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The Analysis of Financial Business Strategy Based on Internet Thinking

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Abstract: The cross-border competition between financial institutions and internet firms become more and more intensely. Financial institutions have advantage about offline market capacity, professional ability, numerous capitals and the exiting customer. Internet companies have strength on innovation, collaboration and platform competition. Using internet factors to improve financial business is an irresistible trend. The strategy between financial enterprise and internet firm is Symbiosis and competition.

Keywords: internet thinking, network externality, financial business, strategy

1. INTRODUCTION

Currently, the internet finance has become the focus of hot debate. Internet industry always keep innovation, and it lash against retail industry, manufacturing industry and agriculture. Obviously, it have been intensely influencing on financial industry. We call this change “cross-border robbery”. The internet thinking make a lots of new business model, like payment system, P2P financial platform, crowd-funding model, big data finance and so on. “Ali Small Credit”, “Yu Ebao”, “WeChat Wallet” are the typical new internet financial model.

From the perspective of bank, online bank, mobile phone bank, mobile payment and other new business have been applied. However, these businesses are disappointed, few customers choose the business from the bank, most customers prefer to use internet product like “Alipay”.

So, what effect of the internet to the financial core business? Internet is a tool or a new business model for finance? What the direction of the internet finance?

2. THE CORE BUSINESS OF THE FINANCE

There are four kinds of core financial businesses, credit risk management, investment, payment system and insurance.

2.1 Providing credit risk solution

First of all, we talk about the credit market. As everyone knows, the information asymmetry is the biggest problem in the process of investment. If this problem cannot be solved, it can lead to a result that a lot of enterprises could not obtain loan. Indirect financing and the direct financing are two solution ways^[1].

In the indirect financing plans, Banks build a set of high cost credit risk management system and make itself have the advantage of credit risk management ability. On these contexts, Banks play a role of undertaker credit risk in credit market.

In the direct financing plans, many professional investors undertake the responsibility dispersedly. Although the costs decrease, the effectiveness of the credit risk management is also reduced^[2].

The boundary between the two kinds of system is mainly determined by the relative costs. When the bank's total cost(Including of adverse selection's benefit loss operating costs and cost of credit.) below financial market system, the bank will occupy a more effective position in the credit market and vice versa. As a result, Modern finance is generally begun to develop from indirect financing.

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2.2 Providing professional financial investment services

Another core function of financial institutions is to realize the financial investment. With the social leisure capitals are accumulated and precipitated, asset management needs to be generated. However, asset management also needs professional ability. The reality is that most of corporate and personal have financial assets often do not have this ability enough. Therefore, a part of the customers choose the asset management function outsourcing. As a result, fund institution, trust and insurance industry and other professional investment institutions are appeared^[3].

2.3 Organizing payment system

The core of the modern monetary system is that almost all main economy must take the commercial bank payment system to complete most of the trading activity. This gives the monopoly ability to commercial banks in the contact part of the customer.

In china, the current official payment system includes a large value payment system, the bulk electronic payment system, check image exchange system, domestic foreign currency payment system, electronic commercial draft system and a set of complex system. Individuals, companies and even the non bank financial institutions must opened accounts in commercial banks if they want to complete the transfer accounts^[4].

2.4 Providing insurance guarantee

Actuary is a core function of the insurance. Actuary refers to the analysis, assessment and management of risk in the future. The effectively actuarial system is an important part of the core competitiveness of insurance companies^[5].

3. THE INTERNET INNOVATION THINKING

What kinds of results would be produced when the internet factors which like low transaction cost, big data, self-organization and bilateral platform remold finance? Among the businesses of the finance, Which would be changed? Which would be replaced? Which would be held?

3.1 The network externality of internet

The internet have two functions, channel and platform market. As a platform market, internet market which called bilateral market is different to traditional market. Platform is the core of the bilateral market. There more than two kinds of the costumers at the bilateral market. Market obtains values by costumers' communications and feedbacks. Besides this, internet has two characteristics, cross-group network externality and Inter-group network externality^[6].

