

Development status and risk control of P2P online loans in China under Internet Finance

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Abstract: With the continuous development of the Internet and the advent of the era of big data Internet finance also began to develop rapidly. In recent years, many problem platforms have emerged, and a large number of people have been deceived, the online lending platform suffered a blow from the frost. Therefore, doing a good job of P2P network loan risk analysis and effective control of China's economic development is of great significance. Based on the analysis of the current situation of the industry and the existing risks, and from the perspective of the government, investors and borrowers, put forward some risk control proposals.

1. Introduction

Internet finance refers to a new financial form that uses Internet technology to provide financial services. At present, we are familiar with the main forms of Internet financial services: third-party payment, online loan platform, online traditional financial services, online financial management, crowd funding, etc. In recent years, the most significant feature of P2P lending business is that more and more people are involved in P2P lending business, which affects people's economic life with its advantages of convenience, efficiency and complementation of small loan demand. However, its financial risks emerge at the right moment, especially the default events caused by inadequate risk management.

2. The status of P2P in China

2.1. The number of platforms shrinks rapidly

As it can be seen from Figure 1, P2P platforms have experienced a period of rapid development in 2012-2013 and a period of risk outbreak in 2013-2014, and have started a period of policy adjustment since 2015. From the trend of the number of platforms in each year, the number of online lending platforms has gradually decreased since 2015. In 2019, platform withdrawal activities gradually began, and many regional smes cancelled P2P online lending business in their respective regions, resulting in a continuous decline in the number of platforms, compared with 1,021 in 2018, the number of platforms in normal operation in 2019 has decreased to 343. As of November 2020, all the institutions operating in the country have been reduced to zero, officially withdrawing from the historical stage.

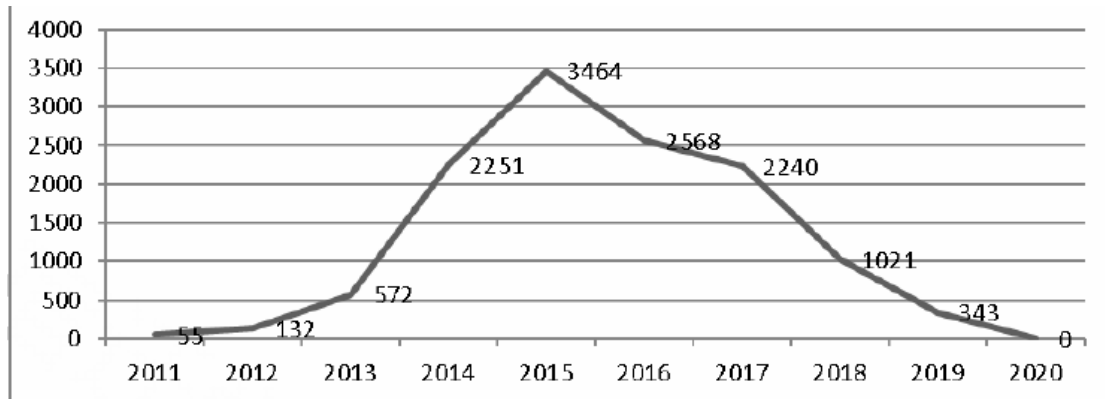


Figure 1. Change of the number of P2P platforms in China from 2011 to 2020

2.2. The platform transforms

Figure 2 shows the trend of P2P trading volume in each year. With the continuous strengthening of supervision, the platform trading volume has decreased year by year since 2017, and the trading volume in 2019 has hit a new low in the past five years from 2015 to 2019.

In this context, transformation is regarded as one of the ultimate way out of the platform. At present, P2P platform transformation has two forces: lending institutions, providing diversion for banks to expand network loans; The other is to turn to credit, ! Such as online small loan companies, consumer finance companies, etc.

In reality, both are harder to shift in. If you want to turn to credit intermediary, not only the industry threshold is high and investors have strict requirements. Secondly, according to the Interim Measures for the Management of Internet Loans of Commercial Banks formulated by the CBRC in 2020, if you want to transform into a lending aid institution, you need to have high requirements in terms of internal control system, pre-access evaluation, agreement signing and information disclosure. Take the transformation into online small loan companies as an example. As of January 17, 2021, only six P2P platforms have successfully transformed.

