

# Study on the Development and Regulation of Internet Finance

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**Abstract:** With the rapid development of the network financial industry, the continuous promotion of innovation has greatly contributed to the rapid development of society and economy. With the rapid development of network finance, China's financial regulations and regulatory system is not perfect enough, resulting in financial security and stability problems. The soundness of the legal and regulatory system of network finance will help promote the healthy development of network finance.

**Keywords:** Internet Finance, Regulation, Security.

## 1. Introduction

The report of the 20th Party Congress clearly puts forward “insisting on putting the focus of economic development on the real economy”, and General Secretary Xi Jinping emphasized that “we build modernization, we have to grasp the manufacturing industry and engage in the real economy”. The party's twentieth report and the important speech of general secretary Xi Jinping for the future development of Internet finance further pointed out the direction, that is, the focus of Internet financial development should fall on the construction of the real economy, Internet financial development should be for the construction of the real economy to help empower the Internet finance to drive the development of the real economy, to promote the real economy, high-quality and sustainable construction. To this end, first of all, the basic connotation of Internet finance should be further clarified, the development history, summarize the main mode of operation in the practice of Internet finance development, identify the future development trend of Internet finance, provide a theoretical basis for the development of Internet finance for the development of the real economy to provide institutional safeguards; secondly, we should look at the relationship between Internet finance and the real economy dialectically, and actively give full play to the positive role of Internet finance in the real economy. Secondly, we should dialectically view the relationship between Internet finance and the real economy, actively play the positive role of Internet finance in the real economy, further improve the market consumption vitality of the real economy, further clarify the direction of investment of funds in the real economy, further promote the innovative development of the real economic market, and empower the real economy with high quality and sustainable development.

## 2. Basic Overview of Internet Finance

### 2.1. Internet Finance

Regarding Internet finance, it can be directly understood as “Internet + finance”, which is the introduction of Internet elements on the basis of the development of traditional finance, and the innovation of traditional financial operation mode in the way and method of the Internet. In fact, the emergence of Internet finance has facilitated the capital

operation of enterprises in the real economy. In practice, the development of Internet finance also has some potential risks, such as legal regulatory loopholes, capital security issues, information opacity and so on. Regarding the prevention of Internet financial risks, Zhao Zengjian proposed that “the construction of laws and regulations on Internet finance should be strengthened, and at the same time, the risk prevention and control system of industry self-regulation, platform self-examination and government supervision should be constructed”. In this regard, the phenomenon of Internet finance should be viewed in two, objective and dialectical understanding, not only to see the advantages of Internet finance, clear Internet financial applications and the reasonableness of the birth of the Internet; but also to see the disadvantages of Internet finance, to strengthen the innovation of Internet finance, to strengthen the guidance of the Internet finance, and to promote the development of Internet finance in the direction of a good direction.

### 2.2. The Development History of Internet Finance

Nowadays, when it comes to Internet finance, people are no longer unfamiliar, and they can even say a lot of opinions about Internet finance. Internet finance originated in the United States, and has experienced 22 years of ups and downs since its blowout appearance in China in 2000. The development of Internet finance in China can be roughly divided into two stages: one is the initial stage, which is mainly the development model of “Internet +” finance, which provides pure technical services for financial business with Internet technology; The second stage is the development stage, during which Internet technology and financial business are further integrated, giving rise to a series of online businesses, such as mobile banking and mobile securities. Internet finance, on the other hand, breaks through the limitations of time and space, realizes the perfect integration of online and offline, expands the connotation of traditional finance, and derives more high-quality financial products, as well as crowdfunding, third-party payment, digital currency (Bitcoin), big data finance, financial institutions, financial portals, etc. [1] At the same time, the third-party payment application of Internet finance is becoming more and more widespread, which benefits from the innovation and practice of mobile terminal payment technology. [2] Nowadays, people have long been accustomed to the consumption

scenario of mobile phone payment, and people enjoy the convenience brought by third-party payment of Internet finance; Through the Internet financial platform, people can make financial investments on the web pages, apps, and small programs of mobile terminals, which increases the probability of ordinary people learning and participating in financial management.

