



# Analysis on Financial Risk Control of Network Financing Platform

—Based on the Case of Honglingchuangtou

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## Abstract

With the further development of large data and cloud computing in the network technology, the Internet platform is intersecting with the financial industry. The Internet financial platform had developed into the main body of the market economy, and more and more enterprises finance through the Internet media. Network financing is widely used by small and medium enterprises because it reduces the cost of financing to a certain extent and makes the financing business more convenient and efficient. This paper, taking “Honglingchuangtou” as the research object, analyzes the financial risk problems in the network financing platform, and puts forward the risk control countermeasures and preventive measures.

## Subject Areas

Behavioral Economics, Business Analysis, Business Finance and Investment, Corporate Governance, Managerial Economics, Risk Management

## Keywords

Network Financing, Financial Risk, Preventive Measures

## 1. Introduction

At present, the limitation of the small and medium enterprises' own economic development increases the cost burden of the two parties in financing by banks and other financial channels, which had become the main reason that hindered the enterprise financing process. Compared with the traditional financing model, the network financing platform model has a significant advantage in reducing

the cost of financing transaction. The research results show that the specialized transaction mode of the network financing platform can effectively solve the asymmetric problem of the information faced by the borrowers and borrowers, and then improve the borrower's success rate of borrowing. At the same time, the borrowers can form a loan guarantee group to improve the efficiency of the network financing platform through mutual supervision and effective restriction. It can be seen that the low cost transaction advantage of the network financing platform is the main reason for its rapid development and wide application [1].

The network financing mode is a financing transaction mode that the borrowers and borrowers use the network simulation technology to finance. This model takes the network as the platform to construct the lending behavior between the entity enterprise and the financial institutional platform of online network financing [2]. At present, there are three main forms of the network financing platform mode: First, the network promotes the loan. According to the multiple credit dimensions displayed by customers in the network financing platform, regulators of financial institutions formulate and issue a certain financing plan. Two is the lending behavior based on the P2P platform. Three is the "public financing model", the essence of which is that the financier can invest in different periods and different processes by attracting customers to expect and relatively stable cash profit projects. The above three models constitute the main organization structure of the network financing platform model, and the three network financing models under the common development have become the system alone. This has created the characteristics of the diversity of the network financing, and also properly perfected the demand for the liquidity of the financing in the production supply under the modern economic system.

The network financing mode is still in its infancy in China's economic development. The development of the network financing platform is not mature enough, and there are many problems in the financial risk. The financial risk control of the network financing platform had become an important means to promote the healthy development of the network financing platform. What are the problems in the financial risk control and how to minimize these problems, which is the focus of this paper.

## **2. Problems**

From the perspective of the current economic structure, China's network financing platform has the following problems.

### **2.1. Poor Monitoring of Information Authenticity**

As far as China's network financing platform is concerned, the operation of the electronic online platform business industry begins later and the credit evaluation of the platform is lack of a unified measurement model. Therefore, the credit is for credit. Evaluation information is also difficult to guarantee quality au-

thenticity and source reliability. In the era of Internet information, financial assets are complicated, consumed and diversified, which results that financial markets are often covered by “false” information [3]. The financing platforms, for example Yongqianbao and Paipaidai, forges all kinds of collection information, forges lawyers’ letters and defines business scope randomly. This behavior has caused great trouble to people. This phenomenon of false information flooding raises the difficulty of identifying the information of the customer’s asset economy of the financing enterprises and non-financial institutions in the business processing, and then produces more invalid information, which increase the uncertainty of the daily decision-making of the platform supervisors.

## **2.2. Poor Monitoring of Business Legitimacy**

At present, in addition to the online banking operating by commercial banks, the network financing platform under the Internet environment is not subject to legal supervision and management, which is in the grey area of the legal society. There is no clear definition of the legal provisions on the application of the network financing platform in China. The regulations on traditional loans include the commercial bank law and the Interim Measures for the management of personal loans, but the limits of relevant laws and regulations for the use of network financing are blurred. The construction system of financial and economic laws does not keep up with the pace of innovation in the operation of the platform, which leads to the weak legal supervision [4]. This problem causes the lack of clear and effective measures and legal means to supervise the qualification of the customers, the scope of daily business operation, the model of asset profit, and the tracking and inspection of information in the process of the loan. The lagging development of legal construction has hindered the financial risk control of network financing platform.

