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A Research on the Model of Network Lending Platform in China

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Abstract

In 1974, Professor Yunus¹ has built microfinance institutions to alleviate poverty in Bangladesh, soon the microcredit model has gradually expanded around the world. In recent years, with the continuous innovation and development of the Internet and Mobile Internet, a variety of online platforms are growing rapidly and widely. As the economic and the continuous progresses on network technology have developed rapidly, Internet technology has quickly melt into the financial industry, Internet network finance has raised as a combination of traditional financial and Internet.

P2P lending is one of the most important models of Internet banking, and it is getting more and more people's attention and recognition. "P2P" originated in the IT technology, referred to the Internet transmission protocol. In this Internet transmission agreement, both data download sides and data provider sides are individuals, the more number of downloads and more download points available, the download speed is also quicker. In the field of microfinance, "P2P" is a short for "peer-to-peer" lending. In the ideal Internet financial environment, The main information of transaction is transparent, P2P lending platforms can use Internet to spread information faster. In addition, P2P lending also has the features of flexibly, short-term of loaning, small amount of lending and borrowing. In a word, P2P lending has improved the utilization of idle funds. Compared with traditional bank loans, it can reduce the financing costs and facilitate personal financing.

In 2005, the world's first P2P lending platform Zopa was born in the UK, then Lending Club, Kiva and other P2P platforms establish quickly. China's first P2P online lending platform Pat Pat loan (拍拍贷 built) in Shanghai on 2007. P2P online lending platforms in different countries face different problems on development and growth. It cannot be denied that the development of P2P platforms has produced a larger society benefit, but also brought some problems. To prevent P2P lending risk, the government should clear who to regulate this industry and to build up the regulatory system. P2P lending platforms themselves should not only improve the network technology to reduce technology risk, but also clear financial responsibilities to strengthen control of the operational process.

The goal of this research are: (1) to summarize the typical P2P platforms and their operating models, and (2) to solve the financing difficulties of SMEs and giving practical suggestions to financial Innovation of P2P platforms in China.

Key words

Online P2P lending; Platform; Operating models

¹ Muhammad Yunus is a doctor of Western economics, "the father of microfinance," Nobel Peace Prize winner. Yunus concludes that a small loan is needed to free the poor from the exploitation of usurers and to develop their own production. In 1977, Yunus decided to set up his own bank, a unique "poor bank." Grameen Bank was born and this bank only provide loans to the poor.

1. The background of research

Peer-to-Peer lending (P2P) is a kind of credit platform which does not depend on banks and other financial institutions. It is a platform of credit lending through the website. Unlike the traditional borrowing platform, it is a combination of financial innovation services and Internet technology. For borrowers P2P platform offers a new channel to obtain loans, and for investors it can lend funds to provide a potential investment opportunities. P2P on-line lending is a kind of innovation that traditional loaning combines with current Internet technology. Its core is "Rural Bank of Bangladesh" which is put forward by micro credit founder and pioneer Yunus. P2P online lending platforms and micro finance are all to solve the problem that traditional large banks cannot provide financial loans and other services for the financially weak groups. Based on the rapid development of internet, P2P financial service has made an leaping innovation of Yunus's microfinance. The use of Internet platform has broadened the scope of lending, and dispersed the credit risk. P2P platform fully embodies the modern information technology and financial services integration.

With the emergence of the world's first P2P online lending platform named Zopa in UK on 2005, various P2P online lending platforms have sprung up in various countries, such as the first P2P platform set up in the United States in 2006 named Prosper, 2007 Germany's first P2P Platform named Smava and so on. China 's first P2P online lending platform Pat Pat loan (拍拍贷) in Shanghai on 2007 .P2P online lending platforms in different countries have their own features on development and growth in financial sectors. The reasons about the quick development of P2P online lending platforms can be summarized as the following two aspects:

1.1 The introduction on the development of the Internet

With the rapid popularization of the Internet and the rapid development of information technology, More and more combination and innovation based on network information technology and traditional business models, a variety of new business models have been created to promote the popularization and growth in e-commerce fields. P2P online lending platform is a result of financial innovation, the use of Internet technology to promote the financial democratization, through this innovation to break the monopoly of large banks on lending and lending business. And using the Internet to reduce trading risks. In the future, we can further make use of Internet information technology, through the large-scale fine calculation of P2P loan platform's data to reduce the risk of online banking.

