

Research on the Risk and Supervision of Payment Industry Upgrading under the Background of Internet Finance

Fangyue Qin, Zhiwei Wang, Mengyun Zheng, Yuting Zhang

School of Finance, Anhui University of Finance and Economics, Bengbu233000, China

Abstract

Starting with the payment industry, combined with the existing literature review and development data, this paper makes a systematic analysis and Research on the development mode and future trend of China's Internet finance. Through the in-depth analysis of China's emerging third-party payment at the present stage, this paper studies its practical significance and future evolution trend to the traditional financial industry, and puts forward strengthening supervision and standardizing the trading environment, Reduce transaction risks, adhere to the essential concept, improve the sense of responsibility, cultivate compound talents and other suggestions and prospects, and promote the healthy and sustainable development of the Internet financial industry in the future.

Keywords

Internet Finance; Payment Industry; Financial Risk Management; Financial Regulation.

1. Foreword

The birth of Internet finance has broken the inherent concept of financial offline transactions. Its development has penetrated people's life bit by bit and changed people's concept of life. The Internet finance model led by third-party payment and P2P has affected the traditional financial industry through various ways and continuously affected the future development of the financial industry since its emergence and development.

Payment is the foundation and support of the Internet financial service system. If finance is the blood of the economy, then payment is the blood vessel of finance, which is related to the efficiency and stability of a country's financial industry. The competition among third-party payment enterprises is fierce. When the market development is not mature enough, many payment enterprises will inevitably take unfair or even illegal competitive behavior to obtain benefits, which not only disturbs the normal social order, but also causes no small financial risks. Based on systematic research, this paper mainly studies and discusses the market supervision, risk management, laws and regulations, information security, development concept and other issues brought by the upgrading of payment industry under the background of Internet finance.

2. The Payment Industry Continues to Upgrade

The reform of payment industry in the context of Internet finance will develop in four directions: the removal of cash from payment media, the removal of PC from payment terminals, the removal of banking from Payment institutions and the removal of time-based payment links. Among them, the three major changes have taken place quietly and intensified, including the removal of cash from payment media, the removal of banking from Payment institutions and the removal of PC from payment terminals. The fourth change direction is to remove the time-based payment link, that is, continuous payment. With its payment advantages for process

services and complex transactions, it will become the most important reform and innovation in the next step of the Internet financial payment system.

2.1. Payment Medium Removes Cash Conversion

Throughout the evolution of payment media, it has experienced two stages: physical payment and monetary payment. The emergence of money is to realize the function of its exchange medium, that is, payment medium. The other functions of money are based on the realization of the function of exchange medium. The development of money has experienced two stages: metal money and credit money. The development of credit currency has also experienced two stages: cash currency and electronic currency.

After the emergence of electronic money, on the one hand, the cost of payment media has been reduced and pushed to the extreme. On the more important hand, the payment media has been virtualized, making the payment divorced from the transfer of physical goods. Payment with electronic money as the medium can be completed only through the change of account quota. In essence, it is a process of information transmission, processing and storage. From the era of cash currency to the era of electronic currency, that is, the payment medium completes the removal of cash, which provides the basis for the realization of continuous payment.

2.2. Payment Institution Removes Banking

The third-party payment institution has the basic functions of deposit, loan and exchange of commercial banks, and can independently provide customers with various fund payment and settlement services. The stored value, payment and settlement of its virtual account are very close to the functions of the bank account, which makes the whole payment behavior of customers can be separated from the banking system.

Third party payment institutions have formed a relatively independent and fully functional payment and settlement account system except that they do not have physical account media. The intervention of third-party payment directly leads to the diversion of payment and settlement, transfer and remittance, financial consignment and other businesses of commercial banks and the decline of relevant handling fee income. At the same time, after obtaining the license, the third-party payment enterprises can not only carry out online payment business, but also start operating offline POS receipt and prepaid card issuance business. This means that banks will no longer monopolize online and offline payment channels, but face the disintermediation and removal of banking of payment business.

From the perspective of payment process, under the original payment and clearing mode, because the customer cannot establish direct contact with the central bank, the customer must establish contact with each commercial bank separately, so the efficiency of payment and clearing is low. After the birth of third-party payment, customers established contact with third-party payment companies, which established contact with commercial banks instead of customers. At this time, the third-party payment company becomes the counterparty of payment and clearing between customers and commercial banks. To a certain extent, it undertakes the payment and clearing function similar to that of the central bank, and can also play the role of credit guarantee.

2.3. Payment Terminal Removes PC

Under Internet finance, payment terminals show the characteristics of removing PC and mobility, which is also called mobile payment in academia and industry. It mainly refers to the transfer of monetary value through mobile communication equipment and wireless communication technology to pay off creditor's rights and debts. The basis of mobile payment is the popularization of mobile terminals and the development of mobile Internet. Mobility, real-time and quickness are its biggest characteristics. With the improvement of the popularity of mobile terminals, in the future, mobile payment is entirely possible to replace cash and bank

cards, which is widely accepted by people in commodity and service transactions and debt repayment, and has become a main form of e-money.

