

Risk Characteristics and Prevention Strategies of Personal Consumption Finance on Internet Platforms

Xin Kang

*The Nottingham University Business School China, University of Nottingham Ningbo China,
Ningbo, 315000, China*

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Abstract: The rise of personal consumption finance on Internet platforms mainly benefits from the development of e-commerce and the emergence of Internet finance. The Internet platform breaks the geographical and time limitations of traditional financial institutions, provides more convenient and flexible financial services, and promotes the rapid development of personal consumption finance. Based on the characteristics of the risk of personal consumption finance on the Internet platforms, this paper proposes that internet platform for personal consumption finance should establish a comprehensive risk management system, combined with technical methods and compliance measures, to improve risk prevention and response capabilities, and ensure the safety and sustainable development of the platform, users and the entire financial ecosystem.

1. Introduction

With the steady development of China's economy, the policy support of consumption finance, the upgrading of consumption concepts and the deepening application of financial technology, consumption finance industry in China has ushered in an "explosive" development. It also brings a series of problems and challenges, including the macro risks caused by the over-rapid development of consumer credit, the market chaos caused by the fierce competition among Internet consumer finance entities, the inadequate development of the personal credit system and the problem of isolated data islands, the incomplete laws and regulations of Internet consumption finance, the ineffective protection of technical security and consumers' rights and interests, the insufficient development of scenario-based consumer finance, and the serious homogenization of products, etc. Internet platform personal consumption finance is a financial service that utilizes Internet technology and platforms for personal consumption loans, installment payments, credit cards, etc. The scale of China's Internet consumer credit expanded rapidly from 2014 to 2020, rising from 18.7 billion yuan to nearly 24.3 trillion yuan (as shown in Figure 1).^[1]

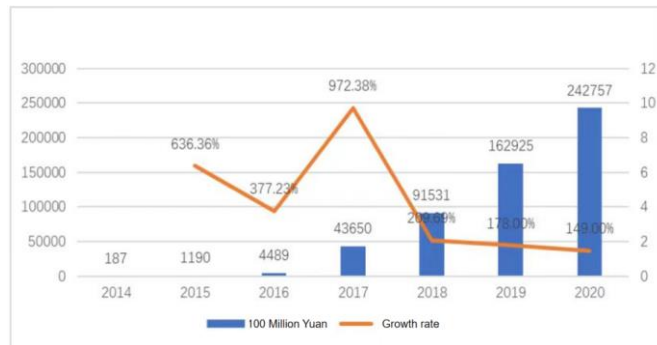


Figure 1: Scale of China's Internet Consumer Credit from 2014-2020 (in 100 Million Yuan)

Although the Internet personal consumption finance model has brought convenience to the majority of consumers, there are also some risks, for example, loss of funds to the platform due to default or inability of the borrower to repay, malicious attackers obtaining access to users' personal privacy and payment information through cyber-attacks, data leakage, etc., illegal or non-compliant behavior of the platform in the course of its operations, exposure to policy risks and legal liabilities and so on, resulting in a number of credit risks, operational risks and market risks, etc. This paper proposes some measures to prevent and resolve the risks of Internet personal consumption finance in view of the characteristics of various risks, in order to motivate the standardized construction of the Internet platform for personal consumption.

2. Overview of Personal Consumption Finance on Internet Platforms

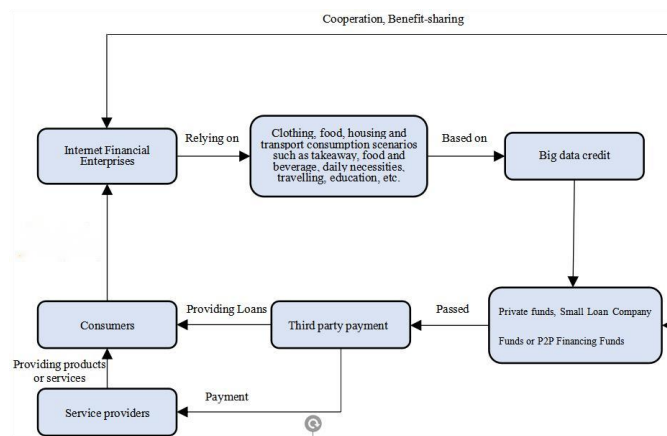


Figure 2: Diagram of Operation Model for Internet Financial Consumption

Personal consumption finance on Internet platform refers to the business model of utilizing Internet technology and platforms for personal consumption loans, installment payments, credit cards and other financial services (as shown in Figure 2)^[21]. Through the Internet platform, individuals can easily and quickly obtain financial support to satisfy various consumer demands. The advantages of the Internet platform for personal consumption finance lie in the fast, convenient, flexible and easy application process, more efficient risk evaluation models, and personalized product design and pricing strategies. However, attention should also be paid to defend against risks such as leakage of personal information and malpractice in borrowing and lending, etc. Compliance management and risk control measures should be enhanced to ensure the operation of the platform safe and sound.