1.2 The financing needs of vulnerable enterprises such as small and medium enterprises

Money shorting is always the main problem which the domestic and foreign small and

medium-sized enterprises are facing, this problem has made difficulties for those enterprise to develop their business. Take China for example, as early as in 2008, the number of SMEs in China has more than 42 million, accounting for 99.18% of the total number of enterprises in China. The output value of small and medium enterprises is accounted for about 60%. Nearly 60 percent of China's total exports are churned out by SMEs. These enterprises have created about 40% revenue for the country, provided 85% of urban employment opportunities and more than 75% of GDP.² It can be seen that Chinese SMEs play an increasingly important role in promoting economic growth, expanding employment, promoting technological innovation and optimizing the economic structure. We have to admit that SMEs have grown or are becoming an important pillar of the national economy. According to the surveys from China National Information Center and the Chinese State Entrepreneurs Survey System and other research institutes, small and medium-sized enterprises have to face the shortage of short-term loans and long-term loans. About 81% of the SMEs have faced the problem that the liquidity within a year cannot meet the needs and 60.15% of SMEs do not have 1 to 3 years long-term loans. In a sluggish global economy, there will be many problems such as international economic downturn, the domestic implementation of tight monetary policy, the fast rising of raw materials' prices and labor costs, and so on, The capital chain rupture of small and medium enterprises could lead to "dominos". While the loans from large banks for SMEs is clearly inadequate. P2P online lending platform may solve the problem for these small and medium-sized enterprises. The P2P platform give new idea for these small and medium-sized enterprises to solve financial problem. We can see the P2P online lending platform is different from the traditional financial lending platform, it has its own characteristics, such as providing the amount of small loans, its loan procedures is fast and convenient, its interest rate repayment is more flexible and the credit is more publicly accessible through the Internet.

The rapid development of P2P network loan platform has brought some hidden dangers, its security issues have been questioned. From the year 2014 to now, according to statistics there are hundreds of P2P network loan platforms which have went wrong. Because of the lack of supervision and the low threshold to entry, criminals use "high-yield trap" to make investors on the platform lose money. P2P online lending platform, as a financial innovation model, has injected vitality into the financial industry and solved many problems, but its risk supervision also needs more concern. The comprehensive risk control system can further guarantee its healthy development. In developed countries, P2P online platforms started early, faster than China, and their regulatory measures relatively perfect, China should learn from them and make changes in consideration of the specific national conditions.

