Reflections on Digital Transformation in Chinese Regional Financial Holding Companies

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Abstract: This article explores the necessity of digital transformation in Chinese regional financial holding companies, based on the background of their digitalization efforts. It discusses the requirements set by policies, the demand for sustainable development in company operations, and the impact of the pandemic on driving digitalization. By analyzing specific challenges faced in the digital transformation of regional financial holding companies, clear pathways for progress are proposed.
***Keywords*:** financial holding, digitalization, data

1. Introduction

China's economy is shifting from high-speed growth to high-quality development. Leading enterprises in various industries no longer focus solely on pure and simple scale, but also value sustainable growth. As an important means of digital development, technology is gradually changing the financial landscape and playing an indispensable role. The rapid development of innovative technologies such as big data, artificial intelligence, and blockchain is disrupting traditional business models of banks, securities firms, insurance companies, and other financial institutions. The rapid advancement of new-generation information technology, widespread application of mobile technology, big data, and other practices in the financial sector are of significant importance in improving productivity and optimizing traditional financial services levels[1]. China has entered the era of digital finance, with extensive application of financial technology, opening up new prospects for financial services[2]. Commercial banks, as typical representatives, have adapted to this trend by utilizing digital channels and financial technology to achieve digital transformation, develop new business models, and enhance service capabilities[3-7]. Simultaneously, the application and penetration of financial technology in the securities industry and the transformation of business models have gradually become industry consensus. Leveraging Internet technologies such as cloud computing and artificial intelligence, securities firms are constructing online financial service platforms to achieve fine-grained customer management and provide comprehensive, professional, and personalized financial services[8-10]. With the gradual implementation of regulatory details in the asset management field of trust companies, the trust industry has entered a stage of transformation. The effective digitalization in operational management, risk management, and asset management has further reduced the manpower cost of customer service and compensated for the shortcomings of traditional manual risk control[11]. As financial holding groups operate in a diversified business structure, engaging in banking, securities, trust, and other sectors, it is essential for them to strengthen digital transformation at the group level. Operating in a mixed business environment and facing increasingly stringent regulations, financial holding groups encounter significant challenges in their management. The COVID-19 pandemic that began in early 2020 and continues to this day has had a tremendous impact on various industries worldwide, with traditional offline operations of financial institutions also experiencing a certain degree of disruption. Digitalization has proven to be the most effective buffer against crises like the COVID-19 pandemic[12]. Furthermore, during the COVID-19 outbreak, digital finance has effectively assisted financial institutions in responding to the crisis, making it even more imperative for financial institutions to actively promote digital transformation in the post-pandemic era[13]. Therefore, digitalization in financial holding groups requires higher standards and needs to be implemented through scientific and rational approaches as a means of assurance.

2. Background of the digital transformation of local financial holding companies:

In 2017, the concept of the "digital economy" was first mentioned in the Chinese Government Work Report, emphasizing the promotion of digital economic development. In April 2020, the Chinese government officially included "data" as a new factor of production, accelerating the digital transformation of major government and corporate entities. The widespread adoption and development of the Internet have continuously changed people's consumption and lifestyle habits, leading to greater diversification and convenience in financial services. The outbreak of the COVID-19 pandemic further accelerated

the profound transformation of financial technology applications across industries.On August 23, 2019, the People's Bank of China released the "Development Plan for Financial Technology (Fintech) (2019-2021)", which had long been anticipated by various financial institutions. This plan fully considered the historical characteristics of China's financial technology development and emphasized the implementation of requirements for the financial industry from a fintech perspective. On March 13, 2021, the "14th Five-Year Plan for National Economic and Social Development and the Long-Range Objectives Through the Year 2035" was published, clearly stating the need to accelerate the development of the digital economy and drive transformation in production methods, lifestyles, and governance through digitalization.Regarding financial holding companies, the "Trial Measures for the Supervision and Management of Financial Holding Companies" were issued on September 11, 2020. This document explicitly emphasized the need for various relevant departments to strengthen the information and data sharing of financial holding companies. It also granted the People's Bank of China the authority to conduct on-site inspections, question staff members, review and duplicate relevant documents and materials, and inspect electronic data systems of financial holding companies. The frequent mention of information sharing mechanisms in these measures highlights the indispensability of digitalization in the application process for financial holding companies.On March 17, 2022, the People's Bank of China approved the establishment of China CITIC Financial Holdings Co., Ltd. and Beijing Financial Holding Group Co., Ltd. These two approved financial holding companies have already utilized advanced technologies such as big data, cloud computing, artificial intelligence, and blockchain to build financial technology infrastructure covering areas such as big data, credit reporting, payment services, and digital asset trading. They have set benchmarks for future financial holding companies in terms of digitalization.

