

Internet Financial Risk and Its Preventive Measures

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Abstract: With the rapid development of Internet finance, various types of risk cases occur frequently, affecting the stable and healthy development of the financial system. This paper summarizes the categories of Internet financial risks and analyzes the characteristics of Internet financial risks: high risk complexity, rapid risk generation, increased risk contagion, reduced risk controllability, significant risk exposure by external factors, and more difficult risk regulation. The countermeasures against Internet financial risks are put forward: clarify the main body of supervision and supervision of Internet finance, fully learn from the experience of Internet financial risk prevention in developed countries, regulate Internet financial behavior through sound laws and regulations, build an Internet financial information technology security system, and establish industry self-discipline. The organization promotes the sound development of the industry and adopts comprehensive financial supervision measures to prevent systemic risks.

1. Introduction

Internet finance is a new financial business model used by traditional financial institutions and Internet companies to use Internet technology and information and communication technologies to achieve financial, financial, payment, investment and information intermediary services. The deep integration of the Internet and finance is the general trend and will have a profound impact on financial products, business, organization and services. Internet finance has played an active role in promoting the development of enterprises and expanding employment, and it has played an irreplaceable role in the existing financial institutions, opening the door for mass entrepreneurship and innovation. Promoting the healthy development of Internet finance is conducive to improving the quality and efficiency of financial services, deepening financial reforms, promoting the development of financial innovation, expanding the opening up of the financial industry to the outside world, and building a multi-level financial system. As a new thing, Internet finance needs both market-driven, innovative, and policy-driven development.

Financial risk refers to any risk that may result in financial loss to the business or organization. The consequences of risk occurring in financial institutions often exceed their own impact. The risks that financial institutions appear in specific financial transaction activities may pose a threat to the survival of financial institutions themselves; a specific financial institution may be in crisis due to poor management, which may pose a threat to the sound operation of the entire financial system; Systemic risks and the failure of the financial system will inevitably lead to chaos in the entire social economic order and even lead to serious political crisis.

The risk is due to the lack of conditions or changes in the conditions, resulting in the possibility that the purpose could not achieve the expected results. While Internet finance brings convenience, it also fuels financial risks. Internet financial risk refers to all the uncontrollability, uncertainty and possibility of loss in the Internet financial business. Internet financial risks, including the risks of traditional financial products in terms of credit and ethics, as well as the risks of technical defects and cyber security risks arising from Internet applications. The Internet financial risk is affected by the sharing of network information. The diffusion path has certain openness and rapidity. The risk contagion has certain overall and cross-cutting effects, which affects the stable and healthy development of the financial system.

Financial risk prevention refers to the main body of the financial market. Based on the relevant analysis, it uses certain methods to prevent the occurrence of risks or avoid risks to achieve the desired goals. With the rapid development of Internet finance, various types of risk cases have occurred frequently, which has led to certain deviations from the correct innovation direction of Internet finance. Therefore, in the era of rapid development of Internet finance, Internet financial risk prevention has become a prominent problem to be solved urgently.

2. Categories of Internet Financial Risk

The application of Internet technology in the financial field is like a “double-edged sword”, which effectively reduces the time and cost of financial transactions and expands the boundaries of financial transactions. However, because Internet finance has new characteristics different from traditional financial institutions, it leads to Internet finance. The risks are more complex and have the dual attributes of traditional financial risks and interconnected technology risks. The specific categories include the following:

(1) Liquidity risk. Whether the liquidity is sufficient determines whether the company can operate normally. Traditional finance has a more complete deposit reserve and risk reserve system than Internet finance to ensure the liquidity of financial institutions. It is the extension and variation of traditional financial liquidity risk in the network field that Internet financial enterprises cannot obtain sufficiently funds in time or obtain sufficient funds at reasonable cost to cope with the risk of asset growth or payment of debts due. The core of liquidity risk is that the matching of wealth management funds and credit assets is unreasonably misplaced in quantity and time limit, resulting in impaired expected returns.

(2) Regulatory risk. Mainly from the mismatch between the separate supervision mode and the mixed business model. Cross-industry, cross-sectoral, and cross-sectoral business are prominent features of Internet finance. The business scope includes banking business, securities business and insurance business. It has formed several types of financial services based on the Internet-based deep integration model. At present, China's financial industry is subject to separate supervision and supervision, and there is a regulatory vacuum. The risk reserve, bad debt rate, information disclosure, risk rating and investor protection of Internet finance are not included in the scope of supervision, which may lead to accelerated cross-cutting and aggregation of regulatory risks.

(3) Technical risks. Internet technology itself has technical risks, including technical security, technical capacity, hacking, password leakage, and account fund theft of trusted information systems. Trader identity and authenticity are difficult to identify, and there is a high risk of consumer information disclosure, as well as fraud and deception. Compared with the closed business system of the bank, Internet financial user sensitive information and personal property have greater security risks and accelerate the spread of risks such as payment and clearing, making the risk appear between non-traditional financial institutions and traditional financial institutions. Transfer.

