

Innovation research of internet financial model

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Abstract: With the development of big data, cloud computing, search engines and other technological advances, Internet financial continues to accelerate innovation. Its features of high efficiency, low cost and personalization bring new financial services to customers. Firstly, this paper analyzes the current situation of the main internet financial model. Then, it states the necessity and possibility of internet financial model innovation. Finally, it describes three emerging models of innovation, including the Webank, Equity crowdfunding and Cun Jinbao.

Introduction

With innovative application of Internet technology, such as big data, cloud computing and search engines. Internet financial model is increasingly innovative, from the Yu Ebao to today's Internet bank. Yu Ebao changed people's financial management concepts; P2P solved the financing needs of small and micro enterprises; Third party payment is a preliminary solution to the problem of online transactions. So, innovation not only promotes the development of Internet financial, but also solves the problems of high cost and low efficiency of traditional financial services. China's financial institutions are in a critical period of market reform. High efficiency, product diversification and other advantages of internet financial will force change on the traditional financial. Innovation of Internet financial model will inject more vitality into the transformation and upgrading of financial formats, thus opening the real inclusive financial model.

Typical models and current situation of Internet financial in China

Third party payment online model.

That is, the users firstly register on the website of the third party payment companies, and with the bank card after binding to carry out an online payment behavior. In this mode, the third party payment platform as a "fair middleman", initially solved the problem of the integrity of online transactions, thus promoting the rapid development of online transactions. Among them, China UnionPay is the most influential third party payment company and has a monopoly in the market, the main advantage lies in the line and enterprise users scale; while Alipay and TenPay has accumulated years of experience in the Internet industry, they has obvious advantages in the electronic commerce, IT technology and business innovation, the three in the third party payment industry has formed a situation of tripartite confrontation situation. After many years of the third party payment market development, according to Ai Rui consulting agency statistics, in 2014 China's third party Internet payment transaction size reached 8.0767 trillion, year on year growth of 50.3%, for the complex structure of the transaction size, the online shopping still has occupied the largest share, followed by air tickets and fund purchase market. But there are many problems in the third party payment platform. The main problem is the regulatory mechanism, relative to the United States stringent financial security supervision system, the relevant laws and regulations of the third party payment is not related to the legal responsibility of the unauthorized transferring of funds, which could not enough guarantee the consumer's financial security, and ultimately hurt the interests of consumers. Second, it is hard to profit. The main source of profit for the third party payment platform is transaction fees, which is based on the expansion of value-added services. With the rise of new business models, such as mobile payments, online financial product and O2O,

financial institutions will pay more and more attention to cooperation with the third party Internet payment companies to help third parties to find new business growth point. At present, this power has not yet fully erupted. In the next two years, internet financial will promote the third party Internet payment to be stronger, or to further improve the transaction size growth.

P2P loan online model.

Through the P2P platform, investors who have enough money can lend money to the borrower who has funding needs. It is a model that can achieve direct financing for the individual. This model takes advantages of wide audience, low lending threshold, using the idle funds intensively, which in a certain extent make up the shortage of traditional financial institutions, promote financing channel expansion and development of private investment and form a market diversified financing pattern [1]. Network financing industry is developing rapidly. There are 1575 domestic P2P platforms in 2014, increased by nearly double the turnover of 252.8 billion compared to 2013, an increase of 1.5 times more than in 2013. However, monitoring data showed that 275 P2P platforms almost closed down in 2014. Among them, there are 92 platforms in December alone. These failures indicate that the field of network financing is full of risks. The potential risk of network financing model is being exposed step by step after the extensive growth, in addition to operating risks and technical risks, but also need to further improve the credit system as well as optimize risk management programs, thereby avoiding credit risk.

E-commerce small loan model.

This model is based on the accumulation of online business behavior data from e-commerce platform, and provides a small amount of credit services for online merchant (including individuals and small and micro enterprises) in the e-commerce platform with the help of powerful data processing methods and tools, the basic characteristics are small amount and unsecured. The default rate is lower and more able to guarantee loan's safety in this model, which is conducive to maintaining the microfinance market order, not only meet the network business loan demand, alleviate the problem of network financing in our country, also can increase the income of electronic commerce platform [2]. At present, Alibaba group, Suning yunshang, Jing dong Mall and other e-commerce enterprises have entered into e-commerce microfinance financial business. However, due to the characteristics of information collection, the e-commerce small loan company cannot provide service for the line that has financial needs. Although more advantages of the e-commerce small loan, own funds are limited, and cannot absorb deposits, resulting that the size of the loan is smaller and some business are limited compared with the bank and other financial intermediaries.

