

Research on the Risk of Crowd Financing Method in Internet Finance

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Abstract: As an innovative financing mode, Internet crowdsourcing has developed rapidly in China because of its convenience and rapidity. However, with the continuous development of Internet crowdsourcing, problems continue to arise. This paper focuses on the risk analysis of Internet crowdsourcing from three aspects: fundraisers, investors and crowdsourcing platforms. Summarize the corresponding risk prevention suggestions and countermeasures, which can eventually provide a reference for the healthy development of Internet crowds in the future.

1. Introduction

Internet crowdsourcing, as an innovative financing method based on Internet finance, recruits' funds through open means, which is also the combination of traditional crowdsourcing and information technology. The term "crowdsourcing" originated from Kickstarter; an American website founded in New York in April 2004. It raises public funds through the network platform. The emergence of crowdsourcing on the Internet has broken the traditional financing mode and provided unlimited possibilities for more creative projects and micro-enterprises. Compared with the traditional financing mode, crowdsourcing on the Internet has greatly reduced the complexity of financing. Suddenly, without the need for intermediaries such as banks or securities, the supplier and the supplier can trade directly, which reduces the transaction cost. However, it cannot be ignored that the development of Internet crowdsourcing in China is still in its infancy, and there are still huge risks in Internet crowdsourcing. This paper focuses on the risk analysis of Internet crowdsourcing and puts forward corresponding prevention and control suggestions, which has great significance for the healthy development of Internet crowdsourcing in China.

2. Development History of Crowdsourcing Industry in China

With the increasing number of Internet crowdsourcing platforms and operations in China, it is found that the development of Internet crowdsourcing can be divided into three stages: the enlightenment stage for Internet crowdsourcing from 2011 to 2013, and the upsurge of nationwide entrepreneurship from 2014 to 2016. It has brought a lot of financing demand, making 2014-2016 a period of rapid development of Internet crowdsourcing. The number of Internet crowdsourcing platforms has exploded, and has gradually entered a stable development period since 2017.

Table 1. 2011-2017 Change in the year-on-year growth rate of Crowdsourcing Platforms

2012	2013	2014	2015	2016	2017	2018
267%	81.8%	745%	71%	-2.0%	-75.2%	-87.1%

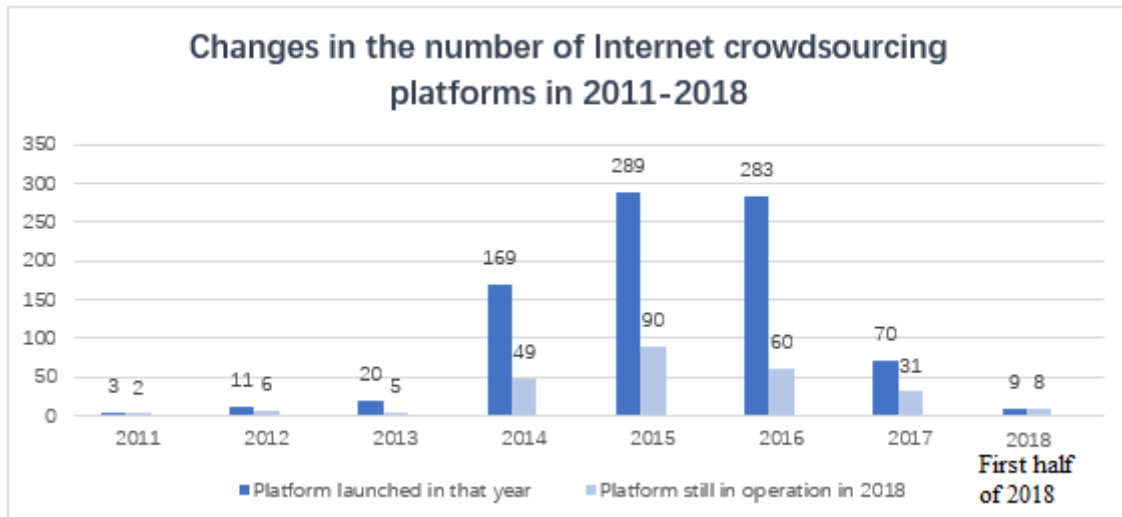


Fig 1. Changes in the number of Internet crowdsourcing platforms in 2011-2018

3. Problems and Risks in the Internet Crowdsourcing Industry

This paper analyses the risks of the Internet crowdsourcing industry from three aspects: the risk of fundraisers, the risk of investors and the risk of the Internet crowdsourcing platform.