### **3. The Main Mode of Operation of Internet Finance**

#### **3.1. Third-party Payment Mode of Internet Finance**

Such as Alipay, WeChat Wallet, Cloud Flash Pay, etc., all belong to the third party payment of Internet finance. The third party payment mode is characterized by terminalization, convenience and low cost. First, the terminalization of third-party payment. For example, Alipay App needs to be installed on the cell phone to be used, and the cell phone is the terminal of Alipay, playing the role of carrier. With the continuous innovation and development of Alipay application, face payment has been realized now. In fact, although the form of payment is constantly changing, but in essence, it still relies on the cell phone terminal of the Internet financial technology to complete the payment; secondly, the convenience of third-party payment. In the past, people need to go out shopping with cash, bank cards or shopping rechargeable cards; nowadays, people go out on trips with a cell phone can be realized anytime, anywhere consumption. It can be seen that the third-party payment greatly improves the convenience of people's life and consumption; finally, the low cost of third-party payment. Third-party payment breaks the traditional mode of cash or bank card payment system, can break through the time, geographical and other restrictions, improve the payment efficiency, reduce the non-essential costs arising from payment.

#### **3.2. E-commerce Operation Mode of Internet Finance**

The rise and rapid development of e-commerce industry provides a new opportunity for the e-commerce operation of Internet finance. The e-commerce operation mode of Internet finance has distinctive attributes of the e-commerce industry, on the one hand, the e-commerce platform utilizes its own platform advantages to integrate Internet financial resources, providing loans, settlements and other financial services for the enterprises or merchants stationed on the e-commerce platform, which greatly improves the liquidity of the funds of the enterprises or merchants; on the other hand, the e-commerce platform innovates the traditional financial services with the help of the Internet technology and provides diversified financial services, such as On the other hand, e-commerce platforms innovate traditional financial services with the help of Internet technology to provide diversified financial services for the consumers of e-commerce platforms, such as investment and wealth management products and personal credit lines. For example, we are familiar with the Ali microfinance, mainly using Internet technology to conduct a comprehensive assessment of merchant information, set up a financial services platform to provide loan services for merchants or individuals to solve the financing problems of individuals or merchants. And Jingdong Finance utilizes Jingdong Mall to further integrate the supply chain of upstream and downstream industries to

provide financing services for small and medium-sized enterprises. The e-commerce-oriented Internet financial operation mode guarantees that the physical supply of e-commerce offline can operate stably.

### **3.3. The Big Data Operation Mode of Internet Finance**

With the continuous development, innovation and iteration of big data technology, big data technology is becoming increasingly mature, providing technical support for the innovative development of various industries. Nowadays, the use of big data technology innovation in Internet finance has become a new trend, and with the help of the information processing and analysis function of big data, it improves the data and information processing ability of Internet finance, improves the ability of Internet finance to identify security risks, and helps financial customers to provide diversified scenarios of services. For example, by using big data to analyze customers' consumption information, transaction records and other relevant information, risk identification results can be made quickly and safe transaction reminders can be generated automatically according to the type of risk identification, which will be sent to the customer's cell phone transaction interface at the first time or to the customer's reserved cell phone number in the form of SMS, and ultimately be confirmed by the customer in order to successfully complete the transaction. This not only improves the security of customer transactions, but also significantly reduces the labor cost of financial security monitoring. Based on big data technology, it can further integrate the advantages of Internet financial resources to provide customers with diversified quality services and personalized financial management services.

### **4. The Current Development Trend of Internet Finance**

#### **4.1. Internet Financial Services Digitalisation**

Nowadays, Internet financial services tend to be digital, using digital Internet technology to carry out service innovation and provide more digital financial services to continuously meet the increasingly diversified financial service needs of customers. On the one hand, this is the digital technology empowered to empower the Internet financial transformation results; on the other hand, this is the Internet financial to improve the digital service capacity to meet the diverse needs of customers inevitable choice. Digital technology provides an innovative driving force for Internet financial services to reduce costs and increase efficiency, such as the use of digital technology to build a smart database, real-time dynamic analysis of Internet financial customers' service demand and consumption capacity, and the results of the analysis as a reference for the innovation of Internet financial services, so as to improve and optimise the Internet financial service products to better meet the market demand of customers. At the same time, digital technology has brought new opportunities for the marketing of Internet financial services, which can create a digital market operation information platform, and realise the interconnection and synergy of web pages, apps, small programs and video numbers. [3]

