



Research on the Influencing Factors of Internet Financial Risk and Its Prevention Mechanism

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Abstract: At present, some domestic financial utilities have gradually realized the advantages and trends of the development of Internet finance, and continue to conduct reform for development. In fact, Internet finance provides higher profits and operation modes for the financial industry, however, it increases financial risks and severely restricts the long-term and stable development of Internet finance. Based on the comprehensive analysis of the actual situation, there are many factors influencing the risk of Internet finance, which further aggravate the difficulty of financial prevention and even poses a certain threat to the safe development of economy. This paper conducts analysis on the influencing factors of Internet finance with further discussions on the mechanism and measures to prevent the emergence of Internet risks, so as to provide corresponding reference for shaping a good and safe industry environment.

Keywords: Internet, financial risk, influencing factors, preventive mechanism

1. Introduction

At present, China's Internet finance witnesses rapid develops, which gradually infiltrates into all walks of life, and is widely used in the financial industry, promoting the emergence and development of the Internet finance industry. However, it also brings some risks when providing convenience to people in the process of development. In particular, problems in network information security, enterprise personal credit, capital liquidity, operation and technology security and other aspects are more inclined to lead to more risks in Internet finance, seriously damaging the basic rights and interests of relevant stakeholders. Therefore, it is an important issue for the Internet finance industry and enterprises to strengthen risk prevention and build a scientific mechanism.

2. Analysis of influencing factors of Internet financial risk

2.1 Information security

Information technology is the key foundation to maintain the emergence and development of Internet finance, so the security of information itself serves as also an important factor affecting the risk of Internet finance. The risks caused by information security are mainly concentrated in two aspects. One is irresistible factors, that is, failures, operation problems and information loss caused by accidents or natural disasters in the use of information technology[1]. Secondly, factors in human, that is, the staff's own low ability and quality in the work of errors resulting in information loss, input errors and other problems, and even staff subjective rewriting or disclosure of information. Under normal circumstances, Internet financial services will generate a variety of information from the initiation to the implementation and the end of the whole link. It exists in a variety of forms, and if information security risks occur, it is vulnerable to disordered business information, more disputes in business subject, and even fraud and criminal acts due to information leakage, which increases credibility and economic losses.

2.2 Credibility

The premise of financial development is credit, and the information risk factor mainly refers to the credit risk caused by the default behavior of one or more parties in Internet financial business. If the borrower fails to repay the full amount within the prescribed time in strict accordance with the contract or the bond or stock issuer fails to pay the relevant due interest and reimbursement to the creditor on time and in full in accordance with the contract, it will be difficult for the P2P micro-lending platform to guarantee sufficient rate of return by means of high interest rate in order to obtain funds.

2.3 Liquidity

Under normal circumstances, Internet financial enterprises are prone to liquidity risks when collecting funds. The

development of the Internet and its Internet financial enterprises is mainly promoted by the current economic and technological progress to a certain extent. Its target group keeps increasing and its customer base is relatively large, leading to obvious dispersion of financial enterprises' capital sources[2]. In order to ensure the source of funds, some financial enterprises choose to give higher redemption freedom, so the stability proves to be at a low level. However, if there is collective redemption of customers, there will be a large amount and Internet financial enterprises can not meet customer needs, which will easily lead to liquidity risks.

2.4 Operation and technology

Operational factors are frequently pertinent to focuses on human, such as common staff errors that lead to business changes and losses. Frequently, the main reason for this phenomenon is that Internet financial companies' relevant operating rules and regulations are not perfect enough, and their supervision of staff is at poor level. Technical risk mainly refers to the risk of information technology and Internet technology. As the Internet finance industry itself enjoys a huge amount of information, and with the continuous development, the data information generated by it is increasing, so a more advanced and large database is required to store the information for analysis and utilization. To achieve this goal, cloud computing technology and big data technology need to be supported. However, as a matter of fact, these two technologies can be mutually supported with some limitations. Although the data information sharing function is strengthened with fast transmission. Customers are prone to loss of personal privacy information due to technical factors in the process of trading on the Internet financial trading platform.

