Research on Internet Financial Risk Supervision

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Abstract: Internet finance is a new financial model based on network technology and traditional financial industry. Effective risk supervision of Internet finance in China must be government-led, coordinating the participation of legislatures, administrative supervision departments, business enterprises, industry associations, investors, consumers and other parties. By studying the risk status of Internet finance, this paper analyses the supervision situation of Internet finance in China, and puts forward the strategies and suggestions of Internet financial risk supervision in line with China's national conditions and development status. Research shows that the corresponding regulatory laws and regulations are gradually improved to avoid regulatory loopholes. At the same time, it is necessary to do a good job in the protection of Internet financial consumers. Only by putting the interests of consumers into practice can we achieve sustained and healthy development of the industry. The healthy development of Internet finance is inseparable from the construction of the entire social credit system, providing a good social environment for the healthy development of Internet finance.

1. Introduction

Internet finance has the characteristics of convenience, rapidity, wide coverage, strong influence and open compatibility. These advantages have a huge impact on the traditional financial industry, making the operation of the financial system more efficient [1]. However, with the rapid development and expanding scale of Internet finance in China, it also exposes its own unique risks, which brings new challenges to China's financial risk supervision. However, as the Internet financial system expands in scale, new risks and challenges emerge. The network technology is not mature enough, the relevant laws and regulations of our country are insufficient, and the supervision is not in place. Internet finance is facing more severe challenges and risks than traditional finance [2]. Risk hazards exist in China's Internet financial system. To ensure the healthy and sustainable development of Internet finance. This article is an in-depth analysis of China's Internet finance, find out its risks, and give its own advice on how to implement effective risk management and control methods. The “social revolution“ that maintains the balance between development and regulation to better guide Internet finance innovation is on the right track to ensure that China's financial market risks are controllable and maintain domestic financial ecological health [3].

In 2013, the systemic risk and diversification of banks and insurance companies were proposed by relevant scholars [4]. Since then, systemic risk, governance and global financial stability have been proposed by relevant scholars [5]. Since 2016, regulatory ratings and bank loans for small businesses during the financial crisis and the Great Recession have been proposed by relevant scholars [6]. The emergence of Internet finance has contributed to the structural adjustment of the traditional financial model, which gives full play to the advantages of convenience, instantaneity and openness of the internet. The financial industry has been brought into high-speed development, and the resource allocation within the industry has been realized [7]. We should improve the legal and regulatory system of Internet supervision, build a multi-level regulatory system, and strengthen the protection of the rights and interests of Internet financial consumers. To promote international exchanges and cooperation in Internet financial risk supervision, this paper puts forward some countermeasures and suggestions on strengthening internet financial risk supervision in China. Provide theoretical basis and practical reference for the government, financial reform decision makers, Internet financial practitioners and financial consumers [8]. Through the integrated analysis

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of the individual's past consumption information and work information, the consumer's preference and purchasing power level are known. It can be targeted for product sales, to achieve better sales results and customer satisfaction; through the integration of information on the daily business activities of the company, to determine its financing needs, and then based on past credit records [9]. Profitability and other credit ratings, real-time monitoring of the company after lending, to determine whether the risk level has changed, in order to achieve effective prevention of credit risk. According to the changes in technology and environment, the most effective financial functions and financial institutions can be selected from the improvement and evolution of the efficiency of the financial system. Therefore, whether the financial function can be fully utilized is an important reference to compare the differences and connections between the two [10].

2. Materials and Methods

Internet financial risk comes from the concealment of the Internet and the high risk of financial activities. The combination of the two will inevitably lead to an increase in industry risk. Essentially, the risks of Internet finance and traditional financial business are similar, which come from credit risk, market regulation risk, interest rate market risk and so on. But these are unavoidable risks in financial activities, and the other risk of Internet finance comes from malicious manipulation. The current e-banking, online banking, mobile banking and other businesses that commercial banks are focusing on are also included in the broad scope of Internet finance. In a broad sense, Internet finance can organize all business and activities related to financial work through online technology service platforms, including online payment, wealth management and fund raising. Relying on the Internet, the whole process has broken the constraints of traditional finance in time and space, and effectively and rationally allocated resources.

