

## Analysis and Reflection on Status of the Internet-based Financing in China

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**Abstract:** Internet-based financing refers to a new type of financial business model. The Internet financial model is both an opportunity and a challenge to China's economic development. Many profit models of Internet-based financing have brought great impact on China's commercial banks, insurance, funds, and securities. The three main models are crowdfunding, P2P, and third-party payment.

### 1. The Coming of the Internet-based Financing Era

In today's life, the Internet has become a household name and entered everyone's side. Because of the Internet economic cost in the past two decades, "Internet finance" has not really entered people's life. It is a new term combining the rapid development of the Internet in China and the rapid development of the financial industry in recent years. Therefore, in a way, the Internet development in the past two decades has not really provided financial convenience for the people. The Internet is one of the fastest-growing industries in China. By the end of 2019, a large number of excellent Internet enterprises, such as Baidu, Alibaba, Ten cent and Jing dong, have emerged in the Internet industry. The data of quest mobile in the first quarter of 2019 shows that at present, China has more than 1138 million active mobile Internet users, and the number of Internet users of mobile devices is the first in the world. At the same time, the Internet-based financing industry is also one of the fastest growing industries in China in recent years. In recent years, the net profit of Listed Companies in the financial industry accounts for about half of all enterprises in Shanghai and Shenzhen stock markets. At this time, the rapid development of the Internet progress and smart mobile phones continue to provide excellent conditions for the growth of Internet finance, and the two complement each other, so it can be seen that the combination of Internet and finance will produce huge energy.

### 2. Analysis of the Main Features and Models of the Internet-based financing

The Internet-based financing has three basic characteristics. First, under the background of digitalization and informatization, the transaction cost of Internet finance will obviously decrease. Both parties of capital supply and demand can independently conduct transactions through the online lending platform, which saves the traditional transaction intermediary, but both parties of the transaction are more efficient and less cost. Second, big data can improve the efficiency of the whole society. Today, the vast majority of Internet finance related business processing needs to use network equipment such as computers, so it can effectively reduce the waiting time of financial customers, achieve real-time and accurate transactions, and fully protect the interests of customers.

Third, Internet Finance covers more and more areas. Each user can get rid of the restrictions in the Internet finance environment, especially the location restrictions, so as to carry out fast lending behavior, so that resources such as capital can be shared. There are three main modes of Internet Finance: crowdfunding, P2P and third-party payment. For crowdfunding, the 2018 report on the status and development trend of Internet crowdfunding industry (jointly released by Zhongguancun crowdfunding alliance and other units) shows that as of the end of December 2017, there are 280 nationwide crowdfunding platforms, down about 33% compared with the same period in 2016, basically the same as in 2015. Among them, there are 76 National Internet non-public equity financing platforms, namely equity crowdfunding platforms, a decrease of 42 compared with the same period in 2016, with a drop of 36%. In 2017, there were only 25 new crowdfunding platforms, down about 83% year-on-year in 2016; 180 closed platforms, down about 13% year-on-year in 2016; 20 transformation or off shelf platforms, down about 78% year-on-year in 2016. As of the end of December 2017, the number of investors in national crowdfunding projects reached 26.3955 million, down about 52% year on year. Among them, 26.36 million were crowdfunding investors, down about 52% year-on-year, and 35500 were Internet non-public equity investors, down about 39% year-on-year. In 2017, the financing amount of crowdfunding industry in China reached 21.578 billion yuan, down 5% year on year, with a small decrease. In 2017, the successful financing amount of national equity crowdfunding was 14.22 billion yuan, a year-on-year decrease of 1.44 billion yuan, or 9%. As can be seen from the above data, even though the number of crowdfunding platforms is decreasing, the overall financing amount has not declined significantly. In the whole shuffling stage of crowdfunding industry, high-quality platforms began to play a role, and low-level crowdfunding platforms were gradually eliminated, leaving the core crowd of crowdfunding investment, and then the industry entered a standardized development period.

Due to its advantages of convenience, wide range and low threshold, the number of platforms and transaction volume of P2P network loans have grown dramatically and developed rapidly in recent years. However, in recent years, P2P has frequently seen "Thunderbolt" phenomenon. As of June 2019, the cumulative number of platforms is 6567, the number of normal operation platforms is only 864, the cumulative number of closed transformation platforms is 2936, and the cumulative number of problematic platforms is 2767. Among them, the private sector of P2P platform is the frequent occurrence area of problem platform. Up to now, 87.2% of P2P companies have problems. The collective "Thunderbolt" of P2P industry is still going on, and it has entered a new stage. Some of the former "Thunderbolt" are fake P2P, but now the real P2P also has "Thunderbolt" phenomenon. Now it seems that in the context of Internet finance, P2P industry is facing a huge liquidity crisis, which directly leads to the spread of liquidity panic in the industry. It can be seen from the "Thunderbolt" phenomenon in the second half of 2018 that this kind of phenomenon has seriously hit the investment vitality of the market. At the same time, in the environment of financial deleveraging, the bad news such as the postponement of P2P online loan filing has also continuously impacted the Internet finance, and the withdrawal of investors and the rise of debt default rate have become the normal market. For the third-party payment, in 2013, the scale of comprehensive third-party payment transactions in China was only 13.9 trillion yuan, and in 2016, the scale of comprehensive third-party payment transactions in China exceeded one billion yuan. During 2013-2016, the composite growth rate of third-party comprehensive payment transaction scale reached 110.9%. As of 2017, the scale of comprehensive third-party payment transactions in China has increased to 218.9 trillion yuan, up 68% year on year. In 2011, the first crowdfunding platform "roll call time" was born. In 2014, the online loan market scale was 37 billion yuan, while the turnover in January 2017 alone was 220.9 billion yuan. According to the third-party payment