2.5 Policy and law

The policy and legal factors are reflected in two aspects. First, the Internet finance industry is in the stage of comprehensive development, but the formulation and promulgation of relevant laws and regulations lags behind the development of the industry. Therefore, in the operation of the industry, some people are prone to take advantage of loopholes in the legal system to cheat and withdraw funds arbitrarily. Thus hindering the healthy development of the Internet financial market. On the other hand, the development of Internet finance industry is not mature, the relevant definition lacks clarity, and the market access mechanism is not perfect. However, a small number of Internet financial enterprises have violated the law without subjective intention. Taking P2P micro-lending companies as an example, if they fail to absorb funds in accordance with legal requirements under unclear legal provisions, it may be illegal fund-raising.

3. Mechanism on risk prevention of Internet finance

3.1 Actively establish an Internet financial supervision mechanism

3.1.1 Determine the main body of supervision and strengthen supervision cooperation

We should strengthen the fine division of supervision levels and contents of Internet finance, and at the same time, regulatory subjects can be endowed with certain regulatory authority to promote cooperation between Internet financial institutions[3]. Therefore, Internet finance is involved in different areas, we should form a reasonable scientific financial regulatory system, the system should be included in the People's Bank of China, China Banking Regulatory Commission, China Insurance Regulatory Commission. Through coordination and communication, all parties shall establish a unified data platform on the basis of fully understanding the development trend of the Internet finance industry, and the platform can be used to determine their respective supervision division and cooperation mechanism, so as to improve the effect of supervision coordination.

3.1.2 Promote the transition from institutional to functional regulation

To promote the transformation of the supervision of the Internet financial industry from institution to function, that is, it is necessary to conduct scientific research on the relevant credit intermediaries, financial services and financial information platforms in the early stage of Internet development and bring them into the scope of the supervision system. At the same time, the supervision focus of the Internet financial industry should be changed in a timely manner, from the supervision of assets and liquidity management to financial transactions and customer information protection.

3.1.3 Clarify supervision objects and improve business supervision methods

Internet financial business projects have unique development characteristics. In the supervision of Internet financial business projects, it is necessary to clarify the supervision objects of Internet finance and reasonably set up industry access standards, but the setting should be made with combination with the registered capital and internal structure of market enterprises. On this basis, the advanced supervision method for business should be constantly improved, so that business legality and compliance can be comprehensively understood. Besides, the Internet operation rules can be improved and

supplemented from the aspects of capital adequacy ratio and profitability, so as to positively adapt to the particularity of off-site management in the industry.

3.1.4 Strictly regulate the market access, exit and capital management of industry enterprises

Firstly, there should be clear and explicit standards on the industry access. As far as the actual situation is concerned, although China has formulated relevant laws and regulations on third-party payment, there are few related enterprises in the field of Internet finance, which results in different levels and comprehensive strength of relevant enterprises in the industry, leading to relatively high risk coefficient of Internet finance enterprises in the industry. In the establishment of industry access standards, enterprises should be clear about their ability to bear and cope with risks, and make reasonable classification. On this basis, qualified equipment, technology and different transaction operating procedures should be regarded as access conditions to prevent enterprises with high risks from entering the industry. Secondly, the exit mechanism of Internet financial enterprises should be continuously improved[4].

To make clear of the major risks and losses existing in the actual operation of the enterprise, such as illegal acts, etc. When continuing to perform the contract with effective measures, relevant stakeholders shall be informed in strict accordance with the market withdrawal mechanism, and the legitimate rights and interests of consumers shall be protected. Finally, we should pay attention to the fund management of Internet finance. To this end, relevant units and departments should formulate and improve the fund custody system and actively communicate with Internet finance enterprises. We should build a scientific Internet financial platform based on the actual situation, and the platform can be utilized to master capital flow for dynamic supervision of the subsequent capital management and control so as to apply national credit into the scope of national credit management.

