China's Internet Wealth Management Risk Analysis and Countermeasures

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Keywords: Internet Wealth Management, Risk, Countermeasures.

Abstract. China's Internet wealth management is developing rapidly. Given that it is an emerging wealth management method, all aspects have yet to be developed. It needs to be analyzed and needs to be improved. In recent years, it has been a hot topic in the scope of academic research. Internet wealth management promoted the formation of the wealth management system of the whole people and opened up the era of inclusive finance. However, due to the inherent risks in investment and the Internet itself, China's Internet wealth management market began to have problems. In this regard, this paper proposes corresponding countermeasures.

The Status Quo of Internet Finance Development in China

Internet wealth management refers to the emerging wealth management methods in which investors purchase and manage wealth management products through the Internet and obtain certain benefits from them to achieve the purpose of capital preservation and appreciation. With the pioneering and innovative use of Internet technology and the extensive use of the public and the increasing awareness of property preservation and value-added management, the idea of Internet finance, the pioneering era, was born in this market context, combined with Internet technology and property investment management. The excellent users experience and basic financial products that can satisfy all the different wealth levels of customers with financial needs, etc, have labeled the Internet wealth management as the first choice for wealth management. After the emergence of Internet financing, the market has been captured at a shocking rate, which took away big cakes that banks used to absorb deposits in the past and forced banks to launch similar products, to reduce the minimum price and term of wealth management products, to improve the liquidity of wealth management products, and at the same time to increase the rate of return. Subsequently, banks brought in many policies, such as the cancellation of non-local Inter-bank withdrawal fees, lower bank card fast payment quota to limit the flow of customer funds into the Internet wealth management market. The birth of Internet wealth management can be said to stimulate China's wealth management market, promote the optimization and integration of bank wealth management products [1], deepen reform of the national banking institution system, promote the construction of relevant laws and regulations and promote China's economic development.

In just a few years, Internet wealth management has occupied more than half of China's wealth management market. By collecting rich information resources on the Internet, using big data processing technology, and screening out and processing high-quality information, Internet financial services provided have reduced the negative effects of information asymmetry on wealth management greatly and also make it easier to do wealth management. At the same time, many external factors such as simplex wealth management channels and high bank loan thresholds have further contributed to the vigorous development of Internet finance in China. People's wealth management channels are more diversified and have achieved higher yields, which has had a profound impact on the traditional financial institutions and the development of entire economy and society.

In June 2013, Alipay and Tianhong Fund jointly launched the Yu'ebao officially. This new wealth management tool has quickly attracted a large number of investors with its low threshold, high efficiency, high profit and convenient user experience, as a grassroots financial artifact. Following the Yu'ebao, various fund-based wealth management products, P2P platforms and crowdfunding...
platforms come out one after another. A new round of Internet wealth management storm started. According to the Ad Master data survey, 8 to 9 people in 10 wealth management customers are using Internet financing methods. In the Internet information age, the Internet wealth management trend is particularly significant, and the small amount of investment with a wealth management amount of less than 50,000 accounts for the majority. With the increase of age and income, the amount of investment and wealth management has gradually increased. For a long time, small and medium enterprises and individual investors in China have not received good financial services, and Internet finance has greatly satisfied their investment and financing needs. The emergence of various Internet wealth management products not only triggered the financial revolution of investors, but also promoted deep changes in the capital market. The vigorous development of the domestic Internet wealth management market has greatly shrunk the bank's traditional wealth management business, but have prompted the optimization and upgrading of the banking industry structure. It also helped modifying the interest rate policy and integrating Internet technology to launch upgraded wealth management products. [2]

Risks

Internet finance is an innovation in wealth management, but it also has its own shortcomings. It not only has the risk of traditional wealth management, but also the risk of Internet transactions. The increase in the types of risks will undoubtedly bring more uncertainty to the benefits of wealth management.

Wealth Product Yields Tend to Fall

The income of wealth management products is generally realized through the investment distribution of funds among stocks, bonds and cash. Within a certain range, the growth of the pool size is beneficial to the fund company to allocate portfolios, but beyond the appropriate range it is different at all. If the scale is too large, it will not be beneficial to the fund company's market investment operation, and thus the yield of wealth management products will fall. Taking Yu’ebao as an example, in the initial stage of the issuance, the annualized interest rate on a week once exceeded 6%, but with the expansion of the scale, the interest rate showed a downward trend [3]. By the beginning of 2019, the annualized interest rate of the Yu'ebao on 7 days had already fallen below half of the peak rate, floating around only 2.6 percentage points.

