



The Crisis Behind the Popularity of Internet Finance in Mainland China

Yaxin Yuan

Alcanta International College Qingteng Academy, No. 14, Guangsheng Road, Nansha District, Guangzhou City

Email: 1848908262@qq.com

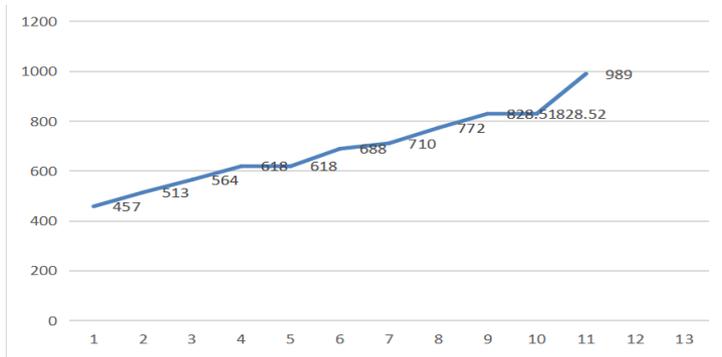
Abstract. In this paper, I mainly study finance technology and introduce three kinds of Internet finance: third-party payment, P2P online loan and Internet money fund. In this article, I introduce the development history and current situation of these three kinds of finance technology. As finance technology is a relatively new technology in China, there will be some regulatory problems. In this paper, I have summarized some problems and given some suggestions for solving them.

Keywords: finance technology, petty loan, the third-party payment

1 Introduction

Around the year 2000, more people were exposed to the Internet due to the popularity of the Internet. Later, after 2011, people were gradually exposed to finance technology due to the popularity of hardware, other electronic products and other high-tech products. And some people think that its better to move finance on the internet. On the Internet, the network will automatically complete the information matching, pricing, there is no real intermediary and price difference, also customers could not line up, so in this way business processing will be faster [1]. Finance technology has become a hot spot for the following reasons: it is easy to use, based on the network, it can meet the needs of more people by breaking the region, and the combination of novel sales methods and the Internet is more attractive to young people.

After 2015, finance technology is developing rapidly in China, more than a billion people in our country use the Internet.



(Data sources <http://finance.sina.com.cn/roll/20110228/18249445643.shtml>)

Fig. 1. This is a picture of the changing trend of Internet use in China from 2010 to 2020.

Also, China is a agriculture-oriented country, China's population itself is more than 1.4 billion, the rural population accounts for 40 percent. And most of these people in the countryside don't have regular jobs, and they don't have collateral like land, cars. So they can't get a loan from a traditional bank, and when they need a loan, their demand is hard to meet from a traditional bank. In this case, Internet finance, an institution with a low threshold, can meet their needs.

This paper is to study finance technology with China as the center. At that time, finance technology was a new thing for China, so there was no complete legislation and comprehensive supervision on this emerging technology in time. And people at that time did not know much about Internet finance. So the lack of public understanding and the imperfect supervision mechanism have caused some short-term problems.

2 Main body

The third-party payment is one of the finance technology. The third-party payment means that make payments on a platform with some reputable and capable institutions. For example, Alipay in China and PayPal in America. It is very convenient and fast for customers to use. However, because it is developed on the basis of the network, customers' information is easy to be leaked, and the security measures are not very perfect. Both of these third-party payment platforms are famous all over the world. In China, Alipay is the payment platform used by a almost everyone. Alipay was established in 2004 to provide payment and wealth management services [2]. Including online guaranteed transactions, online payment, transfer, credit card repayment, mobile phone recharge and so on. When it was just established, there were less than 50 people using Alipay. According to statistics, more than 800 million people use Alipay now. In 1997, China's third-party payment business just started, belong to the embryonic stage. One of the banks of China launches network business first. Before 2000, the net business was relatively single because of the technical reasons such as the system security construction and hardware facilities. After 2000, many companies launched third-party payment services, such as Alibaba, Credit Ease and UnionPay. But when

