

The Impact of Third Party Payment on China's Commercial Banking

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Abstract: The rapid development of social economy and science and technology not only promotes the development of Internet finance, but also has a major impact on people's daily life. While people's lifestyles are gradually changing, the consumption structure is changing. This led to the emergence of an independent institution with certain strength and credit guarantees, which facilitated the online payment model of transactions between the two parties by connecting to the Internet-third-party payment docking. In the most basic third-party payment model, after purchasing the goods, the buyer transfers to the account provided by the third-party platform for payment operations. That is, the payment is paid to a third party, and the third party notifies the seller of the payment account and requests delivery. After the buyer receives the goods, check the goods and confirm that the goods are correct, then notify the third party to confirm the payment; then the third party transfers the money to the seller's account. Although the development time of third-party payment is not long, even far less than the banking industry, its development speed is extremely rapid, and the scope of development is also expanding. The rapid development of third-party payments and the penetration of business scope overlap with the business operations of commercial banks. This has had an impact on commercial banks, prompting commercial banks to accelerate the pace of reform and strive to adapt to the development requirements of the market. This paper mainly studies the relationship between third-party payment and commercial banks, combining the development status of the two, competitive advantage and competitive disadvantage. Analyze the impact of the rapid development of third-party payment on commercial banks at this stage, and combine the current economic, social and technological development to find corresponding solutions.

Keywords: Third-party payments, Commercial bank, Online Trading.

1. Introduction

The rapid development of social economy and science and technology has promoted the development of Internet finance, and at the same time, it has also had a significant impact on people's lives, and their lifestyles are increasingly changing. As a result, third-party payment has been derived. With its innovative, convenient and diversified personalised mode, the third-party payment platform has gradually changed people's consumption habits and consumption concepts. As the market share of the third-party payment platform expands and the scale of transactions expands, it attracts more and more consumers, and they begin to expand their services in various financial fields. At the same time, their business scope has begun to expand into the business scope of commercial banks, which has a certain impact on the business operations of commercial banks.

At present, traditional bank counter payments and offline payments are gradually being replaced by diversified third-party payments. For this reason, commercial banks need to take certain measures to improve their development. In addition, there are some other problems: how can commercial banks better deal with the cooperation and competition with third-party payment institutions, and how to deal with seeking new breakthroughs in the development situation that goes hand in hand with this kind of Internet finance and traditional commercial banks? This paper mainly analyses and summarizes the impact of the rapid development of third-party payments on the business operations of commercial banks as well as identifies the main reasons for the key analysis and proposes solutions.

2. Literature Review

Since the concept of Internet finance was only proposed in 2012, domestic researchers and experts and scholars have not been able to define the concepts related to third-party payment in a uniform standard. In order to ensure the rigour and reasonableness of this thesis, this paper firstly gives a basic definition of third-party payment, which is used to determine the scope of the research topic.

Huo Hong, Wei Yu and Xin Shen (2011), with reference to others defining third-party payments, state that third-party online payment uses third-party payment companies as credit intermediaries and non-banking institutions. It uses internet technology to enter into agreements with commercial banks to exchange data, confirm information and establish payment mechanisms between recipients and payers. Ning Chen (2014) argues that third party payments are independent, reputable and have certain advantages. It acts as a neutral platform between e-commerce companies and banks, transfers funds and provides online shopping services and has a contract with banks. Third party payment transactions are conducted in this way: the third party payment platform will notify the trader to send the item selected by the buyer without payment until the buyer notifies the third party to pay the bill upon receipt of the goods. Dan J. Kim (2005) mentioned in his article that the transaction is only concluded when the buyer receives the goods, until then the funds of the transaction will be used as security deposit and will not be given to the seller, in order to build trust between the consumer trust between the consumer and the shopping platform, which is the third party payment as an intermediary platform.

The domestic literature on third-party payment also gives a similar definition. Xue Yuyan, Ban Jingjing and Dou Zhaowen (2015) pointed out that the so-called third-party payment is an online payment mode, which is contracted with a bank with a credit guarantee and a certain strength to provide a trading platform for customers and banks. The so-called online banking is a network payment mode in which traditional commercial banks expand their business from offline to online on their own basis to provide services for individuals and enterprises. According to Yang Shuai (2010), third-party payment refers to a company that establishes a neutral platform between banks and e-commerce companies to provide services and transfer funds for both parties. Internet banking refers to a new type of bank that uses Internet technology to process traditional banking services and implement intermediary services such as online payment. According to the Measures for the Administration of Payment Services of Non-Financial Institutions issued by the People's Bank of China (PBOC) in 2010, third-party payment refers to the monetary fund transfer services provided by non-financial institutions as intermediaries of payees and payers, and the types of services mainly include online payment, issuance and acceptance of prepaid cards, and bank card acquiring.

