

Research on the Application of Internet Finance to Urban Residents

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Abstract. As a product of the deep integration of the Internet and the financial industry, the rapid development of Internet finance has changed the traditional way of urban residents' wealth management and provided new investment ideas. The inclusiveness of Internet finance and the sharing of information have broken the space and time constraints, expanded the scope of investment and wealth management, enriched the service targets of financial products, and partly compensated for the lack of positioning of traditional investment and wealth management markets. In order to study urban residents' application of internet finance, this paper firstly understands and explores the literature and theoretical basis of Internet finance, and then analyzes the concept and characteristics of Internet finance. Based on this, analysis of the development status and application of four typical models of internet finance and advise on the risks of Internet financial applications. In the end, this paper believes that with the continuous development and improvement of Internet finance, urban residents' application of Internet finance has been popularized and deepened.

Keywords: Internet finance, urban residents, risk

1 Literature Review

In terms of the definition of internet finance, Xie Zimen (2013) pointed out that resource sharing is the core of Internet finance; Wu Xiaoqiu (2014) pointed out that "Internet finance" involves various financial formats such as payment, funds, and loans, and it is composed of financial services with different characteristics. Its function is not limited to investment and financing. Xie Ping (2014) believed that Internet finance is a concept of pedigree.

In the research on the characteristics of Internet financial management of residents, Liu Siting (2014) pointed out that Internet financial management not only expands the channels of investment but also combines the traditional wealth management business with the open sharing spirit of the Internet. Hao Huili (2014) believes that Internet finance not only simplifies the financial management process but also lowers the investment threshold. More Internet companies can also join the wealth management industry.

In the operation of the wealth management business of Internet finance companies. Hao Huili (2014) believed that the difference between Internet financial management and traditional financial institutions is mainly based on the third-party payment institutions. Jia Nan (2014) believed that Yu'ebao is a money fund product. The enterprise transfers the user's funds of Yu'ebao to the Tianhong Fund account, and then uses the funds to purchase the money fund and generate income.

About the risks of Internet financial wealth management, Wang Wucheng (2014) believed that Internet financial products not only have liquidity risk, income risk and system risk of traditional financial products, but also have regulatory risks. Chen Xiaotian (2014) pointed out that when users use the payment platform provided by the third payment institution to conduct Internet financing, there is no traditional paper transaction voucher for online electronic transactions, and the difficulty of user rights protection increases.

2 Theoretical Basis

2.1 Internet Economics Theory

McNiece and Barry put forward the concept of Internet economics. They believed that Internet economics is mainly to study the characteristics and mechanism of the "Internet cloud". It is a theoretical theory to study the Internet service market. The characteristics of increasing marginal efficiency and diminishing marginal cost make the Internet economy can criticize decentralized customers of unpopular goods and open more niche markets at a lower cost. The Internet has subverted the activities in the financial sector, which has strengthened the mode of supply and demand for personal financial services, and expanded the boundaries of time, space and quantity of the financial finance, and laid the foundation for the downward extension of Internet finance products and services.

2.2 Long Tail Theory

The concept of the long tail was first proposed by Chris Anderson in his book *The Long Tail* in 2004. The theory is that if the storage site and distribution channels are broad enough, those products with lower sales and demand can use the cost advantage to open the market and get more or even more market share than the best-selling products.

3 The Concept and Characteristics of Internet Finance

3.1 The Concept of Internet Finance

Internet finance refers to the payment services, financing services and information intermediary services provided by Internet companies or traditional financial institutions relying on Internet technologies. The essence of internet finance is still finance. It is a supplement to traditional financial services. The main body of Internet finance can be either an Internet enterprise or a financial institution which can realize the services of payment, financing, investment, and information intermediary. Therefore, whether the Internet companies are involved in the financial services field or the expansion of traditional financial institutions in the Internet field belongs to Internet finance.

3.2 Characteristics of Internet Finance

From the connotation of Internet finance, it can be concluded that Internet finance has three distinct characteristics: cost reduction, long tail of service object, and time allocation of resource allocation.

