Regulating China's Peer to Peer Lending Market: the Role of Information Disclosure

Xiao Chen[a] Bihong Huang[b] Dezhu Ye[c]

a. School of Economics, Jinan University, 601 Huangpu Avenue West, Guangzhou, 510632 China; chenxiao427@163.com

b. Asian Development Bank Institute, Kasumigaseki Building 8F, 3-2-5 Kasumigaseki, Chiyoda-ku, Tokyo, 100-6008 Japan; bihuang@adbi.org

c. School of Economics, Jinan University, 601 Huangpu Avenue West, Guangzhou, 510632 China; tyedezhu@jnu.edu.cn

Extended abstract

China's P2P and online finance industry has boomed in recent years with outstanding P2P loans totalled RMB621bn by the end of June. The government has encouraged the development of online finance to promote alternative sources of funding for consumers and small businesses who have long struggled to access them from stodgy state-owned banks, which prefer lending to large companies or those with hard assets to pledge as collateral. Unlike in the United States, where P2P lending is heavily regulated, Chinese platforms operated in a regulatory vacuum until 2016. They registered themselves with the local Industry and Commerce office, and then opened up their websites soliciting borrowers and investors with no official standards for disclosure and no formal regulation from the central bank (PBC) or banking regulator (CBRC). Due to loose oversight, China's P2P online finance has been dogged by scandals and fraud. The $7.6 billion Ponzi scheme uncovered at one-time P2P market leader Ezubao in February 2016 has prompted closer scrutiny from the authorities.

On 24 August 2016, the Chinese government released the Interim Measures on Administration of the Business Activities of Peer-to-Peer Lending Information Intermediaries to crack down illegal fundraising activities through online finance so as to prevent financial risks and potential social unrest. The new rules, marking the first comprehensive framework for regulating online finance, specializes a P2P lending platform as an intermediary provider of online lending information; in other words, a P2P lending platform shall use the internet as its main channel to provide borrowers and lenders with services consisting of information collection, publication

and exchange; credit evaluation; and transaction matching. The P2P lending platforms are required to make various background checks and review the risk credentials of transaction parties, the authenticity of information provided by borrowers, and the authenticity of proposed financing projects. P2P platforms will not be able to take public deposits, nor create asset pools, nor provide any forms of guarantee for lenders.

Under the new regulation, the fundamental nature of lending platform is information intermediation, not credit intermediation any more. This implies the critical importance of studying the role of information disclosure and verification in attenuating information asymmetry and inefficiencies of online financing. Using the data drawn from Renrendai, a leading lending platform in China, this paper documents and analyzes the impacts of information disclosure in online financing. We find that the funding success rate and borrowing interest rate are significantly related with information disclosure. A single item of information disclosure helps to improve the funding success rate by 33% and lower the borrowing interest rate by 2.28%. The impact is even more considerable for the borrowers with lower credit rating. Our results are robust in various tests.