It can be seen that the definition of third-party payment at home and abroad is basically the same. That is, it signs an agreement with a bank to build an intermediary platform between the two parties to a transaction, provides a credit guarantee and improves the efficiency of payment.

3. Third-party Payment Development Status

Third-party online payment began in 1998, PayPal developed a transaction platform mainly for eBay e-commerce platform launched payment transaction platform. With eBay's entry into the Chinese market, China's earliest third-party payment method was created. It also led to the establishment of the country's first third-party payment company, First Credit Easy. In its early days, Shouxin Yi was just able to go in and pass on some basic orders based on customer demand. Upon receipt of the order, the commercial bank then jumped to its online online payment page and the transaction was then carried out through the bank's online banking system. This simple function can no longer adapt to the rapid development of e-commerce, so large-scale domestic e-commerce to vigorously develop and establish a third-party network payment. Rapid seizure of the third-party payment market. In 2003, after the Jingdong Group's subsidiary online banking on-line, customers are mainly concentrated in the Jingdong platform transactions, in the later part of the trend to expand. In 2004, Alipay's "Guaranteed Transaction Model" became operational. The two sides of the information asymmetry problem for the first time to be solved, the development of guaranteed transaction model. In the same year, as the independent payment model of fast payment business and the concept of third-party platform payment, the third-party payment platform entered a period of rapid development, and the main e-commerce platforms were frequently launched. Currently, the third-party payment model is no longer just a "channel" but has evolved into a form of online account for both parties. After completing the online expansion, the second party payment was developed offline in 2008. There was more market space offline, and the online market was already dominated by the

major third-party payment platforms and was a red ocean market. There is a need to find space for offline development and innovative transaction methods.

In recent years, China's third-party payment industry has been developing rapidly, especially in recent years, it has begun to integrate into the financial, news media, education, social, medical and other fields. Due to the rapid development of third party payment in China, there are hidden dangers such as one-sided development and security risks. The central bank's attitude towards third-party payments has begun to undergo a subtle shift from the previous positive encouragement, guidance and regulation. Specific policy measures are reflected in the following: on 13 March 2014, the Payment and Settlement Department of the Central Bank issued a letter suspending Alipay's offline barcode (QR code) payments and other commercial opinions. Emergency suspension of virtual credit card and QR code payments. On 10 April of the same year, the Central Bank and the China Banking Regulatory Commission (CBRC) jointly issued a "Circular on Strengthening the Management of Cooperation between Commercial Banks and Third-Party Payment Institutions" (Yin Jianfa [2014] No. 10). Although the 20 provisions in Yin Jianfa [2014] No. 10 are applicable to commercial banks, virtually every one of them points to third-party payment institutions. In August 2016, the Central Bank's "Specification on Payment Services for Conventional Codes (Draft for Public Comments)" and "Access Rules for Bank Card Acceptance Terminals" were released. In August 2016, the Central Bank issued the "Regulation on Payment Service of Conventional Codes (Draft for Public Comments)" and the "Rules on Access to Bank Card Acceptance Terminal Business"; in March 2018, the Network Association issued Document No. 42, urging third-party payment institutions to access network connection channels. It is clear that all direct links between third-party payment institutions and banks will be severed until 30 June 2018, and then no more direct payments will be made to third-party payment institutions. Banks will then no longer provide agency channels directly to third-party payment providers. On 13 December of the same year, Bank of China announced that another new bank payment regulation would be officially implemented. On 20 December 2018, the cooperation channel with third-party payment institutions under the original direct business model was closed. Third-party payment has become a necessity for most people's daily life, showing great strength and leading the development trend of related fields in the world. At the same time, there are still many problems and deficiencies in the field of third-party payment. Expand the scope of regulation to ensure the healthy development of the third-party payment industry.

4. Analysing the Impact of Third-party Payments on Commercial Banks—Taking Alipay as An Example

4.1. History of Alipay

Founded in July 2003, Taobao is China's largest online shopping platform. The core problem encountered at the beginning of its establishment was how to solve the credit problem in the process of online transactions, in order to solve this problem, Taobao launched Alipay on 18 October 2003, and its business area is not only limited to online shopping, but has begun to expand to a variety of industries. With the continuous development of Alipay, its business area is not

only limited to online shopping, and has begun to expand to a number of industries. 2004, commercial banks have launched fast payment business, but at that time its business is difficult to spread, and Alipay caught the opportunity to actively cooperate with major banks, and in December 8 that year independent of the third-party payment transformation.

