



Development of Internet Finance and Its Impact on Traditional Financial Models

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Abstract

This article examines the evolution of Internet finance and its effects on conventional financial models. It delves into the distinct features and benefits of Internet finance, exploring its role in innovating financial services, adjusting financial structures, and managing financial risks. Additionally, the paper addresses the challenges Internet finance poses to traditional financial institutions and regulatory authorities. It suggests strategic solutions to these challenges and highlights the significant transformations and opportunities Internet finance introduces to the financial sector.

Subject Areas

Business Analysis, Finance

Keywords

Internet Finance, Traditional Finance, Financial Innovation, Financial Structural Adjustment, Risk Management

1. Introduction

The rapid development of Internet technology has brought about significant changes and opportunities to the financial industry. As an emerging financial model, Internet finance has had a profound impact on traditional financial models due to its convenience, low cost, and high efficiency. The rise of Internet finance has transformed the traditional ways of providing financial services and accelerated innovation and development in the financial market. However, Internet finance has also brought new risks and challenges, imposing new requirements on traditional financial institutions and regulatory bodies. This article aims to explore the development of Internet finance and its impact on traditional financial models, and propose corresponding strategies.

2. The Impact of Internet Finance on Financial Services Innovation

2.1. Innovation of Financial Products and Services

The rise of Internet finance provides ample opportunities for the innovation of financial products and services. Through Internet platforms, traditional financial institutions can design and launch new types of financial products more flexibly to meet the diverse needs of customers. For example, the emergence of peer-to-peer (P2P) lending platforms allows small and micro enterprises, as well as individuals, to access loans more conveniently. Innovative payment methods such as Internet payment and e-wallets have changed the traditional payment models. Emerging technologies in fintech, such as big data analytics, artificial intelligence (AI), and blockchain, are creating new opportunities in investment management and risk management. Big data analytics, utilized for credit scoring and fraud detection in peer-to-peer (P2P) lending, enable more precise risk assessments and management. This technology reduces biases and enhances the accuracy of credit risk models. Additionally, AI applications in financial services, notably through robo-advisory, improve the ability to match client risk profiles accurately. AI also aids in assessing market risks and managing portfolios more effectively, potentially leading to better investment decisions and outcomes. Furthermore, blockchain technology, primarily applied in crypto assets and payment systems, enhances transparency and security, which are crucial for reducing operational risks, including those from fraud and cyber-attacks. It also offers new ways to handle money laundering and other illegal activities through more traceable transactions. The integration of these technologies facilitates the development of a comprehensive risk management framework that not only addresses traditional financial risks but also accommodates the new dynamics introduced by fintech innovations. [1]

2.2. Optimization of Financial Service Processes

The development of Internet finance has greatly optimized financial service processes. Traditional financial services often require customers to visit banks or other financial institutions in person, consuming time and effort. Internet finance enables online account opening, online banking, mobile payments, and other functions through online platforms, making financial services more convenient and efficient. Customers can complete various financial operations any-time and anywhere through computers or mobile devices, saving a significant amount of time and resources. Moreover, Internet finance has also promoted the automation and intelligence of financial services. Through technologies like big data and artificial intelligence, it has improved the accuracy and personalization of risk assessment and customer service.

2.3. User Experience and Personalized Services

Internet finance emphasizes user experience and personalized services by pro-

viding more accurate financial services through data analysis and the exploration of individual preferences. Internet finance platforms accumulate a large amount of user behavior data, allowing for in-depth analysis of customer consumption habits, investment preferences, and more. Based on this analysis, personalized financial products, services, and tailored investment advice and recommendations can be provided to customers. Additionally, Internet finance promotes user interaction and communication through social media, online communities, and other means, providing richer financial information and resources and enhancing user engagement and experience.

3. The Impact of Internet Finance on Financial Structural Adjustment

3.1. Transformation and Reshaping of Traditional Financial Institutions

The rise of Internet finance poses significant challenges to traditional financial institutions, forcing them to undergo transformation and reshaping. Traditional banks, insurance companies, and other financial institutions face competition from Internet finance and need to accelerate their digital transformation to establish a blended online and offline financial service model. Traditional financial institutions collaborate with Internet finance platforms or innovate independently to launch services such as online banking and mobile payments to meet the diverse needs of customers. Furthermore, traditional financial institutions need to strengthen internal management and technological capabilities to enhance service quality and efficiency in order to cope with the impact of Internet finance. [2]

3.2. Rise of Emerging Financial Institutions

The development of Internet finance has spawned a wave of emerging financial institutions. These emerging financial institutions, based on Internet technology, adopt innovative business models and service concepts, quickly making their mark in the market. For example, Internet payment platforms, P2P lending platforms, virtual banks, and other new types of financial institutions have gained extensive attention and user recognition. They attract a large number of users and funds by simplifying processes, reducing costs, and providing personalized services. The rise of emerging financial institutions promotes diversification and changes in the competitive landscape of the financial market, requiring traditional financial institutions to closely monitor and respond to these changes.