Inter-group Network externality means at the sides A or B, with the increasing market participants, the utility of using platform is adding. For example, as the number "weChat" is rising, the old customers' effectiveness are advancing. The side A or B is a self-organization, it could be developed because of the internet's four properties, openness, equality, collaboration and sharing.

Cross-group network externality means the number of the side A is creasing, the utility of the other side, B, is strengthened. For instance, the number of merchants in "TaoBao" is increasing will inspire the desire of the consumer.

Base the internet theory, the development of the self-organization media highlights the network externality. At the same time, the bilateral platform could produce big data, which make the data resource have the monopoly strength. This strength would form the natural monopoly of the platform.

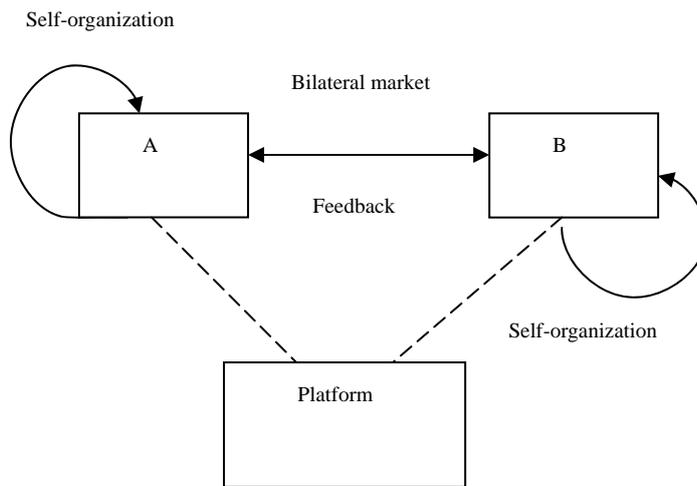


Figure 1. The network externality of internet

3.2 Four feature of the internet

The internet has four features, openness, equality, collaboration and sharing. The aim of the openness could decrease the transactions cost in order to increase the scale of the self-organization. Equality is the fundamental of the forming self-organization. At last, the network externality is realized by collaboration and sharing^[7].

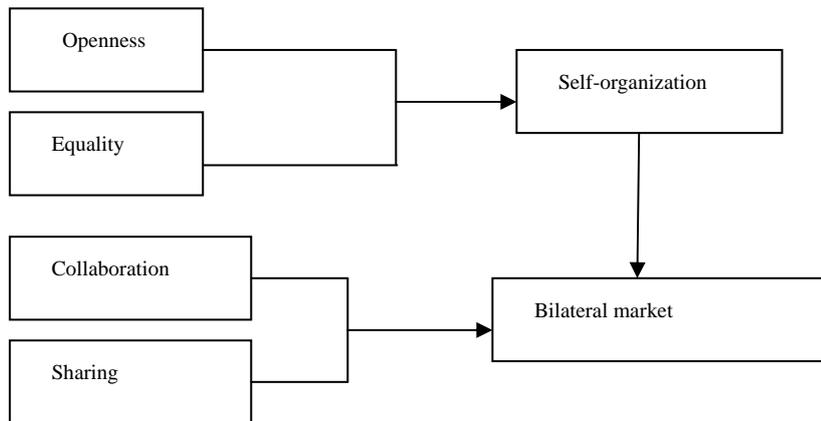


Figure 2. Four feature of the internet

3.3 Internet innovation thinking influence the traditional financial model

First, low cost would change the payment way of the finance. By providing internet payment service, the internet companies could expand the business in settle accounts, the receiving unit, investment and financing and so on. The internet companies all permeate payment industry chain, the customer’s pay behavior had been guiding by companies like Alibaba, Tencent, Baidu and so on.

