



Internet Finance in China

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Abstract. In this passage, we argue that the current number of users of third-party payment, peer-to-peer lending and crowdfunding in China. The existing problems in Chinese third-party payment, peer-to-peer lending and crowdfunding at this stage. And the solutions which can be used to improve these problems.

Keywords: third-party payment · peer-to-peer lending · crowdfunding · present situation · problems · solutions · China

1 Introduction

Internet finance refers to a new financial business model in which traditional banks and enterprises use Internet technology and information communication technology to realize financing, payment, investment and information intermediary services. To be specific, the financial institutions put all the offline financial services onto online platform, so that people can have these services more conveniently. Nowadays the scale of Internet consumer finance users is large. This is mainly due to that more and more people in China use the Internet, so the demand for Internet finance is growing. According to the research, the number of mobile phone users in China in 2019 is about 1.01 billion [1] and it increased to 1.05 billion users in 2022 [2]. What's more, in 2022, China's Internet penetration rate has reached to 73.0%. Therefore, with the popularity of smart phones and consumers' increasing demands on finance, Internet finance, originally used only in e-commerce, has spread to all professions and trades.

The existing financial system cannot meet the growing and changing demand of consumers for financial services, so, the businesses, included third party payment, internet monetary funding, peer-to-peer lending, big data finance, crowdfunding, Internet financial portal, and information financial institutions, have been developed. However, there are still some disadvantages of internet finance. The open network communication system, the imperfect network supervision system and other factors together bring huge security risks to Internet finance. A large amount of private information may be leaked through data mining and data analysis. Also, as the cost of Internet financial default is relatively low, it is easy to induce malicious loan fraud, loan volume and other risk problems. In particular, P2P online loan platform has brought many losses to consumers due to low enter barriers and the lack of supervision.

In this essay, I am going to illustrate the current situation of China's Internet Financial Market of different businesses. I will talk about the present problems and solutions of third-party payment, peer-to-peer lending and crowdfunding in China.

2 Main Body

Third-party payment is a type of internet finance. In 2019, the number of third-party payment users has reached to 900 million [3], and by 2022, the number of third-party payment users increased to 904 million [4]. This type of payment has brought many benefits to people. First, no cash is needed for payment, only mobile phone is needed, which is more convenient and fast. Second, it can also increase the financial management function. For example, WeChat's Change Connect and Alipay's Yu'e Bao can aggregate the idle funds of users to manage money, so that the idle money and change can also make money. Third, people can pay water and electricity bills more easily as they can finish it on the third-party payment platform, which reduce the queue. The Alipay, for instance, integrating multiple scenarios and industries such as payment, wealth management, insurance and public welfare. In addition to providing convenient payment, transfer, collection and other basic functions, it can also quickly complete credit card repayment and other services. In this way, people can avoid to stand in a long queue, which facilitate people's life [5].

However, third party payment has some disadvantages. First, in the absence of a strict risk warning and control mechanism, the third-party online payment system is likely to become a tool for criminals to illegally transfer funds, withdraw cash and launder money. For example, criminals may open anonymous online payment accounts, or use others' identity information to open online payment accounts, and then inject criminal funds into these accounts, so that criminal proceeds and their proceeds can enter the legal payment system. And then, criminals use the rapidity and transnational nature of Internet payment to bypass criminal funds between multiple accounts in different countries. At the same time, they try to avoid being reported by Internet payment service providers due to large transaction amounts or suspicious transactions, so that they gradually integrate with legal funds, and gradually blur their source, nature and relationship with criminals. Finally, criminal funds and legal funds are fully integrated. For instance, there is a criminal gang which has a clear division of labor, the technology department is responsible for designing the online loan trap APP, and the customer service department is responsible for receiving complaints, coordinating the reduction and exemption of overdue fees, etc. All illegal gains are settled through the third-party platform Yibao Payment. Second, there will be potential information security problems. Third party payment organizations hold a lot of customer information, including names, bank card information, communication methods, etc. When the payment system is not perfect, criminals can steal customers' private information and bank card information by invading the network and other means. Such information theft will not only bring losses to customers, but also cause serious losses to third-party payment systems. Third party payment organizations hold a lot of customer information, including names, bank card information, communication methods, etc. As the payment system is not perfect, criminals can steal customers' private information and bank card information by invading the network and other means. Such information theft will not only bring losses to customers, but also cause serious losses to third-party payment systems [6].

Here are some suggestions of improve these problems. First, the market operation must be standardized. China has now implemented the real-name system of accounts.

