ISSN: 2688-9323

The Impact of Third Party Payment on Commercial Banks

---An Empirical Study based on Mongolia

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Abstract

With the rapid development of technology, the Internet era has gained rapid popularity, spawning third-party payment as a typical form of Internet finance, which certainly has a huge impact on the traditional financial industry. This article takes the commercial bank's profit statement as an entry point, qualitatively and quantitatively analyzes the impact of different third-party payment business models on the profitability of commercial banks, and conducts in-depth research on the impact mechanism and degree of impact. After theoretical analysis and empirical testing, it is found that third-party payment has a significant negative impact on the profitability of commercial banks, and there is indeed an intermediary role of online banking channels in this impact mechanism.

Keywords

Third party payment; commercial banks; SWOT.

1. Introduction

According to the statistics of the Communications Regulatory Commission in 2019, Mongolia has a population of 3.2 million, of which 5.39 million people use mobile phones repeatedly, of which 340 are smart phones, a 13% increase in 2018. In 2019, Mongolian electronic banking products, online banking payment transactions amounted to 5,3 trillion tugrik (MNT) with 1.1 million users, and mobile banking transactions amounted to 3.1 trillion tugrik (MNT) with 285 Ten thousand users . From these data, it can be seen that the third-party payment LEND MN and SOCIAL PAY in Mongolia have become the most used payment segment for most young people at present, and the national daily living habits have changed. With the promulgation of the "Mongolian Banking Law" on April 20, 1991, Mongolia established a two-tier banking system: a central bank and a commercial bank.

2. Analysis of the Impact of Third-party Payment on the Profitability of Commercial Banks

2.1. Impact on Commercial Bank Asset Business

Credit business is the main financial service product of commercial banks and the main profitable product. It is also a source of operational risk. The high threshold, complicated procedures, and high costs make it difficult for small and micro enterprises to meet bank loan targets. Traditional bank credit products cannot meet the public's needs and embarrassment in the field of lending. The third-party payment platform relies on the related industry transaction models and capital records to screen high-quality small merchants through big data technology, design low-cost, easy to approve, and low-threshold financing products, to

ISSN: 2688-9323

understand the difficulty of financing small and micro enterprises. The scale of the online lending industry reached 422 billion MNT in 2019, an increase of 272 billion MNT from 2018 to 181%.At present, the loan products with a large market share in the P2P online loan market are still mainly determined by the platform, but the borrowing rate The difference is large. Most P2P loan products have a loan interest rate of more than 10%, and the loan method depends on the customer's existing bank credit card, wages, and life insurance policies for loans. Retail loans were last larger than corporate loans in terms of scale, and the interest income was also less than the latter, but their ability to drive bank profitability should not be underestimated.

2.2. Impact on Commercial Bank Debt Business

The main source of income for commercial banks is the traditional deposit and loan spreads. The deposit interest rate determines the cost of funds used by commercial banks. Together with the size of banks ’deposits, they determine the ability of commercial banks to issue loans and directly affect the commercial bank ’s ability to issue loans. Users can not only recharge through bank cards, but also support recharge cards and cash recharge. This fully proves that the third-party platform can absorb deposits from the commercial bank online banking system, and the user's payment bank can also not rely on the banking system The situation makes commercial banks face potential risks of financial systems. Traditional commercial bank transfers are made through the central bank clearing system.

2.3. Data Analysis

Since the data in this paper includes both time series data and cross-sectional data, and since 2015 to 2019, the data of 10 banks are complete during the same observation time, so they are balanced panel data. In this study, in order to measure the efficiency and profitability of banks, the most commonly used return on assets (ROA) in previous empirical studies was selected as the dependent variable. Return on assets is an indicator of a bank ’s ability to convert all of its assets into net profit, and it can measure the bank ’s management efficiency.

Table 1. Regression analysis

Numble	Big 5 banks	Small 5 banks
C	1.1518***	0.4928*
	(0.2260)	(0.3065)
PAY	-1.5238***	-0.9234
	(0.4864)	(0.6496)
GDP	0.2839**	0.2434
	(0.1136)	(0.1240)
CPI	0.8130**	0.0815*
	(0.3607)	(0.1240)

From the regression results in Table 4.6, it can be seen that the regression coefficient of the explanatory variable third-party payment transaction size (PAY) is that large banks are more affected by mobile payments than small banks, and have a negative impact of -1.5238 less than 0.1 on large banks. It is significant at the% level, although it also has a negative impact on small banks. This shows that the growth rate of the third-party payment in the previous period has a significant negative impact on the profitability of the current commercial bank. When the growth rate of third-party payment last year ’s transaction scale increases by 1%, the net asset interest rate of listed commercial banks will decrease by 1.5238. Therefore, as

ISSN: 2688-9323

the growth rate of third-party payment increases, the profitability of the next commercial bank will tend to decline .

3. SWOT Analysis

1) Strenghts- Commercial banks are providers of payment and final payment.

Due to the requirements of financial supervision, third-party payment companies cannot publicly absorb deposits. Third party payment models come from commercial banks, and third-party payment companies only have payment channels. Commercial banks have a strong social reputation, also important national financial institutions with strict industry access and supervision mechanisms. In addition, commercial banks have a sound risk management and control system and strong financial strength, so they have a high commercial and social reputation.

2) Weaknesses-Commercial banks have unique payment models and high acquisition costs , disadvantage in the third integration, during the payment process, the payment information was transferred to the commercial bank. Because third-party payment companies always draw a line between customers and banks, the separation of logistics, information flow and capital flow makes commercial banks fall behind. The marketing methods of commercial bank products and services are relatively conservative too.

3) Opportunities-Development of emerging markets for mobile payments. The huge market space of the mobile payment market has attracted many companies. Whether commercial banks can seize the major development opportunities in the mobile payment market requires banks to further follow up with technological developments, close to customer needs, and accelerate products. The huge market potential of e-commerce, banks need to diversify their business, further improve their ability to respond to market of interest rates, expand non-interest income sources, and develop e-commerce is an excellent opportunity for commercial banks.

4) Threats-Third-party payment has established a wide customer base and formed a strong customer relationship. Especially the secure payment model and wallet model, has improved the security of the e-commerce payment process. This greatly reduces the number and frequency of customers using their own bank cards to complete transactions.

4. Countermeasures of Banks and Summery

At the asset business level, optimize existing credit business processes and launch a wealth of credit products; at the debt business level, improve services to "return" customers and develop new types of monetary funds; at the intermediary business level, establish a new big data center to strengthen cooperation with Internet companies Cooperation. Commercial banks should not sit idly by. Instead, it should be guided by innovation, actively adjust the business model, and adapt to the development trend of information technology.

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