Second, big Data could promote the actuarial ability of the current credit risks management system and the insurance company. It is estimated that using big Data could improve the validity of the finance product design and optimize the allocation of resources. The institution who master data analysis way will occupy obvious advantage by competing with banks, rating agencies^[8].

Third, self-organization has little influence to finance business. “We-media” could not have obvious result to professional finance threshold. However, the effect of the self-organization to internet platform can not be ignored^[9].

At last, bilateral platform have some influence to credit risk management, investment. For instance, P2P loan, internet banking product sales platform and online insurance sales platform all have the network externality^[10].

Table 1. The effect of the internet factors to financial businesses

Financial core function Internet factors	Credit risk management	Investment	Payment	Insurance
Low cost	Little effect	Convenience	Institute payment network	Decrease cost
Big data	Obvious effect	Improve product design	No	Strengthen the actuarial ability
Self-organization	Little effect	No	No	Spread the insurance concept
Bilateral platform	Some effect	Some effect	No	Some effect

4. THE FINANCIAL STRATEGY BASED ON INTERNET THINKING

4.1 Some businesses will be replaced

The following business will be replaced by internet channel.

1. In internet model, cash transactions will receive the biggest threat. Since the reform and opening up, the implementation of payment tool such as paper, debit card, credit card payment tools has been replace cash transactions in fact. And with the further popularization of the Internet payment and mobile payment, the role of cash in the deal will be further marginalized in future^[11].

2. Big data would deeply reform the credit risk management of the financial system. “Alibaba Micro finance” is a successful example proved that the big data on credit risk management can be better than the traditional model. The former has obvious improvement. Its advantage reflects on the total cost (Adverse selection efficiency loss + the cost of credit + Operating costs). It is worth mentioning that this advantage is mainly reflected on the non-systematic risk management. Therefore, the main areas of its advantage were including small enterprises and consumer credit. But the real estate development in the high systemic risk loans was not included^[12].

Our next question would be what is the core element of the credit risk management model based on the new big data? Is Data or technology? We prefer the former. In the era of big data, data resources are highly uneven. In the credit risk management industry chain, if the ultimate control of large data resources was from the bank, it means that bank tentacles comes to a further extension and massive customer base is down. This will be a great help for banks to deal with the interest rate market and the disintermediation of pressure. If the master data was from rating agencies, the direct financing system will greatly benefit from. The adverse selection problem of asymmetric information will be significantly weakened. If the data was mastered by security agencies, the land of gold in the model will be popular. The proportion of direct financing will rise rapidly and most investors will have to guarantee agencies to buy credit risk derivatives. If the hands were the

Internet business, then it depends on whether the company intends to specialize in banking, rating or guarantee. Of course, due to the higher banking model yields, the possibility to get small loans Ali replication is the greatest. In the age of the internet, monopoly data will come from bilateral platforms. This is the only sustainable source of data advantage. So the platform for the battlefield will be extremely important in the future [13].

3. The actuarial transformation of big data. The current insurance company actuarial assumptions are usually based on the whole of society and industry, public disclosure of information and the company's own data base accumulated, the forecast accuracy is still much room for improvement. The era of big data, master data resources will form the main body of significant competitive advantage. For example, we can assume that such a scenario: An insurance company institution most of China's medical into their building "online healthcare service platform." Accordingly, the insurance companies significantly improve the accuracy of life expectancy for policyholders to assess [14]. Once you have the advantage in the actuarial, The insurance company for the quality of the customer (Life expectancy is shorter than the assessed value of the insurance company agreed to provide customers the difference between the death benefit of the insurance company) out of the lower rate will attract these customers inflows. Customers will flow to the inferior competitor because of the higher rates; bring the poor customer for insurance companies. This helps insurance companies to build a core competitive advantage.

