ISSN 2616-5902 Vol. 7, Issue 4: 195-201, DOI: 10.25236/AJBM.2025.070424

Research on the Integration Modes and Paths of Internet Finance and Traditional Finance

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Abstract: *This paper utilizes financial intermediation theory, financial innovation theory, and long-tail theory as foundational frameworks for research. Through an in-depth analysis of the case study involving CCB Financial Technology Co., Ltd.'s "Technology Middle Platform + Scenario Innovation", this paper systematically explores the internal logic behind the integrated development of traditional finance and Internet finance, proposes three primary integration models for traditional finance and Internet finance. The technology empowerment model reshapes the financial infrastructure through modern information technology, realizes the complementary advantages of both sectors, and constructs a new financial ecosystem. The integration of online and offline channels can optimize resource allocation, enhance market competitiveness, and build a comprehensive service system. The product innovation integration model enhances the personalized service experience and promotes the reconstruction of the financial service pattern through the manifestation of multi-dimensional value. Based on the study of these integration models, this paper conducts a beneficial exploration of the specific pathways for the integration of the two sectors from three perspectives: subject collaboration, policy guidance, and customer demand. It highlights that, in the process of the integrated development of modern finance, subject collaboration can achieve complementary advantages, jointly address market challenges, and promote financial innovation and sustainable development. Policy guidance serves as a crucial guarantee for promoting the integration of the two sectors and ensuring its stable, long-term development. Customer demand is reshaping the pattern of the financial market and has become the key driving force for promoting the integration of the two.*

Keywords: *Internet finance; Traditional finance; Integration model; Integration path; Fintech*

1. Introduction

With the rapid development of information technology, Internet finance has emerged vigorously, driven by technological innovations and evolving user demands. Its convenience and innovative features have attracted a substantial number of users. Concurrently, traditional financial institutions are experiencing significant pressure to transform due to their relatively outdated operational models. In this era of rapid development and the transition from old to new, the government has introduced a series of policies. For example, the "Fintech Development Plan (2022 - 2025)" issued by the People's Bank of China, along with the "14th Five-Year Development Plan for Financial Standardization jointly issued by the People's Bank of China, the State Administration for Market Regulation, the China Banking and Insurance Regulatory Commission, and the China Securities Regulatory Commission, etc., actively encourages the integration of Internet finance and traditional finance. These policies aim to establish a new development framework that deepens the application of financial data elements, supports structural reforms on the financial supply side, and prioritizes the acceleration of digital transformation within financial institutions. Traditional finance can leverage the development of fintech to enhance efficiency and broaden service offerings, while Internet finance, supported by fintech, can progress steadily by leveraging the management expertise of traditional finance. This collaboration aims to establish and continuously improve a more efficient, inclusive and dynamic financial system.

With the development of fintech, there are currently two predominant perspectives within the academic community regarding the relationship between Internet finance and traditional finance. The first is the competition theory, which posits that Internet finance will disrupt traditional finance [1]. This viewpoint asserts that the convenience and innovation of Internet finance, along with new technologies,

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pose a significant threat to traditional finance, potentially reshaping the landscape of the financial industry. As a result, traditional banks may face the risk of being disrupted and replaced. The second perspective is the complementarity theory [2]. This theory argues that both forms of finance possess unique advantages. Internet finance can address gaps in traditional financial services, while traditional finance can provide mature management experience. The integration of the two can create a more comprehensive financial system, reduce transaction costs, generate synergistic value, promote financial innovation, and achieve mutually beneficial outcomes. It is important to note that current studies on complementarity and substitutability are not mutually exclusive. Many scholars who advocate for the substitutability perspective do not deny the existence of complementarity. However, most of these viewpoints or academic research findings focus on macro-level analysis. They conduct theoretical examinations of the concepts, characteristics, advantages, and disadvantages of both Internet finance and traditional finance, emphasize the necessity of their complementary development, and propose suggestions for their integration from macro perspectives such as coordinated development and information protection. Nevertheless, there remain significant gaps in research regarding the integration of the two, particularly a lack of practical studies on integration models and pathways at the micro level. This paper begins with foundational theoretical research and, based on an exploration of the internal logic behind the integrated development of traditional finance and Internet finance, conducts a specific study on the integration models and pathways of these two financial systems. It illustrates these concepts with examples to demonstrate the emerging patterns in the future development of the financial market.

