

# Research on Innovation of Internet Financial Products and Services Based on Functional Finance Theory

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**Abstract:** Internet Finance is Still a New Thing in China. Since the Concept of Internet Finance Was Put Forward in 2012, Internet Finance Has Achieved Explosive Development in Less Than Ten Years. the Emergence and Development of Internet Financial Products and Services is an Important Embodiment of the Universality and Individuation of the Financial Industry. However, the Development of Internet Finance is Not Only a Simple Carrier Change, But Also a Collision between Traditional Linear Thinking and Modern Multi-Dimensional Network Thinking. the Restriction of External Resources on the Development of Financial Industry is Getting Smaller and Smaller. the Restriction of Resources Can Be Adjusted through Technology. Therefore, Internet Finance Has Been Combined with Science and Technology from the Beginning. Based on the Perspective of Functional Finance, This Paper Discusses the Innovative Strategies of Internet Financial Products and Services.

## 1. Introduction

Internet finance is a pedigree concept, which refers to the integration of Internet technology with financial products and services to build a new financial format with extremely rich Internet technology characteristics. The most significant difference between Internet finance and traditional financial industry is its Internet technology attributes. The intervention and application of Internet technologies such as big data, cloud computing and block chain effectively solve the short board of traditional finance, improve the efficiency of customer access, credit rating, investment decision-making and other services, and emphasize how to face the basic financial needs of users in the financial field, including payment, investment and financing, financing, risk management and so on. The technology of the Internet has realized the mobility of the Internet. In addition, the application of new information security technology, big data technology and cloud computing technology have promoted the environmental changes of the financial industry. Internet finance embodies the characteristics of interest rate marketization, intensified competition among peers, diversification of customer needs and personalization. The development focus in the industry is increasingly inclined to the value development of long-tail customers. In this sense, the generation and development of Internet finance is a product of “endogenous integration”. In addition to technical attributes, the combination of financial industry and Internet technology also embodies the spiritual attributes of openness, equality, rapidity, sharing and cooperation.

With the rise of the concept of Internet finance, a variety of brand-new financial products and services emerge in endlessly, and functional finance theory arises at the historic moment. The theory of functional finance is based on two basic assumptions. One is that the stability of financial function is better than that of financial institutions. The other is that the importance of financial function is better than that of financial organizations. Traditional financial theories mostly analyze financial system from the perspective of financial institutions, emphasize the stability of financial institutions, and realize the stability of financial system with established financial regulatory framework. This kind of financial theory has been unable to adapt to the changes in the financial market and the innovation of basic technology. When the new format is ahead of laws and regulations, the operation of the industrial system will become disorderly. The functional finance theory determines the three core functions of the financial system, namely, clearing and payment functions, resource aggregation and distribution functions, risk dispersion functions, etc. From the

perspective of functional finance theory, Internet financial products and services include three major categories: third-party payment, virtual financial intermediary and Internet financial portal. Third-party payment has new carriers and channels. At present, Chinese third-party payment is mainly based on new payment channels, which include independent third-party payment institutions and third-party payment relying on e-commerce platforms. Third-party payment has replaced the payment and settlement function of traditional commercial banks to some extent, especially the small quick payment has obvious advantages, which is easier to form the accumulation of historical consumption data and can identify consumption scenes to a certain extent. Virtual financial intermediaries mainly use the Internet as an intermediary for investment and financing. Common ones include crowdfunding, e-commerce small loans, P2P peer-to-peer lending, etc. Such virtual financial intermediaries partially replace the deposit and loan intermediary functions of commercial banks and absorb long-tail customers that traditional commercial banks do not pay enough attention to. However, virtual financial intermediaries have great regulatory difficulties. Internet financial portal is a platform mode, which includes self-management and third-party modes.

## **2. The Main Features of Internet Finance under Functional Finance Theory**

Specifically, the main characteristics of Internet finance based on functional finance theory are mainly shown in the following aspects: (1) optimizing the allocation of resources. Under the Internet financial mode, the financing behavior of individuals or enterprises is realized through the Internet platform. All transactions can be obtained through technical analysis such as big data, search engines, cloud computing, etc., which can objectively, dynamically and truly reflect the credit and performance ability of each user's transactions, and can solve the problem of information asymmetry and opacity through technical means. Therefore, this information can be used as an important reference in resource allocation. (2) Improve the efficiency of traditional financial services. With the support of Internet technology, the modern bank payment and settlement system has greatly improved the delivery rate of payment, settlement and other financial services, overcome the constraints of traditional financial services in time and space, promoted capital flow, and ensured the interests of both parties to the transaction to the greatest extent. (3) Provide perfect risk management methods. Internet finance has given financial risk management some new features, such as resolving the problem of information asymmetry in traditional financial risk management, improving the breadth of traditional financial services, and the marketing methods of Internet finance are more customer-oriented, greatly improving the depth of financial services, and Internet financial platforms provide more convenient, efficient and low-cost risk management channels. (4) Provide timely, accurate and comprehensive price information. Price information in the financial system mainly includes currency interest rate and stock price. Information on Internet financial platform is open, transparent and fair, so it can attract more funds to enter the platform and effectively promote the circulation of funds. The trading system and quotation system designed by computer information technology can obtain the stock price and price index timely and accurately, thus reflecting the situation of the whole capital market more accurately. (5) It has stronger information function and incentive function. Under the big data financial model, massive information can be rearranged to form a continuous and dynamic combination of information, providing strong information data support for financial market analysis. The incentive function of the financial system can increase the motivation of economic individuals to participate in economic activities and improve their efficiency in participating in economic activities. (6) Achieve higher return on savings and safer return on investment. The depth and breadth of Internet financial services depend on its smooth, efficient and convenient sales channels, which have eroded a small part of the profits of traditional finance, but can improve the efficiency of the financial system of the whole society. Internet finance has outstanding advantages in resolving information asymmetry, which can reduce the cost of financial activities and enable the main investors to obtain safer, more and better return on investment.