we launched the business, very few people used it. But as time goes by and the development of technology, many companies have been eliminated. For example, in December 2014, Wanda acquired Kuaqian Payment and Clearing Information Co., Ltd. and obtained a payment license; in December 2017, Didi acquired Beijing 19 Payment Technology Co., Ltd. and in September 2019, PayPal acquired Gpay Information Technology Co, Ltd. and obtained a payment license. Alibaba a capable company swallowed up other small enterprises in China. Up to now, what is often used by everyone is just Alipay launched by Alibaba and WeChat Pay launched by WeChat. The two companies together account for more than 95 percent of the third-party payment market.

The period from 2005 to 2013 was the heyday of third-party payment. Due to the great influence and strength of third-party payment enterprises in this period, many traditional financial institutions were even traumatized and also due to the rapid development of third-party payment in China, there are security risks and other hidden dangers, for example. There was also a relatively good company called Ezubao. Since being acquired in 2014, the company has operated online under the name of "Internet finance". Ezubao fictitious financing project is a complete Ponzi scheme [3]. Ezubao claims externally that its business model is that the financial leasing company affiliated to the group signs an agreement with the project company, and then issues bids for financing in the form of debt transfer on the platform of "Ezubao". After raising the funds, the project company pays the rent to the leasing company, and the leasing company pays the income and principal to the investors. Under normal circumstances, the financial leasing company earns the project interest margin, while the platform earns the intermediary fee. However, Ezubao was a fraud from the beginning, and its so-called financial leasing project was not what it was called. And in order to seek higher profits, the executives of the company sold the privacy information of customers to some criminals.

Therefore, from 2005, The State Council began to regulate the development of e-commerce. In 2014, the state enacted laws to protect consumers on third-party payment platforms. On March 14, the state imposes limits on payment transfers. On March 22nd China Construction Bank swiftly cut the limit on quick payments. On April 10, regulators began to protect the security of customers' funds and information security, and refined regulations on targeted issues, involving customer identity authentication, information security, transaction limits, transaction notices, compensation liabilities, third-party payment institutions' qualifications and behaviors, and banks' related risk management and control [4].

The third-party payment is built on the basis of the network, so there may be some vulnerabilities we haven't found, which has the risk of information theft. The third-party payment also belongs to a fund transfer platform. When there's a lot of money in the platform. There are certain risks in the preservation and management of funds by the third party. Third-party payment institutions retain a large number of key information such as customer name, contact information, address, ID number, bank card number, password, fund transfer path, etc [5]. However, insufficient security protection ability, application loopholes, poor management of internal personnel and other factors may lead to information being used or stolen by criminals. Recently,

some well-known websites frequently occurred user sensitive information leakage events. At the same time, third-party payment is the product of the integration of computer, network technology and finance. Online transactions are anonymous, online payment costs are low, and large sums of money flow and transfer across regions and borders are convenient and lack of traces. The design and defects of this process provide a more convenient platform for illegal transactions such as cash-out and money laundering. Criminal acts such as pornography and drugs, fraud, tax evasion, bribery and bribery also have opportunities, and bad users or criminals can carry out illegal activities through a variety of means such as fake transactions or links to phishing websites.

First of all, we should strengthen the supervision and improve the supervision system. The government should randomly check the security of each third-party payment website from time to time. The staff of the third-party payment platform should give priority to the information security of customers, strengthen the privacy protection of guests, and enhance the identity verification of customers in the transaction. Secure transactions by encrypting guest information. Pay attention to the training of computer talents, strengthen the protection against viruses.

