

Chapter 2

A Statistical Analyses of the Online Lending Industry

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2.1 Research Objectives and Methods

2.1.1 Data Collection

The statistical analysis conducted in this chapter attempts to present the online lending industry in China in a holistic, objective and accurate way. The data used came from the P2P online lending platforms which have interface with YesMyLoan or Wangdaizhijia, the China's largest online lending portal web site, and account for 60–70 % of the total online lending platforms in China in 2013, the “Year One of Internet Finance Era” in China and the most recent year with full year annual data. The data collected includes, but not limited to, some basic operating information, scale of business, transaction volume, interest rate, loan terms, and the characteristics of borrowers and lenders of online lending platforms.

For getting a deeper understanding about the industry and the online lending platforms, some case studies of several specific online lending groups are also performed, in addition to the statistical analysis. The content covers, but not limited to, the selected platforms' financials, operating ratios, and risks indicators.

Meanwhile, for better understanding the characteristics of the lenders, some online surveys with questionnaires regarding the potential characteristics of the lenders and their investment preferences were also conducted.

2.1.2 Research Methods

There are three primary research methods used in this chapter: Independent Data Collection, Mixture of Online and Offline Investigation, and Combination of Qualitative and Quantitative Analysis

1. Independent Data Collection

In contrast with the studies using the data provided by the online lending platforms themselves, most of data used in this chapter are from YesMyLoan (YML) database, which used YML's interface with the online lending platforms to record the real time data from the platforms, and summarized the data with the webpage-information-collection-program written independently by the YML technicians. The YML's database gathers millions of pieces of real time information through years of records, and all the information has been verified, corrected, summarized, and analyzed so as to obtain some comprehensive, objective and accurate results.

2. Mixture of Online and Offline Investigations

For all the related information regarding the most online lending platforms and online lending participants, not only online investigations, such as YML database, announcements on online lending platforms, and public reports from media, but some offline investigations, including interviews (interviews with online lending practitioners, members of lending associations, and lawyers) and site visits (such as on site visits of sample platforms, and inquiries of online lending investors), were also conducted to ensure the accuracy of information.

3. Combination of Qualitative and Quantitative Researches

For quantifiable information collected, the analytical methods used include hierarchical analysis, clustering analysis, comparative analysis, and regression analysis. With the assistance of the professional statistical analysis software, the pre-processed data were assessed to reach the final conclusions and make the predictions. The quantitative analysis helps enhance the quality of the research in terms of objectivity and accuracy. For some non-quantifiable information, researchers' experience on online lending and the previous and present status of sample online lending platforms with the most updated information were utilized to identify the characteristics of online lending platforms and the market, and assess their development in the future.

2.2 The Current Status of Online Lending Platforms

2.2.1 *Market Structure and Industry Cycle of the Online Lending Industry*

Market structure of an industry refers to the degree of market competition or market monopoly. In reality, market structures varied in different industries in different countries. Using the four factors which determine the market structures of an industry, as shown in Table 2.1, the current online lending industry can be classified as a monopolistically competitive market.

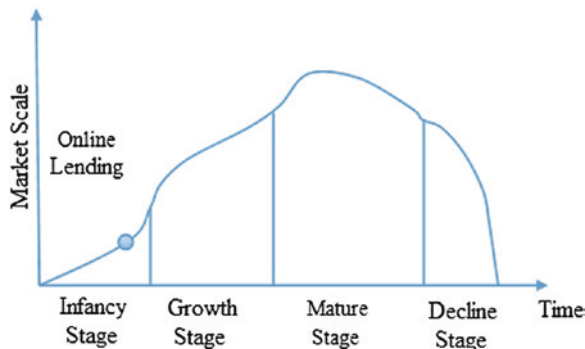
Table 2.1 Market structure of online lending

Market structure classification	The number of enterprises	The degree of differentiation of products	The degree of control on pricing	The degree of entry into or exit from the industry	Representative industry
Perfectly competitive	Many	No differences	None	Very easy	Agriculture
Monopolistically competitive	Many	Different	To certain degree	Relatively easy	Online lending, light industry
Oligopoly	A few	With or without difference	Considerable	Relatively difficult	Steel, vehicle, oil
Perfect monopolistic	One	The only product with no substitutes	To large degree but often under regulation	Very difficult, even impossible	Utility

First, there are more than 800 platforms as of the end of 2013. Each one only took a very small portion of the total market shares. In terms of loan balance, the online lending platform with the largest market share merely took less than 10 % of the entire market, and the average share of each platform is less than 1 %. Second, the interest rate settled for each platform cannot be determined by any single platform alone. Instead, the rates had to be determined by entire market. Some platforms may even need to run promotions to attract lenders, such as “second loan”¹ and bidding awards. In addition, the services provided by different platforms are quite different. The differences, for example, can be observed in loan types (such as debenture, guaranteed loan, mortgage loan, and working capital loan), and loan terms (such as second loan, daily loan, and monthly loan). Even though there are some outstanding platforms in some specific sub-industry and some nation-wide OLPs with certain scales, reputations, and distinctions, but overall, the platforms in online lending industry are still very similar to each other. Finally, there is no formal regulation in the industry yet for the time being. The market entry barrier is still very low, and the entry into and exit from the industry is relatively easy. However, the impact of the entry and exit of the platforms cannot be ignored as the investors of the online lending is widely scattered. In the online lending industry, mismanagement or fraud may cause great financial loss, percentage wise, to a wide range of lenders, as the most of the online lending investors are small in size and their ability to absorb the risk is relatively lower.

¹Second Loan: A loan issued in an entertainment way for celebrations and thanksgivings, also called second repaying loan with the mark of “second”. If a second loan is issued, the loan interest and management fee will be frozen by platform. When the bidding is finished, the platform will send out interest and management fee immediately after the system checked the process automatically. Then, the lenders will get back their principals and interests in “second”.

Fig. 2.1 The industry life cycle position of online lending industry in 2013



The life cycle of an industry specifies the stages of the development of an industry and its trend. In general, each industry will go through an evolutionary process from a new start to eventual decline by four stages: infancy stage, growth stage, maturing stage and declining stage. The primary indicators that can be used to identify each stage in life cycle may include market growth rate, potential of demand, the number of types of products, the number of competitors, the market shares of each company, the entry barriers, technology innovation and consumers' purchase behaviors.

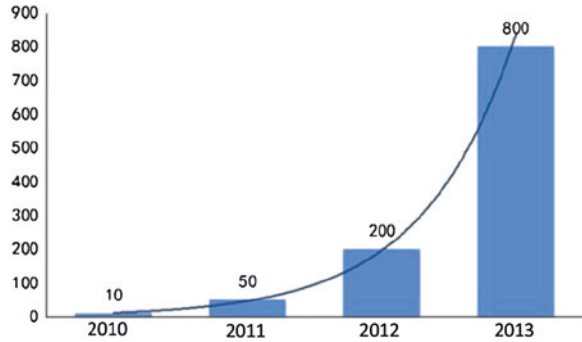
As a newly emerged industry, the online lending, so far, was only invested by a relatively few companies. At the very early stage of the development, the startups were generally not profitable due to relatively high R&D expenses, relatively low demands in the market as the potential borrowers still didn't quite understand this new business model, and low operating revenue. Some platform companies even went bankruptcy because of their financial difficulties. During this period of time, all platforms put their major efforts in developing new customers and attempt to obtain a position in the market place when facing a market with accelerated growth rate, fast increase in demand and significant technology changes. At the same time, however, this industry is full of uncertainties in technology, market, strategies in products, marketing and services, and government regulations. In addition, the platforms lack sufficient information regarding the characteristics of the industry itself, the competition of the industry, and the characteristics of borrowers and lenders. All the indicators suggest that online lending industry in China is still in its infancy stage. But it is gradually moving towards the growth stage. The whole life cycle of online lending industry in China can be shown in Fig. 2.1.

2.2.2 The Size and Distribution of Online Lending Platforms

2.2.2.1 The Size of Platforms

According to the data from Wangdaizhijia and other channels, there were about 800 OLPs as of the year end of 2013 and the speed of emergence of new platforms

Fig. 2.2 The number of online lending platforms



kept accelerating. The total number of platforms increased at 4.21 times rate every year since 2010, as demonstrated in Fig. 2.2. Despite some possible slowdown of platform growth as the suspicions that the regulatory policy about the online lending industry may come out in 2014, a double-time increase can still be expected. As the development of the internet technology, the small loan companies and pawnshops that share high degree of similarities with online lending may gradually enter into the online lending industry. As of today, there are about 7000 small loan companies and the similar number of pawnshops in China, providing a large space for the continued high-speed increase of online lending platforms in the future.

2.2.2.2 The Geographical Distribution of the Platforms

The online lending platforms are geographically distributed in many places in China. Selecting 450 online lending platforms with detailed information from the database, the platforms are primarily located in Guangdong Province, Zhejiang Province, Shandong Province, Jiangsu Province, Beijing and Shanghai, as shown in Fig. 2.3. The first tier consists of Guangdong and Zhejiang Provinces with totally about 39 % of the total number of online lending platforms in China. The second tier consists of Jiangsu, Shandong, Beijing and Shanghai, each with 6–9 % of the total numbers of platforms. Among all of them, more than 70 % of the online lending platforms are located in the coastal provinces or cities, which share the following characteristics: (1) Prosperous economy with relatively large amount of private business; (2) long history of private lending; (3) dual-financial-systems, that is, there co-exist the traditional commercial banks and private lending, the spread between the interest rate offered by commercial banks and by private lending, and the spread between the interest rate offered online and offline. As a result, large number of online lending platforms sprouts out in these provinces and cities in the recent years.

In Guangdong Province, Shenzhen is the city that has the most platforms in the province owing to its unique characters in innovation and service, and has achieved many “No. 1”s in online lending industry, such as, the first platform to

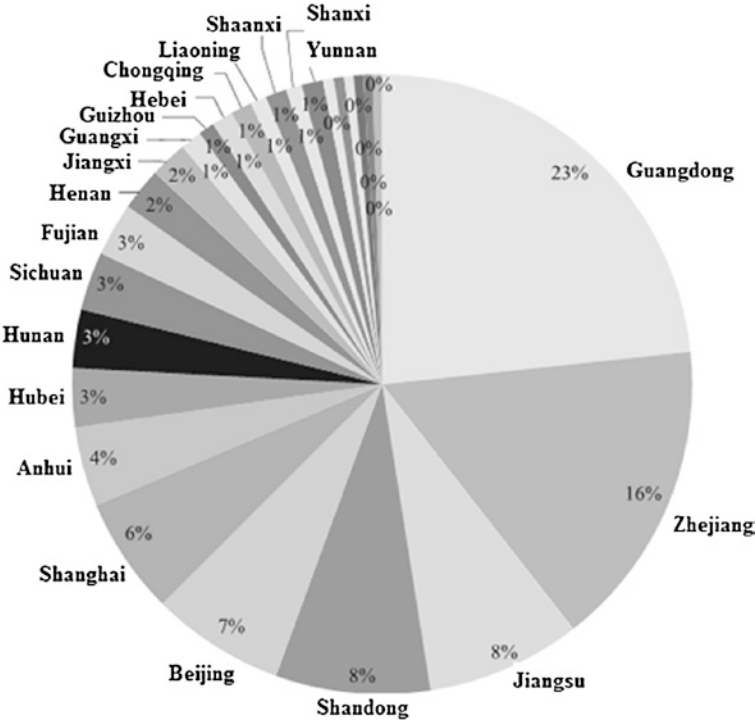


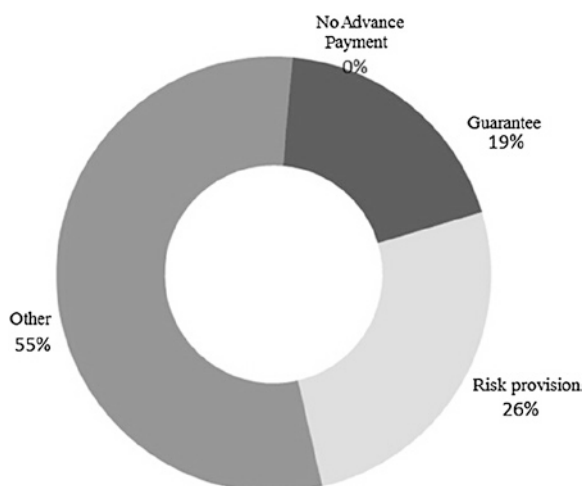
Fig. 2.3 Geographical distribution of 450 online lending platforms in China

provide advance payment, the first platform backed by commercial bank, and ranked No. 1 in the total numbers of the platforms, transaction volumes, and active lenders. In contrast, Fujian, also, as a well-developed province, has far less online lending platforms than other coastal provinces or cities. The number of platforms in several provinces or cities in central China is relatively higher, which may be attributed to the under-developed financial industry there where the insufficient financial services left many unsatisfied fund borrowers, so the internet-enabled private lending may bring a larger development space for these provinces and cities. The number of platforms in provinces in the west and north-eastern China is relatively low, so there is a huge market for cultivation. In the provinces such as Liaoning, Hebei and Inner Mongolia, there are a large number of small loan companies, and more potential online lending platforms may arise there in the future.

2.2.2.3 The Business Models of Platforms

As briefly discussed in Chap. 1, in the entire China’s online lending industry, there are only two platforms, PPDai and DianRong Net that publicly announce that they will not provide advance payment to the lenders in the case of default. The rest of

Fig. 2.4 Distribution of online lending by advance payment model



the platforms all offer advance payment backed by guarantee companies or risk fund provisions. The distribution of different models of online lending is shown in Fig. 2.4. It can be seen that, almost 20 % of OLPs claim that they will cooperate with guarantee companies to provide guarantee for borrowing (it is certainly discussable whether they can actually provide the guarantee they promised), and 26 % of the platforms set up risk fund provisions in order to cover overdue payment (it is also discussable whether the statement is valid and the procedure is transparent). In addition, more than half of the online lending platforms claimed that they can offer advance payment for overdue payment, but the exact payment mechanism has not been established yet. Most of such platforms are small platforms with the intension to quickly jump into the industry to share a piece of pie, but may not have an adequate understanding of the market and risks in operating online lending platforms with the ability to mitigate risk. It is highly likely that these not-well-prepared platforms will be weeded out of the market as the industry further develops.

2.2.3 Information Disclosure of Platform Companies

2.2.3.1 Registered Capital of Platform Companies

As indicated by information of 450 online lending platforms in China in the database, the registered capital ranges from RMB 100,000 Yuan to RMB 400,000,000 Yuan with 13,570,000 Yuan in average. The registered capital of the majority of platforms is between RMB 5 million and 10 million Yuan. There are only 36 platform companies whose registered capital are more than 50 million Yuan, as shown in Fig. 2.5. Lufax of PingAn Group is the one with the largest registered capital,

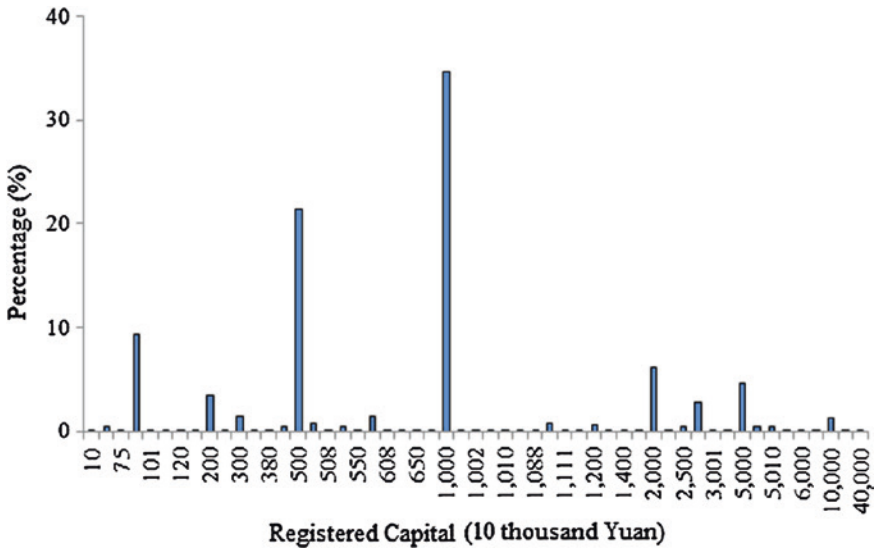


Fig. 2.5 The distribution of registered capital of online lending platforms

400 million Yuan. However, the registered capital is not a major factor to measure the strength or influence of a platform. For example, Renrendai, with loan balance of more than RMB 1 billion, only had about 6 million Yuan registered capital when registered.² Also, a certain number of platforms may have made false statements about their registered capital by either using advance capital, probably for “face-saving” or purely exaggerate their registered capital to mislead the lenders.

2.2.3.2 The Number of Employees of Platform Companies

There is a considerable difference in the number of employees working in OLPs with different business models or transaction scales. Based on data from 37 OLPs in Shenzhen, the number of employees of the platforms can be seen in Table 2.2.³

As the result indicated, the number of employees working in those online lending platform ranges from a few to several hundreds, and their distributions are summarized in Fig. 2.6. For the most of the platforms, the number of employees is under 50 with the average of 22, and basically, the OLPs in Shenzhen are “light-asset” companies.

In addition, it can be noticed that, the platform with more employees are also the online lending platforms with certain level of transaction scales and

²According to data from webpage of Beijing Industrial and Commercial Administration: <http://www.hd315.gov.cn>, the registered capital of Renrendai is 6.1696 million Yuan.

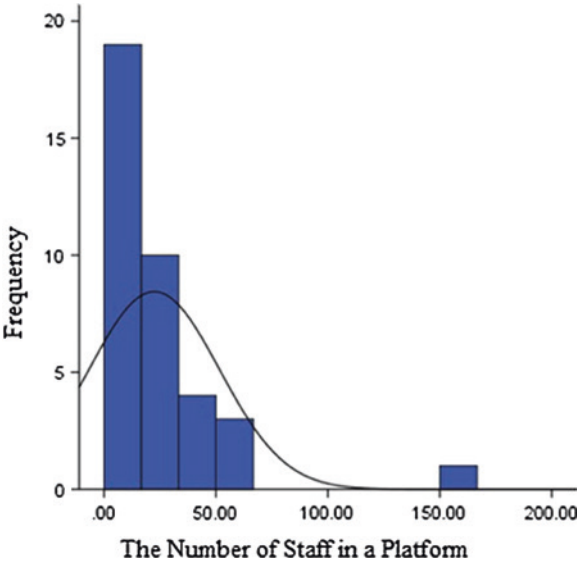
³Shenzhen Credit Net: <http://www.szcredit.com.cn>. The statistics indicates the number of employees who paid social security fee. It may be different from the number of the actual persons working in the firms.

Table 2.2 The number of employees in online lending platform in Shenzhen

The name of platforms	Operating company	The number of employees
Financing City	Shenzhen Financing City E-commerce Co., Ltd.	161
He-Pai Online	Shenzhen He-Pai Online E-commerce Co., Ltd.	62
Rongjinsuo	Shenzhen Rongjingsuo Investment Management Co., Ltd.	61
Renrenmoney	Shenzhen Renrenmoney E-commerce Co., Ltd.	56
My089	Shenzhen My089 E-commerce Co., Ltd.	50
Qian88	Shenzhen Qian88 E-commerce Co., Ltd.	40
Jinhaidai	Shenzhen Jinhaidai Financial Service Co., Ltd.	39
Vanbrothers	Shenzhen Vanbrothers E-commerce Co., Ltd.	35

Data Source Shenzhen credit net

Fig. 2.6 The number of employees in online lending platforms in Shenzhen



reputations. Therefore, the talent recruiting is crucial for an online lending platform to grow larger and stronger.

Currently, the OLPs with large amount of loan balance typically connect lenders and borrowers through O2O form (online (connecting) to offline). As a result, a large number of offline employees are needed to explore the borrowers and lenders. According to some non-official statistics, the number of offline staff needed to explore borrowers or franchisees has reached 3000 in Renrendai,⁴ almost 1000 in

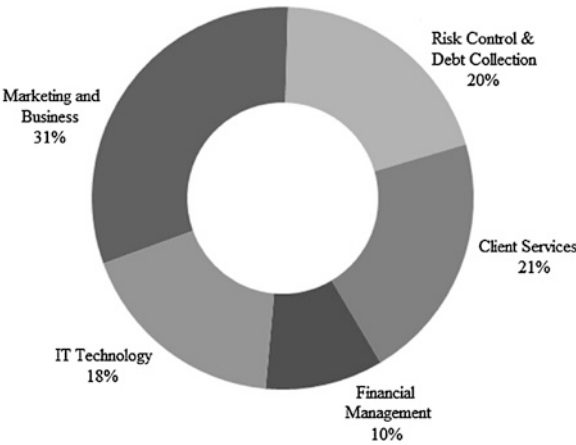
⁴Value Estimation of Renrenyouxin 4 Billion Yuan: \$130 Million Round A Financing Finished: <http://money.163.com/14/0110/01/9I6KT1C900253B0H.html>.

NiWoDai and Xinxindai, and about 500 in Lufax. Comparing with Zopa in UK, the first online lending company in the world with only 45 employees, the operation and risk control models used in China are still pretty preliminary, and the production/service value per capita is still relatively low. There is still very huge room for the online lending platforms in China to optimize their operations via application of online technology to further improve their effectiveness and efficiency of the operation.