Internet finance has been witnessed for more than ten years since its birth. Its development mode also conforms to the changes of economic model. Its financial advantages are beyond the reach of traditional financial industry. We can foresee that financial activities relying on Internet finance will become the main development mode in the future financial industry. But as a combination of Finance and internet, Internet finance also shows the destructive power and influence that traditional finance does not have. Only a more comprehensive and high-quality Internet financial services and financial derivatives with more investment value can consolidate the core competitiveness. Online financial service providers will develop into financial market investors who can customize personalized services and develop financial derivatives based on customer needs. However, some of the risk problems in the Internet finance industry are slowly emerging due to some accidents, such as running events, the collapse of the P2P lending platform, and so on. This is a hint that we must be sufficiently risky to appear in Internet finance. The Internet financial risk classification is shown in Table 1.

Table 1 Internet Financial Risk Classification

	Information	Factor
Information security risk	15.05	3.56
Credit risks	16.72	5.16
Operational risk	16.52	4.72
Liquidity risk	18.19	5.35
Policy and legal risks	17.39	4.68

From the risk point of view, Internet finance has obvious Publicity because of the rapid spread of the Internet and the rapid growth of the penetration rate of electronic operation. Because Internet finance involves too many participants and fields, it is possible to touch the red line of law and regulation, such as illegal fund-raising, illegal collection, unauthorized issuance of bonds, fund transfer fraud and so on. In the case of weak external supervision, it may even cause systemic financial crisis through risk transmission and transfer. China's Internet financial chain involves some regulations or links such as fund clearing and financial electronicization to accept limited supervision by financial regulatory authorities. However, from the perspective of the whole, the threshold, standards and scope of supervision of Internet finance are still not clearly defined. At the legal level, clarify its institutional attributes, define the scope of business, and the specific operational details of the business. Then, according to the institutional attributes and business scope, the corresponding supervision department is assigned to implement supervision. Second, due to the low barriers to entry, the level of Internet financial institutions is mixed. It is necessary to legislate to clarify the access standards for the Internet finance industry, including funding requirements, and the qualifications of relevant industries. A survey of the payment methods used by Internet users in China in 2018 is shown in Figure 1.

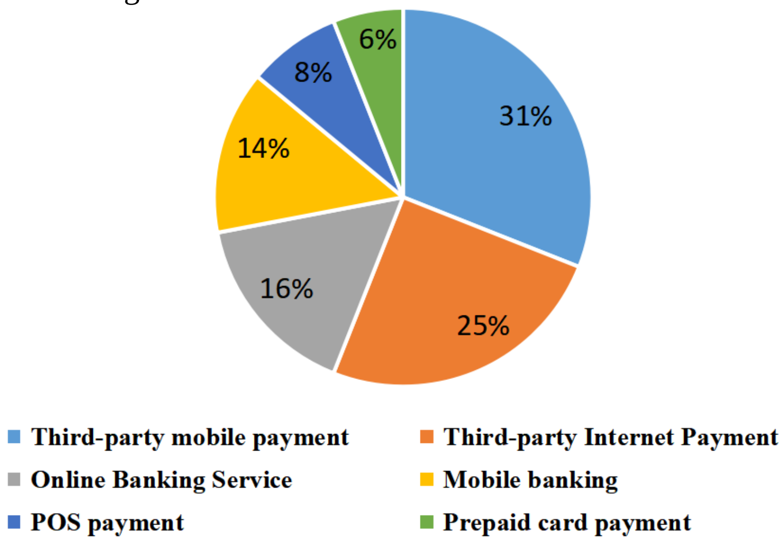

Fig.1. The proportion of payment methods used by netizens in 2018

3. Result Analysis and Discussion

As far as the traditional banking industry is concerned, the domestic banking financial institutions all carry out online business, and the type of business increases rapidly, and the degree of electronization increases rapidly. Compared with the five major domestic banks and some joint-stock commercial banks, the online business of foreign banks entering the domestic market is more conservative. Risk security monitoring on P2P trading platform is a risk analysis, detection and processing system designed by financial institutions. China's Internet financial risk supervision should be based on the particularity of China's financial market and adopt a comprehensive and multi-level security management and control system. First, we can use the security data layer to maintain data transmission security. Avoid data leakage on weak nodes. In addition, it is necessary to implement the real-name system for financial institution certification, and incorporate transaction funds and network information into the real-name system, so that the information of both parties can be verified and compared to find the hidden danger factors.

