

Building of a standard system for supervision over financial technology enterprises from the perspective of governmental regulation

Sun Haonan^{a,*}, Chen Gaoyang^b, Su Yutong^c, Hu Wenbo^d, Wang Weidong^e

College of Humanities and Foreign Languages, China Jiliang University, Hangzhou 310018,
Zhejiang, China

^ashn_00@163.com, ^b2024990863@qq.com, ^c1018799640@qq.com, ^d2572957824@qq.com,

^ewwdn2002@cjlu.edu.cn

*corresponding author

Keywords: governmental supervision, financial technology, regulatory system

Abstract: In recent years, financial technology (FinTech) enterprises have thrived in China. However, the flourishing FinTech field is accompanied by the lagging of financial supervision. Regardless of innovations, FinTech is in essence related to the finance and therefore still needs to be correctly guided and supervised, so as to balance risks while guaranteeing efficiency, thus maintaining financial stability. From the perspective of governmental supervision, the research analyzes the status quo of governmental supervision over FinTech enterprises from four aspects, i.e. supervising subjects, supervision contents, supervisory measures, and supervision effects. Meanwhile, existing main problems in governmental supervision are summarized, based on which targeted countermeasures and suggestions are proposed for how to improve the supervision system of FinTech enterprises.

1. Introduction

With the progress of a series of technologies, including big data, cloud computing, artificial intelligence, and blockchain, financial technology (FinTech) enterprises that are deeply integrated therewith also develop constantly. This brings out a suite of financial derivatives and services that meet needs for the times: the products are constantly diversified and become increasingly virtual, and the services become more efficient. However, what accompanies the thriving FinTech field is the lagging of financial supervision. No matter how FinTech innovates, it is in essence related to the finance, so it still needs to be correctly guided and supervised and balance risks while guaranteeing efficiency, so as to maintain financial stability.

2. Literature review

Existing research on FinTech supervision in China and abroad is still in the ascendant, and the topic is studied earlier in other countries. When traditional supervision approaches and modes fail to keep pace with the increasingly rapid development status quo of FinTech, Britain scholars took the

lead to propose the idea of regulatory sandboxes in 2015. Since then, scholars in other countries have begun to discuss and study sandbox supervision. These studies mainly pay attention to introduction of the concepts and operation principles of sandbox supervision, as well as the relationship between sandbox supervision and FinTech development and therefore propose relevant macro-policies. However, they seldom discuss the detailed rules and executive measures of sandbox supervision^[1].

As for research in China, it starts relatively late and there is few research on the building of a standard system for FinTech supervision from the perspective of governmental supervision. Despite this, some scholars are still devoted to the topic. From the aspect of FinTech supervision, research in China and other countries shares similarity in some aspects, for example, both discussing the nature of FinTech^[2]. Existing research mainly starts from risk control and technological innovation of FinTech enterprises, while is in its infancy on the risk control mechanism and the supervision system of FinTech. Kong proposed in the research “Reflections on the supervision over fintech enterprises” that FinTech itself is beneficial and can serve as a conducive supplement for existing banks if it is used and supervised sufficiently^[3].

In summary, existing research on the supervision of rapidly growing FinTech is still in the initial stage in China and abroad. Although researchers are gradually increasing their focus on the topic, the depth of research is unable to keep pace with the actual development speed of FinTech. In addition, applying overseas research conclusions may be non-adaptive to the condition of China, so they cannot be copied directly. Therefore, establishing a standard system for FinTech supervision from the viewpoint of governmental supervision based on specific conditions of China is of profound practical and theoretical significance.

3. State quo of governmental supervision of FinTech enterprises

3.1. Supervising subjects

At present, supervising subjects for FinTech enterprises in China are relatively decentralized and there is a paucity of specialized governmental organizations for supervising FinTech enterprises. These enterprises therefore are mainly under joint supervision of departments such as the China Banking Regulatory Commission, China Securities Regulatory Commission, and China Insurance Regulatory Commission. Because there is a lack of a unified authoritative supervising subject, FinTech enterprises are poorly supervised by the FinTech supervision system in China. In addition, the Internet finance industry in China is an emerging industry that is not supported with a perfect legal system, and relevant governmental departments fail to timely formulate corresponding laws and regulations according to changes in the development trend. Moreover, local governments also have not clarified their rights and responsibilities for supervision over FinTech risks, and governmental supervisory measures are also not carefully guided. All these render FinTech enterprises in China to be in a chaotic state without a clarified supervising subject and detailed supervision rules.