2.2.3.3 Functions of Employees in Platform Companies

Regarding the functions performed by employees in platforms, some on-site investigations were conducted for 16 selected OLPs. The data shows that in staff composition, the number of marketing and service development staffs are the largest while the number of IT engineers is the lowest. In some platforms, there is only one to two operating maintenance staff, which is apparently a weakness of the most OLPs, as shown in Fig. 2.7. It is understandable that, due to the intensified competitions among platforms, it is important to maintain the relationship between platform and lenders, and client service, as a window for a platform, has become indispensable and their department has become the one with the most staff. Also, it can be noticed that there are a certain number of financial employees in these platforms, as there is no third-part custodian for the funds in the most online platforms. As a result, account reconciliations, deposit withdrawal and payment are all completed by platforms’ own financial staffs. The structure of these platforms in human resource allocation represents the main-stream set up of online lending platforms. However, with the increasing in competition in the industry, the number of IT engineers is expected to gradually increase.

Fig. 2.7 The staff function of online lending platforms



2.2.4 Operation Indicators of Platforms

2.2.4.1 Operating Income and Profits of Platforms

The sources of observable operating income of online lending platforms include borrowing management fee, interest management fee and other fees (such as VIP membership fee, documentation verification fee, recharging or withdrawing fee), among which the borrowing management fee takes the largest proportion. The borrowing management fee is a service fee for a borrower when he/she successfully obtains the loan in full amount, typically ranging from 0.2 to 1 % of the total loan amount. As estimated, borrowing management fee usually accounts for more than 70 % of the platforms’ operating income, if the platforms have no other non-disclosed income. Therefore, based on borrowing management fee and the transaction volumes disclosed by platforms, one can roughly estimate the operating incomes of many OLPs, as shown in Fig. 2.8. However, due to the existence of interest management fee and other fees, the actual income of a platforms could be higher than the estimates.

Matched with their transaction scales, the operating income of Lufax is far ahead of all other online lending platforms. Its annual income has reached more than RMB 200 million Yuan. The major source of its operating income is the spread between the interest charged to borrowers and interest paid of lenders. And its current income level has been high enough to make up for the principal advance payment to the lenders in the case of default. The operating income of other online lending platforms are quite different. Online Credit loan managed by Zendai Group has been operated in a tepid way for many years and its income was very meager. For another old brand platform, 51Qian, its transaction volume and popularity has stayed in a depressed situation for years with unpleasant operating

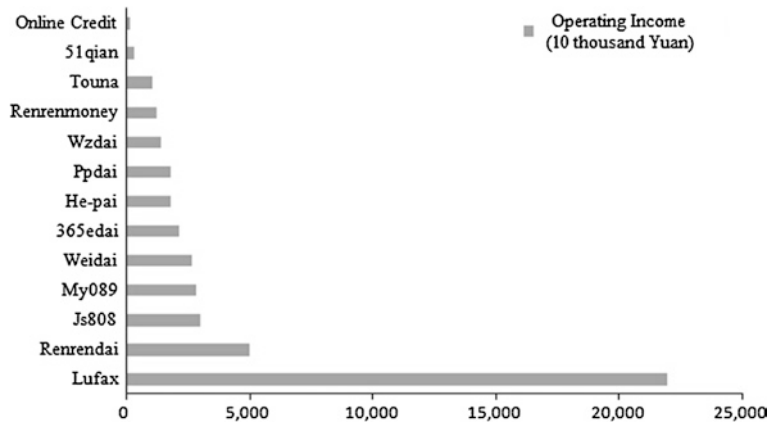


Fig. 2.8 Operating income of online lending platforms

income. So, only these platforms with higher operating income can have the needed capital to expand their teams and grow their business scales. Thus, operation income is a significant indicator for the online lending platforms, and the platforms which already gained their advantages may have even more in the future.

Regarding the other fees collected by platforms, the VIP membership fee, which is popular in Shenzhen, was first initiated by My089 to make up for the loss of advance payment for the platforms in the case of default. With the intensified competition in the industry, however, the other platforms, for attracting the lenders with advance payment guarantee for principals, all offered the services without VIP membership fee. As a result, the platforms requiring VIP membership fees now only account for about 3 % of the whole industry.

Interest management fee is the second largest income source next to borrowing management fee, usually charged at about 8–10 % of the interest received by the lenders. Since this fee comes from the lenders, similar to VIP membership fee, it has been cut down by many platforms so as to attract the lenders. Or sometimes, some platforms even set up free interest management fee at the beginning period of time. Currently, the platforms that explicitly charge interest management fee account for about 9 % of the total platforms. Moreover, considering to provide a better customer experience for the lenders, more and more platforms now charge no recharging fee or withdrawing fee.⁵ So these pieces of income now only account for very little in the total income of the platforms.

It is difficult to estimate the profit margin of an online lending platform, however, as each platform has different business model and not all the income or cost of the platforms were published. Through the interviews with many platforms, it seems that the most platforms in China now can only maintain a break-even status or undergo a little loss. But as for those platforms with certain degree of popularities and transaction scales, the profits seems quite considerable. According to the statistics of some platforms which published their incomes and costs,⁶ the gross profit margin of some platforms can reach 20 % now on the condition of no advance payment for bad debt. The risk control ability of a platform can directly influence the firm's profit. For these platforms, in which the platforms themselves or their related-party firms bear no responsibilities for principle advance payment, their operating cost is only composed of operating expenses. If a platform does not need to care about default risk control or advance payment, it can put more effort and capital into platform marketing and operations. Those platforms show more internet attributes and have higher possibility to be standing out from their competitors in a relatively short period of time. Yooli and Itouzi which were thriving in 2013 are good examples in this regard.

⁵In order to prevent arbitrage of credit card, almost all platforms charge fees as a proportion of the deposit withdrawal if the funds have been deposited for less than 15 days.

⁶The annual report from <https://www.liantouwang.com/>, <http://www.hexindai.com/>, <http://www.esudai.com/> and other online lending platform webpages.

2.2.4.2 Leverage of Platforms

As many platforms now also take the role of guarantee, there is an invisible leverage in platform operations. As far, the online lending industry is still free from regulation and there is no official definition about the nature of platform guarantee or leverage multiples. With a reference to the regulation of financial guarantee companies, we simply define online lending platform leverage as:

$$\text{Platform Leverage} = \frac{\text{Loan Balance}}{\text{Platform Registered Capital}}$$

At present, the average platform loan balance is RMB 33.5 million Yuan in China and the average registered capital is RMB 13.57 million Yuan. Thus the average leverage multiple is about 2.5 times now. Comparing with leverage multiple of 3–5 times in financial guarantee companies, the leverage of online lending platform is still in an intermediate level. The leverages of 35 OLPs as of the end of 2013 are listed in Table 2.3.

There are several things that may need to be noticed. First, for those online platforms not offering advance payment, there is no leverage in it, such as PPDai. Second, the leverages listed above may not be the actual leverages in platform's practice. Take Renrendai as an example, it has a specific risk fund provisions and corresponding guarantee department to deal with loan overdue or default. Also, the actual capital it has is much higher than its registered capital. Therefore, its leverage is far less than that listed in the table. Finally, the leverages in Table 2.3 are much higher than the industry average. It happens, not only because they have very high loan balance, but also many new small platforms established in 2013 have low loan balances with high registered capitals (Currently, the majority of the platforms' registered capital are 5 and 10 million Yuan. However, some platforms reported false registration capital via short-term advances, so their actual capital cannot be verified). The entry of these platforms lowered down the average level of leverage of the entire industry.

2.2.4.3 The Overdue Rate of Platforms

At present, there is no official and standardized method to calculate the overdue rate. And there is only few platforms willing to publish their overdue loans, and the standards of the published overdue rates were not calculated in an uniform format. Referring to *Self-Discipline Agreement of Peer-to-Peer (P2P) Small-Loan Information Consultant Service Institutions*,⁷ published by Chinese Small-Loan Credit Alliance, *Online Lending Industry Entrance Admission Standard of Shanghai Online Lending Industry Enterprises Alliance*,⁸ published by Shanghai

⁷Chinese Small Amount Credit Alliance: *Self-discipline Agreement of Peer-to-Peer (P2P) Small-loan Information Consultant Service Institutions*: http://www.chinamfi.net/files/products/8326.0318_000000P2P00000000000000000000.pdf.

⁸Reference [2].

Table 2.3 Leverage of 35 online lending platforms

Platform name	Leverage
Creditonline	1.46
Ksdai	1.94
Esudai	2.39
Redaiwang	2.60
Dai36	5.23
Saidai	5.41
Minmindai	5.64
365edai	5.80
Tuandai	5.88
Hcdai	6.04
Lufax	6.08
Htyd50	7.45
Ewdai	7.97
Ppmoney	8.84
Daiab	9.02
Xinxindai	10.59
Js808	11.17
My089	11.28
Zfxindai	12.52
51qian	12.81
Xinrong	20.56
Yirendai	21.79
Rxdai	32.01
Gsdai	37.55
Hlwjd	37.55
s-rong	39.57
He-pai	43.24
Weidai	45.53
Zbicc	46.75
Yiqihao	50.64
Wzdai	59.34
Renrenmoney	65.12
Gkkxd	79.32
Renrendai	199.55
Ppdai	239.99

Date Source Wangdaizhijia

Online Lending Industry Enterprises Alliance, and also the availability of statistics, we define the overdue rate as follows:

$$\text{Overdue Rate} = \frac{\text{The Total Amount of Outstanding Principal Not Repaid by Borrowers for Over 90 Days}}{\text{The Cumulated Transaction Volume of the Platform in the Previous 120 Days}}$$

Table 2.4 Overdue information of platforms

Platform name	Number of overdue borrowers	Overdue amount (Yuan)	Overdue amount per capita	The average of the longest overdue days
365edai	245	35,188,240.38	143,625.47	703.65
Js808	80	10,994,908.55	137,436.36	625.78
Esudai	182	24,980,439.47	137,255.16	761.59
My089	430	20,465,687.7	47,594.62	956.10
Htyd50	9	9,127,086.44	1,014,120.72	308.33
Kaikaidai	83	7,797,072.6	93,940.63	460.18
0086cf	1	1010	1,010.00	111.00
Ppdai	766	4,590,108.28	5,992.31	190.24
Ssp2p	1	182,310.11	182,310.11	183.00
51qian	9	46,604.56	5,178.28	489.11
S-rong	138	691,507.32	5,010.92	678.01
Itbt	58	9,699,381.99	167,230.72	731.95
Sukedai	23	311,595.96	13,547.65	180.00
Dai36	7	2,943,484.02	420,497.72	388.00
Weidai	68	3,518,533.15	51,743.13	544.16
Wzdai	8	450,062.17	56,257.77	382.88
Yundaiwang	9	91,985.56	10,220.62	337.22
zfxingdai	6	717,784.13	119,630.69	427.17

Data Source Wangdaizhijia

We selected the overdue statistics of 18 platforms which published their overdue information and choose the overdue borrowers whose principals were not repaid back for more than 90 days. The number of the borrowers and the overdue amount is summarized in Table 2.4.

It can be found that PPDai, My089 and 365edai have more overdue borrowers. As PPDai does not use the advance payment model and has no effective collection means, it resulted in serious overdues of borrowers, and even some intended defaults. However, even though the number of overdue borrowers is very high, the overdue amount per capita is not very significant because of relatively low borrowing amount per capita at PPDai. My089 also accumulated lots of overdue borrowers as the result of longer time operation and difficulties of business development at the early years.

According to the total overdue amount and the transaction volumes that YesMyLoan recorded over 120 days before December 31, 2013,⁹ the overdue rates of platforms are disclosed in Fig. 2.9.¹⁰

⁹The total overdue amount may include the repaid amount, so the actual overdue amount may not be very accurate.

¹⁰The total transaction volume before September 2nd, 2013 was taken as the denominator of overdue calculating formula.

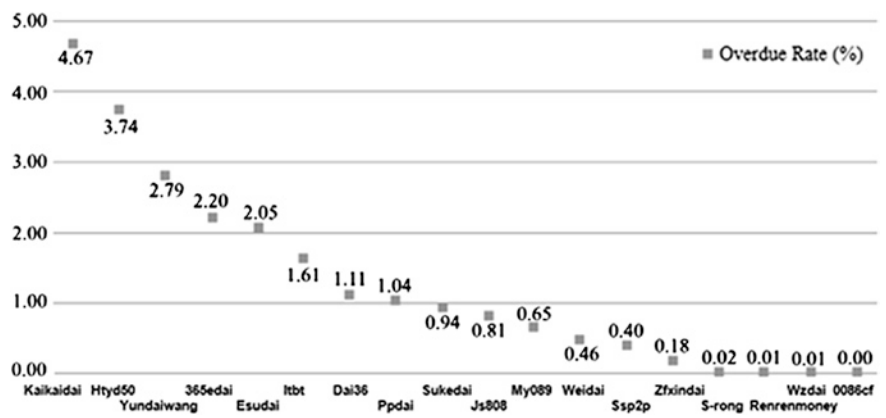


Fig. 2.9 Overdue rates of online lending platforms

Some platforms published the overdue rates by real-time disclose on their websites or operating reports. But different platforms have different definitions of overdue rates, so the comparability among them could be in question. Also, some platforms may make up some false statistics to add transaction volumes, so the validity of statistics also needs some verifications. In addition, the overdue rates of the platforms listed above may be underestimated when the businesses are changed or the subsequent overdue information of loans discontinued to be published later on.

At present, many platforms promised offering advance payment and did not publish the overdue information, for the consideration of their public image or attracting lenders. However, from the perspective of transparency and healthy development of the industry, it is very critical to disclose such information. With the increased possibility of the forthcoming of the regulations, the online lending industry can be expected to be operated in a more standardized way.

2.3 The Status Quo and Developing Trends in Online Lending Industry

2.3.1 The Loan Balances of Platforms

It is estimated that, as of December 31, 2013, the total loan balance in all online lending platforms in China was approximately RMB 26.8 billion yuan, about 4.8 times higher than the estimated balance made in 2012, according to statistics from Wangdaizhijia, as shown in Fig. 2.10. In the past years, the loan balance of OLPs has increased at the rate of more than five times each year on average.

Comparing with other fixed income market which are relatively mature, except commercial bank deposits, the scale of the online lending industry is still

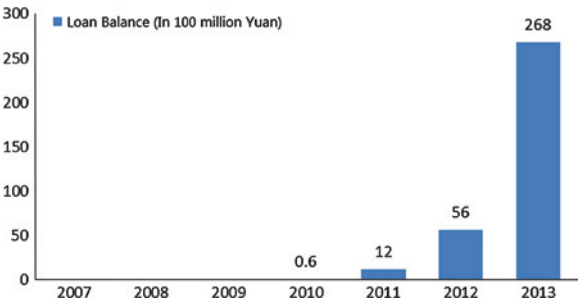


Fig. 2.10 Loan balance of online lending industry

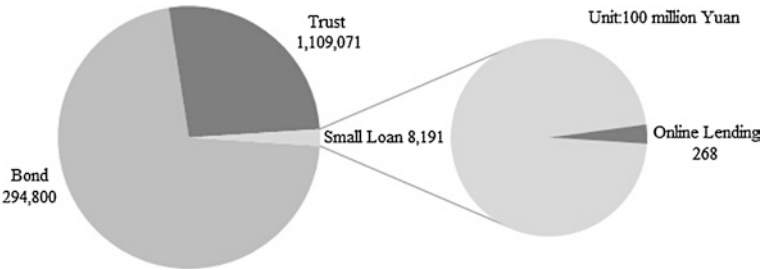


Fig. 2.11 The scale comparison between online lending industry and other financial markets. Data Source Wangdaizhijia, China’s bond information net, China Trust Association, (Main Businesses Data of the Trusts in the Fourth Quarter of 2013, China Trust Association: <http://www.txth.net/>) People’s Bank of China

small, as shown in Fig. 2.11. However, with the fast speed of information dissemination through internet, and as one of the “hottest” industry in 2013, online lending industry received high exposure by all types of media, and tremendous attention from regulation agencies and academics for its enormous potentials in the future.

In order to conduct further analysis of loan balance of online lending platforms, 35 representative platforms which were established before 2013 with decent scales were selected, as listed in Table 2.5.

The total loan balance of 35 platforms in 2013 is 10.026 billion, accounting for 37.4 % of the whole industry, and Lufax alone accounts for 9.1 %, as indicated in Fig. 2.12. Although, online lending industry, as of today, is still the competitive market with many players without the dominant firms, it can be expected that the concentration of the market power towards fewer platforms may appear in the future, given the internet-enabled nature of the online lending industry.

In 2013, a phenomenon called “Daxin” (it means to lend money on the platforms that were established within the most recent 3 months) was popular among the lenders. However, “Daxin” did no generate too much impact to these 35

Table 2.5 35 online lending platforms established before 2013

My089	Wzdai	Weidai
365edai	Ppdai	Lufax
51qian	Renrenmoney	Hlwjd
S-rong	Yirendai	Cnaidai
Renrendai	Dai36	Ewdai
Esudai	Xinxindai	Gsdai
Zbicc	Gkkxd	Yiqihao
Js808	Tuandai	Ppmoney
Daiab	he-pai	xinrong
Htyd50	Kuaisudai	Minmidai
Zfxindai	Rxdai	Creditonline
Hcdai	Redaiwang	

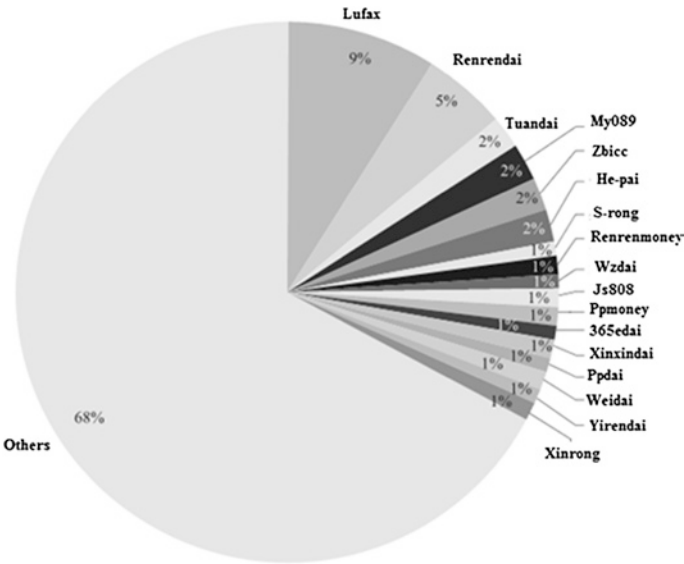


Fig. 2.12 The proportion of loan balance of all online lending platforms in the whole industry

platforms that were established before 2013. The needs of both borrowers and lenders were well matched and satisfied, and the daily loan balance has kept the momentum of steady increase, which quadrupled from 2.363 billion at the beginning of the year to 10.026 billion at the end of the year 2013. In particular, during the second half year, the growth rate sped up significantly from 3.4 % per day in the first half year to 4.6 % per day in the second half year on average. And of course, the exposure of media is a great attributor. The details can be seen in Fig. 2.13.

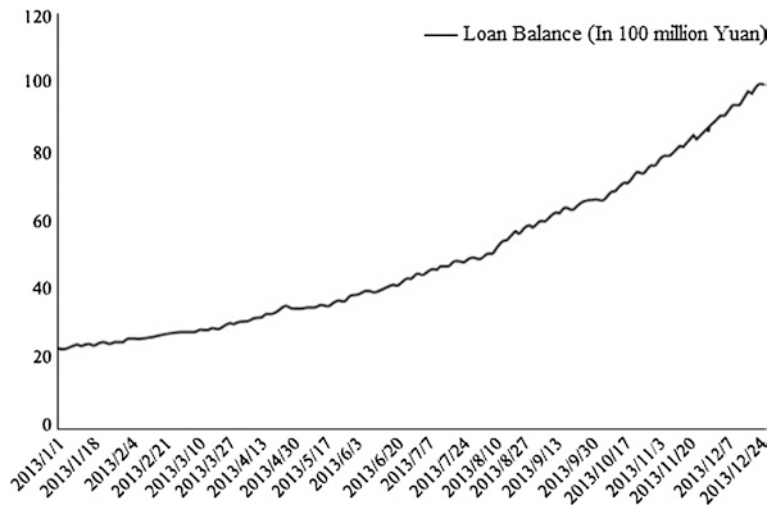


Fig. 2.13 Daily loan balance trends of 35 online lending platforms in 2013

2.3.2 The Transaction Volumes of Platforms

According to the statistics calculated by YesMyLoan, the total transaction volume of all OLPs in 2013 in China was RMB 105.8 billion, 4.9 times higher than the volume in 2012. In the recent years, the growth rate of the transaction volume of OLPs were even faster than that of loan balance, as shown in Fig. 2.14.

