Internet Finance and Supervision Based on the Perspective of Bilateral and Multilateral Platforms

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Abstract

Internet Finance is regarded as a new financial product of the Internet and finance. It achieves accommodation of funds around other parties through the emerging payment platform. However, information security issue, depending on the internet and mobile utilities as mediums, is still a strong shackle on its expanding way. That's why the internet financial regulation has become more necessary. Under full consideration of multilateral market and network externality, Internet Finance urgently need to establish an effective and comprehensive monitoring mechanism.

Keywords: internet finance, multilateral platform, platform regulatory

1. Introduction

Since 2012, Alipay, Wechat and other mobile payment platforms have gradually entered our line of vision, and create a strong attraction between the majority of users. Internet Finance starts to "invade" all aspects of public life. The Internet Finance bases on large non-financial platforms which are built upon internet industry. Baidu, Alibaba and Tencent, the three Chinese Internet magnates, also seen as trailblazers and pioneers in the Internet Finance, use their multilateral platforms to open up a unique business expansion mode.

2. Internet Finance

2.1 Concept of Internet Finance

Through the depth of excavation and accumulated data, to expand into the financial sector, the Internet company's business builds a Internet Financial mode which has become the emerging field of combination with information technology and financial capital. According to Ping Xie, deputy general manager of China Investment Corporation, the mode is not only different from the commercial bank indirect financing, but from the third financing mode of capital market direct financing[1]. Participants take part in financial activities through networks, leading that the investment in fixed financial facilities is cut down. Considering the availability of financial resources, market participants own equal opportunities and can break geographical restrictions to find the related information.

2.2 The main risks in the main Internet operations

Internet Finance is different from traditional banking and securities markets. It improves the efficiency of monetary circulation, being a beneficial supplement for the newly existing financial system at the meantime. However, where there are interests, there are risks. Given to the virtualization, free national border with the absence of relevant laws is more complicated, also increasing the difficulty of regulation.

(1)Operational Risk. The formal definition of operational risk based on the Basel Committee on Banking Supervision is "the risk of direct or indirect losses due to the inadequate or problematic internal procedure, personnel, systematic or external events". They mainly come from unauthorized access, employee fraud, falsification of electronic money, service providers risk. In addition, due to customer's lack of network security knowledge of banking operations, it is also easily exposed to high operational risk environment.

(2)Credit Risk. Credit risk is the main type of financial risk. Internet financial businesses pay too much reliance on data advantages, doing examine and verify online and check offline. Services subject can not contact with customers face to face and lacks of means to control capital flows that is prone to fund default without thorough recovery mechanisms and measures.

(3)Liquidity Risk. Liquidity risk arises from the financing institutions unable to cope with liquidity problems caused by an increase in assets or decrease in liabilities. Compared with other risks, the reasons for the formation are more complex and extensive. The balance of assets and liabilities and mismatching of duration are the two main factors. When subjected to the negative impact, liquidity crisis will lead enterprises into operating difficulties, which causes them might unable to honor customer funds.

(4)Technical risk. Flawed computer systems, authentication systems all indicate that our equipment will damage or lose all function and can not effectively resist external malicious attacks without proper preservation. Meanwhile, if the selected network technology is immature, the low speed of information services willl interrupt unexpectedly information transmission process and unstable network.

(5)Legal risks. Internet Finance is on the stage of rapid developing, but the industry currently is still in the surrounding without barriers, standards and regulatory. Due to this, the financial sector is a mess and chaos. Faced with the existing legal system, the service body is easily caught into illegal situations.

3. Platform regulatory of Internet Finance

The multilateral platform consists of two or more groups of customers with clear distinctions but interdependent together. Each sub-group of clients is interdependent, and has its own value proposition and revenue sources. Internet financial regulation need to incorporate new adaptive regulatory thinking and must understand multilateral platform market is different from the traditional business mode and competition rules of unilateral market.