2. The Internal Logic of the Integration of Internet Finance and Traditional Finance

Internet finance primarily relies on emerging technologies to facilitate more convenient functions such as capital financing, payment and settlement. It is characterized by convenience, high efficiency, extensive coverage, and strong innovative capabilities. Its main business forms include fintech companies, internet platform companies, P2P online lending, crowdfunding, third-party payment services. In contrast, traditional finance is distinguished by its high credibility and mature risk control systems, encompassing business forms such as banks, securities firms, insurance companies and etc. Although these two sectors differ in structure, they both play a crucial role in the financial field. The integrated development of the two is a profound convergence of the two in multiple dimensions, including concepts, technologies, processes, and management. The following will reveal the internal logic of their integrated development through various theoretical perspectives.

2.1. The Integration Logic from the Perspective of the Financial Intermediation Theory

The financial intermediation theory posits that financial intermediaries play a crucial role in the financial market, primarily by reducing transaction costs and mitigating information asymmetry. Traditional financial institutions have amassed extensive experience and resources throughout their long-term development, establishing a relatively comprehensive risk control system and reputation mechanism. However, they may face certain limitations in acquiring and processing information. In contrast, Internet finance leverages advanced information technology to obtain and process information more efficiently, thereby diminishing information asymmetry and lowering transaction costs [3]. For example, Internet finance platforms can conduct more accurate assessments of borrowers' creditworthiness through big data analysis, enhancing the efficiency and precision of loan issuance. Consequently, the integration of traditional finance and Internet finance can achieve complementary advantages. Traditional financial institutions can leverage the technological advantages of Internet finance to enhance their information processing capabilities and service efficiency. Internet finance, on the other hand, can benefit from the reputation and risk control systems of traditional financial institutions, thereby enhancing its own stability and reliability.

2.2. The Integration Logic from the Perspective of the Financial Innovation Theory

The financial innovation theory emphasizes that financial institutions must continuously introduce new products, services, and technologies to adapt to market changes and customer needs. The emergence of Internet finance is a direct result of financial innovation, leading to the development of various new business forms and models, such as mobile payment, online lending, and robo-advisory services. These innovations not only address the diverse needs of customers but also stimulate the development and transformation of the financial market [4]. In response to competition from Internet finance, traditional financial institutions also need to carry out innovation to enhance their competitiveness. For example,

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traditional banks can utilize Internet technology to conduct online businesses and launch personalized financial products and services. Consequently, the integration of Internet finance and traditional finance can promote the development of financial innovation. Through collaboration and communication, both parties can jointly explore new financial business models [5] and technological applications, thereby driving the continuous progress of the financial industry.

2.3. The Integration Logic from the Perspective of the Long Tail Theory

The Long Tail Theory highlights that in the Internet era, factors such as cost and efficiency have altered the sales curve for businesses, moving away from the traditional 80/20 rule to a model that features a long tail. This means that niche markets, which were previously overlooked, can now form substantial markets through the aggregating effect of Internet platforms. Internet finance, characterized by its low costs and high efficiency, is particularly well-suited to serve the long tail customer group and address their financial needs. In contrast, traditional financial institutions, burdened by relatively high operating costs, tend to focus more on large customers and the mainstream market, resulting in inadequate services for long tail customers. Consequently, the integration of Internet finance with traditional finance can effectively cover the long tail market. Traditional financial institutions can leverage the platforms and technologies of Internet finance to expand their customer base and tap the potential of the long tail market. Meanwhile, Internet finance can capitalize on the capital and resource advantages of traditional financial institutions to enhance its service capabilities and market competitiveness.

3. Integration Models of Internet Finance and Traditional Finance

In the era of the digital economy, the integration of Internet finance and traditional finance demonstrates various models that are empowered by technological innovation. Through channel integration and coordination, these models enhance the innovation of products and services, driving the evolution of the financial market toward greater efficiency and inclusiveness.

