

# Research on the Impact of China's Internet Financial Development on the Traditional Financial Industry

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**Abstract.** With the development of Internet technology, Internet finance was born. Internet finance has appeared in people's sight in a new business form, which has brought significant changes to people's lives. People no longer need to go to the banks or other financial institutions' operations to handle business in a tedious way. However, at the same time, the high efficiency and convenience brought by Internet finance has also had a certain impact on the traditional financial industry. This paper will explore this issue in depth with previous studies, especially in the Chinese market where the Internet penetration rate is high. The paper defines Internet finance and its characteristics, emphasizes its convenience, low operating costs and easy accessibility, and deeply analyzes the connection between Internet finance and traditional finance, and at the end of the paper, it puts forward some policies to deal with the problems faced by traditional finance. This paper points out that Internet finance and traditional finance are interdependent, and the growth of Internet finance is realized based on traditional finance. The emergence of Internet finance has challenged and transformed traditional financial services, prompting them to undergo a digital transformation to meet the evolving needs and expectations of consumers. This study comprehensively examines these dynamics and the continued evolution of financial services in the era of Internet finance.

**Keywords:** Internet finance; traditional financial; impact research; coping strategies.

## 1. Introduction

Over the past 20 years, China's scientific and technological advancements have brought about tremendous expansion and transformation, with the country's economy gradually gaining global prominence. All spheres of life have steadily been affected by the Internet, which at this point in China's growth is an essential component of societal progress [1]. Internet finance emerged in this setting. Internet finance is the application of the Internet as a means of communication between businesses, financial institutions, and individuals; it is the use of the Internet to implement a new financial services business model, including online credit, funds, stocks, and so forth [2]. With the rapid development and popularization of the Internet in recent years, Internet finance has played a crucial role in promoting social and economic development by virtue of its excellent convenience, low threshold compared with the traditional financial industry, and a financial model closer to the public.

The most obvious example of how the Internet has changed people's lives is in the financial sector, which offers significantly more ease and popularity to users than other Internet-related businesses. These days, consumers can take care of their consumption, investments, money management, money purchases, and credit business from the comfort of their own homes. WeChat and Alipay's code-sweeping payment methods have basically replaced cash transactions completely, and according to statistics, the current electronic payment penetration rate in China is as high as 86%, even in rural areas, the penetration rate is as high as 76%. People's lives have drastically transformed as a result of internet finance. Internet finance has benefited consumers in terms of convenience while also having an impact on the established banking sector. The traditional paper money transaction method is replaced by mobile payment, and there is some competition between Internet credit and regular commercial banks' microfinance operations. The conventional banking sector is up against formidable odds in the face of the explosive growth of online finance. Therefore, this study focuses on the development mode of Internet finance and traditional financial industry as well as the connection between them, analyzes the impact of the emergence of Internet finance on the traditional

financial industry, and proposes countermeasures for the traditional financial industry to ensure the common development.

## **2. Overview of Internet Finance**

### **2.1. Characteristics of Internet Finance**

As an emerging financial model, Internet finance can rise rapidly in recent years, and it must have irreplaceable unique features.

First, the biggest feature of Internet finance is convenience. People use their cell phones or computers to remotely access financial services, including trading, microcredit, wealth management, fund and stock management, etc. via the Internet. Some financial operations can be done efficiently anytime and anywhere.

