

The necessary of industry associations to be empowered to implement a regulatory sandbox

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Abstract: In recent years, more and more countries and regions have introduced regulatory sandboxes to promote the development of fintech in their countries. This method serves as a useful supplement to financial supervision. Industry associations must be empowered to implement regulatory sandboxes to assist regulators in implementing sandbox supervision of financial technology ? Based on the theory of corporate political action and government-led theory, theoretical analysis and research hypothesis are put forward to study the aforementioned issues. The research results show that the role of industry associations in the development of fintech is high in quantity and low in quality. The lack of a complete and accurate understanding of the business model, overall risk and specific risk points of the industry is an important reason. Therefore, it is necessary for regulators to authorize industry associations to implement a regulatory sandbox. This article allows them to closely observe FinTech innovations and their risks, forming a complete and accurate understanding. This method can ensure the high-quality development of fintech in China.

1. Introduction

As a technology-driven financial innovation [1], FinTech will reshape the financial industry and will be the future growth point and competition focus of global finance [2]. But innovation must accompany risks, and risks such as cyber risk and strategic risk are the risks associated with FinTech innovation [3]. In order to help the financial system of this country and the region to be revolutionized and balance FinTech innovation and risk, more than 30 countries and regions around the world, such as the United Kingdom and Singapore, have introduced the innovative regulatory arrangement of a sandbox. The Science and Technology Department of the People's Bank of China has started to launch the Chinese version of the regulatory sandbox. During the two sessions of the PBC, the director of the Financial Stability Bureau of the People's Bank of China also submitted to the National People's Congress a proposal to implement the regulatory sandbox in the Greater Bay Area. At the local level, Ganzhou City, Jiangxi Province, Guiyang City, Guizhou Province, and other places have introduced regulatory sandboxes. Beijing and Chengdu, Sichuan Province have explicitly proposed to explore regulatory sandboxes to promote FinTech innovation. Zhejiang Province has written regulatory sandboxes into Regulations of Zhejiang Province on Local Financial Supervision (Draft for Soliciting Opinions).

On the other hand, the approximate title of fintech in China is Internet finance [4]. Doing a good job in industry self-discipline is an important content of building a long-term mechanism for Internet financial supervision and risk prevention [5]. So, in order to do a good job of industry self-discipline and ensure the high-quality development of FinTech innovation in China, is it necessary for the regulator to authorize an industry association to implement a regulatory sandbox to assist the regulator in implementing sandbox supervision of FinTech innovation? In the context of a new round of international competition for FinTech innovations in developed economies such as the United States, Japan and the United Kingdom, this issue has explored the successful practice of the Chinese version of the regulatory sandbox system, thereby helping China's financial innovation tide in FinTech. China's global rise is of great significance. To this end, this article conducts theoretical

analysis and proposes research hypotheses based on the theory of corporate political action and government-led theory to study the aforementioned issues. The research results show that industry associations are positively related to the number of normal FinTech innovations, but negatively related to the quality of FinTech innovations. Failure to effectively assist FinTech innovation entities to strengthen risk management and failure to assist regulators in developing targeted control policies is an important issue. The reason. Therefore, in order to ensure the high-quality development of FinTech innovation in China, it is necessary for regulators to authorize industry associations to implement a supervision sandbox and implement sandbox supervision of FinTech innovation.

2. Literature review

Scholars at home and abroad have conducted extensive research on the regulatory sandbox, mainly focusing on the purpose, necessity, positive significance and limitations of the regulatory sandbox.

2.1 The purpose of the regulatory sandbox

Regarding the purpose of the regulatory sandbox FCA launched the regulatory sandbox to promote competition by promoting innovation [6]. The purpose of the regulatory agency to launch the regulatory sandbox is to promote innovation by reducing regulatory barriers and testing the cost of disruptive innovative technologies, while protecting consumer rights [7]. The purpose of the regulatory agency to launch a regulatory sandbox is to promote competitive innovation in financial markets [8]. The regulatory sandbox has the dual purpose of encouraging innovation and preventing risks. The regulatory sandbox is designed to encourage FinTech innovation experiments, especially FinTech innovations where the technology used is incompatible with the current regulatory framework [9].

2.2 The need for regulatory sandboxing

Regarding the need for regulatory sandboxing, foreign literature has formed two diametrically opposed views based on the different realities of different countries.

