

The Transformation of Commercial Banks' Profit Model under The Impact of Internet Finance

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Keywords: Internet Finance; Commercial Banks; Profit Model

Abstract: The rapid development of the world economy and "Internet plus" has promoted the popularization of Internet finance, and the new profit model derived from it has brought great impact to various financial sectors in China, such as commercial Banks, insurance, funds and securities. Under the general trend of Internet financial model, China's commercial Banks are facing a double-edged sword. Therefore, this article from the profit model of commercial Banks in China are analyzed, and based on the annual report of 2018, compared with nine listed joint-stock commercial bank profitability, also introduced the commercial bank mode because of the influence of the Internet financial, finally, the commercial bank profit model in the face of the influence of the Internet financial countermeasure has carried on the shallow discussion, in order to make our country commercial Banks to successfully survive under shock, realizing the sustainable development in the competition, in the Internet actively conform to shift the financial environment, commercial Banks can still maintain profitability and competitiveness.

Nowadays, information technology, represented by computer, Internet, big data and cloud computing, is gradually being widely used in social economy, food, clothing, transportation and other fields. Internet finance was born under this background. With the help of big data and the Internet, Internet finance is in an irresistible development trend, overthrowing the traditional business and profit model of commercial Banks and exerting a subtle influence on the business and profit model of China's financial industry. Facing the new economic situation and economic environment, we have to rethink the development of China's financial industry, commercial Banks must follow the changes of The Times, adjust the inherent profit model. In addition, in order to better seize the opportunity, with the help of "Internet plus", China's commercial Banks will fully realize new development.

An Overview of Internet Finance Theory

Internet finance (ITFIN) is the fusion of Internet technology and financial system. It refers to a new financial business model in which traditional financial institutions and Internet enterprises make use of Internet technology and information communication technology to realize capital financing, payment, investment and information intermediary services. Supported by four major technologies: big data, cloud computing, mobile networks and social networks, Internet finance is essentially a special mode of direct financing.

Internet finance is not necessarily a simple combination of traditional finance. The current Internet plus finance pattern is supplemented by traditional financial institutions and non-financial institutions. In the process of popularization of Internet finance, rich and diversified business models and operation mechanisms are its unique symbols. The main institutions are: Internet innovation of traditional financial business, e-commerce innovation, APP software and other traditional financial institutions; There are also e-commerce enterprises, P2P (online lending platform), crowdfunding (online investment platform), bitcoin (digital currency), mobile banking apps (financial and financial treasure, etc.), and third-party payment platforms. Compared with the traditional financial industry, the combination of the financial industry and the Internet brings the

public closer to each other, crosses the gap between the financial industry and ordinary people, and enables more citizens to participate in the financial business to realize the accumulation and appreciation of wealth.

The main features of Internet finance are: low cost, high efficiency, wide coverage, fast development, weak management and big risk. It can be seen from its characteristics that it has advantages and disadvantages. Internet finance is a double-edged sword. On the premise of seizing opportunities for development, a more comprehensive regulatory system should be established and improved. Kaisheng Yang, a member of the national committee of the Chinese people's political consultative conference (CPPCC) and former President of the Industrial and Commercial Bank of China (ICBC), said, "financial activities, whether online or offline, should be regulated in accordance with existing financial regulations, instead of a laissez-faire attitude."

Analysis of Profit Model of Commercial Banks in China

Commercial bank profit model concept. The profit model of commercial Banks usually means that commercial Banks make profits through a series of ways to cover corresponding losses. And this way of profit is also with the development of the environment, constantly adjust to change.

According to the mode of profit, it can be divided into two types. The other is to rely on the intermediary business of the bank as the main source of income.

According to the main types of customers, mainly divided into the company and the two types of human profit. At present, Chinese commercial Banks still regard companies as the most important customers and attach too little importance to retail investors. This understanding is lagging behind, and this will be the trend of the future. In the future, the banking business targeted at retail investors can serve as the characteristic business direction of urban commercial Banks, so that the non-interest margin business can obtain the intermediate business income that cannot be underestimated.