In the past two years, China's mobile payment industry has developed rapidly. The development of the mobile Internet market has driven the development of mobile payment. With the development of the mobile Internet market, mobile payment itself is also changing and its forms are more diversified. There are mobile payment methods such as SMS payment, NFC near-field payment, voice payment, QR code scanning payment, mobile banking payment and face brushing payment.

2.4. Payment Link Removes Time Point

The payment link is time-based, which is also called continuous payment in academic circles. The payment advantages of continuous payment for process services and complex transactions will make it the most important reform and innovation in the next step of the Internet financial payment system.

The current payment system is developed for commodity transactions and is based on discrete payment. Although discrete payment can well realize the simple commodity transaction of cash and goods, it can not well adapt to the process service transaction and other complex transactions. The realization of continuous charging will have great application value in economic activities. For example, many services, including basic public services such as water, electricity and gas, are inherently suitable for continuous payment. By adopting continuous payment, on the one hand, it improves the accuracy of financial information of relevant enterprises, and more importantly, it improves the fund utilization efficiency of relevant enterprises and users.

The combination of continuous payment and mobile payment is mobile continuous payment. Through the combination of mobile Internet technologies such as mobile intelligent payment terminal and Internet of things technologies such as positioning system, RFID, Bluetooth and near-field communication, the location information is used as the reference of real-time continuous payment, which realizes the qualitative change in the application of continuous payment. For example, Mobile continuous payment has changed the charging mode of urban rail transit, so as to effectively improve rail transit revenue, balance rail transit load, improve rail transit services and stimulate rail transit investment.

3. Regulatory Measures have been Continuously Strengthened

3.1. Payment Regulatory Hot Events

On November 2, 2020, the central bank and other four departments jointly interviewed the actual controller and other executives of ant financial services. On the same day, the Interim Measures for the administration of online small loan business (Draft for comments) drafted by the central bank and the China Banking and Insurance Regulatory Commission solicited opinions from the public. The provisions of the Interim Measures on business area, loan limit and joint loan contribution ratio will have a great impact on the small loan business of ant financial services. On November 3, 2020, Shanghai Stock Exchange and Hong Kong Stock Exchange successively issued announcements to suspend the listing of ant financial services, and the world's largest IPO ran aground. On November 10, 2020, the State Administration of Market Supervision issued the anti-monopoly guide in the field of platform economy (Draft for comments). On December 14, 2020, the State Administration of market supervision imposed a fine of 500000 yuan on Alibaba Group, Yewen Group and Fengchao Network Company respectively in accordance with the anti-monopoly law. On December 24, 2020, according to the report, the State Administration of market supervision filed an investigation on Alibaba Group's suspected monopoly behavior such as "one out of two". The central bank, China

Banking and Insurance Regulatory Commission, China Securities Regulatory Commission and the State Administration of foreign exchange interviewed ant group, urged and guided ant group to implement the requirements of financial supervision, fair competition and protecting the legitimate rights and interests of consumers in accordance with the principles of marketization and rule of law, and standardize the operation and development of financial business.

Through the above events, we can find that in recent years, the regulatory authorities have made frequent moves, and the regulatory measures for Internet platforms, especially in the field of Internet finance, have been strengthened. The rapid development of Internet Finance and financial technology has enriched the financial industry, improved financial efficiency and changed people's way of life. However, the blind expansion of capital and the neglect of risk prevention have also caused some problems. The rise, expansion and thunderstorm of P2P industry in just a few years is a typical example.

3.2. Payment Regulatory Government Attitude

Of course, these problems and chaos have also attracted the attention of the government. On October 31, 2020, the special meeting of the financial stability Commission pointed out that the relationship between financial development, financial stability and financial security must be handled well; We should not only encourage innovation, but also strengthen supervision; Strengthen the law enforcement of anti-monopoly and anti unfair competition, and improve the ability of comprehensive market supervision. On December 8, 2020, Mr. Guo, chairman of the China Banking and Insurance Regulatory Commission, delivered a speech, saying that we should pay attention to the big but not falling risks; A few technology companies occupy a dominant position in the micro payment market and involve the interests of the general public. We must pay attention to the complexity and spillover of these institutional risks. On December 18, 2020, the Central Committee proposed to strengthen the work of anti-monopoly capital expansion and prevent disorderly economic expansion.

In the short term, strong supervision will have a great impact on the expansion of Internet platforms, especially Internet Financial platforms; However, in the long run, this will contribute to the standardized operation and steady development of the platform. Finance is an industry with operational risks, and innovation is not without boundaries. Innovation that ignores risks may lead to systemic crisis. Internationally, the subprime debt crisis originated in the United States in 2007 not only led to the collapse of Lehman Brothers and other financial institutions, but also evolved into a global financial crisis, which had a great impact on the global economy; Domestically, the bankruptcy of the Department of Finance and the subcontractor bank and the explosion of P2P have caused huge losses to ordinary investors, institutions and the government. The government has to find a new balance between innovation and regulation. After 10 years of brutal growth, appropriately slowing down Internet finance is conducive to the healthy and long-term development of the industry.