² The data come from the government-published China Statistical Yearbook in 2008

2 P2P online lending platform current situation

Compared with the domestic and foreign research, foreign scholars tend to conduct empirical research. This maybe depend on the development of P2P online platform, the operational model of foreign P2P online platform is clear, those major successful platforms have their own characteristics and continue to improve, and these successful platforms have already brought huge profits. Among them, These three platforms, Prosper, Zopa and Kiva, have stand for three different operation models in foreign scholars' extensive research and analysis. Such as Greiner M's (2009) study has shown that Proper's credit system is relatively perfect, pre-loan review and post-loan management are more effective than others, in 2009 there has been 14,000 lending transactions which have completed on this platform .Based on those deals 'data on Prosper, Greiner M analyzed the characteristic of borrowers' self-selection and bidding transactions, found that the borrowers' credit status once have been improved and the borrowing rate has also appeared on the rise. Michal K. (2008) gave an exhaustive and comprehensive analysis of Zopa, as an important case study of social-networking relational lending, he thought that Zopa provide a more realistic and transparent financial service. Although Zopa has the low bad debt rate because of the serious network platform information asymmetry problem, He thought as long as the risk control measures can be in place, the risk would be lower than the traditional financial institutions. Laura (2011) conducted a comparative analysis of the various P2P platforms in Europe, then concluded that Zopa's success largely dued to effective risk-control measures. After checking, about 75% borrowing requests on the Zopa platform were rejected. Nonprofit public benefit loan Platform Kiva has offered small-business loans to small and medium-sized enterprises in the developing world, with the "bulk lender + small loan" model. In addition to the study of existing platform operation model, many researchers' studies are on the risks of the P2P platforms and the relevant rate of return For example, Klafft (2008) argued that lenders on the platform might lack the investment experience and ability to identify open network risks, so only some lenders could get the expected ROI. Regarding to platform operational security issues, Prescott and Diamond originally proposed platform could create the conjunct borrowing in the process of borrowing to reduce the problem of information asymmetry, so as to decrease the default rate of borrowers. Assadi & Ashta (2009) mainly surveyed on the conjunct borrowers in the network platform, they thought we can use the information from network blog, MSN and other network tools to recognize the borrower's circle of friends' messages to reduce the risk of loans for P2P platforms. Lauri & Jeffrey (2010) showed that in the developed countries, the law perfect local credit mechanism in financial transactions also have played an important role, Borrowers of P2P platform could unite with third party groups with high reputation value to acquire easier access to lending. Lopez's (2009) study showed that the true and correct social network information of borrowers can ensure the low default rate. Magee (2011) found that

the P2P platforms increase the lender's risk when the platform does not review earnestly to lend money to whomever in order to earn higher management fees. In addition, in 2011 the US General Account Office has published a study pointed out that some P2P lending platform are not only acting as intermediaries, but also playing the role of securities dealers. Based on this, scholars have agreed that the risk of network lending platform is a major problem in future to develop the P2P platform. At the same time, Xiao Guang & Yi (2011) analyzed the potential risks of the network lending platform, indicated that the network lending platform should be classified into the financial regulatory system.

The research of Chinese scholars mainly have explain the origins and development of P2P lending platform. They have researched on the analysis and comparison of P2P platform and the supervision of platform. Those studies are mainly theoretical analysis and qualitative analysis. Xin Xian (2009) thought the representative P2P platforms can be divided into three categories: public welfare type (Kiva), pure intermediary type (Prosper) and participatory type (Zopa). Mo Yihan showed (2011) that there are three types network lending platforms in China: First, non-profit companies such as Kiva; the second is for profit purposes, such as Prosper, the Lending Club (Lending Club) and other models; the third is simply to provide investment opportunities platforms, those platforms only want to provide loans successfully without considering the default rate of borrowers. Wang Ziwei (2012) analyzed the difference between two P2P platforms in China (Pat Pat Loan and Agricultural Loan) in terms of to compare their operation models, borrowing objects, loan interest rate and risk control.

Yuri Zhang (2010) carried out a comparative analysis of P2P lending platforms, found that good operation of platforms in the development countries cannot do well without the government's legal supervision and improvement of credit system. Compared with many platforms, Niu Ming (2009) found that in recent years, the P2P platform has made some innovations in terms of development and paid more attention to transaction security. Xi Zunxia (2012) summarized model constraints and other weak paints of P2P Platforms after analyzing of five P2P platforms, than put forward the future development path of P2P platforms. Many Chinese scholars have also made corresponding research on the regulation of P2P platform. Wang Yan (2009) pointed out that there are hidden dangers in the current network lending platform, she first proposed to classify network lending platforms into financial regulatory system. Wu Xiaoguang (2009) listed the risks of P2P lending platform in the process of lending, and proposed that the platform should strengthen supervision on users' identification. he thought platforms should found management mechanism, anti-money laundering system and credit rating system to strengthen supervision. Ai Jinti (2012) showed that In the period lack of legal regulations for P2P lending platforms, related departments should firstly develop Internet industry standards to strengthen P2P platforms self-discipline. In addition, China Banking Regulatory Commission in 2011 issued a document about the risk of P2P

platforms, it required the banking financial institutions to take effective measures to decrease risk early by monitoring and preventing.

