

Research based on the Supervision Path of P2P Network Lending Platform from the Perspective of “Internet Finance”

Wenjing He

School of Modern Economics and Management, Jiangxi University of Finance and Economics, Nanchang, 330038, China

Keywords: Internet finance; P2P Network lending; Financial Supervision;

Abstract: As a new type of Internet finance model, P2P network lending has developed rapidly in China. However, due to the lack of perfect laws and regulations and financial supervision system, there are still many risks in actual operation and management. This paper studies the current status of P2P network lending and the main operating modes of P2P network lending at home and abroad, this paper also discusses the main risks in the development of P2P network lending and the proposes corresponding regulatory countermeasures to promote the healthy, stable and orderly development of the P2P network lending industry.

1. The meaning and development status of P2P network lending

1.1 The meaning of P2P network lending

P2P network lending is also known as peer-to-peer lending or personal-to-personal lending which refers to the establishment of a loan relationship between individuals through a dedicated third-party online platform, in order to achieve financing and lending. The world's first P2P online lending platform was born in the UK in 2005 and it was followed by the establishment of Prosper and Lending Club in the United States. Until 2007 when China's first P2P network lending platform - the auction of loans was established.

1.2 Development status of P2P network lending

1.2.1 The comprehensive rate of return decreased by 15 basis points from the previous month and increased by 17 basis points on yearly basis

As of March 2019, the P2P online lending industry's comprehensive rate of return was 9.79%, a decrease of 15 basis points from the previous month. The main reason for the downside is that some online lending platforms have achieved regulatory requirements by controlling the size and quantity of borrowings on the one hand and lowering lending rates at the same time in other to increase the earnings.

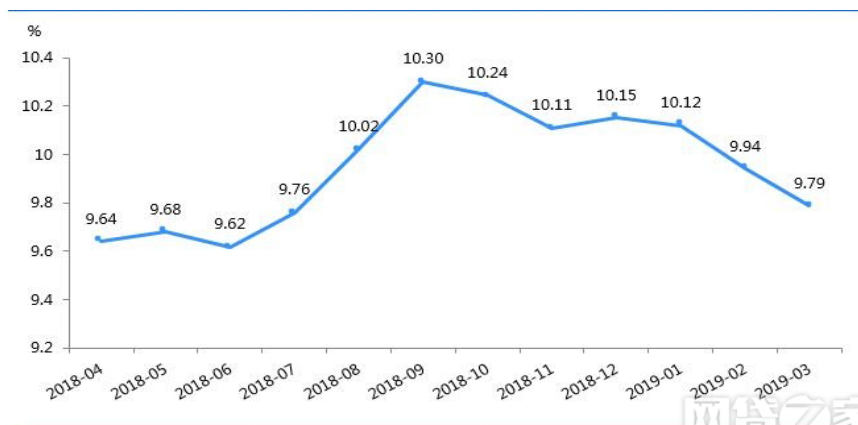


Figure 1. The trend of P2P online lending industry comprehensive rate of return

Data source: Research center of Online Loan

1.2.2 The number of online lending platforms operating normally is declining

As China's regulatory system for the P2P industry has not yet formed, there is no clear standard market access and the qualifications of various P2P network lending platforms are mixed, behind the rapid development are problems such as suspension of business, running, withdrawal, and suspected illegal fund-raising. According to statistics released by the online loan, In March 2019, the number of normal operating platforms in the top three regions of the country was Guangdong, Beijing and Shanghai reached 228, 213 and 109 respectively, accounting for more than half of the normal operating platforms in the same period, while the number of normal operating platforms in 8 regions including Inner Mongolia, Tianjin and Hainan was less than 10.

1.2.3 The transaction volume of the online loan industry increased by nearly 5% from the previous month, down by nearly 48% on yearly basis

In March 2019, the transaction volume of the P2P online lending industry was 100.3 billion Yuan, an increase by 4.3 billion Yuan from February, an increase of nearly 5% from the previous month, but a decrease of 91.237 billion Yuan compared with the same period of last year, an also a decrease of about 48% yearly because the number of transactions in March was more than February, and the investor funds were abundant after the Spring Festival and the transaction volume in March was slightly higher than that in February. Judging from the transactions of P2P online loans in 30 provinces and cities in China, the P2P online loan transactions of 21 provinces and cities increased in March, and the volume of transactions in 9 regions decreased.

