Research on the Risk Control of the Finance Industry Among Teenagers

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ABSTRACT: Teenager consumer finance has launched a variety of service modes: JD Xiaoyuan Baitiao, Ant Check Later, Mingxiaodai network lending platform and so on, thus promoting the development of teenager consumer finance. This paper elaborates the definition of teenager consumer finance, analyzes the reasons for its rise and development stages, and points out four main service modes of teenager consumer finance. Through the collection and comparison of the literatures, it is found that the teenager consumer finance industry faces four risks and the corresponding countermeasures are proposed. Finally, by taking Fenqile as a specific case, the paper analyzes the latest measures taken by the industry to respond the risk control and reaches the expected research purpose.

Keywords: teenager; consumer finance; risk; control

1 RESEARCH BACKGROUND

In recent years, with the improvement of material life, the continuous growth of disposable income of teenagers and the gradual enhancement of consumer finance awareness, as well as the impact of a serious of beneficial factors, the teenager consumer finance market has gradually expanded. In September 2004, GFB issued the first credit card among teenagers, which has attracted the attention of other commercial banks. Subsequently, various major commercial banks also quickly entered the teenager credit card market. The rapid expansion of the market made the problems concealed under the credit cards gradually emerged, leading to a large number of motionless bank cards, doubtful debts and bad debts, sharply rising risks and costs of commercial banks, as well as dissatisfaction of many parents of teenagers, and successive complaints to the commercial banks against credit card business. Subsequently, CITIC Bank and GFB successively suspended credit card business, and the consumer finance market gathered by teenagers represented by the campus entered a short period of dormancy[1].

The rapid development of Internet consumer finance bred various forms of consumer finance service modes, such as teenager installment shopping platform represented by Qufenqi, Fenqile, as well as small-scale e-commerce lending represented by JD Xiaoyuan Baitiao, Alibaba Ant Check Later. They have achieved good results in the consumer finance field. However, with the accelerated expansion of the business, their risks were also gradually exposed, such as increase in the financial risk - corporate bad debt costs; technical risk - information leakage; legal risk - violence in the means of collection. These problems not only bring a lot of obsession and trouble to teenagers, but also bring many problems to the development of teenager consumer finance industry. If these problems continue to spread, they will affect the property safety of teenagers and enterprises, and even seriously generate a large number of illegal and criminal activities, affecting the stability and harmony of the society. Therefore, it is of great practical significance to research the risk management of the existing teenager consumer finance industry[2].

2 DOMESTIC AND FOREIGN RESEARCH STATUS

A lot of researches on the credit card risks of commercial banks, Internet finance and P2P risks have been carried out in foreign countries. Jean-Charles Rochet established a credit card pricing model through
an in-depth research, and researched the use of credit cards through the model. They assumed that regulators only cared about consumer surplus related to the credit card business and achieved the goal of maximizing consumer surplus. Nadia Massoud carried out an in-depth research on the impact of late fees on the risks of credit card business through empirical data. Through quantitative analysis, it was found that the late fees would increase the credit risks of the bank and customers. Duan introduced Internet finance by taking “Yu’E Bao” as an example. The paper first elaborates the connotation, theoretical basis and risk of Internet finance, and then expounds the interaction between Internet finance and traditional banking industry, and systematically organizes the current Internet finance literatures from a variety of perspectives, such as legal regulation. Guo, Yanhong et al. believed that P2P exacerbated the degree of financial disintermediation and became a new type of financing method and pointed out that the most crucial part of P2P was to rationally circumvent credit risks and formulate an investment portfolio model through the data of P2P lending market, thus effectively improving the investment performance. Li, H., et al. believed that, for this new type of P2P financing mode, in order to minimize the risks, a credit rating method can be used to seek for a qualified personnel with credit qualification. Zhang, Y. et al. constructed a credit rating model by using the data exposed by PPDAI, and found that loan information, social media information and credit information were the most important factors in predicting default through the experiment.