3. The Necessity of Digital Transformation for Local Financial Holding Companies:

3.1 Drive from National Policies

(1) Policy for the transformation of state-owned enterprises: In September 2020, the State-owned Assets Supervision and Administration Commission (SASAC) issued a notice on accelerating the digital transformation of state-owned enterprises. It emphasized the introduction of new generation information technology to build digital economic infrastructure and operational platforms. This aims to promote the intelligent transformation and development of enterprises, enabling the formation of new business models characterized by personalized, collaborative, and extended services.

(2) External regulatory policy - A necessary condition for the application for a license: In September 2020, the People's Bank of China issued the "Trial Measures for the Supervision and Management of Financial Holding Companies" (People's Bank of China Order[2020] No. 4) to strengthen the regulation of financial holding companies. The measures emphasize the need to "realize data management and sharing, enhance data governance capabilities, improve data analysis and mining capabilities, and promote digital transformation under the premise of compliance and controllable risks." Given the complex business composition of financial holding companies and the higher requirements for group management and control capabilities, it is crucial to plan information technology strategies from a strategic perspective, enhance information technology construction, and support the operation of fully-licensed financial holding groups through scientific planning and technological empowerment, thereby promoting high-quality development.

3.2 Necessary Transformation of Operational Demands for Local Financial Holding Companies:

(1) Improve quality and efficiency and leverage synergies: There is a lack of horizontal collaboration between subsidiaries of local financial holding companies. Without unified data standards and business platforms, it is challenging for subsidiaries to achieve information sharing. For example, the inability to share customer information leads to separate visits to customers by different subsidiaries, resulting in a limited range of products and a lack of comprehensiveness and efficiency. This hinders the realization of business synergies across different segments of the financial holding platform. If timely customer information sharing is possible, subsidiaries can collaborate and provide one-stop service solutions, which not only enhances the quality of customer service but also reduces service costs. In addition to inter-subsidiary collaboration, improving cross-departmental collaboration efficiency is also beneficial for enhancing the group's fine management. In summary, digital transformation requires multi-collaboration and resource sharing. The more issues that can be solved collaboratively, and the more resources that can be shared, the greater the benefits brought about by digital transformation.

(2) Foster a digital culture and enhance business specialization: Leveraging digital technology to compensate for deficiencies in business experience and investment research capabilities is essential. In the pre-investment analysis stage, using web scraping and artificial intelligence technologies can extract data relevant to investment targets from a vast amount of market information. This enables the automatic generation of evaluation reports, intelligent rating, and customized performance gap analysis. In the post-investment management stage, data accumulation, monitoring, and analysis can be

utilized to increase the application scenarios of data and effectively predict business risks.

(3) Essential means for risk prevention: Financial holding companies must strengthen the construction of risk management systems and ensure comprehensive and timely collection of market information and regulatory policies to maintain keen risk anticipation. Standardization and quantification of information input and processing are necessary for real-time risk monitoring across different business areas.

3.3 Essential Capabilities for Enterprise Survival in the Era of Pandemics:

The outbreak of pandemics has had a significant impact on financial institutions, as it has changed the way people live and how businesses operate. It has affected the service delivery methods of various enterprises. The fast-paced and rapidly changing nature of the digital economy is mismatched with the slower pace of traditional financial information processing. In the digital economy, it is crucial to be able to match a company's funding needs within a short period, thereby improving the efficiency of interactions between enterprises and customers.

4.Challenges in the Digitalization of Local Financial Holding Companies

(1) Diversified business models lacking centralized group-level management: Local financial holding companies often encompass multiple financial subsidiaries in industries such as banking, insurance, trusts, leasing, asset management, securities, funds, and futures. Each subsidiary has its own business characteristics and regulatory requirements, making it challenging to achieve unified management at the group level. Differences in digital systems and interface standards exist due to the specific characteristics of each financial industry, further complicating group-level management.

(2) Low level of business informatization: Many local financial holding companies have limited information technology development, mainly focusing on daily office operations. Online business systems are lacking, and numerous operations still rely on offline paper-based documentation or outdated business systems that cannot support information sharing effectively.

(3) Outdated risk control capabilities and lack of end-to-end risk monitoring: Risk management departments and business departments should independently control project risks, with risk management departments continuously monitoring projects from a comprehensive perspective. However, risk control often remains in a time-limited management state and fails to provide early warnings for significant risk indicators, such as related transactions and high concentration risks.

(4) Weak digital awareness and shortage of relevant expertise: There is a lack of digital awareness at the group level, resulting in unclear positioning of self-control and limited understanding of the advantages of digitalization. Many business and risk management processes still heavily rely on manual handling, and regulatory reporting is often ad hoc, missing the core elements of regulatory scrutiny and failing to leverage data for effective management. Additionally, there is a shortage of highly specialized talent in digitalization, leading to a reliance on outsourcing partners for system development instead of formulating comprehensive digitalization plans in line with the group's development objectives.

