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A Review of Current Studies on Internet Finance in China

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Abstract: The Internet and finance are accelerating into integration in the 21st Century. Internet Finance was firstly proposed by Ma Weihua, the former president of China Merchants Bank in July 2012. On the basis of 74 latest research literatures selected from CSSCI Journals, Chinese Core Journals, authoritative magazines and related newspapers, this paper summarizes the current domestic research progress and trend about Internet Finance according to three dimensions, such as the sources of journals, research subjects and research contents. This research shows that the current domestic researches are not only shallow and superficial, but also lack the theoretical analyses and model applications; and the wealth-based and bank-based Internet Finance will be the research focus in the future.

Keywords: Internet Finance; P2P Credit; Third-Party Payment; mobile payment; Literature Review

1. INTRODUCTION

The Internet and finance industries are accelerating to integrate in 21st Century. The China's first P2P Internet loan platform was established in 2006. The Internet loan began to rise in China around 2010. The China's largest crowdfunding website started to run in July 2011. On the Columbia University CBI Global Forum held in Shenzhen in July 2012, Ma Weihua, the former president of China Merchants Bank, indicated that the Internet third-party payment such as Alipay, had weakened the status of banks' payment platforms; And the Internet-based finance companies, such as Facebook, were posing a threat to the banks' basic functions of savings and loan intermediation. Since then, the concept of Internet Finance was formally brought out. Yu'eobao and other financial products have been released since 2013, which marked the vigorous development of Internet Finance.

This paper selected 74 latest research literatures about Internet Finance from CSSCI journals, Chinese Core journals, related magazine and newspapers, which were used to analyze and summarize the current domestic research progress and trend about Internet Finance from three dimensions, such as literature sources, research subjects and research contents, and then presented the future research directions.

2. DEFINITION OF CONCEPT

There are different definitions and discussions about the concept of the Internet Finance in academic circles. Xie Ping (2012) believed that modern information technology represented by the internet, especially mobile payments, social networks, search engines, cloud computing, etc., will have a fundamental impact on the financial model. There will be a third financing model called "Internet Finance", which is different from indirect financing of commercial bank and direct financing of capital market ^[1]. Li Bo (2013) believed that "Internet Finance", broadly speaking, is the extension of traditional financial services over the internet. It is realized by virtue of the breadth and conveniences of internet. Narrowly speaking, "Internet Finance" only includes financial intermediary services and financial services provided by the Internet. Typical applications of financial intermediary services are the third-party payment platform, P2P credit, etc. Financial services include network

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of micro-finance, Internet fund, etc. Most of the financial platforms that formed in network are infiltrated to the financial industry by E-commerce^[2].

Academic circles also conducted researches on nature and function of Internet Finance. Xie Zimen (2013) argued that Internet Finance is not only "finance of Internet technology", but "internet-based finance". Technology is only taken as a necessary supporting means, otherwise it should have been defined as the science finance or new technology of finance. Internet Finance is a new form of participation, rather than the upgrade of traditional financial technology^[3]. Gong Xiaolin (2013) believed that Internet Finance are financial activities which are conducted on modern information technology. The functions of Internet Finance are financing、payment and transaction intermediary, etc.^[4]. The connotation of Internet Finance is different according to different perspectives, industries and fields.

3. RESEARCH AND ANALYSIS

To analyze the current situation of domestic Internet Financial research better, we took "Internet Finance" as keyword to search relative literatures in CNKI, WANFANG, CQVIP DATABASES. Finally we selected 74 literatures from 2000 ones. The principles of selection are as follows. ①Literatures must be published by CSSCI (such as the financial research, etc.) and the Chinese core journals (such as the financial news, etc.), authoritative magazines (such as the Internet weekly, etc.), or important papers (such as the People's Daily, etc.). ②Literatures published from 2012 to 2013 September are selected. ③Literatures which are obvious irrelevant with Internet Finance is excluded. We made the classification and review in order to summarize and conclude the dynamic and progress of current domestic Internet Finance. After that we could further define the existing research contents and future research prospects of Internet Finance, thus the process of domestic Internet financial researching can be promoted.

3.1 Journal Sources Analysis

Among the 74 literatures selected, only 6 belong to the core journals, such as CSSCI, CSI, etc.. As shown in Table 1. The other 68 come from authoritative magazines and significant newspapers. Among The typical research achievements in core journals, there was 1 paper published in 2012 and the other 5 papers were published in 2013. With the gradual development of the Internet Finance, the academic level, quality and quantity of the related studies are also gradually increasing.