3.2 Strengthen industry self-discipline

On the one hand, the Internet based financial industry should strengthen self-discipline and restrict the Internet financial enterprises from the inside, so as to improve the ability of financial enterprises to deal with risks and prevent and control risks. This Internet financial industry should promote the innovative reform of market business system. Relevant enterprises can be guided in the market to actively change the traditional service operation mode, and be able to rationally apply advanced technologies such as mobile payment mode under big data. We should accelerate the active optimization and adjustment of the structure and scale of Internet financial enterprises, so as to improve the interests of enterprises in all aspects and reduce the financial risks of enterprises in the industry.

On the other hand, industry self-discipline should be recognized and authorized from the legal perspective. In addition, the legal status and functions of the Internet finance industry association should be clearly defined, so as to ensure the effectiveness of the supervision of the Internet finance industry, especially to strengthen the prevention of risks. The government can use modern means such as big data technology to effectively integrate industry resources and make scientific use of them, so as to realize information sharing and communication between enterprises in the industry, so as to obtain the actual development situation and trend of market enterprises, strengthen unified management of the Internet financial market, and standardize the order of industrial enterprises.

3.3 Improve the protection mechanism for the rights and interests of Internet financial consumers

3.3.1 Improve consumer awareness of prevention

Internet financial enterprises should make full use of the current information release channels, such as new media platforms to strengthen publicity, and guide consumers to understand and pay attention to the risk factors, risk types and preventive measures of Internet finance. At the same time, in the process of consumer transactions, Internet financial enterprises should timely inform them of the risks they may face, and timely deal with them[5]. On this basis, consumers should be guided to clarify the differences between Internet finance and traditional financial services, popularize the knowledge of Internet financial security to enable consumers to accurately master and understand the business processes and risks related to Internet financial products so as to improve their ability to identify and prevent financial risks.

3.3.2 Actively establish consumer rights protection agencies to protect consumer rights and interests

Consumer protection agencies should be established in a timely manner to deal with disputes and lawsuits arising from consumers' purchase and consumption of Internet financial products in a timely manner and safeguard consumers' basic rights and interests. At the same time, it is necessary to strengthen exchanges and cooperation between financial consumer rights protection associations around the country, provide basic guidance for consumer disputes, lawsuits and other rights protection behaviors, and build an Internet financial disputes related exchange platform, so as to build a smooth communication channel.

3.3.3 Effectively coordinate product revenue distribution

The high efficiency of current transaction mode further promotes the development of Internet finance, which, however, gives rise to increasing interest disputes. Therefore, the staff of regulatory authorities should actively protect the legitimate rights and interests of consumers, effectively maintain the law and order of market operation, and pay attention to the protection of the rights and interests of Internet financial institutions on the basis of protecting the rights and interests of consumers, so as to promote the innovative development of the Internet financial market. To this end, the staff of regulatory authorities should constantly improve and strengthen the status of consumers in purchasing and benefit distribution in terms of understanding the basic models and rules of the industry, and at the same time, accelerate the cooperation between banking institutions and Internet financial enterprises, so that they can conduct research on target groups and consumers and comprehensively grasp different consumer demands. On this basis, the two parties jointly launch products that meet consumer needs and publicize and display them through various channels to ensure the transparency of Internet financial products.

3.4 Promote the risk control of Internet financial enterprises and improve the social credit reporting system

3.4.1 Strengthen the internal control of the Internet financial mechanism

Standardizing rules and regulations and internal organization is the basis for guaranteeing the operation of Internet financial enterprises. First of all, when perfecting the enterprise rules and regulations, we should establish and perfect the computer security management measures and computer risk prevention rules and regulations, and develop the business operation process in line with the actual situation of the enterprise. Secondly, Internet financial enterprises should be encouraged for constant innovation and efforts should be accelerated in talents training of financial institutions. Through skill training, the overall quality and financial service ability of staff of Internet financial enterprises can be improved, and risk types, influencing factors and prevention concepts can be mastered to ensure financial security.

