

Thoughts on the Profit Model of Internet Finance*

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Abstract—The development of Internet financial industry has impacted traditional financial institutions, and is gradually changing the financial market structure. However, there are many problems in the profit model of Internet financial enterprises, which deserve further study. This paper focuses on the research of profit model in the development of Internet finance industry. Combining the relevant experience in China and foreign countries, this paper puts forward measures and countermeasures to improve the profit model of Internet financial enterprises, stimulate the vitality of Internet financial market, realize the transformation of profit model of Internet financial enterprises, and promote the healthy development of Internet financial enterprises.

Keywords—internet finance; profit model; financial innovation

I. INTRODUCTION

In recent years, Internet finance has developed rapidly. The third-party payment platform, P2P network loan platform and various crowdfunding institutions have sprung up barbarously, which has caused a certain impact on the traditional financial industry. With the development of Internet finance, more and more disadvantages and problems have been exposed. Financial risks have been aggravated, and the difficulty of supervision has been increased. The boundaries among different industries cannot be clarified, and the security of users' property and information is difficult to be guaranteed. Internet financial enterprises have the problems, such as single profit model, lacking innovation ability, and insufficient trust of users. Therefore, innovating profit model, stimulating the vitality of Internet financial market, and realizing the transformation of profit model of Internet financial enterprises have become important topics at present.

II. MAJOR PROFIT MODELS OF INTERNET FINANCE

A. Operation Mode and Main Income Sources of Internet Finance

Internet financial enterprises mainly provide financial products and services to users through the use of search engines, mobile payment, cloud computing, data mining and other platform tools, and earn intermediate income, which is the prevailing profit model of the Internet financial industry.

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The platforms for Internet financial enterprises to rely on are: third-party payment enterprises (Alipay, YeePay, Lacala, Tenpay, Quick money and ChinaPnR), P2P petty loan, crowdfunding financing mode, virtual electronic currency mode (Bitcoin), etc. The income sources of third-party payment enterprises are mainly service charge, advertising fees and investment income, and the growth mainly depends on the scale effect. The main profit sources in the P2P model are interest income (lender-borrower: at this time, loan income is higher than borrowing income) or (borrower-lender: at this time, borrowing income is higher than loan income). The main profit sources of virtual money are income-cost; and crowdfunding financing mode: commission income, and advertising revenue, etc.

B. Major Profit Model of Internet Finance

1) *Online profit model of traditional financial business:* For a long time, the traditional financial industry mainly includes: banks, funds, insurance, securities companies and so on. Traditional online financial services include online banking, mobile banking or mobile payment network securities. For the first time, Ali's earnings report revealed that Alipay's global active users reached 870 million. According to Alibaba financial data, Peng Boshe calculates that the pre-tax profit of Ant Financial Services Group in fiscal year 2018 is 9.18 billion yuan (about 1.4 billion US dollars), with an increase of 65% over that in the same period last year. From the financial report, the steady growth of Alibaba Group's cross-border and international retail business is the direct driving force for the growth of Ant Financial Services Group. In fiscal year 2018, Alibaba Group's revenue was 250.266 billion yuan, up 58% year-on-year. It has made the highest growth rate since the IPO. Among them, Alibaba International Business Retail Revenue increased 94% year on year.¹

2) *Profit model of credit business:* Credit business mainly refers to network loans, such as Ping'an loans, Lufax, Ali Quantitative Loan and so on. Network loan can reduce the transaction cost between the financial integrator and the financial lender due to the information closure and the impediment of market information transmission. The Internet has the advantages of large information capacity and fast transmission speed, and the fund integrator can

¹ http://www.sohu.com/a/249758983_379902

make clear the flow direction of funds. Because of information superiority and scale benefit, enterprises can obtain huge income of deposit-loan spreads.

