

# Transformation of Retail Banking with the Internet Finance Disruption

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**Abstract.** The emergence of new technologies, such as the Internet and big data, has brought about significant changes in people's daily consumption and investment habits. This has led to the rise of Internet finance, which has penetrated into all aspects of life, including the retail business of banks. However, the COVID-19 epidemic has dealt a severe blow to the physical industry, including the retail business of banks. This paper examines the impact of the COVID-19 epidemic on the retail business of banks and explores how commercial banks can take advantage of the opportunities presented by the current situation. Specifically, the paper discusses the importance of launching new products that cater to the changing needs and preferences of customers in the digital age. The paper also highlights the need for banks to improve their service efficiency through the use of technology. In addition, this paper provides insights and recommendations for commercial banks on how to transform and develop their retail business in the post-pandemic era. To survive and thrive in the post-pandemic era, commercial banks need to launch new products, improve service efficiency, and leverage the long tail effect to transform and develop their retail business.

**Keywords:** Retail banking; digital transformation; Internet finance.

## 1. Introduction

Retail business has the characteristics of less capital consumption, less impact by the economic cycle, broad innovation space and scattered business risks, so many modern commercial banks regard retail business as an important pillar [1]. According to the long tail effect, the accumulation of all non-popular markets will form a market larger than the popular market, so it can be found that retail business has enormous market potential. Expanding the scope of retail business and the size of retail market is an inevitable trend of the development of modern commercial banks.

At the fifth meeting of the 13th National People's Congress in 2022, Premier Li Keqiang made a government work report, which pointed out that the expected growth target of gross domestic product (GDP) in 2022 was about 5.5%, and the GDP growth target was continuously lowered. In the face of the low growth rate of economy, the policy environment of "strong supervision, deleveraging and tight restraint", and the era of the epidemic prevention and control, the profitability of commercial banks has been affected. With the rapid development of Internet technology, big data, AI, cloud computing and other technologies becoming more and more mature, the consumption and investment models of the public have gradually changed. The traditional advantages of commercial banks are declining, and the Internet lending and third-party payment platforms represented by P2P, Alipay and WeChat are taking up more and more market share. In addition, the impact of the epidemic on the physical economy has had a deeper influence on the banking and retail business relying on outlets. How to seize the current challenges and opportunities, actively promote the innovation of products and services, and complete the transformation of retail business under the background of the vigorous development of Internet finance is a problem that commercial banks must face.

## **2. The Importance of Retail Banking**

### **2.1. Literature Review**

Compared with China, foreign research on bank retail business began earlier, and the research system is more comprehensive. Roger shows the importance of retail business by analyzing the strategic transformation process of Western banking business [2]. Ferrari believes that the rapid development and in-depth application of financial technology will trigger profound changes in the service mode, management mode, value chain and competitive pattern of retail banking [3]. Omarin believes that digitalization is one of the main features of the profound changes in the banking system and points out that how to formulate a digital strategy is the top priority in the banking industry [4].

The domestic research on bank retail business started relatively late. Although there are no representative works, in recent years, the research on this has also been fruitful, especially a number of academic achievements around the transformation of bank retail business. With the "double cycle" as the background, Hou proposed that commercial banks need to pay more attention to customers experience in the future, in order to lay a solid foundation for competition in retail business of commercial banks. She also mentioned that the traditional growth curve of the retail business of commercial banks should be changed through the guidance of technology and data, so as to continuously innovate the development model of retail business and broaden its customer service radius [5]. Guan discussed the impact on the retail business of commercial banks from the development status and trend of Internet finance and put up some development strategies including accelerating product innovation and service upgrading, actively transforming into smart banks and developing platform finance [6]. Zhou and Chen analyzed the development status of commercial banks under the background of Internet finance and expounded the impact of Internet finance on the transformation of commercial banks' retail business [7].

To sum up, experts and scholars at home and abroad have carried out many aspects of research on bank retail business, and in recent years, the research direction of the transformation of bank retail business has been mainly based on digital application. On the basis of existing research, combined with the current situation, this paper discusses the transformation of the retail business of commercial banks under the background of Internet finance.