Types of profit models of commercial Banks. First, the profit model of corporate deposits and loans (1993~2002). During this period, the operation and management system of Chinese commercial Banks was in the primary stage, and the system jointly constructed by them was the main source of income for commercial Banks. At that time, foreign capital was limited and Internet finance was underdeveloped. Interest rate deposit and loan business was absolutely dominant, and its profit space and source were relatively stable. The deposit and loan businesses of major commercial Banks were relatively homogeneous, and their competitiveness was insufficient to become industry giants.

Second, the intermediate business profit model (2003~2007). Intermediary business refers to the business of secondary charging for entrusted collection of loans by customers for commercial banks, which does not account for the commercial banks' own funds. The model is roughly as follows: undertake various payment and commission services, and collect appropriate business service fees. This model is the second most important profit model for commercial banks. Intermediary business enables commercial banks to obtain profits with higher stability and lower risks.

Third, private retail profit model (2008~2010). This type of business provides differentiated services based on the customer's asset level. This is the focus of commercial Banks for large customer groups to provide reasonable fund management services. Customers can obtain good financial returns on the basis of effectively avoiding financial risks. Meanwhile, commercial Banks can achieve revenue growth by pooling funds from major clients.

Fourth, mixed operation profit model (2011~now). This model is a diversified business model, the business cross - development. To provide more personalized and related associated services, such as the combination of bank securities, bank insurance, the establishment of bank investment department, fund management companies, etc., including the establishment of a variety of derivatives trading, in order to obtain greater profit margins, this model is playing an increasingly important role in the major commercial Banks.

Comparison of profitability between state-owned commercial Banks and joint-stock Banks.

The existing state-owned Banks include industrial and commercial bank, Agricultural bank, Bank of China, China construction bank, Bank of Communications and Postal savings bank. Currently listed joint-stock Banks are China merchants bank, Industrial bank, Shanghai pudong development bank, China citic bank, Minsheng bank, Everbright bank, Pingan bank, Huaxia bank and zheshang bank.

Profitability comparison of different categories of Banks in 2018.

Table 1. Profit indicators of the six largest state-owned banks in 2018

Six major banks	Operating income (100 million yuan)	YoY growth rate (%)	Net profit (100 million yuan)	Year-on-year growth rate (%) 2
ICBC	7737.89	6.50	2976.76	4.10
China Construction Bank	6588.91	5.99	2546.55	5.11
Agricultural Bank of China	5985.88	11.50	2027.83	5.10
Bank of China	5041.07	4.31	1800.86	4.45
Bank of Communications	2126.54	8.49	73630.00	4.85
China Postal Savings Bank	2612.45	16.18	523.11	9.71
Summary	30092.74		10611.41	

(Data source: 2018 annual reports of various banks)

The annual report shows that last year, the six major state-owned Banks basically realized the double growth of net profit and revenue, and the growth rate of net profit was more than 4%. Among them, the industrial and commercial Bank of China (ICBC) led the way with a net profit of nearly 300billion yuan last year, showing a steady growth trend, and both operating income and net profit ranked the first among the six major Banks. It is worth mentioning that postal savings bank just joined the ranks of state-owned Banks last year, with the fastest growth rate of net profit and prominent development space of profitability. In addition, in terms of defective rate, the six major Banks all decreased, while the defective rate of postal savings increased slightly but was still the lowest for the six major Banks. The non-performing rate is as follows: Postal Savings Bank, Bank of China, China Construction Bank, Bank of Communications, ICBC, and Agricultural Bank, corresponding defective rate is 0.86%, 1.42%, 1.46%, 1.49%, 1.52%, 1.59% respectively.

Table 2. Profit indicators of the six largest state-owned banks in 2018

Nine major banks	Operating income (100 million yuan)	YoY growth rate (%)	Net profit (100 million yuan)	Year-on-year growth rate 2 (%)
China Merchants Bank	2485.55	12.52	805.60	14.84
Industrial Bank	1582.58	13.06	605.93	5.93
Shanghai Pudong Development Bank	1715.42	1.73	559.14	3.05
CITIC Bank	1648.54	5.20	445.13	4.57
Minsheng Bank	1567.67	8.65	503.27	1.03
China Everbright Bank	1102.44	20.03	336.59	6.70
PingAn Bank	1167.16	10.30	248.18	7.00
HSBC Bank	722.27	8.80	208.54	5.22
Zheshang Bank	390.00	13.89	115.00	4.94
Summary	12381.63		3827.38	

(Data source: 2018 annual reports of various banks)

According to the annual report, the nine listed joint-stock Banks in 2018 also achieved a double harvest of net profit and revenue. Under the background of the overall recovery of joint-stock Banks' performance in the competition with state-owned Banks, the trend of industry differentiation is also becoming more and more significant. Among them, China merchants bank last year with 248.555 billion yuan of net profit came out on top, operating income and net profit in the top nine.

