

The Future Development Trend of P2P Online Lending Industry under The Financial Regulatory Policy and The New Situation

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Abstract: As an innovative Internet financial service mode, person to person (P2P) network lending has rapidly promoted the development of Inclusive Finance in China. However, in the development process of P2P network loan, there are also some problems, such as platform role deviation, institutional function alienation, industry credit difficulty and so on, which lead to a large number of phenomena, such as suspension of business, refund, difficulty in cash withdrawal and running away. Faced with this dilemma, the regulatory authorities began to carry out strict supervision on the industry and guide the benign exit and transformation of the industry. In view of this situation, this paper will predict the future development direction of China's online lending combined with the financial regulatory policies and the future trend of Internet Finance under the new situation.

Keywords: Financial regulation; P2P lending platform; Transformation; Development

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1. Introduction

As a new era product and an effective supplement to the development of traditional finance P2P network, loan effectively solves the problem of individual and small and micro enterprises' loans, whose mode conforms to the law of things development. However, in the early stages of the P2P industry development, the domestic supervision is not perfect in China, leading to the barbaric development of the new business model, which has triggered a series of social events. In 2007, the first P2P online lending platform was born in China. Since then, the P2P network loan service industry has risen rapidly in the absence of supervision. From 2012 to 2016, the number of P2P online lending platforms increased by tens or even hundreds every month (**Table 1**). It was in November 2015 that the explosion of Shenzhen Ezubao platform event foreshadowed the cold winter of P2P online lending platform ^[1]. The landing of Document No. 175 in 2018 shows the unshakable determination of the regulatory authorities for the industry's retirement. Document No. 83 in 2019 provides the future development road for the transformation of P2P online lending platform, but according to this regulation, few institutions can meet the requirements.

Besides, P2P online loan has only been in China for 13 years, but the impact of this financial innovation on the financial industry is far-reaching. It guides the innovation and development of many traditional financial institutions, expands the boundary of the financial industry, and effectively promotes the development of financial industry in China. P2P online loan has experienced great ups and downs in China. In less than ten years since the regulatory retreat, P2P has developed from blossoming everywhere to zero,

leading to the loss of residents' wealth and the aggravation of financial risks. The lessons are profound and worth reflecting. However, as the product of the time, although P2P network loan has experienced a difficult stage of development, this business model is actually in line with the law of financial development. The effective operation of this mode in foreign countries has verified its success. In 2019, the No. 83 document has put forward clear requirements for the transformation of P2P institutions in terms of financial policies, transformation conditions, transformation time and regulatory measures. According to the regulations, qualified online lending institutions can be transformed into small loan companies, actively handle and resolve the stock business risks, and minimize the losses of lenders. Under the supervision mechanism of the new national situation, the future of P2P online lending needs further analysis and exploration.

Table 1. Annual growth rate of P2P online lending platform

Year	Number	Growth Rate
2007	1	—
2008	3	200%
2009	6	100%
2010	23	283%
2011	55	193%
2012	132	140%
2013	572	333%
2014	2251	293%
2015	3464	54%
2016	2448	-29%
2017	1931	-21%
2018	1071	-45%
2019	344	-68%
2020	0	-100%

2. Transformation direction

Table 2. Annual growth rate of P2P online lending platform.

Year	Transformation Quantity
2015	1
2016	28
2017	32
2018	17
2019	23
2020	2

Since entering China in 2007, P2P network has experienced three stages: introduction, expansion and adjustment ^[2]. With the development of 13 years, most online loan platforms have accumulated extensive experience in risk control and management. Therefore, some P2P platforms have been transformed since 2015 (**Table 2**). The transformation of online lending platform is drawing lessons from traditional financial institutions and developed countries, in order to promote the normal development of the existing compliance business and realize the smooth transformation of online loan platform. Four development models are summarized according to the transformation of online lending institutions.

2.1. Regional and national small loan companies

Huang believes that it is in line with the innovation oriented digital inclusive financial service model to accumulate data through cross-border platforms and take use of data resources for online analysis and evaluation ^[3]. However, in 2019, the leading group of Internet Finance Regulation and the leading group of Online Loan Regulation jointly issued the document that Guidance on The Pilot Transformation of Online Lending Information Intermediaries into Small Loan Companies (No. 83 document). This document has made a series of regulations on the transformation of online lending institutions. Among them, the transformation is divided into regional small loan companies and national small loan companies, and the registered capital of the two kinds of companies are specified in detail: the registered capital of regional small loan companies is not less than 50 million yuan; the registered capital of national small loan companies is not less than 1 billion yuan, and the down payment capital is not less than 500 million yuan. In addition, the document requires that the down payment capital of national small loan companies should not be less than one tenth of the balance of loans of network institutions at the time of transformation.

