

Research on Risk and Control of Internet Fund Financial Products—Take Alipay Financial Products as an Example

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Abstract: In the context of increasingly advanced technology, China's online financial products have had a significant impact on traditional online financial investment methods. In 2013, Yu'e Bao launched the "one yuan financial management". With the huge user base of Alipay, the transaction capital of Yu'e Bao has reached 1 billion yuan in just a few years, and it is thriving in the domestic financial market. Although money market products also have repayability, in the long run, Yu'e Bao has a higher potential liquidity risk. Therefore, this article takes Yu'e Bao as an example to analyze the various risks it faces and explore its standardized response measures, hoping to contribute to the healthy development of Yu'e Bao and other domestic network fund financial products.

1. Introduction

Yu'e Bao, jointly initiated by Alibaba and Tianhong Fund, has sparked a storm of internet finance reform and had a significant impact. In recent years, with the rapid development of e-commerce, the consumption standards of Chinese residents have changed. More and more residents have started online shopping, which has brought a continuous flow of funds to third-party payments with a large consumer group^[1]. The introduction of "Yu'e Bao" has played a crucial role, not only providing consumers with an excellent fund consumption experience, but also facilitating the rapid development of Yu'e Bao. Although the current earnings of Yu'e Bao are relatively stable, it is ultimately based on traditional financial products. Therefore, preventive measures need to be taken for new financial products such as Yu'e Bao to better stand in the market, develop better, and provide the best services to the public.

2. Background Introduction to Yu'e Bao

Yu'e Bao is a monetary fund founded by Alibaba's CEO Jack Ma in 1999. As a core part of Alipay, Yu'e Bao was officially launched in June 2013. It is the first enterprise to be approved by the CSRC and engaged in fund management nationwide. Not long after the release of Yu'e Bao, it was widely spread and accepted by a large number of users. As a result, Tianhong Fund quickly became the pinnacle of domestic funds. In terms of characteristics, Yu'e Bao has the characteristics of low threshold and high return, which can be redeemed in real-time at 2T+0, and can use big data technology to reduce liquidity risk. Not only can you participate in fund subscription for 1 yuan

without any other costs, but Yu'eobao can be redeemed anytime and anywhere, with the advantage of immediate payment. Therefore, the high liquidity of Yu'eobao funds also brings great competitiveness to this product.

3. Yu'eobao Financial Risk Analysis

3.1 Liquidity Risk

The liquidity risk of Yu'eobao is greatly affected by changes in return rates. When choosing financial products, users are most concerned about whether the returns are high or not. Yu'eobao brings more benefits to users, and users will have a wider range of choices for Yu'eobao, thereby reducing the risk of liquidity.

The use scope of Yu'e Bao Fund mainly includes investment in treasury bond and bank fixed deposits, which results in its yield being linked to the short-term market interest rate level. The yield of Yu'e Bao Fund basically varies with the benchmark interest rate of one-year deposits. With the continuous adjustment of market interest rates in China in recent years, Yu'eobao will face significant risks. In order to meet consumers' demand for advanced and fast liquidity, Yu'eobao adopts the "T+0" trading mode^[2]. This Yu'eobao, with a large number of users, not only makes it the number one monetary fund in the country, but also poses different liquidity risks to Yu'eobao compared to other monetary funds. Every "Double 11" Taobao Shopping Festival will lead to a large number of redemption of on balance sheet items. On November 1, 2013, on balance sheet items were redeemed for 6.1 billion yuan. In 2014, Alipay paid more than 10 billion yuan on the Double 11. This large amount of single day redemption will increase the liquidity risk of Alipay.