3.2. Supervisory measures

When FinTech enterprises began to rise in China, the Chinese financial supervisory authority adopted relatively traditional and conserved supervisory measures, expecting to drive innovation and development of these enterprises. The authority created a loose and inclusive supervisory environment and applied traditional financial supervisory measures in most cases. Because these traditional supervisory measures are relatively loose, FinTech enterprises in China developed rapidly. However, the frequent poor management and bankrupt of Internet financial platforms in

recent years have forced the Chinese government to think how to enhance supervision over FinTech enterprises by using advanced supervisory measures. These include the regulatory sandboxes proposed by Britain scholars in 2015. With the development of the times, the Chinese government is improving and innovating supervisory measures unceasingly to enhance supervision over FinTech enterprises.

3.3. Supervision effects

3.3.1. Poor effects of traditional loose supervisory policies

In previous years, the government always adopted relatively loose supervisory policies for FinTech enterprises, so that these enterprises are able to adapt to the rapid development of the times. Therefore, the government delayed to take strict supervisory policies and mainly applied traditional financial supervisory measures and policies. Although these loose and flexible supervisory policies play a certain role in promoting and regulating the orderly development of FinTech enterprises, they fail to realize all-round supervision over these enterprises. This is because Internet finance has some uniqueness compared with the traditional finance industry, with wider coverage and stronger influences, and lacks highly targeted laws and regulations and regulatory system. Under the loose supervisory policies and system, many FinTech enterprises tend to get benefits from supervision loopholes, which has brought about some adverse effects.

3.3.2. Strict supervisory policies needs to be flexible

Due to the frequent poor management and bankrupt of Internet financial platforms in recent years and the socially sensationalized halting of Ant Financial Services Group to be listed in 2020, the government has introduced increasingly strict supervisory measures. In recent years, the China Banking and Insurance Regulatory Commission has comprehensively improved the P2P online lending platforms and adopted across-the-board supervisory measures, which causes FinTech enterprises in China to be dying. Such resolved and decisive rigorous policies might have played a favorable role in a short term, while they also need to be flexible and avoid a blindly across-the-board fashion. For example, the national improvement group for the internet finance has issued guidance in last year and provided detailed guidance for the withdraw and transformation of P2P business. In this way, eligible micro-credit companies transformed from online lending institutions are supported by the supervising party. Transformed micro-credit companies include national Internet or local micro-credit companies, which are more favorable for the development of FinTech enterprises.

4. Problems in governmental supervision standard for FinTech enterprises

4.1. Imperfect standard system of governmental supervision

At present, the standard system for supervision over FinTech enterprises in China is still imperfect and lacks of all-round, standardized supervision and management of relevant departments. To promote rapid development of FinTech enterprises, the supervision departments in China always adopt relatively traditional and conserved supervisory measures while overlook the building of a supervision standard system. At the same time, corresponding supervisory policies formulated by the government to cope with existing problems lag to some extent behind, and are generally remedial measures after occurrence of problems in some cases. The existing standard system of governmental supervision lags behind the wildfire-like spread of FinTech enterprises and needs to be improved urgently aiming at these enterprises.

4.2. Lagging of the governmental supervision standard

FinTech enterprises are still in the primary development stage in China. In addition to their immature technologies, the existing governmental supervision system and standard inevitably lag behind the development of emerging financial supervision. Besides, FinTech itself has a long tail effect and is scalable, so it is prone to risk spillover, thus greatly impairing the external economic environment. Due to the lagging supervision standard taken by the government, it is difficult to combine FinTech supervision and innovation. As a result, some enterprises may take advantages of the governmental supervision loopholes and blind spots of existing laws to achieve illegal goals such as illegal fundraising.

4.3. Absence of a unified standard of governmental supervision and supervision cooperation across regions

At present, there is a paucity of a unified, perfect, standardized supervision system in China, and local supervision standards and policies are also not unified. Due to their particularity, FinTech enterprises can rapidly spread nationwide. However, governmental supervision over these enterprises cannot cooperate across regions due to the lack of a unified supervision system of local governments and differences in attribution of governmental supervision across regions. There are also many problems in terms of information sharing and coordinated supervision. Some FinTech enterprises are also likely to expand to regions with poor regulation so as to avert governmental supervision.

5. Countermeasures and suggestions for improving the standard system of FinTech supervision

5.1. Shifting objectives of the standard system of FinTech supervision

The objective of the standard system of FinTech supervision needs to be shifted to high security and efficiency. The traditional standard system of FinTech supervision used by the Chinese government focuses on the conventional supervision objective and pays more attention to maintaining stable operation of the exiting financial system, which may hinder the safe and efficient implementation of supervision. Indeed, the shift needs to consider the reasonability of existing mode and also should be aware of the fact that the conventional supervision paradigm will persist for a period of time. In specific implementation, governmental departments do not need to restrict all businesses of the enterprises and should actively delegate authority for over-interventional approval links. Whereas, relevant departments should pertinently revise all kinds of policy documents or laws and regulations containing obscure explanations, repetitious contents, and unreasonable settings.