3) *Profit model of non-credit products*: In short, non-credit Internet finance refers to all financial services except credit. It mainly includes: online third-party payment, fund securities, financial products, online insurance and so on. China's third-party payment industry has grown rapidly. Since 2013, the scale of third-party payment transactions has grown at an average annual rate of 50%. In 2017 and 2018, China continued its high-speed growth inertia with a growth rate of about 68%, reaching 98.7 trillion yuan in 2017. It is expected to reach 229 trillion yuan in 2019. Another source of income is management fee income. Taking Yu'E Bao as an example, Tianhong Assets, a money market fund, has expanded its fund share in asset management in cooperation with Yu'E Bao, the third-party payment company, totaling 1,139,637,503,048.31, and resulting in high management fees.²

III. PROBLEMS IN CURRENT INTERNET FINANCIAL PROFIT MODEL

A. *It Increases the Quantity and Doesn't Increase the Profit*

The development of Internet finance lies not in the growth of quantity, but in the breakthrough of quality. Because of the lack of core competitiveness of Internet financial enterprises, especially the lack of the ability to utilize big data and cloud computing, they are unable to develop financial products that meet the basic needs of the people and meet the risk control challenges of Internet finance in a timely manner. They are unable to expand the depth and breadth of financial services, thus failing to produce strong economies of scale, and create value to the industry.

B. *Trust Crisis Leads to Low User Stickiness*

In assessing the risk of debit and credit, the level of credit is very critical. However, the construction of credit information system in China is still very slow, unable to keep pace with the pace of developed countries. The construction of credit information system cannot be in line with the world. The emergence and growth of P2P online lending platforms with low default costs, borrowers or enterprises will further make many unqualified and irregular lending platforms and many irregular default borrowers more arrogant and even uncontrollable. At the same time, due to the lack of authoritative, professional and technical qualifications of third-party credit system evaluation agencies, the fairness and professionalism of the platform will be discounted. In order to achieve the purpose of sustainable operation of the platform, there may be interest transfer. In addition, the risks of financial products and the characteristics of high risk and strong contagion of Internet platform make Internet financial risks have "multiplier effect", which greatly increases the risks. Especially in the case of payment transaction

difficulties, it is easy to appear domino effect, affecting the entire financial sector. And then, a catastrophic financial crisis will break out. This makes the Internet financial products cannot get the trust of most consumers, and the user viscosity is not high. How to make customers become repeat customers and make repeat customers become regular customers have been a problem and the focus of the Internet financial industry.

C. *Business Model Homogeneity Leads to Inadequate Innovation of Profit Model*

Unique business model can form unique competitiveness, and become a unique model that can be duplicated by itself but cannot be imitated by other enterprises. Therefore, it is also an important factor affecting the core competitiveness of enterprises. The same is true for Internet financial companies. However, the current operating mode of Internet financial enterprises is seriously convergent, lacking of uniqueness and diversity.

First of all, many domestic Internet financial enterprises lack originality and innovative spirit. They are good at imitating, and copying. The online financial products are not innovative. There are more and more imitators in the industry, which makes the whole Internet financial industry, show the tendency of homogenization and lack of innovation.

Secondly, it only attracts users' attention through high profits, but does not innovate and upgrade the profit model in essence. Due to the lack of core technology, it is difficult for some Internet financial enterprises to develop and grow, to change their business model, and to occupy a favorable position and a huge market share in the market competition.

Thirdly, Internet finance has not formed a stable profit structure and model. At present, the main revenue comes from the collection of management fees, and even some enterprises do not charge any intermediate fees, but expand the number and scale of users through unfair competition.

D. *Difficulties in Advertising Identification and Supervision Greatly Affect the Development of the Industry*

In order to get rich profits, Internet financial enterprises have false advertisements. However, most investors do not have a good understanding of Internet financial products, coupled with inadequate analysis of their own needs and positioning, which makes the profitability of financial enterprises not optimistic. In fact, most online websites have many problems, such as big loopholes, weak compatibility of websites, lack of professionals to maintain websites, failure of intelligent data question-and-answer service to meet consumers' needs in time, leakage of users' privacy, failure to protect users' privacy, and difficulty in ensuring users' property security. Off-line propaganda channels mainly include advertising in TV, cinema lines and patches, elevator periphery, subway high-speed rail, bus stations and other places, and use a large-scale way to increase user attraction. There are many forms of advertising, including the good and bad, and it is difficult to distinguish between the true and the false. Many investors make the investment blindly, and

² <http://www.chinairm.com/news/20181113/143438348.shtml>

eventually fall into the trap of being deceived, which leads to the crisis of trust in the industry.

