

Explore the Development of Internet Finance

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Abstract: Internet finance is born from a new technology, and it's a new type of finance, which develops rapidly. The new type has brought a huge impact on the traditional financial industry, which has undergone great changes. Therefore, Internet finance got many focus and research from investors, individuals and industries. The commercialization of the Internet has resulted in the way when people and client pay for products, pray for invest, it changes payment models and channels, such as online loans, crowdfunding and so on. Based on the theme of the nature, current situation and development trend of Internet finance, so the author systematically combs specific concept and connotation of Internet finance, the development process, the development mode, the research current situation and the existing matter, also discusses the future development direction for the Internet finance and the influence for the Internet finance.

1. The Origin and Nature of Internet Finance

Internet was first popularized in the developed nations, such as the American (1990s). At this time began a wide range of commercial applications. Internet has experienced a long time for development. We have already got a huge development. In recent years, with the fast process of China's Internet technology, particularly Chinese cloud computing, social networking, big data and search engines. As a newly rising industry, its unique charm shows a huge market space and development potential. Since 2013, the Internet financial industry, represented by Internet payment, e-commerce network loans, P2P network financing, crowdfunding, Internet finance, etc., has developed rapidly, causing widespread concern, and related research reports and academic papers have been constantly being promoted.

In this context, it is necessary to summarize the research results, then to illustrate what's the research focus, also the direction of future research.

1.1. The Concept and Content of Internet Finance

Although current industry and academia on the concept of the Internet finance has not yet formed unified, authoritative definition, but several types of recognized Internet finance models: crowdfunding, P2P network loans, third-party Internet payments, to Ali "balance treasure". The new type of services and goods such as Internet Money Fund have been developing rapidly at home and abroad. Modern information technology, especially mobile payment, social contact and so on, must effect the social model with a devastating influence. It may be different from the third financial financing model of direct financing of commercial banks and direct financing of capital markets, known as The Internet finance model. However, both academic and the normal finance industry, the knowing of the concept of it do not have the same voice.

1.2. The Origins of Internet Finance

In the 1970s, Internet technology born. But the widespread availability went to 1990s. With the gradual penetration of the domestic Internet into the focus group and the deepening of network application, the vertical network service has become an important development trend, providing a possibility for the emergence of Internet financial portal. Its core is the mode of "search + price

comparison", It compares different platforms and compares the price of financial products on different platforms, allowing users to determine the ultimate satisfactory target

1.3. The Essential Characteristics of Internet finance

Different scholars or countries have different understandings of the nature of Internet finance. Some scholars believe that it is the "Internet" and some scholars think it is "finance." Under the Internet finance, the core function of finance remains unchanged, the connotation of the financial contract such as equity, creditor's rights, insurance, trust, etc. remains unchanged, the connotation of the concepts of financial risk, externality and so on remains unchanged. It has characteristics different from traditional finance.

The main performance is in: use big data as foundation, cloud computing, network and search engines, mining customer information and managing credit risk, resource allocation based on peer-to-peer direct transactions, and capital transfer based on third-party payment through the new network technology.

2. China's Internet Finance Development Model

From a broad definition point of view, it has six normal types of Internet finance in China: Internet payment, peer to peer lending network loan crowdfunding, Internet fund, sales financial institutions, and so on (China Financial Stability Report 2014, China Internet Finance Report 2014).

2.1. Internet Payments

Internet payment is essentially a new type of payment institutions as a transaction intermediary, relying on Internet technology to complete the financial transaction between the two sides of the fund transfer service. Online payment is an online transaction on a product, expressed through a virtual network, online banking, and so on. With the widespread use of mobile phones today, the widespread use of signals has made online payments possible. The essence of the Internet payment is born from the new intermediary, mainly relying on the technology of the Internet. Xie believes future payment methods will all be replaced by electronic payments. Pan Jing takes balance treasure as an example, explores the service innovation characteristics and possible path of third-party payment enterprises, and puts forward the importance of the value of mobile Internet.

The extent to which Internet payment can replace traditional payment methods depends on its comparative advantages, and only by continuously integrating innovation can we promote the healthy development of Internet payment.

2.2. P2P Network Loans

The word "P2P" originally came from the acronym "peer to peer", meaning "person to person". P2P lending, formally, is also a form of "peer-to-peer transmission" and a risky form of investment. Li Bo and others also believe that the P2P network loan platform has many risks, including the potential technical security risk credit information exchange cost of high external supervision and lack of legal norms, etc., Government departments need to strengthen its control and supervision.

How to accurately avoid risks and implement strict government supervision and enforcement systems is a difficult problem in the development of p2P today. How to break through this bottleneck is very important for its future development.

