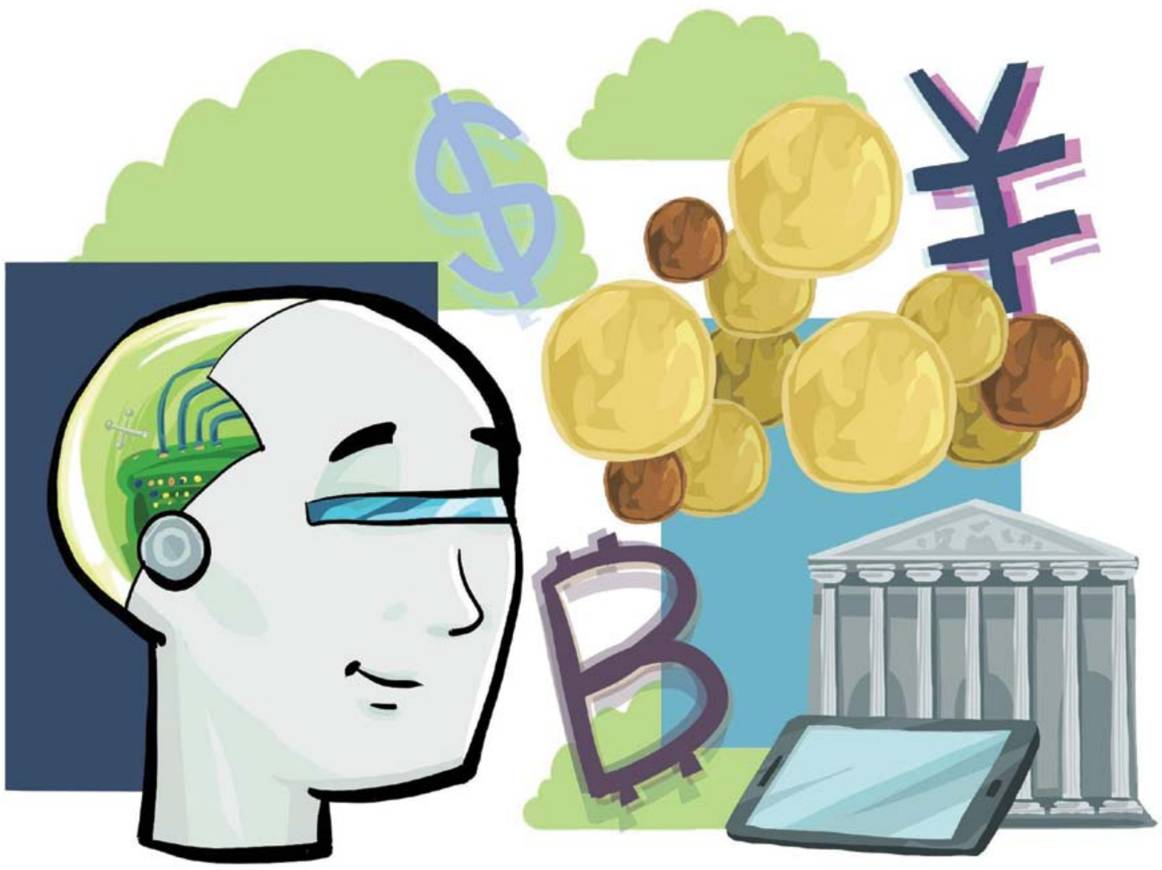
INSIDE

• GDP data get more accurate > p14

• Military drills to reignite Peninsula tensions > p15



ZHANG CHENGLIANG / CHINA DAILY

Fintech makes flexibility essential

To gain the full advantages of technology in this brave new world of finance, the industry and regulators must work together

By YANG ZAIPING

Finance has a huge impact on the development of the real economy. It can serve society, constantly improve people's livelihoods, activate microeconomics and stabilize macroeconomics.

The history of the development of the finance sector has involved continuous innovation. Financial innovation is highly related to technological development. From the historical perspective, the finance industry has always firstly adopted the latest achievements in information technology, and it is always an industry with high-tech content.

