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The Development Process of Traditional Commercial Banks and Its Transformation in the New Era

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Abstract: With the development of digital technology, the rise of several online financial platforms has had a huge impact on traditional commercial banking. Compared with traditional commercial banks (TCB), digital finance has high efficiency, low risk, low threshold, and diversified services, which has caused huge competitive pressure on commercial banks. For the high-speed and high-quality development of the national economy, the transformation of TCB has been urgent. However, there is a lack of summary on the specific transformation methods and feasibility of TCB in the existing studies. This paper reviews the development process of TCB and digital finance, compares the advantages and disadvantages of digital finance compared with TCB, and tries to analyze the reasons and methods for the transformation of commercial banks. Finally, the conclusion is drawn: Although the emergence of digital finance has squeezed the ecological niche of some TCBs, the transformation process of TCBs is full of risks and challenges. However, commercial banks can achieve transformation by increasing initial capital investment, optimizing talent selection and management mode, and expanding business diversity to absorb and integrate the advantages of digital finance to promote their own and national economic prosperity and development.

Keywords: Traditional Commercial Banks, Transformation in the New Era, Development Process.

1. Introduction

In daily life, the circulation of funds makes people in the financial activities in the demand side and the supply side of funds, and banks in the circulation of funds has played a great role. However, with the development of electronic technology, the traditional bank has its irreplaceable particularity, but also shows a certain backwardness.

From the background of the rise of the digital economy, China's economy has experienced a process of rapid growth to slow growth. China's previous high growth was an extensive type of growth. The reasons for the slowdown of economic growth are unreasonable industrial structure, disappearance of demographic dividend, and decrease of total factor productivity, etc., while the new driving force of economic growth in the future is mainly technological innovation and demand [1].

However, the impact of digital finance on commercial banks is multifaceted. On the one hand, digital finance continuously activates the innovation vitality of commercial banks, which helps to

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increase the asset scale of commercial banks and increase the ratio of deposits and loans of commercial banks. On the other hand, digital finance intensifies the inter-bank competition of commercial banks, and commercial banks are prone to customer diversion and business encroachment [2].

At the same time, the impact of digital finance on traditional commercial banks (TCB) is limited. At present, it seems that digital finance has indeed caused a big impact in some areas, such as payment. In other areas, such as lending, it is only complementary.

This paper reviews the development process and summarizes the advantages of commercial banks, and studies why the transformation has become the top priority for the further development of contemporary traditional banking. Through the comparative study of digital finance and traditional banks, taking into account the wave of information technology and the Internet revolution faced by traditional banking, as well as the era background of increasing integration into the global economy, this paper puts forward three thoughts: Firstly, the advantages of traditional banks are sorted out and analyzed, and their uniqueness is summarized. Second, how traditional banks should integrate the advantages of digital currencies is discussed. Finally, it explains how traditional banks should gain a foothold in the financial sector [3].

2. The Development of TCB

The earliest development of banks can be traced back to the Babylonian temples of 2000 BC and the Greek temples of 500 BC. At that time, they were already engaged in the activities of keeping gold and silver, issuing loans, and collecting and paying interest, which was the embryonic form of modern TCB. In 1580, the world's first bank opened in Venice, Italy. At that time, people held a variety of currencies depending on the country. The emergence of exchange rates has facilitated the management of banks, which has drawn an equal sign between different currencies in different countries. With the exchange rate, banks began to make loans and profit from the price difference, and with development, their main function began to change to regulate the market.

Historically, the development and innovation process of the financial industry is usually a complete cycle of the emergence and development of new financial formats and the replacement of old financial formats. For example, in the 19th century, the number of tickets in Shanxi and other places was once prosperous, meeting the needs of merchants to exchange currencies in different places. However, at the beginning of the 20th century, the introduction of industry, and the traditional financial business model such as ticket numbers gradually declined. Therefore, information technology often plays a huge role in promoting the financial industry. In the late Qing Dynasty and the early Republic of China, the modern banking industry gradually completed the network layout along with the relatively advanced telegraph network at that time. After the third scientific and technological revolution, the progress of information technology has promoted new changes in banking business and mode, and advanced financial service equipment such as "ATM" and "POS" have appeared. As society enters the era of a digital economy, digital finance is driven.