Similarly, the detailed transaction information of these 35 selected online lending platforms were further analyzed. The trends of the daily transaction volume of these 35 OLPs are summarized in Fig. 2.15. It can be seen that the trends of transactions moves up and down in an impulse pattern. This happened because most of the platforms

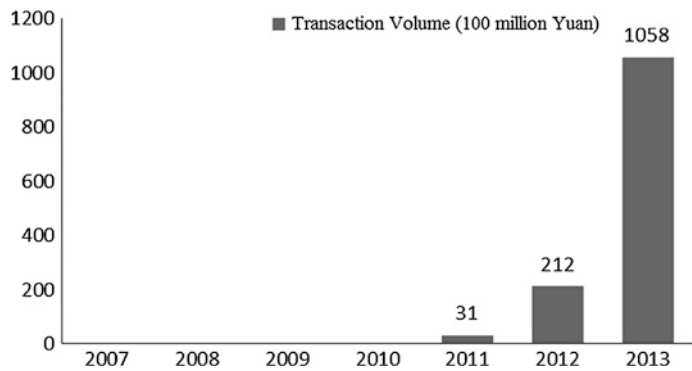


Fig. 2.14 Transaction volume of online lending industry

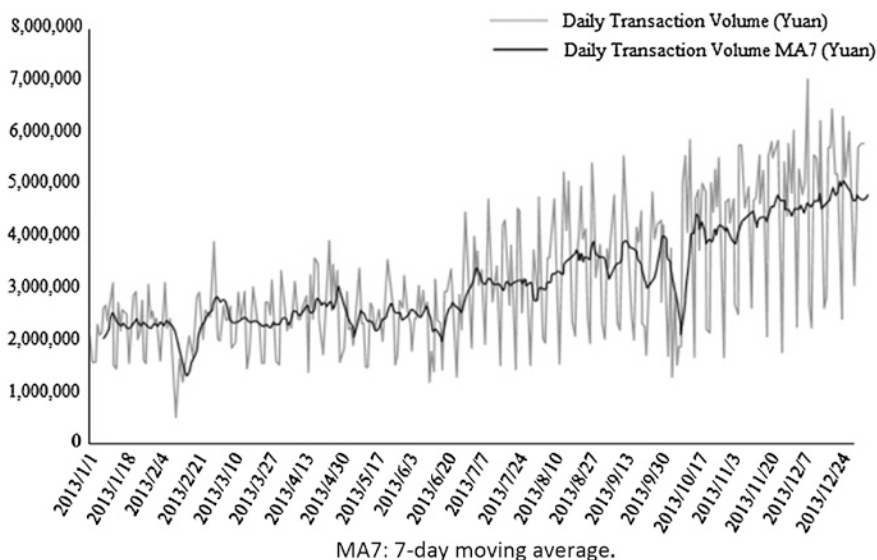


Fig. 2.15 The daily transaction volume trends of 35 online lending platforms in 2013

usually do not issue any loans on the weekends and holidays. As a result, there are sharp drops during long holidays such as the Spring Festival and National Day. During the first half year, the transaction volume is relatively steady with about RMB 2 million Yuan per day on average. However, due to the explosive exposure of the concept of internet finance, the transaction volumes gradually grow during the second half year. The transaction scale doubled at the end of 2013, comparing with the first half year. The entire industry experienced a leapfrog forward and rapid development.

The total transaction volume of 35 selected online lending platforms is RMB 38.379 billion Yuan in 2013, accounting for 36.18 % of the whole industry. The top five platforms with the largest transaction volumes are Wzdai, S-rong, He-pai, Lufax and Zbicc, as shown in Fig. 2.16. Different from the loan balance, the transaction volume of Wzdai, with very short borrowing terms, stands out at the top in the entire industry, accounting for 7.3 %. He-pai, supported by Cogen Corporation, had considerable transaction volume in 2013 for short borrowing term, with relatively larger borrowing amount and some degree of accumulated credibility, even though it didn't run online promotion in a large scale. On the other hand, Lufax, supported by PingAn Group, also showed a significant growth momentum since the beginning of the year 2013. There are totally 12 platforms whose transaction volumes are over RMB 1 billion now, but most of other platforms' annual transaction volume are under RMB 500 million.

For finding out geographical locations of the platforms where the transactions were conducted, 90 platforms with very detailed transaction information,

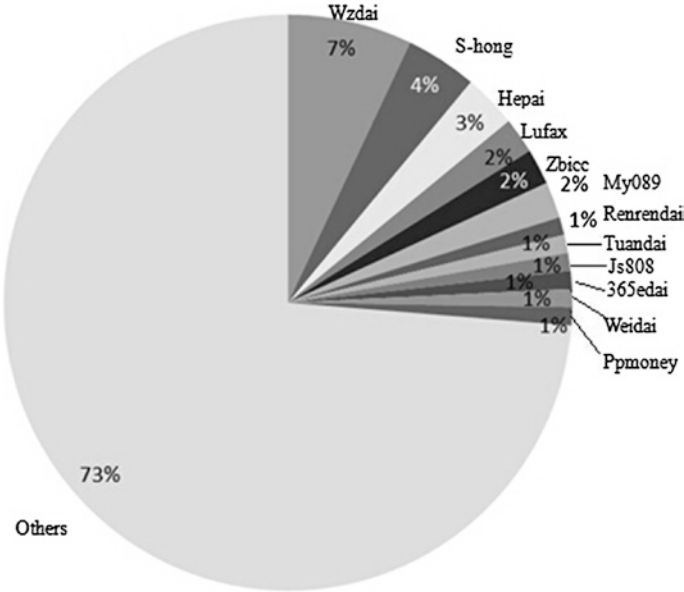


Fig. 2.16 The proportion of transaction volumes of online lending platforms in the industry

including the platforms just online in 2013, were selected to display the geographical distributions of the online lending transactions, as shown in Fig. 2.17.

It can be observed that, the distribution of the platforms may strongly influence the distribution of the transaction volumes, as indicated by the cases of Guangdong and Zhejiang Provinces with both largest number of platforms and the highest transaction volumes. Currently, the “developed” areas of online lending industry in China still concentrated along the coastal lines, with Fujian Province as the only exception. As an economically developed province in China, Fujian’s online lending transaction volume is far less than that of other coastal areas. Meanwhile, online lending platform is far under-developed in China’s western and northeastern areas.

2.3.3 The Interest Rates Charged by Platforms

The interest rate charged by the platforms function as a connector linking the borrowers and lenders, and is also one of the most sensitive and core indicators of the online lending industry. According to the judicial interpretation of China’s Supreme People’s Court,¹¹ the highest interest rate of private lending cannot be more than 4

¹¹In *Supreme People’s Court Several Opinions about the People’s Court Hearing on Lending Case*, Article 6, the rate of private lending can be appropriately set at higher than that of banks. But the highest rate cannot be more than 4 times (including 4 times) higher than the rate of banks, and the excess part will not be protected by law.

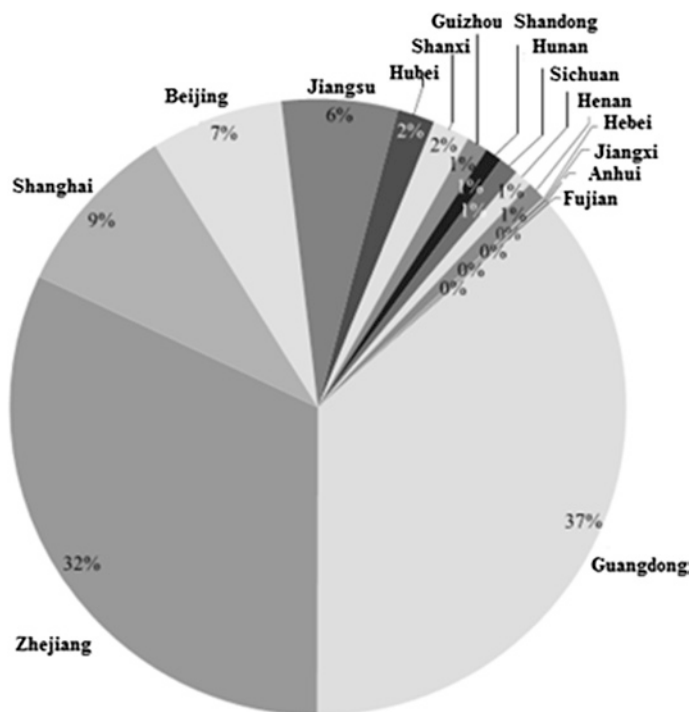


Fig. 2.17 Geographical distribution of online lending platforms' transaction volumes

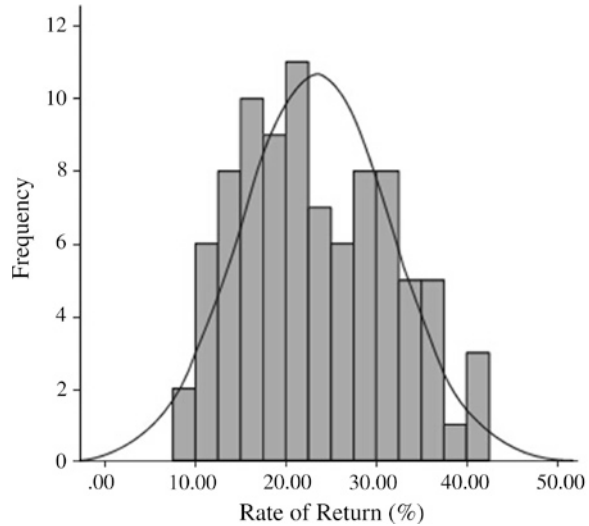
times higher than the rate on commercial banks' lending, and the excessive part will not be protected by law. As a result, almost all loans issued by online lending platforms marked with the annual interest rate less than 24 %. In reality, however, it is pretty common that the actual financing cost paid by the borrowers are more than 24 %.¹² The excessive part is typically charged in the form of service fee or brokerage fee for the platforms with offline services. For the online part, it is typically charged in the form of an award, either cash award and non-cash award.

The sources of the award consists of two parts: one is the payment charged to the borrowers to cover the portion of the interest paid to the lenders that are exceeding 24 %. Another one is the rebate paid by platforms to lenders, recorded as platform's operation expenses on the platform's book, in order to attract lenders. Because of the existence of the awards, the potential online lenders will consider the award as part of the total compensation, in addition to the nominal interest received from the platforms. As a result, for estimating the total return of the lenders, the rate of return including award, instead of only nominal interest rate, was utilized.¹³

¹²The data is collected by phone interview with some small loan companies.

¹³The internal rate of return is calculated using cash flow generated from principals, awards, and interest. And such a rate of return is equivalent to the rate of return from a loan.

Fig. 2.18 Frequency distribution histogram of rates of return of online lending platforms



According to the transaction statistics of the 90 selected online lending platforms in 2013, the average comprehensive rate of return is estimated at about 19.67 %.¹⁴ And the rate of return of each individual platform swings over a very large span, ranging from 6 to 40 %. If taking a look at the frequency distribution of the rate of return of the different online lending platforms, the concentration of the return is in the range of 15–20 %, with the majority platforms having more than 20 % rate of returns. Therefore, for borrowers, many of them have the annualized interest rate more than 24 %, as shown in Fig. 2.18.

It can be observed that the tendency of the daily comprehensive rate of return in 2013 disclosed increasing trend at the first quarter and decline trend at the last quarter, taking the data of 35 platforms that were established before 2013, as indicated in Fig. 2.19.

The rate or return climbed up steeply, due to the seasonality effect, before the Spring Festival, and then fluctuated steadily between 16 and 18 % before arriving the peak of the whole year in June and July time frame. After that, some platforms consciously lowered down the rate of return as the scope of the platforms expanded largely and the lending demand from lenders increased sharply. In particular, started with the “bankruptcy wave” in October, a large deal of capitals flew back into these stable, early-established platforms, the rate of return of those platforms fell down to a lower level. Moreover, some platforms launched “second loan” during holidays, raising up the rate of return in a short term. As a result, some peaks presented during the holidays such as Spring Festival, Moon Festival and National Day.

¹⁴The comprehensive rate of return is calculated using weighted average of rate of return of loan with transaction volume as weight.

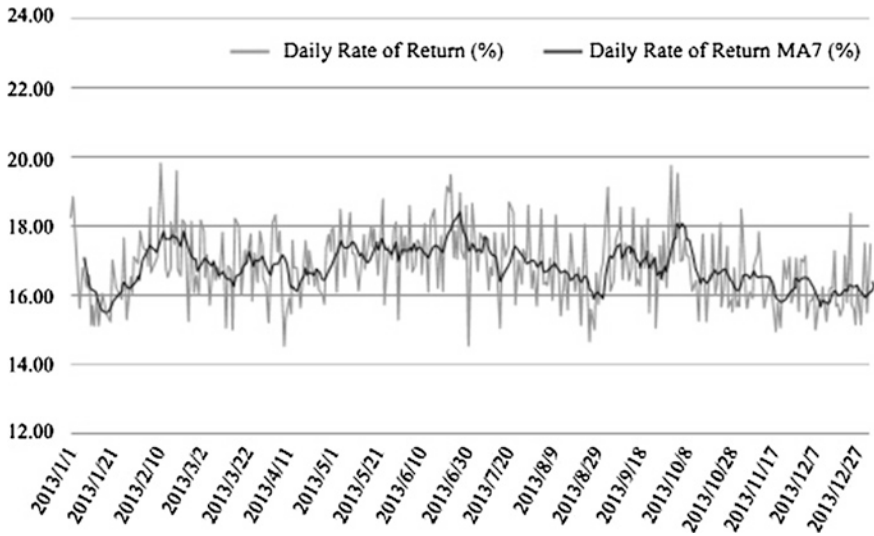


Fig. 2.19 Daily comprehensive rate of return tendencies of 35 online lending platforms in 2013

Furthermore, a correlation between daily transaction volume and daily comprehensive rate of return was found with correlation coefficient at about -0.35 in 2013, indicating that the higher the transaction volume, the lower the rate of return. Interest rate, the connector of lenders and borrowers, has been basically determined in the market place via online lending platforms.

2.3.4 The Terms of Loans at Platforms

The term of loans is another important indicator of online lending platforms. According to the transaction data of the 90 selected online lending platforms, the average loan term of online lending is about 4.73 months,¹⁵ consistent with common loan term of private lending—no more than 6 months.

In terms of the number of platforms, the most OLPs have the loan terms concentrated in 4 months or less, and the half of the total platforms focus on loan terms within 2 months, which can be attributed to the traditional short term of private lending, and some platforms' dividing of the loan into smaller pieces with short term in order to attract lenders. At the same time, however, some platforms issued the credit loan with the term of 2–3 years, backed by their strong commercial bank background and popularity, as indicated in Fig. 2.20.

¹⁵The average loan term of a platform is calculated using weighted average of the term of each loan with transaction volume as weight.

Fig. 2.20 The frequency distribution histogram of loan term of online lending

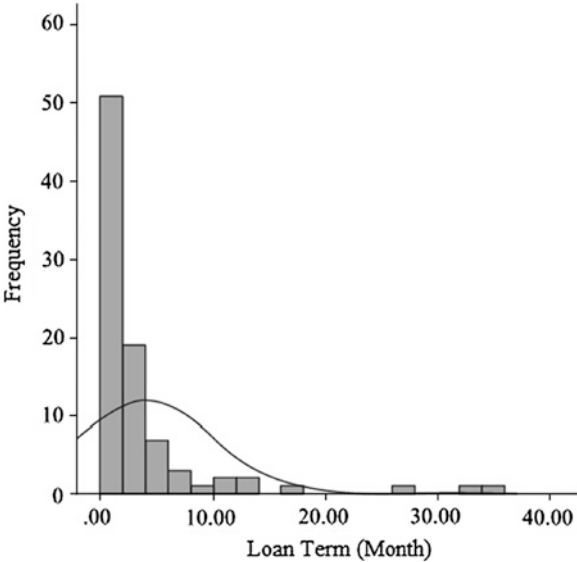
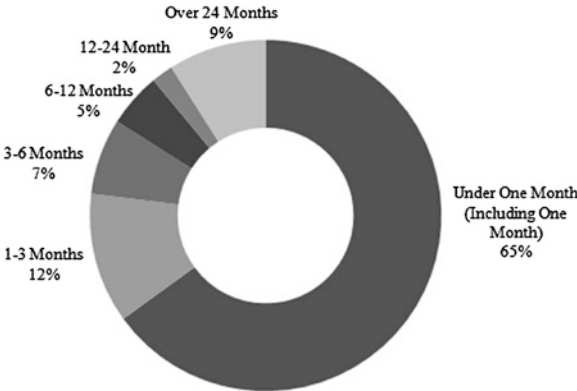


Fig. 2.21 Distribution of average loan terms of online lending platforms in 2013



In terms of transaction volume, the highest transaction volume occurred with the loan term within one month (including one month), accounting for 65 % of the entire industry. It happened, because the borrowers typically cannot bear high interest for long term, and the lenders prefer lending with higher liquidity. As a result, the short-term loan became the major type of loans issued in online lending platforms, and provided a complement to the long-term loans issued by traditional commercial banks. The details can be seen in Fig. 2.21.

Also, it can be noticed that, there are 9 % of loans whose terms is longer than 24 months, mainly issued by Lufax, as shown in Fig. 2.22. The two extremes, in terms of loan term, are Lufax and Wzdai, the two top platforms with the highest transaction volumes. While Lufax focuses on long-term, small amount credit loan

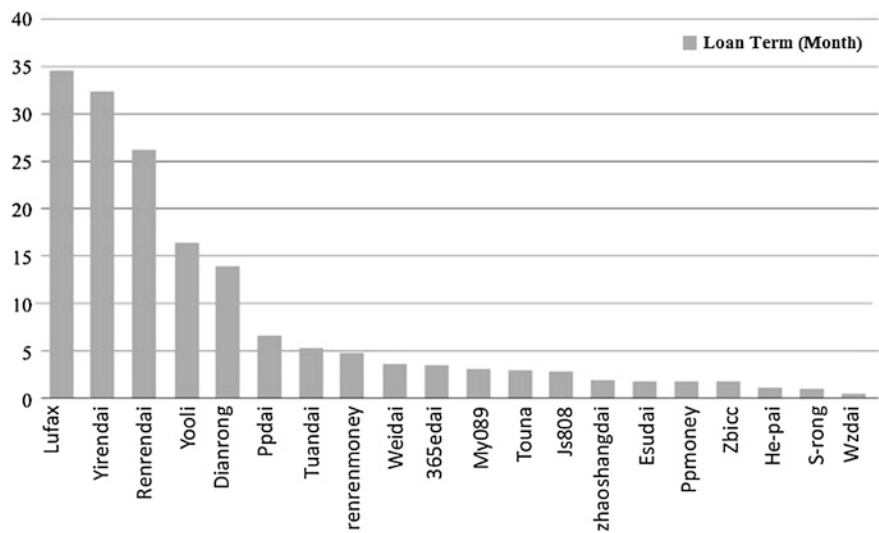


Fig. 2.22 Loan terms of online lending platforms

for individuals using the extreme long term to dilute the cost of capital for each term, Wzdai puts its focus on turnovers of short-term loan in order to attract the group of people using credit card. As a result, the transaction volumes were pushed up in the turnovers of loans and capitals with extremely short terms. These two platforms stood out with their distinct characteristics. It can be expected that the low-rate, long-term debt and high-rate, short-term working capital loan will coexist in the future.

2.3.5 The Trends of New Platforms

As more and more online lending platforms emerged in 2013, the competition among these platforms has been significantly intensified. How to attract lender’s interest and capital became the focus of the platforms’ daily operation. To satisfy the lenders’ needs, the newly established OLPs often offered some special types of loans. At the same time, as the lenders are, usually, not fully understanding the platforms’ operation and the risk of the new online lending platforms, they are typically prone to choose short-term loans on these new platforms, whose terms are usually ranging from 1 to 3 months. It can be observed that the average loan term has been shortened and finally stabilized between 1 and 3 months, as indicated in Fig. 2.23.

In addition, the high rate of return is another important “sweet” to attract lenders. The loans issued by the new online platforms in 2013 usually offered a combined package for investors including interest plus some extra incentives, and the high rate of return including extra incentives has become a notable phenomenon in online lending industry in 2013, as shown in Fig. 2.24.

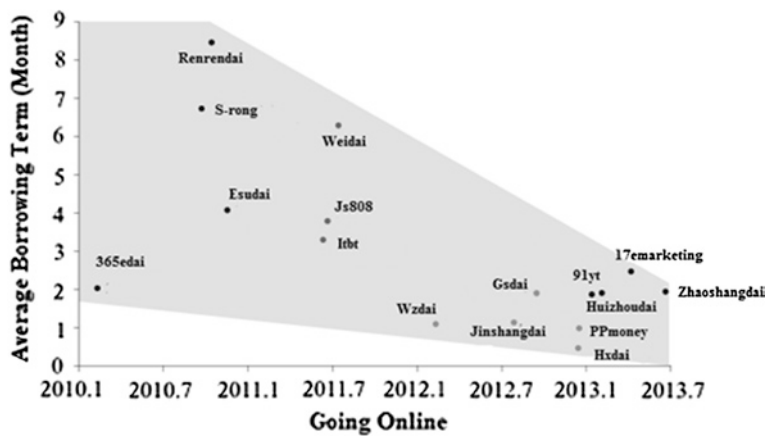


Fig. 2.23 Changes of average loan terms in the first month after platforms went online

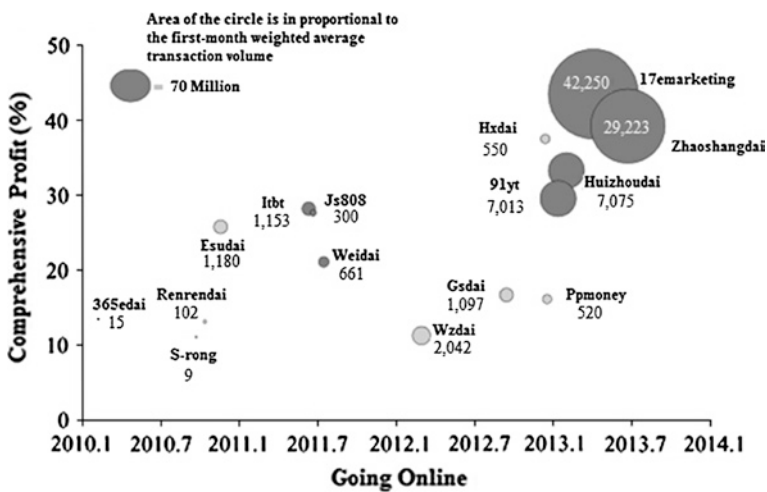


Fig. 2.24 The comprehensive profit and weighted average transaction volume within the first month platform’s online operation

Therefore, the observed booming of the trading volumes on the new platforms in their first month online before October in 2013 was really the result of the combination of the popularity of this industry, the short-term of the bidding on the new online lending platforms, and the high yield offered by these new platforms. The trading volumes in their first month operation of the new platforms in 2013 all far exceeded that of those “older” online platforms that were online before 2013. The increased trading volume, in return, reflects the accelerated circulation of the cash flow and the improved efficiency of the financial market. It is not uncommon that a new online platform can easily surpass an existing, more experienced, and

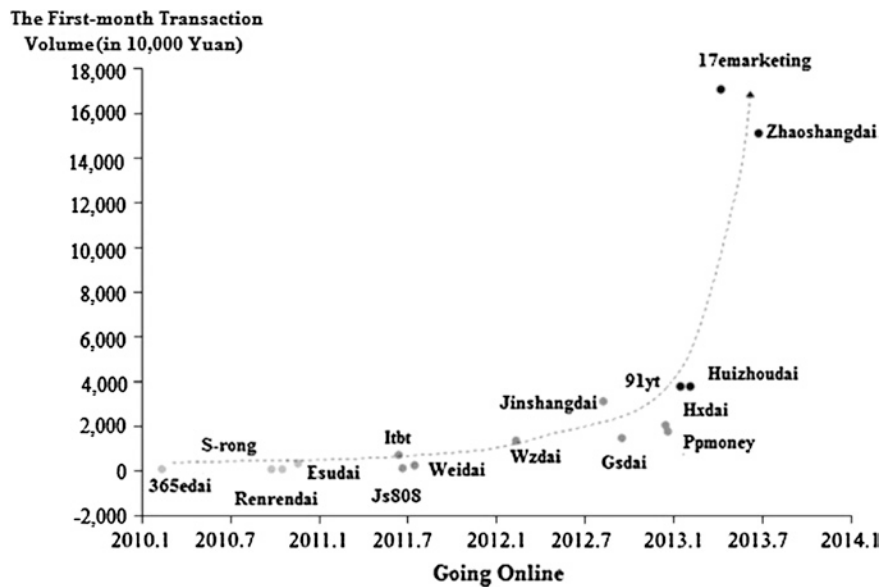


Fig. 2.25 Transaction volume of the first month after platform online

well-operated one in terms of trading volume, with their first-month turnover ranging from RMB a million to over 100 million Yuan, as revealed in Fig. 2.25.