3. The operation models of primary P2P online platform in developed countries

Based on the different classification of operation models, the above-mentioned Xin Xian's classification of P2P online borrowing platform is widely recognized. In his review, P2P online lending platforms can be divided into three types: simple intermediary type, composite intermediary type and public welfare type. Simple intermediary type is playing the role of intermediaries between the borrowers and the lenders. This type only provide trading platform but not participate in the lending process, and charge the corresponding service costs. The typical representative is Prosper; Composite intermediary type provides intermediary services and participate in the lending process. This type assumes a lot of security risk prevention works as well, such as act as guarantor. Sometimes this type acts as joint chaser and interest rate makers. Among them, the famous ones are Zopa and Lending club; Public welfare type is not for the purpose of profit, such as Kiva. Borrowers are mostly concentrated in developing countries. Working capital is basically by donation. Interest is always low. Some comparison of several types of P2P platform as follows, considering founding times and operating conditions of P2P platforms, I chose the following representative platforms:

3.1 A simple intermediary type

(1) Representative platform: Prosper.

(2) Scale: Accumulative loan amount exceeds 450 million dollars and the number of registered persons is 1.43 million.

(3) Business model: It mainly take the "list" model. First, both lenders and borrowers to provide basic personal information, in addition to providing useful information such as social security numbers, driver's license number, address, etc. Those information will be scrutinized; Borrowers submit loan information, including information on the maximum interest rate and loan informants transaction history, friends in community, credit rating on endorsement and evaluation system; The borrowers set a maximum acceptable payment to be paid to the lender of the highest interest rates; the lenders start the auction by lowering interest rates, after the auction, Prosper combine the lowest rate lender into one simple loan to the borrower.

The Prosper platform is responsible for all aspects of the transaction, including loan payments

and collection of borrowers and lenders who can meet the requirements. The specific process changes since the establishment of platform, there are the following three reforms in the process:

①List auction, the platform determined the interest rate, the borrower signed the contract with the platform, the platform sold the contract to the lender.

②List auction, the platform determined the interest rate, the borrowers with the bank signed the contract, the bank sold the contract to the platform, platform and then sold the contract to the lender.

③List auction, the platform determine the interest rate, the borrowers with the bank to sign the contract, the bank sell the contract to the under the subsidiaries of platform, the platform subsidiaries then sell the contract to the lender.

(4) Risk control: The core of Prosper risk control is ensuring borrower's demand credit rating, not only borrower credit rating. In this way, the platform uses the modeling data. To put the amount of similar borrowing needs statistics together so that the data of platform will be more dependable. Because of the individual borrower's financial situation changing at any time, only giving borrower fixed loan rating is not reasonable.

(5) Platform transaction costs: The borrowers on the platform do not pay transaction costs, only publish the borrowing needs on the platform. When the transaction is successful, the platform automatically deducts the corresponding transaction fee from the accounts. Different credit rating rates are not the same. About 6.59% ~ 35.84% of each loan shall be withdrawn from the borrowers depending on the credit rating of the borrowers. For the lenders, about 1% of the total annual lending mounts.

(6) Key features: Unlike other platforms, lenders on Prosper does not build relationship directly with the borrowers. They purchase the Prosper's issued notes (face value of \$ 25 per instrument) , Prosper then obtains funds to borrowers in different ways, so the platform earnings is closely related to these instruments and cash flow of the borrowers' payment.

3.2 Compound intermediary type

(1) Representative platform: Zopa.

(2) Scale: The accumulated loan balance is 280 million pounds and the number of registered people is 860,000.