Table 1. Literature of core journal

No.	Literature	Journal	Year
1	Studies on the mode of Internet Finance	Finance Research	2012
2	Studies on the Internet Finance based on E-commerce Platform	Shanghai Finance	2013
3	Mode and Development of Internet Finance	Finance in China	2013
4	How to deal with the challenge of Internet Financial Mode for State-owned commercial Banks	New Finance	2013
5	Internet financial mode and its influence on traditional banking	Southern Finance	2013
6	A further thinking of the Internet Finance Times	Business &Trade in China	2013

Among the 68 literatures selected, 16 were published in 2012, 52 were published before September, 2013. Experts are continually conducting their research of Internet Finance.

For the 68 papers, the literature sources, quantity and the proportion of distribution are shown in Table 2. We can see from table 2 that most of sources come from eight journals, which number is up to 50.00%.

Although the studies on Internet Finance are limited now, all of the 68 articles are distributed in 41

magazines or newspapers, suggesting that the research of "Internet Finance" has involved many different fields. Later academic researches related to "Internet Finance" will be published in journals, magazines and newspapers which are more professional and authoritative.

Table 2. Distributions of the other literature

No	Journal	Quantity	Proportion	No.	Journal	Quantity	Proportion
1	Bankers	8	11.77%	6	China Economic Weekly	2	2.94%
2	Financial Times of Technology	7	10.29%	7	China Foreign Investment	2	2.94%
3	Internet Weekly	6	8.82%	8	Faren Magazine	2	2.94%
4	Financial expo (Fortune)	5	7.36%	9	Others	34	50.00%
5	Times Finance	2	2.94%	Total		68	100%

3.2 Research Subjects Analysis

Having been studied carefully, the 74 journals selected could be divided into 14 types according to their different research subjects. They are: Internet Finance's influence on traditional banking industry, Current situation of Internet Finance, P2P credit, Regulation of Internet Finance, Internet Finance and payment, Further development of Internet Finance, Internet Finance and securities, Typical business types of Internet Finance, The notion of Internet Finance, Internet Finance and Alibaba, Experience of Internet Finance development abroad, Internet Finance and assurances, Internet Finance and marketing, and others. These subjects are listed below as table 3.

Table 3. Classifications of Internet Finance Journals by Research Subjects

No.	Research Subjects	Amount	Percentage
1	Internet Finance's influence on traditional banking industry	22	29.73%
2	Current situation of Internet Finance	9	12.16%
3	P2P credit	8	10.81%
4	Regulation of Internet Finance	6	8.11%
5	Internet Finance and payment	6	8.11%
6	Further development of Internet Finance	6	8.11%
7	Internet Finance and securities	4	5.41%
8	Typical business types of Internet Finance	3	4.05%
9	The notion of Internet Finance	2	2.70%
10	Internet Finance and Alibaba	2	2.70%
11	Experience of Internet Finance development abroad	2	2.70%
12	Internet Finance and Assurances	1	1.35%
13	Internet Finance and marketing	1	1.35%
14	Others	2	2.70%
Total		74	100%

Firstly, the most often studied subject is "Internet Finance's influence on traditional banking industry", which is 29.7% of the total journals. Analyzed from different perspectives of the research, the subject could be further specified into three sub-subjects: ① General analysis of the influence that the birth of Internet Finance

has made on traditional banking industry. Many scholars thought that Internet Finance would gradually replace traditional banks, making them “dinosaurs in 21 century”^[5]. While other scholars, such as Gong Xiaolin(2013), held the opinion that in short term Internet Finance would not threat tradition banking industry. But from a long-term view, traditional banks were supposed to take advantages of Internet Finance in order to achieve further development^[4]. ②Researches focusing on the relationship between two main players in the market: Internet enterprises and traditional banks. Scholars interested in this subject mainly analyzed their cooperation and competition from the view of game theory. Take micro-credit for an example, Fan Xiaodong(2012) had figured out that many Internet enterprises were eager to enter micro-credit market while banks were gradually shifting their attention to middle and small-sized enterprises. The three most often used methods of these Internet enterprises were organizing Internet financing conferences, establishing professional financing websites and setting up financing service platform for middle and small-sized enterprises^[6]. It was clear that competition is getting more and fiercer in financial industry. ③Researches on the strategies on Internet Finance of traditional banks. These journals included both theories and cases. Scholars not only analyzed traditional banks’ competition strategies from theoretical basis, but also listed many innovative cases of banks.

