

# Transformation and Upgrading Development Strategies of Small and Medium-sized Banks Under the Influence of Internet Finance

-- A Case Study of China Everbright Bank

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**Abstract:** This paper comprehensively analyzes and compares the specific influencing factors of China's Internet finance policies on the current operation of small and medium-sized commercial banks, as well as the possible causes of the impact of China's Internet finance new policy on the transformation of small and medium-sized commercial banks, specifically analyzes the innovative transformation business practices of China Everbright Bank under the influence of the Internet finance new policy, and proposes to formulate relevant business transformation service countermeasures for small and medium-sized commercial banks. This paper first studies and analyzes the impact of Internet financial technology on the current digital business transformation and development direction of small and medium-sized commercial banks from the market perspective, the bank perspective and the regulatory perspective, and then analyzes the current external policy environment of Internet finance industry and the internal management environment of small and medium-sized state-owned commercial banks in China. Through different perspectives, it analyzes the advantages and disadvantages of traditional commercial banks, so as to propose relevant digital transformation countermeasures for small and medium-sized banks.

**Keywords:** Digital Transformation, Strategy Positioning, Risk Management.

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## 1. Introduction

With the rapid arrival of the whole wave of big data era and the rapid penetration and development of technology applications, big data has become a manufacturing factor for the new development of society, profoundly affecting the integration and development of many enterprises and industries. And banks should bear the brunt, constantly exploring how to make deeper changes in the context of this big data era. Compared with all kinds of traditional bank deposits whose interest rates are supervised by the central bank at present, the network financial trust has many characteristics, such as market-oriented interest rates, flexible and convenient transactions, and security. Since its introduction, it has been continuously pursued by people. The rapid development of financial technology has greatly accelerated the process of interest rate marketization, which will inevitably bring huge impact to the traditional financial industry. The booming financial technology has greatly accelerated the process of interest rate marketization, so it inevitably has an impact on the traditional financial industry. At present, most commercial banks in small and medium-sized cities in China are still at the edge of relative disadvantage or within a special vulnerable level in the process of upgrading the innovation and development of the banking industry, and have the characteristics of small business scale, weak business channel network area, and generally low overall efficiency. Small and medium-sized commercial banks and micro commercial banks really need to carry out their business structure digital restructuring, optimization, transformation, adjustment and development in a timely manner, and rationally carry out product market development and price positioning.

## 2. Research Status and Overview

The Internet financial model has been gradually improved and optimized in some core functions, replacing the former capital banks of financial institutions to directly provide financing, payment, investment banking and other financial information intermediary banking services, which has also had a certain impact on the financial service model of many small and medium-sized state-owned commercial banks in China and the vast domestic. In order to continue to realize the safe, efficient and orderly operation of banks in the future and promote the sustainable development of the banking economy, small and medium-sized commercial banks have also actively pursued their own transformation. At this stage, the rapid development of a large number of small and medium-sized enterprises' economic organizations will greatly promote the efficiency of financial business and improve the development efficiency of China's entire financial economy, and will also help to accelerate the overall and continuous reform and innovation system of China's entire financial system structure and the innovation of financial industry's scientific and technological system, and promote the overall structure of the entire domestic monetary and financial industry to enter the process of fully free market operation. To help the construction of the digital factor market, so as to open the black box of the data market, form social cooperation and build a digital industry chain. This work is not only conducive to expanding the current effective investment, but also can consolidate the development foundation of the future digital economy.

### 3. Core Concepts

The technology transformation and innovation of digital services refers to another kind of business innovation in the form of digital technology application and development and traditional new business forms, which is more comprehensive and widely integrated and intersected. The digital service management concept is another in-depth and comprehensive information interaction based on a new technology system and a new business system. The definition of bank size is generally based on the amount of assets. In China, small and medium-sized commercial banks refer to national commercial banks, regional joint-stock commercial banks and urban commercial banks (including urban credit cooperatives and rural credit cooperatives) other than the five major commercial banks of ICBC(*Industrial and Commercial Bank of China*), ABC(*Agricultural Bank of China*), CCB(*China Construction Bank*) and BOCOM(*Bank of Communications*),BOC(*Bank of China*). Internet financial business mainly refers to a kind of domestic traditional Internet financial institutions, enterprises and foreign large Internet enterprises that use new Internet technology product platforms, related network information services and related communication transmission network technology equipment to achieve centralized financing, payment This series of new network traditional financial business models of investment and other transaction services and other intermediary value-added service functions such as various Internet information products.