However, because the third-party payment platform cannot accurately verify the authenticity of information, in order to solve the problem of false information at its root, we must strictly regulate the registration system, strictly restrict the registration process, and require registered users to provide a series of certificates that can prove their identity, including ID cards, account books, etc., And conduct image acquisition or fingerprint acquisition to reduce the risk of others using identity information to open accounts. Second, we should perfect our legal system about the third-party payment. The current laws on third-party payment in China are mostly departmental rules and normative documents. The low legal rank, unclear rights and responsibilities, and vague content lead to insufficient binding force of our laws on third-party payment system. China should establish a separate law on the third-party payment system as soon as possible, improve the level of legislation, clarify the legal subject and corresponding obligations, and strengthen law enforcement and regulatory binding force. We can also learn from the regulatory measures of the United States, the European Union and other developed countries, and adopt a dynamic regulatory model. In addition to regularly reporting the operating conditions to the regulatory authorities, third-party payment institutions should also accept irregular on-site or off-site investigations by the regulatory authorities, which helps to identify problems in time and control them. Third, accelerate the establishment and improvement of credit system. Personal information of both parties to the transaction should be collected and included in the personal credit information database after using big data to analyze the customer's credit rating, which is conducive to the improvement of the personal credit information system; At the same time, we should accelerate the establishment and improvement of the information disclosure system. A good information disclosure system can help consumers fully understand the actual situation of the goods, and also enable third-party payment enterprises to give consideration to product safety while seeking profit growth. This can better protect users' personal information. Accelerating the rating process of third-party payment platforms and building a complete social credit supervision system can enhance the public's awareness of credit rating, so as to promote the healthy development of the third-party payment market.

Peer-to-peer lending is also a type of internet finance, which refers to the micro credit lending transactions between individuals, that generally require the help of e-commerce professional network platform to help borrowers and lenders establish a lending relationship and complete relevant transaction procedures. According to the research, in 2019, more than 7.2 million people used P2P lending in China [7]. By 2020, the market value of the Chinese peer-to-peer lending industry reached 2.25 trillion yuan [8]. Compared with traditional lending services, P2P lending is faster and more convenient. General banks have strict loan application conditions, complicated material preparation and lengthy waiting process, while P2P lending has low threshold and simple procedures. Also, P2P lending is more liquidity. For example, the PaiPaiDai in China, which is also the first P2P lending platform in China, adopted online borrowing process throughout the process to provide customers with simple and convenient micro loan services. Also, the customers avoid the problem of queuing.

However, peer-to-peer lending also has some drawbacks. Firstly, there are also technical risks in peer-to-peer lending. The vast majority of online loan platforms in the

general market are ready-made templates purchased, and these procedures are not perfect. However, the platform invests a lot of money in product marketing rather than post maintenance. The existence of technical loopholes leads to constant risks of malicious attacks. For example, computer hackers have invaded, and problems such as attacking the platform, modifying investors' account funds, virtual recharge and withdrawal of cash have gradually emerged. Especially, because online loan is an emerging business, and the relevant laws and regulations are very lacking, hackers attack and threaten the platform frequently, which seriously affects the stable operation of the platform. Secondly, there are some financial risks in peer-to-peer lending. Because of the imperfection of relevant laws and regulations and the lack of supervision, many online loan platforms not only fail to adopt third-party fund management platforms, but also use the funds of investors for enterprise operation, so as to achieve self-borrowing and self-use. No one controls or assumes the risks. Behind it, huge capital risks can only fall on the heads of investors, which is also the reason why many platforms can run away [9]. For instance the Ezubao platform in China. Ezubao is a Ponzi scheme. This platform went online under the banner of "network finance", used high interest as bait, invented financial leasing projects, and continued to absorb large amounts of public funds illegally by borrowing new for old and self-guarantee. It actually absorbed more than 50 billion yuan, involving about 900000 investors [10].

Here are some suggestions of improve these problems. First, we need to strengthen the monitoring of network risks. P2P network lending is based on Internet technology and computer technology. To strengthen the prevention of network risks, we must constantly improve the security of the application of computer technology. For P2P network lending platform, we must increase capital investment, strengthen the security of customers' login platform, and use different types of verification codes for login verification. At the same time, the data exchanged by funds in the platform is encrypted to improve the encryption level, so as to ensure the security of user information. Second, we need to improve the regulations on the platform. We have to establish systematic laws and regulations as the supervision basis. As a networked form of private lending, P2P online lending has not yet issued relevant laws, and it is still operating at the edge of the law. Therefore, China needs to formulate relevant laws and regulations as soon as possible, such as the Regulations on the Administration of Online Loans, to provide legal basis for the supervision of the P2P industry. Third, to establish a unified industry access mechanism. At present, the P2P industry is mixed and the access threshold is low, leading to the emergence of some platforms with poor qualifications, self-financing and fraud in the market, which has seriously damaged the credibility of the P2P industry. At present, it is necessary to set appropriate access thresholds to kick some illegal platforms out of the market. For example, put forward corresponding requirements for the registered capital. Set the minimum registered capital of the industry to increase the protection for investors.