2.3. Crowdfunding

Crowdfunding financing platform, is the project sponsors and investors between the intermediary platform, through the display of creative projects or activities, to attract investors directly involved in project financing, and give the corresponding return, including investment, object stakes in service products or future profits to equal foreign crowdfunding platform Kickstarter as an example. This article comprehensively analyzes the risks of the incentive mechanism of crowdfunding, and at the same time explores the impact of crowdfunding on social welfare, technological innovation and financial risks. The empirical research of Huang Ling et al. Shows that creative projects with low

capital demand tend to choose a crowdfunding model in addition, effective quality signals, can induce investment incentives in meeting the type of investor preference, and spread rapidly through the crowdfunding community feedback channel to promote the success of creative projects; Adverse signals often have the opposite effect, which is the self-feedback effect of crowdfunding.

3. Impact of Internet Finance

The innovation of Internet finance is mainly embodied in reducing transaction cost, reducing information asymmetry, expanding the market transaction boundary and saving people's labor time.

3.1. The Impact of Financial Markets

The influence of the markets, some famous literature focuses on the study of Internet technology and Internet financial forms to complement and improve the functions of traditional financial markets. Allen and others see the Internet as an innovative way to achieve financial services and transactions. Burstein believes that mobile finance can push back time and space limits, giving customers access to effective services from "intermediaries" at any time. Shahrokhi believes that the main contribution of electronic finance is to reduce the cost of financial transactions and improve the quality of financial transaction services. Domestic literature research introduces the specific situation of domestic traditional financial transaction market. First, the division of financial markets and interest rates have not yet been fully market-oriented. Then it points out that related product innovations have enhanced financial liquidity, improved transparency and comparability of debt and fixed income products, and accelerated the marketization of interest rates in China. In view of the shortage of traditional financial services, illustrate that the Internet finance was a useful complement to the function of financial markets and expanding the scale of capital market participation, and pointing out that Internet finance has raised the level of traditional financial inclusion, created a third financial financing model, and ushered in a new era of financial the transaction payment system. It alleviates the difficulty of financing small and medium-sized enterprises and promotes the reform of the securities and insurance market. Finally illustrate the relationship between Internet finance and traditional finance, pointing out that the former will change the way the value of the securities industry is realized, trigger the securities brokerage and wealth management "channel revolution, reconstruct the capital market investment and financing pattern and intensify the industry competition.

3.2. The Impact on Traditional Financial Institutions

The analysis of traditional financial institutions proves that the development of Internet finance has had a considerable impact. Especially for financial institutions in the banking, securities and insurance industries, etc. Biagio Bossone, who studied the influence of e-finance, used "circuit" theory analysis to point out that the number of banks in financial markets would be reduced and larger in the future, that non-banking institutions would rob many financial businesses, and that the use of electronic money would take over the financial trading market, DeYoung. A study of bank data from the late 1990s found that new banks that rely solely on the Internet were less profitable and had lower levels of business than other new ones, while having higher labor costs.

3.3. The Challenge to Financial Supervision

The challenge to financial supervision is mainly reflected in the characteristics of "cross-border" "mixed industry" and "long tail" and "virtual" of Internet finance. The prevalence of P2P makes the supervision of the industry in China in a state of chaos, coupled with the country at that time did not introduce the corresponding policies to rectify. At present, the domestic P2P industry is seriously lacking in supervision, most platforms are non-compliant, and the problem of forgery is serious. Some platforms are facing signs of bankruptcy. The situation did not improve until 2017, when China introduced relevant laws and regulations. Meanwhile, the virtual nature of Internet financial transactions makes the financial business break through the time and geographical restrictions, wide range, uncertainty of the transaction object makes the transaction process more opaque, the real

source and destination of the funds is difficult to distinguish, a large number of paperless transactions to the regulatory authorities to carry out audit review brought difficulties.

3.4. Foreign Studies

The influence of monetary policy Foreign literature concentrates on the research and discussion of monetary policy of electronic money or virtual currency. And the main research directions are the following two aspects, first is the impact on the money supply, and the other is the impact on the influence of money demand. It is considered that the number of virtual currency issues must be directly included in the total amount of money, thus making the multiplier significantly increased. With the development of financial markets, large enterprises have replaced bank credit financing with direct financing, especially capital-intensive large enterprises. Financial "disintermediation" has led to the massive loss of small and medium-sized customer deposits with low cost and high stability in Banks, enhanced resource allocation capacity of non-deposit financial institutions, and impacted the basic analysis framework of traditional monetary policy based on bank credit and mainly taking Ms as the intermediary target to transmit to the final target. Internet finance promotes interest rate liberalization and promotes the shift from quantitative to price-oriented monetary policies. The development of third-party payment and Internet finance has broken the boundary between small and large deposits and the division of interest rates, so that the interest rates of various financial instruments can affect each other, and the interest rate sensitivity of various financial institutions has been significantly enhanced, which has also promoted the transformation of traditional Banks to retail businesses. With the development of financial markets, large enterprises have replaced bank credit financing with direct financing, especially capital-intensive large enterprises. Financial "disintermediation" has led to the massive loss of small and medium-sized customer deposits with low cost and high stability in Banks, enhanced resource allocation capacity of non-deposit financial institutions, and impacted the basic analysis framework of traditional monetary policy based on bank credit and mainly taking Ms as the intermediary target to transmit to the final target. Internet finance promotes interest rate liberalization and promotes the shift from quantitative to price-oriented monetary policies. The development of third-party payment and Internet finance has broken the boundary between small and large deposits and the division of interest rates, so that the interest rates of various financial instruments can affect each other, and the interest rate sensitivity of various financial institutions has been significantly enhanced, which has also promoted the transformation of traditional Banks to retail businesses.