3. Reasons for the Transformation of Commercial Banks

Nowadays, with the development of information technology and the Internet, changes in the global economic environment make the boundaries of financial services increasingly blurred. To effectively cope with the many challenges brought by the market environment to the financial market of banks, digital transformation is an inevitable choice and a key path for banks to enhance their core competitiveness and achieve sustainable development. In the process of transformation, commercial banks mainly face the following three challenges [4]:

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(1) Insufficient ability of the investment: To carry out digital transformation, commercial banks must make large-scale financial investments. Huang pointed out in their article "Promoting Strategic Transformation of Commercial Banks by Developing Investment Banking Business" that investment banking can enhance the competitiveness of commercial banks in the new market environment and effectively make up for the shortcomings of TCB in profit and risk control. To better meet the diversified needs of customers and promote the transformation of commercial banks [5]. In general, the greater the investment in fintech, the higher the quality and speed of digital transformation is likely to be. The transformation of small and medium-sized commercial banks may fail because of insufficient funds or the early investment is not proportional to the return.

(2) Shortage of fintech talents: Talent is the key to the digital transformation of commercial banks, which puts forward new requirements for the number and structure of scientific and technological personnel in commercial banks. First, expand the scope of the selection of fintech practitioners as much as possible to meet the demand for computer and Internet-related talents during the transformation period. The second is the composite fintech personnel, that is, they should understand the financial business of commercial banks, but also understand digital technology and be good at integrating it. Increasing the proportion of compound talents in the total workforce is crucial to achieve transformation. Zhang's research pointed out that there are four difficulties in the talent transformation of TCB: 1. Although employees generally agree with the new opportunities of digital development, they differ greatly in their understanding of the direction, goal, and path of transformation, and believe that digital transformation is the work of scientific and technological personnel, which has nothing to do with themselves. They cling to the traditional banking thinking mode, which makes it difficult to correctly understand the connotation of digital warfare and truly realize the consciousness transformation; 2. The data environment of commercial banks is mostly complicated, and the problems of hiring external talents such as business logic, data asset distribution, and data management status quo often appear. Therefore, more commercial banks choose to train data governance talents internally, which puts higher requirements on the talent training system of commercial banks. 3, Global recruitment consultant Michael Page in the "2018 China Fintech Recruitment Trends" report pointed out that 92% of the surveyed fintech industry employers said that China is facing a shortage of fintech talent, the domestic fintech talent gap reached 1.5 million, compound talent is difficult to recruit; 4. The thinking of some banking practitioners in operation management and business development is still at the information level, and it is difficult to transform the thinking of talents [6].

(3) Change of core system management mode. The core system should build the system base according to the distributed principle, build the system management mode of background, middle desk, and front desk, strengthen and expand the middle desk, form a new cycle mode of the entire business according to the end-to-end mode, and form a unified data sharing and use of the whole bank through the construction of data center, product center, marketing center, etc., to form modular management. Provide comprehensive and real-time data and information response for the business development of the front desk. The level of service innovation at the front desk is also keeping up with the pace of digital transformation. The front desk department should actively rely on the powerful data and information support provided by the middle and back offices, constantly improve the marketing methods, improve the quality of customer service, enhance customer stickiness, and absorb as many high-quality customers as possible [7].

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4. Digital Finance

4.1. Development of Online Financial Platforms

Online finance is a new form of online financial business that relies on the Internet platform to carry out online financing, currency circulation, payment, investment and other financial services through the use of modern digital information technology. It can be regarded as a transaction and organizational form that uses Internet technology to provide customers with financial products and related businesses. With the rapid development of information technology such as big data and cloud computing, the integration of financial industry and digital information technology has formed an online financial platform mainly represented by mobile payment products such as wechat and Alipay. [8]

In China, the development of online financial services can be broadly divided into three stages. Since 1990, the Internet and finance gradually combined, digital information technology began to provide technical support for China's traditional financial services industry. Shouxin e-Pay, founded in March 1999, is the earliest online payment platform in China, which only provides services to transfer customers' payment needs to banks. The concept of "online finance" was first introduced to the public in China. In 2003, the establishment of Alipay officially opened the large-scale popularization of China's third-party online payment platform; From 2005 to 2011, online finance began to flourish; After the People's Bank of China began to issue third-party payment licenses in 2011, online finance entered the stage of standardized development, and since then, various digital financial services have ushered in an all-round prosperous development.

4.2. Advantages of Digital Finance Over TCB

Compared with TCB, the advantages of digital finance are mainly reflected in the following five points [9].