Wealth Management Product Liquidity Is Difficult to Guarantee

The main force of China's emerging Internet wealth management products is the monetary fund management products. Most of them adopt the “T+0” open trading model. Users can realize the funds they purchase at any time. Based on characteristics above and their almost zero threshold, they gather most of the scattered funds in the society. However, the settlement method of the monetary fund is far from being so fast, which creates a maturity mismatch. Internet finance companies can meet the liquidity of the promised customers by self-payment, but if the fund is realized in large scale, Internet finance companies are likely to be unable to fill the huge gap.

Wealth Management Product Terms and Rules Change Fast

Due to the immaturity of China's Internet wealth management market and the gap of supervision, many wealth management products have not been standardized at the time of launch. Over time, the impact of Internet wealth management on China's financial industry has attracted the attention of national financial regulatory authorities. The actual problems encountered in the operation of Internet wealth management products forced the terms and regulations of the wealth management products to change. Many Internet wealth management products began to limit the purchase quota and redemption quota. The transfer fees between the balance deposited on the financial platform and the bank deposit also occurred and changed. Although the changes in terms and rules are more conducive to the standardized development of wealth management products, they also add uncertainty to users'
investment behavior and income. For example, Yu'ebao suddenly lowered the maximum amount of personal holdings in May last year, from 1 million to 250,000 yuan, and only 3 months later, it fell to only 100,000 yuan. In a short period of time, the scale of wealth management shrunk 900,000 yuan greatly, if the user had failed to pay attention to changes in product terms in time, they would have been definitely faced with financial problems. Due to the rapid change, some investors even said that they will no longer use Yu'ebao.

Internet Virus and Hackers
The development of Internet technology has made people's lifestyle more convenient. At the same time, it has also increased the hidden dangers of network security. The loss and theft of information and the infringement of property rights have emerged. The existence of Internet viruses and hackers is the most important thing for Internet wealth management to pay attention to. They are also the most difficult hidden safety dangers to prevent. Now when you purchase Internet wealth management products, you usually need to bind a bank card, real-name authentication, etc. to input a lot of information. When the information is circulating on the Internet, it is very vulnerable to viruses and hackers. The harassing calls, accounts stolen and most of the other incidents stem from this. If the degree of the harm of individual user rights violations is still can be accepted, the negative impact of the attack on the financial platform can be enough to attract much attention. These attacked platforms often have system programs which are not perfect enough, so that viruses and hackers can take advantage of the virtual system, causing the platform software system to paralyze, and then these platforms have to temporarily interrupt the financial services. Renrendai has been once infected because of the illegal means of hiring hackers because of malicious competition from competitors.

Financial Platform Intentionally Weakens Investment Risk Warnings
Now whether you are walking on the street or browsing the platform page, we can see a lot of advertisements on the financial platform, where announces very impressive yields and preferential prices, etc. But there are few warnings on investment risks, and risk warnings are always placed in the corners that will be ignored by users, so that less professional financial clients only understand the high returns, while neglecting the existence of investment risks. For example, more than 80% of China’s investors believe that Yu'ebao is equivalent to Alipay's account deposit and consider it to be risk-free. The risk warning about Yu'ebao is only mentioned in the link of the user agreement when purchasing the product for the first time. But data about its high returns is visible on the platform every day.

Wealth Management Products and Platforms Are Mixed
The Internet financial platform has not conducted strict audits or risk control management on its products, which has led to the phenomenon that wealth management products have become “lossy products” and financial platforms have been running money or illegally diverting funds stored on the platform. In 2014, the “Qiaoxing Telecom” and “Qiaoxing Telecommunications” bonds issued by the Zhaocaibao Platform failed to pay interest payments at the expiration date. The insurance for the compensation of the bonds also appeared to be rejected. In the near future, the high-profit wealth management products sold by the Shanlin financial platform were investigated because they could not be redeemed and the amount involved exceeded 60 billion yuan. Many crowdfunding projects did not have profitability. The platform used the new debts to cover up the facts in the early stage. But so far, it has been unable to make up for the huge funding pool gap, and a large number of investors have suffered heavy losses. The advent of China's Internet wealth management era has triggered the innovation of wealth management products and the birth of a large number of wealth management platforms. However, due to the lack of industry and legal supervision, Internet wealth management products and platforms are mixed, which has brought many negative impacts on economic development and social stability.
Legal Protection and Industry Supervision Has not Taken Shape

The rapid development of Internet wealth management has set off a wave of public wealth management, creating an era of inclusive finance, but at the same time, imperfect market mechanisms and regulatory systems have provided criminals with opportunities to infringe on the rights and interests of others. Products and platforms also began playing balls and breaking laws. The imperfect legal system has caused the wealth management group to have no strong and effective weapons to protect their legitimate rights and interests when personal privacy and property are violated. The illegal elements are not punished as they should.