A lot of researches on the risks of teenager credit cards, Internet finance risk management, campus consumer finance instruments and Internet consumer finance have been carried out in domestic countries. Zhang Xin analyzed the credit risk, operation risk, fraud risk and legal risk of teenager credit cards through the elaboration of the creation, development and current status of credit cards and combination with the market environment, and put forward the principles and strategies of teenager credit card risk control. Gou Dong conducted a sample survey on the current status of the use of teenager credit cards in Shanghai and analyzed the risks in the teenager credit card market by using qualitative and quantitative research methods, and pointed out that the active measures should be taken to control teenager credit card risks from three aspects: issuing bank, school and society, thus effectively controlling risks. Yang Xiaowei, Wei Jiafu analyzed the risks faced by the current Internet finance industry from four different perspectives, and put forward to respond from six aspects, such as establishing regulatory platforms, updating regulatory approaches and means, self-regulation in industries, and strengthening international cooperation and so on. Zhang Xiao learned the level of contemporary teenagers’ awareness and use of Internet consumer finance by taking teenagers in colleges and universities in Anhui Province as respondents in the form of questionnaires, and conducted a contrastive analysis of the current Internet consumer finance tools, and put forward targeted product improvement suggestions. On the one hand, Yin Yijun pointed out the development prospect and current situation of China’s Internet consumer finance; on the other hand, he analyzed the problems in the development of China’s Internet consumer finance and put forward relevant countermeasures and suggestions. Shao Tengwei elaborated the concept of domestic and foreign Internet consumer finance, and classified Internet consumer finance, and pointed out that, under the new economic normal, Internet consumer finance needs to be continuously guided to exert greater advantages and promote the macroeconomic transformation development.

3 TEENAGER CONSUMER FINANCE INDUSTRY

3.1 Generation of teenager consumer finance industry

3.1.1 Definition of teenager consumer finance

Teenager consumer finance services refer to consumer finance services provided by service providers to teenagers over the age of 18. The current consumer finance service providers mainly provide two types of services: consumption in installment, micro-credit.

3.1.2 Reasons for rise of teenager consumer finance

Reasons for rise of teenager consumer finance: 1. a huge consumer group; 2. advancing consumption concept and stronger consuming intention; 3. a high-quality pursuit; 4. continuous growth of disposable income; 5. technology support.

3.1.3 Development stages of teenager consumer finance

Offline leading period. For the emerging teenager consumer finance market, commercial banks have taken the lead in seizing. However, commercial banks have successively suspended teenager credit card business for some reasons. However, some banks also handled the teenager credit card business, but the relevant procedures became more complicated and the credit limit became lower.

Online leading period. Since 2013, many forms of consumer finance services have emerged, such as the first teenager installment shopping platform—Fenqile emerged in August 2013; credit loan service platform launched by NONO Bank in 2013 for China’s teenagers at school—Mingxiaodai; Xiaoyuan Baitiao launched by integrated e-commerce JD in 2014 and so on. Under the above different service modes, there are more and more teenager consumer finance instruments.
on the market, especially the teenager installment shopping platforms.

3.2 Main modes of teenager consumer finance industry

3.2.1 Teenagers installment shopping platform
The main service objects of teenager installment shopping platform are teenagers at school, and more services are provided in the consumer finance, which are more personalized, and they are more targeted compared to other service modes. The first teenager installment shopping platform – Fenqile emerged in August 2013, followed by a batch of teenager installment shopping platforms, such as: Qufenqi, Aixuedai, Youfenqi and so on.

3.2.2 Small-scale e-commerce lending
With the rapid development of supporting industries, such as logistics, computer technology and third-party payment, the e-commerce is getting better and better, and entering a period of rapid development. Although the overall strength of various types of integrated e-commerce platforms continues to develop, for the moment, the e-commerce circle is still dominated by Alibaba and JD.

3.2.3 Teenager credit card
At present, the regulations on handling teenager credit cards are more stringent and the credit limit is lower. The withdrawal limit of teenager credit card in all commercial banks is half of the credit limit, and the longest interest-free period is about 50 days; the difference in application conditions is greater, and some applications are restricted; whether there is a support on installment and the installment mode also vary by major commercial banks.

3.2.4 Teenager network lending platform
Currently, Mingxiaodai is an enterprise with a larger strength in the teenager P2P network lending platform, and a higher reputation. Mingxiaodai was established in 2013, a pure online platform facing teenagers at school, providing simpler business, namely, loan services. It provides different credit limits for customers with different credit qualifications. The overall range of limit is set at RMB 1,000-10,000. The term structure is 12 months, 24 months and 36 months respectively, with a monthly interest rate of 1.2% -1.99%.