#### **4.2. Strict Regulation of Internet Finance**

In order to further regulate the development of the Internet

financial market, and further promote the stable operation of Internet finance, it is imperative to strengthen the supervision and management of the main body of the Internet financial market, through laws and regulations, policy documents, industry norms, etc. to clarify the market rights and obligations of the main body of the Internet financial market, in order to protect the people's property security. The report of the 20th Party Congress mentions 'finance' 10 times, which shows the importance that the Party and the State attach to financial development. In this regard, Internet financial supervision must respond positively and act positively, focusing on the goal of 'being a model and striving to be the first', strengthening the supervision and management of Internet financial market entities, further clearing up Internet financial risks, promoting the transformation and development of Internet financial lending institutions in an orderly manner, and improving the monitoring and early warning platform for Internet financial risks at the local level, so as to effectively give full play to the role of Internet financial monitoring and warning platform. early warning platform, and effectively play the role of Internet financial supervision. [4] This trend shows that the Internet financial market is more strictly regulated, and its sloppy mode is gone, and it must operate and develop legally and compliantly.

### **4.3. Internet Financial Payment Terminalisation**

Nowadays, mobile phone payment has become the main way of consumption for most people in China, and it is also changing the development of the Internet financial payment mode. As of June 2019, the scale of mobile phone payment users reached 621 million, accounting for 73.4% of mobile phone Internet users, and this trend is climbing year by year. This shows the importance of mobile terminal payment in China's transaction payment market. Because of this, Internet financial payment should be born in response to the need, according to the market demand for mobile phone payment, and constantly innovate the Internet financial payment mode, to achieve the terminal development of Internet financial payment. [5] In the face of the development trend of the terminalisation of Internet financial payment, UnionPay has also actively responded by launching YunFlashPay App and entering the mobile phone terminal payment market, and as of August 2020, the users of YunFlashPay App have exceeded 300 million, of which young users are predominant, with 70% of the population under 45 years of age. Compared with Alipay and WeChat Pay, cloud flash payment still has a lot of room for development. Nowadays, the terminalisation of Internet financial payments has become a trend. In this regard, the main body of Internet finance must seize the opportunity of the times, scientific layout, and win market share.

## **5. Positive Impact of Internet Finance on The Development of The Real Economy**

### **5.1. Improve the Market Consumption Vitality of The Real Economy**

Accelerating the high-quality development of the Internet finance industry is conducive to improving the market consumption vitality of the real economy On the one hand, adhering to the high-quality development of the Internet

finance industry, strengthening market supervision and effectively preventing and controlling Internet financial risks can optimise the business environment of the Internet finance market, and provide a strong safeguard for the orderly flow of Internet financial funds to the real economy market; on the other hand, the rise of the Internet finance On the other hand, the rise of the e-commerce operation mode for the e-commerce platform user consumption further empowerment and empowerment, activate the e-commerce platform user's consumer confidence, improve the e-commerce platform user's consumption ability. For example, Jingdong Mall launched the Jingdong white bar, authorised mall users corresponding 'white bar quota', in the Jingdong Mall shopping payment can give priority to choose 'white bar' payment, the next month in time to pay off the white bar can be. The newest addition to the list is the newest addition to the list, the newest addition to the list is the newest addition to the list [6].

### **5.2. Clarify the Direction of Capital Investment in The Real Economy**

In-depth implementation of the content and spirit of the 20th Party Congress report instructions, pay attention to the development of the financial industry, play the role of the financial market, and further strengthen the coordinated development of Internet finance and the real economy is of great significance for cracking the financing problems of the real economy and promoting the high-quality development of the real economy. In this regard, the Internet financial industry must adhere to the innovation-driven development strategy, the Internet financial development of the landing point to the real economy, the Internet financial funds in an orderly and effective flow to the real economy industry, for the high-quality development of the real economy to provide financial investment protection. At the same time, this is also an important direction for the transformation and development of Internet financial institutions. [7] can learn from the Jingdong financial model, based on the Jingdong Mall platform, using Internet technology to integrate and optimise the upstream and downstream supply chain of the Mall, using the capital advantages of Jingdong Finance to provide financial services for suppliers, merchants and users, and providing the Jingdong financial funds to the entity industry in an orderly and effective way, which not only promotes the sustainable development of the Jingdong Mall, but also enhances the strength of the upstream and downstream entity industry development.