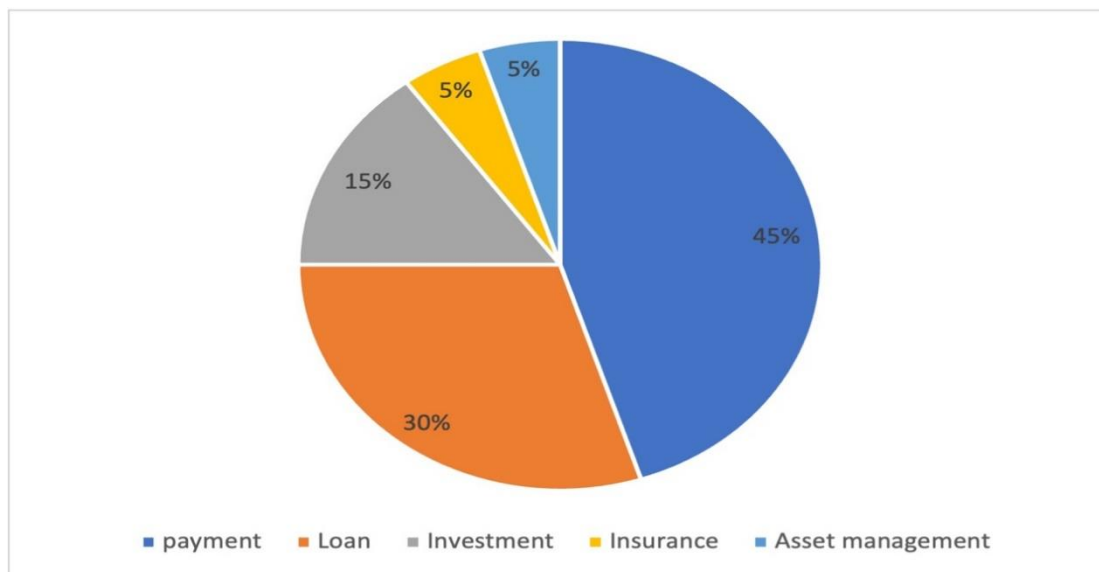
Secondly, Internet finance requires low operating costs. Internet finance mainly uses the Internet as a carrier for online transactions and operations, and compared with the traditional financial industry, which is mainly based on entities, Internet finance requires lower maintenance and operation costs.

Thirdly, for most people, the lower threshold of Internet finance is also one of its main features. Compared with the cumbersome credit audit system of commercial banks, Internet finance has a simple audit process, lending speed, and lower threshold limitations in small loans. In addition, Internet finance is also more flexible in the savings mode. For example, Alipay's "Balance Treasure" business has a higher interest rate compared to demand deposits in commercial banks, and the storage mode is convenient. According to statistics, "balance treasure" since the launch of the development so far, its time deposits reached more than 4.5% [3]. This mode of development is undoubtedly a huge attraction for individuals who do not have a large amount of financial services.

In addition, Internet finance also has the problem of weak regulation. Compared with the traditional financial industry that has developed for a long time, the rapid rise of Internet finance in a short period of time has led to the imperfection of its management and regulatory means, and the lack of various regulatory laws and regulations, and there are certain loopholes [4].

### **2.2. The Current Situation on the Development of Internet Finance**

With the rapid popularization and development of the Internet, Internet finance has been developing rapidly in recent years and has not been declining [5]. With its diverse business models, such as the third-party payment platform based on Alipay and WeChat Pay, and the low-threshold and high-efficiency online lending model of P2P, Internet finance has rapidly entered the public's field of vision and gained sufficient recognition in recent years. Even the third-party payment platform has widely replaced paper money transactions. Internet finance uses the Internet as a carrier to complete the direct docking of funds between enterprises and individuals, and this more transparent transaction mode has been generally recognized by the public. And the online transaction mode greatly saves the cost of labor and resource consumption. With its excellent convenience, timeliness and openness, Internet finance has successfully gained a foothold in the Chinese market and has been making rapid progress.



**Fig. 1** China Internet Finance Market Share, 2023 (Picture credit: Original)

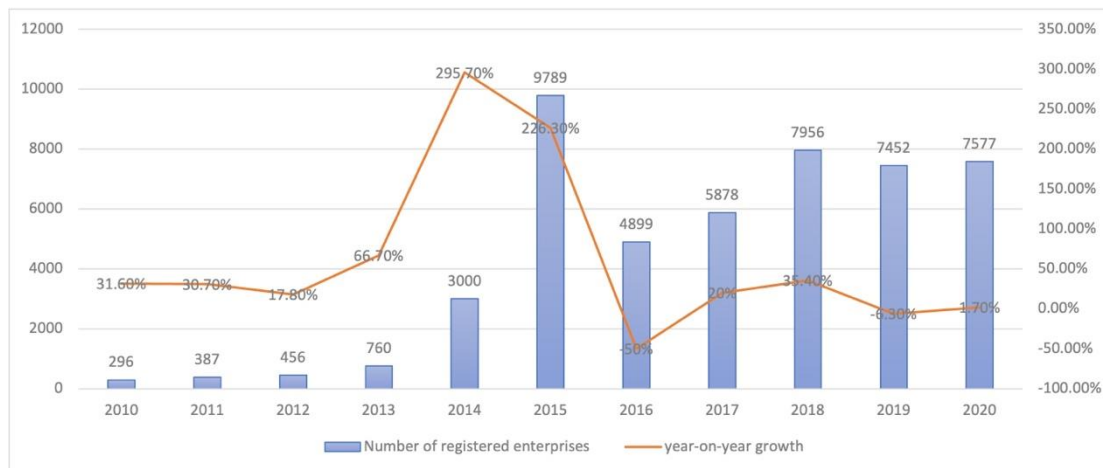
According to statistics, the scale of China's Internet finance industry grew from 4.24 trillion yuan in 2014 to 11.37 trillion yuan in 2019, with an average annual growth rate of 30.01%. By the end of 2021, the scale of China's Internet finance industry grew further, reaching 13.93 trillion yuan, a year-on-year increase of 17.28%. And according to the latest data in May 2023, the scale of China's Internet finance market reached a terrifying RMB 41.7 trillion, ranking first in the world [2]. As shown in Figure 1, as of 2023, China's Internet finance industry market is mainly dominated by payments as well as lending.

