

## **Encourage Innovative Growth and Exercise Category-based Regulation**

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Distinguished Guests,  
Ladies and Gentlemen,

Good morning! It is a pleasure to attend the Forum. I would like to express congratulation on behalf of the People's Bank of China.

Since payment and clearing has been added to my portfolio only recently, it is not really fitting for me to make speeches on this topic. I think I need to listen and think, rather than speak. I have spent quite some time listening to professionals in the industry. Impressed with the diversity of views, I feel that this is a very dynamic industry and people in this industry are smart and innovative. This industry represents the future of the financial sector development in China, although certain businesses in the industry are a bit chaotic and may contain potential risks that should be watched.

In recent years, innovation and progress in science and technology, the application of internet information technology, the internet-based financial products and the supply of services have been the catalysts of massive market demand; new financial businesses including internet-based payments, P2P, crowd financing and internet sales of financial products have been growing exponentially. In the first three quarters of 2014, the 269 third-party payment institutions processed 24.1 trillion yuan of payment transactions, the 1400 P2P platforms raised more than 110 billion yuan for their clients; more than 20 crowd-funding platforms were active nationwide. The internet based financial activities have played an active role in raising efficiency of financial services, reducing cost of transactions, meeting diversified demand for investment and financing, and increasing the inclusion of micro-finance and rural finance.

The Chinese Government attaches great importance to the sound development of internet finance. This year, Premier Li Keqiang, in his Report on the Work of the Government, talked about promoting the sound development of internet finance. A few days ago, when attending the First World Internet Conference, the Premier had discussion with participants of the Conference and stressed that the Chinese Government attaches great importance to and supports the development of internet, embraces the internet, and cultivates the internet from a market-oriented perspective. The internet finance has a bright future in China, and the financial regulatory authorities have been following a basic principle of encouraging innovation and development, and providing a good policy environment for the internet finance business.

The financial industry has risks unlike other industries. The risks are hidden, and tend to break out all of a sudden. When they do break out, they are highly contagious, can quickly spread to other market participants and even other parts of the financial markets and trigger financial risks. The risks in financial institutions are not like the risks in non-financial companies. Therefore, compared with other industries, the international practice is to put the financial sector under strict regulation.

Vice Premier Ma Kai, in his address at the First World Internet Conference, compared the internet to a double-edged sword, which, used properly, would become Ali Baba's treasure store, and if not used properly, would turn out to be a Pandora box. In the same vein, used properly, internet finance can provide financial support to real sector development. However, the risk nature of financial activities is not changed. Rather, technical, information and security risks that are associated with internet are also very salient. Most of the companies in the internet finance business are not well versed in risk management. Moreover, having worked in the internet companies, many of their staff members are with strong technological background, and very innovative. Raising risk awareness, compliance awareness, and consumer protection awareness is thus important for the sound development of the payment and clearing and the internet finance industries.

In recent years, the rapid development of payment market and internet finance business can be attributed to the open and tolerant attitude of the financial regulatory authorities. The financial regulatory authorities also need time to observe this evolving process. It has become the consensus of the various parties that to ensure sound and sustainable development of the internet finance, we need to encourage innovation and development and exercise sound regulation. With moderate regulation, there will be a sound, orderly and well functioning market to prevent the occurrence of bad money driving out the good. This is also the consensus of the people in the industry.

At the moment, the PBC is leading the drafting of guidelines on promoting sound development of internet finance. We will follow the principles of moderate regulation, category-based, coordinated, and innovative supervision to establish and improve the regulatory framework.

First of all, in the design of regulatory rules and framework, we will adopt an open and inclusive philosophy. We will observe the new financial business models in an objective manner and provide sufficient room for the development of the industry in a forward-looking manner based on clearly defined bottom lines. On the basis of thorough study of the business models of the major internet finance businesses, we will properly grasp the legal relationship and the nature of risks and provide for different degrees of regulation for different categories of businesses. The self-adjustment and improvement of regulations will be stressed. As the industry develops, the experience will be summarized to assess, adjust and improve the

regulatory policies.

