

# PREFACE

## Supervision of Fintech Innovation– An Interview with Li Xiaopeng, a Chinese Fintech Expert

In recent years, as global digital transformation further develops, fintech has increasingly become a big focus of global financial innovation and financial competition. China has become a global leader in many fields of fintech. According to the 2019 global Fintech100 released by KPMG and fintech investment company, Ant Financial continued to top the list and JD Digits ranked the third. The fields of mobile payment, online lending etc. develop better, and the practical application of the central bank digital currencies also stays at the frontier field. However, fintech does not change the nature of financial risks, instead, the risks become more secret, sudden, contagious and systematic.



Based on this, the reporter has interviewed Li Xiaopeng, a Chinese fintech expert, who has analyzed the current development status, current supervision status and supervision difficulties of China's fintech, and has proposed suggestions on China's fintech supervision.

In view of the current development status of China's fintech, Li Xiaopeng first mentioned mobile payment. China's mobile payment started to grow in 2013 and has suffered from rapid development in recent years, and the scale of the mobile payment market is also expanding rapidly. Now, two major mobile payment service providers in China, Alipay and WeChat Payment, have about 1 billion users respectively. The long tail effect enables the mobile payment platform to provide services for massive customers at the same time and the mobile terminals such as smart phones can support massive access, and even significantly enhance the user experience. In today's China, mobile payment services account for 80% of the total number of payment transactions. In addition, in terms of online lending, one of the main obstacles that prevent the individuals and small businesses to obtain bank credit is the lack of credit records or collateral. Alibaba has applied for a petty loan company license to comprehensively control the petty loan business. Ant Financial has established an internal credit scoring system- Zhima Credit, to speed up loan approval process. It creates the "310 mode", which means, you can take only 3min to complete loan application, and the approval time is less than 1s based on zero manual intervention. Ant Financial's petty loan business grows rapidly. Finally, it involves the central bank digital currencies. China's practice of central bank digital currencies is world-leading, and China is also one of the few countries which have launched the pilot practice of the central bank digital currencies. China's central bank digital currencies are a hybrid system of digital currency and electronic payment (DC/EP), issued by the central bank and operated and exchanged through the authorized operators. Now, the Central Bank has completed the top-level design, standard formulation, function development and operation test of digital currencies, and has launched pilot practice in some fields.

As for current situation of China's fintech supervision, Li Xiaopeng believes that first of all, China has a relatively perfect fintech supervision framework, mainly including regulatory agencies, committees and self-discipline associations. The People's Bank of China generally leads the fintech supervision, and it is mainly responsible for supervision of Internet payments, including the third-party payment. China Securities Regulatory Commission is responsible for supervision of crowdfunding and sales of Internet fund, and China Banking Regulatory Commission and its local agencies are mainly responsible for supervision of Internet loan (including P2P and micro-credit),

Internet trust and Internet consumer finance. China Insurance Regulatory Commission is responsible for supervision of Internet insurance. In addition, National Internet Finance Association of China founded in March 2016 is responsible for promoting industry self-discipline. According to institutional reform implemented in March 2018, China Banking Regulatory Commission and China Insurance Regulatory Commission were merged into China Banking and Insurance Regulatory Commission, and their supervision responsibilities were also merged. The 3rd National Financial Work Conference in 2017 further defined the regulatory boundary of local finance bureaus. The local finance bureaus are responsible for the review & approval and risk management of "7+4" financial institutions (petty loan companies, financing guarantee companies, regional equity markets, pawnshops, finance leasing companies, commercial factoring companies, local asset management companies and investment companies, farmers' professional cooperatives, social crowdfunding institutions and various types of local exchanges).

Secondly, supervision field and means are mentioned. The first is the regulatory measures of P2P lending. In the development process of P2P lending, the overheating of P2P lending market has generated the financial risks such as platform-based collective investment and fraud behavior, and online petty loan also has problems such as excessive lending, improper collection, higher interest rate and infringement of personal privacy. To regulate the P2P lending market, since 2015, China has introduced a series of policies and regulations. For example, in 2016, China Banking Regulatory Commission and other departments issued the Interim Measures for the Management of Business Activities of P2P Lending Information Intermediary Agencies; in April 2017, China Banking Regulatory Commission issued the Notice on the Clearing and Rectification of Cash Loan Business; and in January 2019, the Office of the Leading Group for the Special Campaign against Internet Financial Risks etc. issued the Notice on Further Implementing the P2P Lending Compliance Inspection and Follow-up Work (Document No.1). The second is the regulatory measures of third-party payment. For third-party payment, it has relatively standard market supervision measures, and it is restricted by issuing licenses, customer terms, information disclosure etc. Since 2013, the People's Bank of China has successively issued several policies, e.g., Measures for Depositing and Managing Customer Provisions of Payment Institutions in 2013, the Measures for the Management of Online Payment Business of Non-Bank Payment Institutions in 2015 and the Notice on Relevant Requirements for Reporting Block Trade by Non-Bank Payment Institutions in 2019, to regulate the third-party payment market. The third is the regulatory measures of Internet funds. Yu'E Bao, a fund investment product in money market jointly launched by Alipay and Tianhong Asset Management, became the world's largest money market fund by total assets in 2017. However, the Internet currency fund market carries out maturity transformation, credit and liquidity transformation without obtaining the banking license, thus increasing the cost of social financing. In March 2013, China Securities Regulatory Commission issued the Measures for Managing the Sales of Securities Investment Fund. In addition, it issued regulations on promoting the operation of Internet fund sales in a standardized and orderly way. In March 2018, China Securities Regulatory Commission issued the Guiding Opinions on Further Regulating Money Market Funds Internet Sales and Redemption of Relevant Services.