### 3. The Relationship between Internet Finance and Traditional Finance

#### 3.1. The Development of Internet Finance Relies on the Traditional Financial Industry

The traditional financial industry mainly refers to all the institutions recognized and approved for establishment by the People's Bank of China, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission and other departments [6]. Since the 21st century, China's economic system has gradually developed and improved, and various regulatory systems have gradually formed a complete system. The major financial institutions born under China's traditional financial system have gradually promoted China's economic development, making China one of the world's largest economies.

And Internet finance, which was born under the traditional financial background, has achieved a remarkable development speed in recent years, relying on the scientific and technological progress of Internet technology and big data. As shown in Figure 2, China's Internet finance exploded in 2015, with nearly 10,000 companies registered, a year-on-year growth of 226.3%. The number of registrations from 2018 to 2020 is about 7,000, with no significant growth or decline. The number of registrations in 2020 is 7,577, with a year-on-year growth of 1.7%. The number of companies registered in 2020 is 7,577, with a year-on-year growth of 1.7%.

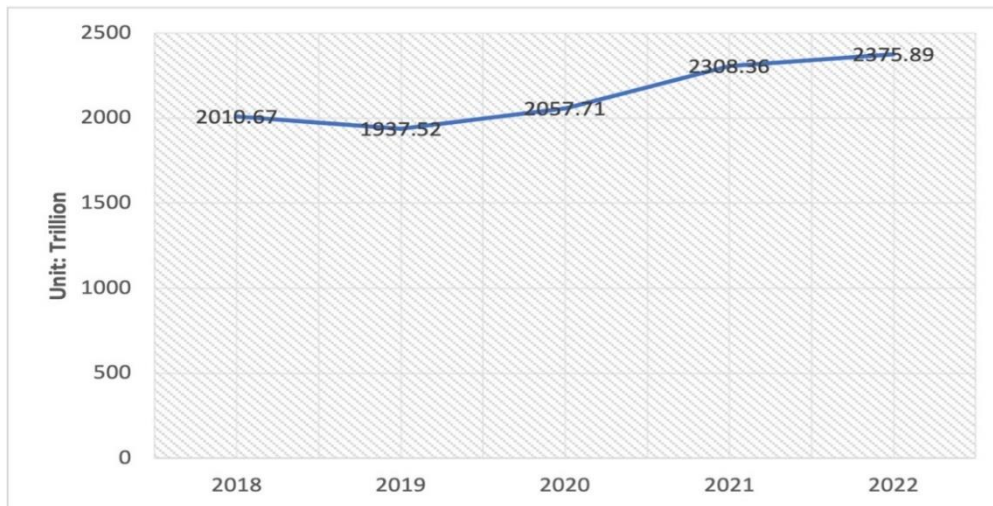


**Fig. 2** 2010-2020 Internet finance-related business registration volume (Picture credit: Original)

In fact, the development of internet finance is mostly built upon the strong foundation established by the old financial industry, hence it cannot be entirely regarded as a new business. However, defining Internet finance as merely combining the Internet with finance is not enough. The term "internet finance" describes the use of communication technology and the Internet for online money flow, transaction payment, and investment in accordance with people's requirements as well as the creation of new business models and modes of operation for the new financial model [7]. Whether it is third-party payment or peer-to-peer lending, Internet finance development must be based on classic finance ideas such as transaction, lending, and investing. In a nutshell, Internet finance is a new financial sector built on the conventional financial industry that emerged as a result of the rapid development of Internet technology, but it cannot jump out of the classic financial notion, much less replace it.