Secondly, the fairness of regulatory rules will be followed to step up regulatory coordination and prevent regulatory arbitrage. In the supervision of institutions engaging in the same business, whether financial institutions or internet companies, the policy orientation, business rules and standards should be consistent. It is not advisable to have different supervisory standards for different market participants because that will give rise to regulatory arbitrage. When financial institutions move offline businesses online, they should be subject to supervision based on the existing financial regulatory rules in the current regulatory framework and coordinated supervision will be enhanced to form a synergy.

Third, market participants should properly understand the relationship between supervision and industry self-regulation. The level of industry self-regulation has a strong inverse relationship with the supervisory intensity and in essence this reflects the choice of tradeoff between efficiency and risks at the regulatory level. Once the accumulated excessive risks come to the surface, the regulatory authorities will be forced to reduce tolerance and resort to rigid supervision by adopting strict rules and measures that might inhibit the development of the industry. Looking at the lessons of the global financial crisis, the market-driven innovation and deregulation since the 1980s in a way contributed to the somewhat chaotic development on the financial market. When responding to the global financial crisis, regulatory authorities throughout the world have returned to the practice of strict supervision over the financial market and innovations. When we examine the evolution of international financial regulation in the past several decades, we can discover such a path of changes.

Therefore, market participants need to have an in-depth understanding the balance between efficiency and risks and the interaction between market-driven behaviors and policy environments. While focusing on innovation and efficiency, market participants should also enhance the awareness of self-discipline, take initiatives to maintain market order, and promote industry self-regulation to ensure the sound development of the industry. The roles of the China Association of Payment and Clearing and the Internet Finance Association which is being established will be tapped to promote the industry self-regulation of the payment and clearing and the internet finance industries so that self-regulation contributes to the governance of the industry and there will be a balance and synergy between regulatory oversight and industry self-regulation.

Fourth, there should be good communications between the regulatory authorities and institutions of the industry. The financial regulatory authorities will enhance studies on the development of internet finance at the macro and strategic levels and encourage market-oriented merger and acquisition to enhance the core competitiveness of the industry. In the process of policy making, the financial

regulatory authorities will actively communicate with the institutions in the industry, to make the rule-making process more scientific, democratic and operational. We encourage institutions in the industry to provide feedback through the normally available channels to the regulatory authorities about their comments on regulatory policy and measures. Establishing a good mechanism for the interaction and communication between the regulatory authorities on the one hand, and the industry and public on the other, will help forge consensus, find the “greatest common divisor” and ultimately improve the rules and facilitate effective implementation of the rules.

Fifth, the institutions should hold on to the bottom lines, comply with the regulatory requirements and operate prudently. The internet finance businesses are very diversified and nuanced. But there is a borderline for each of the business. Otherwise the nature of the business will be changed, or the bottom line of law and regulation will be crossed. For example, the P2P platforms must not provide guarantee, or conduct fund pooling, or engage in illegal fundraising or taking deposit from the public. We hope that the institutions in the internet finance industry will increase the compliance level and seek development under the precondition of holding on to the bottom line.

We encourage prudent operation by the institutions. The popular opinions that the internet finance, as a revolution against the tradition financial industry, will subvert the existing financial industry, are detrimental to the growth of the internet finance industry. Overconfidence and self-complacency in an industry is a sign of its immature and irrational state and in no way conducive to the sound and sustainable development of industry. The rapid development of the real economy and financial sector in China provides a large and fast growing market in which the various kinds of financial institutions can achieve win-win through collaborative efforts to promote the innovation and development in the market. This will support the development of the real sector and bring in a bright future for the financial sector. We hope that the institutions in the internet finance industry comply with regulatory requirements, run their business prudently, and present a positive image of the internet financial industry and live up to the good expectation of the society. Only in this way, the internet finance business and the companies in the industry can achieve sustainable development. You are all pioneering figures in the payment and clearing industry or in the internet finance industry. I am confident that with your strategic visions and sense of social responsibility, you will lead the industries toward sustainable and sound development.

In conclusion, I wish the Forum a complete success. Thank you !