3.3. Transformation of the Financial Market and Competitive Landscape

The development of Internet finance has had a profound impact on the entire financial market, triggering changes and adjustments in the financial market and

competitive landscape. The rise of Internet finance has broken the monopoly of traditional financial institutions, driving various financial institutions to increase their innovation efforts in services, products, and technology. The emergence of financial technology companies and the transformation of traditional financial institutions have propelled diversification and intensified competition in the financial market. Moreover, the development of Internet finance has also promoted the upgrading and improvement of financial regulation to meet the regulatory requirements of the new financial landscape. [3]

4. The Impact of Internet Finance on Financial Risk Management

4.1. New Risks and Challenges

While Internet finance brings various benefits, it also introduces new risks and challenges to the financial industry. The online nature of Internet finance exposes it to cybersecurity threats, such as data breaches, identity theft, and fraud. Currently, online loans are mainly b2c and p2p. Among them, p2p, as a form of microcredit mainly based on credit borrowing, has huge development potential under the growing consumer demand in China, and now has a scale of 2248.5 billion yuan. The rapid growth of P2P lending platforms has raised concerns about credit risk, platform risk, and regulatory risks. The use of financial technology and automation in decision-making processes may also lead to algorithmic and operational risks. Moreover, the interconnectedness of the online financial ecosystem means that risks can spread quickly, requiring effective risk management measures.

4.2. Enhanced Risk Assessment and Mitigation

Internet finance has also improved risk assessment and mitigation techniques. Through the collection and analysis of large-scale data, Internet finance platforms can conduct more accurate risk assessments for borrowers, investors, and financial transactions. Advanced algorithms and machine learning models can identify patterns and signals of potential risks, enabling proactive risk prevention and management. Additionally, the use of blockchain technology in Internet finance enhances transparency, traceability, and security in financial transactions, mitigating risks associated with fraud and tampering.

4.3. Strengthened Regulatory Framework

The development of Internet finance has prompted regulatory bodies to strengthen the regulatory framework and adapt to the changing financial landscape. As science and technology have advanced, multimedia technology has rapidly evolved, leading to substantial transformations in computer network systems, including mobile communications. This technology is increasingly becoming integral to everyday life. It delves into the sharing economy, an innovative business model rapidly gaining global momentum and reshaping lifestyles and pro-

duction methods, particularly in China where it enhances the reuse of social resources. [4]

Regulators need to monitor and supervise Internet finance activities to ensure fair competition, protect consumers' rights and interests, and maintain financial stability. The regulatory framework needs to address the risks and challenges specific to Internet finance, such as cybersecurity, data protection, and platform governance. Regulators may establish new regulations, licensing requirements, and risk management guidelines to ensure that Internet finance operates in a safe and compliant manner.

5. Strategies for Traditional Financial Institutions and Regulatory Bodies

5.1. Embrace Digital Transformation

Traditional financial institutions should embrace digital transformation to adapt to the impact of Internet finance. This involves investing in technology infrastructure, upgrading IT systems, and enhancing digital capabilities to provide seamless online and offline financial services. Collaboration with financial technology companies and startups can foster innovation and drive digital transformation. Traditional financial institutions should also prioritize customer-centric approaches, focusing on user experience, personalization, and convenience.

5.2. Foster Collaboration and Partnerships

Collaboration and partnerships between traditional financial institutions, emerging financial institutions, and technology companies can leverage each other's strengths and accelerate innovation. Traditional financial institutions can collaborate with Internet finance platforms to expand service offerings and reach a wider customer base. Partnerships with financial technology companies can facilitate the adoption of advanced technologies and enhance operational efficiency. Regulatory bodies should also foster collaboration and information sharing with industry stakeholders to stay informed about market developments and ensure effective regulation.

5.3. Enhance Risk Management Capabilities

Traditional financial institutions and regulatory bodies should enhance their risk management capabilities to address the risks posed by Internet finance. This involves investing in cybersecurity measures, data protection systems, and fraud detection technologies to mitigate online risks. Strengthening risk assessment and monitoring frameworks can help identify and address emerging risks in a timely manner. Regulatory bodies should adopt a risk-based approach to supervision, focusing on systemic risks, consumer protection, and platform governance.

5.4. Promote Financial Education and Consumer Protection

With the rapid development of Internet finance, promoting financial education

and consumer protection becomes crucial. Traditional financial institutions and regulatory bodies should collaborate to enhance financial literacy among consumers, helping them understand the risks and benefits of Internet finance. Clear and transparent disclosure of information should be encouraged to ensure that consumers make informed decisions. Regulatory bodies should establish consumer protection mechanisms, such as dispute resolution mechanisms and complaint handling procedures, to safeguard consumer rights and interests in the online financial environment.

6. Conclusion

The development of Internet finance has had a transformative impact on traditional financial models. It has brought about financial service innovation, optimized financial service processes, and reshaped the competitive landscape. While Internet finance presents new risks and challenges, it also offers opportunities for enhanced risk management and regulatory frameworks. Traditional financial institutions and regulatory bodies need to embrace digital transformation, foster collaboration, enhance risk management capabilities, and promote financial education and consumer protection. By adapting to the changing financial landscape, traditional financial models can coexist and thrive with Internet finance in the era of digitalization.

To enhance the study and foster future discussions, the inclusion of case studies is essential. Presenting examples of traditional financial institutions that have successfully transitioned to incorporating Internet finance would provide practical insights and reinforce the arguments presented in the article. Lastly, a global perspective should be integrated into the study. Currently, the article primarily focuses on the impact of Internet finance within a specific region, namely China. A comparative analysis involving other countries' experiences would offer a broader perspective, highlighting different approaches and outcomes and thus, enriching the overall discussion.

Conflicts of Interest

The author declares no conflicts of interest.

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