

Analysis on the Risk and Control of Internet Financial Investment

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Abstract: With the introduction of national regulatory policies, the development environment of Internet financial information service industry is also changing, which increases the probability of financial risk faced by related enterprises. The application of Internet has been widely used in all aspects of people's life, which has a strong role in promoting the development of human economy and society. In the era of in-depth development of the Internet technology, traditional finance has gradually combined with Internet technology in depth. In order to overcome these risks and promote the healthy development of Internet finance, the United States, Britain and other developed countries have implemented measures to reform the regulatory system, change the regulatory model and enhance consumer protection. In order to maintain China's financial security, we should take some preventive measures, such as improving relevant laws and regulations, reforming the regulatory system, establishing financial consumer protection institutions, and strengthening the construction of financial infrastructure.

1. Introduction

In recent years, the rapid development of Internet Finance in China has benefited more from the favorable financial market environment, the deepening of interest rate market-oriented reform, and more non-financial institutions can use the Internet for financing. Internet Finance originated in the United States, with its profound technical and institutional background. The United States took the lead in completing the interest rate marketization in 1986. The development of Internet technology and interest rate marketization make Internet banking possible. These Internet banks lose the cost burden of traditional banking outlets. With the rapid development of Internet Finance in China in recent years, a number of Internet financial products have emerged, such as crowdfunding, online lending, fund financing, etc. But there are also many problems, such as fraud, illegal fund-raising, arbitrage and rent-seeking.^[1] These problems have greatly damaged the operation order of the financial market, brought great hidden danger to the financial security of our country, and also made the majority of investors suffer huge losses. In this context, the healthy development of the Internet finance has become an important focus of government financial work.

If an enterprise does not analyze and control its own financial risks sufficiently, it will inevitably make it more difficult for the enterprise to adapt to the changes in the market environment and increase many obstacles to the development of the enterprise. Therefore, how to analyze and control the financial risk of Internet financial information service industry has become an important issue for enterprise leaders. But at the same time, we should also realize that Internet finance is the inevitable product of the development of network science and technology, which is a huge impact on traditional finance. We should affirm its positive role and further prevent the risks contained in it. This paper will start from the reality, combined with a large number of theoretical research results, to explore and analyze the path of Internet financial risk and the corresponding countermeasures. With the development of Internet financial products, people pay more attention to the security of financial products. This paper selects two representative financial products, analyzes their risks, and puts forward relevant investment suggestions and risk prevention countermeasures, in order to help investors understand and reduce the risks of financial products^[2].

2. The Proposed Methodology

2.1 Internet Financial Risk

From the perspective of development, Internet finance is still in the initial stage of development in China, and the supervision of laws and regulations is still not in place. It should be noted that although Internet finance has the attribute of “Internet”, it still belongs to finance in essence. Therefore, the traditional risks such as credit default and term mismatch inherent in financial activities still exist, while the low threshold and disintermediation of Internet finance greatly enhance its systematic risk, but we cannot deny the accumulation of Internet finance Polar action. From the current development process of traditional finance and market access rules, its access mechanism is very strict. The acquisition of business license should go through layers of review and check, and be carried out in accordance with national regulations and strict financial laws. On the whole, the probability of the risk of the traditional financial industry as a whole is relatively small, but for Internet finance, the risk of the industry subject is relatively large, and its access rules are not strictly defined. The emergence and development of Internet finance has a significant impact on the traditional financial industry, and more and more scholars turn their attention to this aspect^[3].

The development process of Internet financial information service industry in China is still very short. The relevant research system of financial risk analysis and control is not perfect, and the specific research results are relatively few in developed countries. The research on financial risk analysis and control of Internet financial information service industry can well fill this gap. From a practical point of view, the development level of Internet financial information service industry, enterprises themselves and the overall economic development of our country have an impact. A good financial risk analysis and control can ensure the financial security of enterprises and guarantee the good operation of Internet financial information service industry.