### 4. Case Analysis

Established in August 1992, China Everbright Bank is the first joint-stock commercial bank in China approved by the Ministry of Finance, the State Council and the People's Bank of China. It is headquartered in Beijing. By the end of 2021, China Everbright Bank has established 1304 branches nationwide, and achieved network business throughout the

province. At present, the company's business network covers more than 150 major economic centers in China. China Everbright Bank ranked 32nd among the "Global 1000 Banks" in 2021, and 25th among the "Global 500 Banks with Brand Value" in 2021.

This paper is based on SWOT analysis, that is, through the analysis of the current characteristics of the external environment of Internet finance and the basic situation in the internal financing environment of domestic and foreign small and medium-sized commercial banks, it lists the internal strengths, weaknesses, and opportunities and threats brought by external competition of various major domestic and foreign financing resources currently owned by small and medium-sized commercial banks, And according to the matrix form, we can get the corresponding conclusion. As shown in Table 1. It can be clearly seen that the advantages include: customer resources, regional advantages, scale advantages, and a sound risk management system; Disadvantages: low network coverage, limited business areas, high operating costs, cumbersome business processes, poor user experience, and rigid systems; Opportunities include: the development of Internet technology promotes the transformation of small and medium-sized commercial banks, provides financing channels, and improves the efficiency of resource allocation; Threats include: financial disintermediation, fierce competition in interest rate marketization industry, impact of Internet financial model, and loss of customers; Through the matrix form, we think that the general idea can be analyzed and summarized in this way. The SO strategy is to give full play to its competitive advantages and take advantage of various favorable opportunities in the market to overcome threats; The WO strategy is to grasp the market opportunities and overcome various disadvantages; ST strategy is to use its own competitive advantages to deal with potential market competition threats; The WT strategy is to reduce its own disadvantages and transform the market threat.

**Table 1.** SWOT Analysis of Small and Medium Commercial Banks[1]

External analysis Internal analysis	Strength	Weakness
	Customer resources; Regional advantages; Scale advantage; Perfect risk management system	Low network coverage; Limited business area; High operating costs; The business process is complicated; Poor user experience; Institutional rigidity
Opportunity	Give play to advantages and take advantage of opportunities	Seize opportunities and overcome disadvantages
The development of Internet technology promotes the transformation of small and medium-sized commercial banks; Provide financing channels; Improve resource allocation efficiency		
Thrests	Use advantages to deal with threats	Reduce disadvantages and transform threats
Financial disintermediation; The interest rate marketization industry is highly competitive; Impact of Internet financial model; Customer churn		

First of all, the innovation team of Everbright Bank, by implementing a variety of technological project innovation and incubation technology measures, such as direct innovation, closed-loop project operation, and results incubation, has provided a channel for recycling technology

and an innovative application platform for scientific and technological products in the process of scientific research and development of enterprise's new technological achievements transformation and specific product transformation and application innovation, and has

established a sound scientific and agile innovation research and development process system organization in combination with innovation practice, Insisting on building a set of R&D organization ideas with innovative technology and optimizing efficiency as the key objectives. On this basis, Everbright Bank has also registered a financial technology company and Qingdao Science and Technology Research and Development Center, set up, managed and operated a special development fund for financial technology, and provided maximum effective guarantee for promoting innovation in financial industry technology and service model. Secondly, we further promoted the construction of cloud computing platform, and optimized and upgraded the technology and service mode of existing enterprise IT technology. Since 2012, based on virtual technology, Everbright Bank has gradually completed the development and construction of private cloud and product cloud of Everbright Head Office, continuously improved its own technology and technology management level, and provided customers with its own core interests in terms of constantly improving its own technology innovation and technology operation. Moreover, we will promote the platform strategy to promote the transformation of the company's IT service system. In the design of the system application architecture, Everbright Commercial has promoted the transformation of the entire architecture according to the requirements of the current network business development, starting from the construction of the enterprise distributed bus of commercial banks; Gradually and rapidly improve the response speed of the bank's underlying architecture to the support services of various business systems. In terms of independent and open research technology platform system, Everbright Bank combines virtual technology with standardized business logic to improve the ability of enterprises to integrate and operate their own products and accelerate the rapid mobile operation process of various integrated application development in the industry. In terms of the construction mode of the public basic technology platform system, it is necessary to strengthen the data collection and control of the data model and establish the ability to integrate and apply industrial big data. In terms of the infrastructure construction of new technologies and application platforms, Everbright Bank has built the ability to apply basic technologies based on the core technologies such as intelligent biometric application platform, intelligent voice data intelligent text platform, blockchain basic technology platform, and provided strong technical support for the application of related new technologies.

