

# Collaboratively Promoting the Integrated Development of Financial and Industrial Digitalization<sup>8</sup>

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*Abstract: The digital transformation in finance has undergone the stages of internal digitalization within financial institutions and digital integration within industries. It is currently in the stage of integrating financial institutions with industrial digitalization, ultimately leading to the overall digitalization of the society. However, challenges persist in financial digitalization, including internal fragmentation in bank digitalization, uneven development of digitalization across industries and enterprises, significant information barriers between industries, and the need for improvement in institutional environments. Addressing these issues requires collective efforts from various sectors.*

A few years ago, during my visit to the Business School at the University of Cambridge, two professors from the university told me, “Your bank is in danger, heading downhill, and may even face an abyss.” As an employee of the world’s second-largest bank, I was somewhat disturbed by this statement. Why are we considered doomed? I argued that we possess numerous assets, capital, branches, and employees, and provide services to numerous businesses and consumers. However, they countered, “That’s the past; now you need to rely on companies like Alibaba and Tencent. Otherwise, in the future, you won’t know who to lend to because you won’t know which company needs a loan, or what consumers have bought or need.”

<sup>8</sup> This article is based on the keynote speech delivered by the author on December 17, 2023, at the seminar “Industrial Financial Digital Transformation: Practice, Challenges, and Future Paths” during the second Mingzhu Bay Financial Forum “Digital Economy and Asset Management: New Trends and New Drivers in the Greater Bay Area.” The content has been translated by China Finance 40 Forum and reviewed by the author. In case of any discrepancy or ambiguity between the English and Chinese versions, the Chinese version shall prevail.

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This incident made me contemplate the relationship between digital transformation and digital integration. I believe that China’s financial digital transformation has gone through three stages in recent years, with another stage yet to be realized.

The first stage is the digitalization within individual enterprises and banks. This digitalization transformed internal processes into digital formats, leading to cost reduction and efficiency improvement. Banks had achieved this process in the 1990s.

The second stage is the extension of the first one. On one hand, it extended to the central bank and other banks, achieving connectivity among banks and enabling numerous banks to interact and function as a unified entity to serve consumers and businesses. On the other hand, it extended to users, including consumers, by introducing online banking and mobile banking, facilitating direct user participation in transactions. Both of these extensions have already been accomplished.

The third stage of digitalization involves integrated

development. The emergence of Internet companies has connected producers, sellers, consumers, the products consumed, and banks, facilitating data exchange, process interconnection, and service interoperability between industries. From this perspective, our banking services are still in the second stage, which made me understand what the professors from Cambridge were saying. Looking at the industry as a whole, we are currently in the first half of the third stage. The second half of the third stage is more challenging, as it requires the close connection and mutual integration of bank's financial services and the digitalization of manufacturing.

Looking ahead, I believe there is a fourth stage, i.e., the digitalization of the entire society. When financial institutions, manufacturers, producers, consumers, government, and other institutions achieve digitalization, we take a solid step towards a digital world and a smart planet. This is the direction I see for the future of digital integration.

Although banks have done a lot of work in digitalization, they still face many challenges, mainly in four aspects: First, the digitalization within the financial industry, including within banks, remains fragmented. For instance, we have achieved digitalization in areas like sales, operations, risk control, and asset management, but these internal digitalization are not fully interconnected, leading to discontinuity. Second, the digitalization development across different industries and enterprises is extremely uneven. Large enterprises and the information technology industry have excelled in digitalization, with some internet companies being digital from their inception. However, many small enterprises and numerous companies serving large enterprises are yet to take this step and are still relying on paper orders for production and using ordinary bills for payments. Third, there is a significant information barrier between industries. Banks lack data for supply chain finance, and companies may be unwilling to share such data. If everyone is unwilling to share data, achieving digital integration becomes challenging. Fourth, there are

still certain obstacles in the institutional environment, including issues related to data security such as privacy leaks, data falsification, and data tampering.

To address these issues, we need to collaborate on three key initiatives.

First, digitalization is not the responsibility of one entity but a collective effort. Over the past few years, China Construction Bank has deepened its new financial practices, one of which is technological empowerment, including services for enterprises, smart governance, and smart village affairs and sharing our expertise with peers in the industry, to elevate the overall digital foundation of society and the industry. Only through such efforts can we achieve the digital operation of the entire society. There is a concept in economics called “economic externality,” which means that if we excel in our efforts, the actions of the bank will generate positive external effects, leading to a continuous improvement in the overall digitalization level of society.

Second, digital infrastructure should be established. Digitalization for small enterprises is challenging due to a lack of funds and talents. Therefore, it is necessary to leverage the roles of industries, upstream and downstream enterprises, and financial service institutions to provide shared applications, shared storage, shared computing power, and other resources, so small enterprises can use them for free or at a low cost and achieve higher level of digitalization.

Third, the foundation of institutional and legal frameworks needs strengthening. Regulatory responsibilities should be clarified to avoid issues such as privacy breaches, data tampering, and misuse of data as a result of digitalization.

Achieving these objectives requires our collective efforts. A better future awaits us with the integration of industrial and financial digitalization. 🏗️