### **2.2. The Importance of Retail Banking for Commercial Banks**

The retail business of commercial banks has a wide range of business scope and product diversity; its risks are more scattered, and the returns are more stable; its transactions are sustainable and the business can be crossed; the retail business of commercial banks also shares the characteristics of relying on financial technology and innovation acceleration [8]. Based on these characteristics, commercial banks have gradually implemented business structure transformation, taking retail business as the core developing business. A McKinsey study shows that retail banking has become the main driving force for the overall revenue growth of China's banking industry. The total operating income of China's retail banking business has increased from 1.6 trillion yuan in 2015 to 2.6 trillion yuan in 2019, with a compound annualized growth rate of 11.9%, higher than the overall growth rate of 8.9% in the industry. The contribution of retail banking to the overall revenue pool of China's banking industry has also increased year by year, from 29% in 2015 to 33% in 2019, and is expected to reach 38% in 2025 [9].

**Table 1.** Revenue and contribution of the retail banking in the four major banks (2018-2022H1).

		2018	2019	2020	2021	2022H1
ICBC	revenue	3539	3884	3937	3984	2090
	contribution	48.80%	50.05%	49.20%	46.28%	47.09%
ABC	revenue	2747	2717	2776	3184	1796
	contribution	45.58%	43.17%	42.10%	44.12%	46.32%
BOC	revenue	2113	2210	2213	2162	1172
	contribution	41.91%	40.24%	39.13%	35.70%	37.41%
CCB	revenue	2588	2680	3271	3501	1844
	contribution	40.83%	39.53%	45.80%	45.79%	47.24%

From Table 1, it can be seen that from 2018 to 2022, the contribution of the retail business of the four major banks has been stable at more than 35.0%. Among them, the contribution of the retail business of ICBC, Agricultural Bank of China and CCB exceeded 45% in the first half of 2022. Even if there are some fluctuations due to the epidemic, the overall proportion is still on the rise. In the face of economic fluctuations and increasingly fierce competition in the industry, retail business is undoubtedly the trustworthy "ballast" and "stabilizer" of commercial banks, which will help them get through economic cycle.

### 3. Problems Existing in the Traditional Retail Banking

#### 3.1. Regional Restrictions

The traditional bank retail business mainly relies on the established outlets, while the coverage of the outlets is limited by geography. The number of customers that can be served and the number of potential customers that can be attracted is relatively small, which is particularly evident in urban commercial banks. As for the outlets themselves, there is also the problem of uneven and insufficient distribution. Some areas have not been covered by outlets, and some areas are too dense. For areas that have not been covered, a number of potential customers have been lost.

#### 3.2. Capital Costs and Operating Costs

The traditional commercial banks' retail business, which relies on the current physical services, not only needs to pay the site rent, but also consumes a lot of manpower and material resources. The cost far exceeds that of the new Internet Company. In the context of Internet finance, the traditional banks' retail business has been seized a large amount of market share and lost many original customers.

#### 3.3. Credit Service Quality and Service Efficiency

Traditional banking is prominent in information acquisition of credit objects and control of costs and risks. It's also remarkable for its multiple access to channels [9]. Under the background of Internet finance, the processing of data with big data can more accurately determine the goal and understand customer needs. Traditional banking is also subject to material time and space, which reduces service efficiency. For customers, the online systematic transaction method is more convenient, eliminating many inconveniences in offline services, thus gaining better service.

#### 3.4. Information Acquisition and Application Problems

Traditional banks rely on things like capital flow, credit information for the acquisition of customer information. The channels for information acquisition are relatively narrow, and there is no systematic integration or analysis of the obtained data, so the data has not been fully applied. What is noteworthy is that, information processing under the Internet financial model can rely on social networks to generate and disseminate information, especially information that individuals and institutions do not have the obligation to disclose; the organization, sorting and retrieval of information by search

engines can alleviate the problem of information overload and meet the information needs in a targeted manner; cloud computing ensures the high speed of massive information processing, efficiently achieve the purpose of data integration and analysis at a low cost [10].

