

# Development Status and Trend of Internet Finance in China

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## Abstract

**This article provides an in-depth analysis of the development status and trends of Internet finance in China. Beginning with the emergence of key players like Yu'e Bao in 2013, the article outlines the evolution of Internet finance models, including payment platforms, financing platforms, wealth management platforms, and service platforms. It highlights the standardized development of Internet finance, emphasizing the importance of regulatory measures to ensure its sustainability. The article also examines the diversification of Internet finance business models, showcasing the rapid growth of mobile payments, Internet insurance, and Internet funds. Additionally, it explores how Internet finance has led to differentiated and personalized financial services, enhancing accessibility and efficiency. The article addresses critical issues within the industry, including the need for a comprehensive credit system, consumer awareness of risk prevention, and an improved regulatory framework. Finally, it discusses future trends and innovation strategies for Internet finance, emphasizing the importance of regulatory innovation and technological advancements.**

## Keywords

**Internet Finance; Development Models; Payment Platforms; Financing Platforms; Service Platforms; Regulatory Measures; Risk Management; Credit System.**

## 1. Introduction

The year 2013, marked by the emergence of Yu'e Bao, witnessed the rise of Internet financial products such as WeChat Finance and Baidu Finance, earning it the title of the "first year" of Internet finance. Internet finance combines modern Internet and communication technologies, forming a functional financial service system based on the Internet and cloud computing. Though the medium has shifted from physical locations to the Internet, its essence remains financial in nature. In the era of big data and cloud computing, the new financial model treats the Internet as a resource, breaking the monopoly of commercial banks. On the one hand, the financial industry can conveniently achieve cross-regional capital allocation, helping broaden the coverage of financial services. On the other hand, leveraging the Internet and tools such as big data and cloud computing can improve the efficiency of financial risk management and provide people with more convenient financial services. However, the development of Internet finance has also exposed many risks such as weak management and high risk, necessitating necessary regulatory measures and appropriate innovative strategies to promote the healthy development of Internet finance.

## 2. Overview of China's Internet Finance Development

### 2.1. Development Models

Internet finance, supported by Internet technology, represents a financial system with an Internet mindset. According to the business functions of Internet finance, it can be divided into four types: payment platform, financing platform, wealth management platform, and service platform.

Payment platform: it refers to an Internet payment model in which an independent institution with certain strength and credit guarantee acts as a payment intermediary. This model provides application interface programs that are integrated with the bank's payment settlement system, through contracts with major banks, facilitating transactions between customers and merchants. Third-party payments, due to their convenience and good user experience, have steadily increased their market share. Currently, most of the small payment market in our country has been occupied by third-party payments. With the continuous development of the economy, the level of e-commerce in some traditional industries is deepening, and e-commerce, traditional retail, and financial institutions are also joining the third-party payment field one after another. Third-party payments are moving towards the traditional financial services sector, becoming the trend of their future development.

Financing platform: there are three types of in China. First, crowdfunding financing mode. In the crowdfunding financing model, the initiator of the project enjoys 100% project autonomy, does not involve the transfer of equity, and raises funds through "group purchase + pre-purchase". P2P credit is a financing service model that enables borrowers and investors to conduct lending transactions through a platform with the help of the Internet. This model makes it difficult for a portion of borrowers favoured by traditional banks to obtain loans on the Internet platform, so that the long-tail tail end of the demand for funds to benefit. However, with the development of peer-to-peer credit on the borrower's credit rating bias, the lack of transparency in information disclosure, the regulatory system is not comprehensive enough and other defects, the phenomenon of the platform bursting thunder and running away was concentrated in 2018, and the financing mode was subjected to greater scepticism, and the improvement of regulation is also imminent. Third, the platform microfinance model. Its core is the e-commerce platform data + small loans, and its core competitiveness is to establish credit ratings for enterprises and individuals through its own e-commerce data mining.

Wealth management platform: by learning from the development models of Europe and the United States and other countries, this Internet financial model has gradually developed two major models: personal financial services and financial communities. Personal financial services mainly help individual users realize fragmented financial management through the online sales platform of financial products, generally represented by Alipay.

Service Platform: for consumers to conveniently select low-fee products that suit their actual needs, financial enterprises that provide consumers with financial product search and price comparison services have emerged. Among them, Rong360 is the pioneer representative. As the Internet continues to penetrate people's lives, people's dependence on search engines is gradually increasing. Some surveys show that Internet users in Europe and the United States will also search and compare online when choosing financial products, so it can be said that the development of the service platform-type Internet financial model is relatively bright future.

## 2.2. Development Status

First, the development of Internet finance is becoming more and more standardized. In recent years, various types of emerging financial products have emerged and quickly become hot spots in the market, but the development has also generated many problems. Therefore, since April 2016, the State Council has deployed the special rectification of Internet financial risks, guiding the development of Internet finance in the direction of health and sustainability, and effectively resolving the risks of Internet financial operation. The frequent thunderstorms in the P2P industry in 2018 have caused a significant decline in the industry's boom, at which time the regulatory layer has introduced corresponding policies to combat its fraudulent behaviour, and the platforms have also continued to strengthen their own compliance to achieve success. The filing also continuously strengthens its own compliance inspection, which makes the industry compliance degree increase significantly.