4. The Future Development Trend of Internet Finance in China

In recent years, domestic scholar debate over the progress of Internet finance has been continuous, even more and more intense. In short, these debates focus on three issues: First, whether Internet finance can substitute traditional finance? Second, will it cause systemic risk? Third, how to regulate Internet finance? The main reason why these problems are controversial is that the trend is difficult to judge. The understanding of these issues also reflects the understanding of the progress of Internet finance. According to Xie's definition, Internet finance belongs to a large genealogy family with traditional finance, but the spectrum of the two is not the same, which means that Internet finance can not completely replace the old finance type. Because Internet finance does have the feature of reducing transaction costs, according to the transaction cost theory, only in traditional finance is unwilling to bear transaction costs or can not reduce transaction costs in the market range, Internet finance can replace traditional finance, third-party payment is such a typical case. With the continuous growth of economic scale and the continuous improvement of financial level, the desire for financial services is bound to become more and more, and become the traditional financial and Internet finance competition, co-existence of market space. Based on the theory of transaction cost, the explanation is that Internet finance will partially change the vertical division of labor of traditional finance, and replace the vertical division of traditional finance is the horizontal division of labor of Internet finance. Below, we take third-party payments, P2P network lending, crowdfunding as the representative of the Internet financial business model and value

creation methods, to analyze in detail the development trend of Internet finance. Through the review of the research results of domestic scholars, it is found that there is not much research on the future development trend of Internet finance, and there are great differences of opinion. Liu Liang said that the future development trend of China's Internet finance shows the main characteristics of mobile, e-commerce, "de-financial intermediation". Zhang Zichun, Zhang Ping believes that the current Internet finance business to network lending-oriented, estimated that Internet banking, Internet insurance, Internet securities investment fund sales will be in the future and network lending, in the Internet financial services, business occupies an important seat. Yang Yang, Zhang Yu and Guo Chang all agree that the future of Internet finance, business will be third-party payment, mobile payment, P2P, crowdfunding as the direction of development, and may completely replace the traditional payment business, deposit and loan business, securities business. However, Zhu Jinchuan holds different opinions, and thinks that the development direction of Internet finance depends on the innovation of the traditional financial system, the operation status of Internet enterprises, the updating of computer technology, the regulatory capacity of the relevant departments and other factors, so it is impossible to accurately grasp its development path and final form.

Generally speaking, relevant practices around the world are developing rapidly, but the theoretical analysis in China is relatively backward, and the research focus of domestic scholars is still at the basic stage: such as the definition of the foundation and the impact on traditional financial institutions. The existing research conclusions are not uniform, the consensus of scholars on all sides is far less than the differences. In the operation type of Internet finance in China, some scholars try to define and analyze the special development mode of Internet finance in our country, on the basis of reference to the pioneering national data of Internet finance development, such as the United States and the background of our traditional financial mechanism. To be sure, China's Internet finance model, almost all originated from abroad, after the integration in the domestic former studies, after continuous innovative reforms, has become Chinese feature of the Internet financial development type.

As the financial center of China and even the international financial center, Shanghai has always been the first place for various financial innovations, the rising progress of domestic Internet finance by the way. Nowadays, all kinds of financial innovation experimental areas in Shanghai lujiazui have developed on a considerable scale. With the popularization of mobile Internet, mobile phone its already turn into an obligato item in People's Daily life. With the in-depth combination of mobile Internet and finance, mobile financial products are more and more abundant and diversified. Through mobile phone terminal, users can enjoy Internet financial services without leaving home. Internet financial transactions break through the boundaries of traditional industries and commercial feasibility, glow with new vitality, and enable users to experience a new financial service experience.

5. Conclusions

In general, the theoretical and empirical research of Internet finance still cannot keep up with its rapid development. The research focus of domestic scholars is still the definition and method of Internet finance and its impact on the traditional financial industry. The existing research conclusions are divergent and lack consensus. With the popularization and rising progress of domestic Internet finance and the deepening of research, the future research directions of Internet finance will be extended to other areas. First, mathematical models are applied to the efficiency evaluation of various models of Internet finance, and different models of Internet finance can be used to quantitative analysis and guidance of the reform and development of China. The second is to study and design effective risk control and market trading mechanisms to ensure the efficient and safe operation of investment and financing transactions. Third, by study the past example of the successful development, quantifying risks and establishing an Internet financial risk supervision model that is in line with the domestic economic environment.

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