The main business of the Internet platform for personal consumption finance includes the following aspects. First, personal loans. Internet platforms can provide loan services to individuals

through online application and risk evaluation to solve their temporary capital needs, such as the purchase of large goods, tourism consumption, etc. Second, installment payments. Internet platforms offer installment payment services that enable consumers to allocate large amounts of consumption over multiple months, reducing economic pressure and increasing purchasing power. Third, credit card services. The Internet platform provides credit card services of online application, handling and management to facilitate consumer payments and installment payments. Fourth, payment instruments and third-party services. Internet platforms provide online payment tools and third-party financial services, such as Alipay and WeChat Pay etc., to make it convenient for users to conduct transactions and make payments.^[3]

3. Types and Characteristics of Personal Consumer Finance Risks on Internet Platforms

3.1 Credit Risk

Personal consumption finance requires an evaluation of the credit status of individual when providing services such as loans and installment payments. However, the information on the Internet platform may not be comprehensive and accurate enough, which may easily lead to credit risks, such as overdue repayment or inability to repay a loan. An inaccurate evaluation or a high personal credit risk may result in loan defaults or late payments, causing losses to the Internet platform.^[4]

3.2 Operational Risk

Operational risks in the function and management of Internet platforms, including system failures, data leakages, hacking, and other issues, may lead to leakage of user information, loss of funds, etc. Operational risk may further cause the risk of false transactions, with users forging transaction information, fictionalizing loan demand, etc., resulting in the platform issuing loans to illegal or non-existent borrowers. The platform can ensure that the information submitted by users is true and effective by establishing a perfect mechanism of identity authentication and auditing, while enhance monitoring and analysis of transaction data to detect and intercept false transactions in time, and cooperating with third-party credit agency to acquire more comprehensive credit information of borrowers.^[5]

3.3 Market and Supervisory Risk

Personal consumption finance business is highly affected by market conditions and economic cycles. In the event of an economic downturn or poor market conditions, consumers' ability to repay may be impacted, thus increasing the risk of default and bad debt. In addition, Internet personal consumption finance involves abundant financial operations and thereby needs to comply with relevant supervisory policies and regulations. If a platform fails to meet supervisory requirements or compliance problems exist, it may face the risk of fines, shutdowns and reorganization etc.

3.4 Compliance Risk

Personal consumer finance business involves users' personal information and capital flow, which requires strict compliance with the relevant privacy protection and data security regulations. If personal information is leaked or abused, it may lead to distrust and legal disputes from users. Meanwhile, internet platforms may face administrative penalties or the risk of civil disputes if their

operations do not meet the regulations, such as exceeding the interest rate ceiling on loans, unauthorized collection and use of personal information, etc. Therefore, Internet platforms must abide by relevant laws and regulations when conducting personal consumption finance business.

3.5 Risk of Adverse Selection

There is information asymmetry when consuming on Internet platforms. Consumer finance business usually requires an enormous amount of personal information. Individuals have certain privacy and security risks when providing information to Internet platforms. Personal information may be captured and used maliciously by criminals, such as committing fraud, identity theft, etc., which may produce the damage to the interests of consumers due to information asymmetry. Besides, personal consumption finance business on Internet platforms suffers from the problem of adverse selection, i.e., the tendency to attract users with higher risks and more indebted, which may lead to an increase in the bad debt ratio of the platform and increase the difficulty of risk management.^[6]

4. Prevention Strategy of Personal Consumption Finance on Internet Platforms

4.1 Credit Evaluation and Risk Control

A perfect risk evaluation model should be established to ensure that borrowers possess the ability and willingness to repay through comprehensive evaluation of users' personal information, credit history, income status, etc. In the meantime, scientific and technological means have to be used to monitor users' behavioral data and provide timely warnings of possible overdue risks and to take appropriate measures for risk control. For example, through the establishment of a scientific and accurate credit evaluation model, by utilizing technical means as big data and artificial intelligence, a credit evaluation system could be established with the comprehensive considerations of many factors like an individual's credit history, income status, consumption habits, etc., to reduce the risk of evaluation errors. Furthermore, it is also necessary to intensify supervision to carry out risk prevention, pay close attention to changes in relevant regulations and supervisory policies, ensure that the platform's business complies with the supervisory requirements, actively cooperate with the inspections and investigations of the supervisory authorities, establish channels of communication with authorities, and accept the supervision and guidance from them. (As shown in Figure3)