(4) Legal risks. One of the characteristics of finance is to be strictly regulated by laws and regulations. At present, there are no mature legal provisions and clear supervision departments in China. There are problems in the implementation of risk prevention for Internet finance, such as imperfect credit system, lagging laws and lack of supervision. It is also affected by the regulation of monetary policy. The virtual currency issuer is not a financial institution. Breaking the relatively stable financial order will also constitute a great potential. There are also unqualified borrowers using the Internet financial platform for illegal fund-raising activities and diverting funds for other purposes to earn interest rate differences, there is also a great risk.

(5) Credit risk. Information risk refers to the risk that an Internet financial transaction entity does not fully fulfill its obligations on the contractual maturity date. Internet finance has significant virtuality, data validity and insufficient authenticity, and credit risk becomes the biggest risk, extending the risk of Internet financial fraud, both internal and external. The risk of external fraud is a third-party trading platform that exploits the advantages of fundraising and causes misappropriation or loss of funds through theft of funds and falsification of materials. The risk of

internal fraud is the risk of illegal financial marketing companies issuing false marketing credits and conducting irregularities and illegal transactions.

(6) Reputation risk. A good reputation can help companies gain a competitive advantage, which is very important for the development of the company. The company faces reputational risks all the time. Factors affecting the reputation of Internet finance include platform maintenance vulnerabilities, imperfect security measures, platform systems that are vulnerable to hacking, and platform failures that affect customer operations. The development of Internet finance is relatively short, and people's understanding is relatively lacking. Users publish negative comments on the platform through the Internet, which leads to the loss of the reputation of Internet financing companies, and ultimately affects the scale expansion and profitability of Internet financial enterprises.

3. Characteristics of Internet Financial Risk

Internet finance is a new format formed by the combination of Internet technology and traditional finance. It has both Internet and financial characteristics. Compared with traditional finance, the risk is more complicated and has the following characteristics:

(1) The risk complexity is high. While providing high-efficiency inclusive financial services to customers, Internet finance is highly dependent on technology security. Based on the technical characteristics of the Internet, while providing financial services, it is also likely to encounter risks such as hacker attacks and information disclosure, plus the Internet. There are many service nodes in finance, and any problem in any node may lead to risk. With the continuous development of Internet finance, the financial fields involved are becoming more and more extensive, including banks, securities, funds and insurance. The business is becoming more and more complex, which also increases the complexity of the risk to a certain extent.

(2) Risks are generated more quickly. The concealment of risks leads to sudden and rapid changes, including moral hazard hidden in lower business thresholds, hidden network risks due to efficiency and security, and liquidity risks hidden in the design of trading systems. In addition, cross-border business in financial activities brings more complex systemic risks. The combination of finance and the Internet has made cross-border activities such as e-commerce overseas gold rushing increasingly active, masking the systemic risk boundary of a single industry. The risk uncertainty has increased, the risk is generated more quickly.

(3) Increased risk contagion. Traditional financial institutions operate independently and are regulated by themselves. The risks of financial institutions are relatively independent. When a financial institution is in risk, it has little or no impact on other financial institutions. The isolation effectiveness of Internet finance is relatively weak, and the intertwined and infiltrated institutions and customers strengthen the risk linkage between the financial industry and the state. The risk not only affects an Internet financial institution, but also rapidly spreads to the overall industry. In other words, the financial industry in the Internet environment is relatively high in relevance, and it is easier to form mutual contagion between financial risks.

(4) Risk controllability is reduced. Traditional media is one-way communication, and information disseminators and recipients have asymmetry. When financial institutions are exposed to risks, they can take effective measures to control or eliminate risks within a certain period of time to minimize the risk of harm. Internet channels rely on digitization and databases, resulting in reduced error correction space. Internet finance relies on Internet technology. In the virtual space of the network, time and space are no longer obstacles to information dissemination. Information dissemination is extremely fast, and the time to resolve risks is extremely short. It is difficult to solve problems in time when risks occur, reducing the controllability of risks.

(5) Risk is significantly affected by external factors. In traditional financial institutions, the expression of financial activities is the exchange and transmission of monetary information. The exchange and transmission process of Internet finance uses the currency represented by digital information. The flow rate is fast, the scope is wide, and the quantity is large. Once it is infected by viruses, hackers and system damage, it will cause losses. In addition, government regulation and

laws and regulations for Internet finance are still not perfect. Some super-financial institutions have the ability to manipulate the market and pass on risks, obtain improper benefits from them, affect the normal operation of the entire industry, and suffer losses in Internet finance.

