

# ***The Impact of Digital Finance on the Traditional Financial Industry and Development Suggestions***

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**Abstract.** The digital financial system, with mobile payment, Internet credit, digital wealth management, and fintech platforms as its core business forms, has gradually matured. Based on the current development status of digital finance and traditional finance in China, this article sorts out the practical predicaments faced by traditional financial institutions, such as low service efficiency, insufficient customer coverage, weak product innovation, and lagging risk control models. It analyzes the dual impacts brought by digital finance from four dimensions: service efficiency, customer operation, product innovation, and risk control. On the one hand, it forces traditional finance to optimize business processes, penetrate long-tail markets, enrich financial supply, and upgrade intelligent risk control. On the other hand, it also brings challenges such as customer diversion, intensified competition among peers, and pressure for digital transformation. In response to the pain points of traditional financial transformation, this article proposes practical development paths such as strengthening the understanding of digital strategies, deepening the integration of digital technology and business, and cultivating compound talents in financial technology. The aim is to promote the deep integration of "financial technology" among traditional financial institutions such as commercial banks, securities firms, and insurance companies, return to the original purpose of serving the real economy, and contribute to the high-quality development of the financial industry.

**Keywords:** Digital finance, traditional financial industry, development suggestions

## **1. Introduction**

As the digital economy has been elevated to a core national development strategy, digital technologies such as big data, cloud computing, and artificial intelligence have continuously permeated the financial sector, giving rise to a new form of finance called digital finance. Digital finance, relying on Internet channels, weakens the reliance on physical branches. With the advantage of massive data, it alleviates the long-standing problem of information asymmetry in the financial market, significantly lowers the entry threshold for financial services, and covers long-tail groups such as small, medium and micro enterprises and rural residents that were previously difficult to reach by traditional finance. It has become an important force in activating the real economy and empowering industrial upgrading.

For a long time, commercial banks, securities companies and insurance companies have formed the core of China's traditional financial system. Relying on their strong capital, offline branches and credit advantages, they have occupied a dominant position in the market. However, the solidification of their business models has gradually revealed their development shortcomings. Problems such as lengthy offline approval processes, difficulty in matching standardized services with differentiated demands, excessive reliance on collateral assets for risk control, and the absence of financial supply for small, medium and micro enterprises have become increasingly prominent. The rise of digital finance has disrupted the original competitive landscape of the industry, exerting an all-round impact on the business models, customer structures, and risk control logics of traditional finance. At the same time, it also provides technical references and transformation opportunities for the digital upgrade of traditional finance. At present, there is a large amount of research in the academic circle on the economic effects and inclusive value of digital finance. However, there is still room for supplementation in the systematic review of the all-round impact of digital finance on traditional finance and the implementation and transformation plans suitable for traditional financial institutions. Against this backdrop, this paper, in combination with existing literature and industry practice, compares the current development status of the two types of financial formats, systematically analyzes the positive enabling effect of digital finance on traditional finance, directly addresses the existing obstacles to the digital transformation of traditional finance, and puts forward targeted development suggestions from the perspectives of strategy, technology, and talent. With the aim of providing theoretical references and practical ideas for traditional financial institutions to adapt to digital transformation and enhance their core competitiveness.

## **2. Current development status of digital finance and traditional finance industry**

### **2.1. Current development status of digital finance**

The development scale of digital finance in China, core business forms (mobile payment, Internet credit, digital wealth management, fintech platforms, etc.), the application maturity of digital technology in the financial field, and the development trend of digital finance.

Against the backdrop of the rapid development of the digital economy, the digital wave has swept across all industries. As a core component of the modern economy, the financial industry has also undergone all-round changes. China's digital finance development started relatively early. Initially, it mainly relied on mobile payment to achieve initial popularization in consumption scenarios. After years of market cultivation, technological iteration and model exploration, the overall scale of the industry has continued to expand. Now, it has broken free from the limitations of single payment and is gradually moving towards a brand-new development stage of deeply empowering the real economy. Based on the various literature and materials consulted during the course study, it can be seen that the current development characteristics of domestic digital finance are very distinct. Overall, it presents three prominent features: technology-driven development, adhering to a green orientation, and focusing on serving the real economy. The industry volume is steadily growing, and the market coverage is continuously expanding.