3.2.1 Service cost reduction

In order to maximize the boundaries of financial services, traditional financial institutions need to continuously add physical service outlets to improve network coverage. The increase of physical network points will also bring about an increase in labor costs and time costs. Because Internet finance is not limited by factors such as time, space and labor cost, in addition to the fixed cost expenditure in the early stage of website construction, the cost of increasing the scale of business is very low or even zero. Internet finance uses search engines, big data, and cloud computing technologies to track and analyze user data in a timely manner. Compared to the offline manual processing model of traditional financial institution business, Internet finance effectively reduces the cost of tracking, reviewing and processing business.

3.2.2 Service object long tailing

In order to reduce costs and maximize profits, traditional financial institutions are only willing to provide services to large companies with high capital strength and low risk or high net worth customers. These customers belong to 20% of the "two-eighth law" in the real economy, while the other 80% of small and micro enterprises are forgotten or even abandoned. Thanks to the development of Internet technologies such as big data, cloud computing, search engines, etc., Internet finance can be free from time and space constraints, and can provide services to multiple customers online at a lower cost simultaneously.

Internet finance meets the investment and financing needs of many small and micro enterprises and individual users, and achieves the inclusiveness of financial services to a greater extent.

3.2.3 Resource allocation timeliness

For a long time, Small and micro enterprises have higher costs of obtaining financial resources, which seriously hinders the development of China's real economy. Under the Internet financial model, the Internet financial service platform uses search engine technology to identify users who need financial communication needs nationwide and finds the demanders and surpluses of funds, screening and screening information on the online platform. Match, pricing, and finally complete the transaction. From online application to approval, the borrowing of funds can be completed in just a few minutes, and the efficiency of resource allocation is greatly improved. Networked finance makes the timeliness of resource allocation more comprehensive than the integration of traditional funds.

4 The Development and Application of Internet Finance

The traditional financial model can be divided into two types, one is the banking financial institution model with payment, deposit and loan as its main business, and the other is that enterprises and individuals directly conduct securities trading and financing in the financial market, which is called the capital market model. Internet finance is different from the above two modes, it is a new financial transaction mode that combines the two with deep integration. From the perspective of personal wealth management, this paper divides Internet finance into three categories: third-party payment, P2P network lending, crowdfunding, and Internet banking.

4.1 Development and Application of Third-Party Payment

Since the emergence of China's third-party payment industry, its transaction scale has been growing rapidly. Although the growth rate has slowed down in recent years, it still maintains a growth rate of around 40%. Taking Internet third-party payment as an example, since 2013, the third-party payment industry has experienced explosive growth in China. In the five-year period from 2013 to 2017, the growth rate of comprehensive transactions of third-party payment reached 110.9%. By 2018, China's third-party payment comprehensive transactions reached the amount of 312.4 trillion yuan, a 20-fold increase over the 1.39 billion yuan in 2013.

Table 1. Scale and growth rate of third-party payment transactions

Years	Transaction amount (billion yuan)	Growth rate
2013	13.9	-
2014	30.2	117.3%
2015	59.2	96.3%
2016	130.3	119.9%
2017	218.9	68.0
2018	312.4	42.8%