(3) Business model: There are two main models: List and Market. Under the market model, the borrowers and lenders provide registration information on the platform. The platform conducts a rigorous examination of the borrower's loan application, identity and income data, then evaluates the credit rating of the borrowers (A *, A, B, C) (Short-term borrowings and long-term borrowings), the platform uses the loan calculator in the platform according to the fund transaction and demand situation of each market segment, the distribution level of the loan interest rate successfully matched and the expected return rate of the borrowers. Lenders can select market in different segments so that to diversify investment risk. One lender's funds can cover at least 50 borrowers. Platform take charge to dunning, debt auction and other measures, but the loss is still borne by the lenders. The list model is similar to the Prosper platform. The platform ensures that each registered borrower meets the minimum audit criteria. The difference is there is no credit rating. The borrowers can set the loan interest rate within the prescribed time-limit, and the lenders compete for the bids. The lenders can choose whom to lend and the amount of lending. The operations such as remittance and debt auction are on the platform. The loss is borne by the lenders.

(4) Risk control: Zopa's risk control runs through the whole process of lending. The borrowers' approval is based on the Equifax credit rating agency; In the market lending process, the lender's funds spread to at least 50 borrowers on demand, greatly reduces the risk of the lender; Strict management of post-loan tracking: If an overdue bill happens, the platform staff will reminder lenders, sometimes it may intervene in special dunning agencies.

(5) Platform transaction fee: The transaction cost of the lender registered before August 2001 is 0.5% of the amount of the credited accounts, and then the registered borrower transaction rate increases to 1%. Combine the borrowers' level, using the calculator to calculate the interest rate. In the secondary market, the borrowers may transfer the handling fee by 1% of the amounts. There are charges for other services.

(6) Main features: Zopa is characterized by decentralized credit, credit rating and mandatory monthly repayment measure. Compared with other platforms, the platform has taken more work to control the risk.

3.3 Public welfare type

(1) Representative platform: Kiva.

(2) Scale: Accumulative loan amount exceeds 340 million dollars and the number of registered people is 1.24 million.

(3) Business model: Borrowers provide detailed reasons, purposes, time limits and potential risk through borrowing request; Kiva adopts "bulk lenders (individuals) + small loans" model, each lender pays \$ 25, The total amount raised until meeting borrowers' excepted needs, then Kiva uses PayPal to transfer the loans to Kiva's local partners. Local partners are typically local institutions in developing countries. The local institutions are responsible for locating, tracking and managing their businesses, paying and collecting small loans, returning them to Kiva. Kiva is then returned loans to the lenders via PayPal.

(4) Risk control: Kiva platform check every participant, especially the qualification and financial reporting audits; of lenders platform will send analysts of on-site investigation encourage lenders to diversify investment; It adopts multinational business, lenders and borrowers bear exchange risk together.

(5) Platform transaction costs: free platform services, operating expenses from contributions.

(6) Main features: Funds for working capital basically depend on donation, low interest rates even set up "zero interest rate" borrowing model; using PayPal to realize transnational capital loaning and lending, quick and convenient process; special institutions to supervise loan execution and repayment.

Among the comparison of several major P2P online lending platforms, it is found that developed P2P platforms have strict audit systems and reasonable and comprehensive risk control mechanisms, It provides an idea for the development of China's lending platforms. And some of China's P2P platforms have learnt from them. Such as the famous "Pat Pat loan" learns from Prosper model and has been successful. In addition, the regulatory authorities give a clear definition of loans. The U.S gives the definition of the Internet loan: Lenders and the borrowers are free in the trade. It is a direct financing channel. In this way, Chinese relevant departments can put the existing P2P platforms into the legal supervision for tracking, to better guard with financial risks and protect the lenders.