### 3.2. Internet Finance in Disguise Promotes the Development of Traditional Finance

The emergence of Internet finance and its rapid development in recent years have completely changed the traditional financial model. First, the biggest change is the payment method and the transfer and remittance method, according to statistics, as of 2023, China's personal mobile banking utilization rate reached 86%. Compared with the previous paper money payment and over-the-counter transfer and remittance, the way of scanning code payment and electronic remittance will undoubtedly bring people greater convenience. Whether it is the third-party transfer mode carried by Alipay or WeChat, or remittance mainly by major banks' online banking, it has become mainstream. And these days, practically all of the traditional financial institutions have gone online. Any kind of transaction, lending, or investing can be done online, and many people can do business without bothering to queue up at the bank. Small loans can also be done online for quick approval and disbursement.



**Fig. 3** Bank transactions away from the counter in China, 2018-2022 (Picture credit: Original)

According to Figure 3, as of the end of 2022, the total amount of Chinese banks' transactions away from the counter reached 2,375.89 trillion yuan, and the trend is steadily increasing. According to statistics, as of the beginning of 2022, China's large state-owned banks invested a total of more than 100 billion yuan in science and technology, of which 25.987 billion yuan was invested by Industrial and Commercial Bank of China, 23.576 billion yuan was invested by Construction Bank of China, 20.532 billion yuan was invested by Agricultural Bank of China, and 18.618 billion yuan was invested by Bank of China [8]. This shows that in the context of the development of Internet financial tell, major commercial banks have begun to gradually expand their online channels and are on track. By the end of 2020, the number of Internet users in China who buy online financial products has reached 150 million people, and the average use rate has reached 15.9%. The emergence of Internet finance is a kind of innovation and progress for the traditional financial model, and the core of this innovation is for more efficient service speed and better service quality [5]. Another way to look at it is that the rise of Internet finance has helped traditional finance grow to some extent by assisting the old financial sector in overcoming obstacles and making up for its deficiencies.

## 4. Impact of Internet Finance on Traditional Finance

### 4.1. Impact of the Main Business

#### 4.1.1. Change of Business Model

The traditional financial industry was forced by the circumstances to increase investment, build online platforms, and alter its risk assessment and customer management models. In contrast, internet finance relies on the advancement of Internet technology, the use of big data and algorithms to more accurately locate risk control and customer service. Over 70% of Chinese banks are reportedly hiring digital expertise to develop their online presence and offer online services. This demonstrates how commercial banks have embraced big data-driven technology transformation and how technological developments are affecting the traditional financial industry's business model [9].

#### 4.1.2. Impact on Bank Credit Business

The P2P lending model, which emerged as a result of online financing, is significant in today's market. First, a significant portion of the credit evaluation that commercial banks perform before making a loan is based on the assets and income of the borrower, which makes the banks more inclined to lend money to certain major businesses. On the other hand, China's society is home to a sizable number of micro, small, and medium-sized firms (MSMEs), with an estimated 48 million MSMEs as of 2021. These MSMEs typically struggle with small-scale operational issues and unpredictable capital position, which makes funding them challenging [10]. While P2P online lending

has low requirements for the assets held by users and has a rapid approval process and fast disbursement of funds, which helps MSMEs solve their financing difficulties, but it also affects the credit business of traditional banks in a certain sense.

#### **4.1.3. Impact Brought by Crowdfunding.**

Prior to the introduction of online finance, commercial banks and other financial institutions were mostly relied upon for the promotion of business financing. These days, Internet finance allows a lot of business owners to showcase themselves. They can post project ideas, business plans, and other materials online to draw in investors and get funding. Traditional commercial banks must create new businesses that better serve customers and enhance the effectiveness of their current offerings to some degree in order to maintain their own financial viability.

#### **4.1.4. Impact of Cost**

Traditional financial institutions have developed their own online trading platforms and established patterns of engagement with their offline counterparts as a result of the rise of Internet finance. Using commercial banks as an example, the majority of straightforward transactions may now be completed rapidly online or at the bank's e-counter with the assistance of one or two personnel who handle auxiliary processing on behalf of clients. Online activities can divert the majority of clients for traditional financial institutions, and they will require far less resources, labor, and time than their previous style of operation.