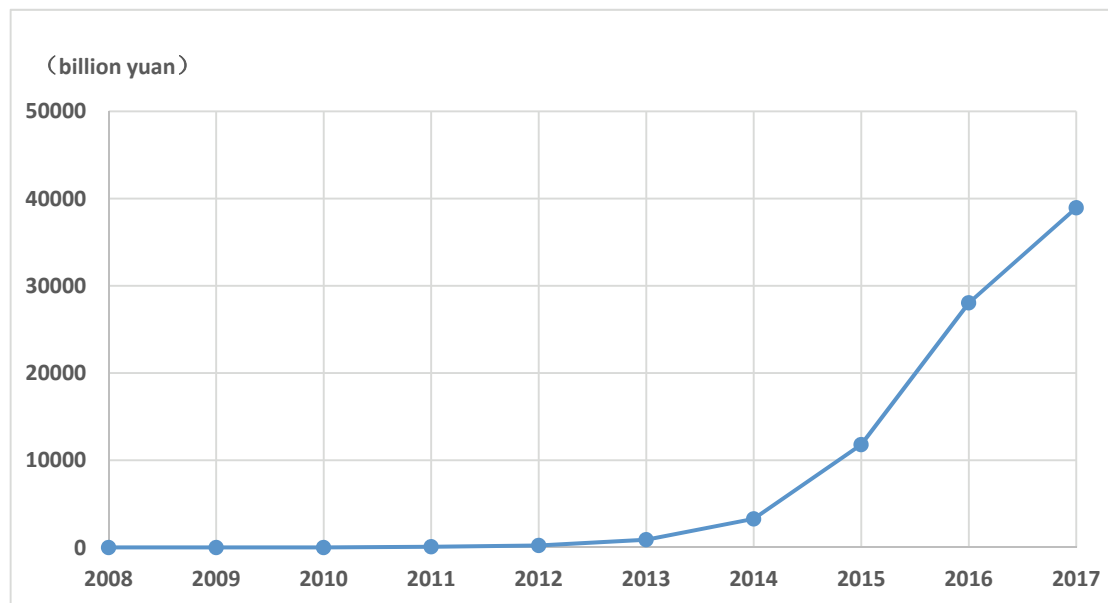
Source: iResearch

As the foundation of Internet finance, the popularity of third-party payment has promoted the development of Internet finance. When urban residents use Internet finance, the convenience of third-party payment and a variety of additional functions can increase the user's stickiness of Internet finance. Investment transactions are more efficient and experience better, and this advantage further saves investors time costs. Third-party payment has become a regular payment method in China's residents, especially in urban capital transactions. In traditional wealth management transactions, bank cards are the main way for users to settle payments. Although banks provide online banking payment functions, this payment method is cumbersome. And the efficiency is relatively low. Third-party payment only needs one mobile phone APP and one real-name account to connect almost all bank cards, and it can cover almost all

online internet financial funds transactions, which not only facilitates the use of users, but also increases transaction efficiency.

4.2 Development and Application of P2P Network Lending

Since the establishment of China's first P2P online lending platform in 2007, China's P2P market has grown in size and its business model has been continuously innovating. In 2015, the amount of online lending transactions exceeded the one trillion for the first time and ranked No.1 in the world. According to the first online loan report, as of the end of 2017, the cumulative turnover of P2P online loans nationwide reached 8.3313 trillion yuan.