(6) Risk supervision is more difficult. Internet finance has virtual characteristics. Many businesses are carried out on the Internet. Normal operating activities are no longer limited by time and space. Coupled with the virtualized transaction process and transaction objects, as well as the opacity of transactions, it is easy to be in the regulatory process. In the case of information asymmetry, the regulatory body cannot fully understand the true situation of the regulatory object and cannot accurately predict the risks that may be faced. Once the risk occurs, it is not conducive to the effective regulatory measures of the regulatory body. Risk prevention measures are difficult to implement.

4. Preventive Measures of Internet Financial Risk

China's Internet finance has been at the forefront of the world, and its social influence is growing. It has changed people's production and life style and has become an important force in promoting economic and social development. Internet finance brings risks different from traditional financial models. Risks are more easily transmitted and spread, posing a serious threat to economic and financial security. Therefore, it is necessary to formulate practical and feasible risk prevention measures, create a financial environment for orderly development, and ensure the stable and healthy development of Internet finance.

(1) Clarify the regulatory subjects and regulatory principles of Internet finance. The supervisory body is the executor and responsible implementer of risk prevention, and the supervision principle is the premise of risk prevention. The supervisory body can divide the work from the two aspects of administrative supervision and industry self-discipline. The Internet payment is based on the PBC, and the network lending is regulated by the CBRC. The supervision principle includes four aspects: First, classification supervision, different supervision methods for different forms of Internet finance; second, moderate supervision, could not exceed the region where market means play a role; third, coordinated supervision, relevant regulatory bodies must Do a good job of information coordination and communication; Fourth, three-dimensional supervision, to achieve supervision from multiple perspectives such as institutions and institutions.

(2) Fully draw on the experience of Internet financial risk prevention in developed countries. The Internet financial risks in developed countries in Europe and America are generally low. This is inseparable from the mature Internet financial system and the high risks awareness of investors. The developed insurance industry and industry self-discipline associations also reduce Internet financial risks to a certain extent. It has a good reference for China's Internet financial risk prevention, including four aspects: First, the integration of Internet finance into the existing regulatory system to enhance risk supervision; Second, to protect consumer rights and its financial security, to avoid systemic risks The third is to reduce liquidity risk according to the regulation of business substantive behavior; the fourth is to encourage industry self-regulatory institutions to play a role in effectively reducing risks.

(3) Standardize Internet financial behavior through sound legal and regulatory systems. The existing financial laws and regulations are mainly aimed at traditional finance. After years of development of Internet finance, relevant departments have also introduced some laws and regulations, but it behind the development speed of the entire industry. There are large number of legal gaps in the Internet financial industry's access mechanism, business operation mode monitoring, information protection mechanism and deposit fund supervision, which has certain security risks in the development of the industry. Under the trend of rapid development of Internet finance, accelerate Internet finance. The legislative process of risk prevention laws and regulations and the establishment of a sound Internet financial risk prevention legal system are of vital importance to promoting the healthy development of the Internet finance industry.

(4) Building an Internet financial information technology security system. Internet finance has both the dual characteristics of finance and the Internet. Security development is inseparable from

Internet information technology. Internet security has caused repeated security incidents due to technical factors. Internet technology security has increasingly become the focus of the Internet finance industry. It is essential to build a secure Internet financial operation system. On the one hand, increase capital investment, focus on basic technology, innovate core technologies, improve the ability of network systems to resist external attacks, and ensure a secure network environment; on the other hand, use encryption technology and security certification to ensure the security of data information. Technology and signing security application standards and protocols to ensure foolproof.

(5) Establish industry self-regulatory organizations to promote the sound development of the industry. Industry self-discipline organization refers to a social intermediary organization that industrial and commercial enterprises organize spontaneously in order to coordinate business activities between enterprises and communicate information. Industry self-discipline plays an important role in the development of Internet finance. It is an active exploration of the national financial governance system and the modernization of governance capabilities. It is an important part of building a long-term mechanism for Internet financial supervision and risk prevention. It is a powerful measure to promote the high-quality development of Internet finance. Establish an effective way to improve the ecological environment of the Internet finance. Under the guidance of the regulatory authorities, we will unite the strength of our members, cooperate with the special rectification of Internet financial risks, and earnestly fulfill the self-discipline responsibilities of the Internet finance industry.

(6) Take comprehensive financial supervision measures to prevent systemic risks. Systemic risks will bring harm to the entire financial system or most financial institutions, and the consequences will be universal. To prevent systemic risks, comprehensive financial supervision measures should be taken: First, increase vigilance and establish an effective early warning mechanism. Monitor business risks that may cause systemic and regional risks at any time, and prevent systemic risks from the source; second, pay attention to the impact of economic cyclical, and the regulatory authorities should increase support to avoid and mitigate the losses caused by systemic risks; Third, increase the crackdown and punishment on online rumors, discover rumors in a timely manner, clarify the truth in the first place, and prevent the spread and transmission of financial fragility.

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