## **5. Recommended Measure for Transformation of Small and Medium-sized Banks**

From the transformation and development of Everbright Bank, the next step is to conduct in-depth research on the transformation countermeasures of small and medium-sized banks.

### **5.1. Carry out clear strategic target positioning.**

In the current Internet financial era, small and medium-sized commercial banks should attach importance to technological innovation and technological innovation as the business direction, and use information technology to accelerate their intelligent development. Small and medium-

sized commercial banks should master the rational, calm, objective and analysis of the current complex and changing macroeconomic situation, and also have a high judgment of the macro situation and insight into the market.[2] China's small and medium-sized commercial banks should gradually change the traditional business idea of "asking me to do things", focus on the basic needs of customers, and use Internet data to fully mine and analyze potential customer needs, risk preference information, etc. At the same time, small and medium-sized commercial banks should start to re-examine the traditional integrated banking business system in the past to see whether the business really conforms to the new development of commercial banks in today's era. Keep the characteristics and continue to innovate and develop its core business. At the same time, we should make good use of Internet technology to innovate and develop new financial products, open up new business markets, develop and operate new superior resources, and broaden the channels for financial services.

### **5.2. Strengthen risk management**

The risks of Internet finance include: credit default risk, term mismatch risk, lender of last resort risk, legal risk, increasing the difficulty of central bank's monetary and credit regulation, risk of personal credit information being abused, information asymmetry and information transparency issues, and technical risk. As for the risk of enterprise network information and data leakage, a large amount of various electronic data from inside and outside the enterprise can be collected by the system on a public Internet through the server for unified storage, which can greatly facilitate the effective and rapid collection, analysis, transmission, storage and various business operations of network data resources. However, once the enterprise information is improperly supervised and protected by the government, It will easily lead to the leakage, loss and damage of storage equipment of a large number of information assets and data, thus causing indirect consequences that pose a serious threat to the entire traditional e-commerce banking system. Moreover, mobile Internet technology has become increasingly developed, and the rapid theft and utilization of a large number of information assets is no longer just a physical and mandatory intrusion into computer information systems. Therefore, we also put forward higher management requirements for the construction of security protection, management and monitoring capabilities of computer big data assets. In addition, credit risk management should also focus on strengthening prevention. The construction of China's current Internet financial credit system is still in its infancy, and there are still many practical problems. For example, the degree of information virtualization in the Internet financial transaction process is high, and the authenticity is not easy to investigate and verify. In a word, in the stage of small and medium-sized commercial banks seeking transformation and upgrading, while developing in combination with traditional Internet financial business, they must also constantly strengthen the risk prevention and control supervision between traditional Internet financial enterprises and small and medium-sized commercial banks, establish and improve the comprehensive risk supervision policy framework of the banking industry, and formulate corresponding laws and regulations for unified supervision of the industry. While attaching importance to the supervision of banking institutions, we should also attach importance to the business supervision of the industry.

### 5.3. Improve talent development

Driven by big data and Internet finance, small and medium-sized commercial banks must focus on how to build a high-tech financial talent system. The background of all kinds of financial employees currently recruited by small and medium-sized commercial banks is mainly reflected in the fields of finance, economy and public product management services. There are relatively few senior application-oriented talents with computer science and technology knowledge background and ability reserve, so the professional quality of the personnel with relevant working backgrounds in the field of commercial banks and Internet finance is relatively low. Under the macro policy background of developing the current Internet financial business, if small and medium-sized commercial banks want to achieve the new development effect of financial transformation, innovation and upgrading, it means that they must focus on training modern information technology talents that meet the needs of the transformation and modernization of domestic financial industry and the characteristics of its development laws, so that the talents of commercial banks can achieve diversified construction and development. First of all, we should independently recruit information professionals through multiple channels in colleges and universities, pay attention to the recruitment of application-oriented computer technology composite and high-quality application-oriented talents, gradually appropriately increase the number of skilled and high-quality personnel engaged in electronic information technology professional services in society, and improve the structure of relevant personnel in the school. Secondly, it should also be clear that after the company recruits excellent new employees every year, it should also focus on strengthening the pre job and professional ability training, and actively organize the enterprise's front-line employees to further study for subsequent enterprise training. In the process of their own development, small and medium-sized comprehensive financial and commercial banks should constantly make efforts in practice to stimulate the overall vitality, enthusiasm and sense of belonging of customer groups of small and medium-sized grass-roots banks' staff teams, so as to achieve more healthy and stable sustainable development.