data in the third quarter of 2018, Alipay, Tencent finance and UnionPay commerce occupy 45.62%, 32.14% and 9.76% of the market respectively, of which the combined market share of Alipay and Tencent is more than 75%, far ahead of other third-party payment trading platforms, forming a duopoly situation of Alipay and Tencent finance. Since 2018, due to the increasingly strict supervision in the fields of consumer finance and Internet financing, the growth rate of China's third-party payment's e-scale has slowed down significantly. The tightening of financial regulatory policies in 2018 is an important reason for the slowdown of the scale growth of the third-party payment industry.

### **3. Development Trend and Thinking of Internet Finance**

Today, the Internet-based financing has covered all aspects of our lives. It has been welcomed by people for its new characteristics that traditional finance does not have. Its appearance has brought about drastic changes in people's lives, and it has also given financial markets a new Business model. In the near future, the Internet-based financing will surely become universal, and humankind can't do without Internet finance. Now, in the field of Internet finance, human beings will invest more resources and technology, strive to improve the Internet financial mechanism, and strive for new breakthroughs in the Internet-based financing. The future of Internet finance will definitely be better developed, Scope and various levels to complete greater work to improve the mechanism. While the Internet financial platform provides diversified and innovative products to meet the diversified needs of users for investment and funds, the development of Internet finance will also pay more attention to the user experience. Its technology is continuously improved, and it is expected that not only the software but also the hardware equipment will be continuously improved in the future. For example, in terms of security technology, fingerprints, iris, face, gait and other aspects will continue to improve; in software applications, intelligent technology will continue to improve, and the user experience will become better and better .The rapid development and growth of Internet Finance in China, from the rapid leap forward development around 2015 to the sharp reduction of crowdfunding platforms, a large number of P2P platforms "Thunderbolt", and the growth of the scale of third-party payment also slows down, which shows that the development stage of market chaos in which multiple financial companies compete with each other is coming to an end In the end, the development of the Internet-based financing in China began to move to a new stage, and the stable development of the financial market became the main theme. How to combine stability with innovation is worth thinking. In the field of third-party payment, with the regulation of the third-party payment industry from provisions to bank card receipts, the market began to standardize and orderly. In many businesses of Internet finance, whether investment, income or guarantee, there are certain legal risks. At the same time, we need to strengthen the development of Internet finance technology, because the development and application of technology is a necessary condition for the development of Internet finance. We should provide a good environment for the rapid development of Internet finance, such as the prevention of network risk. Internet enterprises should also strengthen the introduction and training of technical talents. To ensure the safety of mutual understanding network financial enterprises' funds and prevent the unexpected, the particularity of Finance leads to the importance of their funds safety. Enterprises should make careful choices on the loan in and loan out of funds, and financial institutions should have sufficient security guarantees to ensure the safety of funds. Second, we should strengthen information disclosure, so as to improve the regulatory system of information disclosure. Enterprises can disclose effective information truthfully and accurately in order to reduce the overall efficiency of society caused by information asymmetry. Third, set up access barriers. Fourth, strengthen the

supervision of senior executives. As the Internet itself is a high-risk field, with a wide range of Internet coverage and many fields involved, there are many risks and regulatory gaps in the Internet as a virtual platform. On the other hand, network fraud has become a new type of fraud means. As a new type of enterprise, Internet financial enterprises have the problem of lack of professional and technical personnel in security and prevention, and there are difficulties in preventing network risks. With the advent of cloud computing and big data era, the Internet-based financing will face greater risks.

There are still many regulatory problems and information hidden dangers in the data relying and computing platform of Internet finance internal storage, such as information leakage, repeated use of information and other issues that seriously affect the development of Internet finance. In the aspect of supervision, many difficulties in the Internet-based financing industry, such as the existence of supervision loopholes, as well as the self-contained nature of the rapid development of the Internet, such as wide coverage, many design fields and so on. To sum up, Internet finance is still in its infancy in China. The arrival of Internet finance is the product of the times and the inevitable result of social progress. The Internet-based financing has many advantages that traditional finance does not have. It is also the general trend for Internet finance to ban traditional finance. However, the Internet stage is still in the process of trial and error, with risks and progress, opportunities and challenges. We should not deny the existence value of the Internet-based financing because of the existence of risk, nor be complacent. We should see the problem. We should focus on solving the problem, strengthen supervision, bring the Internet-based financing into financial supervision, and innovate the development mode of the Internet-based financing.

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