



# Research on Challenges Facing China's Internet Finance Law System

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**Abstract.** With the continuous development of computer technology, the traditional financial industry is undergoing tremendous changes in today's "Internet+" era. Internet finance can provide efficient and convenient financial services as a new inclusive economic model. However, due to the imperfection of relevant laws and supporting regulatory policies in China, many consumption infringements have emerged, seriously damaging the legitimate rights and interests of financial consumers.

Internet economic models such as online loans, Internet payments, and crowdfunding have brought new opportunities for people's financial consumption. This article will examine the basic theory of Internet finance to demonstrate its basic features, characteristics, and relevant business models, and to clear any potential misunderstandings facing the general public. Therefore, through reviewing past research and current laws and regulations, the problems and causes concerning the protection of Internet financial consumer rights in China are analyzed. Further countermeasures and suggestions to protect consumers' legitimate interests are proposed.

**Keywords:** Internet Finance · Legal Regulation · Supervision System

## 1 Introduction

In July 2015, China issued the "Guiding Opinions on Actively Promoting the 'Internet+' Action." The opinion regards "Internet+ Inclusive Finance" as one of the critical actions and encourages financial institutions to use technical means such as cloud computing, big data, and mobile Internet to integrate and innovate the Internet with banks, insurance, and funds. These measures are able to carry out various online financial services and provide multiple financial products to meet the investment and financing needs of small and medium-sized enterprises and individuals.

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Internet finance is a new inclusive financial model deeply integrated with financial business, digital and information technology [1]. As one of the most popular industries, Internet finance, with many advantages, has attracted many financial and computer talents to participate. However, one should also be aware of corresponding risks of the Internet, concerning personal information privacy and security. To a certain extent, Internet finance has promoted the trend of mixed operation in China's traditional financial industry and has further expanded the possibility of triggering systemic financial risks. The rapid development of Internet finance is a process of risk exposure. Many violations of laws and regulations, such as false financing, platform self-financing, illegal construction of fund pools, and fund-raising fraud, have brought significant risks to the financial order of the market and seriously damaged the rights of financial consumers. Therefore, it is essential to establish and improve the legal system to preserve digital financial consumers' interests [2]. On the issue of the relationship between the Internet financial market and the government, it has become a basic consensus that government intervention in the market is justified. This can be demonstrated by the current lack of systematic regulatory system for the novel financial instruments, and the government's capability of implementing regarding regulations and policies to ensure consumer property right and prevent potential financial accidents such as the subprime mortgage crisis. Therefore, there is room for discussion regarding depth, scope, means, and modes of authority intervention [3]. An essential theoretical issue in economic law is how to effectively regulate the Internet financial market within the framework of the rule of law. It is also a vivid embodiment of regulatory theory in the digital financial market.

## 2 Literature Review

The regulatory power of the existing financial regulatory system in the United States is distributed among independent agencies (such as the US Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission), government enterprises (such as the US Federal Deposit Insurance Corporation), government departments (such as the US Office of the Comptroller of the Currency and the US Office of Thrift Supervision) [4]. The "Financial Services and Markets Act" enacted by the United Kingdom is the first time that the "financial consumers" concept has been expressly stipulated in the laws. This hierarchical division model is of great significance to the relevant legislative construction of other countries in the world [5]. In addition to scholars from the United States and the United Kingdom, scholars from other countries have also put forward constructive opinions on protecting Internet financial consumer rights. For example, Reinhard Steen not, a scholar from Ghent University, discussed in detail the issues related to electronic contracts in Internet finance in his article and then explored the digital. Regarding issues related to the protection of consumer rights in finance, the paper argues that electronic contracts signed through the Internet are different from traditional face-to-face contracts [6].

China's Internet finance started relatively late, and the legal protection of the rights and interests of Internet financial consumers is relatively backward, and the legal mechanism could be better. Qian Lei believes that digital finance is a new financial model that uses Internet technology to realize financial data processing and credit rating, has

an independent financial operating system and involves both borrowers and lenders in financial activities [7]. Ning Lianju's "Innovative Development and Supervision Suggestions on Internet Finance" - the article believes that Internet financial products and services have a very high penetration rate among netizens, especially digital payment, which has the fastest development. Since there is no law specially formulated for financial consumers so far, Yu Chunmin explained the characteristics and status of financial consumers in "Legal Definition of Financial Consumers" and put forward his thoughts on future financial consumer legislation [8]. Wu Hong and Xu Zhen explored and analyzed the legal protection of the rights and interests of financial consumers from the perspective of jurisprudence in the article "Analysis of the Jurisprudence of Financial Consumer Protection" [9]. Wang Zhengze pointed out that due to the transaction characteristics of Internet finance, it is difficult for consumers to effectively protect their rights to know, privacy, independent choice, and property security, which also puts consumers at a disadvantage in Internet financial transactions [10].