The domestic digital financial business system is complete, forming four core sectors: mobile payment, Internet credit, digital wealth management, and comprehensive fintech platforms. All kinds of businesses have been practiced in the market for a long time, and their operation models have become mature. Mobile payment has become a basic tool for daily use by all citizens, covering all consumption scenarios both online and offline. Internet credit and digital wealth management have lowered the threshold for financial services and opened up services to individuals and small,

medium and micro enterprises. Professional fintech platforms, on the other hand, undertake the task of technology output, providing supporting services such as system construction and operation support for the entire industry. The four major business forms work in coordination to build a complete digital financial service system. Meanwhile, cutting-edge digital technologies such as big data, artificial intelligence and cloud computing have been widely applied in the financial sector. The maturity of technology application has been continuously enhanced, becoming the core support for the steady development of digital finance. Relying on its massive data processing and intelligent analysis capabilities, digital finance has demonstrated operational efficiency and service flexibility that are hard for traditional finance to match in multiple dimensions such as customer risk identification, fund circulation and allocation, and precise demand matching.

As Liu Minlou et al. pointed out in their relevant research, digital finance, relying on Internet and big data technologies, has effectively alleviated the long-standing information asymmetry problem in traditional financial markets, broken through the barriers of original resource allocation, and is fundamentally changing the overall allocation mode of domestic financial resources [1]. From the perspective of long-term development trends, domestic digital finance has bid farewell to the initial stage of simply moving offline business online. The entire industry is now comprehensively transforming towards two major directions: intelligence and greenness. This transformation is not merely an iteration of underlying technologies; it is a return to the essence of financial development logic, guiding financial services to deeply engage with the real economy and fully leverage the core function of funds in supporting the real economy.

## 2.2. Current development status of the traditional financial industry

The operating status, core business models, and service characteristics of the traditional financial industry (commercial banks, securities companies, insurance companies), as well as the current development predicaments they are facing (low service efficiency, insufficient customer experience, weak innovation capabilities, etc.). Compared with the rapidly developing digital finance, the traditional financial industry, with commercial banks, securities companies and insurance companies as its three major entities, has accumulated decades of development experience. Relying on its strong capital, comprehensive offline network layout and high social credit endorsement, traditional finance still dominates the domestic financial market at present.

These institutions have clear divisions of labor. Commercial banks mainly focus on basic businesses such as deposits and loans, and fund settlement. Securities companies concentrate on securities trading and asset management. Insurance companies are responsible for risk protection services. Together, they form the foundation of the domestic financial market. Traditional finance, relying on the offline face-to-face service model, features high security, standardized processes, and the ability to handle complex and large-scale business. It has long-served large enterprises and high-net-worth clients.

However, the changes in The Times and environment have also exposed many shortcomings of traditional finance. Currently, the industry is facing a dual development predicament of being large in scale but lacking core competitiveness, as well as the difficulty in digital transformation. The long-term solidified business model has led traditional finance to develop a clear path dependence. In terms of core business models, traditional finance still highly relies on collateral and historical financial data for credit decision-making. The entire business process is mainly handled manually offline, with a long approval chain and slow processing speed, directly resulting in low service efficiency. The solidification of the business framework leads to the homogenization of service models, making it difficult to customize financial solutions for differentiated customer needs and

resulting in a poor customer experience. Meanwhile, the overall innovation capacity of the industry is weak, and the update speed of products and services is slow, making it difficult to keep up with the pace of market changes.