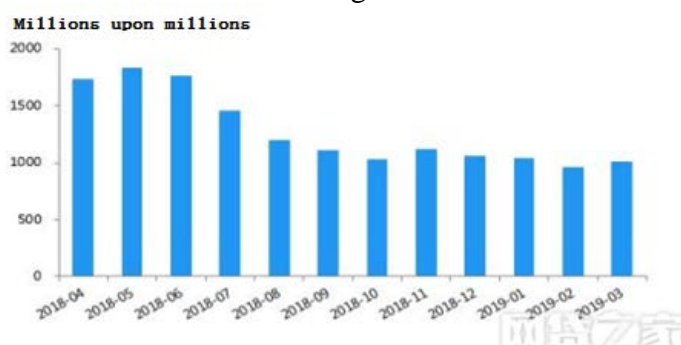


Figure 2. P2P online lending industry volume trend

Data source: Research center of Online Loan

2. The operation mode of P2P network lending at home and abroad

2.1 The operational mode of foreign P2P network lending

2.1.1 A simple intermediary represented by Prosper in the United States

Founded in 2006, Prosper is the first P2P network lending platform for the US Internet industry. So far, the registered members of the platform has exceeded 2 million, and the cumulative turnover has exceeded \$6 billion. Prosper's income comes from both the borrower and the lender. The borrower is charged a different percentage of the service fee for different credit ratings, and the investor is charged a service fee of 1% of the lending amount. The specific transaction process is similar to the auction mode which the borrower registers as a member to submit a loan application and indicates the purpose of the loan period and the highest interest rate to be paid. The auction rate is reduced by lowering the investor's interest rate and after the auction is over, the platform will invest at the lowest interest rate and the funds are given to the borrower which Prosper does not assume credit risk in the transaction, only need to verify the borrower's information and bear the obligation to recover overdue loans.

2.1.2 The Zero income type represented by Kiva

Kiva, established as a non-profit platform, Kiva nonprofit P2P network lending platform, was

established in 2005. Kiva's operating model is unique with local MFI partners working all over the world. In the form of interviews, these partners and volunteers understand the needs of the locals and the basic information of those who need to apply for a loan, and upload real photos to the Kiva website. Kiva publishes the applicant's information and specific loan application on the borrowing page of the website, and the lender can choose to browse the website for borrowing information for selective loans. Kiva loaned the fundraiser's funds to the cooperative microfinance institution at the borrower's location in a non-interest manner, and the lending institution lends the borrower to the borrower at a low interest rate.

2.1.3 The Operation mode of domestic P2P network lending platform

The mode adopted by the auction is pure online and pure platform mode because all loan transactions are done and completed online. This mode of operation has relatively low transaction costs and gives full play to the advantages of the Internet. Pai Lian has its own “magic mirror” personal rating system based on big data analysis, which can accurately assess the overdue risk of borrowers. Patpai has established cooperation with China Merchants Bank and opened a special loan fund depository account. As a third-party organization, China Merchants Bank strictly abides by the contents of the agreement, honestly and independently performs the depository work, and is responsible for the transfer of borrowing funds according to the platform instructions.

3. The main risks faced by China's P2P network lending platform:

3.1 Credit risk

China's P2P network lending platform usually uses the credit accumulation of borrowers in the station to evaluate the credit of the borrower which has no unified credit rating standard. The online lending platform cannot fully understand the borrower's financial status and repayment ability trigger's the risk of overdue or bad debts, and the operating costs will inevitably increase and expose it to high credit risk.

For the online lending platform, due to a variety of reasons such as information asymmetry and illegal operation, the platform may have problems such as running money and shutting down the business in the process of operation, which leads to whether the online lending platform is an information intermediary service center or a credit intermediary which is the social paradox of the service center.