In 2009, Alipay mobile client was launched online, officially launching mobile payment services and services to further expand the field of mobile payment. In June 2013, Alipay went online with Balance Treasure, whose annualised return was much higher than that of banks in the same period, and was highly sought after by the market as soon as it was launched, and as of the end of the year, the balance of Balance Treasure had reached 185.3 billion yuan, which had a great impact on the deposits of commercial banks. Meanwhile, as of the end of June 2017, the volume of balance treasure funds reached 1.4 trillion yuan, exceeding the deposits of many banks, causing a high degree of vigilance in the banking industry.

Subsequently, the Central Bank strengthened the regulation of Alipay and imposed quotas on it. From May to December 2017, Alipay underwent three quota treatments, with the amount reduced from 250,000 yuan to 20,000 yuan. Currently, Balance Treasure puts a limit on the total amount of subscriptions per day, and you need to grab it to be able to buy it. On 4 August of the same year, the Payment and Settlement Department of the Central Bank issued a notice requiring Alipay and other institutions to access the Netlink platform in order to strengthen the supervision and constraints on non-bank payment institutions.

4.2. Impact of Alipay on commercial banks

In April 2013, Alipay launched the transfer business, which allows users to transfer money without paying a handling fee within a limited free amount of transfers per day, and the amount of transfers per day does not exceed 50,000 yuan. At that time, major banks were charging handling fees for transfers, and the launch of this service brought great convenience and benefits to the majority of users. Customers are mostly more willing to choose Alipay as their transfer tool, which makes the commercial bank transfer business partially lost customer base, but has an impact on the transfer business of commercial banks.

When users use Balance Treasure, not only can they get interest income, but also the money in Balance Treasure can be taken out at any time without affecting its payment function in any way, and all these operations are free of charge. Even the interest on the balance treasure exceeds the interest on time deposits of major commercial banks. The launch of Balance Treasure has had a certain impact on the deposit business and short-term financial product business of commercial banks. Meanwhile, Alipay, as the largest third-party payment platform, has a large amount of customer funds, and wealth management products such as Balance Treasure occupy a large market share. It also has a significant impact on the business and asset business of commercial banks.

In 2015, Alipay launched two new services - Ant Chanting (or Chanting) and Ant Borrowing (or Borrowing). Chanting is a consumer credit product with up to 41 days of interest free, which allows users to spend first and pay later, and the amount will gradually increase with the increase of reputation value. Borrowing is a loan service with a daily interest rate of four ten thousandths. Users who also display a Sesame Credit personal (Ant Gold's independent third-party credit reporting

agency that objectively presents an individual's credit status through cloud computing, machine learning and other technologies) score of 600 or more will be able to apply for a microloan with a credit limit of between 1,000-300,000 yuan. Users can also choose to pay in instalments when making payments, and the loan procedure is also very convenient and efficient. The introduction of gardens and loans has had an impact on the credit card business and loan business of commercial banks.

Alipay has advanced network technology can be a large number of customer base, Alipay users can achieve real-time transfers through the network or software operations, customers who have not registered for online banking can also transfer money through Alipay, which led to the loss of commercial banks' e-banking customers, and also caused a considerable impact on the settlement business of commercial banks.

5. Conclusions and Suggestions

First, third-party payments have had an impact on the credit intermediary status of commercial banks by virtue of their advantages in sensing and discovering information, and on the payment intermediary status of commercial banks by virtue of their convenient and fast payment mode.

Second, the three major businesses of commercial banks - liability business, asset business and intermediary business - have also been affected by the impact brought about by the rapid development of third-party payment, for example, the increase in operating costs of the liability business and the sharp decline in the volume of deposits of commercial banks, etc. The other businesses of commercial banks have also been affected, with the volume of the payment and settlement business drastically, and the revenue reduced.

Third, commercial banks are the main financial institutions in China, with the reputation, strength and ability to manage a large amount of capital, with many advantages of brand effect, strong capital strength and complete operation system, but also with the disadvantages of insufficient product and service innovation, low business efficiency and imperfect internal governance structure. Although the development of commercial banks received the impact of third-party payments, but as a major player in China's economy, commercial banks are irreplaceable.

Fourth, the rapid development of third-party payment has brought countless conveniences to people's life, which reduces the use of banknotes, saves social resources, connects with other organisations, and meets the online payment requirements of all parties, but it also has problems such as system security risks and legal risks. As an important branch of Internet finance, third-party payment effectively meets people's payment needs and is very important to society and consumers.

Fifth, commercial banks should take corresponding correct measures to cope with all the impacts brought by the development of third-party payment. For example, they should improve their own financial service model and promote online and offline integration; change their business concepts and strengthen financial innovation; strengthen effective cooperation with third-party payment platforms and seek win-win co-operation; reasonably divide the market with third-party payments; further improve the online on-line payment system and promote the development of all kinds of intermediary and other businesses; and directly participate in the e-payment chain.

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