### **5.3. Promoting the Innovative Development of The Real Economic Market**

The Party's 20th National Congress report once again clearly put forward the 'innovation-driven development strategy', and 10 references to 'finance', in order to thoroughly implement the innovation-driven development strategy, promote the innovative development of the financial industry, promote the sound operation of the Internet financial market, adhere to the focus of the development of the Internet financial economy, the focus on the development of the Internet financial economy. It is of great significance to put the focus of the development of the Internet financial economy on the real economy and promote the innovative development of the real economic market. Under the background of the new development in the new era, Internet finance should strengthen the integration and development of

network data platform and industrial finance of the real economy, promote the combination of digital financial platforms with the industrial chain and supply chain of all kinds of real economy, and form the industrial chain finance based on the Internet or Internet of Things platform, which will help the innovation and development of the real economy market, and at the same time, realise the upgrading of the industry or service transformation of the Internet finance. [9] In addition, Internet finance to help the real economy market innovation, but also to follow the principle of multi-win benefits for all parties. The development of any Internet financial platform can not rely on long-term money burning to expand market share, and the visible dividends must be reasonably returned to the entity industry chain, the upstream of the supply chain, and the financial side. In summary, the comprehensive and in-depth promotion of Internet finance to help the development of the real economy is of great significance for economic construction. Adhere to innovation-driven development, further innovate the Internet financial operation mode, empower the development of the real economic field, and empower the construction of the real economic industry, which is not only conducive to improving the vitality of the market consumption of the real economy, and promoting the domestic circulation of the market economy; it is also conducive to clarifying the direction of the investment of funds in the real economy, and cracking the financing problem of the real economy; and it is even more conducive to promoting the innovative development of the real economic market, and improving the level of development of the real It is also conducive to promoting the innovative development of the real economy market and improving the development level of the real economy market. In this regard, there should be a clear and definite cognition. On the one hand, based on reality, the past and the future, and further integrate the first resources of Internet financial development, further optimise the operation mode of Internet financial development, and further improve the mechanism and system of Internet financial development, in order to help the development of the real economy to provide Internet financial superstructure protection; on the other hand, return to the entity, revitalisation of the entity, in-depth implementation of the strategy of innovation-driven development, and adhere to the innovation of the Internet finance Driven development, for the real economy to relieve the financial needs of the development of difficulties, and further release the potential vitality of the real economic development, enhance the comprehensive strength of the real economic development, and further promote the sustained growth of the real economy, and consolidate the solid economic cornerstone of China's socio-economic development and construction.

## **6. Problems in China's Internet Financial Development**

### **6.1. There are Risks in The Technology Inherent in The Internet, And the Security of The Platform Faces a Test**

With the continuous development and improvement of network technology, the network financial industry in the rapid development at the same time, there are also some security risks. Network technology is changing day by day, and there are various ways to commit crimes. Network

information security and capital security are a serious challenge, and once a capital security problem occurs, it will cause great losses. Compared with traditional financial institutions, there are still many deficiencies in the technical security and potential risk management capabilities of Internet platforms, and the ability to cope with risks needs to be improved.

### **6.2. Inadequate Credit Information Security System and Difficulties in Exchange and Interoperability**

Network finance in foreign countries develops very quickly, the laws and regulations and operation of the whole industry are very mature, and the security of information and information sharing are also very good in terms of personal basic information, banking information, travelling records, repayment records and so on, so the whole social credit system is relatively sound and the sense of honesty is also very strong. However, there is currently no unified security standard for personal credit information in China, and basic data is not fully shared between companies and companies, and it is difficult to establish a link with the credit collection system of China's central bank. Personal credit has a pivotal role in the development of society and the network financial sector, but China's credit security system has certain flaws and its internal credit supervision mechanism is not perfect. For example, some people are unable to use their credit cards after getting a credit card, and not being able to use their credit cards creates credit risks, and the credit security system is unsound, which is very unfavourable to the stable development of network finance. The major Internet companies are in accordance with their own standards and internal risk control system to carry out audits and adjustments, the standards in all aspects are not uniform, and the delinquent fees are very low, it is difficult to ensure security, so overall, there is still a certain risk.

### **6.3. Internet Finance Industry Standards Are Inconsistent, The Industry Lacks a Unified Docking Mechanism**

There are great differences in the standards for information collection, processing and sharing in the Internet finance industry, the formulation of standards and rules for Internet finance are not clear, the statistics of Internet finance are not standardised, there is a wide range of derivative products, and the efficiency and mechanism of conversion are not the same. For example, the interest rates for loans are not the same, and some online lending platforms are even trying to find ways to play foul under the existing legal provisions. In promoting the development of Internet finance, the lack of a unified linkage mechanism between online financial enterprises and platforms has led to payment platforms going their own way, making it difficult to achieve co-construction, win-win and sharing. This has caused the operation and maintenance costs of network financial business to rise sharply and become a bottleneck restricting the healthy development of the network financial industry. Therefore, it is very necessary to establish industry standards, transactions, regulate information and establish a unified docking mechanism.