Crowdfunding is also a type of internet finance. According to the research, together, the four companies realized ten successful campaigns and raised over 93 million yuan in 2019 [11]. And in 2020, together, the top-five platforms had 381 successful campaigns and raised more than 16 million yuan [12]. Crowdfunding help people a lot. First, crowdfunding is more openly than traditional financing methods. This model is more civilian.

The initiation and funding have nothing to do with age, identity, occupation, etc., and the commercial value of the project is no longer the only criterion for obtaining funds. As long as the project has advantages, it is easy to obtain funds through crowdfunding. Second, crowdfunding is less risky. It is not the same as applying for a loan with a bank, which requires complicated procedures and collateral, it will not bind the people with financial risks. If the investors are not satisfied with the investment, the funds can also be returned to the investors. Crowdfunding is less risky for both investors and fund raisers. For example, the Yu'E Bao in China, which provide one-stop comprehensive crowdfunding services for project sponsors in terms of fundraising, investment, incubation and operation, had met its funding target of \$11.77 million [13].

However, crowdfunding has several disadvantages. First, the investors on crowdfunding platforms are not specific enough. The crowdfunding platform can help you quickly raise funds for product development and production, but it cannot guarantee that your future capital chain remains complete. After providing early investment for traditional investment methods, if the project develops smoothly, you will have the opportunity to obtain subsequent rounds A, B and C financing. On the crowdfunding platform, those supporters may have already turned their attention to other novel inventions. Thus, the later investment is a problem for the production. Second, crowdfunding may involve "illegal fund-raising, which is to raise fund by fraud, with a large amount. Criminals may promise high returns or fabricate false projects or conclude trap contracts to defraud money from the public. At the same time, use the network to commit crimes and escape attacks through virtual space. Use spiritual and personal compulsion or family deception to expand the victim group. For example, the illegal fund-raising case of «TuanDaiWang» in China. Without permission, its derivative group operated the «TuanDaiWang» platform in violation of regulations, committed to capital protection and interest payment, high returns, and illegally absorbed huge amounts of funds from the public in the form of releasing financing projects, "Anyingbao" financial projects, private fund financial products, etc., with an outstanding amount of 34.82 billion yuan. During this period, derivative groups issued false financing projects and illegally deposited 32.56 billion yuan of funds, which were mainly used for illegal manipulation of stock trading, personal consumption and extravagance, causing huge losses. Derivative groups also use capital and shareholding advantages to manipulate the securities market. In addition, some defendants also falsely issued 67.6 million yuan of invoices and 1.43 million yuan of VAT special invoices. Third, compared with other fund-raising methods, crowdfunding is really inefficient. People need to find dozens of investors, and they also need to select the investor who are suitable. In the end, it is not easy to find appropriate shareholders who are satisfied with crowdfunding. In addition, we need to prepare a lot of data in the early stage, and use a lot of channel resources and flow resources. The operating cost is actually very high. But there is no guarantee of finding enough investors.

Here are some suggestions of improve these problems. First, the Chinese government should introduce relevant laws and regulations as soon as possible. Due to the lagging response of laws and regulations, crowdfunding can easily be characterized as illegal fund-raising, which has a large legal risk and, to some extent, inhibits the development of crowdfunding. So the government should improve relevant regulations to reduce illegal fund-raising. China's corporation law stipulates that the number of shareholders of a

limited company cannot exceed 50, which will limit the amount of crowdfunding and cannot give play to the advantage of large numbers. Therefore, the Chinese government should improve relevant laws and regulations, encourage and guarantee investment, open equity crowdfunding, and promote the sound development of crowdfunding. For instance, the “Venture Enterprise Financing Law” in America, which allows small and micro enterprises to conduct equity financing on crowdfunding networks, no longer limited to physical returns, which greatly guarantees the good development of crowdfunding. Second, the government should strengthen publicity and guidance and popularize crowdfunding knowledge. As most of the investor are not professional enough, the later investment cannot be guaranteed. The investor may be attracted by other products. Thus, it might be difficult for this product to develop. Therefore, government should inform the investors about the crowdfunding. Also, as crowdfunding is of great significance to market economy and social development, government should guide the investors and the general public to treat crowdfunding as a financial product correctly. And thus boost the development of crowdfunding. Third, Chinese government should create an assessment mechanism for crowdfunding. At present, China does not have a perfect evaluation mechanism, so investors cannot supervise and evaluate the sponsors in a real sense. This may lead to funds raised by crowdfunding being diverted for other purposes. On the basis of this mutual lack of trust, once there is a problem of benefit distribution, conflicts will erupt immediately, which is not conducive to the development of crowdfunding. Therefore, the government create a more comprehensive assessment mechanism, which favor the advancement of crowdfunding.

3 Conclusion

With the increase of people’s demand for the Internet and loans, the scale of Internet finance is growing. However, the technical problems and financial risk must be improved in order to provide a better service. Chinese government should strengthen the system of the platforms, also perfect the regulations about internet finance.

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