Finance has just sprung up in recent years and it has been presenting a rapid development. And now the Internet Finance forms a pattern of a kind of competition with the traditional banking. Out of the basic characteristics of economic man analysis, Nash equilibrium result of the Internet Finance and the traditional banking shows that: for the traditional banking, This paper from the different angles to do the respective factor analysis on the Internet Finance and the traditional banking, and on the basis of the special advantage analysis of the Internet finance to put forward policy suggestions. The search result help us to know the importance of the change more deeply and make both the Internet Finance or the traditional banking are able to do better service to the public.*

**Keywords:** *The Internet Finance; The Traditional Banking; Competition; Development*

## 1. Introduction

In the modern economy, the traditional banking has been a kind of special enterprise. The traditional banking mainly through absorb deposits and let out loans, collect the interest margin for profit. Because our country's current economic system is to restrict the free flow of capital and the relatively closed economy, which makes our country's floating interest rate and market demand not related too much, so the regular savings rate and loan interest rate stipulated by the state. Based on the special system of interest rate to a certain extent, contributed to the traditional bank profits is far higher than other industries.

With its unique legal reserve system, the traditional banking has a strong ability of credit. But the appearance of the Internet Finance is becoming a threat to the traditional banking, the development of emerging information technology such as the Internet makes the necessity of the financial intermediaries is greatly reduced its main competition in the field of finance.

The information asymmetry is the biggest problems financing faced with, how to use low cost to complete to perfect information and accurate the price is the key of the development of financial business, and the Internet Finance in this aspect with the help of a strong customer flow, efficient and convenient fast payment means make it have obvious advantages. Its main profit model is cooperating with the fund department, with higher than the traditional banking current interest rates to absorb social idle funds to the real economic investment for greater return and thus to obtain the profit gap from the difference.

## 2. Simple Review of the Internet Finance and Traditional Banking

About the study of the relationship between the Internet financial and the traditional banking, domestic and foreign scholars have a lot of discussions.

Some scholars from the perspective of risk analysis of Internet financial problems and the influence on traditional banking, the result is that the Internet financial industry's rapid expansion make the commercial banks under pressure, the expansion of financial business innovation speed too fast but there is no rules to follow, it is often free from the China banking regulatory commission and the central bank regulation, and coupled with the openness of the Internet, the potential risk should not be ignored.

But because the Internet Finance itself there are many problems at present, as well as the traditional bank in the process of long-term development is in a important position. So that the relationship to both

is hard to say. Throughout most of the scholars study, we found they are mainly from the theory angle to analyze the relations between the Internet Finance and the traditional banking, and less from the empirical perspective to explore.

### **3. Special Advantage Analysis of the Internet Finance**

#### ***3.1. Efficient and Convenient 3A Self-service***

The basic strategy of the Internet Finance operation is dealing the business front and background with data processing integration. As well as it can provide the bank customers for convenient and flexible services available at any time, any place, and by any way, namely called Anytime, Anywhere, Anystyle of 3A services.

And now the advanced computer system of Internet financial institutions can treat a large number of bank business for centralized processing simultaneously. So can avoid or reduce the inefficient factors that the traditional banking unable to overcome, such as the chronological queuing, repeat communication. Then the customer business can be deal with more efficiently.

#### ***3.2. Average Cost is Low and Continues to Decline***

For the construction of Internet Finance "Sunk-cost" (SC) is fixed, and does not need to pay a lot of daily expenses. As it can be seen from the Fig 1, each new business's (or each new customer's) marginal cost (MC) is almost negligible, making every business average cost (AC) with the increase of business keep decreasing, the total cost curve (TC) is growing very slowly. Therefore, after the use of the Internet Finance model reaches a certain size relative to the traditional banking, its cost advantage will continuously enhance obviously.

#### ***3.3. To the Customer the Lock in Effect is Stronger***

The learning cost of familiar with an Internet financial system is very high, some customers also buy a digital certificate for the requirement of security like the high cost of durable physical device. When the "Switching Cost" of the customer reach to a certain extent will have a "Lock in effect". This effect makes the capability of innovation of the bank on the net to get some "special award". Even in the case of difficult to obtain patent protection, compared with the traditional bank of most products, It also won't produce excessive competition.

#### ***3.4. Good for Brand Image and the Establishment of Quality Standard***

The Internet financial model's graphical interface interaction with customers for a long time to show customers CI (Corporate Identity System) image with the opportunity fully, and provide more services than the business branches more standard and more specification.

It avoided the different service satisfaction brought by the staff due to the staff's service quality high or low and staff's sentiments and can avoid a large number of uncontrollable factors on quality of work in the traditional banking.

### **4. The Challenge of the Internet Finance to the Traditional Banking**

Due to the rapid development of the Internet technology and the increasing influence to People's Daily life, the Internet finance rapid rise. And by the time, because of its operation and cost advantage, it brought violent impact to the traditional banking. Especially in recent years, the Internet finance has begun to gradually erode of the traditional core business, the traditional banking industry has been brought a series of challenges.

#### ***4.1. The Challenge to the Traditional Banking's Internal Operational Mechanism and Management System***

The Internet finance as an innovative financial service way, its operation mode, financial tools, technology and talent requirements are all brand new. This requires to the traditional banking for its series of internal operation mechanism and management system, as well as self risk constraint system

to change, so traditional Banks may follow the step of times development, to meet the needs of people ' growing changes.