Necessity and possibility of internet financial model innovation

Necessity of internet financial model innovation

First of all, it is increasingly evident that profitability tends to be on the decrease in the traditional area of advantage. In terms of the third party payment model, firstly, the online shopping, air tickets and other fields have been relatively mature; the penetration of third party payment in the mature field has been relatively peaked. Secondly, after the full price war, the level of profit margins gradually decline in some areas. At the same time, Yu Ebao, an excellent representative of China's internet financial innovation, began to decline for the first time since the beginning of the third quarter of 2014. The glory and light began to fade from the Yu Ebao and monetary fund, with ease of capital supply and demand pattern. The regulatory framework is becoming more perfect, money fund products also lose the attraction to people gradually and profitability has declined. Therefore, the incremental of traditional advantages will gradually shrink in the future. On one hand, the Internet financial industry must strengthen the traditional advantages. On the other hand, it should actively explore new areas and new markets through penetrating into the traditional industries of electronic commerce, three or four line and rural markets, line industry and cross-border e-commerce market. The new model derived from the original business, personal customer resources and data assets will help Internet payment companies make a breakthrough in the profitability, but also can find a new profit growth point for financial institutions.

Secondly, the demand for financial services becomes more and more diverse, which makes the Internet financial model of continuous innovation. With the improvement of living standards, people began to have more idle deposits and the demand for financial services generally improved. Yu Ebao broke the previous financial predicament, money remains in Alipay can not only get the interest and interest income is higher than bank account. After this, people's enthusiasm for investment continues to rise, in order to retain customers and funds, the number of financial products of fund department, banking system, third party payment system and third party sales increased. However, the homogeneity of most financial products is too high, and people tend to be interested only in those products with low risk and high income. So, whether it is the Yu Ebao or P2P, they meet the specific financial needs of customers in a specific period, but they cannot bring customers the best financial experience. The direction of the Internet financial model innovation in the future should be improved by tailoring financial products and services for the customer [3].

Thirdly, the defects of Internet financial model also prompts model innovation. Because defects means risk, compared with the traditional financial, the risk of Internet financial model spread faster, more infectious and serious. Especially in the P2P industry, P2P net loan is very hot in the last two years. There are a large number of P2P net loan platforms at home currently, such as “Yi Ren” loans, “Ren Ren” loans, “Pai Pai” loans and so forth. They appeared to solve the financing difficulties of small and micro enterprise. However, imperfect credit evaluation system force many P2P net loan platforms carry out business from the online to the line and even transfer debt, touching the bottom line of illegal fund-raising will undoubtedly make financial companies into trouble. Third party custody is only one of the possible means of reducing the risk. Private lending is a subprime lending and the risk is higher. Therefore, the net loan platform needs a new business model, so as to ensure network financing industry develop healthy.

Possibility of internet financial model innovation

Firstly, the continuous development of internet technology has provided the fundamental preconditions for the innovation of the internet financial model. The Internet represents a series of advanced science and technology, such as big data, cloud computing, search engines and so on [4]. The integration of Internet and finance has been realized with the support of Internet technology, which makes financial information tends to be transparent and be obtained easily. Better information sharing not only reduces the asymmetry of the transaction information, but also reduces the transaction costs. These advantages over the traditional finance are the result of the Internet technology breakthroughs. Advanced technology will contribute to innovation of the Internet financial model for years to come.

Secondly, the Internet financial industry policy environment provides favorable conditions for the innovation of Internet financial mode. In recent years, the policy environment of third party payment market has changed significantly. First of all, the sales of traditional financial products in the form of e-commerce , especially funds and insurance, achieved a breakthrough, Relevant laws established the compliance status of third party payment companies and e-commerce platform at the policy level ; What’s more, many third-party payment companies ,including Alipay, TenPay, Quick money, obtained the cross-border payment license, which laid the foundation for the third party payment companies to expand overseas and cross-border payments market; Finally, the third party payment license begin to open for overseas capital, which has brought more multiple participators in the overall payment industry and indirectly promoted the innovation of domestic payment enterprises.

The emerging internet financial model of innovation

Webank

By the end of 2014, China Banking Regulatory Commission has approved five private banks. Private banks-- Shenzhen Qianhai Webank, which belongs to China’s Internet giant Tencent, began trial operation on January 18, 2015. It becomes China's first internet private banks. Webank will focus on services for individual consumers and small and micro businesses. Webank has no

business outlets, no business counter, no property guarantees, but offers loans through the face recognition technology and large data credit rating. This new financial operation mode is very attractive and innovative. Compared with the traditional bank, you can find several advantages of Webank.

First of all, webank conducts financial transactions on the Internet, which will greatly reduce the cost of transactions and improve the efficiency of financial transactions. It saves the cost of building management, labor cost and time cost of customers running bank. Webank business cannot be restricted by time, place and space, which greatly improves the efficiency. Secondly, Webank will make the value chain of loan business reconstruction. Relying on Tencent's huge social networking platform, business model will be located in “small loan”, and no longer pursue “big”, but “precision”. Such institutions which similar to Webank have significant advantages, such as flexible management mechanism, clear structure, low transaction costs, no historical burden, and better customer experience and cross geographical coverage [5].