Many new platforms took a “Three-High” strategy when they went online, that is, high yield, high liquidity, and high transaction volume. This “Three-High” approach may help the new platforms attract more attentions of general public and more capitals. However, it also brings huge operational risk. To take “17emarketing” as an example (see Fig. 2.25), after it drew a large number of capital by taking this high-risk strategy, the default events came successively like volcanic explosion. The total default amounts involved exceeded RMB 160 million, and the case became the most serious default event in online lending industry in 2013.¹⁶

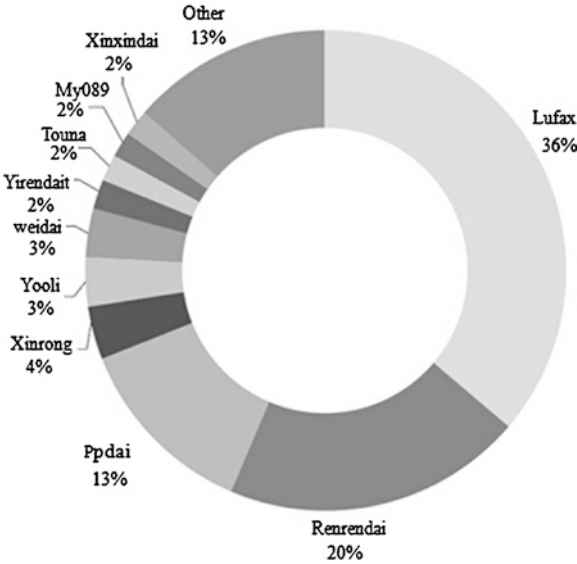
2.4 The Status of Borrowers

2.4.1 The Total Number of Borrowers

As one of the parties of the P2P debtor-creditor relationship, the borrower group is one of the most fundamental nodes in the financing chain of OLPs. As a result, understanding the borrower group, together with the economic and market conditions surrounding them is critical for OLPs to better control the credit risk of online lending.

¹⁶Tan [1].

Fig. 2.26 The number of borrowers on each online lending platform



According to the 90 platforms’ data collected by Wangdaizhijia in 2013, there were as many as 149,300 borrowers borrowing money through these platforms.¹⁷ Among these 90 platforms, the top three platforms that have the most borrowers are Lufax, Renrendai and PPDai, accounting for 70 % of the total 90 platforms. Lufax and Renrendai relied on their powerful offline offices while Ppdai operated on its online-only process. All these three platforms enjoyed some distinct advantages in terms of the number of borrowers, as can be seen Fig. 2.26.

With the fast growth of online lending Industry, the accumulated number of borrowers on each OLP all continuously increased. In 2013 alone, the number increased from less than 10,000 at the beginning of January 2013 to more than 30,000 in December 2013, as shown in Fig. 2.27. If taking a look at the past years, in 2007, there were only dozens of borrowers borrowing at PPDai, the only online lending platform then. But in 2013, the number of borrowers increased to ten thousands. In particular, there was an explosive increase in terms of the number of borrowers in 2013, with a total number more than 8 times more than that in 2012, as shown in Fig. 2.28. As online lending mushroomed in China, more and more people in need of funding obtained the loans by this internet-enabled means.

It is reasonable to anticipate that, with the expansion of this industry, the number of online lending borrowers will continue to increase, and the OLPs should be able to provide better services to the individuals and small or micro businesses in need of capitals.

¹⁷It refers to a borrower who borrowed money at least one time during a specified period of time. It is possible for a borrower to borrow more than one time or borrowed from other platforms simultaneously. So the counting may not be very accurate.

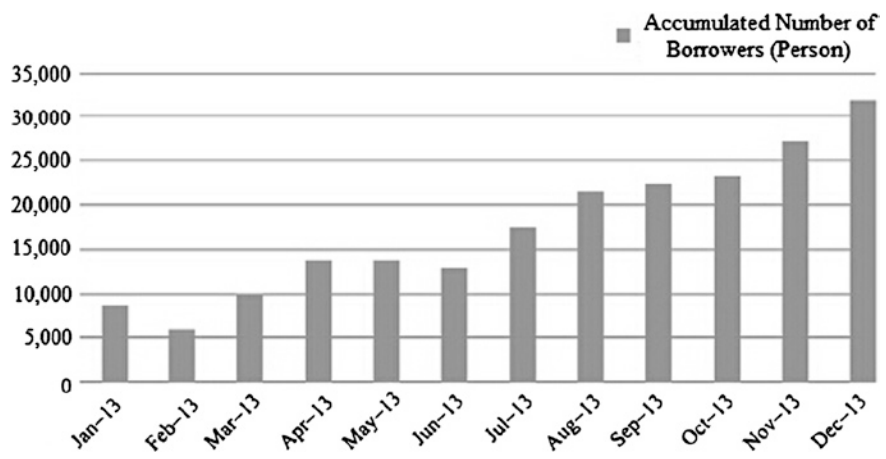


Fig. 2.27 The number of online lending platform borrowers in year 2013

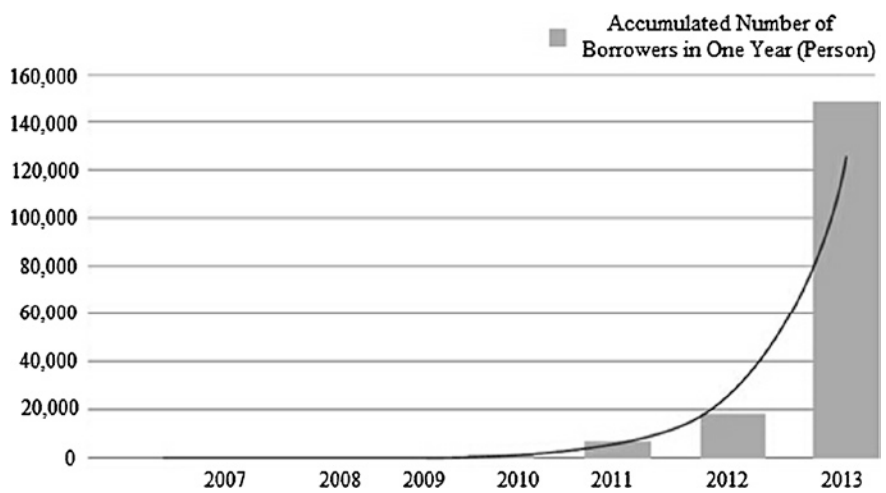


Fig. 2.28 The number of online lending platforms borrowers each year

2.4.2 The Borrowing Amount Per Borrower

Borrowing amount per capita of the 90 OLPs in 2013 was RMB 328,400 Yuan,¹⁸ which was higher than the borrowing amount of the typical personal credit line. It happened, because most of OLPs involved in large-amount mortgage loans and

¹⁸Borrowing amount per capital = The total borrowing amount/Accumulated number of borrowers.

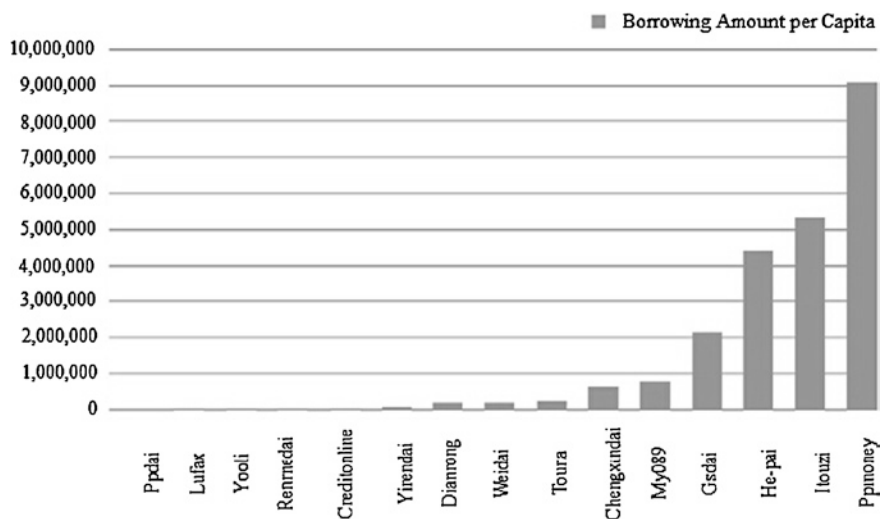


Fig. 2.29 Borrowing amount per capita of each platform

loans for micro and small businesses. As a result, each OLP, with its different business model, differs greatly in its borrowing amount per capita.

Several representative OLPs were selected to be analyzed, and some significant differences can be found in borrowing amounts per capita among these platforms. As shown in Fig. 2.29, Ppdai, Renrendai and Lufax, with personal credit loan as the main business, primarily issued small amount loans with wide dispersion to control risks. As a result, the borrowing amount per capita of these platforms is not high, all below RMB 100,000 Yuan. Among them, as Ppdai controls risks totally online, so the quality of its borrowers is actually at the end of the entire industry. When mortgage loans were involved, the borrowing amount per capita had been increased. For the platforms that took car loans as the primary business, such as TouNa and Weidai, their borrowing amount per capita are about RMB 200,000 Yuan, as their loan amount was limited to the value of the vehicles and the mortgage rate. In contrast, the platforms with real estate mortgage as the primary business, such as Chengxindai, usually issue the loan around RMB 600,000 Yuan per capita. And furthermore, when the business financing is involved, the amount of borrowing is even greater. The platforms with business lending including working capital loans as the primary business, such as Itouzi and Ppmoney, sometimes issue the loans with borrowing amounts per capita close to RMB 10 million Yuan. As can be seen in Table 2.6, from 20,000 Yuan issued by Ppdai to 9 million Yuan by Ppmoney, the domestic OLPs, currently, covered basically all levels of financing needs except those large businesses or large projects.

Table 2.6 Loan types and borrowing amount per capita of each platform

Platforms	Loan types	Borrowing amount per capita
Ppdai	Personal loan	Below 100,000 Yuan
Lufax		
Touna	Personal vehicle-backed loan	200,000 Yuan
Weidai		
Chengxindai	Personal house property-backed loan	600,000 Yuan
Itouzi	Enterprise operating loan	5 million Yuan
Ppmoney	Enterprise working capital loan	9 million Yuan

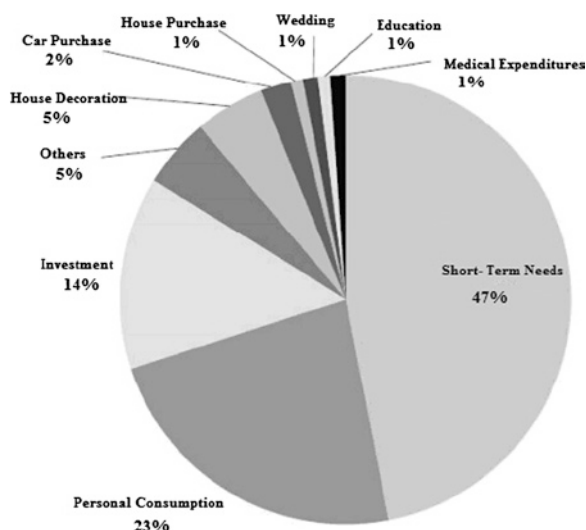
Data Source Wangdaizhijia

Currently, the majority of the loans issued by platforms are the business loans, with collaterals and main usage for working capital needs. The primary characteristics of business loan borrowers are as follows:

1. All the borrowers are non-publically-traded private firms, including sole proprietorship and share-based companies with micro or small size. And one can barely see any state-owned, publicly traded, and foreign owned companies coming to the platforms and seeking funding. Supported by the government and state-owned commercial banks, these business entities can easily raise funds with low interest from the traditional financial institutions, and, thus, have no need to choose raising money through private online lending platforms. As a result, the main stream of the online lending borrowers composed of private micro and small businesses simply reflects the difficulties of SMEs in getting their financing in China.
2. The primary usage of the business loans is to finance the short-term working capital. The high interest rates charged by online lending platforms determines that the business borrowers cannot afford to borrow the funds at longer term. The long-term loans to support capital budgeting and business expansions are typically financed by commercial banks with much lower interest rates. Of course, some companies, which could not obtain approval to borrow from banks, also finance their other financing needs through online lending platforms. This type of companies usually falls into two categories: one is sole proprietorship or micro firms that are not able to get enough funding or credit from banks; and the another one are the companies that are in the industries that are banned by government, from time to time, to receive the loans issued by commercial banks, such as real estate and steel trading industry for time being.

Meanwhile, given the current market conditions that no government regulations for the new online lending industry yet, at least temporarily, some companies started to set up the online lending platforms to obtain funding for themselves. As a result, there appear some platforms that pretty much played the Ponzi Scheme to use the new funding to repay the older debt. The scandal of 17emarketing, as mentioned earlier, is a typical example.

Fig. 2.30 Distribution of the purpose of loan. *Data Source* Wangdaizhijia and Renrendai (<http://www.renrendai.com>)



2.4.3 The Purposes of Borrowing

Let's take Renrendai as an example to analyze the purposes of borrowing of the borrowers, as its borrowers' information is relatively more complete. Among the borrowers, nearly 50 % of them borrow money for supporting their short-term working capital needs. As the traditional commercial banks usually focused on long-term debt, online lending appears as a good complement, and well diversifies the funding sources of the borrowers. In addition, it can be noticed that personal consumer loans and business start-up loans also took a large proportion. Therefore, OLPs also helped improve the quality of life of regular citizens and business development of micro and small businesses. The detailed distribution can be seen in Fig. 2.30.

2.4.4 The Characteristics of the Borrowers

Let's take Renrendai as an example, again. The operating data of Renrendai in 2013 contains the information of 32,635 different borrowers, covering gender, age, marital status, location, occupation, education, company size, income, working years, overdue situation, and some other information.

Among the borrowers, males took a larger proportion: 76.3 %. That is consistent with the fact that the majority of the entrepreneurs in China are male now. For female borrowers, the personal consumer loan could be a field that is worth the platforms' additional effort to explore, as indicated in Fig. 2.31.

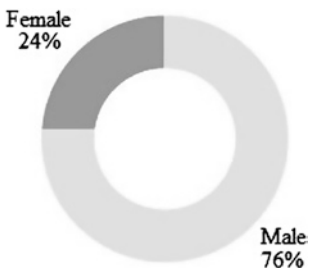


Fig. 2.31 Gender distribution of credit borrower. Data Source Wangdaizhijia

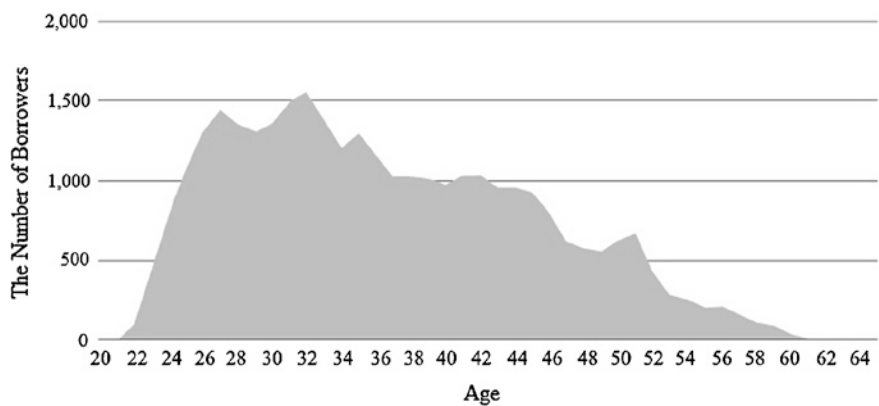


Fig. 2.32 Age distribution of credit borrower

Figure 2.32 is the age distribution of borrowers on Renrendai. It can be noticed that, starting from the age of 20, more and more people begin to have borrowing demands as age grows. It also reflects the increasing funding demands when people approach the year in their life when they should be independent. The number reached the peak at the age thirties, as, at this age, many people need money to either further their career or change their current career track. After that point, as age grows, the career- triggered funding demands reduced gradually.

Among the borrowers, almost half of them have two-year college degree, and there are only 22 % of the borrowers having four-year university degree, as indicated in Fig. 2.33. Although the groups with higher education can better accept the idea of borrowing money online, in reality, the most platforms still operate under the O2O model, that is, “offline borrowers + online lenders”. The offline borrowers can process their loan applications with the assistance of the platform staffs or just let the platform process it on their behalf. In this way, it doesn’t require high level knowledge and skills of computers or internet technology. In general, people with higher education usually have stable jobs and decent incomes, so they don’t have as many funding demands as those start-up entrepreneurs with lower

Fig. 2.33 Distribution of education level of Renrendai borrowers. *Data Source* Renrendai, and Wangdaizhijia

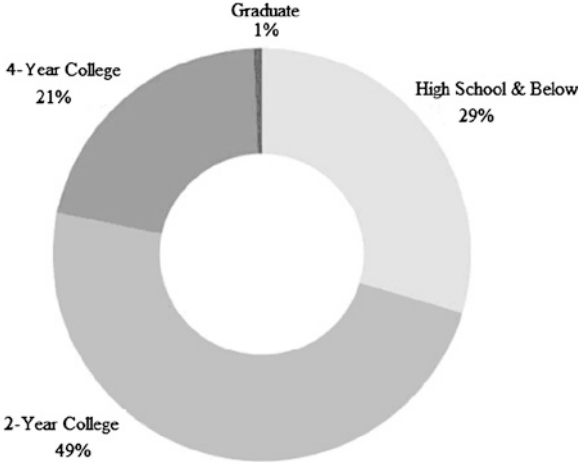
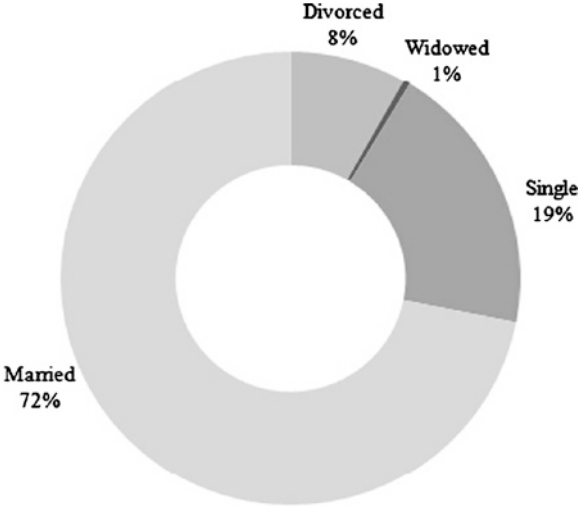


Fig. 2.34 The marital status of Renrendai borrowers. *Data Source* Renrendai, and Wangdaizhijia



degree of education and fewer financial resources. Of course, one of the important implications of the online lending lies exactly in helping those less privileged and underfinanced people satisfy their needs.

The married borrowers also account for a large proportion of the total borrowers, which may connect with the risk-controlling system of the platforms or the age of people with funding demands, as can be seen in Fig. 2.34.