In terms of serving customer groups, traditional finance is restricted by operating costs and risk control logic, and its service focus is biased towards large enterprises and high-quality clients. According to the research by Shi Guifen et al., traditional financial services have obvious efficiency shortcomings in covering long-tail customers such as small, medium and micro enterprises [2]. When dealing with light-asset technology-based small and medium-sized enterprises or green projects, institutions often exhibit the phenomenon of "not daring to lend" or "unwilling to lend" due to information asymmetry. The insufficiency of this service coverage makes it urgent for traditional finance to seek new breakthroughs in supporting industrial structure upgrading and the green development of manufacturing [3, 4].

### **3. Analysis of the impact of digital finance on the traditional financial industry**

#### **3.1. Enhancing service efficiency**

Digital technology simplifies the financial service process, breaks through the limitations of time and space, realizes the online and convenient operation of financial services, and reduces the operating costs of traditional financial institutions. By referring to the references, it can be found that digital finance has had a structural impact on traditional finance. The most prominent change is the overall improvement of service efficiency. Digital technology simplifies cumbersome manual processes, breaks through the time and space constraints of traditional offline financial branches, and promotes the online implementation of all types of financial services. Traditional finance is highly dependent on offline physical branches to conduct business. From the submission of applications by customers to the manual review by staff layer by layer, and finally to the completion of the business, the intermediate process is complicated, and the approval chain is long. This not only consumes a lot of time but also increases the overall operating costs due to expenses such as store rent and labor salaries.

Digital finance, relying on online platforms and automated systems, has enabled the entire business process to be handled online. Customers can initiate business applications anytime and anywhere, and the system automatically completes tasks such as review and settlement, significantly reducing the processing time for business and effectively lowering transaction and operational costs. The change in the market pattern has also forced traditional financial institutions to face up to their own shortcomings and proactively optimize their internal service processes. For instance, Yang Yan and Xu Wentao demonstrated that digital finance can enhance the risk-resistance capacity of the textile supply chain, which indirectly indicates that if traditional offline supply chain finance does not complete digital transformation, it will be unable to meet the real-time capital demands of the industrial chain [5]. Meanwhile, the research on "new quality productivity" also indicates that digital finance can effectively empower resource-based enterprises to upgrade [6]. This requires traditional finance to transform from a mere "provider of funds" to a "technology enabler", continuously optimizing processes and reducing costs to adapt to the new market environment.

#### **3.2. Optimizing customer service**

Precisely align with customer demands, provide customized financial products and services, enhance customer experience, and expand the customer coverage of traditional financial industries

(such as serving small, medium and micro enterprises, and rural customers). Digital finance, relying on its big data analysis capabilities, can deeply explore user needs, precisely match the financial demands of different groups of people, and provide customized products and services for customers. This model also provides a reference for the upgrading of customer service in traditional finance. Traditional finance has long adopted a standardized service model, where all customers use the same products and processes, making it impossible to tailor services to individual needs and resulting in a poor customer experience. Inspired by digital technology, traditional finance has begun to attempt to analyze user data, distinguish the needs of different customer groups, and launch differentiated service contents.

Meanwhile, the popularization of online service models has also helped traditional finance break through customer base barriers and effectively expand the coverage of services. In the past, traditional finance mainly served large enterprises and high-income groups, making it difficult for small, medium and micro enterprises, rural residents and other groups to obtain comprehensive financial support. Relying on online operation channels, financial institutions can penetrate the grassroots market and proactively serve long-tail customer groups. Literature shows that digital finance has a significant promoting effect on "green development" [1]. This indicates that digital finance has prominent advantages in identifying green projects and serving the grassroots market and also promotes the transformation of traditional finance's service mindset. The research on "green technology innovation" by Zheng Sulan et al. further confirms that a refined and data-driven service model can better serve various emerging entities and make the customer structure of traditional finance more diverse [7].