4. The operation models of primary P2P online platform in China

Pat Pat loan (拍拍贷), China's first P2P network lending site, was established in August 2007. As a new thing in China at that time, P2P online lending platform was short of specific laws and regulations from relevant supervision departments. During to the low threshold, a variety of P2P online lending platforms was growing rapidly. At the end of 2013, the number of China's P2P online platform was more than 1000, about 200 was active platforms, and even the annual trade turnover reached 105.8 billion RMB. From those we could see that in China P2P network lending platforms have been initially formed. At present P2P platforms in China could be divided into five operation models:①Based on Face to face live trading (off-line trading) , supplemented by on-line trading. It means using the network only to provide transaction information to two transactions sides, Pleasant loan platform (宜人贷) is a typical representation of this model; ②Online social networking platforms provide loan transaction as a link, in brief the platform acts as a simple intermediary, such as Pat Pat loan platform (拍拍贷) ; ③From Face to face live trading (off-line trading) to on-line trading, the platform aims to provide intermediary services for credit assignments, typically there is Ease loan platform (安心贷) ; ④From on-line trading to face to face live trading (off-line trading) , Platform offers site inspection and other services to reduce lending risks , Hong ling loan platform (红岭创投) is as an example; ⑤Public-spirited platforms, these platforms are not profitable, the representative of this model is Agricultural loan platform (宜农贷) at present in China. Through several large-scale P2P network loan platforms' relevant information, lending interest rates fluctuate between 10% and 20% per year according to different credit levels. The more representative of those five models of platforms are as follows:

4.1 Based on Face to face live trading (off-line trading) -The platform provides only relevant information

(1) Representative platform: Pleasant loan platform (宜人贷) .

(2) Scale: The accumulated loan amount is 12 billion RMB.

(3) Business model: The P2P platform staff off-line inspect the credit status of the borrowers: including personal identity, financial status, working conditions and so on; P2P platform determines the borrowers' appropriate loan amount and interest rate according to the credit status; Platforms lend to the borrowers their own funds and make contracts with borrowers; Platform Select matching lenders to sell the contracts.

(4) Risk control: The platform has strict credit review and risk control process; It requires borrowers to repay interest and part of the principal monthly, so according to repayment the platform can keep abreast of probability of default rate in time; The platform introduces dunning sector to protect benefits of lenders; The lender's funds will be distributed to great quantities of borrowers.

(5) Platform transaction costs: Platform management fee from lenders interest income \times 10%, The borrowers hand in 4% of the loan amount as the platform service fees, Loan review costs 15 RMB each time and other small service charges.

(6) Main features: Pleasant loan platform (宜人贷) has established a strong service network in more than 60 cities and more than 20 rural areas. The auditing mechanism is strict and the risk of lenders is low. The disadvantage is the high platform fees.

4.2 Online social networking platforms provide loan transaction as a link-a simple intermediary platform

(1) Representative platform: Pat Pat loan platform (拍拍贷).

(2) Scale: The cumulative loan amount is more than 300 million RMB.

(3) Business model: List bidding model, Borrowers release information on the platform to list their reasons for borrowing, expected the amount of loan, borrowing period and the maximum interest rate and so on; The lenders use their own capital to carry out full or partial tenders, the tender rate cannot be higher than the borrowers' maximum expected interest rate, Numbers of lenders are matching to one borrower; Platform on time shows the loan progress of the borrowers and the completion of the bids; If the total amount of the bid funds meets or exceeds the borrower's request, the lenders with low interest rate will win the bid and the bill will be generated normally; The borrowers must repay the interest and part of principle to the lenders every month.

(4) Risk control: Platform offers identity authentication and credit review of borrowers; Lenders decentralize their investment and borrowers monthly repay loan. For malicious borrowers, the platform will publish them in the site blacklist; For the borrowers who really have difficulty, the platform will offer help for them.

(5) Platform transaction costs: the successful borrowers should hand in 2% ~ 4% of the total loan as

the platform service fee. When borrowers and lenders are recharging their accounts or withdrawing deposits, they should pay 3 to 10 RMB each time as service fees.

(6) Main features: The platform offers information not only financial data; The lenders funds are separately managed from their own operating capital; Pat Pat loan platform (拍拍贷) does not provide guarantees for borrowers, so the borrowers have low barriers to entry this platform.

4.3 From Face to face live trading (off-line trading) to on-line trading

(1) Representative platform: Ease loan platform (安心贷) .

(2) Scale: The cumulative loan amount is more than 800 million RMB.