As Renrendai is a national online lending platform, the geographical distribution of borrows is very diverse. People in almost every single province in China have borrowed money via Renrendai, as disclosed in Fig. 2.35. Among them, the most borrowers are in Shangdong, Henan and Hubei provinces. The reason could be the

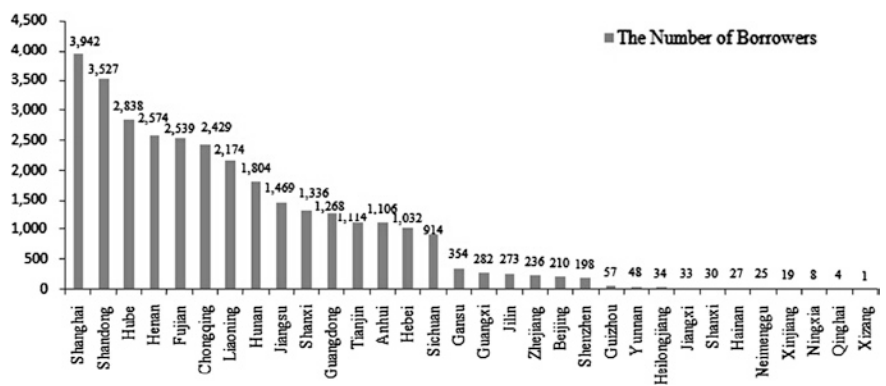


Fig. 2.35 Geographic distribution of Renrendai borrowers. Data Source Renrendai, and Wangdaizhijia

different efforts of business development of Renrendai in different provinces. But it could also be related with the strong funding demands in these areas. In Beijing, where the headquarters of Renrendai is located, the number of borrows is much less, as the finance industry is well developed in Beijing, and the capital sources there are rich. The number in China’s western areas is also low, likely, related with the under-developed economy there.

In view of the entire online lending industry in China, it would be interesting to note that most of the platforms run their businesses in the place where their headquarters are located, and most borrowers also came from where the platforms’ headquarters are sited. As a result, the distribution of the platforms can also reflect the distribution of the locations of the borrowers. Currently, the borrowers primarily came from economically developed areas such as Guangdong, Zhejiang and Shangdong provinces. As for western areas, borrowers basically came from Chongqing, and few of them are from Fujian, so the borrower sources seem needing further developed there.

Regarding the occupations of the borrowers, most of them were found to work in retail industry, where the company scale is typically small, and many of them are proprietorships that usually need short-term working capital financing. Because of lacking adequate collateral and guarantees, they are less likely to be able to obtain loans from commercial banks, and the online lending platforms provide them with the capital they need. While the least online lending borrowers were found in finance industry, where employees typically have relatively high income and many capital resources, manufacturing industry and food service industry also have many funding demands, as indicated in Fig. 2.36.

As for the size of the borrowers’ companies, close to 1/3 companies have less than 10 employees, including proprietorships, as shown in Fig. 2.37. More than half of the companies have employees ranging from 10 to 100. Such a company size is consistent with characteristics of the retail industry and food service industry, showing, again, the significance of online lending to satisfy the financing needs for individuals or micro companies.

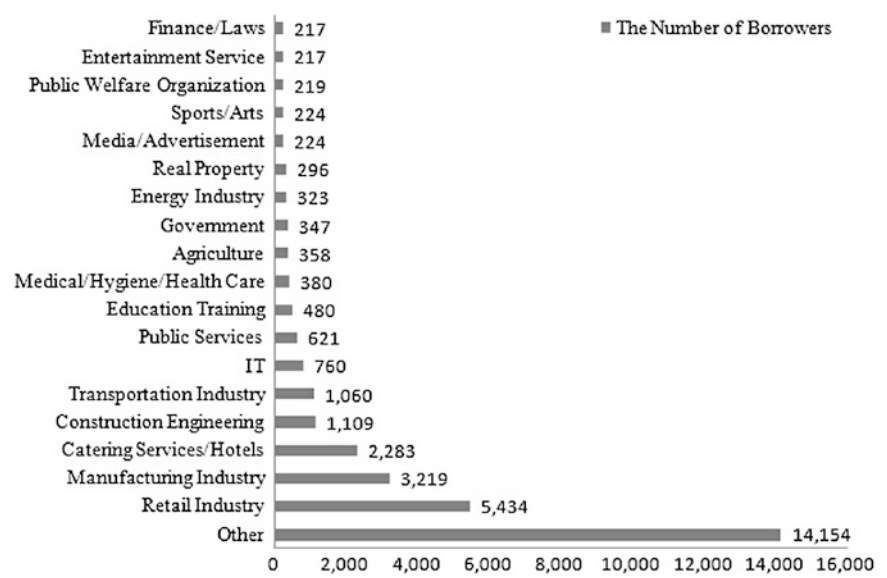


Fig. 2.36 Distribution of occupation of Renrendai borrowers. *Data Source* Renrendai, and Wangdaizhijia

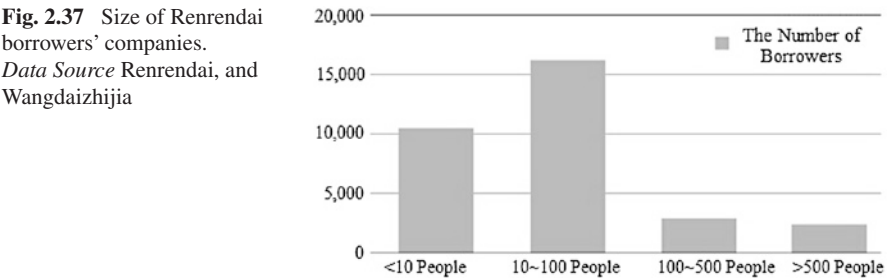


Fig. 2.37 Size of Renrendai borrowers' companies. *Data Source* Renrendai, and Wangdaizhijia

If taking look at the income level and working years of the borrowers, it can be found that most borrowers' income centered on RMB 5000–10,000 Yuan per month and their working years ranging from one to three years, as indicated in Figs. 2.38 and 2.39. Most of borrowers are young male, possibly, with some new ideas and technical skills, and they need additional funding to improve their lives and develop their careers. More than half of the borrowers have monthly income above RMB 10,000. They could be owners of some micro companies, already with some savings. However, their income level may not be high enough to be favored by commercial banks, so they need external funds to develop and expand their businesses. In this regard, OLPs not only expanded their own businesses, but also bring benefits to the entire society by helping younger generations locate funding to support their growth and development.

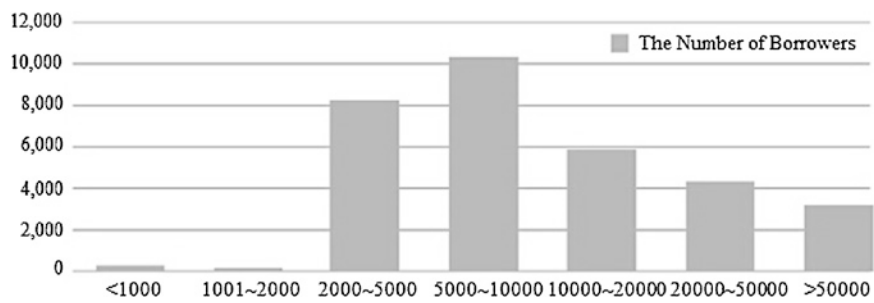


Fig. 2.38 Monthly income distribution of Renrendai borrowers. *Data Source* Renrendai, and Wangdaizhijia

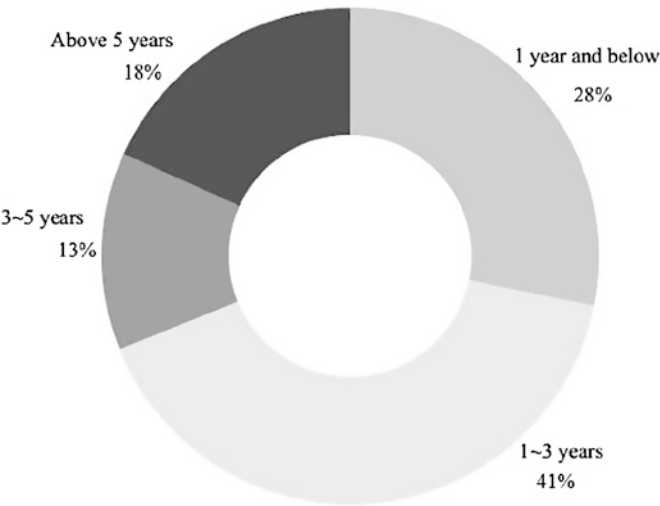


Fig. 2.39 Distribution of working years of Renrendai borrowers. *Data Source* Renrendai, and Wangdaizhijia

Among the over 30,000 borrowers, less than 800 are overdue borrowers, and up to 97.2 % of the borrowers pay back loans on time. So, just as the Noble Prize Laureate Dr. Yunus, the founder of small loan lending, once said, the poor also has integrity.

2.4.5 The Default of the Borrowers

The overdue borrowers are an important part of the borrowers, and analyzing the characteristics of the overdue borrowers and the reasons of default are critical to

understand the online lending industry. By taking look at the data, the primary reasons for the overdue or default can be found as follows:

1. The quality of the online lending borrower: Online lending borrowers are typically the individuals or companies that are not qualified to obtain loans from commercial banks, and high borrowing costs also increases the probability of default for this group of borrowers.
2. The ability or technical skills of risk control of the platforms: Among the current online lending platforms, only few of them possess strong risk-controlling ability and technologies, which made it difficult for platforms to screen out high risk borrowers.
3. Fierce competition among the platforms: As the number of platforms increases sharply in 2013, the competition among the platforms became fiercer. As a result, some platforms lowered the standard to screen borrowers in order to gain the market share as fast as possible.
4. Information asymmetry between online lending platforms and borrowers: Information asymmetry exists between online lending platforms and borrowers. On one hand, platforms are not able to know the non-disclosed information of the borrowers; on the other hand, platforms cannot effectively monitor the actual usage of the borrowed loan as promised by borrowers, neither can they perform post-loan management due to the shortage of resources.

In our data set, there are 18 platforms that have disclosed the overdue statistics, and some properties of the overdue borrowers can be analyzed in the following sections.

2.4.5.1 The Geographical Distribution of Defaults

According to the statistics, most overdue borrowers are currently located in Guangdong, Zhejiang and Shandong provinces. In part, it is possibly due to existence of the large number of platforms in these areas. As the most of the loans are typically issued to the local borrowers, the places with large number of platforms are naturally the places with large number of online lending borrowers. As a result, the number of default borrowers would be relatively larger as well. At the same time, the large number of default borrowers could also be related with the degree of local law enforcement, characteristics of local culture and economic development. It can be seen that, in areas such as Beijing or Shanghai, with a huge population, the overdue borrowers are surprisingly less. That could be attributed to more mature financial system, better risk-control designs, and better risk adjusted pricing mechanism there, and the platforms can, then, more effectively select borrowers with better quality, and monitor and control the post-lending risks. Meanwhile, as can be seen from Fig. 2.40, there are also many overdue borrowers from Hubei, Hunan, Anhui, Tianjin and Fujian provinces.

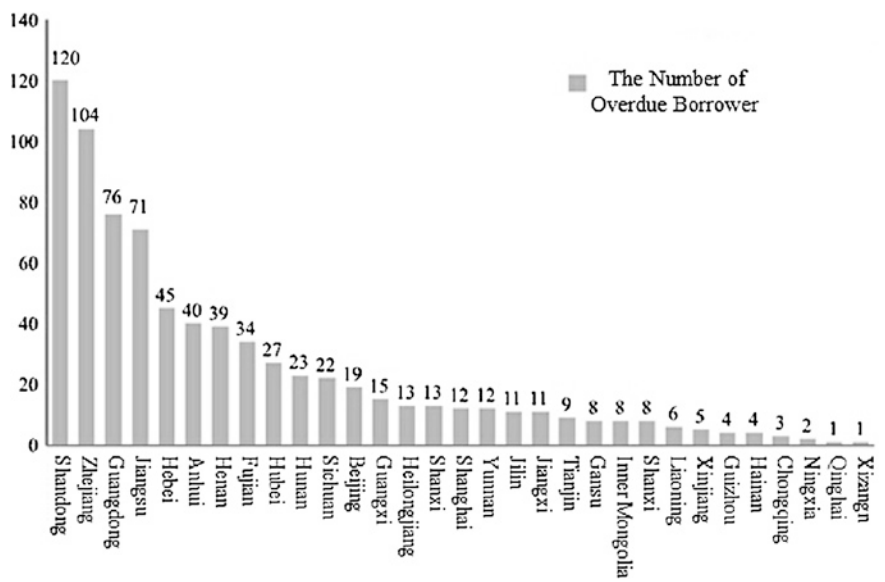
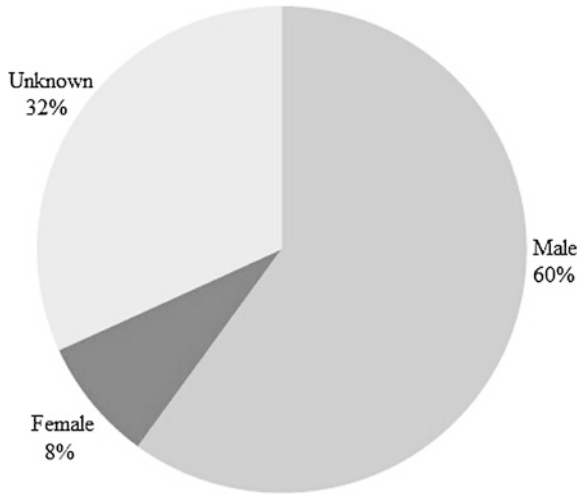


Fig. 2.40 Geographical distribution of overdue borrowers

Fig. 2.41 Gender distribution of overdue borrowers



2.4.5.2 The Gender Ratio of the Default

Regarding the gender ratio of the default, males took nearly 60 % of the total overdue borrowers. The high male percentage may relate with various factors, including male’s risk preference, male’s social status in China, and the ability to bear pressures. Generally speaking, in China, male is usually perceived to have higher pressure-bearing ability and higher degree of tolerance towards risks (Fig. 2.41).

2.4.5.3 The Default Ratio

Let’s take the Renrendai’s overdue borrowers as an example to estimate the overdue ratio of the borrowers.

$$\text{Overdue Ratio} = \frac{\text{The number of overdue borrowers with certain characters}}{\text{The number of borrowers with the same characters}} \times 100 \%$$

Figure 2.42 shows the overdue ratios of borrowers in Renrendai with different education degree. Contrary to intuition, while the borrowers with college degree have the lowest overdue ratio, the borrowers with postgraduate degree or above have the highest overdue ratio. This interesting finding may need some further study to find out why.

Figure 2.43 shows the overdue ratios of borrowers in Renrendai with different marital status. Married borrowers have lower overdue ratio than single ones, which

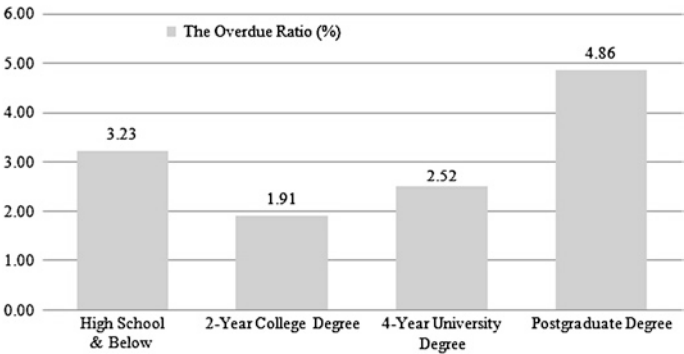


Fig. 2.42 Overdue ratio of borrowers with different education degree. Data Source Renrendai, and Wangdaizhijia

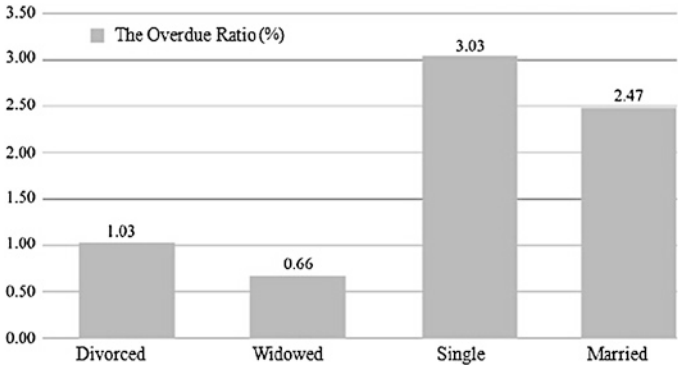


Fig. 2.43 The overdue ratio of borrowers with different marital status. Data Source Renrendai, and Wangdaizhijia

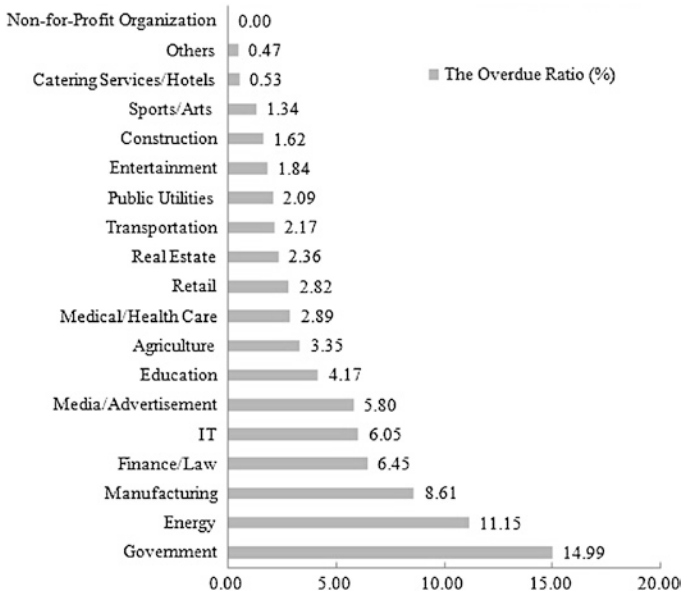


Fig. 2.44 The overdue ratio of borrowers with different occupations. *Data Source* Renrendai, and Wangdaizhijia

seems consistent with the perceived belief that married people usually attach more importance to personal credibility. As indicated by the chart, divorced borrowers also have very low overdue ratio.

From the occupation perspective, it can be observed that government employees with stable jobs and incomes have a surprisingly high overdue ratio as high as 14.99 %. Borrowers from financial industry or IT industry with high income also have a high overdue ratio. In contrast, borrowers from retail industry who have more frequent funding needs have lower overdue ratio, as indicated in Fig. 2.44.

From the perspective of geographical locations, it can be seen that the borrowers from remote inland provinces have higher overdue ratio, possibly caused by their under-developed economies. Meanwhile, the smaller sample size may also affect the results. Borrowers in Zhejiang Province, where the private lending industry is relatively well developed, also showed high overdue ratio. It is possibly caused by the multiple borrowings of the local borrowers who borrowed funds from multiple channels, so that there is a higher possibility of overdue. The high overdue ratio also appeared in several provinces with rich energy resources such as Shanxi and Inner Mongolia, where some notable default cases occurred earlier,¹⁹ and the quality and credibility of borrowers varied in different places. In Shanghai, however, where the economy is well developed and the financial market is more mature, the overdue ratio is low as expected. All the results are disclosed in Fig. 2.45.

¹⁹Hao [3].

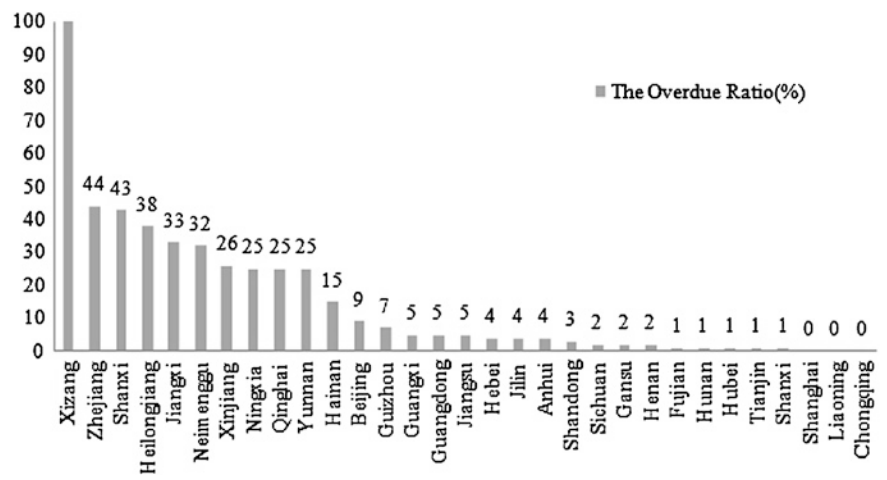


Fig. 2.45 The overdue ratio of borrowers by regions. Data Source Renrendai, and Wangdaizhijia

2.5 The Status of the Lenders

2.5.1 The Total Number of Lenders

The lenders, as an indispensable part of the online lending process, have significant influence to the development of online lending industry.

In year 2013, the accumulated lenders in 90 selected platforms are up to 250,500, including multi-platform lenders.²⁰ Part of the data may be double or triple counted as the existence of the multi-platform lenders. However, even we considered this factor, the total number of the lenders in the online lending industry in 2013 should be over 200,000.

From the number of lenders collected from the selected 90 platforms, it can be seen that, starting from initially the double digit to more than 200,000 in 2013, the number of lenders have increased 4.58 times per year and the overall growth is close to ten thousand times, as indicated in Fig. 2.46. However, compared with the number of lenders in other well developed lending channels, the number of lenders in online lending is still small and there is a huge space for its growth in the future.

In year 2013, the number of lenders in online lending platforms maintained high-speed growth. The monthly compound growth rate was about 13 %, slightly higher than the growth rate of the borrowers, which indicated the increased awareness of the importance of the wealth management among Chinese residents. In addition, the generations born in the 1980s and the 1990s who are more familiar

²⁰It refers to lenders who lend out at least one time during a specified period of time. They may lend out for more than one time or lend on different platforms simultaneously. So the statistics may not be very accurate.