One view is that there is a need to implement a regulatory sandbox. The principle-oriented supervision system can better promote market participants to achieve supervision goals, and the supervision sandbox can make up for its shortcomings, so it is necessary to implement sandbox supervision [10]. Although China has proposed a regulatory concept similar to "flexible regulation", it has not been fully standardized [11]. Therefore, it is necessary to test the blockchain technology using a regulatory sandbox to provide a controlled test environment. Based on the consistency of the regulatory sandbox with China's regulatory reform direction, consumer-centric regulatory philosophy, and FinTech's innovative development requirements, it is considered necessary for China to introduce a regulatory sandbox [12]. Based on the reason that it can alleviate the contradiction between legal lag and innovation advancement, coordinate the relationship between the subject of innovation and the regulatory authority, and also promote the sublimation of the financial consumer protection mechanism in terms of ideas and systems, etc., it is considered that China is necessary Implement a regulatory sandbox. Based on the broad constraints of China; s FinTech innovation system, the lack of regulatory resources, asymmetry in regulatory information, and the over-regulation by regulators inhibit FinTech innovation, and other reasons, it is necessary for China to implement sandbox supervision of FinTech [13].

Another view is that there is no need to implement a regulatory sandbox for different reasons. After studying New Zealand's financial regulatory system, this paper considers that [14] New Zealand's financial regulatory system is quite flexible and there is no need to implement a regulatory sandbox. It is not necessary for China to introduce a regulatory sandbox before 2015, as its "laissez-faire" strategy shows that the national level is a big sandbox [15]. Based on China's current relevant mechanisms and models, it is sufficient to assume functions that are equivalent to or more than the regulatory sandbox. China has a large territory, obvious regional differences, and a large number of institutions. It is considered that it is not necessary for China to introduce a regulatory

sandbox at present [16]. Based on the reason that China is still in the early stage of the basic regulation of the Internet financial industry, it is not considered necessary for China to launch a regulatory sandbox immediately, but it is also believed that the research on the applicability of the regulatory sandbox in China should be strengthened [17].

2.3 The positive Roles and Limitations of the Regulatory Sandbox

The regulatory sandbox has a positive effect on both innovators and regulators. For innovators, its positive effects are: improving the financing availability of startups, reducing the time and cost of bringing innovative ideas to market [18]; testing solutions in a controlled environment within a set period, and Does not immediately incur all the regular regulatory costs associated with lengthy approval procedures, and does not have to adjust its products to current legal requirements [19]; can reduce legal uncertainty [20]; innovators do not lose any legal Equity. The positive role for regulators is to strengthen the communication between regulators and startups and ensure that innovative products cover the corresponding consumer protection mechanisms [18]; through early intervention in financial innovation, to prevent financial innovation from becoming shadow finance or Become a tool for regulatory arbitrage; can achieve the best balance between disruptive innovation and financial stability [6]; while giving innovators to test their financial products, it also gives regulators time to understand product risks [10] ; Promote the innovation of Fintech's new technology under the premise of effectively helping regulatory authorities in the United Kingdom, Singapore, Canada, Australia and other countries [21]; allow regulators to adjust regulatory requirements in a timely manner, and truly allow for innovative supervision such as moderate supervision and inclusive supervision Spiritual landing.

Although the introduction of the regulatory sandbox has not been long, domestic and foreign literature has also conducted useful research on its limitations. Its limitations include the following: first, regulatory capture may occur. The too close relationship between the regulators and FinTech companies in the regulatory sandbox may affect the objectivity and rationality of the design of regulatory policies [6]; there may be the phenomenon of the capture of regulatory entities by market entities [12]. Second, the effectiveness has yet to be evaluated. A 2016 study by the German Treasury showed that a regulatory sandbox that delayed the appropriate time for innovation to enter the market may put participants at a competitive disadvantage [22]; its effectiveness remains to be evaluated. Third, scalability is not strong. The supervision sandbox is a human-powered supervision tool, which is limited by the human resources of the supervisory authority, so it is not scalable [8]. In addition, "one enterprise, one policy" may create new limitations such as unfair competition [17].

3. Theoretical analysis and research hypothesis

Theories related to industry associations are mainly corporate political action theory and government-led theory.

3.1 The corporate Political Action Theory

Over the past three decades, corporate political action (CPA) has received the attention of multiple disciplines such as politics, sociology, economics, and management [23], which refers to the actions of companies that influence political decisions and public policies for private purposes.

