

# Analysis of the Government's Comprehensive Governance of the Financial Market in the Internet Age

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**Abstract.** With the continuous deepening of China's reform and opening up process and the continuous advancement of market economic system, China's financial market and capital market have both obtained good development opportunities. Meanwhile the development of economic globalization has facilitated financial reform and development across the world. Internet technology has developed rapidly and has penetrated into all economic sectors in China. Although China's Internet finance has caught up with the trend of the new era and has made a series of achievements, it also encounters many problems during its development. There still exist gaps between China's financial market and that of developed countries, especially in terms of government's comprehensive governance of Internet finance and the government's supervision of the market. This paper will discuss the new agenda of market financial supervision reform in the "Internet +" era, and then propose some suggestions for government's comprehensive governance of financial market in the Internet era.

**Keywords:** Internet era; the government; financial market; comprehensive governance.

## 1. The New Agenda of Reforming Market Financial Supervision in the "Internet +" Era

### 1.1 Changes in Financial Market brought by "Internet +"

With the continuous deepening of China's reform and opening up and the continuous advancement of market economic system reform, China's financial market and capital market have both obtained good development opportunities. In the face of such favorable political and economic environment, developing Internet finance has become the future trend of financial innovation. This is because the combination of information technology and traditional financial markets can provide a low-cost, high-efficiency and high-quality financial market for a wide range of users. We can't deny that the whole society is becoming digital nowadays and many companies have accumulated a lot of big data and artificial intelligence processing for financial activities, which provides a solid foundation for the development of the Internet finance. In addition, both the market-oriented innovation of state-owned enterprises and the transmission of state-owned enterprise economic resources to private enterprises have played a positive role in promoting the development of Internet finance. The author believes that "Internet +" has in fact brought about tremendous changes in the financial market.

In the narrow sense, the tremendous changes that "Internet +" has brought about in the financial market can be divided into two levels. The basic level refers to the financial business consisting of online payment channels which convert the idle currency of purchased goods into money such as WeChat Pay, Alipay and other "Internet +" financial services. The other level refers to the emerging types of high-end Internet financial services. One the one hand the original online shopping service, paypal and other international online payment methods have now been transformed into online financing channels, directly operating various investment and financing business. One the other hand, online shopping business relies on direct financing channel of network investment and specializes in various investment and financing businesses. These "Internet +" businesses are therefore one of the driving forces behind China's current financial market and have been deeply embedded in China's market economy system.

## 1.2 The Changes Brought by “Internet +” in Government Services

Compared with 2017, China, from 2018 to 2019 has witnessed the dramatic changes brought by “Internet +” in government services. In terms of inciting economic system reform, the State Council of the People’s Republic of China issued Implementation Standards for “Internet +” Government Services. Local governments such as the Zhejiang Provincial Committee and the provincial government greatly shorten the time for approval of enterprise investment projects and thus create a favorable business environment by adopting such reforming measures as the “sample pilot+ commitment system + government agency system”, regional environmental assessment, regional energy saving assessment, joint mapping, joint exploration, joint evaluation, joint review of construction drawing, and joint inspection etc.. Therefore, not only the approval time for enterprise investment projects was greatly shortened, but also the business environment was greatly improved. In this year, the overall “Internet +” reform trend of the government is to actualize “Fang, Guan and Fu” (delegating power, strengthening regulation, and optimizing services) and make it more strategic so that the government’s comprehensive governance of financial market can better serve the society and high-quality government services can be realized.

In 2018, this reform has entered a stage of rapid proliferation. At the level of vertical institutionalization, General Secretary Xi Jinping led the Central Group of Deepening Reform to review Research Report on Zhejiang Economic Reform on January 23, 2018, and proposed to promote Zhejiang’s practice across the country. On March 5, Premier Li Keqiang of the State Council of the People’s Republic of China proposed in the government work report to further promote “Internet + government services” in order to handle more matters online. At the level of horizontal diffusion, 29 provinces (cities, districts) except Hong Kong, Macao, Taiwan, Xinjiang and Tibet proposed and implemented “one stop, one trip, one paper” or similar reforms in 2018. The “Internet +” government services have seen great development.

The Internet is an emerging financial instrument with a distinctive characteristic of the times due to the development of modern science and technology. Compared with physical finance, Internet finance may incur relatively higher security risks, which results from the development limitations of technology itself and cybercrime. In addition, criminals adopt more subtle methods which often cause people to lose money unconsciously. Nevertheless, effective government regulation can help curb illegal and criminal activities in Internet finance. At the very least, it will effectively reduce the operational risk of depositors and reduce customer losses, which is conducive to the government’s overall maintenance of the national financial order.