Although the country has given the direction of P2P transformation: microfinance, the transformation of licensed small loan was once regarded as one of the ultimate outlets of online loan platform. Under the background that all online lending platforms have been cleared, industry experts generally believe that in order to ensure the successful transformation of the platform into microfinance, regulators need to supervise and manage the capital stock scale, shareholder strength and other important aspects of each platform. However, it is difficult for some institutions to transform into microfinance under the influence of various influences.

2.2. Loan aid institutions

The advantage of traditional banking financial institutions is to serve large state-owned enterprises and high-level customers, but they are not good at providing services for small, medium and micro enterprises and individual customers ^[4]. While the network institutions have a large amount of data of small and micro enterprises and individual customers, which can help banks and other financial institutions to screen and evaluate customers, improve the work efficiency and asset quality of microfinance services, and solve the problem of information asymmetry in Inclusive Finance business. On the basis of the complementary advantages of the capital side and online lending institutions, loan aid industry is a business model in the case of mismatch between capital and flow, and between financial license and business development ability. The industry effectively fills in the blank area where the banking financial institutions cannot meet the financing needs. Therefore, it is a kind of choice for many platforms to transform into loan assistance institutions. Many online lending institutions choose to transform into the loan assistance platform, mainly because of the low threshold of transformation loan assistance platform. The regulatory authorities did not specify the threshold. Secondly, the online loan platform has a lot of customer resource information, which has deeply attracted financial institutions. However, with the introduction of financial supervision, those institutions that cannot hold financial licenses are still facing unpredictable risks.

2.3. Consumer finance companies

From the perspective of economic development, consumption has become an important part of domestic economic development, and the state has also issued a series of policies to encourage consumption. From this point of view, the opportunities of consumer finance are broad and there is a rising trend year by year. Compared with the mature countries such as the United States, China is at a lower level in this aspect, and China has a lot of room for development. However, as early as August 2009, the China Banking Regulatory Commission (CBRC) issued the “measures for the pilot management of financial companies,” which stipulates that the main investors of consumer financial companies should be domestic and foreign financial

institutions and other investors recognized by the CBRC, and should have the conditions that the total assets at the end of the most recent year should not be less than 60 billion yuan; The minimum registered capital of a consumer finance company is 300 million yuan. In the pilot stage, the business scope of consumer finance companies only includes personal consumer durables loans and general-purpose personal consumer loans, not involving real estate loans and automobile loans.

Combined with international experience, the measures set relevant regulatory indicators for consumer finance companies, including capital adequacy ratio of no less than 10%, asset loss reserve adequacy ratio of no less than 100%, inter-bank market borrowing ratio of no more than 100% of total capital, etc. By the end of 2019, there are only 24 consumer finance companies that have been approved by the CIRC to start business and have completed industrial and commercial registration [5]. This data is tiny compared with the number of the P2P online lending platforms. It can also be seen that it is very difficult to transform into consumer finance companies. This regulation has shut many enterprises out. The consumer finance represented by Alibaba's Ant Credit Pay and Jiebei and Jingdong's Baitiao are all based on the original e-commerce business, with natural advantages in technology, capital and customers. However, it is not realistic for the general strength of online lending institutions to transform into consumer finance. Therefore, this direction has broad prospects but not universal.

2.4. Financial technology companies

P2P online lending platform is not under the supervision of the CBRC and other departments, which is different from technology companies [6]. Therefore, the platform can transform into the financial technology independent companies that earns service fees by carrying out external technical maintenance, data outsourcing and other businesses. After years of development, many online lending institutions have established their own risk control mode. Compared with traditional banks, online lending institutions face more complex and diverse customer groups, and they are more active in embracing new technologies. In the era of digital development, online lending institutions use cloud service platforms and financial risk control systems driven by new technologies such as big data, blockchain and AI to provide one-stop Internet credit solutions for financial institutions with financial cards. Among them, the largest lending club in the United States and the largest lufax in China are the representatives.

With the development of digital economy, the transformation based on digital technology has become the mainstream trend, technology + finance is also favoured by the financial industry, Internet giants, technology enterprises and traditional financial institutions continue to enter the field of financial technology. The financial technology industry has formed two echelons. The first echelon is the large-scale Internet enterprises with a large number of user groups and abundant funds; In the second echelon are high-quality traditional financial institutions and commercial banks. From the current situation, it is not universal. And the "No. 83 document" specially emphasizes that the exit platform shall not apply for the transformation of small loan company

Although the regulatory authorities have pointed out specific plans for the transformation of online lending platform, there are high access threshold and other constraints for the transformation into small loan companies, consumer finance companies, loan assistance institutions and financial technology companies.

