DRIVERS, CHALLENGES AND SUGGESTIONS FOR THE DEVELOPMENT OF DIGITAL FINANCE IN CHINA

*By **Junhe Hu***

4th Year Economic Student, University of Queensland, Australia

ABSTRACT

With the rise of digital financial models closely related to information technology, the deep integration of finance and digital technology in China has become a trend. Based on the practice of digital finance in China, this paper proposes the driving forces for the development of digital finance in China: the shortage of traditional financial supply, data accumulation and technological progress, and the strong support of national policies. In view of the problems of weak ethical awareness, low level of digitalization, imperfect credit system, prominent data security problems, serious digital divide problems, and imperfect regulatory mechanism in the development of digital finance in China, a series of suggestions to promote the orderly and healthy development of digital finance are proposed, such as paying attention to the ethical issues of digital finance and accelerating the construction of digital infrastructure.

Keywords: Digital Finance, Endogenous Power, Challenges, Suggestions

INTRODUCTION

In the 2019 Fintech100 Annual Report released by KPMG and H2Ventures, 10 Chinese companies ranked among the top 100 companies in the world, only less than the United States and the United Kingdom. Deloitte believes that China is already far ahead of the curve in terms of digital economy development, leading the world in digital finance penetration in three main scenarios: online shopping, digital transfers, and retail payments.

With the promotion and implementation of the digital economy strategy, the deep integration of digital technology and finance, and the continuous deepening of the concept of high-quality development, the form of China's financial services has undergone fundamental changes, and the digital transformation of the financial industry, which is mainly characterized by openness, sharing, reconstruction and integration, continues to advance. In the context of this integration and change, it is necessary to explore its endogenous driving force and existing problems, and provide feasible suggestions for the healthy development of digital finance in the future.

THE ENDOGENOUS DRIVING FORCE OF CHINA'S DIGITAL FINANCE DEVELOPMENT

The shortage of traditional financial supply, data accumulation and technological progress, as well as the strong support of national policies, have jointly promoted the rapid development of digital finance in China.

First, there is a shortage of traditional financial supply. Previous studies have shown that one of the reasons for the formation of financial repression is that the financial system with banks as the main body is more susceptible to administrative intervention or improper control by the government, and the credit environment and transaction costs cause credit rationing for small and micro enterprises. Due to the objective existence of these problems, China's financial repression and credit rationing are relatively serious, especially among low-income groups such as remote areas, small and micro enterprises, and rural households. By combining data, technology and scenarios, digital finance can better alleviate the information asymmetry situation, optimize the "scale-cost-risk" function faced by financial institutions, and increase the service supply to small and micro enterprises and low-income people.

The second is data accumulation and technological progress. In recent years, the popularization of smart phones and mobile Internet, and the rise of Internet ecology such as e-commerce, social networking, and search, have enabled fintech companies to obtain a large amount of data based on social networking and e-commerce. With the help of artificial intelligence, big data, cloud computing, and blockchain, financial institutions have rapidly developed and iterated models such as customer portraits, risk identification, risk pricing, and anti-fraud, breaking through the "difficulty in customer acquisition" and "difficulty in risk control" Overcoming the time and geographical limitations of traditional financial instruments to provide financial services to customers in remote areas and long-tail markets, it has significantly contributed to the development of digital finance in China.

The third is the strong support of national policies. Since China has been promoting the development of common prosperity and inclusive finance, and has elevated inclusive finance to a national strategy, and digital finance is naturally inclusive and can promote the development of inclusive finance through mechanisms such as reducing costs, preventing risks, and promoting competition, the regulatory authorities have shifted to relatively relaxed supervision of inclusive digital finance, which provides opportunities for digital financial participants to experiment with business models and financial product innovation[1].

PRACTICAL CHALLENGES IN THE DEVELOPMENT OF CHINA'S DIGITAL FINANCE

China's digital finance is facing some practical challenges in the development process, and there are some internal and external factors restricting its development, which may contain financial risks, and these challenges mainly include the following aspects:

First, the ethical awareness of digital finance is weak. With the advancement of the digital transformation of finance, more and more people are entering the field of digital financial services, some participants lack the necessary professional quality and ethical awareness to perform their duties, violate the rules of financial ethics in financial activities, more and more over-authorized business behaviors occur, and the subjects, methods and forms of infringement on consumers are diversified, and cases of illegal fundraising and financing fraud continue to occur in the field of digital finance, and it is difficult to standardize the operation of digital financial behaviors such as online credit, which seriously restricts the promotion of China's financial digital transformation.