## **2.3. Poor Monitoring of Technical Security**

Network financing platform relies on network conditions for daily operation, and information technology and security technology are the top priority of platform development. In the network financing environment, both the customer resource information and the daily transaction record have be exposed to the large network data. Most of the network platform only purchase the financial platform template program to make simplified customization and start the operation of daily business. There was a lack of professional IT maintenance team for routine maintenance and supervision of platform data. Which makes a great problem in the security of data information and the technology maturity of data programs [5]. They can provide vulnerabilities to the background transaction system of the hacker intrusion network platform, which brings financial risk to the safe operation of the platform.

## **2.4. Poor Monitoring of Professional Competence**

At present, the employees of the network financing platform lack the profes-

sional training and practice of financing. They have low skill level and practical skills for financing, and there are random and subjective effects on the audits of the borrowers' financial information and reputation. The employees underestimated the credit risk of transactions, so that there is a risk of fault in the supervision of intermediate accounts, which is more likely to induce platform financial risks.

### **3. Measures**

#### **3.1. Establishing Financial Risk System**

Platform regulators can set up a complete set of access standards for financing platforms to restrict the opportunities for high financial risk companies to use network financing in their daily business, and to improve the information level of platform financing. According to the needs of economic business, the platform should establish an effective and reliable financial risk early warning system, which can monitor the financial risk of the platform in real time. When the risks in the daily business are greater than the monitoring balance line, the warning alarm will be issued, and the financial risk of the enterprise will be reduced. The network financing platform can also establish a dangerous emergency mechanism for financial risk [6]. For the forecast but the risk is not evasion, the supervisor of the platform can take the effective response mechanism to the risk in time and minimize the financial loss of the platform.

#### **3.2. Completing the Legal Supervision System of the Platform**

Completing the legal supervision system of the network financing platform is the guarantee of the healthy development of the platform. At the same time, Considering the complexity of the electronic platform financial business and the cross complementarity with the traditional financial industry, the legislator should base on the current situation of the economic development of the network financing platform, find out the defects of the former law and optimize existing financial laws and regulations in time, which will be beneficial to the development of the network financing platform. At the same time, China's relevant laws and regulations should strictly eliminate the corrupt practices in the accounting process. In the big environment of network data, it is easier to cheat the data security like traditional accounting. The financing business under this environment will also face more difficult accounting information. In this regard, It is impatient that the government issue strict financial laws to carry out efficient management and control. It is very necessary to punish the malpractices for favoritism in the financing business. The pure accounting network financing environment will be beneficial to the healthy development of the network financing platform.

#### **3.3. Strengthening the Training of Professional Talents**

The emergence of large data automation in the Internet has reduced the cum-

bersome program of digital computing and greatly improved the efficiency of financial work, but it can not be ignored by its employees. On the one hand, network financing platform supervisors should strengthen the training of professionals. From the professional knowledge of financing to handling audit skills, the platform should improve the ability to deal with financing information, the management design ability of the financing product scheme and the ability to predict financing risk in all angles and angles. At the same time, the e-commerce platform should carry out professional moral training and risk awareness education for the related personnel, and reduce the financial risks to the platform from the root caused by the lack of individual staff's operation errors or their ability to think.

On the other hand, the financial personnel of the financing platform should also do well in information security protection measures. They should conduct a scientific and reasonable review of the scale and size of the customer's investment projects, accurately calculate the length of the period of the financing construction and the feasibility of the sources of funds, so as to eliminate the blind acceptance of the financing business.

### **3.4. Establishing the Security Environment of the Platform**

To improve the trading environment of the electronic platform headed by the financing platform, we can take measures from two aspects of network connection and technical level to ensure the authenticity of the customer information, the information privacy of the two parties, the integrity of the transaction finance and the symmetry of the market access information in the daily operation of the platform.

In the network connection, we can integrate the cooperation of different types and different operating range network platform to integrate the digital basis of the platform network online, so as to improve the credit system of the assets of the business enterprise, reduce the audit steps of the employees, form a complete and unified evaluation system and control system, and reduce the financial risks of small and medium-sized companies in network financing.

In addition, on the technical level, the platform should increase the supervision input to the network security technology. The supervisor can strengthen the improvement of information technology, strictly examine the security of information in the daily work, and monitor the hackers' illegal manipulation of the background in different angles, so as to ensure the integrity of the data. At the same time, the improvement of information technology can reduce the disclosure of personal information of financing customers in the process of online financing and mobile data payment, so as to ensure the security of the network financing platform.

### **3.5. Ensuring the Information Symmetry**

The asymmetry of economic information is the embodiment of the moral problem in the economic field. Ensuring the information symmetry of the network

financing platform industry can reduce the transaction cost in the market, so it is particularly important for the platform supervisors to strengthen the information disclosure of the two parties. For the financing parties, if the real information in the transaction process is fully and fully open, they can understand the market correctly and avoid misleading information. For the network financing platform, the real disclosure of information has a positive impact on the reputation of the platform. It is beneficial for the platform supervisors to build the internal control system.