### 5.4. Improve customer service

Small and medium-sized commercial banks should pay attention to the improvement of customer satisfaction. Compared with small and medium-sized commercial banks, the service operation under the Internet financial platform is more convenient and fast, the interface is simple and easy to understand, the steps are simple and convenient, the customers save time and effort, and have a new service experience, thus causing serious customer loss of traditional small and medium-sized commercial banks. In view of the above bank situation, small and medium-sized commercial banks should be more timely.[3] For example, the operation and function interface settings of the bank self-service system are complex, the bank counter business efficiency is low, and the operation and process settings such as business consultation application processing are not convenient enough. Small and medium-sized commercial banks should pay attention to improving or adjusting the system in time according to these characteristics. Pay attention to improving the simple, convenient and personalized design and service experience in the bank customer service operation, optimize and adjust the business functions, operation settings and

functional interfaces of self-service, mobile banking, online banking functions of SMS system and other aspects of the bank counters, so as to facilitate the rapid and efficient communication and operation of the bank's end users through mobile phones, Optimize the relevant operation processes of counter business self-service acceptance business of major bank outlets.

## 6. Conclusion

To sum up, in view of the digital transformation of some small and medium-sized banks, from the market perspective, most small and medium-sized banks have initially felt the internal pressure and market necessity of the transformation and development of financial digital business. However, due to the constraints of traditional banking concepts and other aspects in terms of thinking and actual operation methods, some banks need to change their marketing concepts even more. Thought decides action. In order to truly occupy the position of the industry competition center with obvious comparative advantages in the context of today's technological wave and network finance, we must first occupy the forefront of the times in terms of technical ideas. The banking and retail industry has adopted a new Internet financial marketing management mode, which is fundamentally different from the marketing mode of traditional industries. Most bank managers tend to adopt a blind and follow the trend marketing mode, but this marketing mode can only enable banks to survive in a short time. Banks that really want to become bigger and stronger must have a clear understanding of their own markets, Be able to have a clear understanding of their own market situation and make the most timely adjustments according to the changes of the current situation, so as to guide the wind direction of the whole market.

From the perspective of banks, the relationship between financial institutions and banks is no longer a simple and limited external connection, not just a simple connection between financing and financial services. Both need to be embedded to a certain extent. In concept, banks should rely on multi-party real-time cooperation, constantly optimize and adjust the evaluation results, and self select and realize a relatively dynamic model. Further open financial institutions. On the basis of opening more products and trading systems, with the help of data sharing technology and industrial alliances, explore more cooperation models and mechanisms in terms of in-depth cooperation with intermediaries who have a better understanding of vertical industries, so as to promote a better connection between industry and finance. This is a high requirement for traditional financial institutions such as banks. This concept change requires that financial technology companies and traditional financial companies gradually realize their business interactions at ordinary times.

From the perspective of supervision, measures such as strengthening the macro supervision of the financial industry and the dual macro supervision of market prudential behavior can effectively curb the domestic financial market systematic risks and regional spillover effects caused by China's traditional financial technology and innovative service capabilities. As the leading role in leading the healthy operation of China's new economic and financial system in the future, the banking industry has the high compliance characteristics of traditional financial individual banks' business activities with financial licenses and the systematicness of relatively strict regulatory business. It has a

wide range of business to meet the needs of various financial service customers and products, At the same time, it also has a lot of relatively high-quality and extensive industry wide technology application support services that can provide SMEs with innovative financial technology products. Compared with other types of financial institutions, the banking industry should emphasize better playing its own advantages in financial technology while also taking into account the harmony and stability of the financial system, Therefore, in recent years, the most advanced field of financial technology and its service and development innovation in China's entire banking industry, as well as the main technical support and position for its development, are increasingly turning to banks.

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