Peer-to-peer (P2P) is a kind of lending mode, which gathers small funds to lend to people in need of funds. P2P is one type of finance technology. In China, many farmers cannot borrow money from banks because they cannot provide relevant certificates. In this case, they can borrow money from finance technology platforms like P2P with relatively low threshold. In about 2007, China's smart phones and other modern electronic products just popular, because at that time, in addition to a small number of people have a stable high-paying job, a most people no stable wages and the rest of the life, at that time when these unstable population if sick, needed money, regular Banks will not lend to them, because they can't pay it back. As the demand grew, some companies realized that it might be profitable to set up an online lending company. Thus, in June 2007, Paipai Dai, the first P2P lending platform in China, appeared. Due to high profits, the development peak began from 2011 to 2012, and almost all the famous companies were established during that period, such as Tuandai and Lufax. In just two years, the number has grown from a dozen to more than 300. By the end of 2018, there were more than 6,000 P2P platforms in China. The reason why P2P can develop so fast is that finance technology develops rapidly. P2P is a kind of finance technology, and it naturally progresses with the development of finance technology. The second reason is that a large number of people, such as small and medium-sized enterprises and farmers, need quick and easy access to credit.

P2P is built on the basis of Internet finance, so it breaks the regional restrictions of traditional financial institutions. People from different regions can put their money on the platform as long as they want to lend money to others, which also forms a huge fund pool of P2P. Moreover, many people are willing to lend money to P2P, because the rate of return of P2P online lending platform is 4-5 times higher than that of traditional financial management. At the same time, P2P lending has low investment threshold and low risk. Moreover, compared with traditional financial institutions, P2P is very convenient and fast. The biggest feature of P2P financial products in Internet finance is convenience and easy operation. As long as you can connect to the

network and use mobile APP, you can invest in financial products anytime and anywhere to check the investment status.

But P2P also has many disadvantages. There are two major risks of P2P online loans. One is violent debt collection due to inadequate supervision measures, and the other is high interest rate due to customers' inability to repay. Also, there are also government mismanagement which is lack of supervision. As online lending is a new financing method, the central bank and China Banking Regulatory Commission have no clear laws and regulations to guide online lending. For the network loan, the regulatory layer is mainly neutral attitude, do not violate the rules and do not recognize, so there is no clear legislation can regulate the system of network loan. In addition, violent debt collection is also a common occurrence, and before 2019, there were a lot of crimes related to campus loans, routine loans. For example, a female college student who borrowed only 3,000 yuan ended up with 200,000 yuan in debt and was even sent to a nightclub. The female college student needed 3,000 yuan at that time, so she met A man named A. A worked in A company called "Juhengli". After the two met, A readily released the loan, but the contract signed is 5000 yuan. I got \$3,000, but I got \$5,000 in debt. A week later, the female college student failed to repay the 5,000 yuan. A introduced her to B, another colleague of Juhengli. B is willing to help Xiao Peng repay his debts, but he needs to sign a new loan contract. The 3,000yuan loan turned into 15,000 yuan a week later, and the female college student with no fixed income still failed to repay the second loan. Then a man named C appeared, C signed the third contract with the college student, 40,000 yuan. The female college student relented after being physically threatened. So far, the female college student, who only wanted to borrow 3,000 yuan, had racked up 40,000 yuan in debt within two months. After the transfer of A, B and C three people, the amount owed increased more than ten times, and this was just the beginning of the nightmare. The money went to Juhengli, but the student was still told that she had "not paid back the bill", and in August last year, she was sent to a nightclub by the loan officer. Even so, the loan has not been paid off. Things like this happen, making P2P operations worse and worse.

Online lending was also banned in 2019 after such crimes took place.

Internet money funds are funds that are sold or managed online using big data on the Internet. This is a kind of Internet finance. The essence of Internet money funds has not changed, only the distribution channels have. Sales channels for Internet money funds have shifted online, whereas most of the previous fund sales took place in banks. After 2013, the Chinese Internet monetary fund high-speed development, on June 17, 2013, pay treasure to work with tianyu fund launched a monetary fund balance of the Internet software that is treasure, it can be used to shopping online payment, transfer, payment, financial management, and other functions, in less than a month of time, and a breakthrough in the size of the balance of billions. As of January 14, 2014, Yu 'e Bao exceeded 250 billion yuan, and the companies that created Yu 'e Bao also rose. Tianhong Fund has become the largest and most well-known fund company in China. Compared with traditional bank financial products, Internet money funds also have their own characteristics. Its investment method is particularly convenient, simple and low cost, because Internet money funds only need to use the Internet platform, do not need a third