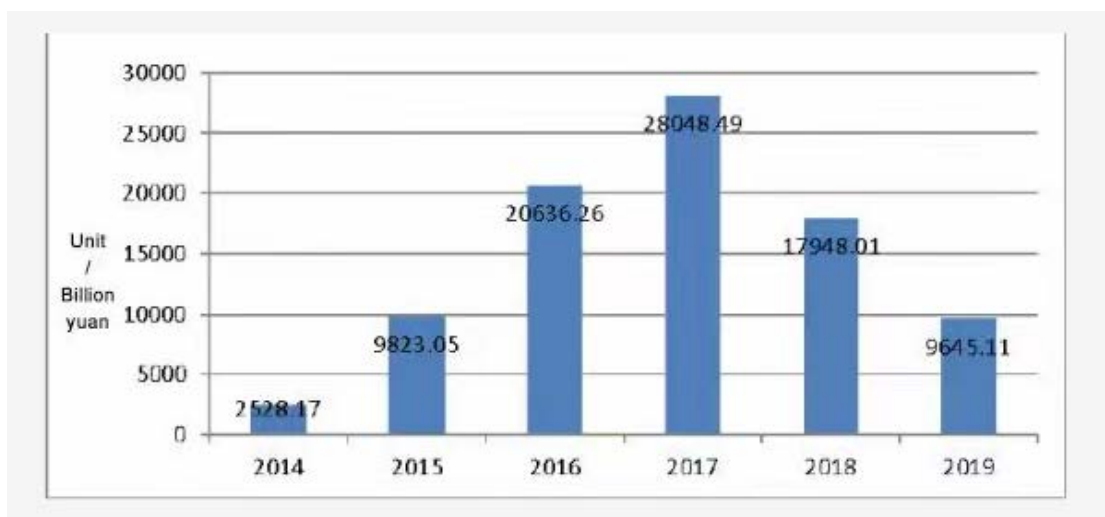


Figure 2. transaction volume of P2P industry in China during 2014-2019

2.3. The interests of the investors are damaged

Relevant data show that with the official liquidation of the platform, there are still more than 9 million investors did not get back the principal, the amount of more than 800 billion yuan. If it is a benign exit platform, most of them will put forward a redemption plan. Although investors' interests will be lost to a certain extent, they can still recover part of the loan. On the one hand, it is difficult to find and retain the relevant data after the platform thunderstorms. When legal action is taken to

recover debts, it is also difficult to file a case. Even if the case is successfully filed, it is difficult to recover debts. On the other hand, due to the failure of the platform, there is no energy and capital to carry out collection work, and the cost of outsourcing collection is high. If the platform wants to collect 100,000 yuan of arrears, it will have to pay 25,000-50,000 yuan to the collection company. Since the platform has been withdrawn, few platforms are willing to spend this money.

3. The risks of P2P lending platforms in China

3.1. Risks from the borrower

The main function of P2P platform is to meet the capital needs of borrowers, but the risks generated by borrowers are the most likely. The risks from borrowers mainly include the following points.

3.1.1. Borrower defaults

If a borrower wants to borrow funds in the traditional financial industry, according to the provisions of the Commercial Banking Law, the borrower must provide collateral when issuing a secured loan. Due to the immature social credit environment and information asymmetry in China, it is difficult for platforms to screen out borrowers with low debt paying ability based on certain relevant information. However, most borrowers who borrow money through P2P platforms are rejected by traditional financial services, and their debt paying ability is usually weak.

So there are two main reasons why borrowers default. One is that the borrower subjectively has repayment intention, but because of their own financial problems can not repay the loan caused by forced default; Another reason is that some borrowers with poor credit, unable to borrow funds in the traditional financial industry, borrowed money from P2P platforms and maliciously defaulted after defrauding funds.

3.1.2. Risks arising from failure to sign the loan contract in person

P2P platform for the development of characteristic is to communicate via the Internet, until the agreement is a electronic iou, although the ious have a certain binding, but in terms of security and to repay the sex, the binding is significantly lower than when the effect of sign the contract face to face, for some control is not strong, easy to produce risk.

3.1.3. Risks caused by the unlimited use of loans

China has strict control over the use of credit from traditional channels, but there are no specific regulations on the use of online loans. As a result, domestic P2P platforms have very little control over the use of loans, and borrowers are rarely punished even if they use the money for other purposes. On the other hand, even if the borrower will lend the funds for the specified purposes, due to market changes do not get the expected return, these will affect the borrower's repayment ability.

3.2. Risks caused by imperfect supporting environment

3.2.1. The risk of lagging regulatory laws

China's first P2P online lending company was established in 2007, but there was no corresponding legal supervision system. Therefore, P2P industry has been considered as a "three noes" platform: no entry threshold, no industry standard, and no regulatory agency. Until 2015, when P2P platforms were officially regulated by the China Banking Regulatory Commission (CBRC), the development of P2P platforms in China was in the stage of savage growth. Although "one Method and Three Guidelines", the legal basis for the supervision of P2P online lending platforms, were all issued as early as 2017, the rectification period has been delayed for a long time due to the lack of specialized supervision departments, and the efforts of various regions are uneven. Due to the uniqueness of P2P online lending, the legal supervision system is seriously lagging behind the P2P industry, which has been developing for nearly ten years, and cannot be comprehensively controlled and restrained.