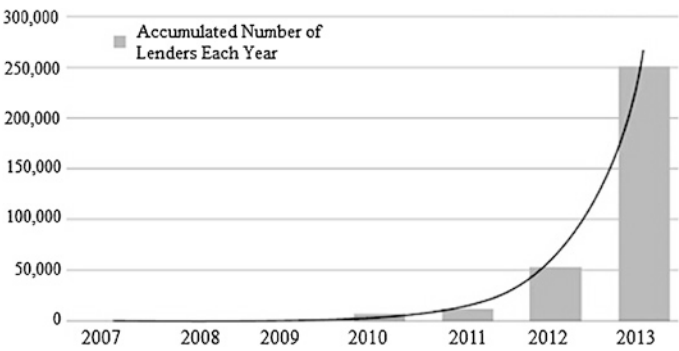


Fig. 2.46 Accumulated number of lenders each year of online lending platforms

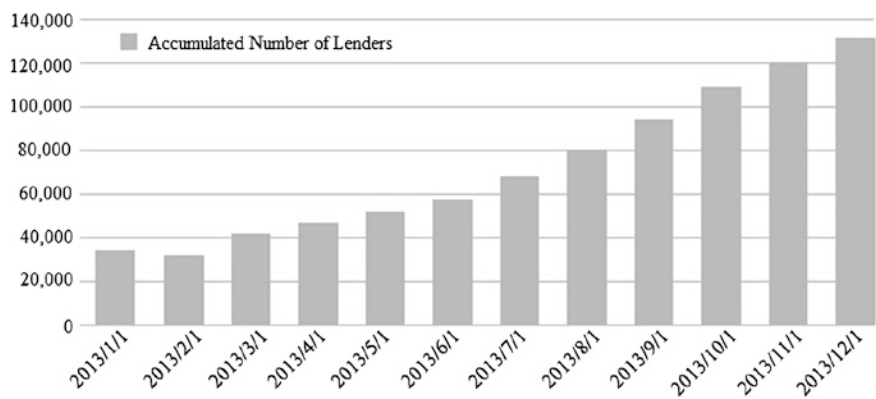


Fig. 2.47 The accumulated number of lenders of online lending platforms in 2013

with the internet technologies are gradually becoming the main part of the working force, and they have pressing financial needs to find better way to accumulate their wealth through more diversified wealth management channels. It can be observed that, as the launch of Alibaba’s Yuebao and the popularity of the concept of internet finance, the growth rate of lenders after June 2013 was apparently higher than that before. As the rate of return offered by online lending platforms are higher than that of Yuebao, it can be anticipated that the online platforms may attract more and more users who are already familiar with the internet finance in the future. The details can be seen in Fig. 2.47.

The fast growth of the online lending lenders can be found out in different ways. Taking the Page View (PV) of Wangdaizhijia from February 2013 to February 2014 as an example, it can be observed an increase of more than 10 times, from the initial 30,000 times a day to more than 300,000 times a day. In the meantime, the number of Unique Visitors (UV) also increased more than 6 times, from 5000 persons a day to 30,000 persons a day at the peak, as shown in

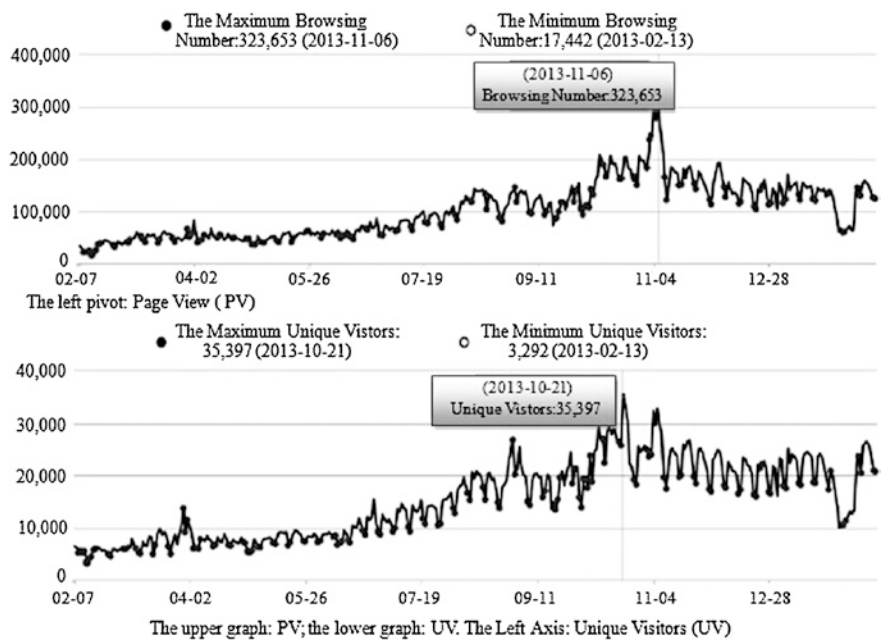


Fig. 2.48 Wangdaizhijia visitors flow analysis

Fig. 2.48. The fast growth at the second half year of 2013 was even more obvious, while, of course, the “bankruptcy wave” since October 2013 also attracted many attentions.

Through above statistics and analysis, it can be clearly seen that the lenders are paying more and more attentions to online lending platforms with a continuously increasing growth rate.

2.5.2 The Amount of Loan Per Lender

The amount of loan per lender of the selected 90 online lending platforms in 2013 was RMB 196,800 Yuan. For the average borrowing term 4.73 months, the turn-over of the fund is about 2.54 times for a single lender on average in one year. Considering the turnover times, the amount of a single loan per lender was about RMB 77,500 Yuan, and the annual income per lender was about RMB 15,200 Yuan.

Although the number of lenders increased every month, the monthly amount of loan per lender kept flat, as indicated in Fig. 2.49. It can be seen that, currently, the loan per lender is still a little bit high, as the lender group is still relatively small. So it would be safe to anticipate that, as the continued growth of the participation

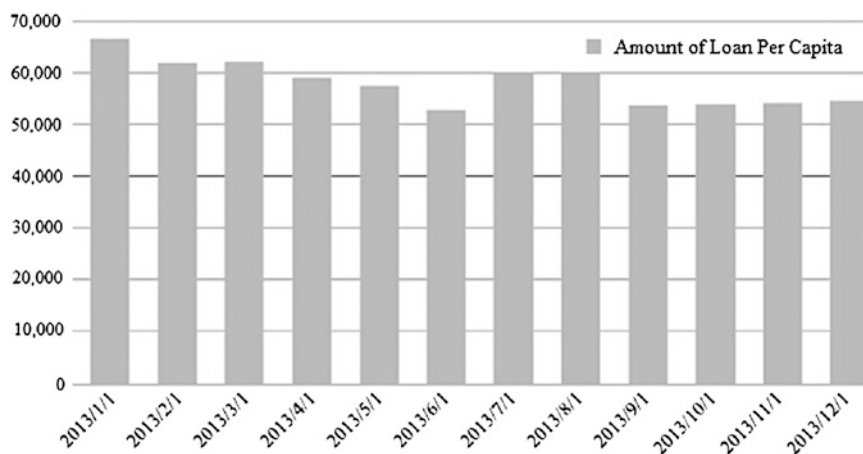


Fig. 2.49 Amount of loan per lender each month

of the lenders, the amount of loan per lender will be down slowly, and eventually, the online lending platform will become a well acceptable and efficient way for residents' wealth management.

2.5.3 The Characteristics of Lenders

2.5.3.1 The Geographical Distribution of Lenders

According to the data collected by Wangdaizhijia and the results of surveys, more than 200,000 online lenders are located all over China, possibly due to the wide spread use of the internet. Among them, most lenders came from Guangdong and Zhejiang provinces, where the online lending is very active. Lenders from Guangdong, Zhejiang, Shanghai, Jiangsu, Beijing and Shandong provinces took more than half of the total lenders, as indicated in Fig. 2.50.

Nowadays, the geographical locations of the online lenders are distributed non-uniformly, but its distribution is highly consistent with the geographical distribution of the online lending platforms, as mentioned above, due to the reasons as follow: First of all, the GDP of the above 6 provinces are much higher than that of other regions, and the residents there, on average, have more spare money to invest. Second, there are a lot of "idle" funds sitting in commercial banks, due to lack of other investment channels. Some high yield financial products, such as trusts and funds management, set up high thresholds and require large quantity of fund, such as a million yuan as minimum, to participate. Some other financing products with low threshold, such as wealth management products offered by commercial banks, only provide very low interests that are not adequate to protect

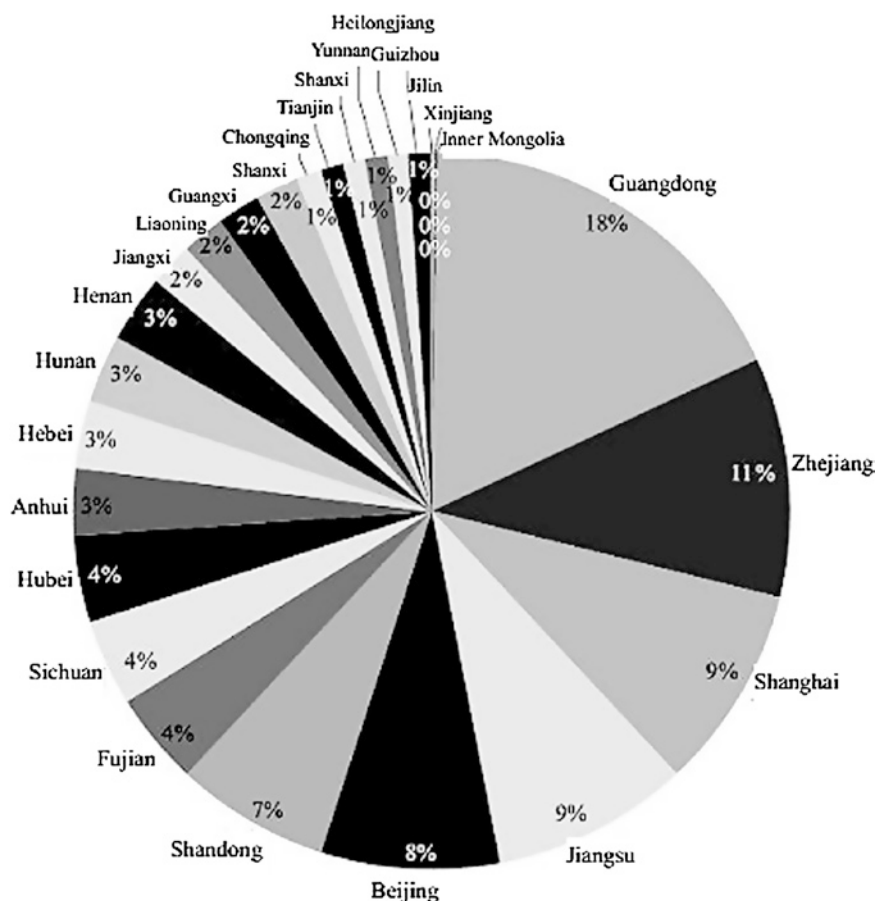
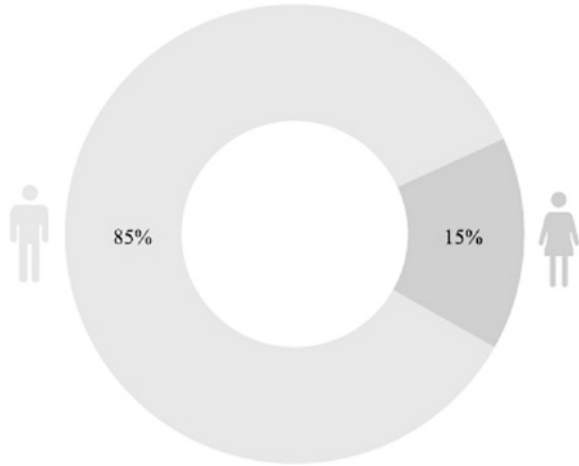


Fig. 2.50 The geographical distribution of online lenders

the value of the assets against inflation. As a result, online lending platforms provided an alternative with high yield and low threshold for small-amount lenders. Last, the average degree of education of the residents in these provinces is higher, and the residents there have stronger sense on wealth management or have some previous experiences in private lending, so they are better prepared to accept new investment concepts. Of course, the offline promotion of these local online lending platforms also helps accelerate the fast expansion of the lender group.

In China's western and the northeastern regions where the economy is relatively under-developed and the usage of internet is also relatively low, the number of lenders is still small. In the future, these areas could become the main battle field among the platforms. In Fujian Province, though the economy is relatively developed, the online lending industry is still in its very early stage and the number of lenders is small. So Fujian could be another "blue sea" in the future, worthy exploiting by the platforms.

Fig. 2.51 Gender distribution of online lenders



2.5.3.2 The Gender Ratio of Lenders

According to the survey conducted by Wangdaizhijia, 85 % of lenders are male, and the rest 15 % are female, as shown in Fig. 2.51. The possible reason for this ratio could be that, in China, male, in general, is perceived to more prefer to take risks than female, and are better prepared to accept a new, but riskier investment alternative, such as online lending. Female, in general, prefers a more conservative investment outlet such as bank savings account. Also, as the survey shows, lots of male lenders have equity investment experience before, and the bearish Chinese stock market drove these equity investors away from China's stock market to enter into the online lending industry.

2.5.3.3 The Age of Lenders

According to the statistics, nearly 40 % of the lenders are in the age group 20–29 years old and another 40 % in the age group of 30–39 years old, and the cumulative proportion of the two groups is about 80 %. So the young and mid-aged investors are the majority of the online lenders, as shown in Fig. 2.52. For the lenders aged above 40, the number decreases as the age goes up. It is understandable that the lenders between 20 and 29 years old typically have higher degree of education, stronger awareness of wealth management, and better internet skills than older people, so it is easier for them to accept this new investment alternative. In addition, people in their twenties are in their “golden age” in terms of the choice of career development, motivation to make more money, and preference and ability to take risk.

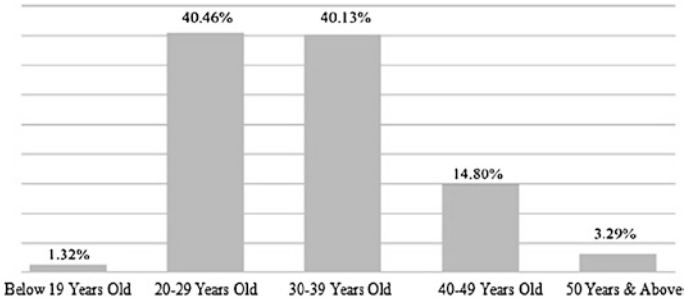


Fig. 2.52 Age distribution of online lenders

2.5.3.4 The Occupations of Lenders

Regarding the occupations of the online lenders, the proportion of lenders who are in financial industry, IT industry and government employees are 21, 19, 12 %, respectively, and their aggregated percentage is over half, about 52 %. The possible reasons for these statistics could be: First, online lending combines the finance and the internet, so people working in these two industries have more opportunities to know about online lending industry. Second, online lending, as a new investment alternative, is different from the traditional investment outlets. It will take more time and effort for potential lenders who are not familiar with either finance or internet to get to know it. Then, it provides advantages for the potential lenders in these finance or IT industries that may have less steep learning curve. Finally, regular government employees usually have much more spare time, which may help them become one of the major players of the online lending industry (Fig. 2.53).

2.5.3.5 The Income of Lenders

As for the income of the lenders, 60 % of the lenders have annual income 100,000 Yuan and below, and only 15 % of the lenders have annual income more than 200,000 Yuan, as shown in Fig. 2.54. Compared with the income level of the developed areas in China, the income of most of the lenders are in the range of middle to lower end. With the money they have, there is not much opportunity for them to participate in some higher yield investment products, and the online lending with higher return but low entry barrier provide these grass root investors with an attractive and accessible option.

In general, as mentioned above, the primary online lenders are young male. When this group of investors becomes the major income earners of society in the future, the scope of the development of online lending industry could be very considerable.

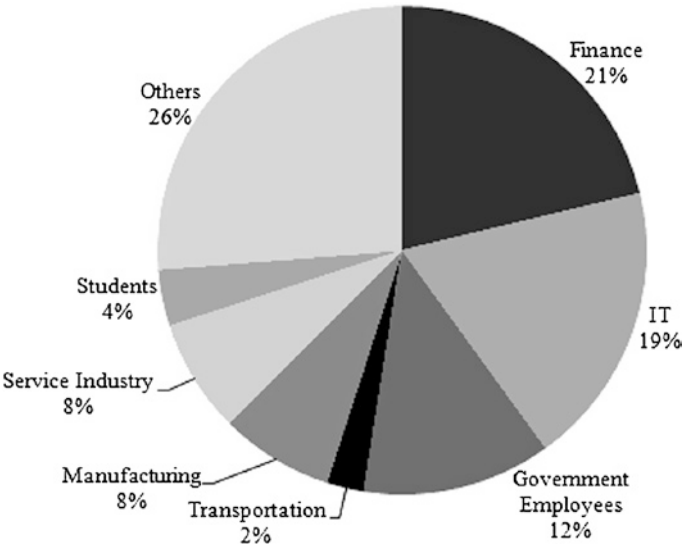


Fig. 2.53 Occupation distribution of online lenders

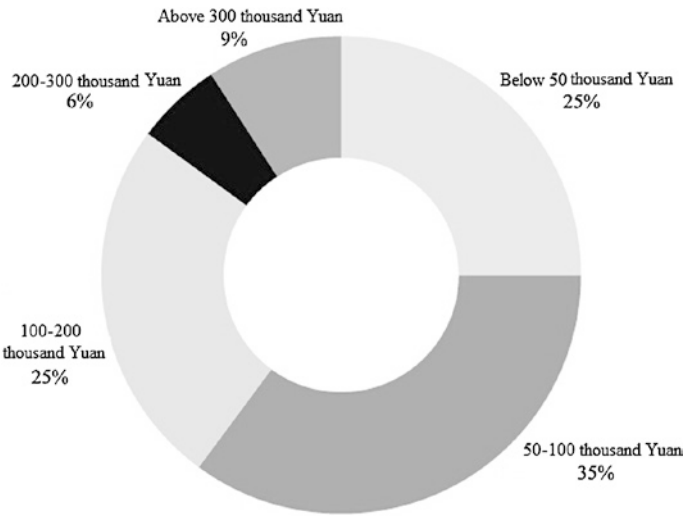


Fig. 2.54 Income distribution of online lenders

2.5.3.6 The Channels for Lenders to Know About Online Lending

How did the online lenders get to know the online lending? According to the questionnaire, 55 % of the lenders got to know and eventually enter into online lending industry by media, as shown in Fig. 2.55. In particular, in 2012 and 2013, media in China started to massively report news and information about online lending,

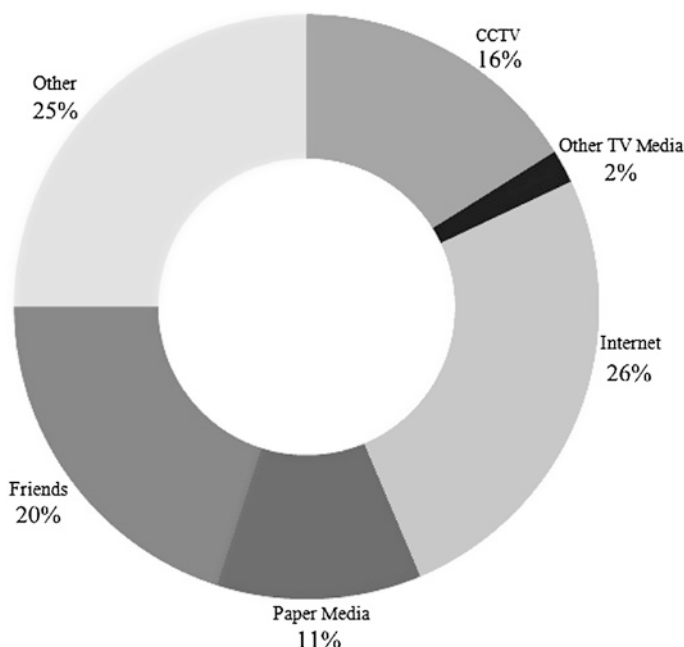


Fig. 2.55 How did lenders get to know online lending industry?

leading more and more people get to know about it. In the past two years, the number of online platforms increased enormously, and a large number of advertisements for online lending platforms also helped the promotion of the entire industry. It can be noticed that, every time, the coverage about online lending industry by China's most influential media CCTV, regardless of the fact that many of the reports actually disclosed some negative news and problems for some online lending platforms and the industry, brought large number of lenders to the industry, as the reports revealed the relatively higher returns in comparison with other wealth management options. In addition, recommendations from friends and relatives through word of mouth also appeared to be an efficient way to promote the industry. It also can be noticed that transaction volumes increased significantly and the number of registered users also rose after the Chinese New Year in 2013, as the holiday is a time that friends and relatives got together. Compared with advertisement on the internet, the face-to-face communication and words of mouth from trusted people are more likely to win credibility.

2.5.3.7 The Research Time Spent by Lenders on Online Lending

It was interesting to find out that online lending is an “addictive” investment method. A large number of online lenders appeared addicted to it and spend lot of time, energy and money on it every day. As a new industry, lending online through

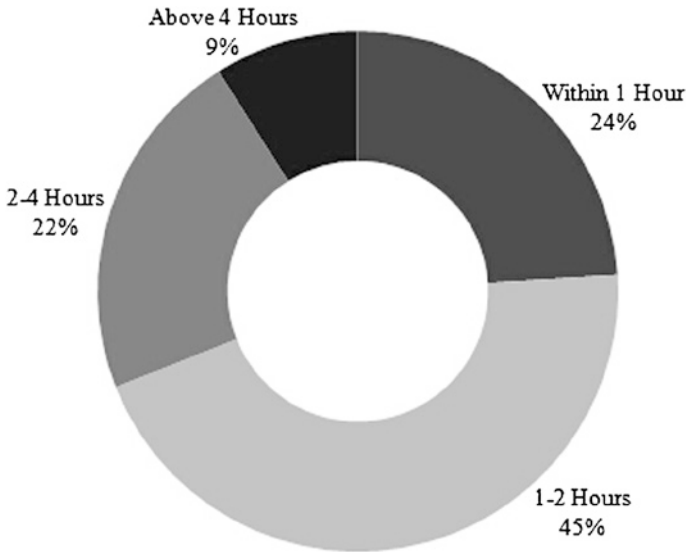


Fig. 2.56 Time spent by online lenders on the online lending each day

platforms requires continuous learning for most of lenders. As the statistics showed, 76 % of the online lenders spent more than 1 h each day to study online lending and related information, as indicated in Fig. 2.56.