3.3 Risks faced by the teenager consumer finance industry

3.3.1 Legal risk
(1) Unclear dominant status of law
Teenager consumer finance began in 2004, but its real rapid development was in 2013. It is an emerging industry that has been gradually developing and expanding in recent years. The relevant laws and regulations have not yet been promptly constructed and updated.

(2) Lack of supervision
Relevant laws and regulations have not been promulgated, and the supervision subjects, supervision methods and other rules are unclear, resulting in the lack of supervision in the current consumer finance industry.

(3) Money laundering crime risk
Teenager consumer finance service providers not only involve in the money laundering crime risk, but also involve in illegal fund-raising risk to a certain extent. In terms of nature, all P2P network lending platforms constitute illegal fund-raising activities. However, considering the reasonable social needs, under the premise of legitimacy, through appropriate external regulation and internal regulation, P2P network lending platform is allowed to develop freely within a certain range. Therefore, the teenager consumer finance service providers with P2P lending platforms may be caught in illegal fund-raising risk in case of any carelessness.

3.3.2 Credit risk
(1) Default risk
Default risk, a more common credit risk, refers to the risk of infidelity and breach of contract by both parties. On the one hand, the customer information mastered by the teenager consumer finance service providers is limited and there is a phenomenon of “information isolated island” among service providers; on the other hand, compared with traditional financial institutions, in gathering places of teenagers - the risk control model of campus consumer finance services needs to be improved. Therefore, in response to such a risk, the teenager consumer finance industry is far less proficient than the traditional financial industry, and the transaction data for most consumer finance service providers are not included in the credit system of the People’s Bank of China, leading to obvious reduction in the rigid constraints on teenager repayment, reduction in default costs, and increase in the default risk.

(2) Fraud risk
According to different sources, fraud risk can be divided into two aspects, one is the internal reason and the other is the external reason. Internal fraud is mainly manifested in the use of company’s resources by the internal staff to obtain private interests, such as misappropriation of public funds, unauthorized order receiving; external fraud is manifested in infringement on the legitimate interests of enterprises by external personnel through various means or ways, such as financial instruments cash, fraudulent use of other’s information for installment consumption or cash withdrawal and so on.
3.3.3 Technical risk

(1) Network operation risk
Network outage caused by external attacks of Internet or internal operation errors will bring losses and trouble to customers and consumer finance service providers. In May 2015, Qufenqi product had a major system bug, resulting that 31,000 users received wrong coupons. Such failure led to consumption of 5.3 million in an hour on Qufenqi platform.

(2) Data information security risk
In order to understand the credit qualifications of the teenager consumer finance demander, consumer finance service providers need to master a large number of personal information, such as ID number, bank card number, cell phone number, education background, home address information and so on, which is a huge personal information database. In the event of information leakage, it will bring a lot of trouble and property losses to teenagers.

(3) Operation risk
Operation risk includes the risk of operator’s operation error and the risk of consumer’s operation error.

3.3.4 Other risks

(1) Liquidity risk
Cash flow is just like the blood of enterprise, and needs to move in circles, even for those teenager installment shopping platforms that have been just established and lack of abundant capitals. Their main business consists of two aspects: cash withdrawal services for teenagers, and installment shopping. Both involve in cash outflow. If the source of funds is not expanded, capital turnover will not work, and even the capital chain will be broken.

(2) Reputational risk
Due to the lack of access mechanism and legal supervision of the teenager consumer finance industry, the entire industry is mixed up. On the one hand, some consumer finance service providers conduct many inappropriate behaviors, such as exaggerating propaganda, sales misguidance and insufficiency in information disclosure and so on; on the other hand, the development of the entire industry is not standardized and lack of government’s effective guidance and reasonable supervision. After a long term, it will inevitably have a significant negative impact on the teenager consumer finance industry, and will affect the industry reputation risk.

3.4 Countermeasures to enhance the risk control ability of teenager consumer finance

3.4.1 To improve regulation mechanism
Increase legislative efforts and improve laws and regulations; improve the regulatory system; improve access, operation and exit mechanism.