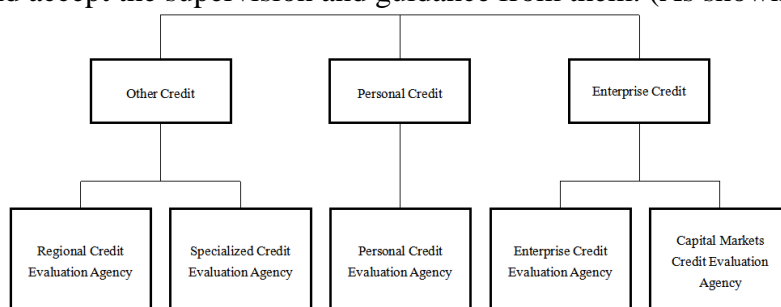


Figure 3: Establishment of a Comprehensive Credit System^[7]

4.2 Data Security and Privacy Protection

The protection of users' personal information should be reinforced, with the establishment of mechanisms on safe and reliable data storage and transmission, adopting encryption technology and access rights management measures, to effectively prevent the leakage and abuse of personal information. At the same time, relevant laws and regulations must be complied with, and users must

be clearly informed of the purpose and scope of use of their personal information, with their express consent obtained. Moreover, Internet platforms should intensify security measures for the collection, storage and transmission of user information to make sure that user information will not be leaked or abused. The security of user information can be improved by means of encryption technology, authentication, etc.^[8]

4.3 Improvement of Management Mechanisms

On the one hand, the establishment of a complete customer service system ensures that users can get assistance and solve problems promptly, and sets up a specialized customer complaint channel to collect, investigate and deal with user complaints without delay, so as to protect the rights and interests of users and maintain the reputation of the platform. Besides, Internet platforms should strictly adhere to relevant laws and regulations, for example, to collect and use personal information in a lawful and compliant manner, to be strictly prohibited from exceeding the loan interest rate ceiling, etc. At the same time, a sound internal compliance management system must be developed, conducting regular compliance risk evaluation and training, to ensure that business operations are performed in accordance with laws and regulations.

4.4 Enhancement of Technical Security and Risk Prevention and Control

In the prevention of personal financial consumption risks on the Internet platform, the first step is to bolster the technical security of the platform to prevent network attacks, information leakage and other risks. A perfect network security system should be built, including security vulnerability scanning and repair, data backup and recovery, disaster preparation and disaster recovery and other measures to guarantee the stability and security of system operation.

4.5 Risk Diversification

Internet platforms can reduce losses from individual default risks by setting up risk reserves and introducing third-party guarantee organizations. It is also possible to reduce overall risk by dispersing and sharing risk through cooperation with other financial institutions.

5. Risk Prevention Strategies for Personal Consumption Finance on Common Internet Platforms

5.1 Internet Lending Platforms

When the Internet lending platform carries out the personal consumer finance risk prevention strategy, the first thing to do is to implement a strict risk control audit, through the establishment of a perfect pre-lending audit mechanism, to evaluate the credit and repayment ability of the borrowers, to assure that the risk of the loan is controllable. The second is to provide investors with education and risk alerts, to educate and guide them to understand and identify risks, and to give adequate risk alerts and warnings during the investment process. Finally, strengthen cooperation with fund depository institutions. Compliant Internet lending platforms will cooperate with third-party fund depository institutions to confirm fund flow transparent and safe, and guarantee protection in the supervision of funds.

5.2 Consumer Instalment Platform on Internet

For Internet consumer installment platforms, in order to effectively prevent financial risks, it is crucial to conduct user credit evaluation, mainly adopting big data and artificial intelligence technology to evaluate consumer credit and establish credit files to reduce the risk of overdue and

bad debts. Meanwhile, it is also advisory to establish stable cooperative relationships with collaborative merchants and conduct stringent background audits and qualification assessments of merchants to ensure the credibility of collaborative merchants and the rights and interests of consumers. Additionally, elastic repayment rules can be formulated to provide users with flexible repayment methods and terms, so that consumers can choose the appropriate repayment method depending on their own situations to reduce the risk of overdue payment.

5.3 Internet Payment Platforms

Internet payment platforms are tools used by many people today, making it more essential to implement financial risk prevention. In the prevention process, the first is to provide a secure payment environment, using encryption technology, firewalls and other security measures to protect the user's payment information from being leaked and tampered with. The second is to adopt real-name authentication and risk monitoring to authenticate users, establish a user trust system, and detect abnormal transactions and risky behaviors in time through monitoring behavior data of users in real time. The third is to set up an anti-fraud system to identify and intercept potentially false transactions to ensure the security of user funds through various methods as big data analysis and model validation etc.

6. Conclusion

In conclusion, in the process of preventing personal consumption finance risks on Internet platforms, Internet platforms should focus on the establishment of a sound risk management system, including a reasonable risk evaluation model, a perfect internal control mechanism, and an effective monitoring and early warning system, in order to improve the risk prevention and response capabilities and to guarantee the rights and interests of platforms and users. It should also be noted that different types of Internet platforms for personal consumption finance will have different characteristics and risks, so their specific risk prevention strategies will also vary. The above are only general preventive strategies, and specific measures should be taken based on the business models and risks.

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