party to insert agents, can be traded in the market. Also, the product information on Internet money funds is more transparent. When investors buy traditional money funds, they may buy unsuitable products or products that may lead to fund losses due to lack of understanding of the funds they want to buy. However, there will be no such situation when buying Internet funds. When buying them, investors can use the technology of the Internet and big data to screen more suitable products for them and understand the products they will invest in at zero cost. The characteristics of Internet money funds are also more popular. But Internet monetary fund at the same time of rapid development, has also been a lot of controversy, for example, since 2013, the Yu'E Bao as Internet monetary fund a well-known company user information leakage problem happened too much, and most are Yu'E Bao's company internal employees commit crime, in addition to the leak of information, customer is also worry about the money is safe. Because third-party payment platforms such as Alipay are associated with users' financial accounts and other information, once user information and bank card information is stolen, the security of customers' bank account deposits will be reduced. And also at present, Internet money funds are faced with serious homogeneous competition, lack of core competitiveness and other problems. Single investment direction, affected by the market capital environment. And gaps in some of the relevant regulations have led to regulatory arbitrage. To solve these problems, companies should strengthen the self-discipline of the industry, instead of blindly relying on the government, and let the government help to improve the regulatory legal system for Internet money funds. Internet money fund companies should also take the initiative to build their own reputation system, take advantage of their advantages on the Internet, build their own reputation on the Internet, and make use of big data, such as zero-cost and advantageous technical analysis, to let customers know that the company is credible. What is more, Said the company needs to improve the consciousness, the government's legislative power for Internet financial also need more, need timely formulate and enact related laws and regulations, clear the Internet monetary fund business involves the rights and responsibilities of every trade subject, every role in Internet monetary fund market to fulfil his obligations. In order to solve the serious problem of homogeneity of the company in the Internet money fund, it is believed that each company can promote its own special services to create its own characteristics to attract customers and enhance its core competitiveness. In addition, At the Third Plenary Session of the 18th CPC Central Committee held by the state, it was proposed to encourage financial innovation and enrich financial market products. Interest rate liberalization has also been driven by the country's lowering of investment thresholds in order to develop Internet money funds. I believe China's financial industry will be more developed under a balanced state administration.

3 Conclusion

In this paper, I mainly study three types of finance technology, namely: third-party payment, P2P online loan and Internet money fund. One problem that all three subjects have in common is that the regulatory approach is not perfect. Compared with tradi-

tional finance, Internet finance has undergone great changes in its operating environment and mode. In essence, Internet finance does not have the concealment of traditional finance. In addition, the development speed of Internet finance has greatly exceeded people's imagination. The government has been making efforts to formulate corresponding regulatory measures, but most of them are made up after the event, and the regulatory mechanism lags behind the development of the Internet industry. In order to cope with this problem, in my opinion, the staff of finance technology can always observe and be vigilant. If there are any imperfections, they can report them to the government, which is conducive to improving work efficiency and saving time.

References

1. LIHUA YANG & FEIFAN JIA (2022) research on audit governance of finance technology risk. *Journal of Jiaozuo University Social Sciences* ii 55-62
2. ZHANG YINXUE & WANG XUE (2021), Internet financial risk regulation path, *Enterprise technology and development* 122-123+126
3. LAN SHUANG (2022), Countermeasures against Internet financial risks in the era of big data, *Time-honored brand marketing*, 94-96
4. ZHU YURUI (2021), Risk factors and prevention strategies of Internet finance, *Crossover Marketing*, 34-36
5. ZHU DANXUAN (2022), Some thoughts on the current risks of Internet finance, *Today's wealth*, 43-44

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial 4.0 International License (<http://creativecommons.org/licenses/by-nc/4.0/>), which permits any noncommercial use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.