(3) Business model: Platform registers borrowers' accounts in accordance with the overall economic situation to evaluate credit rating level; Borrowers upload personal and business information, Platform offers not only online reviews but also field audits, And then start bidding, the lenders can bid under certain rules. At last, platform forms up electronic contracts; One borrower corresponds to multiple lenders in general.

(4) Risk Control: Loans all have been audited off-line (including pre-loan investigation, approval with loans, guarantee procedures and post-loan management). When lenders sign the loan contracts on the platform, there will be at least one security guarantee company (as the loans third-party joint). And the platform has a compensation program different from other platforms.

(5) Platform transaction costs: For borrowers, there will be 1% ~ 3% fees of loans (base on the borrower's qualifications and borrowing periods); The lenders hand in 8% ~ 10% interests.

(6) Main features: For each lender platform can provide a joint guarantee for each loan. The platform guarantees the lender's financial security and greatly reduce the risk of itself. The scope of lending is limited in Beijing, every transaction should be on-site audited. The platform has more geographically restrictive than others.

4.4 From on-line trading to face to face live trading (off-line trading)

(1) Representative platform: Hong ling loan platform (红岭创投).

(2) Scale: The cumulative loan amount is more than 1.1 billion RMB.

(3) Business model: Borrowers require to fill in personal information so to get credit ratings. The borrowers offer borrowing reasons, the amount of borrowing, repayment period and repayment method, and then publish those information on the website. The borrowers wait for the lenders coming to bidding. The lenders can divide their capital into several parts (the per lowest \$ 100) and lend them to multiple of borrowers to reduce the risk. Successful bids will be aggregated after borrowers finally confirming. Then the platform hits funds to their accounts. Repayment funds will automatically be deducted from the borrower's account monthly until the principal and interest settled. If the borrowers fail to repay the loan within a certain period of time, it will be fined to increase the interest or cancelled the loan eligibility.

(4) Risk control: Hong ling loan platform (红岭创投) has set up its own security company, If the borrowers do not repay more than 10 days, the security company will give lenders funds instead of borrowers. The platform assumes a portion of the risk so before offering loans, it will visit the site to review the qualifications of borrowers to reduce risk.

(5) Platform transaction fees: For the borrowers, platform collects on-site inspection fees and 0.5% of the monthly principal funds management fees; The platform charges 10% of the tender management fees and guarantee fees for lenders, and membership fees from both of them.

(6) Main features: The advantage of Hong ling loan platform (红岭创投) is the lower risk of lenders funds. The platform will pay for lenders if the borrowers have violations, but the platform itself increases the risk at the same time.

4.5 Public-spirited platform

(1) Representative platform: Agricultural loan platform (宜农贷) .

(2) Scale: The cumulative loan amount is more than 24 million RMB.

(3) Business model: The borrowers register on the small loan institutions who cooperate with the platform. The platform publishes the borrowers' information to the lenders on the Internet. The lenders offer funds according to the loan information and the lenders' condition.

(4) Risk control: Borrowers are checked by the cooperative small loan institutions strictly. The

lender's money is lent to multiple of borrowers to spread risk. The platform itself has good credit risk assessment and management, offers credit data integration and other services.

(5) Platform transaction costs: Platform's management revenue is not higher than 1% of the total annual loan, The lenders symbolically charge the highest interest rate under 2%of loans. The rest of the revenue subsidize to small loan institutions.

(6) Main features: The risk of platform and lenders are low. The platform can provide a large amount of funds for the rural micro-lending institutions so as to better support the rural financial development and agriculture industry.

Through the above comparison we can see, Chinese P2P online lending platforms have diversified loan programs. In terms of controlling the risk, the platforms have fully learned from successful experience, such as the introduction of on-site audit system, "friends circle" and further risk prevention. Chinese platforms have also have remarkable effects, For Agricultural loan platform (宜农贷), the proportion of loans lending that goes bad is a trifling 0.01%. However since the latter half of the year 2013, Chinese P2P online lending platforms have emerged many problems. The main reasons may be that the expansion of P2P lending platforms in 2013 is too fast, the regulation has not yet been implemented.