Risk generally refers to a combination of certain uncertain situation and certain possible situation. It has two meanings: one is to point out that risk may be expressed as uncertainty of income; the other is uncertainty of loss caused by risk. Under the hot development trend of Internet finance, more and more financial products have been born, from the balance financial products created by Internet enterprises, to the securities financial products created by formal financial institutions and e-commerce enterprises, and even to the market share of traditional financial institutions, a variety of new financial products have been created. The risk of Internet financial products refers to the risk faced by investors in the whole cycle of investment in such financial products, for which there is no clear definition at present. In the analysis, the risk classification method of traditional financial products is usually applied to the risk analysis of Internet financial products^[4].

The attitude of Chinese government towards Internet finance has gone through a process from encouraging development to strict supervision. Therefore, some investors do not have a clear understanding, and their risk awareness is weak. Once the phenomenon of failure to cash occurs, it is easy to cause a large area of mass social risk under the encouragement of some people with ulterior motives. Therefore, the risks brought by investors are also the main risks faced by Internet finance.

2.2 Financial Risk Analysis and Control of Financial Service Industry

The biggest characteristic of Internet financial information service industry is information network connection. The account management, transaction information and customer information involved in the enterprise belong to the main information of the enterprise. In the information age, most of these information is stored in the hard disk of the computer. When the security of Internet financial information service industry website is not high, it gives the lawless an opportunity to steal through security loopholes. Steal the confidential documents and materials of the enterprise, resulting in the loss of its own operation. In the Internet finance industry, participants include investors, issuers and regulators. The three types of participants are in different positions in the industry, and there is serious information asymmetry. As far as investors are concerned, they have the least information, the most limited risk that can be prevented, and few risk prevention capabilities. Issuers have a clear understanding of all risks faced in the operation of financial

products. However, due to various reasons, they cannot take preventive measures against all risks. Regulators have more information than investors but less information than issuers, so they have limited efforts to prevent it. At present, there is a lack of relevant laws, regulations and policies on Internet financial products in China. Therefore, the scope of responsibility of each participant is not clear, and the ability and degree of risk prevention are insufficient, so it is difficult for participants to reach the corresponding height of risk prevention in the range of information they get. For example, when the loss of customer information occurs, the crisis to the Internet financial information service industry is even greater^[5].

To a large extent, the main risk of Internet finance industry is brought about by the adverse selection of enterprises with insufficient qualification to engage in financial business due to the low access barriers. Therefore, how to control the access gate of Internet finance becomes the key to eliminate the main risk of the industry. However, it should be noted that the access restrictions should not be too strict, otherwise it will affect the normal competition in the industry, thus damaging the efficiency of the industry operation. Therefore, we should focus on the review of the access of Internet finance from the perspective of registered capital and industry qualification, and formulate standardized operation guidelines through the way of industry self regulatory Association. In this way, we can improve the overall quality of the industry, and ultimately solve the problem of adverse selection of investors, so that more high-quality and high-quality enterprises can survive. In terms of the current development trend of Internet finance, mixed operation has become the main force in the current Internet finance. Therefore, regulators should also constantly improve their risk prevention capabilities.

Based on the above two considerations, we will create a safe and reliable investment environment for our customers, a powerful and capable Internet enterprise. First of all, we should establish a security mechanism, do a good job of prevention and control monitoring in advance, and regularly maintain the network system security. Secondly, we need to communicate closely with relevant cooperation units to ensure the smooth progress of cooperation. Finally, we should establish a sound risk management mechanism. Once there are adverse consequences, emergency measures should be taken immediately to reduce the damage to investors and maintain their own image, which is particularly important to form a good investment environment.