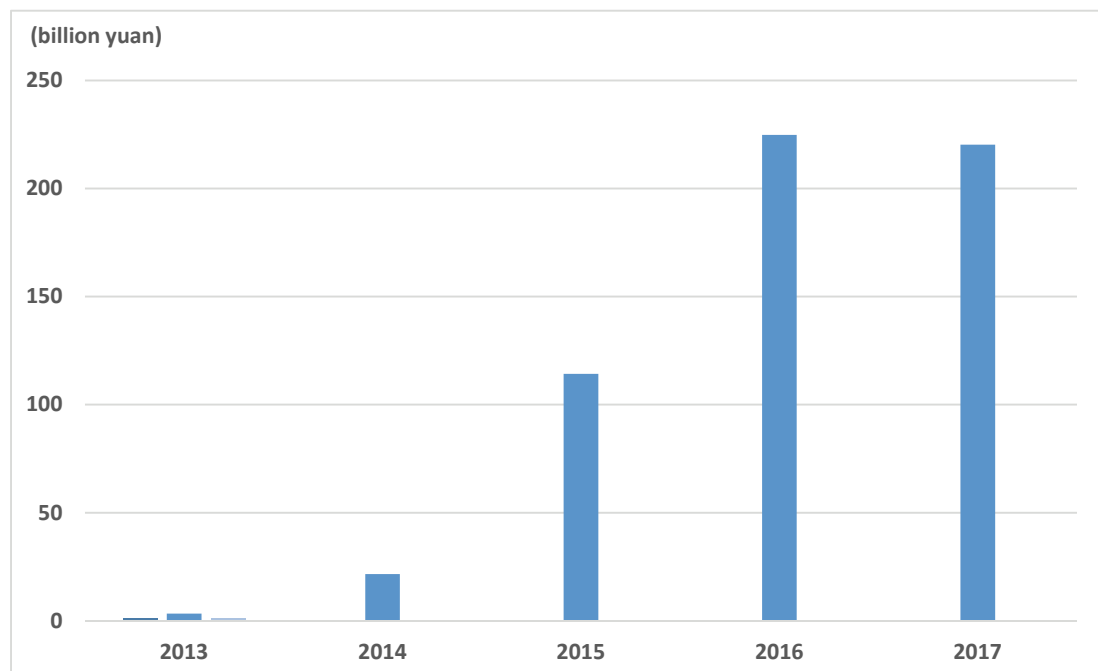
Source: First online loan

Figure 1. P2P online loan turnover

Domestic Internet finance originated from payment, but the deepening and popularization of the concept is attributed to P2P lending. Credit is the core of finance. In the past five years, microfinance, represented by P2P, has developed rapidly and cultivated the habit of users to make credit through the Internet. Since 2007, the domestic Internet lending platform has developed rapidly, more and more Internet financial users have participated in the investment and financing activities of the P2P platform. In 2016, the P2P loan market transaction volume reached 1.49 trillion, and the number of investors reached 13 million. The transaction ratio was mainly concentrated in first-tier cities such as Beijing, Shanghai, Guangzhou and Shenzhen which indicate that P2P online lending has become a hot spot for residents, especially urban residents. Although the market transaction scale of P2P online lending is not prominent compared with third-party payment and Internet funds, but, as the emerging Internet financial model in China, its development speed is still relatively fast, with the continuous maturity of the industry and the continuous improvement of laws and regulations. I believe that the number of P2P online loan investors will continue to increase in the future.

4.3 Development and Application of Crowd Funding

According to statistics from Yingcan Consulting, in the first few years of 2014, China's crowdfunding industry financing amount was only 335 million yuan, but in 2017, China's crowdfunding industry raised a total of 22.25 billion yuan. Although it is lower than the 22.478 billion yuan raised in 2016, but the gap is small. As of December 2017, the history of China's crowdfunding industry platform has raised a total of 58.42 billion yuan.



Source: Yingcan Consulting

Figure 2. Successful financing of crowdfunding over the years

At present, crowdfunding is divided into four types: equity financing, mixed crowdfunding, reward crowdfunding and public welfare crowdfunding. Representative platforms such as Taobao crowdfunding and Jingdong crowdfunding are rewarded crowdfunding. You can view the relevant information of crowdfunding projects and products on the platform, and pre-purchase according to your own preferences. After the success, you will get certain rewards. The crowdfunding platform is mainly concentrated in cities, including Beijing, Guangdong and Shanghai in first-tier cities and economically developed provinces and cities such as Zhejiang and Jiangsu. It can be seen that the crowds in the crowdfunding industry are mainly urban residents. Due to imperfect laws and regulatory policies and the industry involved in the crowdfunding industry, the business model is still immature, and many operations are not standardized. These reasons lead to high overall risk in the crowdfunding industry. This situation has seriously hindered the healthy development of crowdfunding industry especially equity crowdfunding and property rights crowdfunding. It is believed that with the continuous maturity of the industry and the continuous strengthening of supervision, the development prospects of the crowdfunding industry are broad, and the standardization of equity crowdfunding provides a new choice for urban residents to apply Internet finance.