4. Regulatory Policies have been Continuously Improved

4.1. Strengthen the Payment Compliance

With the increase of anti money laundering, the pressure of payment compliance is increasing. In 2020, the anti money laundering supervision was extremely strict. From cracking down on cross-border gambling and Telecommunications fraud to card breaking during the epidemic prevention and control period, the running points were rampant, which doubled the anti money laundering pressure of the whole payment chain. At the 2021 anti money laundering teleconference held by the central bank on February 25, 2021, eight regulatory priorities in anti

money laundering in 2021 were established, including promoting the revision process of the anti money laundering law.

In addition, the measures for the supervision and administration of anti money laundering and anti terrorist financing of financial institutions (Revised Draft for comments) issued at the end of 2020 also brings Payment institutions into the supervision of anti money laundering. From the perspective of the whole regulatory situation, the regulatory strictness of Payment institutions will continue to move closer to traditional financial institutions, among which anti money laundering supervision will be the top priority. At the same time, under the trend of increasing anti money laundering supervision, it will also affect the development logic of some businesses and further restrict the savage growth of the payment industry, such as real-time risk control of accounts, opening of enterprise accounts, etc.

4.2. Reshape the Payment Industry form

The regulations on non bank payment institutions (Exposure Draft) issued in January 2021 can be described as detonating the anxiety of the payment industry. Many uncertain measures may have a far-reaching impact on the future development of the payment industry. It can be said that this is the most noteworthy and influential payment policy in 2021, which almost reshapes the supervision of Payment institutions.

The determination of anti monopoly in the Ordinance is likely to reduce the dimension of the duopoly pattern that Alipay and WeChat. This also brings a glimmer of hope to other institutions that develop payment business. In addition, the regulations do not mention that payment institutions can open enterprise payment accounts, which is a huge policy uncertainty for the payment industry sinking to the B-end.

4.3. Transform the Payment Business Logic

Return to the source of payment is a high-frequency word that summarizes the regulatory attitude of the regulators towards the payment industry in recent years. In 2020, ant group's listing was blocked, and the term return to the source of payment is included in the rectification requirements of the regulatory authorities.

Looking back at the beginning of the issuance of payment licenses, the role and task of Payment institutions are more to make up for the lack of services provided by banks to merchants. However, with the successful development of the two payment giants' model of bypassing clearing institutions, payment enterprises gradually radiate from payment business to all fields of Finance and continue to encroach on bank deposit and loan business. In recent years, the regulatory authorities have also constantly reminded that it is necessary to prevent cross risks. It can be predicted that under the regulatory pressure of payment returning to its origin, how Payment institutions return to better serve merchants will become the future trend.

4.4. Clear Boundaries of Information Protection

In the non-contact normal spawned by the epidemic, people pay more attention to life on the line of sight, and information protection has also attracted much attention. In October 2020, the personal information protection law was released, and financial data compliance became a hot topic. At the beginning of 2021, Agricultural Bank of China, Bank of China and other large banks were punished successively for data compliance problems, which seems to be the prelude to data protection in 2021.

In the regulations, the importance of protecting user privacy and data management is emphasized; The management measures for credit investigation business (Draft for comments) issued in January 2021 also clearly delineates the boundary of data collection. What data can be collected, how to use the collected data and how to protect the data will be gradually clarified after more and more laws and regulations are issued.

References

- [1] Z.H. Cai: Analysis on Risk Supervision of Third-party Payment under the Background of Internet Finance, *Wealth life*, Vol.16 (2021), 3-4. (In Chinese).
- [2] Y.W. Wang: Research on Risk Supervision of Third-party Payment in China under the Background of Internet Finance, *Hebei Enterprise*, Vol.12 (2020), 56-58. (In Chinese).
- [3] M.H. Wang: On Internet Financial Payment Risk Supervision in the Era of Big Data, *Times Finance*, Vol.30 (2019), 14-15. (In Chinese).
- [4] L. Li, T. Deng, Y. Long: Analysis of Internet Financial Payment Risk Supervision in the Era of Big Data, *Modern Economic Information*, Vol.20 (2019), 278-280. (In Chinese).
- [5] L. Ni: Current Situation and Supervision Strategy of Internet Financial Risk, *Times Finance*, Vol.20 (2019), 21-22. (In Chinese).
- [6] Y.F. Song: On Internet Financial Risks and Regulatory Countermeasures, *Modern Business*, Vol.20 (2019), 106-107. (In Chinese).
- [7] Z.Y. Qiu: Research on the Risk and Regulatory Countermeasures of Third-party Fund Payment under the Background of Internet Finance, *China International Finance and Economics*, Vol.04 (2017), 116-117. (In Chinese).