Second, the Internet financial business model shows diversity. Fu Nan (2019) pointed out that mobile payment has become the main growth driver of electronic payment in commercial banks, and compared with bank payment, the amount of non-bank payment is relatively small, but it is developing rapidly and presents the characteristics of small single amount and large number of pens. For example, the innovation ability of Internet insurance and Internet fund is increasing, the business scale of the two industries is increasing, the competitiveness of the industry is becoming more and more intense, and the penetration rate of the business is increasing.

Thirdly, Internet finance makes financial services show the trend of differentiation and personalization. In the era of decentralized and de-platformed industrial Internet, the product supplier must provide personalized and differentiated services to meet diversified user needs. China's consumer market has changed from a seller's market to a buyer's market, and the era of standardized product production is declining. Financial institutions need to provide financial services that match users' needs and risk preferences. The continuous development of Internet technology provides technical support for financial institutions to provide differentiated and personalized services and improves the accessibility of financial services and the efficiency of capital use.

Fourth, improve the Internet financial development of various technologies. There is a serious information asymmetry problem in the financial industry, which increases the potential threat of various types of financial risks. The open, transparent, and sharing characteristics of Internet technology have mitigated the risk of information asymmetry in the financial industry to a certain extent. Internet finance utilizes the application of big data, cloud computing, AI, and other technologies to improve risk control capabilities and reduce transaction costs. At the same time, the maturity of Internet technology has also promoted the optimization and improvement of financial business processes.

### **2.3. Development Characteristics**

#### **2.3.1. Enhancement of Technical Management Capability to Ensure Financial Security**

The widespread use of Internet technology has spurred the traditional financial industry's growth, yet the ensuing issues mustn't be overlooked. Online banks and third-party payment platforms urgently require technology enhancements. With fund forms diversifying and consumption accelerating, user account security faces potential threats. Strengthening technical management is vital to avert network breaches. Additionally, developers must prioritize the adoption of new technologies. It's crucial to harmonize technological advancements with security measures; otherwise, malevolent entities may exploit even the most sophisticated technologies. Furthermore, due to the expansive nature of Internet technology, mishandling by staff members could lead to public alarm.

#### **2.3.2. Enhancing the Inclusive Nature of the Financial Sector to Expand the Coverage of Financial Services**

In traditional financial industry development, banks and other institutions struggle to access data from small and micro-enterprises, hindering effective credit assessments. Consequently, resources are primarily allocated to large state-owned enterprises, limiting financial services for China's smaller businesses. The continuous integration of Internet technology in finance enhances service accessibility, fostering financial inclusion. For investors, Internet technology diminishes the intermediary role of finance, enabling direct online access to various services, regardless of time or location. Simultaneously, it lowers the service threshold, using various online tools to improve processing efficiency, albeit at the cost of reducing product specialization and narrowing the gap between the public and financial services.

### 2.3.3. Enhancing Financial Risk Prediction Ability to Reduce Risk

The traditional credit model fails to generate credit reports for low-income individuals and those with insufficient credit history, impeding their access to credit. Information technology's advancement has revolutionized the social credit model, offering fresh solutions for financial risk management. Utilizing Internet technology allows for comprehensive scientific scrutiny of financial operations. Moreover, technologies such as big data and cloud computing can bolster systemic risk prediction and control within the financial sector, minimizing overall risk exposure.

## 3. Problems Within Internet Financial Business

### 3.1. Incomplete Credit System

As we all know, the guarantee for the healthy development of Internet finance is the control of financial risks, and the construction of the credit system is the foundation of risk control. At present, China's credit system is very unsound, mainly in the following points: first, many Internet financial institutions are outside the central bank's credit system. At present, the basic database of financial credit information developed by the central bank only includes large and medium-sized enterprises that have had credit relationships with banks, and many small and micro-enterprises are not covered by the central bank's credit collection system. Second, many Internet financial institutions lack credit evaluation and review mechanisms, and even though some of them attach great importance to the construction of credit mechanisms, their credit information cannot be shared and promoted due to problems such as the lack of uniform evaluation indicators. Third, the level of credit information technology is not high. Due to the inadequacy of different Internet financial institutions in terms of the width and depth of data collection, as well as the lack of data mining technology in artificial intelligence machines, their credit evaluation system has a big gap with foreign credit bureaus, and they are not able to accurately evaluate the risks of borrowers.

### 3.2. Consumers' Weak Awareness of Risk Prevention

Consumers have a weak sense of financial risk prevention, for some information on the network cannot be effectively screened, often caught in all kinds of investment, consumption traps, to a little bit of interest and suffered huge losses, which is related to the values of consumers and risk prevention awareness. Consumers must recognize the brutal characteristics of the financial market, recognizing that the benefits and risks are often equal, consumers should not be confused by the small profits in front of them, to have the correct awareness of financial risk prevention.