3.1. The Technology Empowerment Integration Model

The technology empowerment integration model refers to the reshaping of financial infrastructure through modern information technology, realizing the complementary advantages of traditional finance and Internet finance to construct a new financial ecosystem. Modern information technologies such as big data, artificial intelligence, blockchain, and cloud computing have significantly altered the development of the financial industry [6]. In terms of big data, financial institutions can collect and analyze a large amount of customer data to better understand their needs and behavioral patterns, thereby offering more personalized financial products and services. The development of financial technology can enhance the level of financial technology of commercial banks through "technological spillover", thereby promoting the creation of bank liquidity [7]. For example, a bank can provide customized credit card limits and interest rates based on customers' spending habits and credit profiles. In the field of artificial intelligence, robo-advisory can provide customers with automated investment advice tailored to individual risk preferences and investment goals; intelligent customer service systems can respond to inquiries in real-time, enhancing service efficiency. Blockchain technology can achieve the decentralization, transparency, and immutability in financial transactions, enhancing the security and efficiency of transactions. Cloud computing offers financial institutions robust computing and storage capabilities, which help reduce operational costs. Through technology empowerment, traditional financial institutions can elevate their level of digitalization, enhance their service capabilities, and improve their competitiveness. Internet finance enterprises, on the other hand, can leverage the resources and channels of traditional financial institutions to expand their business scope and achieve sustainable development.

3.2. The Integration Model of Online and Offline Channels

The integration model of online and offline channels refers to the organic combination of the offline channels of traditional finance and the online channels of Internet finance, optimizing resource allocation, enhancing market competitiveness, and constructing a comprehensive service system. Traditional financial institutions possess extensive offline outlets and customer resources, enabling them to provide face-to-face services and personalized solutions for customers. Internet finance, on the other hand, has

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the advantages of convenient and efficient online services, enabling customers to meet their financial needs anytime and anywhere. By integrating online and offline channels, financial institutions can leverage complementary advantages. For example, customers can query and schedule appointments for financial products through an online platform, then visit offline locations for contract signing and processing. Additionally, financial institutions can gather customer information from offline outlets to support targeted marketing efforts on their online platforms. Moreover, this integration enhances the overall customer experience. Customers can select the service channels according to their needs and preferences, enjoying more convenient, efficient and personalized financial services.

3.3. The Product Innovation Integration Model

The product innovation integration model refers to the innovative integration of traditional financial products and Internet financial products, enhancing the personalized service experience and promotes the reconstruction of financial service patterns through the manifestation of multi-dimensional value. Traditional financial products such as bank deposits, loans, and insurance have the characteristics of stability and security; however, they are relatively insufficient in terms of flexibility and innovation. Internet financial products such as Yu'E Bao and P2P online lending have the characteristics of innovation and flexibility but encounter challenges related to risk management and supervision. Through the integration of product innovation, financial institutions can introduce financial products that better align with customers' needs. For example, by combining bank deposits with Internet wealth management, institutions can launch wealth management products that offer both profitability and liquidity. Additionally, by integrating insurance products with Internet scenarios, insurance products targeting specific scenarios can be introduced. The product innovation integration model not only meet the diverse needs of customers, but also promote competition and development in the financial market, driving the reconstruction of financial service pattern.

4. Analysis of the Integration Paths of Internet Finance and Traditional Finance

4.1. The Path of Subject Collaboration

The path of subject collaboration refers to the cooperation and coordination between traditional financial institutions and Internet finance enterprises to achieve complementary resources, maximize their respective advantages, and promote financial innovation and sustainable development. Traditional financial institutions possess advantages such as strong capital strength, high credibility, and comprehensive risk management systems. However, they are relatively insufficient in technological innovation and customer experience. Internet finance enterprises, on the other hand, have advantages such as strong technological innovation capabilities, good customer experience, and operational efficiency, but they are relatively weak in terms of capital strength and the risk control system. Through subject collaboration, both parties can achieve complementary advantages. For example, traditional financial institutions can cooperate with Internet finance enterprises to jointly conduct fintech research and development, thereby enhancing their digitalization level. Internet finance enterprises can leverage the capital and reputation of traditional financial institutions to expand their business scope and enhance their stability and reliability. Additionally, subject collaboration can stimulate competition and growth within the financial market, driving innovation and transformation in the financial industry.