### **4.2. Impact of the Customer Base**

#### **4.2.1. Expansion of Customer Base**

Online finance facilitates cross-border and effective business offering by overcoming temporal and spatial limitations [11]. It draws clients who had not previously used banking services frequently by offering more affordable and convenient services, particularly youthful and tech-savvy clients. Additionally, customers in remote areas where traditional banking services are inadequate are also served by Internet finance. Previously, customers in these areas had limited access to financial services offered by traditional financial institutions, but Internet finance's online channel makes it possible for users in all regions to conveniently and efficiently access financial services. In response to this shift, established financial institutions are hastening their digital transformation in order to satisfy client demands for ease and customized services.

#### **4.2.2. Changes in Customer Behavior and Expectations**

The ease of access to online finance has altered consumer behavior. Nowadays, more people are trying to use financial services that are quick and easy to use. Customers now expect higher standards of service quality from commercial banks due to the high efficiency and personalized services provided by Internet finance. Consequently, the old, inefficient loan review process and time-consuming, labor-intensive counter business processing mode of commercial banks are becoming less and less able to meet the needs of their customers. This forces established financial institutions to enhance the effectiveness and quality of their services and create fresh business strategies in response to client demands.

## **5. Response Strategies of the Traditional Financial Industry**

### **5.1. Improve Service Level and Emphasize Financial Development and Innovation**

The traditional financial business is being impacted by the new market and new financial needs, which are made possible by the advancement of modern Internet technology. As a result, the traditional financial industry's profit margin is gradually getting smaller [12]. The emergence of Internet finance has undoubtedly provided the contemporary financial industry with previously unheard-of levels of convenience and efficiency, but this does not mean that traditional banks should

be written off or disregarded. On the contrary, traditional banks still have advantages that are difficult to be replaced by Internet finance due to their deep financial heritage, extensive physical networks and humanized face-to-face services. Although most young people and a portion of the middle-aged and elderly groups tend to choose online business, it cannot be ignored that there are still a portion of customers, especially large-value business processors or middle-aged and elderly people who are not too familiar with business processing, who prefer the offline services of traditional banks. This part of customers often values the authenticity and security of the service, and they hope to get more detailed and professional answers through face-to-face communication. Therefore, for traditional financial institutions, when facing this group of customers, they should not only continue to improve their service quality and attitude, but also strive to create a cozier and more comfortable physical environment, so that they can do business in a relaxing and reassuring environment. At the same time, traditional financial institutions should also make use of their professionalism and experience to provide this group of customers with more comprehensive and detailed financial consulting services to help them better understand and cope with complex financial issues.

In addition, the development of the traditional financial industry should indeed be product-based. The rapid rise of Internet finance is inextricably linked to the innovative financial products it offers. Traditional financial institutions should make full use of their deep financial resources and data accumulation to develop financial products that are more innovative and in line with market demand. This will not only improve the competitiveness of traditional financial institutions, but also provide customers with more diversified and personalized financial services. To achieve this goal, traditional financial institutions need to pay more attention to the accumulation and analysis of customer data. Through in-depth understanding of customer preferences and needs, traditional financial institutions can more accurately locate customer groups and provide them with products and services that better meet their needs. At the same time, traditional financial institutions should also strengthen interaction and communication with customers, actively listen to their feedback and suggestions, and continuously improve and optimize their products and services.

## 5.2. Leveraging Financial Technology

The financial business has seen significant progress and transformation due to the influence of Internet technologies in today's digital and information-rich social setting [13]. It is important to remember that this shift is not limited to the online financial sector; there is still a lot of room and possibility for the traditional financial sector to advance the use and advancement of financial technology. Fintech's strength lies not only in its ability to deliver services that are more convenient and effective, but also in its capacity to thoroughly mine and analyze large amounts of data in order to offer traditional financial institutions more precise customer group positioning, enhanced risk management, and more customized financial products and services. Through big data technology, traditional financial institutions can more comprehensively understand the financial needs and risk preferences of customers, and then design financial products and services that are more in line with market demand.