In terms of profitability, except for China Merchants Bank, China Everbright Bank, and PingAn Bank, the net profit growth rate of other joint-stock banks was lower than the average of 6% year-on-year, and the growth gap between the head and tail reached 13.81%.

According to the analysis of the above chart, although the overall profit and momentum of China's urban commercial banks are developing relatively well, the development is relatively unstable. There is still a certain gap between the development of state-owned commercial banks and joint-stock banks. The level has soared, so there is an impact on the intermediate business of state-owned banks. At the same time, due to the rise of Internet finance, the profit model and service form of commercial banks have also been affected.

The Influence of Internet Finance on the Profit Model of Commercial Banks

The innovation of Internet computer technology is the basis of Internet finance, and Internet finance is also based on the improvement of the traditional financial model. The external factors that affect the profitability of commercial Banks include the acceleration of interest rate liberalization, the intensification of market competition, the deepening of financial disintermediation and the reduction of interest income of commercial Banks, which all have a certain impact on the overthrow of the original traditional business, service channels and customer base of commercial Banks. However, from the current development status of commercial Banks, the impact of Internet technology is more reflected in the financial business of Banks.

Commercial bank deposit business meets 'roadblock'. At present, the main profit model of traditional commercial Banks in China is still to obtain profits according to interest rate spread, which is also the mainstream of profit source. The main reasons for this phenomenon are as follows: China's capital market is not sufficiently developed, the interest rate market is not fully opened, and the development space of fund financing business is limited.

In terms of deposits, as the basic business of the traditional commercial Banks' profit model, the bank deposit business has gradually slowed down from its monopoly position to the current absorption rate. In June 2013, the balance of "make investment simple" treasure quietly launched, balance treasure as a typical representative of Internet financial, draw on a large amount of deposit, in a short span of a year, to an average of 5% of the initial high yield increases with the increasing deposit taking, capital, capital to many advantages such as relatively high security safeguard attract a large number of users, the balance of Po number of users has exceeded 100 million, successively completed size break through 100 billion. The emerging Internet financial models have seriously affected the profits of commercial Banks, resulting in a large loss of deposit business and increasing pressure on the survival of Banks.

Commercial bank loans hit 'stumbling block'. In terms of loans, the threshold for traditional commercial Banks to apply for loans is very strict. Generally, only large and medium-sized enterprises with high credit records can pass. It is very difficult for individuals and small enterprises to apply for bank loans. The involvement of Internet finance can comprehensively consider the credit degree of customers and judge whether to grant loans based on the comprehensive credit evaluation results. This mode lowers the threshold and makes loans more convenient for many small and medium-sized enterprises. In addition, customers can now handle deposit and loan business anytime and anywhere with one click on their mobile phones, simplifying cumbersome procedures and reducing the risk of financial loss for customers. Competing with commercial Banks in loan business are major non-bank loan financial institutions, such as Shanghai yidai.com financial information service co., LTD.

Impact on commercial bank intermediary business. The intermediary business carried out by commercial Banks refers to the business activities of handling receipt and payment, consultation, agency, guarantee, lease and other entrusted matters for customers as intermediary agents, providing various types of financial services and charging certain handling charges.

As the financial industry is affected by the rapid development of the Internet, the intermediary business of commercial Banks is affected. Compared with the minimum quota set by most insurance and wealth management products of commercial Banks, the "zero threshold" of Internet

financial products is more attractive. In addition, compared with demand deposits of traditional commercial Banks, which have low returns and are not flexible enough, third-party payment does not need to pay handling fees, and has good liquidity and high returns, which makes it more popular with users. Although the financing scale of Internet finance is far less than that of traditional commercial Banks, with the rapid development of Internet finance, the rapid development of financial institutions on other platforms makes the phenomenon of financial disintermediation more and more obvious, and its potential threat should not be underestimated.