Second, the level of digitalization in the whole society is low. The digital transformation of micro subjects promotes the improvement of the digital level of the whole society, which is an important prerequisite for the development of digital finance in China. Despite the rapid development of China's digital economy, the degree of digitalization of major industries and services is still below the global average. At present, the degree of digitalization of small and micro enterprises in China is relatively low, and the data collection rate is low, which makes it difficult to efficiently carry out the core links in digital finance, such as risk assessment and risk pricing, and it is difficult for financial institutions to accurately assess the risks of small and micro enterprises, resulting in the key problem of information asymmetry between banks and enterprises still exists [2].

Third, the social credit reporting system is not perfect. However, at present, China's credit reporting system is not perfect, the development of market-oriented credit information is slow, the information in the Internet data credit information market is relatively scattered and incomplete, the data of Internet fintech companies has not been shared, the phenomenon of data islands is serious, the risk of Internet co-debt still exists, and the degree of dependence of information disclosure and inquiry platforms is relatively low [3]。

Fourth, data security issues are prominent. In the process of financial digitalization, financial data is growing explosively, data collection channels and dimensions are diversified, and a large amount of personal and corporate information is exposed in an open environment. At the same time, however, some financial institutions lack awareness and protection methods for data privacy protection, lack awareness of the harmfulness of data leakage, and the means by which lawbreakers obtain data are constantly changing, ranging from Trojan viruses, online fraud, to remote network attacks, and privacy leaks in various parts of China, which seriously endanger the safety of people's lives and property and national information security [4].

Fifth, the regulatory mechanism is not yet perfect. Regulators are not sufficiently involved in the new digital financial operation model, the regulatory mechanism cannot keep up with the pace of innovation, it is difficult to grasp the financial risks in a forward-looking manner, and there is a lack of targeted regulatory measures. At the same time, under the mode of separate supervision, "the regulatory actions of regulatory entities are determined according to the subdivided financial markets and businesses, and the lack of necessary information sharing between regulatory entities makes it difficult to form the consistency of regulatory actions", while digital finance has significant cross-border characteristics, and traditional financial supervision methods may face the problem of "regulatory failure", and it is urgent for relevant departments to coordinate supervision.

SUGGESTIONS FOR THE DEVELOPMENT OF DIGITAL FINANCE IN CHINA

(1) Pay attention to the ethical issues of digital finance

The healthy development of the financial industry is inseparable from the good financial ethics foundation of all participants, and the level of financial literacy of financial practitioners has an important impact on financial activities. The development of the financial industry should focus on the prominent issues of digital financial ethics under the new situation: first, it is necessary to accelerate the formulation of ethical standards and rules in the field of digital finance, and in terms of mechanism construction, we can refer to the experience of Western countries to explore the establishment of normalized ethical review, information disclosure and other working mechanisms. The second is to establish industry self-regulatory organizations, formulate action guidelines and self-discipline conventions, and enhance the compliance and security of data applications in the financial field. The third is to further strengthen ethics education in the field of digital finance and promote the stable, orderly and healthy development of digital finance.

(2) Accelerate the construction of digital financial infrastructure

Adhere to technology-driven, accelerate the construction of digital financial information infrastructure, including: a new generation of financial data centers and computing centers, artificial intelligence, financial scenario-based blockchain, big data, secure multi-party computing and other innovative basic applications, as well as new green data centers, computing centers, etc., can be promoted in a multi-party collaborative way by the government and the market, such as exploring industrial funds and venture capital funds similar to the national integrated circuit industry fund model, and playing an important role in various types of social capital. At the same time, it is also necessary to pay attention to the construction of convergent infrastructure, that is, infrastructure that plays a basic, safeguarding, and platform role in specific industries or industrial fields, such as the national payment and clearing system, the central bank's legal digital currency, the third-party payment transfer and clearing system, the financial CA certification system, the financial technology sharing platform, and the third-party blockchain confirmation platform [5].