### 3.3. Promoting product innovation

To force traditional financial institutions to accelerate the innovation of financial products, launch financial products suitable for the digital age (such as online credit and intelligent wealth management), and enrich the supply of financial services. Digital finance features a rich variety of business forms and a fast product update speed. Its flexible service model has captured a large share of the market and also forced traditional financial institutions to accelerate the pace of financial product innovation. For a long time, traditional financial products have been characterized by a single type and a slow pace of update and iteration. They have maintained a fixed business model for many years, making it difficult to meet the diverse needs of consumers in the digital age. Facing the pressure of market diversion, traditional finance has proactively adapted to the online development trend and launched new digital products such as online credit and intelligent wealth management. Such digital products make up for the shortcomings of traditional businesses, making the forms of financial services more diverse and greatly enriching the service supply of the entire industry. Digital finance has greatly expanded the boundaries of financial services through the long-tail effect.

Literature indicates that digital finance has a significant impact on the business structure of small and medium-sized enterprises, which can prompt them to move towards "specialization" or "diversification" [2]. The changes in market demand continuously urge traditional finance to maintain its innovative vitality, break away from the existing product framework, and constantly introduce new products around the needs of the general public, so as to avoid being eliminated from industry competition.

### **3.4. Improving the risk control system**

Digital technologies (big data, artificial intelligence) help traditional financial institutions optimize their risk control models, enhance their capabilities in risk identification, early warning and prevention, and reduce credit risks and operational risks. In terms of risk management and control, big data and artificial intelligence provide underlying support for the upgrading of the traditional financial risk control system. Risk assessment in traditional finance often focuses on historical financial data and relies on manual experience for judgment. The assessment dimensions are single and lagging, which can easily lead to credit risks and manual operation risks. Digital technology can integrate a vast amount of multi-dimensional information, build intelligent risk control models, and achieve dynamic supervision throughout the entire process.

The intelligent system can complete risk identification and abnormal early warning in real time, identify potential hazards in advance, and comprehensively enhance the ability to prevent and control risks. This data-based risk control logic is forcing traditional financial institutions to re-examine their credit lending standards, shifting from "looking at collateral" to "looking at data and the future". The research on "systemic financial risk" by Li Mengjie and Yang Yanbo also reminds us that the risks in the financial market are becoming increasingly complex [8]. By leveraging digital technology to improve the risk control system, the probability of various risks occurring can be effectively reduced, making the traditional financial risk control system more scientific and reliable.

## **4. Development suggestions for the traditional financial industry in response to the impact of digital finance**

### **4.1. Strengthening the awareness of digital transformation**

Enhancing the importance attached to the development of digital finance, formulate a clear digital transformation strategy, and promote the transformation of traditional financial institutions towards "fintech". Based on the analysis of previous literature and the current industry situation, the traditional financial industry should not passively resist digital transformation but should proactively adapt to the development trend of the industry.

To achieve long-term development, the first step is to enhance the digital transformation awareness of all staff. Both industry managers and grassroots employees need to enhance their awareness of the development of digital finance and recognize that digitalization is an irreversible industry trend. On this basis, the institution, in light of its own positioning and business characteristics, formulates a clear and implementable digital transformation strategy. Digital transformation is not merely a simple system upgrade, but rather an innovation in the overall business model. The development of new quality productivity cannot do without the support of digital finance [6]. Traditional finance needs to thoroughly transform its inherent business thinking, fully shift towards an integrated model of finance and technology, achieve simultaneous upgrades in ideological cognition and business actions, and avoid superficial and formalistic digital transformation.

### **4.2. Deepening the application of digital technologies**

Deeply integrate big data, artificial intelligence, blockchain and other technologies with core business and risk control systems, optimize service processes, and enhance risk control capabilities.