### **3 Legal Challenges Faced by Consumers of Internet Finance**

#### **3.1 Personal Privacy Protection**

In the digital information age, protecting consumers' personal information is extremely important, but consumers' personal information is highly prone to leakage in Internet finance. On the one hand, consumers themselves lack awareness of personal data and privacy protection. On the other hand, it is often necessary in Internet finance to register and file biological information such as consumers' mobile phone numbers, ID numbers, and even face images. This characteristic increases the risk of leakage of consumers' personal information.

A prominent feature of personal information on the Internet is its strong correlation. This situation is relatively common in real life. For example, one can use an account to log in to different digital software through correlation authorization to log in to Internet software. At the same time, some software has more than one login method. For example, being the most popular social network application in China nowadays, WeChat can be logged in through a mobile phone number and mailbox. Once a piece of information is leaked, it may directly lead to the leak of all related information, and the follow-up consequences caused by the subsequent related effects are impossible to comprehend. Today's Internet communication technology is so developed that a minor leak of personal information may still reach a quick, comprehensive, and large scale. If personal information leakage occurs, the consequences will be severe and unimaginable.

#### **3.2 Consumer Property Safety Protection**

The characteristic of Internet finance is the lack of financial entities. The purchase of financial products and the provision of financial services are all carried out through the digital. Compared with the traditional financial transaction mode, the characteristics of Internet finance determine that there are more significant property security risks in its transactions. It has brought more challenges to the protection of consumers' financial

assets or properties. It is often difficult for consumers to balance the benefits and costs that Internet financial products can bring. This challenge, coupled with the lack of risk assessment, severely infringes on the property rights of Internet financial consumers. At the same time, Internet fraud caused by information asymmetry also seriously threatens consumers' property safety. Digital fraud generally lures consumers in the wrong ways by fabricating false information.

The digital financial model is a "double-edged sword." While bringing efficient and convenient new models of financial transactions, it also has colossal capital security risks. As far as consumers are concerned, since Internet financial transactions are all conducted through the Internet, and funds exist in electronic accounts, consumers are easily influenced by product introductions and give up awareness of risk identification, which is considered as an "impulsive consumption" phenomenon.

#### **4 Analysis of the Cause of the Problem**

In recent years, the lag of Internet finance laws in China has been in stark contrast to the rapid development of Internet finance. From the perspective of China's digital financial environment, laws and regulations related to providing essential services such as the personal Internet financial credit information system and Internet personal financial information security have yet to be promulgated. Specific to the existing digital financial laws and regulations, China's legal system still lacks particular rules for the supervision of Internet finance. On the one hand, the current regulatory rules are mostly declarative clauses that are not operable; a broad and complete regulatory authority has yet to be formed. Specifically, there is a lack of relevant laws to clarify the access system of Internet finance. Secondly, there are no legal standards for the qualifications and scope of financial operators. From this point of view, there are many gaps in the legal supervision of Internet finance in China, and China's Internet finance is still in a situation with no apparent legal regulation. The reason is that China started relatively late in digital legislation. It was not until 1991 that the "Computer Software Protection Regulations" was promulgated, and the "Decision on Maintaining Internet Security" was promulgated in 2000. To match the development of the Internet, China has successively issued more than 30 related administrative regulations, judicial interpretations, and departmental rules. However, the laws mentioned above need to be revised, or the writer needs to be more principled and straightforward. It is difficult to call them the fundamental laws in the digital field. The lack of higher-level laws has led to structural defects in China's Internet financial and legal systems. With the rapid development of Internet financial activities, traditional laws such as "Civil Law," "Contract Law," and "Commercial Law" can no longer meet various complex legal relationships, nor can they meet the spatial development needs of Internet finance. From this perspective, we must formulate specialized laws and regulations to standardize and supervise. Therefore, China urgently needs to formulate a fundamental law on Internet finance and gradually improve the legal system under its guidance.