5. Recommendations for the Digitalization of Local Financial Holding Companies:

(1) Align digitalization planning with business strategies: It is important for local financial holding companies to establish a clear connection between digitalization planning and business strategies. The business strategy should provide direction and organizational support for the technology strategy, which, in turn, should facilitate business development and transformation through innovation and a forward-thinking approach. Clear and efficient communication mechanisms should be established between the digitalization department and the business departments to enable iterative updates of systems based on business needs or regulatory requirements.

(2) The digitalization construction can be divided into six major modules: the management center, business center, data center, risk control center, security center, and innovation center.

For the business center, ensure that information input for pre-investment is easily traceable in real-time. Establish streamlined business processes during the investment phase to optimize investment management, enable online approval throughout the entire process, and facilitate electronic storage of due diligence materials. Implement continuous tracking and monitoring during the post-investment phase to enable timely warning of abnormal indicators and enhance post-investment risk monitoring capabilities. Utilize accumulated investment project data to establish analytical models for multi-dimensional and efficient investment analysis, dynamic monitoring of key indicators, and timely and accurate risk assessment to meet regulatory disclosure requirements.

For the management center, based on the interpretation of the strategic planning of the financial holding company, clarify the management and organizational structure of each subsidiary, and establish a core control system.

For the data center, address issues such as poor data quality and inconsistent statistical standards within the local financial holding company. Utilize data management to leverage accumulated data resources, improve efficiency, and reduce

risks in operational processes.

For the risk control center, risk control is at the core of finance, and establishing a unified risk control platform is crucial for enhancing risk control capabilities. The establishment of a risk control center should build upon the foundation of the data center, integrating data resources and combining relevant risk control and warning models to establish a quantifiable and controllable risk control system for the local financial holding company.

For the security center, protecting critical customer information and core business data is essential in the era of digitalization. Strengthening data security and safeguarding privacy information are also integral parts of demonstrating core organizational capabilities.

For the innovation center, focus on accumulating high-value data assets to achieve sustainable development. Local financial holding companies should enhance the application of data to improve efficiency, accurately control risks, and extend service offerings to customers based on the collection of transactional and financial data.

(3) Establish supporting regulations to ensure comprehensive management: The digitalization of the company cannot be achieved without a robust information security system. It is important to define the business objectives and scope of data governance, and further enhance the long-term mechanisms for data governance, continuous optimization of business processes, and iterative updates of data standards. This ensures the daily and effective operation of the data governance mechanism, maximizes the effectiveness of the governance system, realizes the value of data, and achieves business objectives. To accomplish this, it is necessary to clarify the division of responsibilities in data governance and establish an organizational framework. Additionally, it is important to develop and implement security management strategies and standards in accordance with the national requirements for information system security level protection and the current status of the company's information systems. This includes categorizing different business systems, implementing security measures tailored to each system, and conducting regular security risk assessments and audits. Furthermore, establishing a standardized and normalized operation and maintenance management framework is crucial. This involves defining job roles and responsibilities based on the content and processes of operation and maintenance services, staffing different positions with professionals of varying expertise and levels, and forming an efficient and collaborative operation and maintenance team to ensure smooth operation in the later stages of digitalization.

(4) Strengthen the penetration of digital culture and increase the recruitment of professional talent: Digitalization is a concerted effort that requires collaboration across departments from top to bottom. Local financial holding companies should organize relevant knowledge lectures, training sessions, and other activities to integrate digital culture into the corporate culture, fostering digital awareness among employees and facilitating their cooperation and feedback during the later stages of digitalization. Digitalization initiatives require a skilled workforce. Therefore, it is necessary to plan and establish a demand-driven mechanism for the recruitment and development of digital talent, ensuring that digital talent development and digital work take priority in planning, deployment, and development. Addressing talent gaps should be a priority to ensure a stable supply of digital talent. This will lay a solid foundation for the provision of professional digital planning solutions, digital construction, and post-operation maintenance in the later stages of the digitalization process.

6. Conclusion

The digitalization of local financial holding companies is currently facing various challenges. The foundation for digitalization is weak, resulting in low management efficiency. Business operations heavily rely on manual processes, and there is a lack of clarity in business collaboration. Risk management is based on experience, and risk information is scattered. There is a lack of technological awareness, incomplete institutional processes, a weak technological workforce, and a lack of data consciousness and effective data management.With the introduction of relevant regulations, local financial holding companies must complete their digital transformation to obtain the financial holding license. Failure to embrace the digital transformation wave will result in losing competitive advantages in the industry. Therefore, digitalization is urgent for local financial holding companies.

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