5 Summarize

Since platforms face the different external environment such as different legal and credit rating environment, platforms present the different development tracks. For example, Chinese Pleasant loan platform (宜人贷) in the early years imitated Prosper, but there are differences in the specific operation. Such as in rights delivery, Prosper introduces Web Bank as the third-party institution. Web Bank is in charge of selling the bills (face value of \$ 25) to the corresponding lenders who have successful bids on the platform. The whole process is monitored by professional accounting firms, but the same process on Pleasant loan platform (宜人贷) is through its director of Downing's personal account. There is no impartial third-party institutions. Risk of misappropriation funds will increase during to inadequate regulation. On most of Chinese lending platforms, there is great asymmetry of information between the borrowers and the lenders. The lenders do not know the whereabouts of the funds, and the borrowers do not know the source of funds. However on the platforms in development countries, each loan was made into standardized bills, which clearly identify the respective lenders and borrowers. The bills will be published on the Internet to improve transparency.

In addition, the developed countries have relatively mature and well-developed social credit systems. In the United States, professional business credit information is collected from the public sectors. A wide range of information from private areas are also collected. And then on information will be checked through professional institutions. After comparison, calculation, analysis and evaluation, the information will be formulated into commercial value credit products at last. This is more credible than Chinese lending platforms' information (only through identity authentication, credit rating and other pre-loan audit). The legal environment is also of particular importance. The United States has a relatively mature legal system, the US Securities and Exchange Commission have reformed their P2P industry, have made a clear requirement for the P2P platforms to regularly update corporate reports, to detail their products and to publish on the website. The legal requirement makes P2P platforms' data more transparent. It is conducive to long-term development and market-orientation. In April 2014 UK government has taken P2P lending platforms institutions into the British Financial Supervisory Authority (FCA) regulations. It may have a certain reference value to Chinese P2P industry which is still has no clear regulatory authorities.

6 Conclusions for reformations of Chinese P2P platforms

Compared with the development of Chinese P2P platforms, there are many similarities in operations of developed countries. But for the credit environment and the legal environment there are big differences.

Some staff on Chinese P2P platforms said P2P industry has no clear threshold and standards. It shows that there are some problems in Chinese P2P platforms. Recently, the closure of a number of Chinese P2P platform also shows that the industry need to solve the problems of P2P standards without delay. After comparing with developed countries, Chinese P2P platforms could improve in the following four aspects:

6.1 Improve the corresponding laws to strengthen the industry supervision.

Developed countries have clearly functions of the corresponding regulatory agencies. China should take P2P lending platforms into relevant government departments for supervision and clear assumption of the risk management responsibilities. Relevant government departments should improve the industry entry threshold and eliminate the bad lending platforms to make the whole industry more healthy and sustainable.

6.2 To strengthen the platform certification system to reduce risks.

Chinese platforms lack credit information system. To solve this problem, relevant departments should establish a real-name system of P2P lending platforms. P2P lending platforms have low

registration threshold of users, simple procedures and convenient and fast transfer transactions and so on. As a result, it is easily to become one of the channels for criminals to launder money. Therefore, the real name system is imminent.

6.3 To improve platform operation.

The existing operating models of the P2P platform lenders carry almost all of the risk throughout the borrowing process which is not conducive to the long-term development of the platforms. Some scholars have proposed that platforms could cooperate with the insurance companies to reduce risk, lenders can choose to purchase "borrowing insurance".

6.4 To increase transparency of platform financial.

Chinese P2P lending platforms only emphasize the security of platforms, so disclose the bad debt rate and liquidity indicators information of platforms. Therefore, the industry association should require P2P platforms to increase transparency of financial data, without involving commercial secrets, to offer P2P platforms' information openly to achieve market-oriented fair competition.

In addition, security technology and index system of P2P platforms should also be improved. Platforms should be encouraged to strengthen the technology and to have own database.

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