### 3.3. Imperfect Regulatory System

At present, China's Internet finance is in a stage of rapid development, but the types of financial risks it contains have become more and more. A perfect regulatory system is a necessary condition to promote the benign development of the financial environment. The unsoundness of the Internet financial regulatory system is mainly manifested in the following points: first, the lack of legislation on financial regulation. The current laws and regulations can no longer meet the needs of the development of the Internet finance industry. Second, the main body of supervision is not clear. Due to the wide cross of China's Internet financial industry, the sources of participating subjects are complex, and the diversified characteristics of the regulatory subject are obvious. Third, there are great security risks of Internet financial information. Internet users' information is easily leaked and utilized by lawless elements.

## 4. Future Trend of Internet Finance and Innovation Strategy

Internet finance has entered every aspect of people's lives, and the whole financial system is in a state of rapid operation due to the high efficiency and convenience of Internet finance, but Internet finance is also high-risk and faces serious challenges, and there are many problems at the regulatory level, so it has become particularly urgent to carry out prudential supervision of Internet finance. On October 10, 2018, the Central Bank, together with the CBRC and SEC jointly issued the Measures for the Administration of Anti-Money Laundering and Counter-Terrorist Financing for Internet Financial Practitioners, which also provides a sufficient basis and a complete path for the long-term regulation of Internet finance.

### 4.1. Regulatory Innovation

#### 4.1.1. Introducing Corresponding Legal Regulatory Mechanisms to Promote the Sound Development of the Entire Financial Industry

In the widely traded Internet financial market, the trading rules embody great importance, and the trading rules are firstly embodied in legal norms. The development of Internet finance in the United States is since it has a sound legal system, the regulation of the current basis of the norms, covering an extremely wide range of specific regulatory departments through the development of a comprehensive number of sectoral rules and regulations to regulate the operation of the Internet financial business, to make up for the shortcomings of the legislation. From the past legal regulatory system, to adapt to the basic needs of the current stage of the financial system, it is best to grasp the relationship between the two, based on traditional finance, the Internet finance, the corresponding supplement, and description. Firstly, the introduction of the corresponding legal regulatory mechanism, to establish a moral bottom line, to ensure the healthy development of Internet finance to the maximum extent possible. Secondly, for the regulatory mechanism of P2P lending which is still in the early stage of development, lower its entry bar, but also must set the corresponding regulatory bottom line. Finally, the original laws and regulations should be supplemented and explained appropriately, such as civil law and criminal law, etc., and introduced into the regulation of Internet financial behaviour, for financial consumers to improve the corresponding protection mechanism.

#### 4.1.2. Construct Network Security Authentication System to Ensure the Legitimate Rights and Interests of Network Consumers

In view of the security problems on the Internet, at present, in the field of banking, the relevant technical personnel have been using computer technology to build up a complete set of security authentication mechanism, to ensure the security of the site under the premise of risk control within the theoretical scope of operation. At the same time, technicians need to strengthen the research and development work according to the industry-specific development trend, to information technology equipment as well as the performance of the security system, and ultimately to avoid the emergence of malicious attacks and theft. At the same time, the regulatory authorities should provide for the use of electronic authentication of the platform to ensure that the information of each participant is very real, which can also protect the legitimate rights and interests of network consumers.

#### 4.1.3. Strengthen Capital Security Supervision and Improve the Credit System

From the current development situation, the central bank has established a customer provisioning system, and the relevant platforms have also formulated a corresponding security monitoring mechanism. In addition, in Internet finance, part of the interest can be withdrawn, which will be used to purchase commercial insurance for customer funds, which will help in the third-party payment institutions to carry out the corresponding compensation. By strengthening the supervision of funds, it can effectively protect the safety of consumer funds and avoid losses. In addition, it is also necessary to effectively connect the traditional way of

financial development and the Internet, which can also truly unify and develop the credit system, and then improve the technical level of credit collection in the context of big data. Finally, to formulate the development guidelines of the Internet financial industry, to strengthen investors' self-protection awareness and business awareness, and then create a healthier development environment.

#### 4.2. Technological Innovation

Enterprises should continue to promote digital technology innovation to further improve the coverage of Internet financial services and reduce the cost of financial products available. Digital technologies, such as biometrics, bring unique opportunities for building stable and efficient identification systems. Some Internet financial companies have already ventured into fingerprint recognition, face recognition, pupil recognition and other high-level anti-counterfeiting technologies to safeguard customer information security. Among other things, artificial intelligence uses advanced algorithms and models to analyse the network data left behind by users to determine their actual needs. Accurate behavioural matching can improve the predictive ability of the risk control model, and big data risk control can complete the audit of loan applications of a large number of users, anti-fraud, etc., and can speculate on the probability of default of different groups, investment risk preferences, etc., through the accumulated data, which can be ultimately used to guide the borrower or investor to reduce the risk. Finally, the success rate of prediction can be improved through the self-learning ability of artificial intelligence and continuous intelligent correction.

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