Collective action and private action are the two main forms of corporate political action. Some studies believe that the two forms are alternative relationships, and some believe that they are complementary relationships. More than 90% of companies claim that they often contact the government in multiple ways within a year. Contacting the government through industry associations is also a type of the way [24]. Therefore, private action and collective action can be complementary. In China, collectivist culture is the dominant position, and companies in collectivist culture are more inclined to take collective action. Collective action is conducive to the growth of companies. In developing countries, collective action is particularly important [25]. Collective action through industry associations is an option. The influence of industry associations on government policy is significantly higher than that of private action. Therefore, private action and collective action are the

two main forms of corporate political action. Chinese enterprises are more inclined to collective action such as industry associations.

Industry associations are the main form of collective action. Industry associations are between the government and enterprises, and represent the common interests of all enterprises in the industry. They are a bridge and bond between the government and enterprises. As a self-organized social intermediary, they can implement self-discipline management through industry rules. Regulate the industry's competitive environment; represent the interests and demands of the group it belongs to influence public decision-making, reflect the interests of members of the association and supervise and restrict public power. It is increasingly common for enterprises to influence government decision-making through industry associations [26]. Industry associations are one of the highest-developed social organizations in China in the transition period. The policy participation of industry associations represents the upper limit of social organization policy participation More than 50% of enterprises stated that the purpose of joining an industry association is to influence government policies through industry associations, and more than 50% of enterprises believe that industry associations have indeed done this. [27]

In summary, from the perspective of corporate political action theory, the political action of Chinese enterprises usually adopts collective action, and industry associations are its main form. As part of Chinese companies, industry associations are also the main form of political action for FinTech's innovation bodies.

3.2 Government-led theory

For the government, it is necessary for the society to provide public goods as an auxiliary force, and to strive to weaken the antagonism of the society in order to maintain the stability of the government. Industry organizations such as industry associations are low-risk and high-return social organizations, which is in the best interests of the government Demand, especially under the guidance of performance, industry associations and other industry organizations have become important government targets because they can effectively promote economic growth .

According to the "autonomy" and "cohesion" of the industry association, the relationship between the industry association and the government can be divided into four types: cooperative, adversarial, dominant, and instrumental. Although theoretically there are four types of industry associations. However, the government still plays a leading role in the interaction with social organizations such as industry associations. The degree of interest between the government and social organizations such as industry associations determines its support or restrictions for social organizations such as industry associations. Strategic government choices are possible [28]. Therefore, the government plays a leading role in the effective play of the role of industry associations. Of course, loyalty is also an important factor for the success of organizations such as industry associations. Each individual's generally low level of loyalty to its own organization may lead to the failure of the collective action of this organization; in turn, each individual's loyalty to its own organization is generally higher. High is likely to lead to the success of the group's collective action.

Therefore, in general, although factors such as loyalty are important factors for the success of industry associations, the government still plays a leading role, which can be called the government-led theory.

3.3 The research

According to corporate political action theory, Chinese companies usually choose industry associations to influence government policies. As an enterprise in a socialist market economy with Chinese characteristics, FinTech's innovation subjects also hope to influence government policies through industry associations in the development process, especially when FinTech's innovation policies are incomplete. Similarly, according to the government's leading role theory, in the early stages of FinTech's innovation and development, relevant policies need to be improved. On the one hand, the government needs industry associations to assist it in managing the FinTech innovation industry. On the other hand, it also hopes to strengthen the role of leading industry associations. Control of FinTech's innovation industry.

As far as the FinTech Industry Association is concerned, in addition to its own factors such as the government's leading role and loyalty, given that FinTech innovation is a new thing, the FinTech Industry Association's grasp of the business model, overall risks and various risk points of the industry is also an effective play. The key to action. The reason is that the biggest difference between the FinTech Industry Association and other industries is that its financial industry is an industry that manages risks and manages risks. In communicating with the government, communicating industry demands, and affecting government policies, it is not only necessary to understand the development of the entire industry. The current situation and the determination of the rationality of the industry's demands also require a fairly complete and accurate understanding of the industry's business model, overall risk and specific risk points, so that the government can play a leading role in formulating precise and differentiated government The policy provides support and assistance to avoid the introduction and implementation of the "one size fits all" policy.