3.2 Liquidity risk

Most investors prefer short-term and high-margin investment types, while borrowers prefer long-term and low-cost borrowing needs. Therefore, in order to attract customers and increase business volume, the online lending platform often divides long-term borrowing objects into short-term borrowing objects by means of maturity mismatch and amount mismatch, and divides large borrowing objects into small borrowing objects. However, during the operation period, once investors concentrate on recovering deposits, liquidity risks are likely to occur. For example, “Net Wins the World” and “Zhongcai Online” have experienced difficulties in withdrawing cash.

3.3 The Legal risks

Since 2016, the government has promulgated a number of online loan regulatory rules, which specify the P2P industry in terms of system positioning, fund depository, file management, and information disclosure. The chaotic situation of illegal fund-raising and business activities has been severely hit. The net loan industry has experienced a three-stateless management level of “no barriers to entry, no regulatory agencies, no industry standards”, although China has established a “1 + 3” framework for online loan supervision, it has initially formed a relatively complete online loan industry system, but there is no specific market access standards and industry norms, so the platform may touch “illegal fundraising”. “The legal bottom line and other illegal activities.

4. The regulatory path of China's P2P network lending industry

4.1 Strengthening the construction of credit information system and unifying the credit rating standards

There is a scientific and reasonable credit rating that is the primary task of the P2P network lending platform to serve both lenders and borrowers and improve the efficiency of investment and financing. The government should allow the P2P network lending platform to check the borrower's credit history through the People's Bank of China's personal credit information system, and upload the overdue payment and default information implemented by the borrower in the transaction process to the credit reference system to complete the credit record. At the same time, the P2P online lending industry should establish a unified credit rating standard and conduct a unified rating for customers, this can also reduce the cost of establishing a credit rating system for a single online lending platform and should prohibit the borrowers with bad credit from cheating on multiple platforms so to reduce the credit risk of online lending platforms.

4.2 Improve industry self-discipline and increase transparency of platform information

In the case that the Internet supervision system has not been perfected, the government should pay attention to the role of the bridge and link of the industry self-regulatory organization. On the one hand, we must improve the self-discipline of the industry, they should formulate a reasonable and effective industry development rules and service norms, appropriately improve the entry barriers and conditions for P2P network lending platforms, regulate market order, and prevent unreasonable competition in lending platforms. On the other hand, the P2P online lending platform itself should also increase the transparency of platform information, such as building a shared data platform, increasing information disclosure between borrowers and lenders, introducing third-party custody institutions, and improving the internal rating mechanism of the platform.

4.3 Improve the legal supervision system for online lending

Although China has initially established a supervision system for the online loan industry, it should further elaborate the access qualifications, business scope, business model and exit mechanism of the online lending platform, and regulate the operation and management of the online lending platform according to the law. In August 2016, the Interim Measures for the Management of Business Activities of Internet Lending Information Intermediaries issued by the China Banking Regulatory Commission further clarified the supervision of local financial regulatory authorities, but it should be clear whether the local banking regulatory bureau or the local government financial office should supervise. The supervisory agency should also establish a P2P online loan supervision index system to supervise the trading, interest rate, bad debt rate and loan use of the P2P online lending platform, timely monitor the risk status of the P2P online lending platform, and effectively prevent the online lending platform from false integration and money laundering activity.

Acknowledgement

Project of Humanities and Social Sciences Research in Jiangxi Universities in 2018: Risk Control of P2P Network Loan Platform Based on Block Chain Technology (JJ18219)

References

- [1] Tu Xiaomeng, Wang Jinrong. Research on the normative development of China's P2P network lending under strong supervision [J]. China Collective Economy, 2018 (11): 108-109.
- [2] Peng Hui, Wang Qi, Liu Jie. Theoretical Research on the Risk Reserve System of P2P Platform [J]. Southwest Finance, 2017(10): 57-63.
- [3] Xu Rongzhen, Yin Yuanxing, Wang Shuai. Thoughts on Operation Mode and Risk Control of P2P Network Lending Platform -- Based on Information Asymmetry [J]. Financial Monthly,

2017(05):33-38.

[4] Yuan Sipei. On the development status, supervision experience and enlightenment of P2P in the United States [J].China Market, 2016 (50):191-192.

[5] Lu Xin, Li Huimin. Operation mode and risk management of P2P network lending [J]. Reform, 2015 (02): 60-68.