After establishing a sense of transformation, traditional finance needs to take concrete actions and continuously deepen the application of cutting-edge digital technologies such as big data, artificial intelligence and blockchain. No longer treating technology as superficial decoration but deep integrating various technologies into core businesses such as deposits and loans, wealth management, and insurance, as well as the full-process risk control system. Relying on digital technology, people will reorganize and optimize the original cumbersome service processes, simplify the handling steps, and enhance overall operational efficiency. At the same time, intelligent algorithms are utilized to upgrade the risk control model, conduct multi-dimensional risk assessment, and comprehensively enhance the capabilities of risk identification, early warning, and handling. Let technology truly empower business, achieve a deep integration of technology and business, and maximize the value of digitalization.

### 4.3. Strengthening the cultivation and introduction of compound talents

Digital finance is an important force in promoting high-quality economic development in China [9]. The digital economy wave has driven the rapid iteration of digital finance. Digital finance, relying on modern information tools, adopts big data credit assessment methods to open up channels for customer information transparency, establish information communication mechanisms, and reduce adverse selection [10]. Improving the talent cultivation system, carrying out internal training, and at the same time introducing professional talents in the field of financial technology to make up for the talent shortage. The implementation of digital transformation cannot do without the support of professional talents. Therefore, traditional finance must strengthen the cultivation and introduction of compound talents. At present, the supply of compound talents with both financial expertise and digital technology capabilities in the industry is seriously insufficient, which is the core obstacle restricting digital transformation.

In response to this issue, the institution needs to establish a complete talent cultivation system, conduct regular internal training for existing employees, explain knowledge related to digital technology and online business, and enhance the comprehensive capabilities of on-the-job personnel. Meanwhile, people proactively recruit professional talents in fields such as fintech, data analysis, and algorithm development from society to strengthen technical teams. By adopting the approach of "internal cultivation and external recruitment", people will make up for the talent shortage and build a talent team that is suitable for digital development, providing a solid human resource guarantee for institutional transformation, business innovation and technological upgrading.

## 5. Conclusion

This paper, by sorting out the current development status of the digital finance and traditional finance industries, analyzes the multi-dimensional impact of digital finance on traditional finance, and proposes the optimization path for the digital transformation of traditional finance, and draws the following core conclusions: First, China's digital finance has made a leap from a single mobile payment to comprehensive financial services covering all business types. Intelligence, greenness and serving the real economy are the main lines of its long-term development. Although traditional finance has advantages in capital, channels and credit, it is highly dependent on the path and has multiple shortcomings such as service efficiency, customer coverage, product innovation and risk control. The need for transformation is urgent.

Second, digital finance mainly has a positive enabling effect on traditional finance: digital technology simplifies business processes, reduces operating costs, and comprehensively enhances the efficiency of financial services; Big data user profiling enables precise services and expands the coverage of long-tail customer groups in traditional finance. Market competition has forced institutions to launch innovative products such as online credit and intelligent wealth management, enriching the supply of financial services. The intelligent risk control model makes up for the limitations of traditional manual risk control and realizes dynamic risk identification and early warning. At the same time, digital finance also brings about practical challenges such as customer diversion, intensified industry competition, and rising costs of digital transformation.

Thirdly, traditional financial institutions cannot passively resist the impact of digital finance but need to proactively embrace digital transformation. First, establish a complete awareness of digital transformation, formulate a long-term implementation strategy, and abandon superficial online transformation. Second, promote the in-depth integration of big data, artificial intelligence, blockchain with core businesses such as credit, wealth management, insurance, and risk control, and reconstruct business logic with technology. Third, adopt a model that combines internal training and cultivation with the introduction of external professional talents to fill the gap of compound talents in financial technology and consolidate the human resource foundation for transformation.

Overall, digital finance and traditional finance are not in an opposing and substitutive relationship, but rather in a complementary, integrated and coordinated development relationship. In the future, traditional financial institutions need to continuously deepen the integrated development model of "financial technology", give full play to their own advantages in capital, compliance and offline resources, combine the efficient, inclusive and intelligent technological advantages of digital finance, continuously extend services to the real economy, improve the multi-level financial service system, and promote the high-quality and sustainable development of China's financial industry.

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