In this way, the FinTech Industry Association is the main channel for Chinese FinTech innovation bodies to influence government policies. If the FinTech Industry Association has a complete and accurate understanding of the business model, overall risks, and specific risk points of the industry, it is more likely to obtain Support, so as to effectively play its role in expressing industry demands; on the other hand, it also makes government policies more targeted and avoids "one-size-fits-all" government policies. In the end, the FinTech Industry Association is conducive to the development of normal FinTech innovations, and tries to avoid the occurrence of inferior FinTech innovations, and even converts inferior FinTech innovations into normal FinTech innovations. On the contrary, if the FinTech industry association lacks a complete and accurate understanding of the business model, overall risk and specific risk points of the industry, it is difficult to effectively play its role in expressing the reasonable demands of the industry, and it is difficult to avoid government policies The adverse effects brought to FinTech innovation; on the other hand, under the government's leading role, FinTech industry associations cooperate with the government to implement the "one-size-fits-all" policy, which may also strengthen the "one-size-fits-all" policy effect, thereby helping to fuel the flames. In the end, it is difficult for the FinTech Industry Association to promote normal FinTech innovation, and may worsen the deterioration of FinTech innovation, so that the FinTech Industry Association does not promote the normal FinTech innovation as much as the degradation of FinTech innovation, thereby reducing the quality of FinTech innovation.

Judging from the current situation, the Chinese FinTech Industry Association usually lacks a complete and accurate understanding of the business model, overall risks and specific risk points of the industry. The reasons are as follows: First, FinTech innovation is new, even though the Financial Stability Board It is also difficult to assess the impact of FinTech on financial stability due to the lack of data. Only the macro and micro financial risks of FinTech innovation can be described qualitatively. Not to mention the FinTech Industry Association, where expertise and expertise are clearly lacking. Second, the FinTech industry association has been established for a relatively short time. Even with relevant professional talents, it is difficult to organize a dedicated team to conduct a complete and accurate study of the business model, overall risk and specific risk points of the industry in a short period of time. Third, FinTech innovations such as P2P online lending and Internet payment take emerging institutions as the main innovation body. The main body of innovation and their employees also lack considerable awareness and awe of financial risks. The frequent risk events in the P2P online lending industry are: illustration.

4. Conclusion

More than 30 countries and regions around the world, such as the United Kingdom and Singapore, have launched an innovative institutional arrangement of regulatory sandboxes to balance FinTech innovation and risk. The approximate title of fintech in China is Internet finance. Doing a good job in industry self-discipline is an important content of building a long-term mechanism for Internet financial supervision and risk prevention. So, in order to do a good job of industry self-discipline and ensure the high-quality development of FinTech innovation in China, is it necessary for the regulator to authorize an industry association to implement a regulatory sandbox to assist the regulator in

implementing sandbox supervision of FinTech innovation? The discussion of this issue is of great significance to the successful practice of the Chinese version of the regulatory sandbox system.

To this end, this article conducts theoretical analysis and proposes research hypotheses based on the theory of corporate political action and government-led theory to study the aforementioned issues. Theoretical analysis shows that industry associations are the main channel for FinTech innovation subjects to influence government policies. Due to the lack of a complete and accurate understanding of the business model, overall risks, and specific risk points of the industry in China's FinTech industry associations, it is more difficult to properly play its role. Expressing the role of industry demands, it is difficult to avoid the government; s "one-size-fits-all" policy, and it is more difficult to mitigate the adverse impact of government policy; s "one-size-fits-all" on FinTech innovation. On the other hand, under the leading role of the government, the FinTech industry association will also assist in supervision Institutions implement a "one size fits all" policy, which exacerbates the "one size fits all" policy effect. In the end, it is difficult for industry associations to promote normal FinTech innovation, and it may exacerbate the deterioration of FinTech innovation, so that the promotion of normal FinTech innovation by the FinTech industry association is not as good as the role of degraded FinTech innovation, thereby reducing the quality of FinTech innovation. Therefore, it is necessary for the regulator to authorize the FinTech Industry Association to implement a regulatory sandbox, so that it can closely observe the FinTech innovations in the industry, and form a complete and accurate understanding of the business model, overall risks, and specific risk points of the industry. Institutions form benign interactions to promote normal FinTech innovation and ensure the high-quality development of FinTech innovation.

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