Besides, “Current situation of Internet Finance” and “P2P credit” are also key points of current researches. 12.16% of the journals focus on current situation of Internet Finance. From the general view of the industry development, they summarized typical events in recent years, analyzed the blooming market of Intern Finance and pointed out opportunities and challenges Internet Finance may face right now. 10.81% of the total journals are about “P2P credit”. They studied the notion of P2P, analyzed its potential risks and predicted its further trends. There are also 8.11 % of journals about “Regulation of Internet Finance.” Some scholars believed that Internet Finance may increase the technology, business and legal risks significantly. So it was essential for the public authorities to enhance supervision^[7]. However, some scholars argued that over-regulation, take Yu’ebao for example, may do harm to the fast development of Internet Finance^[8]. From the international view, other scholars proposed some regulation suggestions by learning from American Jobs Act^[9].

Furthermore, many scholars are also interested in “Internet Finance and payment” as well as “Further development of Internet Finance”. 8.11% of total journals focused on the development of third party payment, explored different innovation modes of Internet Finance caused by third party payment, and analyzed the relationship between the third party payment companies and traditional banks. Another 8.11% of total journals studied “Further development of Internet Finance”. Having studied opportunities and challenges the Internet Finance are facing, these journals predicted that in the future, the degree of competition in this market would greatly increase and the market situation would be more complicated^[10].

Still, there are 5.41% of the journals paying attention to “Internet Finance and securities”. Fan Zheng(2012) pointed out that Internet Finance is beneficial for solving the information asymmetry, spreading information immediately on security market, and improving efficiency of the China’s security market^[11]. And 5.41% of the journals selected examined Internet Finance from a much more theoretical perspective. Huang Hailong(2013) started from the different objects that e-commerce platform had connected, specified different modes of Internet Finance, and studied the influence that financial multiplier of e-commerce had made on the financial disintermediation^[12].

3.3 Research Contents Analysis

In content analysis, the paper focused on the Internet Finance modes and its typical formats. There are 37 literatures that deeply analyzed or preliminary introduced the Internet Finance modes and its typical formats, which takes up 50% among 74 literatures. The Internet Finance modes can be divided into three categories such as platform-, payment- and wealth-management-Internet Finance, as shown in Table 4.

Table 4. Classification of Research Content

Content	Typical Formats	Specific Example	ArticleNum	Proportion
The Mode of Internet Finance	Platform-Internet Finance	P2P credit	22	59.46%
	Payment-Internet Finance	Third-Party Payment	6	29.72%
		Mobile Payment	5	
	Wealth-Management-Internet Finance	Network Fund Management	4	10.82%
Total			37	100.00%

As we can see from Table 4, so far the Chinese academics have done more studies on the platform-finance mode and its typical formats, compared with the payment-and wealth-management-Internet Finance.

Firstly, 59.46% of the literatures focus on the platform-finance mode such as P2P credit. Li Bo, etc. (2013) pointed out that P2P credit is one finance mode in which we don't need traditional financial institutions as the medium any more. Through the network platforms build by P2P credit companies, the borrowers can issue the capital demands and the lenders can participate in bidding. Once the two sides reach agreement in the amount, duration and interest rates, the transaction will be fulfilled. In this process, P2P credit companies are responsible for the credit status of the borrowers as return for receiving account management and service fees. It is an essential way of private lending, which is originated from crowdsourcing in the United States^[2]. With these 22 literatures, the characteristics of platform-finance mode can be summarized as follows: ①Online. ②Low borrowing threshold. ③P2P credit companies only play the intermediary role in platform-finance mode, and the borrowers and lenders negotiate by themselves. ④Every lender only needs to provide small amount of investment so that the risks can be spread.

Secondly, 29.72% of the literatures focus on the third-party payment such as Alipay and the mobile payment like Kara. In the third-party payment, Jiang Qiping (2013) agreed that the payment is essentially the gene vector of the Internet Finance, which has double genes of finance and information. The Finance fusing the Internet is the transgenic process from its finance gene to its information one. The gene variant of payment is supporting the process of these two industries integrating^[13]. Yu Xiaoyang, etc. (2013) deeply analyzed the third-party payment policy environment, industry development, pay channels, credit evaluation, service innovation, and other important aspects. The research showed that third-party payment will have more cooperation than competition with the banks in the future, in which the combination of financial and IT will better satisfy and safeguard consumers' needs, and actively promote finance innovation^[14].