#### **6.4. Lack of External Regulation and Legal Norms, And Low Cost of Violating the Law**

The Guiding Opinions on Promoting the Healthy Development of Internet Finance, the Interim Measures for the Administration of Business Activities of Online Lending and Loan Information Intermediaries, the relevant policies and reports issued by the China Banking and Insurance Regulatory Commission, the China Internet Finance Association and other departments are all aimed at the regulation of the online lending industry, and have not formed a complete specification. In addition, cyberfinance offences are difficult to track, take a long time, involve generally large amounts of money, have relatively weak crackdowns and penalties, and have a low cost of violating the law.

### **7. Suggestions and Counter-measures to Promote the Healthy Development of Internet Finance**

#### **7.1. Improve the technology of Internet financial platform and enhance the ability of financial services**

For the prevention and upgrading of Internet financial platform technology, strengthen the security maintenance and operation of Internet finance, strengthen the connection with traditional financial institutions, establish a scientific and reasonable docking mechanism, and optimise the platform service boards; according to the market mood, risk management and internal control. At the same time, improve the service level of the whole Internet finance, conduct systematic and professional training for them, shape a good service image, enhance their soft power, deal with potential risks in the industry, and promote the healthy development of Internet finance with quality services.

#### **7.2. Establishing a Unified Internet Financial Credit Standard and Sharing Mechanism**

Personal credit record is an important indicator of Internet finance, and in China, no effective mechanism has been established to match it. China's Internet financial platforms should work together to formulate a complete and integrated Internet financial credit system, and make use of Internet technology, big data, cloud computing and other intelligent technologies to optimise and upgrade the Internet financial industry. Firstly, a unified specification of online credit information system should be constructed to grade the list of those who are included in the credit collection, and a three-dimensional credit information system should be constructed; secondly, the limit should be issued in a timely manner according to the staff and credit level, and adjusted accordingly based on big data algorithms; thirdly, a resource sharing mechanism should be established in the field of Internet finance to enhance the sharing of credit information, so as to realise the sharing, sharing, and win-win situation.

#### **7.3. Unify Internet Finance Industry Standards and Establish a Unified Docking Mechanism**

Improve the access threshold of Internet finance, formulate unified standards within the industry and nationwide, standardise the statistical indicators of Internet finance,

achieve the combination of internal and external, optimise the industrial structure, and reduce the business risks; and clarify the docking mechanism and formulate a unified standard in the information collection, processing, setting, analysis, and safeguarding of information, so as to make the Internet finance industry enter a new stage. Although there are now pilots of digital currencies, major banks and network financial platforms have yet to form a unified connection. Therefore, in order to adapt to the future development trend of network finance, a clear two-way mechanism for docking must be established.

#### **7.4. Introduce Corresponding Laws and Regulations to Enhance the Ability to Regulate Internet Finance**

Firstly, we can formulate corresponding laws and regulations based on the current development speed of network finance, the government provides support for Internet finance and gives strong support to the Internet finance industry, and the regulatory authorities play the subjective initiative to adjust the regulatory policies of Internet finance in due course to ensure the sound operation and development of the Internet finance industry. Secondly, on the basis of foreign legislation on Internet finance, draw on and learn from foreign regulations on Internet finance to gradually improve China's legal system on Internet finance. Thirdly, through the consultation of internal approvals, the industry self-regulation and standardisation mechanism should be established, timely communication and interface with the regulators to cope with possible risks, and internal control should be strengthened, so as to provide multiple safeguards for the law and operation of cyberfinance. In addition, the regulatory bodies should have a clear division of labour and joint law enforcement, increase the crackdown on cyberfinance crimes, file timely investigations and release the results of the investigation of the case on the official website, and do a good job of compensation and appeasement.

#### **7.5. Clear Information Disclosure and Security Protection Mechanism to Protect the Rights and Interests of Investors**

As the development platform of network finance, it must disclose the basic information of the main body of network financing, the use of funds, the identity of the guarantor, etc., and report its information to the supervisory organisations, as well as announce it to the public investors, in order to protect the rights and interests of the investors. The network financing platform is an interactive platform, which contains numerous identities and transaction data, including financing subjects, guarantors, investors and so on. An information security guarantee mechanism has been established to further protect the personal privacy of the participants and the commercial secrets of the participating enterprises. [9] A sound information security guarantee mechanism must be established in the field of network finance.

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