Impact on private retail business of commercial Banks. Credit CARDS are one of the many revenue streams that accrue to private retailers, earning profits through annual fees, commissions, interest, cash withdrawal fees and fees for value-added services. As a typical representative of Internet financial Alibaba have been eyeing with credit card business, such as ants in alipay spend bai, compared with the credit card business of commercial Banks, in the network of modern consumption concept, consumers tend to direct the use of mobile phones to pay through alipay ants spend bai, no longer need a credit card, is very convenient. This has also led to the decline in credit card performance of commercial Banks in recent years. It is also the mainstream development trend of the overall transformation of the financial industry under the influence of the Internet, which has formed a competitive trend for the private retail business of commercial Banks.

Analysis on Countermeasures of Banks' Influence on Internet Finance

Under the impact of Internet finance, China's commercial Banks should cope with the current situation of profit slowdown, how to effectively avoid the disadvantages of Internet finance, how to find a starting point to take advantage of the advantages of Internet finance, to achieve the balanced development of traditional business and new intermediate business, this is a top priority.

Make use of Internet innovation to optimize the efficiency and quality of deposit and loan business. For commercial Banks, although the space for the reform of deposit and loan business is narrow, if they want to strengthen the efficiency of deposit and loan business and optimize the existing structure of deposit and loan business, they can only rely on the assistance of Internet technology system. Commercial Banks should keep up with the trend of the financial, change the existing structure of the savings and loan business, combined with the Internet to establish financial platform, the significance of building is to broaden the traditional loan business, comply with the irreversible trend of the network financial, improvement of the financial system, Internet will expand customer base, establish credit rating process, into the small and medium-sized non-bank financial institutions.

Based on the user's perspective, promote business diversification upgrade. Commercial Banks should attach great importance to the needs of customers instead of focusing on self-development. While developing banking business, commercial Banks should try their best to stand in the perspective of customers and put themselves in others' shoes. The idea of "customer is god" should be integrated into all links of the service system of commercial Banks, so as to approach the benchmark of "considerate bank". Commercial Banks should have a variety of businesses such as securities brokers, insurance and consignment sales of various products, further integrate various effective internal resources, provide targeted and attractive financial products to target customers, and advocate precise positioning services. For example, commercial Banks use deposit services to provide customers with flexible, diversified and multi-combination demand deposit balance financing services.

Expand credit rating, expand credit card business. Under the impact of the Internet financial platform in the cramped living space, commercial Banks must further expand credit rating system, rely on the cooperation with the Internet to establish perfect mechanism of credit rating, and personal credit registry link with the customer, can also cooperate with some business institutions, add some discount on welfare, and to attract the attention of the customer. In addition, commercial Banks should also expand the online market of credit card business, enhance the convenience of using credit CARDS through online banking, and avoid the phenomenon of cashing out while

strengthening cousin, so as to avoid credit CARDS becoming the "small Treasury" of other Internet financial platforms.

Precision to strengthen risk control, improve the utilization efficiency of funds. In the current situation of Internet finance development, commercial Banks will also face greater risks. In this regard, commercial Banks should strengthen the pertinence of risk control, increase the investment in risk control technology and personnel, and constantly improve the risk control methods. In this way, it can timely control the changes and daily fluctuations of the financial industry, and well regulate the liquidity ratio and provision coverage ratio. At the same time, it is necessary to formulate strict rules and regulations, constantly optimize the internal control process, build efficient, accurate positioning, perfect system of online banking management system, nip in the nip, so as to improve the profitability of Banks.

Conclusion

To sum up, Internet finance is the only way for the future development of the financial industry, which appears in a subversive attitude and impacts the operation and development of commercial Banks. Face the opportunities and challenges, commercial Banks should comply with the trend, based on customer requirements, should actively advancing with The Times, using their own advantages, combined with the advantages of the Internet, the construction of diversified and targeted products, decisive implementation of the profit model of strategic transformation, enhance customer experience, improve their supervision, thus to improve its profitability, enhance the core competitiveness of market, the realization of the real and the sustainable development of the Internet financial cooperation and win-win.

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