### **3. Innovation Strategies of Internet Financial Products and Services under Functional Finance Theory**

Under the theory of functional finance, the innovation of Internet financial products and services can be started from the following aspects:

#### **3.1 Innovating the System Design of Internet Financial Development**

Internet finance has a large number of participants, a wide range of participation and unlimited participation time. It can realize virtualization of both parties and fuzzification of transaction objects with the support of good computer software and Internet technology. Therefore, the innovation speed and dissemination speed are better than those of traditional finance industry. In order to innovate Internet products and services, it is necessary to innovate and design a set of matching system design to effectively supervise and guide the development of Internet finance. First of all, financial supervision departments should be extremely sensitive to emerging Internet products and services. After each new Internet financial model appears, they can promptly and quickly formulate relevant management rules and bring them into the scope of supervision. Secondly, in the supervision process, the supervision department should have strong organization and coordination capabilities and macro-level coordination capabilities to achieve cross-departmental and cross-level cooperation. Internet finance has a natural connection with computer technology and Internet technology. Therefore, the supervision department should have high-end technical capability and establish an Internet finance supervision team composed of experts and departments in various fields such as finance experts, computer software experts, data analysis experts, public security experts, etc. to improve the consumer protection mechanism.

#### **3.2 Innovating External Environment to Promote the Development of Internet Finance Function**

Internet finance is based on the external macro-economic system. In turn, the macro-economic system is influenced by Internet finance. The two restrict and promote each other. Therefore, in order to promote the development of Internet finance and innovate the functions of Internet finance, it is necessary to construct a good macro-economic development environment and a healthy and sustainable financial ecosystem. First of all, we should promote the optimization and upgrading of industries and change the mode of economic growth. On the one hand, it is necessary to build a complete and comprehensive technological innovation system to improve the initiative and enthusiasm of enterprises in independent innovation. The technological innovation system is market-oriented and enterprise-oriented, and realizes the matching of production, teaching and research, and obtains government support, so that financial enterprises become the main force in independent innovation and form a batch of leading industries with core competitiveness. Adhere to innovative development, absorb advanced technology and management experience from developed countries, improve the international competitiveness of financial enterprises, and drive productivity to achieve a qualitative leap. Secondly, improve the level of economic marketization and promote the reform of the economic system. Improve the relevant systems of capital market and factor market, especially speed up the reform of land management system, and give full play to the potential of Chinese factors of production. Deepen the reform of state-owned enterprises and establish a perfect modern enterprise system. We will support the development of the non-public sector of the economy, standardize government actions, improve the freedom of economic entities, and create a truly fair and competitive trading environment. Finally, expand domestic demand and enhance the pulling effect of consumption on the economy. On the one hand, through tax and subsidy policies, the income distribution pattern will be adjusted reasonably to reduce the gap between rich and poor and improve the overall purchasing power of residents. Optimize the structure of domestic investment and consumption, cultivate consumption hotspots, vigorously develop cultural industries, tourism consumption, etc., expand the market of entertainment industry, sports fitness and other service industries, and broaden the range of mass consumption. In addition, we should make rational use of export-related tax policies, optimize the structure of foreign trade

commodities, reduce direct government control over resources of various factors of production, encourage Chinese enterprises to directly invest abroad, and improve their international competitiveness.

### **3.3 Innovating the Internet Financial Credit System**

First of all, establish a sound credit reporting standard and sharing mechanism, refer to the credit reporting system standards built by various enterprises, and learn from the practical experience of enterprises, to further promote the people's bank of Chinese steps in formulating the internet credit reporting system standards, to explore and develop an intelligent credit reporting model based on the characteristics of internet finance technology, to update the credit reporting contents and methods according to the development of internet finance, so as to ensure the scientificity, effectiveness and adaptability of the credit reporting system, and to reduce the operating cost of the credit reporting system. We will promote the docking of Internet financial credit data with the People's Bank of Chinese credit reporting system, improve the basic database of financial credit information, and reduce credit reporting costs through information sharing. Secondly, the establishment of a joint disciplinary mechanism for dishonesty. To establish a list of individuals and enterprises who have broken their promises within the scope permitted by law, and to make detailed records, inquiries and disclosures of the acts of individuals, enterprises and governments who have broken their promises. On this basis, a variety of joint disciplinary measures will be established to raise the cost of breaking their promises for individual businesses or organizations, reduce the probability of breaking their promises and reduce unnecessary waste of resources. Finally, protect the rights and interests of information subjects. To further clarify the data collection method, collection scope and use principle of the Internet financial credit reporting system, and to further improve the data collection, use authorization and error information notification system of Internet financial enterprises on this basis; Improve the internal management system of the enterprise, establish a multi-channel, all-round information security protection mechanism, management mechanism and relief mechanism, and improve the accountability system for customer complaints, objection handling and infringement.

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