3. The development prospect of P2P network loan

In China's current financial market, P2P network lending mode still has incomparable advantages over traditional financial institutions. From the current regulatory policy point of view, the short-term online loan market is mainly completed by financial institutions with abundant funds. However, in the long run, it is difficult for traditional financial institutions to effectively meet the capital needs of individuals and

small and micro enterprises. With the continuous improvement of residents' income and the rising awareness of investment, a large number of funds will enter the market, as a convenient and effective Internet financing channel, online loan will appear in the future in a new way. Therefore, the author thinks that in the future, online lending institutions will have the following development characteristics.

3.1. Combined with digital technology for a new round of development

China is in the forefront of the world in the development of big data. With the construction of national credit information system, personal credit and small and micro enterprise credit are effectively identified by big data technology, and credit risk will be effectively reduced. Based on the development mode of online lending in the United States, China can learn from it and combine with China's advantages in big data to classify and identify users' credit rating and risk rating in more detail, so as to effectively reduce financial risks.

3.2. Cooperation with traditional commercial banks and licensed financial institutions

China's P2P network loan can obtain the market in many financial institutions, mainly the P2P convenient loan mode, which has the incomparable flexibility of commercial banks. With the outbreak of P2P risks, the regulatory authorities put P2P funds into bank custody, so that in the actual flow of funds, the platform can only unfreeze and refund the funds, but not transfer and withdraw cash, so as to avoid platform misappropriation and running away with money. In the small and micro credit business, P2P platform can make use of the capital advantages of commercial banks and financial institutions, at the same time, with its own low cost and high efficiency, so as to achieve mutual benefit and win-win.

3.3. The perfection of future supervision

After the No. 83 document, the government has announced that the P2P network lending mode has been completely eliminated. However, traditional institutions have not perfectly solved the micro credit needs of individuals and small and micro enterprises, which objectively provides a glimmer of survival hope for micro credit business. Therefore, in terms of demand, it is difficult for online loan business to really disappear in China. In the early stage of the development of P2P online loan industry, the state did not bring the industry into financial supervision, but managed it as an Internet enterprise, which led to many enterprises pouring into the industry crazily. Many of these enterprises are lack of financial risk awareness, and just operate as Internet enterprises. They lure borrowers by loans without threshold and lure investors by high interest rates, but don't consider whether the borrowers have the ability to repay, or whether the investors can recover the principal and profits.

The financial system of European and American countries is relatively perfect. The online lending enterprises have been included in the financial supervision from the beginning, and have a perfect credit reference system. Therefore, the loan can be evaluated according to the customer's personal credit record. This model has a good foundation for development. In the future, on the basis of improving the social credit reference system, the regulatory authorities should fully include the online loan into the supervision to reduce "Non-Performing Loan." Besides, in order to promote the further healthy development of the whole industry, improving the risk control ability of the industry, strengthening the training of relevant employees and heightening the threshold of employment are necessary.

3.4. Developing rural inclusive financial system

As the country pays more and more attention to the development of agricultural modernization, the demand for funds in rural areas is more and more diversified. At the same time, agricultural development puts forward higher service requirements for financial institutions, which need financial institutions to provide

richer financial services. Thanks to the large demand for such funds and the low amount of each demand, traditional commercial banks usually do not pay attention to this aspect. While P2P network loans are mainly microfinance, which is extremely consistent with this kind of demand. Rural finance is the key to test the development of inclusive finance system, in line with the national strategic requirements. Moreover, the state has encouraged young people to return to the countryside to start their own businesses in recent years, so that the demand for agricultural loans has increased significantly. In the current environment of restricting the amount of online loans, adjusting the mode of cash loans, and fierce market competition, going deep into the countryside and serving rural users will become the next development goal of online loan platforms.

According to the data from the “Eloancn” platform invested by Lenovo Group, which is the leading platform in the field of agricultural loan, by May 2020, the “Eloancn” loan has accumulated 64.4 billion yuan in loan amount, 804000 times in loan times, and helped 480000 “agriculture, countryside, and farmers” families, individual businesses and small and micro enterprises to solve their financing problems. The loan for agriculture not only solves the problem of funds for the development of agriculture itself, but also provides employment opportunities for the poor households around, which realizes the organic combination of commercial development and social responsibility. In the future, P2P online lending platform will play a greater potential in the field of agriculture, rural areas and farmers, and there will be more platforms to serve the actual needs of new agriculture and rural individual funds.

4. Conclusion

To sum up, with the progress of science and technology and the improvement of regulatory policies in China’s online lending is bound to appear in a new form. Now and in the future, as 5G, artificial intelligence, blockchain and other emerging technologies will be used in financial technology companies, loan assistance platforms, consumer loans and micro loans to improve business model and user experience, regulatory authorities will use the power of science and technology to improve regulatory means and regulatory system to adapt to the new financial situation, Better meet the financial needs of small and micro enterprises and individuals, and realize inclusive finance. P2P platform in China will cooperate with other financial platforms under the transformation of new technology, so as to achieve further healthy development.

Disclosure statement

The author declares no conflict of interest.

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