5.2. Enhancing construction of the standardized legal system for FinTech enterprises

In the existing legal system in China, regulations for FinTech enterprises are scattered in all kinds of laws and regulations while there is a lack of targeted laws and standardized legal restraints. Therefore, the government should enhance supervision over FinTech enterprises through legal construction from aspects including security risk control and technology application. Meanwhile, the government needs to analyze new characteristics of innovation achievements of enterprises and combine these achievements with applications. It also needs to constantly provide supplements for and improve legal provisions or policy specifications that do not meet the practical development

needs of FinTech. By doing so, it is expected to promote netizens to legally safeguard their rights, network platforms to operate legally, and judicial branches to realize impartial judges.

5.3. Combining with digital technologies to vigorously promote supervision innovation for FinTech enterprises

The government needs to strengthen fiscal support for supervision innovation and promote digitalized infrastructure and data standardization construction. It is also supposed to input more fiscal resources to major programs in the new FinTech infrastructure, such as deploying new data centers and information assurance centers for financial security. At the same time, the government needs to pay attention to building public facilities for supervising financial data and prompt network financial institutions to build a standardized, unified financial data system based on technologies including cloud computing and big data. On this basis, data demands and services can be allocated to the FinTech development at the maximum extent.

6. Conclusions

While FinTech enterprises are flourishing, the Chinese government still performs relatively poorly in constructing the standard system for FinTech supervision. Loopholes are still present in governmental supervision, bringing tough challenge for ensuring the order and stability of the Chinese financial market. The governmental supervising departments should treat FinTech enterprises and traditional financial institutions equally and set identical rigorous supervision requirements for them, and constantly innovate the supervisory measures and improve supervisory policies. At the same time, the governmental departments also need to propose corresponding countermeasures and enhance technical support for problems and risks in the development of FinTech enterprises. Only on this basis can FinTech enterprises in China develop substantially to ensure financial security and facilitate sustainable development of platform economy in China.

Acknowledgements

The work was supported by the National College Students' Innovation Training Program in 2021 (grant no. 202110356047); Xinmiao Talent Program of Zhejiang Province in 2021 (grant no. 2021R409028); Basic Scientific Research Funds of Universities in Zhejiang Province (grant no. 2020YW38); Zhejiang Provincial Natural Science Foundation (grant no. LH19G030001); and University-Level Open-Ended Experimental Project in China Jiliang University in 2021.

References

- [1] Han Junjin. *Implementation paths of sandbox supervision in China* [D]. Hubei: Zhongnan University of Economics and Law, 2016: 4.
- [2] Liu Wen. *Research on the regulatory sandbox system under the background of financial technology* [D]. Jiangxi: Jiangxi University of Finance and Economics, 2021:2.
- [3] Kong Fanyao. *Reflections on the supervision over FinTech enterprises—the case of Ant Financial Services Group* [J]. *Shanxi Finance and Tax*, 2020(12): 35-38.
- [4] Feng Suling, Zhao Shu, Wu Haoyue. *The Impact of FinTech on Corporate Financial Risk and Its Internal Mechanism: On the Threshold Effect of Financial Regulation* [J]. *Reform*, 2021(10): 84-100.
- [5] Yuan Yang. *Game analysis of coordinated development between innovative FinTech enterprises and financial regulators* [D]. Guizhou University of Finance and Economics, 2021.
- [6] Chen Sanmao, Qian Yan. *Big Tech enterprises' financial footprint and the supervision problem* [J]. *Journal of Financial Development Research*, 2021(05):83-89.DOI:10.19647/j.cnki.37-1462/f.2021.05.012.
- [7] Qi Li. *Research on construction of information disclosure system of testing enterprises in Fin-Tech "regulatory sandbox"* [J]. *Journal of Shenyang University of Technology (Social Science Edition)*, 2020,13(02):161-167.

- [8] Li Longtao. *Research on risk management mechanism of Internet finance: control activities, supervision and information exchange* [N]. Commercial Bank, 2016.
- [9] Jiang Shangpu. *Risk analysis of Internet finance and regulatory suggestions* [N]. Financial Computerizing, 2019.
- [10] Li Bing. *FinTech regulation faces new challenges and more accurate authorization of data will be explored* [N]. Security Daily, 2021-10-13(B01).