2. Risk of lacking of credit system

Credit on both sides of the credit is the foundation for the development of the P2P lending, only in the perfect credit system, to the healthy development, but at present, the P2P platform still can't get the high quality of the third party report, between each platform is also unable to establish information sharing mechanism, lenders in two platform for borrowing and at the same time in one of the default platform, Nor will it reduce the probability of the second default risk, which will inevitably lead to frequent credit risk accidents in the long run. Moreover, some third-party rating agencies in China are not only information intermediaries, but also operators of P2P platforms, which will seriously affect the objectivity and independence of rating.

3.3. Risks from investors

3.3.1. Risks caused by irrationality of investors

Most investors who choose P2P platform for investment focus on the high yield provided by it, and some investors blindly pursue high yield, ignoring the actual situation of China's economic development. In 2021, the yield rate of three-year fixed deposits of major banks is less than 4%, and the benchmark interest rate of commercial loans of banks is not more than 5%. It can be seen that the yield rate of P2P platforms up to 20% is difficult to really achieve, and investors do not realize the high risk behind the high yield. Choosing high-risk products without sufficient risk tolerance is an irrational investment behavior.

3.3.2. The risk of money laundering through platforms

Although anti-money Laundering Law, Anti-money Laundering Regulations on Financial Institutions and other regulations require the establishment and improvement of anti-money laundering internal control system, it is difficult to be effectively implemented on P2P platforms. P2P platforms simply limit the amount of each investment, the number of loans, the source of funds and social relationships, and cannot guarantee the legitimacy and legality of the source of funds. Such behavior will not adversely affect ordinary people or even speed up the progress of the whole process. But this way will be use the delinquents, through investment in P2P platform to cover up their illegal sources of funding P2P platform lending transactions through the Internet all the way, and can not accurately identify the identity of the user, money launderers can use the false data, respectively, have emerged to borrowers and investors, realize the money "white".

4. Risk control of P2P

4.1. From the perspective of the government

4.1.1. Strengthen supervision

One of the main reasons for the demise of P2P online lending platforms in China is that government regulation has not kept up with the development of the platforms. Therefore, if P2P online lending develops again in China, government supervision should be strengthened.

First, narrow the gap between the introduction and implementation of rules. As for the legal document "One Method and Three Guidelines" issued in 2017, relevant departments should promptly implement it, set up special regulatory agencies, clarify the responsibilities of various departments, and play the regulatory role of the government.

Secondly, in the supervision system, we should pay attention to the coordination between the supervision agencies. National and mixed operation of P2P industry is one of the important obstacles to the implementation of China's supervision system, which is completely different from the division of labor of territorial supervision and separate supervision. When problems arise, each department feels that it has nothing to do with itself: The People's Bank of China is not responsible for regulating specific institutions, the CBRC only regulates financial institutions, and local regulators are not unwilling to regulate, but unable to do so. Therefore, in order to adapt to the trend of mixed development of Internet finance, all regulatory agencies should cooperate with each other to achieve reasonable division and coordination of regulatory power.

Finally, in terms of regulatory means, blockchain technology can be used to strengthen risk prevention and control. P2P platforms develop with the emergence of the Internet, and blockchain technology is also the inevitable result of the development of big data. Blockchain technology can be used to track every transaction, quickly find problems, accurately locate the relevant account assets, and carry out relevant actions.

4.1.2. Establish a sound credit investigation system

The credit status of P2P platform will be included in the social credit system, so as to punish borrowers' behavior of breaking trust and providing false information. In addition, improve credit investigation technology, establish an internal review network, establish P2P industry database, and connect P2P platform to the credit investigation system. At the same time, the platform actively cooperated with relevant departments to screen out the list of trust-breaking persons, so that the trust-breaking persons could accept social supervision, raise the cost of malicious breach of contract, and strengthen the punishment of trust-breaking persons.

4.1.3. Improve third-party rating agencies

Third party agencies can better help investors choose the less risky investment platform, so as much as possible in order to help users reduce risk, should make full use of the third party rating constraint of the market, the government in order to encourage the development of P2P third-party rating, puts forward some policy support to these institutions, in addition, The third-party rating agencies should constantly improve the rating management system on the basis of their own, improve the accuracy of rating. In order to ensure the fairness of rating, rating agencies should establish a accountability mechanism and play a fair and just role.

4.1.4. Improve financial laws

First of all, relevant departments should introduce and improve laws and regulations related to P2P online lending platforms, strengthen legal supervision, and improve the industry management capacity of Internet finance industry associations. Special attention should be paid to the legal disputes arising from the failure of the platform, and specific solutions should be put forward on how to repay the lender and what is the filing standard after the platform is withdrawn, so as to clarify the responsibility division of investors and the platform after losses.