3.1 Financer Risk

3.1.1 Intellectual Property Risk

Internet crowdsourcing is an innovative mode of attracting investors to invest. Crowdsourcing projects of fundraisers can be released through crowdsourcing platforms, and then investors can find satisfactory investment projects through crowdsourcing platforms. In the process of looking for investment projects, Investors should judge whether the fund-raising project is worth investing according to the knowledge of the fundraiser and the specific information of the fund-raising project. The more detailed the information of the investment project is, the more effective the investment can be obtained. But when the fundraisers show the creativity, ideas and technology of the project on the public platform, the creativity is easy to be plagiarized, which greatly increases the risk of being plagiarized. Because the project has not been completed, the relevant intellectual property rights cannot be effectively guaranteed by law.

3.1.2 Financial Management Risks

With the emergence of the Internet crowdsourcing model, fund-raisers have become more able to directly manipulate funds, but because some fund-raisers do not have the relevant financial expertise, but also lack the relevant professionals to effectively manage the funds raised. So that the fund-raisers cannot effectively solve the problem when facing the situation of excessive fund-raising, leading to the emergence of financial problems.

3.2 Investor Risk

3.2.1 Risk of Information Asymmetry

Information asymmetry is the biggest risk for investors. Because the fundraisers have absolute advantage in mastering the information, they have all the information of the project. However, the crowdsourcing platform only has a part of the information, and the information investors see is only the tip of the iceberg. This will affect the investors' evaluation of project risk and feasibility, and bring greater risks. Moreover, most crowdsourcing platforms mainly focus on the project financing stage, neglecting the post-financing fund management stage, which makes investors unclear where their investments are spent.

3.2.2 Investors are More Vulnerable to Fraud

Investors mainly master the information of investment projects through crowdsourcing platforms. Although crowdsourcing platforms are more convenient and faster than banks' auditing mechanisms, the auditing of crowdsourcing platforms cannot ensure the authenticity of information, and even the platform may cheat investors jointly with fundraisers. Ultimately, it greatly increases the possibility of investors being deceived.

3.3 Crowdsourcing Platform Risk

3.3.1 Information Security Risk

Internet crowdsourcing platform collects not only the information of fundraisers but also the information of investors. Due to the mistakes in programming, the staff's professional accomplishment is not high or the platform's security performance is not good, which can easily lead to the leakage of users' personal information, thus affecting the future development of the platform.

3.3.2 Legal Risks

Crowdsourcing platform belongs to the intermediary of financing. It needs to undertake the responsibility of investigating and disclosing the credit situation of the fundraiser. Crowdsourcing platform fraudulently encounters the bottom line of the law for its own benefit to investors or fundraisers. On the other hand, due to the weak supervision of the platform, the fund-raisers use loopholes to cheat investors, the platform will also be implicated, subject to legal sanctions.

4. Risk Prevention Measures of Crowdsourcing Model

4.1 Strengthen the Construction of Crowdsourcing Platform

Crowdsourcing platform used to establish professional credit risk institutions to carry out risk analysis of fund-raiser projects, so as to reduce the risk of investors, strengthen standardized management, establish a good credit image, enhance the scientific and cultural literacy of crowdsourcing platform managers, carry out multi-level analysis of fund-raisers' projects, and reduce the risk of investors. The generation of bad projects. In terms of platform technology, in order to establish a good network security platform, we need to strengthen the training of technical personnel.

4.2 The Government Enhances Supervision

The first Equity Crowdsourcing Congress held by the State Council in 2014 marked a breakthrough in the Internet crowdsourcing system in China. The Implementation Plan of Internet Finance Special Rectification issued by the State Council on October 30, 2016 further improved the relevant regulations, but there are still many deficiencies in the actual operation. The government not only needs to strengthen the supervision of crowdsourcing platforms, clarify the main body of supervision, but also implement corresponding regulatory policies to ensure the safety of investors' investment funds.

4.3 Strengthen Education for Fundraisers and Investors

Internet crowdsourcing develops relatively late in China. Because investors and fund-raisers do not have the ability to avoid risks professionally, they are easy to fall into the trap of illegal fund-raising. Our government should strengthen risk education for fund-raisers and investors and increase propaganda efforts. Crowdsourcing platform can provide relevant evaluation model and basis, so that investors can make a sound investment, and ultimately make the fundraisers and investors know how to avoid risks.

5. Summary and Prospects

Internet crowdsourcing platform is of great significance not only to enterprises but also to individual financiers. However, due to the short development time of Internet crowdsourcing in

China, there are still some loopholes in supervision and law, so the risk prevention awareness of investors and financiers needs to be strengthened. Crowdsourcing platform also needs to constantly improve itself in order to get better development. Internet crowdsourcing is a major manifestation of informationization in finance. It conforms to the development trend of science and technology and is conducive to national economic construction. Although compared with Western countries, China's Internet crowdsourcing started late. However, with the continuous development of Internet crowdsourcing in China, the Internet will become internationalized and specialized in the future. This paper focuses on the analysis of the risks of Internet crowdsourcing, and puts forward corresponding suggestions, expecting to arouse the thinking of readers and provide more suggestions and Countermeasures to speed up the development of China's Internet crowdsourcing.

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