3.4.2 Improve the social credit system

In order to avoid information asymmetry, Internet financial risks caused by information and credit risks should be reduced. On the one hand, the People's Bank of China should give full play to its dominant position in the financial system, collect relevant information about individual credit status such as the market public, and establish an objective and comprehensive credit database[6]. Meanwhile, information such as operation status and tax payment status of Internet financial enterprises will be actively investigated and collected, which will be included in the database to reflect the credit status of enterprises, and both parties will be reasonably disclosed in the transaction process to avoid the loss of interest subjects in the transaction process. On the other hand, government departments should strengthen supervision of financial enterprises to avoid customer information leakage, advanced technology can be adopted to input customer information into the data management platform for real-time credit monitoring. At the same time, the corresponding punishment should be strengthened for financial cheating. For example, those who commit trust-breaking acts should be included in the blacklist of credit investigation, and credit investigation should be effectively combined with personal interests and authority to improve the warning effect.

3.5 Improve the legal system of Internet finance

3.5.1 Reasonably learn from foreign advanced experience

Compared with foreign advanced countries, the financial industry, the Internet in China started in a relatively late stage with shorter time for development and incomplete laws and regulations. Therefore, we can actively learn from foreign advanced experience, constantly improve the traditional financial legal system, and constantly improve and revise the laws and regulations, so that it can fully adapt to the development of the Internet finance industry. On this basis, electronic payment functions can be improved to strengthen consumer protection and other legal provisions, such as accelerating the revision and improvement of *Law on Commercial Banking*, *Law of Negotiable Instrument* and other laws and regulations. Meanwhile, advanced foreign laws and regulations related to risk prevention of Internet finance can be analyzed, and similar regulations on lenders and online shopping can be enacted legal system, giving legal status to the corresponding responsible person and strengthening the risk control ability of laws and regulations.

3.5.2 Speed up the formulation of targeted Internet finance laws and regulations

Relevant departments of the state should actively formulate a regulatory system for the new Internet finance industry, integrate Internet finance with the legal system in a timely manner, and provide strong guarantee for its healthy and stable development. On the one hand, relevant departments should formulate fair education rules according to the development status of the Internet financial industry and market requirements, strengthen legislation on the legality and security of electronic

transactions, and make detailed provisions on the preservation of electronic transaction vouchers and the clarification of rights and obligations of each transaction subject. On the other hand, active analysis and study can be conducted on the existing laws and regulations of Internet finance to have a clear understanding of the loopholes in the legal system and quickly introduce them to supplement, especially improve the regulatory system.

3.5.3 Scientifically revise and improve existing laws and regulations

Relevant departments can make use of *Law of Electronic Signature*, *Interim Measures for the Administration of Online Banking Services* and other laws as the basis of sound regulations, formulate legal documents related to the Internet finance industry and its business, and revise the parts that fail to adapt to the current development, so as to strengthen the implementation and implementation effect of legal provisions. For example, the relevant regulations and criminal contents related to Internet finance in the *Criminal Law* can be improved and supplemented, and the sentencing intensity of Internet financial crimes can be reasonably increased according to the actual situation, and the criminal responsibility to be borne by perpetrators can be clearly defined, so as to reduce the incidence of Internet financial crimes and prevent risks. In order to realize the comprehensiveness and pertinence of Internet financial laws and regulations, the *Civil Law* should also reflect the characteristics of economic times and network, and specify corresponding civil liabilities for different situations of Internet financial hazards and risks.

4. Conclusion

In conclusion, Internet finance is the future trend for development in today's society. As a new model, it plays an important role in promoting economic development. We need not only to improve the recognition of the financial industry, the Internet and, at the same time, should be able to identify risks in time, and risk factors, combined with the actual situation in the relevant departments to actively learn from foreign advanced experience to develop targeted legal system suitable to China's Internet financial markets and regulatory mechanism of credit system and so on, in order to provide basis for the development of the Internet finance. At the same time, Internet financial enterprises should actively change their operation mode, pay attention to professional personnel training to improve the security of Internet finance, and strengthen the effect of risk prevention from various levels.

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