3.4.2 To accelerate the construction of teenager credit system
Cooperate with e-commerce to share transaction data. E-commerce platform can collect and observe the customer’s personal information from multiple dimensions through the deposit of a large number of data. For example, it can roughly judge the customer’s ability to pay through the number of customer’s online shopping, unit price and payment methods; it can roughly judge the customer’s buying preference through the customer’s browsing history, frequency and collection records; it can roughly judge the customer’s personal nature through the customer’s timeliness of receipt confirmation, evaluation content and other information. All of them can be a way to gain customer information.

Establish industry associations. Teenager consumer finance industry faces numerous risks, one of which is multi-head loans. Because information sharing is not realized among consumer finance industries, even if some customers with a poor credit qualification are pulled in the “black list” by the platform, they can still obtain financial services on other platforms, which undoubtedly exacerbates the latter’s credit risk.

3.4.3 Risk control and transfer
Risk control and transfer can be accomplished from the following four aspects: to improve the internal control mechanism of the enterprise’s own risks; to cooperate with financial institutions, such as insurance companies and asset management companies; to digest claims in various ways; risk allowance system.

4 RISK CONTROL OF TEENAGER CONSUMER FINANCE INDUSTRY BY TAKING FENQILE AS AN EXAMPLE

4.1 Introduction to Fenqile product
Fenqile is simple and convenient to register, which can be registered by phone number or email. After completion of register, you can log in your account to purchase goods and services on the official website of Fenqile. There are two main types of services provided by Fenqile: installment consumption and micro-credit. Two products are respectively Lehua and Quxian.

In terms of installment consumption, down payment ratio is divided into seven levels, the minimum down payment ratio is zero, and the maximum ratio is 50%; the longest period of commodity installment is 24 months. In terms of micro-credit, cash withdrawal conditions are relatively loose. Teenagers over the age of 18 with junior college degree or above can apply for the corresponding limit. The use of Lehua must meet two conditions: the credit age of Fenqile is 3 months or more; among fresh graduates; previous graduates; graduates/PhD level, the identity meets any
one. In case of meeting the above two conditions, Lehua can be applied for handling. The maximum limit of Quxian and Lehua is respectively RMB 20,000 and 30,000.

4.2 Risk faced by Fenqile

4.2.1 Credit risk
Credit risk refers to the risk of infidelity and breach of contract by both parties. Its fundamental reason is information asymmetry. All financial institutions face credit risk, and Fenqile is naturally no exception. The generation of credit risk can be elaborated from two aspects. In terms of debtor, it is mainly based on two directions, repayment willingness and repayment ability. In general, compared to social groups, teenagers have a better credit consciousness and stronger repayment willingness. However, due to the lack of rigid constraints (not the credit system of the People’s Bank of China) and a low cost of dishonesty, the repayment willingness of some teenagers weakens. On the other hand, the sources and amount of teenagers’ income are relatively fixed. In the case of other major accidental expenses, it is more likely to weaken the current repayment ability or even default. In terms of creditors, if some staff arbitrarily forge credit qualifications of teenagers through collusion with external personnel for their private interests, and provide financial services to teenagers without credit qualifications, it will inevitably lead to credit risk.

4.2.2 Liquidity risk
In 2015, the annual sales amount of Fenqile was RMB 10 billion. In other words, RMB 10 billion of creditor’s rights was generated. On the other hand, Fenqile needed to digest RMB 10 billion of creditor’s rights within a reasonable period. Even if 5 percentage points, namely, RMB 500 million are retained, a vast sum of money would be occupied by Fenqile, which is not conducive to the company’s normal cash flow. Coupled with part of bad debts, the amount of occupied funds would be greater, and the liquidity risk would be greater. For this situation, Fenqile is inevitably asked to seek for external forces. On the one hand, there is a need to quickly digest claims; on the other hand, a large number of funds can be adjusted in a short term, in order to meet the needs of the rapid operation of the company.

4.2.3 Technical risk
In China e-commerce research center, there are complaint cases. A consumer, Wang borrowed RMB 1,000 in Fenqile credit wallet in August, repeatedly repaid twice due to system failure in September 16, and then contacted customer service to register, and the deducted money was not returned later, but there was no result after repeatedly contacting customer service.

4.2.4 Reputation risk
Compared to the traditional financial industry, Internet-based teenager consumer finance industry pays more attention to corporate reputation. Without a good reputation, it is difficult to keep a foothold on the Internet; once reputation is damaged, it means that enterprises will face different degrees of risk losses, such as consumption of a large number of capitals and costs for enterprises, and even business failure. China e-commerce research center shows that, there are repeated complaints to Fenqile against repeated collection, false information, slow delivery and poor service attitude. These problems are fully reflected in the customer complaints. It shows that the after-sales service and reputation of Fenqile need to be improved.