3.2 Technical Risk

With the help of Yu'eobao, users can not only consume, but also manage money. Alipay is the last major technology completed by Alipay generation. A strong reliance on information technology means being exposed to the risks posed by internet technology^[3]. Computer viruses, TCP/IP protocol security vulnerabilities, hacker attacks, system interrupts, etc. all constitute operational risks, leading to security issues with Yu'eobao. User account passwords are stolen due to computer system damage, and their money and personal information will also be stolen. In addition to security risks in the network system, Yu'eobao may also have system defects. When registering an account, users only need to enter their personal details, bank card number, and account password. This cannot ensure the authenticity of user identities, nor can it avoid effective issues such as money laundering. When transferring funds, users only need to enter the received mobile phone number and verification code. In this situation, criminals can take advantage of this opportunity. By stealing a user's mobile phone number and accepting a verification code, the user's money is obtained. There are technical issues with the Yu'eobao system, which pose technical risks and cannot be ignored. On February 12, 2014, Yu'eobao was unable to generate any revenue on that day. The official response from Yu'eobao is that system updates have prevented revenue from reaching users' accounts in a timely manner^[4]. The occurrence of this malfunction has raised concerns among users about the security of their funds.

3.3 Credit Risk

Credit risk refers to the risk of default caused by the entrusted party's inability to fulfill its duties, which is often encountered in the financial industry. Credit risk under the Internet manifests as the recipient's intentional failure to execute contractual agreements based on subjective or non

subjective reasons during online transactions, resulting in losses for the credit granting party. Currently, there is no suitable credit rating system for internet finance products in China, and credit rating is of great significance in measuring financial product risks. The lack of a rating system has increased credit risk^[5]. Yu'eobao does not provide bank credit guarantees, and users can only rely on Alibaba to provide commercial credit. The users of Yu'eobao are responsible for purchasing funds, and the ownership and actual operation of the funds are the responsibility of Tianhong Fund. Tianhong Fund has the operational rights, making it difficult for users to truly understand the usage of their investment funds. Due to information asymmetry, investors bear greater risks, and the pursuit of high returns by fund managers may be one-sided, market estimation errors, uneven dividends, and misappropriation of user funds. Such professional ethics and moral risks are bound to pose a threat to the interests of investors. In addition, with the promotion of high profits, there may be difficulties in buying and selling user information.

3.4 Market Risk

Firstly, interest rate risk. With the rapid development of China's economy, people's income has been improved, deposits have been steadily increasing, and there is a high demand for financial management. In addition, the fierce competition in the market has led to increasing returns on financial management, increasing the number of people involved in financial management, and increasing the demand for market currency, leading to an increase in short-term interest rates^[6]. If the economy slides and the return rate decreases, the demand for funds in the market becomes too high, supply exceeds demand, interest rates decrease, and investment returns decrease accordingly.

Secondly, currency risk, also known as "currency risk", refers to the efficient use of social resources when the total market demand exceeds the total market supply. Enterprises can sell their goods at prices they are satisfied with, which is beneficial for improving the market environment, increasing currency returns, increasing the yield on Yu'eobao, and increasing user utilization^[7]. On the contrary, hyperinflation will cause a decrease in the yield of the money market. Therefore, moderate inflation is beneficial for Yu'eobao.

Thirdly, there are two types of competitive risks, one is internet finance products, and the other is traditional banking finance products. The proliferation of various internet wealth management products has won a large number of investors and continues to devour the customer base of traditional banks. The bank has also changed its strategy and launched similar internet wealth management products to adapt to market changes, such as China Merchants Bank issuing a wealth management product called "Chaochao Ying", Bank of China issuing a "Current Treasure" wealth management product, and so on. Under the promotion of internet finance, merchants enjoy high returns and more and more enterprises have joined the industry^[8]. Online platform wealth management products such as "WeChat Wealth Management" and "Vipshop" have emerged, and high or low returns have become the main way to compete with customers, causing great competitive pressure on Yu'eobao.

4. Risk prevention measures for financial wealth management products

4.1 Liquidity risk prevention

Through big data analysis, liquidity risk can be reduced for large redemptions of Yu'eobao. The massive number of users on Taobao provides strong support for big data analysis, with thousands of users' consumption behavior forming a regular distribution. Yu'eobao can use this consumption behavior database to summarize and predict the period when users will experience huge redemptions. In addition, Yu'eobao's historical data is a very efficient database that fully utilizes this

information. In summary, the redemption amount of the Double Eleven Fund is huge. This can effectively control the liquidity risk generated by massive redemptions. Regarding changes in interest rates, it is necessary for Tianhong Fund Company to accurately grasp the economic trend, improve the professional level of fund managers, carefully analyze macroeconomic trends, pay attention to various macroeconomic indicators, scientifically and reasonably arrange investment portfolios, and reduce liquidity risks caused by interest rate changes.