Every innovation development in the finance sector is related to technological development. If we look at methods of payment — from establishments providing bodyguards to escort transactions for a fee, to bank notes, to checks, to bank cards, to ATMs, to point-of-sale machines, to Internet finance, to mobile payments and WeChat payments — every step has been closely driven by technology, especially the development of information technology.

Fintech, Internet finance, big data, cloud computing, blockchain and artificial intelligence — technologies that have been widely discussed — could be technologies that affect financial development. In 2016, there were 504 investments in the global fintech area, and total financing revenue in 2015 was $19.1 billion. In 2016 that reached $113.5 billion. In 2016, the financing revenue of Chinese fintech companies accounted for more than 50 percent of that of the global fintech companies, and for the first time surpassed that of the United States.

Whether fintech will replace traditional finance is an issue that has drawn wide attention from the global financial sector. Microsoft founder Bill Gates once said that in the 21st century the traditional commercial banks would become a group of extinct dinosaurs. I think traditional financial institutions that reject fintech will become history, while the new finance bodies that adopt fintech will become the new players.

The essence of finance is the cross-space trading of values. In the best cases, finance can help cross-space resources to be allocated in the most efficient way. But in real life, cross-space resource allocation is not done in the most efficient way, and barriers mainly lie in factors such as space restrictions, incomplete information, information asymmetry, high risks and high cost. The advantage of fintech is in breaking the barrier of time and space, enabling information to be better shared, reducing costs and recognizing risks.

So new finance should make best use of fintech and bring about a comprehensive transformation of traditional finance.

However, some people think that if they register with some websites or build online platforms they will be able to work in the financial business, which is a fantasy. If they think new finance does not have to follow the rules of the financial sector and can grow barbarously, that may not be finance. As for activities that are using the Internet for illegal fundraising or fraud, they are definitely illegal and should be banned.

In the best finance, where risks are regulated, the cross-space trading will boost the effective allocation of resources and make maximum profit. It will require the best financial solutions, financial tools, financial products, financial markets and financial organizations to help realize that goal.

So, workers in the financial sector should understand the essence of best finance, follow the rules of the industry and then have freedom in this business.

However, new finance that is integrated with fintech faces a dilemma of regulation. On the one hand, workers in new finance would like the risk regulators to grant them credit and adopt them as an official part of the financial sector, but they are not used to the many rules and restrictions and tend toward barbarous growth. On the other hand, the risk regulators might either ignore the risks inside new finance or strictly stick to the current rules without making adjustments.

So at the beginning, there has been a lack of regulation, and barbarous growth, in new finance. This has caused many financial fraud issues, such as in the online peer-to-peer lending sector. Since 2016, regulations have been tightened, but too-strict regulation could also restrict the long-term development of fintech and new finance.

So both sides should work together to push forward the boosting of new finance. Risk regulation is needed to protect consumers' rights and to fight against financial fraud. Workers in new finance should follow the rules of the financial industry and accept regulations, rather than trying to avoid them.

Meanwhile, financial risk regulation should be more professional, scientific and effective, otherwise it cannot help fintech to be used to best advantage in the financial sector or maximize the potential of this industry.

Risk regulators should put fintech under regulation. They cannot ignore it, or only see parts of it. They should also research the characteristics of fintech, learn about its rules and then make new regulating solutions based on its features and development rules. The regulators should recognize and encourage mature technologies to be applied in the financial sector, such as blockchain. They should also tolerate unsystematic risks in the early stages, and encourage industry associations to practice self-discipline and self-regulation.

All in all, new finance will require the regulators to adopt and tolerate new technologies such as fintech, which is an important trend. Both workers in the financial industry and risk regulators should be aware of that and work together to boost the development of new finance.

The author is the secretary-general of the Asia Financial Cooperation Association, and former deputy president of the China Banking Association. The views do not necessarily reflect those of China Daily.