### **3.5. Impact of COVID-19**

The COVID-19 epidemic has swept the world, affecting the physical business around the world. People's travel has reduced, and the passenger flow has also decreased. The direct impact on banks is reflected in the reduced customer-to-store rate. Because of the demand for epidemic prevention and control, the government has introduced a series of prevention and control policies, and the restrictions on banks' offline business becomes more complicated. For example, controlling personnel spacing, adjusting the business hours of outlets, etc. As a result, customers' experience of offline banking services reduced, so they turn to online services such as "Pocket Bank", which indirectly affects the sales of some complex financial products. At the same time, due to the impact of the epidemic, the public's willingness to save has increased, the willingness to invest has decreased, the unemployment rate has increased, and the risk of overdue loans has also increased, which has caused a negative impact on the cash flow of commercial banks. Retail businesses such as financing, commissioned financial management, and securities trading have been hit. According to the annual report disclosed by the four major banks, in the early stage of the outbreak, the proportion of retail business fluctuated slightly, and in the post-epidemic era, it returned to a steady upward trend.

## **4. The Impact of Internet Finance on Traditional Retail Banking**

### **4.1. Literature Review**

Modern information technology represented by the Internet, especially mobile payment, social networks, search engines and cloud computing, will have a subversive impact on the human financial model. There may be a third financial financing model that is different from indirect financing of commercial banks and direct financing in capital markets, which is called Internet direct financing market or Internet financial model [10].

In recent years, Internet finance has flourished, showing the characteristics of strong availability of financial resources, relative symmetrical transaction information, and de-intermediation of resource allocation. Gong believes that the Internet financial model will not shake the position of business model and profit mode of commercial banks in the short term, but in the long run, commercial banks should make great efforts, using the Internet financial model to obtain new development [11]. Feng compared the competitive advantages of Internet enterprises and commercial banks, revealed the advantages and weaknesses of commercial banks in the field of Internet finance, and pointed out that commercial banks should improve their core competitiveness by seeking win-win cooperation, attaching importance to customer experience, exploring and cultivating talents, and improving the level of science and technology [12]. Zhang pointed out that under the background of online finance, a variety of business models have emerged one after another, and the retail business of commercial banks needs to closely follow the development of the times to update its own retail business marketing management level [9]. It can be seen that it is very necessary to conform to the opportunities of the times, grasp the development law of Internet finance, explore new benefits from it, and promote the transformation of commercial banks.

### **4.2. Impact of Internet Finance**

The development of Internet finance has impacted the monopoly position of banks as information and capital intermediaries in the traditional retail business. People can complete the payment function through various software on mobile phones such as WeChat and Alipay, while software such as Yu'eobao and Huabei can also meet the needs of the public for simple savings, investment and lending. The application of these software are not limited by material space and time, and the operation is

simple and easy to use, attracting a large number of users. With the emergence of various Internet lending companies, the intermediary position of banks in the lending business has also been weakened.

Moreover, the retail business of commercial banks relies on the setting of outlets, and the coverage of outlets is limited, so the radiating customer group is also limited. During the period when travel is restricted, the loss of customer groups is further intensified. The Internet financial platform is not limited by physical time and space and avoids the time and inconvenience of commuting. Such platforms have rich functions and a convenient process, they also create a good customer experience and superimposes network effects. More and more people choose to use the Internet financial platform, resulting in the large-scale migration of customers. At the same time, as a basic and accumulated business, the retail business needs to focus on long-tailed customers in addition to middle and advanced users. The Internet has far more advantages in discovering such customers than traditional commercial banks, improving its competitiveness in attracting potential customers.

Additionally, The Internet lending platform has a low threshold and rapid transactions, especially in the current era of consumerism, which has attracted a large number of young users. The rapid circulation of information on the Internet ensures that customers will repay on time to ensure their credit score and future transactions. The reputation of the financial platform can also be supervised in both directions in the public's review.