3.1 features of China's Internet financial multilateral platform

Nowadays, e-commerce has turned to bilateral or multilateral market mode from the previous mode of the single market. The financial products and services embed in the existing business platform networks, making the use of established customer contact channels. Compared with traditional single market, the characteristics of multilateral platform are as follows: (1) indirect network effects. Indirect network effects arise primarily from the technology complementarity between basic and auxiliary products; this lead to interdependency on demand. The more complementary products, then the greater demand for the product. The interaction of both sides of the market cause the price behavior may be unprofitable. (2) cross-network externalities. The meaning of "network externalities" is that market users benefit from the more and same type of them. The concept was first proposed by Rohlfs (1974); he noted that the source of demand-side economies of scale was actually the network externalities[2]. While the cross-network externalities, proposed in Parker and Van Alstyne 's article (2000)[3], which was also known as cross-market externalities. (3) the non-neutrality of price. Platform operators' pricing to multilateral customers is highly dependent on the extent and direction of indirect network effects, leading to the non-neutrality of price in multilateral platform; the performance of carriers is to develop the price lower than the marginal cost for the one side[5]. (4) complementation and dependence of demand. For multilateral platform, one side customers' expectation to transaction utility is along with the increases the other side scale of consumers. Together with indirect network effects, they limit the ability of the platform operators to price make-up, thus showing the stronger market dependency.

3.2 Internet financial regulatory based on the multilateral trading facility(using the third party payment and P2P network loan as examples)

Experiencing the hustle and bustle in 2013, all, from industry to regulators, seem to explore a new way to make the rational development for Internet Financial. For compliance management and investor rights protection are on the agenda. On the basis of being clear with Internet Finance regulatory principles, We conclude that basing on the multilateral platform is an effective way.

3.2.1 Third party payment

Ⅰ.Legislation and regulation for the enterprises. Firstly, improve and perfect the relevant laws and regulations as soon as possible. According to different business modes of third-party payment companies, we should identify their different legal status. For examples, third-party payment companies owning the payment gateway modes but without secondary clearing can be defined as the network enterprises, while some with the gateway and secondary modes of liquidation and PayPal can be defined as non-bank payment industries. Secondly, make sure the ownership of precipitation funds belong to the customers through the laws. Meanwhile, push on the development of legislation against money-laundering, fraud and other cyber crim.Ⅱ.The establishment of central monitoring system. First of all, strengthen the supervision of third-party payment platform. Understand the subrogation supervision of commercial banks, making sure what obligations commercial banks have in the third party payment market through legislation. Lately, reinforce the protection of the interests of consumers. Regulatory institutions should pay no effort to construct the market access and protect customers from losses when acquisition or merger happens. Using the modern technology to ensure customer authentication, integrity of transaction information, availability, auditability and non-repudiation.

3.2.2 P2P network loan

Construction of targeted P2P monitoring unit. Regulatory authorities increase the P2P industry supervision, through the establishment of risk prevention mechanism, starting to prevent systemic risks caused by P2P net loan platform. To animate the growth of P2P net loan platform, effectively prevent and control its risks, regulators can also take advantage of strict industry access mechanism. Implement the industrial strict standards to screen out applicants who are not qualified. By establishing strict access mechanism and a clear industry positioning, P2P business development operations could become standardized.Ⅱ. Information disclosure and reporting system. The importance of information disclosed in the financial activities is widely known. The domestic P2P net loan platforms, although with a large number, rarely publish their own comprehensive business and financial information, which also increases the risk of the lender's investment. Regulators could establish public information disclosure system to make P2P industry regulatory standardized including some of the key indicators like financial status, average amount of each loan, historical default rates, yields rate, etc., providing detailed information data for both lenders and borrowers. Stable disclosure mechanism not only can maintain the interests of the lenders and confidences to invest, but also help industry moving in a healthy direction for the steady and rapid development.

4. CONCLUSIONS

Theoretical studies on bilateral or multilateral platform is the most active part in industrial economics research on network industries over the past decade. The supervision is one of the "Internet Finance and healthy development" precondition, but this view has not yet become a general consensus. When the industry regulator and multilateral platforms collide together, the new supervision mode has caught attention from outside market. Combined with the platforms, regulatory can find a totally different entry point than the traditional mode. Internet financial services are flourishing with these provided multilateral market, which also can help the regulatory mechanism consummate and resultful.

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