2.5.3.8 The Capital Ratio of Online Lenders

Likely, caused by the “charm” of online lending, most of the lenders attach great importance to the online lending in their assets allocation. 34 % of the lenders invested more than 80 % of their investable funds to online lending, and more than 55 % of the lenders invested nearly half of their investable funds on online lending, as shown in Fig. 2.57. As the ways to invest for the grassroots group is very limited in China now, higher stakes were put by these investors on online lending.

2.5.4 The Investment Preference of Lenders

According to the questionnaire, the online lending platforms with annualized rate of return between 20 and 25 % are the most popular ones among the lenders. 20 % of lenders invest their money on platforms within such a range of rate of return. Meanwhile, there are still nearly 45 % of the lenders invest their money on platforms with monthly interest rate about 3 % (i.e., the annualized rate of return 36 %).

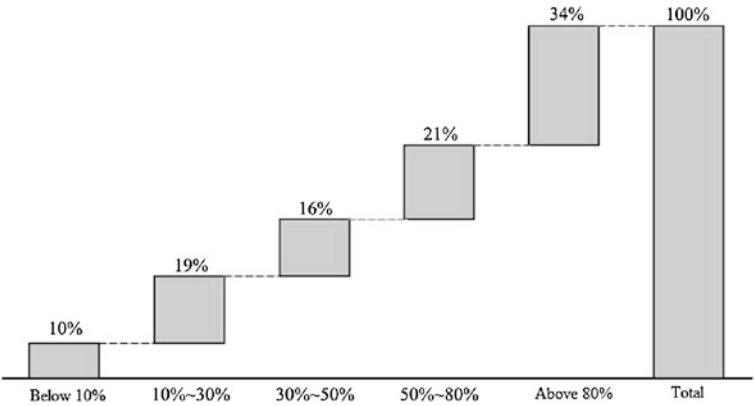


Fig. 2.57 The assets allocation of online lenders on online lending

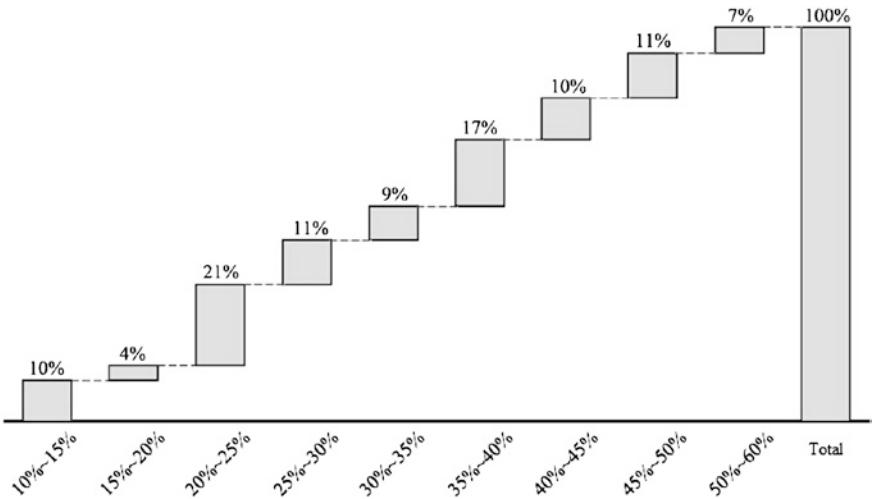


Fig. 2.58 Interest rate offered by platforms in which the lenders invested

These investors tried to gain high returns by investing on newly established platforms or by diversified investment on many platforms, as shown in Fig. 2.58.

The high rate of return offered by the platforms is closely related to the rapid increase in the number of online lending platforms. Given the increased competition, platforms run more and more promotion activities to attract potential lenders. For example, more “second loan” were launched in the first month online for the new platforms to increase reward to the investors and raise their rate of returns. As the lenders’ rate of return is also the cost of borrowers, the current borrowing cost or the operating costs of the platforms are still too high. The long-term, sustainable growth of online lending platforms requires a balanced and reasonable interest rate level.

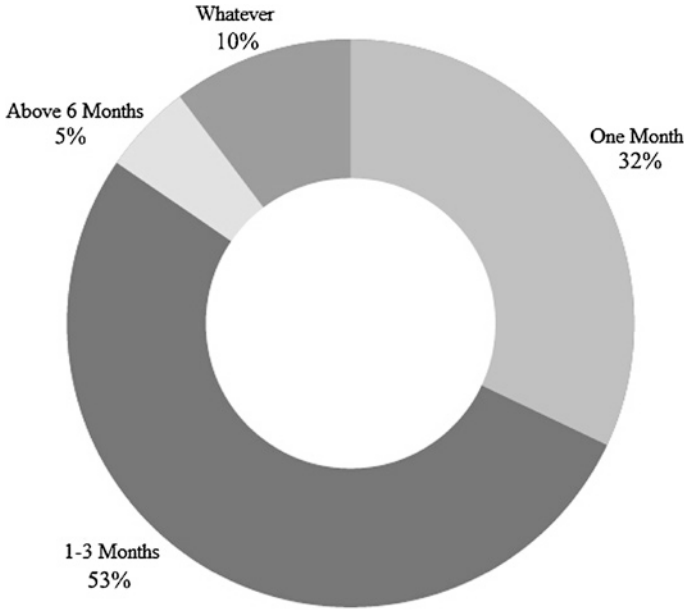


Fig. 2.59 Term preference of lenders

Currently, the interest rate of some big brand platforms has been reasonably decreased to a level between 10 and 18 %. However, in order to attract lenders, some new platforms still have the annual yield rate as high as 30 % or even above 40 %. With the lure of high yield, some lenders lost their needed cautions against risks when they are seeking high returns. As the statistics showed, 58 % of the lenders were willing to invest in the platforms online less than 1 month. As can be expected, such an over-aggressive strategy resulted in great losses of lenders in the “bankruptcy wave”.

Meanwhile, the lenders appear to prefer loans with 1–3 month terms, and nearly 30 % of lenders invested their money on one-month loan. Such investors are mostly the “Card Group”, investing using their credit cards. However, the preference for short-term bid of lenders also shows their concerns about the safety of funds and the uncertain status of the possible industry regulations, as shown in Fig. 2.59. It is reasonable to believe that the lenders will be willing to lengthen their investment terms as the online lending market is further improved and regulation status becomes clearer. Longer terms of loan can bring higher returns to the lenders, save their time and effort in their wealth management, and also provide more convenience for borrowers. Meanwhile, longer term loan will help online platforms decrease the number of canceled bids, and create a better environment for platforms’ operation.

As online lending industry is currently composed of various platforms with quite different qualities and lacks government regulations, the lenders attach great

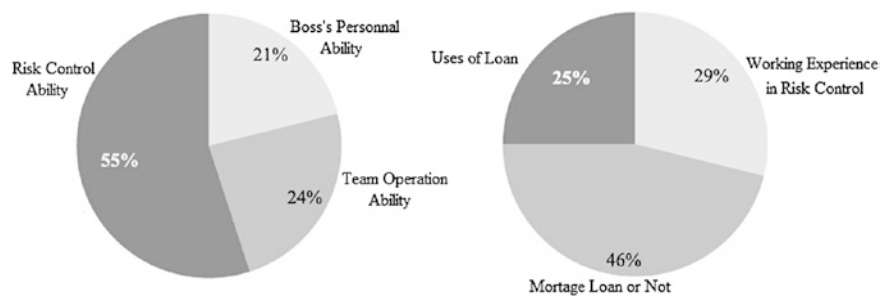


Fig. 2.60 The factors for selecting platforms by lenders

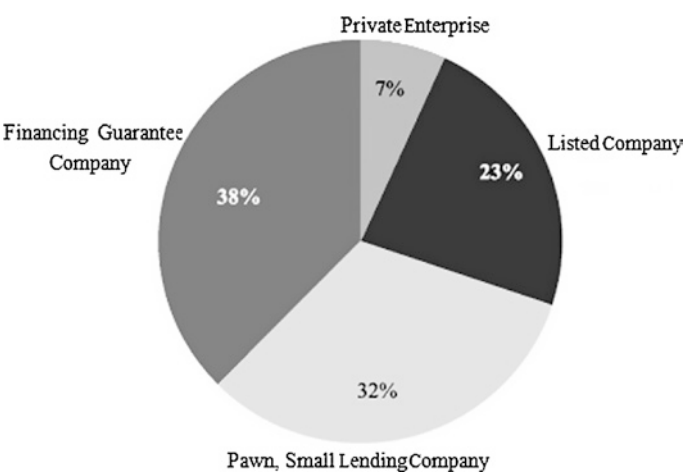


Fig. 2.61 The background of platforms preferred by lenders

importance to the platforms' risk control ability and methods when they select platforms to invest. As indicated in Fig. 2.60, when the lenders search for a platform, the number one issue they concerned is the risk control ability. Risk control is always the core competence of financial firms, and there is no exception for online lending industry. As a result, mortgage loan has become the most dominant form, even though many platforms started their businesses with credit loans. However, as high default rate caused heavy losses for many investors, more and more online platforms had no choice to switch to mortgage loans. The difference in the general credit environment in and outside China leads to the different business models adopted by China's domestic and foreign online lending platforms.

Different from other financial products, the platform owners' experience in private lending or guarantee industry, instead of the experience in publicly traded companies or financial holding companies, are more recognized by lenders, as can be seen in Fig. 2.61. It is understandable that the private lending and guarantee

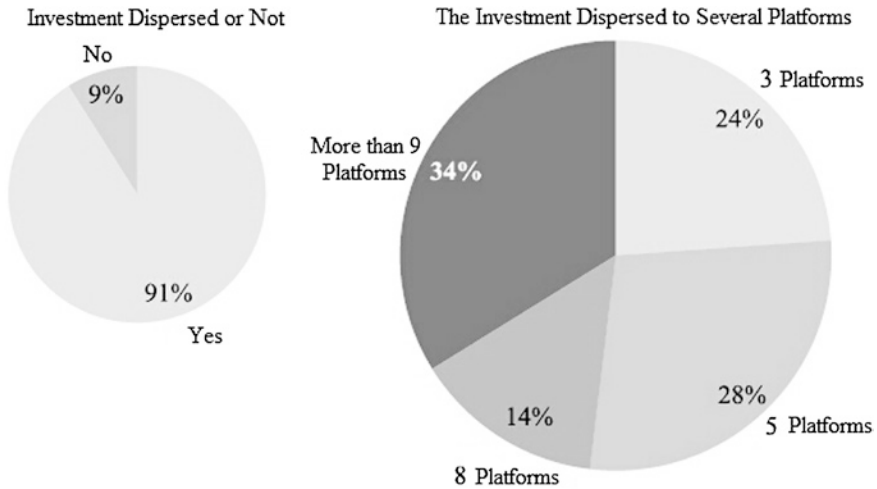


Fig. 2.62 Lenders' investment diversification

shared more similarities with online lending. Rich experiences in these industries would be beneficial for the platforms in customers recruiting and business operations. But as more frequent bankruptcy events, either intentional or unintentional, started to wake up lenders, risk control ability and technical safety began to gain more importance. Platforms with stronger risk-control ability can be buffered better against risks in this fast-changing online lending industry.

The majority of lenders, of course, won't put all their eggs in one basket. They tried to mitigate the risks through diversification. 30 % of the lenders scatter their investment into more than 9 different platforms. It is, therefore, no wonder that the lenders will spend lot of time on watching and studying on information of online lending platforms, as indicated in Fig. 2.62.

2.5.5 The Status of Lenders After “Bankruptcy Wave”

After the “bankruptcy wave” in October and November in 2013, many lenders lost their money in these bankrupt platforms whose cash flow chains were broken or the operators ran away. Such lenders cannot get their money back, and experienced a reshuffle together with the platforms.

In another questionnaire collected from the online lenders, the situation that lenders cannot get their lending money back was called as “stepping on a landmine”. The result shows that, among these lenders, there are 59 % of them stepping on one or two “landmines”, and more than 15 % of them stepping on more than 6 “landmines”, as shown in Fig. 2.63.

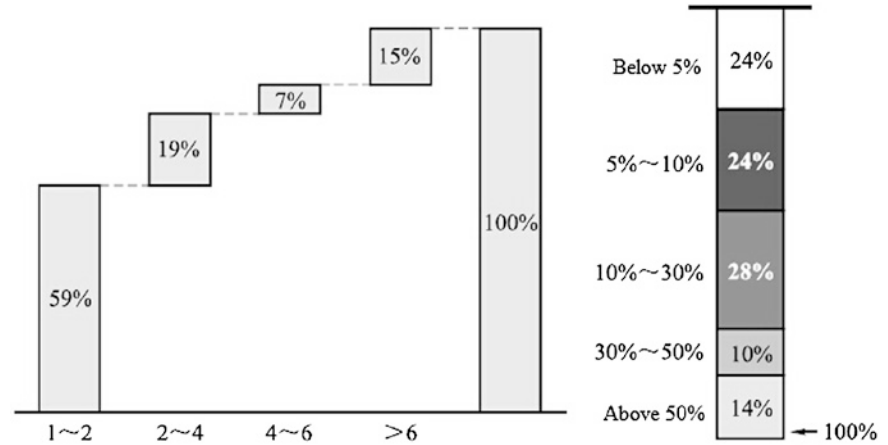


Fig. 2.63 “Landmine Stepping” of Lenders. *Left* the number of landmine platforms; *Right* the trapped capital ratio

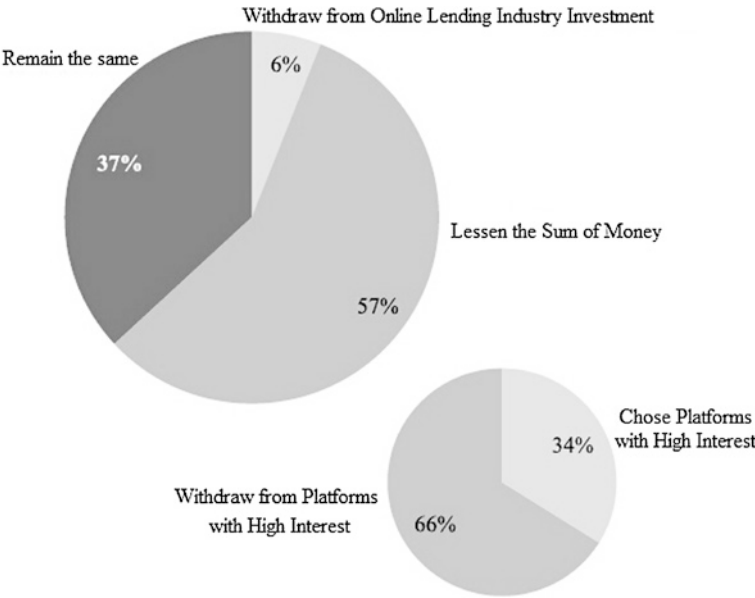


Fig. 2.64 The Lenders' confidence after “Bankruptcy Wave”

Fourty eight percent of the lenders who stepped on landmines have less than 10 % of their funds being trapped, barely keeping no loss in 2013. However, 14 % of the “landmine stepping” lenders had more than 50 % of their investment funds being trapped. To them, online lending is no longer a “happy” way of wealth management.

Most of the online lenders still adhere to investment in the online lending, but many of them have decided to invest in less amount and withdraw from these platforms that promised high interests, as the confidence in these platforms has been significantly reduced, as shown in Fig. 2.64. Meanwhile, these changes in the online lending industry also showed that the lenders in this market are becoming more rational. The time when a lender can make easy money from online lending investment without much care has gone. In the future, lenders may need to spend more efforts to assess platforms and determine investment allocations.

Since the bankrupt platforms are closely associated with the behaviors of the lenders, a research about the lenders' attitudes towards group lending was also conducted by YesMyLoan. Sixteen percent of interviewees participated in the survey have once joined group lending, but only 10 % of interviewees said they would continue to join. Apparently, lenders willingness to join the group lending has been decreasing.

2.6 The Bankrupt Online Lending Platforms

As China's online lending industry boomed in 2013, the issues related with this newly born industry, such as unclear legal status of the platforms, nearly no-requirement for entry into this market, and lack of regulations and industrial self-disciplines, also emerged. Since October 2013, large numbers of platforms have shown the difficulties in paying back the investors when the loans matured, which apparently hindered the healthy growth of the online lending industry. As a result, 74 "problematic platforms" in 2013 were selected to analyze the issues and root causes of the bankrupt platforms.

2.6.1 Macro Analysis of Problematic Platforms

2.6.1.1 The Quantitative Analysis of Problematic Platforms

In 2013, 74 P2P online lending platforms, or about 10 % of the total number of the platforms, encountered "trouble", either short of cash payment from borrowers to pay back the investors, or declaring bankruptcy, or even more, some owners of platforms just run away. The results are summarized in Table 2.7 and Fig. 2.65.

2.6.1.2 The Growth of the Numbers of Problematic Platforms

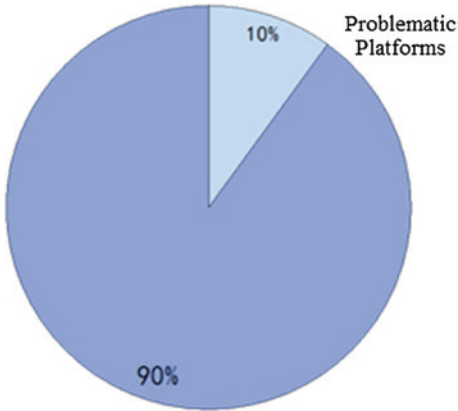
From April to September in 2013, there were 2.33 problematic platforms, on average, appearing each month. Since October, however, the number of problematic platforms appeared at an even accelerating rate, reaching 20 platforms, on average, each

Table 2.7 Problematic platforms in 2013

Time	Name of the problematic platforms
April 2013	Zhongdai, Chengxiangdai
May 2013	Kupao Finance
June 2013	Feichengwudai, Huizhoudai, Boliya
July 2013	Zhongcaizaixian, Minliandai
August 2013	Wangying tianxia, Ewealth Club
September 2013	Huangshan Capital, Tianlidai, Xiandai, Hubangdai
October 2013	Lidai, Yinshidai, Dongfang Chuangtou, Wanli Chuangtou, Yishangdai, Chuangxindai, Fuxiang Chuangtou, Lihe Chuangtou, Huaqiang Caifu, Huaitai Caifu, Yingtong Touzi, Huibao Xindai, Baoxiandai, Lewangdai, Jiajiadai, Yinxindai, Zheshangdai, Tongliandai, Pinghai Finance
November 2013	Tongdudai, Qiankundai, Huihuang Caifu, Baofengchuangtou, Zhaojindai, Pengchengdai, Huiyin Investment, Douliang Chuangtou, Zhonglian Yueyin, Deyi Touchuang, 3a Loan, Daxintou, Baoshi Finance, Desai Finance, Haoxiangdai, Xinbang Chuangtou, Lianhua Caifu, Jinxin Caifu, Baodu Caifu, Jiangchengdai, Anke Chuangtou, Aladai, Jinyinfeng, Lingxuan Caifu, Xinbo Caifu, Wuzhou Caifu, Chengyi Chuangtou, East China Dai, Bangnidai, Hejia Chuangtou, Hufadai
December 2013	Jiatong Chuangtou, Gaoyi Chuangtou, Huayue Caifu, Haifa Caifu, Zhengda Finance, Jishiyu, Huanmindai, Tianbiaodai, Juzhongdai, Weiwo Caifu

Information Source Wangdaizhijia

Fig. 2.65 The percentage of problematic platforms



month. In November, it reached at 31 per month, equivalent to a rate of one platform per day. The increase in the numbers of the platforms can be shown on Fig. 2.66.

2.6.1.3 The Geographical Distribution of Problematic Platforms

The statistics revealed that Zhejiang Province has the most problematic platforms. However, on a percentage basis, Tianjin, Hubei, Anhui, and Inner Mongolia had most serious problems. The details are summarized in Fig. 2.67.