Countermeasures

Aiming at the risks of China's Internet wealth management market and the actual problems that arise, we can control risks from the perspectives of market development and national supervision to remove obstacles to the development of Internet wealth management in China.

Market Development Perspective

Establish an "Investor Access" System. Some wealth management products and projects are relatively high-risk, and have certain familiarity and mastery of relevant professional knowledge requirements. Compared with lay people, especially those who prefer high-risk and high-yield, it is likely to get loss from wealth management for their lack of judgment on project risks. Therefore, as for some wealth management products and projects with high investment risks, the wealth management market and platforms should fully utilize the customer's personal information reserves to determine whether the investor has the corresponding ability to recognize and take risks, and make recommendations or take targeted restrictions on his investment behavior. The establishment of "investor access" system, can effectively protect the interests of investors, encourage investors to continue learning, and can promote the more mature and stable development of the wealth management market.

Strengthen the Internet Financial Platform's Internal Control. The Internet wealth management platform should actively establish an internal risk control system to prevent incidents like improper staff mismanagement caused by poor internal management, employees stealing personal information from customers, encroaching on the platform to raise funds illegally. And the phenomenon that wealth management platform does not have sufficient capacity to ensure the liquidity and yields of wealth management products will decline gradually.

Advance Internet Technology Innovation. China's Internet technology has achieved great progress in recent years, but when compared with foreign countries, China's Internet technology level is still relatively backward. Thinking of domestic online information theft, Trojan virus appearing frequently and other phenomenon emerging one after another, the promotion of Internet technology innovation has become an urgent task. Focusing on the development of Internet technology and strengthening the construction of network security will provide a strong guarantee for protecting the information security, property security, efficient operation of the Internet financial platform and the stable development of the Internet economy.

National Supervision Perspective

Build a Universal Credit Certification System. Internet financing is traded on a virtual network platform. The information authentication of the participating entities can not only ensure the smooth operation of the Internet financial institutions, but also provide effective protection for each participant. The international authority of credibility is the FICO personal credit scoring model in the United States—Through analysis and examination of credit consumption habits, account opening data and repayment ability, the corresponding indicators are set and assigned with different weight ratios, and then different levels are assigned to corresponding scores of the indicators which finally
Establish a New Legal System and Use the Old Legal System Flexibly. Faced with the various risks of Internet wealth management and the actual problems that have arisen, the formulation of laws and regulations related to Internet finance in China cannot keep up with the pace of market development. It is necessary to establish laws and regulations in line with the new situation based on problems that have emerged and predicted, so that the criminals cannot take advantage of the laws holes and thus the legitimate rights and interests of the relevant subjects can be effectively protected. At the same time, before the introduction of the new legal system, the old legal system can alleviate the contradiction between the rapid development of Internet wealth management and the lagging establishment of laws and regulations by flexibly use of existing laws and regulations to solve problems. The government should combine the characteristic of the Internet to supervise the development of Internet wealth management to improve privacy protection, property security protection, etc., and reduce legal vacancies as much as could.

Support and Supervise. In the information age, under the trend of integrating Internet technology into life, the collision and integration of wealth management and the Internet is inevitable. Due to the joining of the Internet, wealth management products have witnessed great innovation and development. China has opened a new era of wealth management for the whole people and raised social funds. The utilization rate has promoted the deepening reform of the national banking institution system, which has driven China's economy developing fast. Based on the benefits brought by Internet wealth management, its innovation and development should be supported by management, but the risks and problems of Internet wealth management still need to be continuous supervised. Meanwhile, there is a need to expand the scope of supervision and deepen the level of supervision. The purpose of supervision is not to restraint the Internet wealth management into the cage of non-development, but to provide a safe and secure environment for the innovation and development of Internet wealth management, and to lead the Internet wealth management to healthy and sustainable development.

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