As a product of the combination of Finance and internet, Internet finance has a high dependence on Internet technology, which requires the security performance of Internet system. Once intruded by criminals, it will directly threaten the security of business information, account funds and user privacy information. In addition, Internet financial innovation also has a negative impact on the money market to a certain extent, mainly reflected in the market placement of virtual money. However, the government and its regulatory authorities did not give the banking financial institutions prompts and issued guidelines for the risks arising therefrom. For example, the government and its regulatory authorities are more likely to prompt risk identification to Internet financial institutions, and have not made more demands on the public to participate in Internet investment. In particular, the crowdfunding platform is almost not mentioned, which leads to the public's unclear understanding of the nature of the Internet, which reduces the risk awareness and belongs to the phenomenon of guiding the maintenance of consumers and investors' rights. The expansion of scale through credit and the enhancement of asset value have increasingly strengthened the main components of commercial banks in the financial system.

Traditional financial institutions operate independently and supervise independently, with relatively independent risk scope and small dissemination. The isolation effectiveness of Internet finance is relatively weakened. Institutions and customers interlace and penetrate each other. It strengthens the risk linkages between the financial sector and the country. The emergence of online financial management tools, relatively high interest income of banks makes a large number of bank depositors transfer funds from banks to banks, which has the most direct impact on banks. The rapid development of Internet finance has provided more flexible and diversified channels of choice for both the supply and demand sides of funds. To a certain extent, this has shaken the dominance of traditional financial institutions, prompting traditional financial institutions to make changes and adapt to the new environment. Introduce more user-friendly and attractive products, or you will lose more customers. Internet finance operations such as P2P and crowdfunding. The transaction generates data, the data shapes the reputation, the reputation reflects the credit, and the two parties in the game constantly judge the credit level of the other party in the game. Regulators also use the credit situation of both parties as a basis for supervision. Therefore, it is imperative that Internet financial risk supervision fully utilize the reputation information value and reputation mechanism based on reputation theory. The risk supervision assessment is shown in Figure 2.

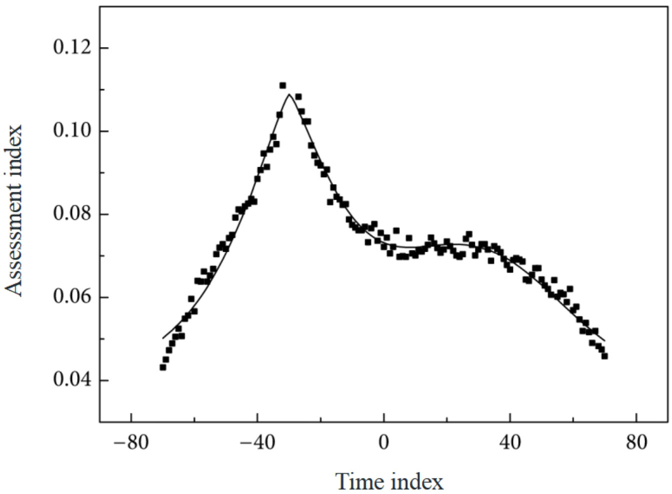

Fig.2. Risk Management Assessment

4. Conclusion

The content of this paper is based on the Internet financial risk and regulation, and puts the realistic issues in the research, which meets the needs of the current research on Internet issues. At the same time, it focuses on the reasons behind the emergence of Internet financial risks. Combined with the specific problems of Internet financial risk management in China. We should improve the legal and regulatory system of Internet finance, promote industry self-discipline, promote the construction of Internet financial information security, establish a complete credit rating system and strengthen international exchanges and cooperation. The protection of consumers' rights and interests is directly reflected in the income characteristics of Internet financial products, which will be described more comprehensively and accurately through the network. Risk tips will be understood by more consumers. In this way, both the financial consumer rights and interests can be effectively protected, and the compliance of Internet financial products can be monitored by the whole people, and the goal of achieving risk supervision is faster. As far as the development is concerned, the supervision of Internet financial risks urgently needs to be strengthened and improved in terms of laws and regulations, regulatory measures, and regulatory technologies. The research on Internet financial risk supervision needs further research and exploration. The Internet financial risk supervision work has a long way to go.

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