4.2. The Path of Policy Guidance

The path of policy guidance means that the government directs and supports the integrated development of Internet finance and traditional finance by formulating relevant policies, ensuring that their integration progresses steadily and sustainably into the future. The government can introduce a series of policy measures to encourage financial institutions to engage in research, development, and application of financial technology, thereby promoting the digital transformation of these institutions [8]. For example, the government can provide support such as tax preferences and financial subsidies to fintech enterprises, encouraging them to increase their investment in research and development. The government can also strengthen financial supervision, regulate the order of the Internet finance market, and prevent financial risks. Furthermore, the government can facilitate the development of financial infrastructure to improve the efficiency and transparency of the financial market. Policy guidance can create a favorable policy environment for the integrated development of Internet finance and traditional finance, promoting their healthy and orderly advancement.

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4.3. The Path of Customer Demand

The path of customer demand refers to the process by which financial institutions, guided by customer demand, continuously innovate their financial products and services to meet the diverse and personalized needs of their clients. This approach promotes the integrated development of Internet finance and traditional finance. As the economy evolves and society progresses, customers' demands for financial services are becoming increasingly diverse and personalized. They not only require financial services to be convenient and efficient but also seek personalization and customization [9]. By deeply understanding customer needs and leveraging modern information technology, financial institutions can introduce products and services that align more closely with customer needs [10]. For example, financial institutions can offer personalized investment portfolios tailored to individual risk preferences and investment goals. Additionally, they can utilize big data analytics to deliver targeted financial marketing and services. The integrated development guided by customer demand can enhance customer satisfaction and loyalty, improve the market competitiveness of financial institutions, and promote the sustainable development of the financial industry.

5. Case Analysis of CCB Financial Technology Co., Ltd.'s "Technology Middle Platform + Scenario Innovation"

5.1. Case Background

CCB Financial Technology Co., Ltd. is a fintech company subordinate to China Construction Bank. It is dedicated to leveraging financial technology to deliver digital solutions for financial institutions and corporate clients. In the backdrop of the integrated development of Internet finance and traditional finance, CCB Financial Technology Co., Ltd. has proposed a two-wheel drive model of "Technology Middle Platform + Scenario Innovation empowerment and scenario innovation, it has achieved a deep integration of traditional finance and the Internet ecosystem.

5.2. Case Analysis

5.2.1. Subject Collaboration Drives the Integration of Technology

CCB Financial Technology Co., Ltd. actively collaborates with external ecological partners to collect and identify reusable public service components from various business groups, branches, and partners. The company coordinates with the architecture management department to certify and integrate these components into its management system, thereby facilitating the sharing and collaboration of technical resources on a larger scale. Through partnerships with Internet enterprises, CCB Financial Technology Co., Ltd. has introduced advanced technologies and innovative concepts, enhancing its own research and development capabilities and innovation capabilities. Additionally, the company provides technical support and solutions to traditional financial institutions, assisting them to enhance their digitalization level. This approach of subject collaboration promotes the in-depth integration of traditional financial institutions and Internet enterprises in terms of technological empowerment, and realizes the complementary advantages of both parties.

5.2.2. Policy Guidance Facilitates Business Innovation and Development

According to the "AI+" special action deployment by the State-owned Assets Supervision and Administration Commission of the State Council, the financial sector has been identified as a key area for breakthrough direction in 2025. Central enterprise financial institutions are required to accelerate the establishment of comprehensive AI capabilities, encompassing "intelligent risk control - precise robo-advisory - digital services 100% intelligent coverage of core businesses within three years. CCB Financial Technology Co., Ltd. actively responding to the policy, independently developing the financial large model certification of the People's Bank of China. This initiative has yielded significant results in the field of intelligent robo-advisory, with a management scale exceeding one trillion yuan. This achievement not only showcases the technical research and development capabilities of CCB Financial Technology Co., Ltd., but also indicates that policy guidance encourages enterprises to integrate technological innovation with financial businesses, injecting new vitality into traditional financial operations, enabling them to adapt to the pace of the times in the wave of intelligence, enhance the quality and efficiency of financial services, and achieve a deeper integration with the Internet ecosystem in terms of intelligent financial services.