Secondly, market access threshold and industry standards should be stipulated. In order to take the lead in the market, many P2P platforms enter the industry without the ability, which is one of the important reasons for the rapid demise of the industry. Therefore, when the platform is facing transformation, the law should clearly put forward the requirements for transformation, and clarify the business scope of the platform to help the platform to position itself reasonably.

4.2. From the perspective of investors

4.2.1. Take the initiative to learn about investing

The purpose of investment is to improve their assets. Most people who choose P2P platforms for investment value high returns, while lack of investment knowledge makes investors unable to accurately identify risks. Therefore, it is necessary to learn certain investment knowledge, which can not only help investors judge the advantages and disadvantages of the platform, improve their decision-making ability, effectively avoid risks, but also improve their ability to take risks.

4.2.2. Actively study relevant legal knowledge

In the face of continuous platform thunderstorms and withdrawal, many investors do not know how to make their principal and interest recovery. If you master relevant legal knowledge and know how to protect your own rights, it will be more useful than relying on the platform's plan. As can be seen from the case of Zhenrongbao, it is difficult to require the platform to fully repay. Therefore, when problems are found, the law can be used for timely and effective rights protection to minimize losses.

4.2.3. Diversify

Anyone with a certain amount of investment experience knows "don't put all your eggs in one basket", and the same goes for P2P platforms. If you invest all your money in one platform, once there is a risk, it will have a big impact on itself. Therefore, investors who invest through P2P platforms should put their money into different platforms. If one platform runs into problems, the returns from investing in other platforms may cover the risks and reduce them. Investors can also divide their own funds, choose investments suitable for them according to their risk tolerance, and realize the appreciation of wealth through different channels, rather than blindly pursuing high returns.

4.3. From the perspective of the platform

4.3.1. Information should be shared between platforms

Platforms cannot effectively distinguish the credit of borrowers, so each platform should strengthen communication, establish information sharing mechanism of trust-breaking people, and effectively prevent the default risk caused by borrowers. Share the personal information data collected by the platform with the external credit investigation system, and jointly establish the industry credit audit standard. At the same time, it is necessary to strengthen the cooperation between P2P platforms and third-party rating agencies, consciously participate in the rating work of third-party rating agencies, cooperate with and assist third-party rating work. This can effectively reduce the risk of P2P, which is of great help to promote the development of P2P platform.

4.3.2. Strengthen their risk control ability.

The biggest characteristic of financial companies is that the risk of operation is much greater than that of ordinary industrial and commercial enterprises. For P2P companies, risk control is always the most critical. P2P companies can operate on the premise of not only introducing capital from venture investors, but also strengthening their own risk control and reducing the impact of bad debts. If risk control is not well done, it is easy to be washed down by bad debts and finally have to run away. At the same time, the platform should improve its own risk control ability and monitoring and other operating technologies, formulate a series of operating plans, and take timely measures when uncontrollable factors occur, so as to avoid risks and reduce losses as much as possible.

P2P platforms can learn from the risk control measures of lending commercial banks, and learn from the risk management of commercial banks in the process of lending. Before borrowing, platform to evaluate the borrower's credit status, can apply data mining technology to establish a personal credit risk assessment model of P2P lending, through to the borrower's credit assessment before to decide whether to lend, borrowers to have a criminal record, can increase the tracking, and set a deadline for a certain investigation, Rules that borrowers can only borrow a certain amount of money at a certain time to reduce risk. In the process of borrowing, check whether the borrower uses the funds according to the application purpose, whether the financial ability can repay within the specified time, whether the phenomenon of malicious breach of contract, once found malicious breach of contract, timely make a warning, and make the corresponding bad debt reserve; After the end of the loan, the platform will make corresponding records in time to prepare for the subsequent loan. This allows the platform to identify risks early and prevent and control them.

5. Conclusion

P2P network in our country credit industry relative to the foreign developed countries, the start is finished, and now is still in the adjustment stage of development, industry regulation is still in trial and error, although for P2P network supervision from the initial loan industry until now tend to be more strict, but as the creation of the government and regulators to strengthen supervision measures, has also led to several platform was forced to quit, The number of platforms has plummeted, and the development of P2P network loan industry has encountered a bottleneck. Therefore, to study what is

causing the deep reason of these problems, what are the key factors cause risk, discuss how to strengthen the P2P network industry supervision and risk control, which get the regulatory focus, make P2P network credit industry more standardized, improve the public's trust in the P2P network credit industry, promote the sustainable development of the P2P network credit industry, It has become an urgent problem and target to be solved. In this paper, combined with the status quo of the development of P2P online loan industry in China, to find out the root of the problem and the gap, so as to put forward targeted risk control measures, which has reference significance for the healthy development of P2P online loan industry in China.

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