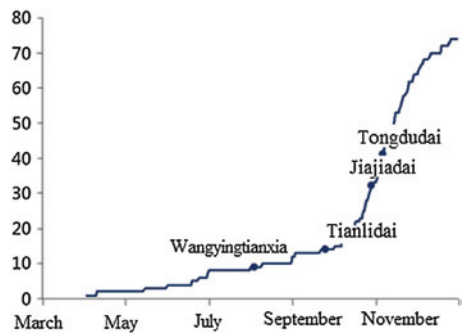


Fig. 2.66 The increase of problematic platforms in 2013

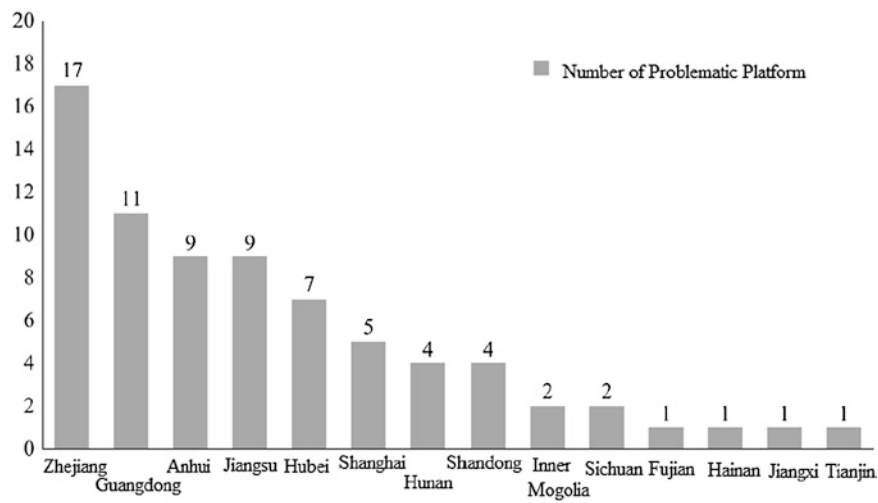
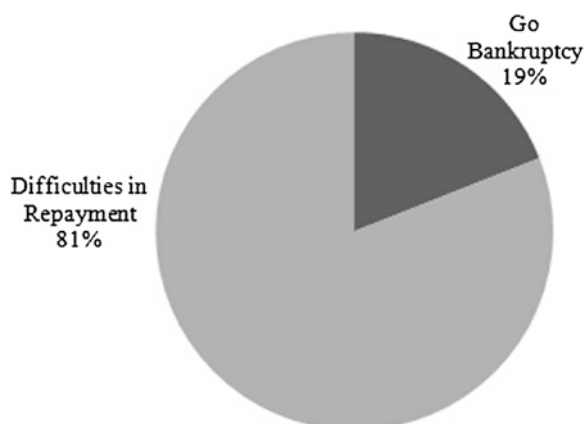


Fig. 2.67 The geographical distribution of problematic platforms

2.6.1.4 The Termination of the Problematic Platforms

According to the statistics, the termination of the problematic platforms can be classified into two categories: One is the platforms that eventually went bankruptcy or being reported to police as fraud case. Another one is the platforms that are still in operation and keeping promise to pay back but no cash to actually deliver their promises. Among the 74 platforms as mentioned above, about 20 % belongs to the first category, as shown in Fig. 2.68.

Fig. 2.68 The termination of the problematic platforms



2.6.2 Micro Analysis of the Problematic Platforms

Some micro level analysis, in terms of the life circle, registered capital, the overall rate of return and loan terms, of the 74 problematic platforms are conducted as follows, in order to explore the similarities or common features of these platforms.

2.6.2.1 The Life Circle of the Problematic Platforms

The statistics showed that over half of the problematic platforms encountered issues, such as short of cash payment from borrowers to pay back the investors, bankruptcy, or the owners running away, in 3–4 months after they started their operations. Among these problematic platforms, only one platform survived over one year, as shown in Fig. 2.69.

2.6.2.2 The Debt Balance of the Problematic Platforms

According to the statistics, 34 out of 74 platforms had a total unpaid debt balance over RMB 1.1 billion Yuan. It is estimated that the whole-year unpaid debt balance could go over RMB 1.5 billion Yuan with RMB 33 million for each platform on average. The biggest debtor, 17emarketing, owed as much as RMB 200 million though its registered capital was only 20 million Yuan. Such a high leverage reveals a significantly high risk behind these online lending platforms, as shown in Table 2.8.

But the good news is that the problematic platforms are only about 10 % of the total platforms, and the total unpaid debt of these platforms only takes about 4 % of the total capital in this industry. Therefore, even though the news of the bankruptcy of the platforms hit the headlines of some media, these incidents didn't hurt the fundamentals of this industry, as shown in Fig. 2.70.

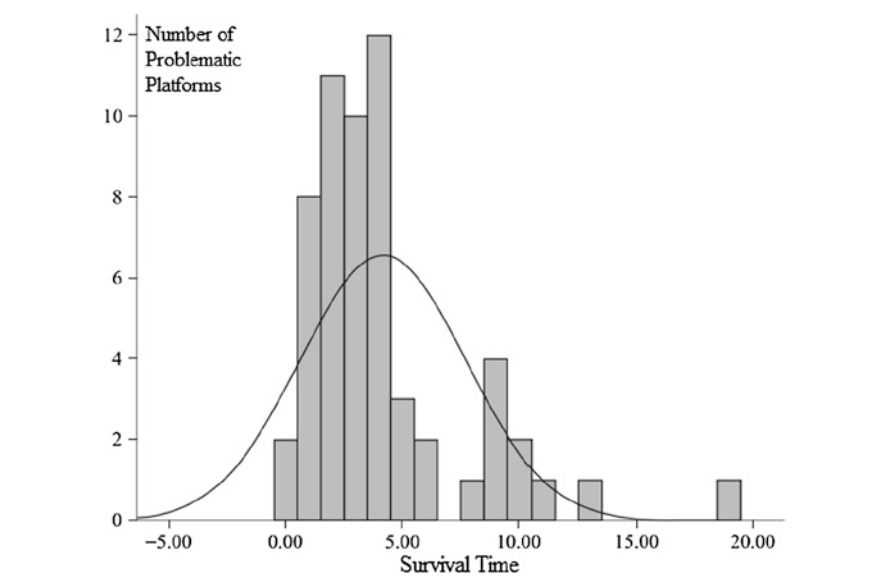


Fig. 2.69 The life circle of the problematic platforms

Table 2.8 Unpaid debt balance of problematic platforms

Platform	Unpaid debt (10,000 Yuan)	Platforms	Unpaid debt (10,000 Yuan)
Wangyingtianxia	20,000	Yinshidai	1,970
Jiajiadai	11,800	Huizhoudai	1,700
Tongdudai	11,000	Wanli Venture	1,700
Pengchengdai	8,000	Tongliandai	1,500
Tianlidai	6,700	Huibao Credit	1,200
Zheshangdai	6,000	Qiankundai	1,000
Zhonglianleyin	6,000	Xindai	900
Yishangdai	4,900	Huaqiang Money	900
Dfct88	4,400	Lingxuan Fortune	755
Yutai Fortune	4,000	Yingtong Investment	720
Lihe Venture	3,900	Xinbang Venture	700
Zhongcai Online	3,000	Zhongdai	300
Feichengwutou	2,700	Huangshan Capital	220
Lewangdai	2,676	Boliya	130
Jixin Fortune	2,027	Chengxiangdai	117
Huihuang Fortune	2,000	Fuxiang Venture	80
Weiwo Fortune	1,993	Huabangdai	50

Data Source Wangdaizhijia

Fig. 2.70 The ratio of unpaid debt of problematic platforms

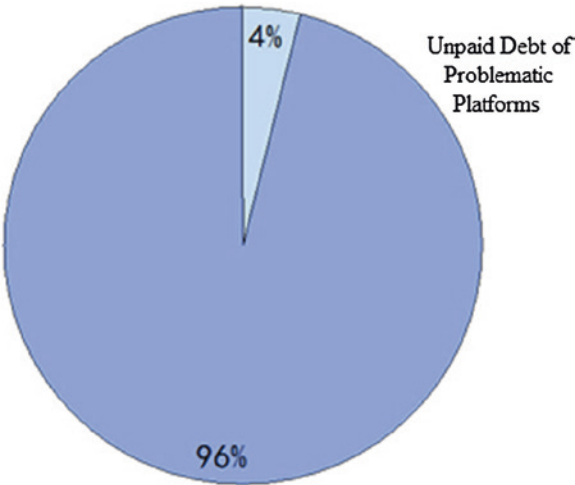
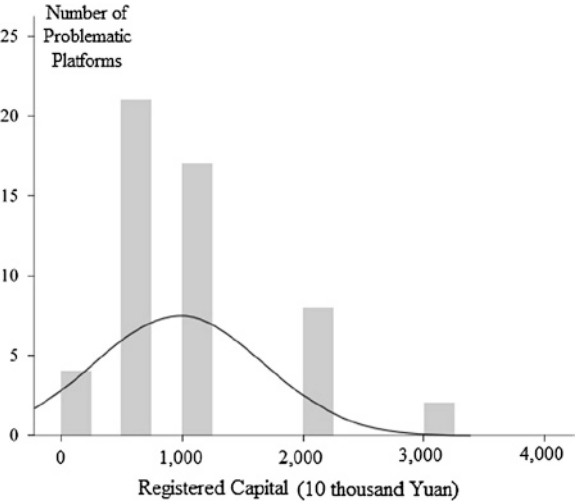


Fig. 2.71 Registered capital of problematic platforms



2.6.2.3 The Registered Capital of the Problematic Platforms

Most problematic platforms have a registered capital of RMB 5 million Yuan or 10 million Yuan. Only 11 platforms had registered capital over RMB 10 million. The relatively low registered capital, comparing with the much higher level of issued debt that can be often seen in this industry, indicated some significant imbalance. So it is obvious that the guarantee of the principal payback, as promised by some platforms, is totally a lip service as a gimmick to attract lenders that cannot be delivered by the platforms in reality. The details can be seen in Fig. 2.71.

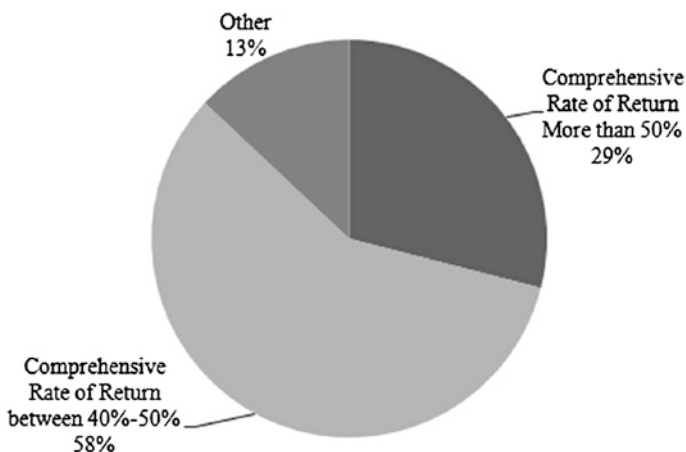


Fig. 2.72 Rate of return of problematic platforms

2.6.2.4 The Rate of Return of the Problematic Platforms

Among the problematic platforms, the overall rate of return in 21 problematic platforms exceeded 50 %, and 43 platforms exceeded 40 %. One platform, “Jiajiadai” even went over 66 %. Such a high rate of return may exceed the upper limit of returns for debt issuance allowed by the existing law, and at the same time, it proves the fundamental financial principle of high return versus high risk, as indicated in Fig. 2.72.

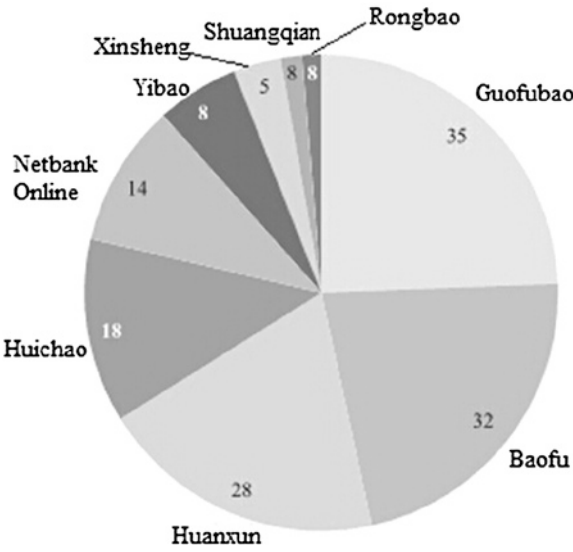
2.6.2.5 The Loan Term of the Problematic Platforms

Over the past years, the loan term in the first month of platforms’ operation is apparently reduced, from 9 months at the very beginning to less than one month recently. At present, the majority of the loan terms range from 1 to 3 months, and the problematic platforms usually have only one-month loan on average. Sometimes, they even issue the loan with terms calculated by days. As a result, the risk of liquidity is substantially amplified.

2.6.2.6 The Third-Party Payment Gateways for Problematic Platforms

Over half of the problematic platforms used “Guofubao” and “Baofu” as a third party payment gateway. Even though, the main reason for using these low cost gateways comes from the wide business scope of these third parties, the problematic platforms also tend to use the third parties with a relatively low cost, instead of those with higher cost but also with custody services, as can be seen in Fig. 2.73.

Fig. 2.73 Third party payment gateways of problematic platforms



2.6.2.7 The Registered Names of Problematic Platforms

The registered names of those problematic platforms are primarily “Investment Management Co., Ltd” or “E-commerce Co., Ltd”, each accounting for 28 and 19 %, respectively. Although it is hard to see if there is any impact of the selection of the names on platforms’ conducted business, whether these platforms have the authorization to provide guarantee to the issued loans, regardless the names selected, remains as an open question. The details of the name selection can be seen in Fig. 2.74.

2.6.3 Some Deep Dive of the Break-Out of the Problematic Platforms

As appeared as the headlines in media, the break-out of the “bankruptcy wave” of the online lending platforms received tremendous attentions of the society. As a result, it is necessary to further explore the root causes of these problematic platforms.

The “bankruptcy wave” broke out in October 2013. The transaction volumes usually show a sharp drop during the National Day long weekend holiday in October. To take 6 typical platforms as an example, the transaction volume fell down by 53 % from RMB 81.49 million to 38.65 million Yuan, and the percentage of decline of these problematic platforms apparently outnumbered that of the well-operated platforms. To make things worse, the central bank of China usually

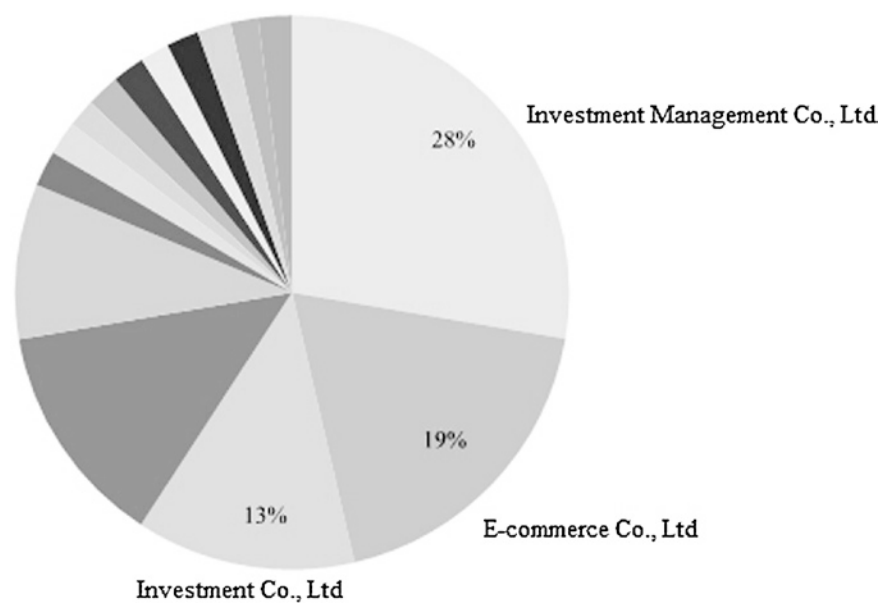


Fig. 2.74 The registered names of the problematic platforms

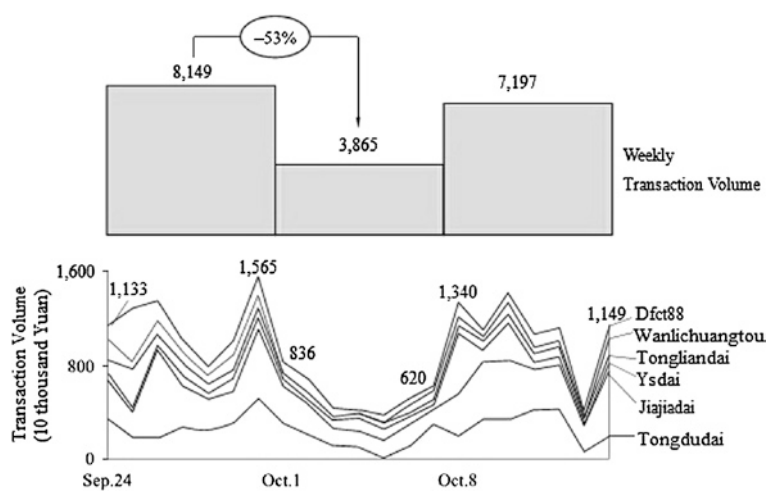


Fig. 2.75 Transaction volume of selected platforms during “Bankruptcy Wave”

upgrade its payment system during this period of time, and suspend bank transfer in these holidays. As a result, the demand of lenders’ re-investment and money withdrawal cannot be satisfied, which led to a surge of cash withdraw after the holidays, as shown in Fig. 2.75.

In this case, even though the regular transaction volumes would go back to normal level after the holidays, the accumulative huge amount of withdrawal requests cannot be satisfied by the cash holding of the platforms. As a result, the problematic platforms cannot continue their operations, and the “bankruptcy wave” was eventually triggered.

If we look back for the fall of these problematical platforms, however, some deeper level issues also emerged. It is clear that the over-pursuit of high yield by lenders, the over-looked operational risk of the platforms, and not well-filtered credit records of the borrowers were all among the contributing factors towards the crisis. In addition, the issues of self-financing platform, group lending, and bid decomposition also exposed the online lending transactions to risks.

The self-financing platforms usually publish a fake borrowing bid to attract lenders, but in fact, all the cash received will flow into the account of the affiliated enterprises or related party of the platform. In this case, the platform, as the ultimate borrower, controlling its own risk may represent a serious ethical issue and is in violation of the law. The self-financing platform that promised high-interest to investors is indeed a Ponzi scheme and it will eventually collapse.

In the case of the group lending, a large amount of cash needs to be paid back when the group-bid loan matures, or the group capital is withdrawn simultaneously in many platforms in a rush when one of their investment “steps landmine” in one platform. The massive withdraw will be a devastating strike to the short-term fund chain, and cause failure of the platform to satisfy the withdraw demand of lenders, in particular, in the cases of the fake bid and bid decomposition.

Bid decomposition, also called maturity mismatch, demands highly in liquidity control ability of the platforms. However, most grass root platforms do not have such ability. So when the interested lenders are not adequate, the platform sometimes issues day-term loan or even second-term loan intensively to attract lenders. In this case, maturity mismatch may help relieve the short-term capital shortage, but cannot solve the problem fundamentally and, indeed, amplified the liquidity risk.

2.7 The Development of the Peripheral Service of Online Lending Industry

In the online lending industry, in addition to the online lending platforms, there are also various peripheral services providers. In the rest of this chapter, we will briefly discuss the development of the peripheral services of online lending industry.

The first category of the peripheral services is the portal websites/firms of online lending. So far, there are already many portal companies such as Wangdaizhijia, P2PEYE, and Erongtu. According to the partial statistics, the number of the portal websites has already exceeded 30, and keeps increasing with the increased popularity of the online lending and the relatively low cost of entry. It can be expected that, as the competition from peer companies further intensified, the portals of different industries, including online lending, may focus more on their better specialized

sub-industries, such as news, data, navigation, online encyclopedia, community, comparison, investigation, assistance in bidding and vertical search.

In the area of credit rating in online lending industry, the companies like Shanghai Credit Information Co., Ltd and Allwin Credit already started to test water. With the increasing demand of credit assessment in online lending industry, more companies can be expected to join the game, and an integrated national online credit rating system is hoped to be established soon.

For the ranking of online lending platforms, Wangdaizhijia has already published its comprehensive online lending platform rating system. At the same time, some other portals and individuals are also trying to assess the platforms in their own way. However, the nationwide official rating institutions have not been involved yet.

In the area of research on online lending, some industry study reports have been published by some research institutions or professional consulting teams such as Online Lending Research Institute of Wangdaizhijia, Internet Finance Lab of PBC School of Finance at Tsinghua University, "01Finance", Iresearch, Analysis International, Zero2ipo, and FORWARD. There is no doubt that more researchers and analysts will follow this industry in future.

Regarding the peripheral organizations of the online lending industry, many have been established, including Internet Finance Professional Committee,²¹ an affiliated organization of China Payment & Clearing Association,²² China Microfinance Association,²³ Shanghai Online Credit Union,²⁴ and Guangdong Internet Finance Association.²⁵ In addition, many active individuals who are focusing on this industry also set up some small-scaled organizations such as IFC 1000,²⁶ and many online lenders voluntarily formed a number of investor committees as well.

For the suppliers of the online lending platform systems, by now, there have been nearly 20 companies, including Diyou,²⁷ Daiqile,²⁸ Rongdu Science & Technology,²⁹ Yingcan Technology,³⁰ Lvmaque,³¹ Realpal Technology,³² and Shovesoft.³³ These suppliers accelerated the technology update and innovation for the online lending industry.

²¹Internet Finance Professional Committee: <http://www.pcac.org.cn/index.php?optionid=792>.

²²<http://www.pcac.org.cn/>.

²³China Microfinance Association: <http://www.chinamfi.net/portal/PortalHome.asp>.

²⁴Shanghai Online Credit Union: <http://www.sisa.net.cn/Index.aspx>.

²⁵Guangdong Internet Finance Association: <http://www.gifa.com.cn/index.html>.

²⁶IFC 1000: <http://www.ifc1000.org/>.

²⁷Diyou: <http://www.dyp2p.com>.

²⁸Daiqile: <http://www.chinaanhe.com/>.

²⁹Rongdu Science & Technology: http://www.erongdu.com/index.html?utm_creative=3232929393&utm_network=1&utm_keyword=12900952845&utm_placement=.

³⁰Yingcan Technology: <http://www.qqwangdai.com/>.

³¹Lvmaque: <http://www.lvmaque.cn/>.

³²Realpal Technology: <http://www.irongbao.com/>.

³³Shovesoft: <http://www.shovesoft.com/>.

To summarize, the rapid development of peripheral services such as portals, research, credit rating, platform ranking, and the formation of organizations and associations greatly help the healthy development of online lending platform and facilitate its fast growth and prosperity.

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