## 2. Implementing Market Financial Supervision in the Era of “Internet +” with Internet Thinking

### 2.1 Supervision Subject

The supervision subject refers to the national (regional) central banks or other financial supervision and management organizations that are entitled with the right to supervise and manage the financial industry in accordance with national laws and regulations. The subject of financial supervision in China refers to regulators of financial supervision and financial management. In line with laws and decrees as well as the authorization of the State Council, China’s subject of financial supervision is constituted by “One Bank and Three Commissions”.

“One Bank” refers to the People’s Bank of China, whose duties are issuing currency, releasing monetary policy, striving for financial stability and security, and ensuring financial services. The so-called “Three Commissions” are China Banking Regulatory Commission, China Securities Regulatory Commission and China Insurance Regulatory Commission which take the responsibilities of financial organizations, securities market and insurance industry respectively. They are responsible to supervise the affairs of relevant organizations, try their best to safeguard the legitimacy of customers or investors and make due diligence on China’s financial supervision. According to the functional division of financial supervision departments and the attributes of public goods, public

goods can be divided into “pure public goods” and “quasi-public goods”. For different goods, different management or service methods should be implemented. For instance, “pure public goods” such as monetary policy is rigidly demanded at the national level. Within a certain range, adjustments can be made appropriately according to the actual financial situation of China. As for quasi-public goods such as hospitals, highways, and bridges which possess both public and private attributes, although perfect financial efficiency can certainly achieve a win-win situation, it may affect the gradual effect of customers and thus result in diminishing marginal utilities of customers.

## **2.2 Allocation of Supervision Power**

The allocation of China’s financial supervision power mainly includes two aspects: scale allocation and technical allocation. The basis for establishing scale allocation standards and technical configuration allocation standards is the average profit formed by market full competition. On the one hand, through methods of allocation at different levels, the scale of indirect financing formed by the relatively balanced operating profit of direct and indirect financing and Internet finance constitutes the market allocation scale of Internet financial enterprises. On the other hand, the technical level of microfinance institutions that are formed by the relatively balanced operation of direct financing and internet finance is the technical standard for the market allocation of Internet finance companies. Since the average profit and skill level are constantly changing, the standards for access supervision should be able to adjust dynamically according to the changes in the market. The purpose of allocating supervision power is to prevent excessive monopoly and vicious competition caused by government failure and market failure and to form a monopolistic and competitive market structure through access supervision. Besides, it is also intended to ensure the security of the funds participating in online financial investment and financing, and to prevent enterprises with backward network technology from entering Internet financial market.

## **2.3 Measures of Supervision**

China’s financial supervision measures mainly rely on the government to implement various policies and regulations to control the risks of financial markets, including market risk supervision measures and skill risk supervision measure. Market risk supervision measures are used to deal with changes in various asset prices and relevant macroeconomic supervision instruments. From the perspective of supervisory authorities, they have to formulate a standardized risk regulation indicator system for the Internet financial market, and calculate various warning intervals, warning lines and warning points according to the actual situation of Internet finance. The financial supervision measures are intended to predict and warn Internet financial market risks for the macro-economic and micro-economic entities at different levels, and to propose ways to deal with the crisis. Therefore, a set of sound skills monitoring methods for Internet financially secure operations can be formed by safeguarding the security of “online finance” and preventing hacker attacks with the existing supervision means, making network security the lifeline of Internet finance.

## **2.4 Institutional Environment**

There are certain gaps in the development level and market of Internet financial supervision in China. For example, imperfect system and imperfect laws have directly led to the loss and absence of Internet financial supervision. The author believes that the financial supervision rules mainly rely on the relationship between the government and the market and are constituted by various laws and regulations. The market economy is both freely competitive and legitimate. However, the formulation of economic laws relatively lags behind. Since people need to have a certain understanding of the laws of economic development, they can draw up laws and regulations that promote production. As Internet finance is an emerging and fast-growing sector, related supervision decrees and guidelines are not in place. Therefore, in view of the current situation of the Internet, it is necessary to first formulate the rules and regulations of Internet finance as soon as possible, to improve them gradually in practice, and finally to constitute a perfect decree system and further improve the financial risk management system.

