

THE INTERNET FINANCE IN CHINA

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Internet finance is a new concept, it has become known to the Chinese public in recent one or two years. Different from the indirect financing among commercial banks and the direct financing of stock and bond markets, the Internet finance is a new thing generated from the combination of Internet and finance in recent years, and is a new financial service mode which realizes funds allocation, payment and information intermediary depending on Internet technology and mobile communication technology. Internet finance has turned upside down the existing operation mode, profiting mode and surviving mode of commercial banks, and will probably change the current pattern of financial financing services disruptively.

On the whole, there are two main forces in the current Internet finance industry of China: modern IT enterprises and traditional financial institutions. Modern IT firms primarily develop third-party payment, P2P credit and online petty loan businesses. Business of traditional financial institutions gradually turns to become Internet-based; the most significant is the e-commercialization of traditional financial institutions, including the e-commerce platforms and online financial platforms of traditional financial institutions

The development and booming of Internet makes it possible for many modern activities. I think the first stage is E-commerce. The Internet finance is the second stage.

Representatives in the industry of E-commerce are companies like Alibaba in China and e-bay in US. People go shopping online by clicking the mouse and transferring money, soon the commodity came to the desired place. Commercial banks contribute to make it possible by providing online banking service. The booming of E-commerce has made some companies very successful and popular in China, Alibaba Group will start IPO very soon. Alishor Usmanov, one of the richest man in Russia, has sold stocks of Apple, Facebook and invested in Alibaba and some other Chinese E-commerce companies.

The second stage of the development and booming of Internet is the appearance of Internet finance. This is new to Chinese people, but now more and more people are getting to know it. On June, 13th, 2013, the appearance of Yu E Bao improves Internet finance to a higher level, and I regard it as a milestone. Yu E Bao is actually a money-market fund promoted by Alipay, an important sector of Alibaba. Since the establishment, it is attractive to most of Chinese people, because its interest rate is substantially higher than that in traditional commercial banks, it's also relatively safe to put money in Yu E Bao, compared with other funds. More and more Chinese people put their money into Yu E Bao and around 50 million people have been attracted to Yu E Bao so far. Money in Yu E Bao can be withdraw any time when necessary, which provides convenience to depositors.

Yu E Bao also faces some challenges. Because it partly takes away the profit of traditional commercial banks, in order to compete, banks increase their interest rate to maintain depositors. Another potential challenge is about regulation. There isn't any clear item about regulation so far, if the regulators think it is necessary to take action, Yu E Bao may face some constraints.

Public welcome Internet finance like Yu E Bao because they benefit a lot from it. The indirect financing modes of banks and direct financing mode of stocks and bonds match financing value, duration and risk return of the supply and demand sides by commercial banks, security traders and exchanges respectively. As an innovation to the two modes, Internet finance is different from them; it can enable the capital supplier and demander to make transactions directly, and can therefore save a lot of transaction cost, which mainly includes the profits, taxes and remunerations of financial

intermediaries. Under such new financial mode, Internet and relevant software technology have replaced the professional services of financial and security institutions, complicated transactions such as risk pricing and immunization hypothesis are not only simplified greatly but are also easy to operate. Loans, issuance and transactions of stocks and bonds, and delivery versus payment can be done online directly.

To conclude the characteristics of Internet finance, there are mainly five aspects: First, its cost is low. Compared with traditional finance, the transaction cost is nearly zero and there is no monopoly profit. Second is high efficiency. Service in Internet industry is mainly handled by computers, customers don't need to wait in line to get their affairs done. Third, the aspects are large. Under the model of Internet finance, customers can make a breakthrough on the constraints of time and space, finance service is more direct and customer foundations are wider. Fourth, development is fast. Like what mentioned above, 18 days after Yu E Bao established online, the number of customers reached 2.5 million, money transferred into Yu E Bao reached 6.6 billion. So far, the money in Yu E Bao is more than 50 billion, based on this, Yu E Bao became the publicly offered fund that has the largest scale. Fifth, the management is relatively weak. Since Internet finance is a young field, the regime and management items are not matured.

I agree with some people that Internet finance is the trend of finance development in the future. Currently people are lack of investment channels. Being a financing service platform with low risk and high return and easy to participate and operate, Internet finance can be easily accepted by the public. Common people can make financial transactions through the Internet, the market participants are more popular and the huge benefits brought by the transactions can bring more benefits to the public.