

Research on the Impact of Digital Transformation of Small and Medium-sized Banks in China on Their Credit Risk

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Abstract

Digital economy in China, by 2023, has soared to 53.9 trillion yuan from 11 trillion yuan in 2012. Simultaneously, the past decade witnessed not only the rapid development of small and medium-sized banks in China, but also the reality that these banks are rendered involved in their respective digital transformation due to the expansion of digital economy. The credit risk of these banks, for various reasons, has always been one of the most focused areas of financial supervision. However, incidents happening to small and medium-sized banks, due to the failure of credit risk management, are not rare, attracting broad attention. Based on these backgrounds, this paper aims at studying the impact of digital transformation of small and medium sized banks in China on their credit risk and the mechanisms of this impact through theoretical analysis and empirical test. The paper collects the panel data of 112 small and medium-sized banks in China from 2012 to 2023 and uses text mining method to construct the digital transformation index of these banks. The empirical results indicate that: (1) Credit risk is, to a certain extent, reduced among small and medium-sized banks while implementing digital transformation. Follow-up results indicate more conclusions: (2) Carrying out digital transformation enables these banks to improve their operational efficiency and reduce the possibility of taking more risks deliberately, thus reducing credit risk. (3) Through digital transformation, these banks improve their financial innovation and enrich financial products. Such diversified financial operations reduce credit risk. (3) Net interest margins are increased through digital transformation, resulting in the reduction in credit risk among these banks. (4) The reduction of credit risk by digital transformation is heterogeneous in different types of small and medium-sized banks. Urban commercial banks experience a more significant influence than that of rural commercial banks.

Keywords

Small and Medium-sized Banks, Digital Transformation, Credit Risk