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5.2.3. Customer Demand Drives the Innovation and Upgrade of Scenarios

As customer demands for convenience and personalized financial services continue to rise, CCB Financial Technology Co., Ltd. leverages a technology middle platform and innovative scenarios to address these needs. By employing AI technology to conduct in-depth analyses of various data, including users' spending habits, transaction behaviors, and career development, the company offers banks tailored marketing recommendations for different customer segments. This approach enables banks to provide personalized financial services that cater to individual preferences. Additionally, in the realm of fraud prevention and risk management, AI technology processes vast amounts of transaction data in real time to swiftly detect unusual activities linked to illegal financial practices, such as telecom fraud, thereby ensuring the safety of users' funds. These innovative scenarios, driven by customer needs, bring traditional financial services closer to clients, align with the Internet ecosystem's focus on user experience, and enhance customer satisfaction and loyalty towards financial services.

5.3. Enlightenment

The two-wheel drive model of "Technology Middle Platform + Scenario Innovation" implemented by CCB Financial Technology Co., Ltd. has successfully facilitated the profound integration of traditional finance with the Internet ecosystem through three primary avenues: collaboration among stakeholders, policy guidance, and the impetus of customer demand. This integration has yielded significant improvements in operational efficiency, business expansion, and customer service optimization, thereby providing valuable insights for the digital transformation of the financial sector. A key takeaway from this initiative is that technology serves as a tool, while scenarios act as vehicles for implementation; the ultimate objective of this integration is to enhance the efficiency, inclusiveness, and security of financial services. In the course of this integrated development, financial institutions are encouraged to prioritize technological innovation and the application of scenarios, align their strategies with customer needs, strengthen collaborative efforts among stakeholders, actively engage with policy directives, and foster the ongoing evolution and transformation of the financial industry.

6. Conclusions and Prospects

6.1. Research Conclusions

This paper builds upon the foundational theories of financial intermediation, financial innovation, and the long tail to explore the significant theoretical underpinnings and transformative potential of the integration between Internet finance and traditional finance. Through an analysis of the practical case of CCB Financial Technology Co., Ltd.'s "Technology Middle Platform + Scenario Innovation," the study elucidates various integration models of Internet finance and traditional finance. It posits that modern technology is fundamentally altering the infrastructure of the financial sector.

The technology empowerment integration model is anticipated to diversify, fostering the development of a more secure, efficient, and cost-effective financial ecosystem. Furthermore, the channel integration model is identified as an essential trend in the digital transformation of financial institutions, facilitating the establishment of a comprehensive service system that enhances service quality and competitiveness. The product innovation integration model is also recognized as a necessary evolution in the fintech era, which will aid in reconstructing the financial services landscape and propel the industry towards a more open, inclusive, secure, and intelligent future.

In the context of the integrated development of Internet finance and traditional finance, collaboration between the two sectors is essential for resource complementarity, allowing each to leverage its strengths to foster financial innovation and sustainable growth. Policy guidance is highlighted as a critical and irreplaceable element, serving as a vital assurance for the deep integration of finance and technology and for ensuring its stable, long-term progression.

Moreover, the principle of "customer-centricity" has emerged as a fundamental criterion driving this integration, as the diversification and personalization of customer demands are reshaping the financial market dynamics and acting as a key impetus for the convergence of the two financial paradigms. The findings of this research offer valuable insights for facilitating a constructive interaction and integrated development between traditional finance and Internet finance, while also proposing specific pathways for financial institutions to navigate their positioning within the evolving landscape of Internet finance and achieve sustainable development.

ISSN 2616-5902 Vol. 7, Issue 4: 195-201, DOI: 10.25236/AJBM.2025.070424

6.2. Future Prospects

Currently, emerging technologies are experiencing significant growth. The metaverse constructs a virtual world that explores new scenarios for financial services and creates new business opportunities. With its powerful language processing and data analysis capabilities, artificial intelligence can facilitate accurate market forecasting, intelligent risk assessment, and support financial decision-making. It can also develop anthropomorphic customer service solutions to enhance the user experience. Driven by these factors, the future integration of Internet finance and traditional finance holds broad prospects. Both parties will leverage artificial intelligence to research and develop innovative products, achieve efficient and intelligent services, and reach more customers through the metaverse. They will build an open, diverse, and intelligent financial integration ecosystem, which will inject new vitality into the development of the global financial market and the financial industry. However, during the process of integrated development, it is essential to address potential problems and challenges, such as data security, privacy protection, and financial regulation. In the future, financial institutions and regulatory authorities must collaborate and strengthen their cooperation to address these challenges and ensure that the integrated development of Internet finance and traditional finance proceeds in a healthy and orderly manner.

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