High efficiency: Compared with TCB, which are limited by venue, time and other factors, digital finance relies on the Internet and enjoys transfer, payment, financial management and other services through online platforms, which breaks the boundaries of time and space and has extremely high convenience. For example, digital finance has more efficient financial services, such as asset management services, investment and financial services consulting, information and data management storage. Therefore, digital uses innovative technologies to compete for businesses that commercial banks used to have the initiative in, such as lending, payments, investment, etc. Compared with the traditional financial market, the payment environment of digital finance is more convenient, which improves the consumption frequency of consumers to a certain extent and lays the foundation for improving the credit rate of commercial banks. With the development of The Times, the types of digital investment, digital insurance, digital financial management and other products are continuously enriched, which has a direct impact on improving consumer confidence. [1, 10].

Low cost: digital financial cost of manpower and material resources of TCB into fixed equipment costs, and lowering the operating costs for the exchange of information and take advantage of digital. The payment business of traditional banks usually needs to process transactions through intermediaries, which not only increases the time cost but also increases the transaction fees. In digital finance, because there is no intermediary involved, transactions can be completed almost in real-time, and there is no need to pay high fees. So the use of digital currencies, especially when it comes to cross-border payments, offers a faster and less costly alternative [11].

The low threshold: traditional commercial bank financing products are usually amount is larger, and long term, there is the problem of insufficient liquidity, it is difficult to meet the common needs of customers, financial platform on the second line to provide more financial products for T + 0

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monetary funds, didn't buy the threshold, can take at any time and yields higher than demand deposits. The financial exclusion theory holds that some vulnerable groups are excluded from the formal financial system because of the high threshold of the financial system

Low risk: Digital finance can better identify and control risks through big data analysis and the establishment of risk assessment models. At the same time, online financial platform transactions are more convenient for supervision, transparent and traceable, which makes it easy to reduce risks. Since digital currencies offer an alternative way to store assets, some investors and depositors have begun to move their funds from banks to the digital currency market due to the low risk of digital currencies. This shift not only affects banks' funding sources but may also affect their ability to lend. The digital currency provides an immutable record of transactions through its underlying blockchain technology, increasing the transparency and traceability of transactions [11].

Service diversification: digital financial than traditional financial can through the Internet, big data in aspects such as transfer, online shopping, and a red envelope with more diverse and convenient services, to meet customer demand personality. Wang said that financial technology, with its own high efficiency, low cost, and other characteristics, enables commercial banks to improve service efficiency and increase revenue. Especially in emerging markets, fintech develops rapidly and is widely used. The combination of science and technology and the traditional financial industry makes the financial industry constantly iterated and upgraded, and commercial banks are more dynamic [1].

5. The Transformation of TCB

The digital transformation of commercial banks is one of the important development directions of the current financial industry. Through digital transformation, commercial banks can improve service efficiency, expand customer base, reduce operating costs, optimize risk management, and better meet customers' individual needs for financial services. In this regard, commercial banks need to formulate a clear digital transformation strategy, clarify the goals, development direction, key tasks, etc., increase investment, upgrade and optimize the existing technology and infrastructure, improve the flexibility and security of the system, and provide basic support for digital transformation.

With the popularity of smart phones and the development of mobile Internet, mobile online services have become an important way for customers to obtain financial services. Commercial banks can increase investment in mobile banking, mobile payment and other services to provide customers with a more convenient and secure financial service experience. For example, the use of big data and artificial intelligence technology, detailed analysis of the information data generated in each link, and in-depth understanding of customer behavior and needs, to provide personalized services. At the same time, commercial banks can also expand new business models and revenue sources by cooperating with third-party online financial platforms.

Taking the fund industry as an example, its informatization process can be summarized as follows: 1998 to 2006 was the early electronic stage, 2006 to 2015 online, automation level significantly improved, since 2015 into the data as assets, intelligence as the goal of a new journey. Specific measures: 1) Develop a digital strategy; 2) comprehensively enhance digital capabilities; 3) Establish an open and diversified digital ecology; 4) Attach great importance to network security and information technology risk management.

6. Conclusion

This paper introduces the advantages of both TCB and digital banks, as well as the transformation and development of TCB in the era of the rise of modern digital finance. The conclusion of this paper is that the emergence of digital finance reduces the survival and development space of TCB, which makes TCB have to transform and upgrade. TCB can transform themselves by increasing the initial

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capital investment, optimizing talent selection and management mode, and expanding business diversity to absorb and integrate the advantages of digital finance, to ensure their survival and development. Growing and integrating, it has had a profound impact on monetary policy, traditional financial systems, banking and payment systems. Although this emerging field is full of challenges, it cannot be denied that it does provide immeasurable opportunities for banks. The research in this paper also has some limitations, for example, digital finance has more advantages than TCB, which is not fully explained in this paper. Finally, it hope this study can contribute to the development of related fields and trigger more meaningful discussions.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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