IV. SUGGESTIONS ON IMPROVING THE PROFIT MODEL OF INTERNET FINANCIAL ENTERPRISES

A. *Developing the User Scale and Value-added Services*

Using the high-speed operation mode of big data platform, we can accurately locate the user groups and industry segments, and improve the level of customer service and service quality. Through reform and innovation, more product service modes are introduced, which not only focus on the improvement of pre-sale service and efficiency, but also pay more attention to the diversification of service modes, emphasizing after-sale service experience, and enhancing user attraction. On the basis of developing and broadening the original service channels, value-added services such as customer risk-benefit analysis and comparison, and precise customer docking of financial products are introduced. We develop inclusive finance vigorously, making Internet finance more inclined to vulnerable groups.

B. *Building a Brand of Financial Services and Enhancing the Trust of Users*

1) *Strengthening the credit construction of internet financial enterprises:* The enterprises should establish a good reputation and image, and open up a variety of supervision channels, such as "WeChat, Weibo, microvideo and customer service-side" to accept social supervision. Through the collection of WeChat Official Accounts service messages, Weibo public messages and customer service-side opinions. We accept the supervision and evaluation of the whole society. Through real-name registration and certification, we should strengthen the screening of customer data information and improve the access threshold of financial market, so as to exclude those who break the law and discipline as well as those who do not abide by the rules. It truly realizes the unimpeded flow of those who abide by the rules. And it will be difficult for those who fail to abide by the rules to move a single step.

2) *Strengthening the construction of internet financial technology security:* The updating of App and other application technology should actively adapt to the needs of the times. We should improve the data recovery ability of information software and the ability of risk prediction and early warning, and establish a secure and stable Internet financial network.

3) *Strengthening the construction of big data credit reporting system:* We should use the big data platform, integrate the new advantages of the Internet, develop and utilize the Internet +, and strengthen the construction of big data credit. Co-construction of credit evaluation data relying on major commercial banks, third-party payment platforms and e-commerce platforms can not only ensure the

professionalism and security of credit data, but also enhance the data coverage breadth and depth.

C. *Promoting the Ecology of Internet Financial Business and Realizing Diversification of Profit Models*

Financial ecosystem refers to the system as well as biological system, and there is the relationship of competition and cooperation within the system. Through cloud computing, big data infrastructure and external credit system, Internet financial enterprises have set up trading platforms for collective payment and transfer business, investment and financing transaction business, banking, security, insurance and other business. In such an ecological circle, in order to achieve ecological balance, we must form a balanced relationship of mutual benefit and mutual trust, so as to improve the overall efficiency.

We should extend the financial ecological chain and improve the financial system. We should develop new products through technological innovation, provide humanized, customized and personalized services, and improve the efficiency of resource allocation. In the indirect financing market, we should give full play to the enthusiasm, initiative and creativity of listed companies, speed up financing and improve financing efficiency through various forms of financing. We should actively learn from the advantages and strengths of foreign financial institutions, strengthen the attractiveness of foreign capital, increase the advantage of capital import, and form a mutually beneficial cooperation pattern of deep integration.

D. *Establishing a Sound Regulatory System to Ensure the Authenticity of Advertisements*

Financial supervision departments should establish responsibility awareness, improve and broaden feedback channels for investors' complaints in a timely, objective and fair manner, adhere to people-oriented approach, and fully protect investors' rights and interests. For false advertising, unrealistic promises of high returns and low risks in investment transactions, supervision and verification should be strengthened. The ability and responsibility of Internet financial enterprises to bear risks should be strengthened, and the ability to resist risks should be strengthened. We should establish risk management, consumer protection plans, and a customer risk compensation system, actively improve the management of margin system, especially for dishonest investors and those who don't obey the rules, and increase the cost of illegal violations. Consumers should consciously develop self-protection awareness and risk management and control ability. For low risk, high-return products, the consumers should improve the discernment ability.

V. CONCLUSION

Network finance is a new form of financial industry, which has convenience and efficiency in broad prospects for development. At the same time, Internet finance has also brought a series of problems, increasing financial risks. At present, the profit model has become an important factor affecting the healthy development of Internet finance. By perfecting the profit model of Internet financial enterprises, it

will help to standardize the profit behavior of Internet financial enterprises and promote the healthy development of Internet finance.

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