4.2 Technical risk prevention

Products like Yu'eobao heavily rely on internet technology. In 2015, the People's Bank of China issued ten suggestions, including the "Guiding Opinions on Promoting the Healthy Development of Internet Finance", which require the development of necessary firewalls and the use of network antivirus software. To ensure the security of online finance, on the one hand, we need to strengthen network security filtering to combat computer viruses. On the other hand, we need to prevent hacker attacks. A comprehensive security system for online finance needs to be established, and through strengthening network supervision and management, we can prevent illegal theft of user accounts and suppress illegal money laundering^[9]. In addition, Yu'eobao needs to strengthen its software updates and maintenance to avoid software vulnerabilities and malfunctions; The application of the latest network protection software to maintain the security of the network environment; Set up unexpected backups to quickly recover data and safeguard users' personal interests in the event of system paralysis caused by an attack. Users of Yu'eobao also need to enhance their awareness of network security, maintain their account security, prevent account passwords from being easily leaked, do not use unknown secure WiFi, do not trust various fraudulent SMS messages, do not open unfamiliar URLs in SMS messages, use firewalls and antivirus software to avoid profit losses.

4.3 Credit Risk Prevention

For the credit risk brought by short-term financial products themselves, Tianhong Fund can diversify its risk exposure through diversified investments. Regarding credit rating, currently there is no credit rating system suitable for the development of internet financial products in China. Credit rating is of great significance in measuring the risk of financial products. The lack of a rating system increases credit risk, and a sound rating mechanism is of great significance. For internal management, Balanced Treasure and Tianhong Fund should strengthen their own supervision and control, strictly implement various rules and regulations through training, standardize the professional ethics of practitioners, improve risk control capabilities, and avoid losses caused to users by practitioners. In addition to training and regulatory restrictions, fund companies also need to improve operational transparency, so that investors have a clear understanding of the whereabouts of funds, and prevent improper behavior by fund managers. Effective and strict industry self-discipline is the most important condition for promoting the green development of online financial products.

4.4 Market Risk Prevention

The yield of Yu'eobao is mainly influenced by changes in market interest rates. China has now relaxed the upper and lower limits of deposit and loan interest rates. In the context of market-oriented interest rate reform, Yu'eobao should accurately predict the trend of market interest rates and make corresponding investment adjustments to reduce market interest rate risk. The crisis caused by industry competition has led to Yu'eobao's synchronous development model of win-win

cooperation and innovative expansion. Yu'eobao has countless connections with the traditional financial industry. At the same time, with the rapid development of Yu'eobao, it has also added vitality to the traditional financial industry. Yu'eobao and traditional financial institutions need to achieve a win-win cooperation situation, leverage their advantages, help each other, follow the good, and progress together. For the same type of internet products, Yu'eobao needs to constantly update its product categories in order to enhance market competitiveness and obtain better profits in the market. It is necessary to pay attention to market changes, form its own product lines according to market demand, and optimize product benefits to lay the foundation for welcoming market competition.

5. Conclusion

In recent years, people have increasingly recognized emerging things, and internet fund wealth management products have emerged. People believe that these products have high returns and low risks, leading to smoother internet fund wealth management products. In this situation, the potential harm that such products may bring is often overlooked. Although the risk of online fund wealth management products is lower than that of the stock market, such risks still need to be taken seriously. So, on the basis of elaborating on the relevant basic theories, this paper takes Yu'eobao as an example, analyzes the various risks faced by Yu'eobao, and discusses standardized countermeasures. It is hoped that this paper can provide some theoretical viewpoints for the healthy development of domestic network fund wealth management products such as Yu'eobao.

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