As for the difficulties in China's fintech supervision, Li Xiaopeng thinks that the supervision difficulty increases and the supervision requirements are improved. First, regulation is of hysteric nature. Fintech involves a lot of technological innovations. In recent years, it shows rapid development and various development modes, while the establishment of regulatory rules and frameworks often lags behind these financial innovations. Secondly, fintech innovation involves cutting-edge high-tech fields, supported by technologies such as the big data, cloud computing, artificial intelligence, blockchain, the traditional financial regulation mode faces the difficulty to cope with the new characteristics of these new technologies and risks, thus raising higher requirements for the technical resources, regulation methods and regulation capabilities of regulatory agencies. In addition, it faces regulatory problems in large fintech companies. Although the large-scale high-tech companies have brought significant benefits to the Chinese economy by innovating payment services, they have also brought new regulatory challenges. On one hand, large-scale high-tech companies will lead to a more concentrated market share, so as to further concentrate the market forces, and possibly bring new financial systemic risks. On the other hand, in view of the uniqueness of financial activities of large-scale high-tech companies, the simple behavior-based regulation or subject-based regulation mode may not be enough to fully cope with various policy challenges, for example, in the field of competition, due to Slow enforcement of general anti-trust act, it becomes unable to prevent large-scale high-tech companies from abusing market dominant position and having a potentially devastating impact on competition. Finally, it is digital security and privacy protection issue. In the Internet era, fintech is closely related to data use, and data security and privacy protection issue has become an important issue in the process of financial innovation. Without considering the privacy issue, in principle, wider data sharing may have more effective result. However, free data sharing will damage the personal privacy interests. Currently, the data regulations cannot fully safeguard personal rights and interests in accessing to personal information, and phenomena such as excessive data collection, illegal sharing and random abuse often occur, bringing great challenges to privacy and consumer protection.

In the end, here are some suggestions on China's fintech supervision. As said by Li Xiaopeng, first of all, it shall improve the regulatory framework and innovate regulatory means. First, it shall upgrade the existing macro-prudential policies and absorb new features of fintech. The new technologies shall be developed to achieve a balance between fintech innovation and financial stability. All financial transactions need to be regulated, and all financial service providers need to be granted the appropriate licenses to prevent the unregulated financial innovation events from recurring. Secondly, digital technology shall be applied to regulate fintech business and other financial businesses. Fintech business's typical characteristics are large quantity of customers and quick risk transmission, so traditional regulation method is not suitable. So, regulatory agencies shall use big data analysis tools to monitor real-time data and monitor various abnormalities.

In addition, subject regulation and conduct regulation are combined to comprehensively regulate the large fintech companies. First, large technology providers that provide the payment, credit and wealth management services shall abide by consumer protection, anti-money laundering and anti-terrorism rules similar to those of the banks. Secondly, if fintech companies perform the capital risk transformation activities, prudential requirements similar to those of banks shall be imposed. Thirdly, in the field of operation flexibility and competition, in

view of the fact that large-scale technology companies have huge network externality, it must consider establishing entity-specific regulations for large-scale technology platforms to better regulate operations and competition.

In the end, safety use of data is regulated through technology and legislation. The first is to develop the new technologies, provide technical support in terms of privacy data identification, privacy data evaluation, data encryption and security storage etc., and help financial service entities establish the data security protection mechanism. The second is to regulate the use of data through legislation. For example, it can introduce some laws and regulations on data security and data privacy, and allow selective sharing of some types of data on the premise of compliance with laws and regulations.

As last mentioned by Li Xiaopeng, to apply the digital technology in the financial field, it shall put more focus on regulation and invest more regulatory resources. She said that the events of U.S. Silicon Valley Bank and Signature Bank occurred in recent days suggested that at the same time of mastering the innovative ideas of regulation, it should keep close eyes on risks. In terms of the combination of digital technology and financial services, on one hand, it shall fully support application of positive and beneficial technologies, create enough space for innovation, and meet requirements of market players for safe and convenient financial services; On the other hand, it shall strengthen and improve regulation, incorporate various financial activities into regulation system according to laws, and stick to the principle of substance over form. New modes and new products produced by applying the new technologies into the finance shall be verified and checked instead of simple rhythm and cognition, to achieve effective external restraint and supervision. By applying the fintech in financial regulation, it can help the regulatory authorities to better find and prevent financial risks, and increase the regulation efficiency and reduce the supervision cost.



About Li Xiaopeng: As China's famous fintech expert who has been engaged in the field of fintech and has made many scientific and technological achievements, she has researched and developed "Quantitative Transaction Risk Identification and Alert Management System V1.0", "Intelligent Financial Information Management System V1.0", "ROI Data Analysis Management System V1.0", "Big Data Intelligent Regulation and Management System in Market V1.0", "Integrated Management Software of Asset Business V1.0" and "Transaction Strategy Service Management System V1.0"; She has published papers in core journals and participated in compiling the professional books including Study on Supply Chain Finance based on Blockchain Technology, Study on Financial Risk Control of Internet Enterprises and Relevant Service Industries in Big Data Era, Study on Economic and Management Strategies and Financial Information Security in Internet Era. In addition, the topic that she participated in -"Development and Practical Application of Fintech in Capital Market" has been recognized and praised in the industry, and was granted the first prize for teaching and research achievements issued by The Chinese Society of Education.