## **5. The Development Path of Retail Banking**

How to keep up with the trend of the times, grasp the challenges and opportunities in the context of Internet finance, and fundamentally break through the current dilemma faced by the retail business of commercial banks requires not only the investment of manpower, financial and technical resources, but also the layout of strategic level, in order to deepen the implementation of the strategy in the transformation and upgrading.

### **5.1. Strategic Objectives**

To completely realize the transformation of retail business, it is needed to re-understand and grasp the traditional business model of the bank. In addition, the support of the whole bank is demanded, including the tilt of resources and the deployment of personnel. Only by clarifying the strategic positioning can the whole bank working together be ensured, thus implementing the strategy and achieving the goals set. At the same time, the characteristics of the retail business itself determines that its success cannot be achieved overnight but requires long-term accumulation and precipitation. Therefore, urban commercial banks need to accurately grasp its inherent development laws and characteristics, maintain strategic determination, follow objective laws, and lay a solid foundation step by step [13]. Grasping the opportunity of the era of the vigorous development of Internet finance is not simply to turn offline to online, nor is it blindly using financial technology. How to grasp the market trend, combine its own advantages, develop competitive products and services, and shape brand value needs to be based on the transformation of marketing ideas. The development of the period will lay a solid foundation for future development.

### **5.2. Digital Transformation**

In terms of offline business, give full play to the advantages of traditional channels, further enhance the intelligent service capabilities of physical outlets, further strengthen the socialization and customer acquisition functions of outlets, and build traditional outlets into the fulcrum of omni channels. The traditional outlets should also serve as the contact point of source customer acquisition, the main channel to serve middle and high-end customers, and the main position of innovative marketing service [5].

Increasing investment in science and technology online, create online trading and interactive platforms, and give full play to the advantages of Internet finance. Successful cases include that the two strategies of "big retail" and "trading bank" implemented by the Bank of Nanjing have effectively

improved the wealth management ability on the retail side, and the increase in financial assets of retail customers has reached a record high. In line with the era of mobile payment, N Card digital credit cards have been launched for the first time, and the cumulative number of cards is over 580000: The bank also launched a new personal business loan product called "Businessman". The trading bank has been upgraded to create an open bank "Xin e companion", with nearly 50,000 signed customers, the number of cash management financial customers has nearly doubled. It can be seen that in the context of the current era, the inevitability and superiority of the intelligent transformation of retail business.

### 5.3. Scene Empowerment

In order to achieve a large number of customers and improve the quality of service, the transformation focus of retail business needs to deeply cultivate the consumer market, deepen scientific and technological applications, refine internal management and seek cross-border cooperation. Through the construction of a consumer financial ecosystem, financial business will penetrate all fields of society, guide finance to "de-virtual to reality", and make commercial banks serve the real economy well and truly implement inclusive finance [14]. At the same time, focusing on creating a marketing model of "AI + enterprise WeChat + specific scenarios", build an ecosystem covering WeChat applet, video account, official account, and enterprise WeChat. In addition, through cooperation with existing platforms (especially platforms such as Amazon and eBay, which still rely on credit card payment), it may promote the deep integration of science and technology and professional services, continue to accelerate the agile transformation of financial technology and the establishment of task-based agile organizations, and respond to market changes more quickly and efficiently.

## 6. Conclusion

To sum up, technology and Internet finance bring challenges as well as opportunities. Although the traditional banking and retail business has suffered a certain blow, it still retains resilience. Retail business of commercial banks should seize the opportunities of the times, actively upgrade and transform, be customer-centered, improve product quality, optimize customer experience, dig deep into its own characteristics, and unite online and offline. Only in this way can it give full play to the potential and advantages of bank retail business. According to the existing research, the transformation of the retail business of commercial banks is an inevitable trend. Scholars have also put forward suggestions and development strategies from multiple perspectives, but the research on the internal mechanism of the retail business of banks is still not in-depth enough. In response to emergencies such as the COVID-19 epidemic, there is no targeted management plan. Follow-up research and exploration are expected. The future has come, what is uncertain is the environment. Only by firmly facing the market and deepening the business layout can banks continue to write a wonderful chapter on the road of high-quality development.

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