Equity-based crowdfunding

Equity financing rose by the company to sell a certain percentage of the shares for ordinary investors, investors can get future earnings through investment in shares of the company. This model based on the Internet channel for financing is called equity-based crowdfunding [6]. This kind of new financial model not only provide a broad display platform for entrepreneurs, but also provide more investment opportunities for angel investors, VC, PE. To the beginning of 2015, the national frequent good policy news makes equity-based crowdfunding more legal certainty. In the future, equity-based crowdfunding will be more standardized. Some platforms which don't be audited strict enough and don't absorb the funds to the specific object will be eliminated by the market and the law. Operating model of equity-based crowdfunding is shown below.

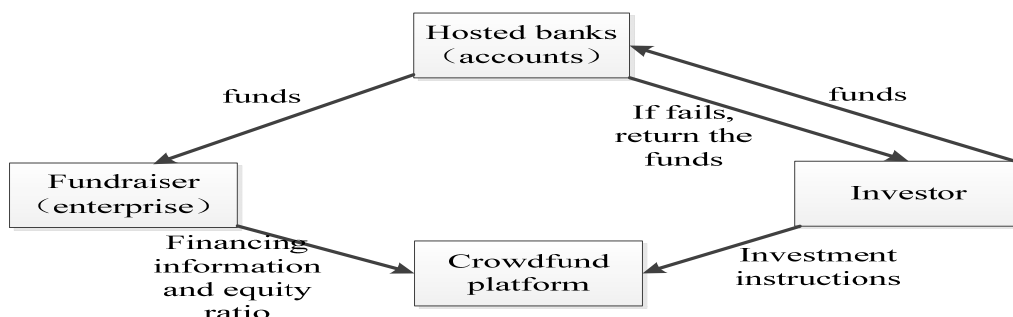


Fig1. Operating model of Equity-based crowdfunding

The extension of the Internet - Cun Jinbao

Cun Jinbao provide gold access services, it was built by Alipay payment Service Company and Boshi fund. Buying Cun Jinbao means buying fund sold by Bohshi fund. Boshi gold exchange traded fund (ETF) is a kind of fund that can invest gold, it provides users with a low starting point and no fee convenient service, and holders have the right of buying gold for gold. In the traditional purchase mode, investors purchase fund with gold contract through the securities companies. In the process, investors need to open a securities account, and the redemption process is completed in exchange market. Cun Jinbao has broken this transaction mode. Investors can put cash into Alipay firstly; Alipay will exchange cash for Boshi gold ETF share, merging with the Boshi gold ETF of exchange market. Operating model of Cun Jinbao is shown below.

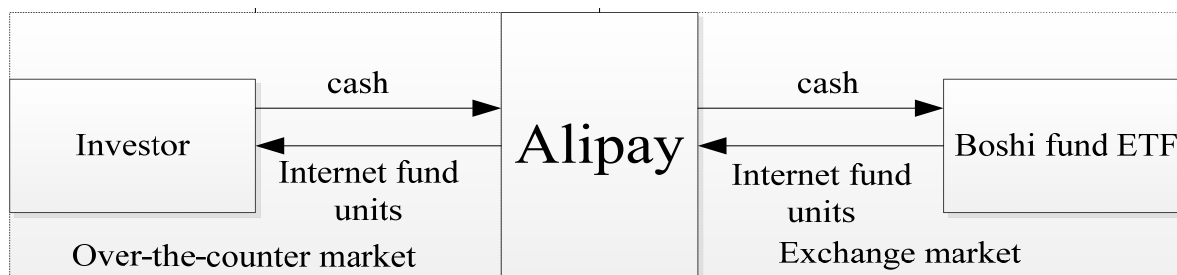


Fig2. Operating model of Cun Jinbao

Cun Jinbao has three aspects of innovation: first, it expands the financial product category, so that the gold investment is no longer distant. Second, it opens up the exchange market and over-the-counter market. Third, low investment threshold and strong sales channels make small investors participate in gold investment, which is conducive to the growth in the size of the product in the future.

Conclusion

In today's rapid development of Internet technology, financial innovation has become the trend, the development of Internet financial promotes the reform of the entire financial industry. From Yu Ebao to today's P2P army, each step of innovation has affected people's financial life, leading to a series of changes in financial services, financial instruments, financial institutions and the financial system. However, no matter which kind of model is not perfect, every model's defects have been a serious challenge to innovation. From Webank, Equity-based crowdfunding, Cun Jinbao and other emerging Internet financial model, we can see that Internet has been gradually infiltrating the traditional industry chain and industry competition will become increasingly fierce. It will become increasingly evident that internet financial models play the role in heterogeneous substitution.

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