Therefore, the traditional financial industry should be linked to the Internet, the Internet as a carrier to further improve its online platform, to achieve good interaction and synergistic operation of online and offline outlets. The construction of the online platform is not only to provide convenient financial services, but also to establish a close connection with customers, real-time understanding of customer feedback and demand, so as to continuously optimize and improve the quality of service. In this process, traditional financial institutions need to focus on the optimization of customer experience. Whether online or offline, customer experience is always a key factor in determining the competitiveness of a financial institution. By providing more humane and personalized services, traditional financial institutions can not only enhance customer loyalty and stickiness, but also effectively reduce operating costs and achieve sustainable development.

In addition, traditional financial institutions should also strengthen cooperation and communication with Internet financial enterprises to jointly promote the progress and development

of financial technology. Internet financial enterprises have natural advantages in technology, product innovation and other aspects, while traditional financial institutions have deep financial heritage and a wide range of customer groups. Through cooperation, both sides can learn from each other, complement each other's strengths, and work together to provide customers with more high-quality and efficient financial services.

### 5.3. Nurturing Fintech Talent

Finance majors continue to maintain their popularity in Chinese universities, attracting tens of thousands of students every year. This huge enthusiasm for learning has undoubtedly injected a large amount of fresh blood into China's financial industry, resulting in an oversupply of traditional financial talents, who are generally equipped with solid basic financial theories, but are overstretched in terms of specialized knowledge of Internet technology [14]. However, with the progress of science and technology, especially the rapid development of Internet technology, traditional financial institutions are facing profound transformation needs. Internet technology is not only reshaping the ecology of the financial industry, but also gradually replacing some traditional positions. This has led to a significant change in the demand for talent in the traditional financial industry, which is now more thirsty for those who have mastered the knowledge related to Internet technology and are also proficient in traditional financial theory of composite talents. In the face of this challenge, the traditional financial industry needs to take active measures to adapt to the new trend of industry development.

On the one hand, traditional financial institutions should pay more attention to the diversity and comprehensiveness of talents in the recruitment process, and actively absorb new talents who have both financial background and Internet technology knowledge. At the same time, for the original internal practitioners, traditional financial institutions should also provide systematic training to help them master the basic knowledge of Internet technology and improve their comprehensive quality to better adapt to the needs of industry development.

On the other hand, in order to make up for the shortage of talents and improve the online service system, traditional financial institutions can consider hiring some excellent talents from Internet financial institutions with high salaries. These talents not only have rich experience in Internet technology, but also familiar with the characteristics and needs of the financial industry and can bring new perspectives and solutions to traditional financial institutions.

Through these measures, traditional financial institutions will not only be able to build a more complete talent training system, but also be able to maintain a leading position in the highly competitive market. At the same time, this will also promote the in-depth integration of the financial industry and Internet technology and promote the development of the entire industry in a more efficient and intelligent direction.

## 6. Conclusion

In the past decade, with the progress of China's Internet technology, Internet finance has been born as a new industry, and its good development trend has brought certain impact on the development of traditional financial industry. Firstly, this paper analyzes how Internet finance uses modern technology to revolutionize financial services, provide new investment channels and improve payment systems, and points out the problems of imperfect regulatory system and service system loopholes brought by its rapid development. Secondly, by analyzing the relationship between Internet finance and traditional finance, and comparing the data of many commercial banks that have been transformed after the birth of Internet finance, the paper summarizes the impacts of Internet finance on the traditional financial industry, including customer groups, business models and so on. Finally, it puts forward the view that the traditional financial industry should develop new business, improve service quality and efficiency, in order to coexist and mutually benefit with Internet finance in the market. Through comparative analysis, this paper concludes that the interaction between Internet



finance and traditional financial industry is two-way and complementary. It is expected that Internet finance will continue to increase the popularity and convenience of financial services, while traditional financial institutions will need to strengthen their service quality and risk control capabilities to adapt to this trend. This convergence is expected to promote overall innovation in the financial market, enhance the quality and efficiency of financial services, bring benefits to consumers, and contribute to socio-economic development. This finding has important reference value for the strategic planning of financial institutions, the policy formulation of market regulators, and the decision-making of investors. However, this study mainly focuses on the macro-level analysis and less on the micro-operational level of specific financial institutions. Future research can obtain more detailed data and case support by in-depth investigation of specific financial institutions' operation models, service innovation and risk management practices. In addition, with the continuous development of fintech, new Internet financial models and services will continue to emerge, and continuous tracking research is needed to update and improve the existing conclusions.

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