In order to develop their own business, some internet financial platforms have started the establishment of customer information identification and customer credit system. On the one hand, this kind of small-scale and situational information system construction aggravates the confusion of credit standards. On the one hand, it causes a large number of customer information leakage. Therefore, in this situation, the government should take the lead or independent third-party institutions to establish a sound credit system. This is not only conducive to the sound development of China's financial market, but also increases the operating costs of those non-standard financial enterprises. In addition, the lack of risk early warning in the current financial system is also a problem that we urgently need to deal with. In the process of network financing, the main responsibility of the Internet financial information service industry is to provide a bridge for the surplus and the demander, mainly to provide information services. For the Internet financial information service enterprises, the accuracy of information directly affects their profitability, but due to the imperfection of the relevant credit system, the data collected is difficult to achieve high accuracy.

An important reason for the frequent occurrence of risks in the Internet financial information service industry is that the supervision is not in place, so the state should strengthen the improvement of relevant policies and regulations, provide strong external system standards for the Internet industry, and provide the development direction for its operation. For funds, the biggest risk comes from interest rate risk, especially monetary funds. With the fluctuation of market interest rate, the rate of return will be adjusted rapidly. It is a kind of interest rate sensitive asset. With the continuous promotion of interest rate marketization, the central bank, while liberalizing the loan interest rate, also further liberalized the deposit interest rate control, and independently formed the market interest rate according to the supply and demand of funds in the market. Therefore, this

interest rate formation mechanism has a huge impact on the yield of this kind of financial products. From this point of view, we can also understand that yu'ebao's yield dropped from the initial 6% to about 2.56%.

2.3 Risk Control and Analysis

In the face of high-yield financial products, most investors often ignore the risk of financial products and carry out investment activities. Once all kinds of risks of the financial product lead to the fund can not be recovered, it will hit the investor's enthusiasm for investment and reduce the investor's trust in the financial product, which will affect the stability and development of the entire financial market. The financial department should actively perform the regulatory function, in order to implement the risk control mechanism for a long time and effectively. We should constantly learn from the advanced risk control mechanism, so as to reform and innovate the risk control mechanism of the Internet financial information service industry, and promote the financial risk control of enterprises. In addition, in view of the characteristics that modern finance combines Internet technology and financial business, regulators should also constantly improve their own regulatory capacity, learn advanced regulatory technology to improve the efficiency of regulation and ultimately eliminate the risk of regulatory failure.

It is found that due to the four reasons of “blank rules”, “separation of intermediaries”, “lack of supervision” and “backward infrastructure construction”, there are risks of industry main body, investment main body, supervision failure and information security in Internet finance. In order to overcome these risks and promote the healthy development of Internet finance, the United States, Britain and other developed countries have implemented measures to reform the regulatory system, change the regulatory model and enhance consumer protection.

As an investor, we can guard against the risk of return rate from two aspects. On the one hand, we should keep a good investment mentality and have a certain tolerance for the Income Fluctuation of financial products. Especially for balance financial products, they are all invested in money market funds, which determines that its return rate will change with the supply and demand of funds in the market at any time, and the fluctuation of return rate is a normal reflection of the market.

The Internet financial information service industry can use the online and offline combination mode to investigate the credit investigation of both sides of the loan, increase the amount of effective data, so as to further evaluate the credit investigation of both sides of the loan. In addition, the Internet financial information service industry should establish the corresponding evaluation level, give the borrower more sufficient information to judge the risk of the loan, at the same time, improve the competitiveness of the enterprise, and increase the operating efficiency of the enterprise.

We should establish and improve the reserve system of Internet financial products. At present, China has explicitly stipulated that the agreed deposits of monetary funds in banks, including balance financial products, should be included in the category of “other financial institutions” in document 387. However, it does not set a reserve ratio, but temporarily sets the reserve ratio to zero.

3. Conclusion

Enterprises should take the financial risk control and analysis of Internet financial information service industry as a long-term implementation of enterprise strategy. There are some differences in the financial risk performance of each business type, so different supervision strategies should be implemented. Internet finance as the main form of financial innovation, compared with its risk, its enthusiasm is also obvious. The establishment of its own evaluation system, for every lender can have a strict and objective credit evaluation, improve the quality of loans to reduce the default rate of loans.

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