4. The "Pull" of products will be online technology comprehensive, future market demand dominance, simple design, so the easy horizontal comparison of financial products will not apply to the bank costly, Brokerage physical outlets and insurance agents, mainly sold on the Internet. These products include bank deposits, pay high insurance, money market funds, financial products (Financial products currently in the client appears to be very little difference) etc. But do not rule out as consumers of financial consumer awareness, and the accumulation of financial expertise. Some financial products may from "push" products to "pull" products.

4.2 Some businesses will be improved and transformed

The following business will be improved and its function will be transformed.

1. Payment system will be more solid. Internet age was also related to the Internet account service, but more companies to bypass licensing controls to sharing the cake. But the future of payment systems will be more solid. Mobile paid will bring more convenient of paid; micro letter scan II dimension yards paid, new function shows with received single subject of increasingly diversity; including paid treasure zanies of internet enterprise will continue to complement account function of shortcoming, including transfers remittance, and take now, and issued virtual credit card, and funds collection,, even may attempts to issued real card; also, part of brokerage also in constantly construction and strengthened paid settlement function previously, they may joined into the war Mission together [15].

2. The function of financial branch would be transformed. Some might view think that the next 80% physical dot will be disappears. We have reservations about this. First of all we want to see what networks are doing now, so we choose a bank integrated network as a samples.

Due to the stringent requirements of regulatory authorities, processing of lots still has physical outlets. More important is that the new stock of customer outreach and marketing clients belong to "push" their business, and Internet model is hard to replace, not only will not decline but will continue to improve in the future. In addition, safe deposit boxes and other businesses cannot be networked.

From another point of view, at least until the virtual reality system to promote and service experience cannot be networked. Also for this reason, compared to the Internet, physical network services will still be able to provide additional added value, additional customer's psychological needs such as social interaction and respect.

4.3 The competition logic of the finance would be changed

Implantation of new elements of the internet will make the financial industry in the past have adapted to business changes^[16].

1. The platform would be the core of the competition. Bilateral platform will be the core position in internet financial competition. The platform is only sustainable source of monopoly power of data and data resources are at the heart of competition in banking credit business in the future.

So we see, all major banks had been aware of the importance of the platform and began to gradually force building their e-commerce platform and Internet enterprises relying on platform sequence into the financial sector's intentions are very clear.

2. Winner takes all. In traditional financial model, due to the high transaction costs, market fragmentation, the main competition's market share is relatively dispersed; most respondents have "food "to eat. But internet financial competition order is completely different. Economies of scale, as well as on the hardware and software platforms and the laws of the natural monopoly characteristics of large data 70-20-10 will play their full role in the various segments to form the "winner" rules of the game. In other words, no strengths weaknesses but there are no financial institution that are unable to survive in the internet financial.

3. Cross-border competition. Internet financial model, the introduction of new technologies and new business models innovation, among the financial and Internet business, finance increasingly blurred the boundaries between various sub-sectors. Due to the role of the Nowig's law, advantage Internet enterprise for ROE obviously partial high of finance especially banking of entered pressure will be continuous, and Internet gave birth to of new economy weakening has financial industry of various entered barriers. Fierce cross-border competition in the future will be significantly promoted China's financial sector competitive pressure; thereby once again driven to the conclusion---- devotion to conservatives' financials will be accelerated phase-out^[17].

4.4 Symbiosis and competition strategy

Collaboration effectiveness is the aim internet firms and financial institution. Two different kinds of enterprises improve themselves by relying on the advantage of each other.

Table 2. Symbiosis and competition strategy

The advantage fields of the financial institution	Symbiosis fields	The advantage of the fields of the internet firms
Deposit	Online payment	Software development
Cash service	Internet bilateral platform	Hardware technology
Investment	Small micro loan	New model
insurance	agent business	Continuous innovation
Low risk loan	Commitment	Favorable policy
Settlement of accounts	Simple financial products	Flexibility

5. CONCLUSION

Collaboration development is the trend in the filed of internet finance. The internet thinking should be made full use. At the same time, follow the bilateral platform business model. Let the customer choose the most appropriate product.

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