4.4 Development and Application of Internet Financial Management

According to the data, as of December 2015, the number of Internet wealth management users in China reached 90.26 million with a growth rate of 15% and a netizen usage rate of 10%. The overall transaction scale of Internet financial management in China reached 6656.23 billion yuan, of which Internet currency funds accounted for the highest proportion, and its scale was 349.43 billion yuan. Yu'e Bao has the highest proportion of Internet money fund products. Its transaction scale was 620.69 billion yuan, accounting for 17.8% of the total size of the money fund. The bank's cash treasure market is 196.63 billion yuan, Baidu's Baidu 100 earning scale is 88.35 billion yuan which ranked second and third in the industry, and other wealth management products accounted for less than 5% of the market share.

According to the data from the China Household Financial Survey, one of the main manifestations of residents' participation in Internet financial investment is the investment in Internet wealth management products, and Internet finance plays a positive role in the allocation of financial assets of households, especially risk assets. Because Internet financial management raises the awareness of residents' wealth

management, urban residents' investment in Internet wealth management can not only diversify investment risks, but also preserve and increase the value of funds, and also facilitate residents' online shopping payment, transfer remittance, and living payment.

4.5 Risks of Internet Residents in Urban Residents

4.5.1 Credit risk

Credit risk mainly refers to the credit risk of the borrower which mainly includes the borrower default and the false borrower information. Borrowers may be unable to repay their loans due to moral hazard, or due to personal economic reasons which result in default risk. On the other hand, due to the imperfect credit review mechanism of the Internet financial platform or the unsatisfactory review, these factors lead some borrowers to fictitious personal information or even provide false information. This situation will also lead to breach of contract which causes investors to suffer losses.

4.5.2 Risk of Internet financial platform

Internet finance is developing rapidly and the corresponding laws of the country are not sound enough. The government's supervision of Internet finance is still not perfect. These reasons lead to certain risks in the compliance of the Internet financial platform. Whether the platform is a formal operation, whether there is a business license, whether the business is legal, and whether there is a third-party guarantee, if there are problems in these aspects, the financial security of investors may be threatened.

5 Summary and Recommendations

According to the above analysis, Internet finance has achieved rapid development by virtue of its inclusiveness, urban residents' understanding of Internet finance has continued to advance, and the application of various modes of Internet finance has continued to deepen, while urban residents also face some credit risks when they application Internet finance. So I put forward the following suggestions from the perspective of the government and the Internet financial platform.

5.1 Improve the Legal System of Internet Financial Supervision

With the deepening of the integration of Internet technology and financial industry, the emerging industry of Internet finance has developed rapidly. Due to the lack of effective supervision, various financial risks and violations of laws in the rapid development of Internet finance have emerged in an endless stream which caused losses for investors. The current legal system has been unable to meet the needs of market development, and the government needs to comprehensively manage the Internet finance industry. Therefore, the government should step up the improvement of the legal system of the Internet financial industry, so that the regulatory agencies and supervisors can have laws to follow, and formulate reasonable countermeasures against the violations and risks that arise, and at the same time, clearly define the duties of the regulatory authorities through legal forms. Realize the healthy and prosperous development of the Internet financial industry and financial markets.

5.2 Establish a Platform Credit Management System

Credit risk is the core risk that investors face when they choose Internet finance. Therefore, the credit management Internet finance companies should establish a credit management system from the following two aspects:

First, establish a personal credit risk management system. The core of the personal credit risk management system is the personal credit rating. For example, Ali Small Loan uses advanced Internet technologies such as cloud computing and big data to mine and analyze the borrower's historical transaction records, which solves the problem of information asymmetry between borrowers and lenders and realizes credit management for borrowers.

The second is to establish a platform information disclosure system. One of the advantages of internet finance is that it reduces the phenomenon of information asymmetry, so companies should establish an

information disclosure mechanism and publish industry status, project and product risk information, and capital flow information to users in a timely manner. Enterprises should put the platform under the supervision of the public which can enhance the transparency of the platform and enable users to make rational judgments based on this information and better protect the interests of them.

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