### **3. Toward a “Internet +” Regulatory Government**

#### **3.1 “Making Breakthroughs” in the Existing Supervision System**

To achieve “breakthroughs” in the existing supervision system, the relevant financial institutions and the platforms should be pre-examined by the regulatory department, and then complete the industrial and commercial registration and register with the Ministry of Industry and Information Technology in accordance with the procedures. Access conditions include institutional access, business access, and senior operating personal access. The regulatory department shall establish the entry threshold that meets market demand and risk control according to the actual development of the industry, and provide a favorable environment for the development of Internet finance.

In addition to the access mechanism, a reasonable exit mechanism should also be designed. Participants of Internet market should cultivate risk awareness and security awareness so as to take advantage of market constraints. The exit mechanism should include automatic exit and forced exit. Automatic exit usually does not result in systematic risk. It is required that supervisory department should clarify the rules of mandatory withdrawals so as to protect consumer rights and prevent systematic risks. As for Internet finance business, if there are no exceptions, it is required to choose banks to deposit customers’ funds. Institutions should select qualified banking institutions to deposit funds to manage and supervise the funds from clients. As for management of clients’ funds and the institutions’ own funds, the bank’s deposit business is not an unfamiliar concept. Payment Institutions’ Measures of Paying Customers’ Deposits ((2013) No.6) stipulates that conventional payment institutions should obey the rules the government has clearly made for the storage, collection, use, transfer, etc. of preparatory deposit the payment institutions must open a special account with the deposit bank. Besides, the payment institutions should select a bank as the “deposit reservation bank” and select a number of banks as “fund reservation cooperation banks”. Moreover, the payment institutions must open a reserve deposit account with the reserve bank and prepare for payment. Gold payment accounts and reserve remittance accounts are used for specific payment services. Banks must conduct deposit business in accordance with certain conditions. Since the above measures have specific requirements on the asset size, branches and supervisory capabilities of the deposit banks, not all banks can be used to deposit funds.

#### **3.2 “Strengthening” the Existing Supervision System**

To “strengthen” the existing supervision system, the government must improve the existing political system and optimize laws and regulations. According to the power distribution between the central government and the local governments in financial supervision, the system of laws and regulations combining the central and local governments can be divided into a unitary mode and a binary mode. The unitary mode is under the lead of the central government and is responsible for financial supervision, while the binary mode means that the central government and local governments have relatively independent powers to supervise finance. The United States adopts a dual mode, that is, both the federal government and the state governments perform supervisory duties. Although a one-way monitoring mode helps coordinate the governments, it does not take into account local characteristics. The binary mode can help local governments implement local regulations based on the realities, but it might incur conflicts and repeated supervision which will increase the cost of supervision. Therefore, one of tasks for the current supervision is to establish a legal and regulatory system that conforms to the realities of the country, namely matching the market situation where the central government and local governments integrate.

On the one hand, laws and regulations formulated by the central government provide guidance to all regions and supervision departments across the country, and account for supervising cross-departmental and inter-regional Internet financial activities. On the other hand, local laws and regulations are more flexible for specific Internet finances and take into account local realities, thus playing a role in targeted supervision and often improving supervision efficiency. In addition, the government needs to follow the principle of prudential supervision, a new type of supervision that is finally determined after the supervision departments conducted repeated discussions and revisions

about the original principles of the supervision system. This principle is also the one that is generally followed in the supervision field nowadays. This is because of its superiority in respecting the citizens' financing rights, respecting human rights, having no unreasonably compulsory requirements and conforming to the theme of the contemporary society. At the same time, this principal also fully demonstrates the continuous and healthy development of China's financial supervision system.

#### 4. Conclusion

In recent years, the rapid development of science and technology has continued to accelerate the development of network technology. Nowadays, in the context of the emerging "Internet +" mode, Internet finance has gained opportunities and thus enjoyed vigorous development. In addition, Internet finance has become increasingly popular among the public due to its practicability, convenience and timeliness. Its user base is constantly expanding because of its wide acceptance, large-scale planning and rapid development. As for the standard Internet development or the undeveloped trend of Internet finance, it is necessary for government agencies to intervene in Internet financial management, to strengthen its legal supervision, and to ensure that various participants in Internet finance fulfil their responsibilities. In addition, it is crucial to introduce and perfect Internet financial supervision rules as soon as possible, to strengthen the effective integration of the government and the market, to enhance the supervision harmony between the central and local governments, to build the financial market suitable for the Internet era, and finally to form effective integrated governance system.

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