#### ***4.2. The Challenge to the Traditional Banking Business Ideas***

The Internet finance will change the traditional management idea of traditional banking industry location advantages and disadvantages, number of outlets, asset size for the advantages, and transfer to have the amount of information, obtain information ability and analysis ability to process information. Timely it can provide financial information and financial services to the customers as the judgment standard of banking. Still can make the traditional banking begin to change the business model and information technology services, computer network communications service providers such as other non-bank services cooperation business model.

#### ***4.3. The Challenge to Traditional Commercial Banking Business***

At present a large part of the Internet companies began from the non-financial penetration into the financial field, whether the third party payment, such as P2P loans financing platform, has brought impact to traditional bank loan business. The important function of the traditional banking include payment platform and financing intermediary, the emergence of the Internet Finance to the traditional banking with the characteristics of indirect financing business brings certain influence, replaced the direct financing. As for payment, there has been no Internet Finance, all commodities need through the bank payment can be completed.

The Internet technology reduce the cost of access to information and transaction, and tap the commercial bank financing intermediary service requirements. In the process of financing, a more important obstacle is both sides have no way to communicate information capital supply and demand in a timely and effective manner. The traditional banking formed information collection and processing of economies of scale in the course of long-term business.

#### ***4.4. Impact on the Source of Income of the Traditional Banking***

The Internet loan has affected the traditional banking lending interest income. Though the network borrowing rise time is not long, but its development soon, and very popular with people. With the further development of the Internet technology application, some of the larger companies may produce greater dependence on network, it will bring serious influence to the survival of the traditional banking.

So far, the balance of treasure, unionpay electronic, remittance world, pay money tenpay etc have been passed the approval of the CSRC, third party payment has received funds license. The development of the third party payment, formed a larger impact on banking business and fund consignment fee income of the traditional banking.

### **5. The Strategy of the Traditional banking Deal with Internet Finance**

#### ***5.1. Increase Training of Existing Staff and Introduce of Inter Disciplinary Talent.***

At this stage, the bank staff's knowledge structure is generally pure computer and pure financial professional, computer professional lack both proficient in computer and proficient in financial and banking operation skilled talents.

On the one hand, the banks need to strengthen employee's training and need professional training to employees on a regular basis, and insect the work of employees and promote employees to continuously improve their ability to work; On the other hand, at the time of hiring, should lay particular stress on talents, introduce more talents with high quality and strong ability to work.

#### ***5.2. Update the Management Pattern and Improve the Service Efficiency***

Facing the challenges of the Internet Finance, the traditional banking needs to be updated according to the new environment management model, improve the service efficiency. First in this aspect, the bank need not only to understand the needs of customers, collect customer feedback information, so as to refine the customer service and front desk management, but also to speed up the product research and development, and should focus on business to strengthen internal control and background

management.

### ***5.3. On the Basis of Information, Data to Promote Efficiency of the Allocation of Resources***

The Internet financial model through the network credit system and database to make the information transmission faster. The transaction cost greatly reduced and effectively improve the resource allocation efficiency. Under such an environment, If the traditional banking would like to continue to survive and develop, first of all, must pay more attention to technology research and development, to establish a supported by technology and information database. It should use network platform effectively to collect and release information;

### ***5.4. Development of Online Banking and Bank Financial Business Innovation***

The transaction cost greatly reduced and in the rapid development of network technology and under the background of the Internet Finance's shock.

The traditional banking sector must be positive and active develop the online banking business. The traditional banking may be equipped with a dedicated staff to survey and track the potential online customers, thereby to determine the market positioning and design online banking business, then consider carefully what business suit and analysis on the Internet, what business should have a development. For example, in terms of retail banking business, it can consider to develop online accounts, balance inquiries, financial department, account transactions, and other business. In wholesale banking, it can consider to priority the development of cash management, financial engineering and some other business.

## **6. Conclusion**

### ***6.1. Policy Recommendations***

According to the above analysis can get the following conclusions. The Internet Finance belongs to a new industry that rises in the recent years. Its development potential is temporarily not settled yet, but sure is, on the premise of the traditional bank does not change, the Internet Finance can provides consumers with superior choice compared with the traditional banking. But there are undeniable facts, the traditional banking has more customer traffic than the Internet finance.

From the finance itself, whether the Internet Finance or the traditional banking, its purpose is more efficient to the economic production activities and in order to do better serve the people. Of this, the financial system has played a large role. In this discussion of the Internet Finance and the traditional banking' competition game, their common goal is to save cost as well as improve efficiency, in order to make the Pareto equilibrium as much as possible.

### ***6.2. The Traditional Banking Should Choose to Change as soon as Possible***

From the angle of macroscopic long-term economic development, the traditional banking should be changed. Average salary of the traditional banking is much higher than the other kinds of industry at present. It can also provide various of services, but the service efficiency is not high. Such as going to the bank to handle the business will cost queuing time. Although the traditional banking have some changes, these changes are on the surface, not involving deep. Not with the help of the Internet and turn into a single side or both sides of the network platform and dosent ' develop and produce the network effect.

### ***6.3. The Internet Financial Security System Should be Established***

The nature of the Internet Finance is people-oriented, its purpose is to shorten the distance of the user experience through improving a creative thinking. Although the Internet Finance has not changed the nature of the financial sector, and the Internet Finance just has higher efficiency advantages than the traditional banking. But its various management system, supervision system and risk prevention and control system is not maturer than the traditional banking. Its various products and services may be beyond the regulatory scope of existing laws and regulations, even there appear the regulatory vacuum. Therefore, under the background of this environment, the Internet Finance should build risk prevention

and control system to establish a scientific and effective decision system, the implementation of responsibility analysis system and relatively independent supervision system are also essential. Thus effectively prevent for decision-making, execution and supervision of various risks, enhance the ability against risk, and enhancing the degree of trust.

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