## 4. Case Analysis

### 4.1. Introduction of “Honglingchuangtou”

“Honglingchuangtou” is an internet financial services platform and belongs to the “Honglingchuangtou” e-commerce Limited by Share Ltd. The financial platform was officially launched in March 2009. As an early platform for the Internet platform industry in China, “Honglingchuangtou” e-commerce Limited by Share Ltd operates with the characteristic financial trading place. The introduction of innovative investment and financing services to customers is the foothold for enterprise development.

In the actual development process, because of its high cost, the company began to gradually transform into a network financing platform dominated by small and micro enterprises. In 2012, a Credit Guarantee Corporation was set up to provide financial information for both parties and provide guaranteed financial transactions. Over the next two years, under the guarantee of the CBRC, the platform used the new model established by the CBRC to carry out the risk reserve model.

### 4.2. Problems in Financial Risk

#### 4.2.1. Financing Risk of Platform

1) The risk of an intermediate account.

“Honglingchuangtou” is a platform of network financing platform for depositing funds on the third party. The platform first signed object depository agreement is Alipay platform. In 2014, its supervisor announced that the platform and Ping an Bank had reached a strategic cooperation agreement on the network financial services, and the funds of the platform in the process of economic transactions will achieve the third party bank trusteeship. Unlike the supervisor’s announcement, the platform did not carry out the real third party bank trusteeship, but only signed the third party depository agreement with the Ping an Bank in the form. Such a platform still exists the problem of capital hiding, and the platform does not implement the third party trusteeship system of economic operating funds in practice, which causes that the platform is threatened by the middle account in the daily operation.

2) The risk of money laundering

“Honglingchuangtou” also has a certain risk of money laundering in the

process of daily operation, which is because the platform does not have its own independent and legal anti money laundering system, and the information of the lender of financing is not complete.

#### **4.2.2. Working Capital Risk of Platform**

##### 1) The liquidity risk of daily operation.

At present, the platform has a large number of financing projects, long term and large amount of funds. In addition, the network financing platform industry is affected by the slowdown of economic growth and the return of the stock market price, and the liquidity risk of the operating fund will increase. In August 2014, the platform had a bad debt of billions of dollars. One year later, the platform was faced with the risk of cash on the “Anhui 4 standard” project, and the amount of money involved in the platform has reached 70 million yuan. Such huge losses make the platform bogged down in bad debts and the platform is in a strong liquidity risk.

##### 2) Lack of transparency in the platform.

The asset information released from its official website shows that the platform will continue to disclose the amount of monthly risk reserves in a large amount of transactions. However, there is no disclosure of relevant information on the flow of working capital transactions, so whether the information is true and whether it can effectively express the operation of the platform is worth thinking deeply. To sum up, the information disclosure of the platform lacks transparency, which increases financial risks in operation.

##### 3) Internal control risk.

According to market economy information, “Honglingchuangtou” has been attacked by hackers many times, which results in that the internal platform web page can not be opened. From this phenomenon, we can see that the platform still has internal control risks.

#### **4.3. Specific Suggestions**

First, the platform supervisor can sign the third party trust cooperation agreement with the bank. This agreement should not only be formal, but also should be implemented. This can effectively solve the problem of the risk of the traditional microfinance system for the financing management system.

Second, the platform supervisor can strengthen the audit of the internal control by combining the line and line, At the same time, the daily operation data, the information of the large amount financing items and the amount of the risk reserve should be reflected on the official network in time. This information can be used by the financier for reference.

Third, it is recommended that the network financing platform abandon the use of security mode and establish a risk early warning system to predict the financial risks in advance.

Fourth, it is suggested that different types of platforms can jointly and regularly carry out large amount of project financing to achieve common benefits of the platform.

## 5. Conclusions

From the perspective of financial risk control, this paper studies the prevention of the financial risk of the network financing platform. At the same time, through the specific case study, this paper analyzes the main financial risk problems in the network financing platform industry, and puts forward some relevant suggestions and measures.

The stable and healthy development of the network financing platform is impossible to achieve by a single regulatory department, and it requires the joint efforts of the relevant departments of the state. At the same time, we should draw on the successful experience of foreign related industries and combine the development of China's economic market to find a way for the development of China's network financing platform, so that more network financing platform can develop healthily and steadily.

The shortcoming of this paper is that the key proposals put forward still need the specific consideration of the scholars, and some suggestions need to be more detailed and detailed. At the same time, an empirical test of a large number of data is needed to improve the feasibility of the proposal.

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