(3) Complete the social digital credit system

The first is to improve the data and information opening mechanisms of the government, platforms, and credit service establishments in terms of systems, using the credit of digital economy platforms to supplement and improve the social credit reporting data system, clarifying information collection standards, and establishing open and shared standards and specific and complete operational procedures. It is also necessary to establish an appropriate information grading system, determining the requirements for credit establishments' qualifications for shortlisting, requirements for information desensitization, information access procedures, restrictions on the use of information, and so forth, to regulate the collection and use of data by all types of establishments, reduce the cost of credit assessments, and protect data security and users' privacy. Second, in terms of the construction of data sharing facilities, by strengthening the coordination mechanism between the financial regulatory department and other data generating departments, establishing a standardized public data sharing platform, improving the working mechanism of data openness and sharing, improving the ability to integrate big data and various types of information, promoting the establishment of credit information sharing platforms at the national and local levels, and improving the level of digital financial sharing. Third, in terms of social credit punishments, with the help of the sharing of all types of electronic credit information and information on untrustworthiness, establish corresponding credit punishment mechanisms, and improve punishment methods, publicity channels, and enforcement methods.

(4) Strengthen data accumulation

The first is to accelerate the pace of digital transformation of small and micro enterprises, promote the data transformation and information accumulation of small and micro enterprises, promote the digital transformation of the whole process from production and manufacturing, sales and service to operation and management, and connect the production process with digital channels such as finance and logistics, so as to lay an industrial data foundation for the application of digital finance. The second is to accelerate the pace of technological transformation of financial institutions, deepen the intelligent reengineering of financial services, empower the financial industry with science and technology, build an integrated operation platform with the integration and linkage of business, technology and data, establish an intelligent risk control decision-making technology model, fully activate the new momentum of digital operation, and reduce the service cost of financial institutions. The third is to further promote joint research in the fields of basic technologies and cutting-edge technologies, and at the same time, under the premise of prudence, continue to expand the industrial ecology of open innovation and win-win cooperation, and accelerate the transformation of technological innovation achievements [6].

(5) Design an effective regulatory framework

As a new form of finance, digital finance needs to consider the consistency of regulatory principles and pay attention to its particularity when supervising it, such as following the regulatory system and rules under traditional finance, which may face the problem of regulatory failure in the context of digital finance. The first is to design a new regulatory framework for digital finance. It is necessary to continue to promote the reform of regulatory coordination, integrate the fragmented regulatory system, and improve the pertinence and coverage of supervision. The second is to vigorously implement the digital transformation of supervision, accelerate the research and development of regulatory tools and regulatory platforms based on digital technology, adopt intelligent and digital means to realize the proceduralization and standardization of regulatory rules, strengthen the intensity, depth and breadth of regulatory penetration, and improve the ability to identify and control risks in new forms of digital finance.

REFERENCES

[1] CF40 Digital Inclusive Finance Research Group, Ji ZhihongInclusion Mechanism and Sustainable Development of Digital Finance[J].New Finance Review, 2019(1):122-148

[2] Yang T, Gao Z, Lü Zhongtao, et alDevelopment status and prospect of digital finance[J]. Exploration of Financial Theory, 2022(1):30-38

[3] Huang Yiping, Tao Kunyu China's Digital Financial Revolution: Development, Impact and Regulatory Implications[J]. International Economic Review, 2019(6):24-35, 5

[4] Wang YanfeiHow can fintech fully empower inclusive finance?Science & Technology & Finance, 2021(4):74-80

[5] Gao Xin, Li Guoquan Spatiotemporal evolution and development trend of digital inclusive finance in central China[J].Financial Theory & Practice, 2022(1):56-64

[6] Wang Yanfei, Zhou MaoqingThe Generating Mechanism, Root Causes and Mitigation Paths of Credit Rationing for Small and Micro Enterprises: An Analysis Based on the Perspective of Incomplete Information Dynamic Game[J].Journal of Northwest University for Nationalities (Philosophy and Social Science), 2022(2):115-121