In the mobile payment, Wang Liangliang (2013) analyzed the development characteristics of the payment industry and its future trends, and the study found that China's payment industry has rapidly developed in recent years, showing some characteristics. For example, the payment is in a phased development stage, the market is fragmented leading to different payment demand and supply, the market competition is excessive, the profit margins decline and so on. The future trend can be summarized as follows: the prototype of Internet Finance will gradually grow up, the banking position will gradually change, the derivative payment-based value-added services will become the main profit margins, and the professional division of payment industry will gradually become clear and notable^[15]. Wong Dawei (2012) analyzed the development status, trends and dilemmas of electronic payment system, and the study showed that the risk management of electronic payment is in urgent need due to currency electronization, money laundering, cashing, fraud, which are influencing macroeconomic monetary policy. If the development of electronic payment system delays, the Internet-based economy will likely develop so slower that the competitiveness of the finance industry will decline^[16].

Finally, 10.82% of the literatures focus on the wealth-management-Internet Finance such as Yu'eobao.

Zhang Bo (2013) analyzed the status, future trends, and potential risks of Yu'eobao, and the study found that the current Alibaba Group's Alipay users has exceeded 800 million people, and Yu'eobao provides a low entry threshold and fragmentation wealth management on the third-party payment platform to inspire the wealth management awareness and behavior of online shoppers [17]. Zhao Lei, etc. (2013) analyzed the development and innovation of the wealth-management-Internet Finance, and the study showed that Yu'eobao is a losers' finance product and it's not deposits or like-deposits business, but a product that can help individuals with fund business. Yu'eobao makes much profit by the investment income that the fund company provides instead of the interest of cash flow [8]. Wealth-management-Internet Finance can be summarized as follows: ①Low entry threshold. ②Fast redemption (T +0). ③Stable risk (money market fi

4. FUTURE RESEARCH DIRECTIONS

Based on the 74 research literatures selected and some research reports of CITIC and many other large well-known securities companies in China, we make a contrast between Internet Finance mode in China and abroad, as shown in Figure 1.

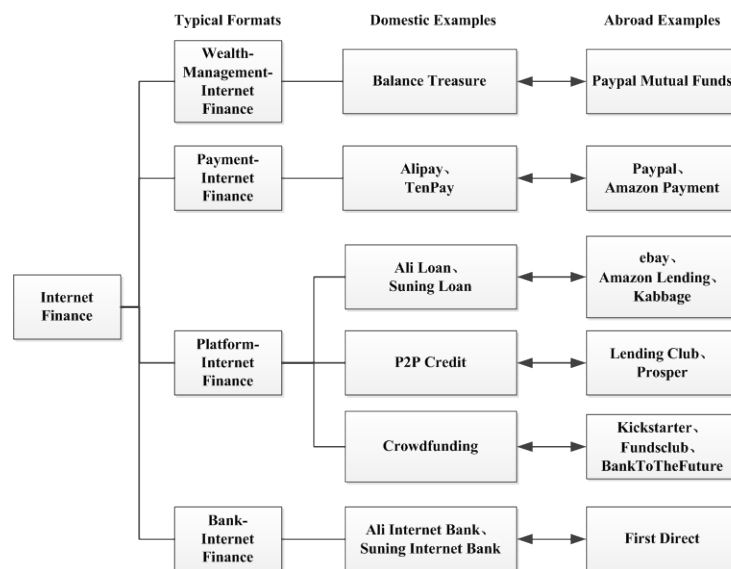


Figure 1. Typical formats of Internet Finance mode (Source: Self-made)

As we can see from Figure 1, Like U.S. First Direct, now the domestic Internet Finance mode is deriving the fourth typical formats, bank-Internet Finance, in addition to three ones above.

In summary, we agreed that Internet bank is actually a virtual bank. Compared with traditional bank, the biggest feature of Internet bank is no physical outlets, no total-branch organization, and extensive use of Internet technology to carry out the traditional banking business. Therefore, wealth-management- and bank-Internet Finance as well as the development experience of Internet Finance between domestic and abroad will be main directions and key contents of further researches, which will provide important references for government decision-making.

5. CONCLUSION

Having studied the current situation and development of the researches on China's Internet Finance market, a clear conclusion may be listed below: From the perspective of research amounts, the number of researches on Internet Finance keeps growing sustainably. From the perspective of research depth, studies on Internet Finance are quite superficial and there are few mature theories and models right now. From the perspective of research

subjects, “Internet Finance’s influence on traditional banking industry” is the focus of the industry while studies on other financial bodies, such as securities and assurances, are much more less. From the perspective of research contents, the main stream is the studies on P2P credit.

To conclude, the research on Internet Finance has just started. Scholars who followed could pay more attention to deep researches about the establishment of the theory and models of Internet Finance; focus on the patterns and strategies of security and assurance companies in Internet Finance markets; further their researches on Internet Finance modes, such as wealth-based and bank-based Internet Finance modes; and analyze Internet Finance by comparing development experience between China and foreign countries.

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