4.3 Risk control measures of Fenqile

4.3.1 Take interactive risk control method and strengthen risk control ability
Interactive risk control of Fenqile, in short, that is, efficient organic combination with online risk control and offline risk control. In terms of online risk control, on the one hand, Fenqile has set up a professional anti-fraud team and a risk control team; on the other hand, based on a large number of user information accumulated, an advanced big data model has been developed, a standardized risk control indicator has been established, and a risk control model has been independently researched and developed. In terms of offline risk control, it is manifested in the offline interview and resolutely avoiding participation by the local recommending personnel, brushing for performance and occurrence of moral risk.

4.3.2 Smart risk control system - Hawkeye engine
Smart risk control system - “Hawkeye” engine independently researched and developed by Fenqile has accumulated data for more than 50 million orders, with about 200,000 daily processing orders, of which less than 5% of orders need to be supplemented by manual review. It greatly increases the risk control efficiency and reduces the manual review costs. Through rapid iteration of technology, this engine effectively resists most of the organized fraud behavior and always controls the comprehensive bad debt ratio below 1%, which makes a great contribution to the risk control of Fenqile.

4.3.3 Quickly digest claims through the connection of the claims and capitals
Fenqile formally issued assets backed securities in January 2016 and successfully completed delivery in Shanghai Stock Exchange in March, first issued RMB 200 million, with the issuing rate of 5.05%. The basic assets are small claims of users generated by installment consumption or cash withdrawal in Fenqile. The claims can be effectively transformed into cash.
through issuing assets backed securities, in order to minimize liquidity risk. On the other hand, the issuance of ABS is conducive to increasing the transparency of corporate information and enhancing the trust of investors and consumers in Fenqile.

4.3.4 Business diversification
Fenqile was positioned on the teenager installment shopping platform, and realized horizontal and vertical expansion by virtue of teenagers. In terms of horizontal expansion, based on maintaining the rapid development of the original high-cost low-frequency consumption scenario, a large number of low-cost high-frequency consumption scenarios are constantly introduced, such as micro-credit, recharge campus card, charge telephone fees, and scan code to pay in supermarket; in terms of vertical expansion, financial services are constantly provided for these old users by virtue of teenagers walking out of the campus. The monthly activity rate of the first batch of graduates is still up to 20% -30%, indicating that the loyalty of old users is still at a higher level, reflecting the success of business diversification from other sides.

4.3.5 Join industry associations
In December 2015, Fenqile formally joined “Anti-information Fraud Union of World without Thieves”. On the one hand, it can enhance the reputation of the industry, which is conducive to carrying out small and micro consumer finance credit services better; on the other hand, it can obtain data information, such as LianSheng “Safe Cloud Database” and “Malicious Fraud Bank Account Database”, and help Fenqile protect users’ personal information security, prevent and alert fraud risk.

5 CONCLUSION
Through collection and comparison with a large number of literatures and network data, this paper finds that there are mainly five aspects of risks faced by the teenager consumer finance industry: legal risk; credit risk; technical risk; others. Through the research of risk management inside and outside the industry, combined with the risk characteristics of teenager consumer finance, this paper comprehensively proposes countermeasures for the risk control that are suitable for China’s teenager consumer finance industry: to speed up the improvement of supervisory mechanism of teenager consumer finance; to make an effort to speed up and improve the construction of teenager credit system; to strengthen the intensity of risk control and minimize various risks in the process of teenager consumer finance business.

However, there are still some shortcomings in this paper: 1. due to a short period of development of China’s teenager consumer finance industry, industry operational data that can be queried are very limited, and there are fewer research literatures related to the risk management of teenager consumer finance in academia. Therefore, this paper may be lack of awareness of the risks of teenager consumer finance instruments, which indirectly affects the effectiveness of risk control measures of the consumer finance; 2. To obtain a good effect, the suggestions mentioned in this paper should be supported by external forces, in order to promote the standard development and progress of teenager consumer finance industry, such as policy regulation; 3. This paper conducts more qualitative analysis, but lack of quantitative analysis.

REFERENCES