## **5 Legal Advice on the Protection of Internet Financial Consumer**

### **5.1 Construct the Internet-Financial Legal System**

Internet financial consumers are the result of the evolution of legal subjects in the digital financial and social environment. Therefore, when formulating a special digital financial consumer law, Internet financial consumers should be the main body to protect Internet financial consumers' property, personal and other laws interests as the goal. Therefore, the determination of the subject identity of consumers in different legal eras and the setting of consumer rights and obligations, as well as the way of responsibilities, should follow the consumer-oriented legislative concept.

Building a sound legal system undoubtedly starts with legislation, revising existing laws, and matching rules and regulations. In constructing China's digital financial and legal supervision system, we must pay attention to the development of Internet finance on the one hand and the construction of the legal system on the other. Both hands must be adhered to. Given the problems existing in the current development of digital finance, the "Internet Finance Law" should first be formulated to regulate the development of Internet finance at the national level to promote the healthy development of the digital industry and protect consumers. This law shall become the fundamental law of digital finance. It must seek truth from facts in drafting, discussing, and drafting. It must be forward-looking and innovative while combining the actual situation of domestic Internet finance. It is necessary for the drafting to clarify the concept of digital finance concerning legal status, rights, obligations, and responsibilities in specific laws and regulations.

### **5.2 Improve the Existing Laws Related to Consumer Rights Protection**

Consumer rights include substantive rights such as the right to safety, the right to know, the right to fair trade, and the right to choose independently, as well as procedural rights such as the right to claim, as well as private rights such as the right to supervise and the right to education. However, China's existing laws, especially private law, still need to be supplemented to protect these fundamental rights, and the original legal provisions still need to be specified. Specific to protecting the rights and interests of Internet financial consumers in Internet finance, the right to network security still needs to be further improved. The existing "Consumer Rights Protection Law" only stipulates the fundamental issues of consumer rights protection in market economic activities. There are no specific provisions for the protection of consumer rights in digital finance. On the one hand, by improving the content of the existing "Consumer Rights Protection Law," the primary content of the protection of the legitimate rights and interests of Internet financial consumers can be stipulated from the level of the "Basic Law" to highlight the importance of protecting the rights and interests of Internet financial consumers. Dominance. At the same time, relevant financial laws should be revised before the Basic Law of digital Finance is promulgated and implemented. The Supreme Court should promptly modify the judicial interpretations of the existing financial laws to fill in the gaps in the current Internet financial laws and lay a good foundation for introducing the next Basic Law.

### 5.3 Build an Internet Financial Dispute Resolution Mechanism

Mediation should be adopted when digital financial consumers and operators have consumer disputes. How to mediate between the parties on the Internet is a complex problem. The difficulties encountered in resolving Internet financial product consumption disputes through litigation are the same as those faced by traditional litigation methods. The litigation costs are high, and the protracted litigation cycle and the tension caused by social order and interpersonal confrontation make litigation defects increasingly prominent. Compared with litigation as the last barrier to maintaining fairness and justice, non-litigation disputes play an essential role in handling Internet financial consumer disputes because of their more flexible dispute resolution channels. The reconciliation in Internet finance generally takes place in civil lawsuits. Only Internet financial operators and consumers participate in the settlement agreement between the two parties to realize the disposition of their legal rights; the reconciliation behavior can occur before or after litigation. If the two parties settle the lawsuit, the plaintiff should apply to withdraw the case, and the suit will be concluded after the court rules; the settlement agreement reached between the two parties is not enforceable.

The solution to Internet financial consumer disputes should be multi-dimensional, three-dimensional, and hierarchical. From mediation to financial institutions' internal processing, various dispute resolution methods coexist, and the resolution methods can be prioritized. The dispute resolution of Internet financial consumption should take the non-litigation dispute resolution channel as the leading way to resolve disputes.

## 6 Conclusion

Under the general trend of rapid development of digital finance, enhancing the country's financial competitiveness, developing the Internet financial market, and strengthening the protection of Internet financial consumers are critical goals of the current legal system and financial reform. As an inclusive financial model, online finance provides a wide range of financial products with efficient and convenient services for Internet financial consumers. However, compared with Western countries such as Europe and the United States, China's digital consumer rights protection faces several problems concerning legislation, supervision, institutions, and specific measures.

Internet finance, from budding to vigorous development, is the result of continuous innovation of information technology, which has dramatically invigorated the financial market and promoted the further development of the economy. Only by improving the legal supervision system and building a dispute resolution mechanism can we better protect Internet finance's healthy and stable development. The legal protection of Internet financial consumers and the construction of the legal system should pay attention to individual rights while taking into account the overall situation of society and strive to achieve fairness and security in digital financial transactions while obtaining maximum economic efficiency and benefits.

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