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Jieyue: Exploring Peer-to-Peer Finance

Professors Gong Yan and Zhu Qiong wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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At the end of December 2015, a supervisory policy—Interim Measures for Managing the Business of P2P Lending Agencies (Draft Interim Measures)—was issued by the Chinese government. It stipulated various regulations for peer-to-peer (P2P)[[1]](#footnote-1) businesses and required P2P platforms to rectify their businesses accordingly within 18 months. As to this policy, an industry insider said, “Regulations will be tightened on the P2P industry in 2016, creating a difficult environment for industry players, especially small- and medium-sized lending platforms.” A professor at Peking University noted with alarm, “If the rules of the Draft Interim Measures were strictly implemented, 70 per cent of P2P platforms would not survive.” Some industry professionals were even less optimistic. One prediction was that, “only 10 per cent of P2P platforms will survive after the 18-month rectification period.”[[2]](#footnote-2)

One day in April 2016, a group of young people in their 20s and 30s were having a heated discussion in a business-school class. These students were middle and senior managers of Beijing Jieyue United Information Consulting Co., Ltd. (Jieyue). Jieyue was a P2P lending platform with a three-year history. Confronted with such a hard time in the industry, Jieyue managers in the class wondered if Jieyue should strictly amend its business according to the Draft Interim Measures. The Draft Interim Measures stated that P2P companies should not open retail stores to sell financial products, so what should Jieyue do with its stores?

China’s Peer-to-Peer Industry

Market

Jieyue was founded on June 18, 2013. Its growth coincided with the high-speed development of China’s P2P market. P2P transaction volumes increased from ¥22.8 billion[[3]](#footnote-3) in 2012 to ¥982.3 billion by the end of 2015 (see Exhibit 1). Yet, in the first quarter of 2016, P2P volumes suffered a month-on-month decrease. Insiders believed the decrease was caused by the industry’s transition. As the regulatory policies were gradually implemented, some platforms withdrew or were forced out of the market and most platforms had to rectify compliance issues, affecting their business operations. In the first quarter of 2016, more than 300 P2P platforms had debt problems, which had reduced consumer confidence in P2P platforms to a certain extent.[[4]](#footnote-4)

CreditEase, the first Chinese P2P lending platform, was founded in 2006 when small and micro enterprises faced three difficulties in getting loans. First, the high interest rates of private lenders made financing too expensive for small and micro enterprises; second, the information asymmetry of private lending led to high bad loan ratios; and third, small and micro enterprises were often rejected by banks that set high lending thresholds.

Although there were so many financing demands in the market, P2P companies were still not admitted by the government. That was why the P2P industry developed rather slowly in China from 2007 to 2012. In 2012, with the setting up of a financial reform pilot zone in Wenzhou, a positive signal to the Internet-based finance market was sent out. In 2013, Yu’ebao appeared on the market, and thus Internet finance became a hot topic. Internet giants such as Baidu, Inc., (Baidu), Alibaba Group Holdings Limited (Alibaba), Tencent Holdings Limited (Tencent), known collectively as The BATS, began seizing market share in the banking and security fields. After that, P2P lending grew exponentially. The market entrants included Internet companies and private lenders with offline lending experience. As a result, the number of industry players increased from 148 in 2012 to 2,595 by the end of 2015 (see Exhibit 2). The annual consolidated income rate grew from 18.9 per cent in 2012 to 21.25 per cent in 2013, and then fell to 13.2 per cent in 2015.

As well as the increase in lending companies, the number of investors and borrowers also increased. In 2015, the number of investors and borrowers rose to 5.86 million and 2.85 million, respectively, a year-on-year increase of 405 per cent and 352 per cent. By the end of 2015, the total loan balance rose to ¥439.461 billion, for a year-on-year increase of 324 per cent.

A large number of investors flooded into the P2P market because of limited investment channels in China. Investors had put their money into real estate, stocks, gold, and banks. But in 2015, real estate, stocks, and gold went from a bull market to a slump, and there was little money to be made in these investment fields. At the same time, the People’s Bank of China (PBOC) had been reducing interest rates and the bank deposit reserve ratio since 2014, which led to a direct decrease in the profitability of bank wealth management products, and this was compounded by a devaluation of the renminbi. Thus, investors had to turn to P2P lending, an investment channel with greater potential returns. But P2P investors soon found this to be an unstable sector, as the number of platforms with debt problems increased from six in 2012 to 896 in 2015.[[5]](#footnote-5)

Policies

Before July 2015, the development of the P2P industry was completely unregulated. Then, from July to December, six new legal standards were introduced to define the P2P business scope and regulate the operation of P2P platforms (see Exhibit 3).

In fact, before these policies were issued, the Internet finance industry, including P2P lending, had already caught the government’s attention. On January 4, 2015, the Chinese premier visited China’s first Internet bank, WeBank, and announced that the government would create a sound development environment for Internet finance companies, so that their activities would no longer be restricted.[[6]](#footnote-6) In the Government Working Report published in March, the premier restated the need to promote the healthy growth of Internet finance.[[7]](#footnote-7)

Industry Players

In terms of international players, China’s P2P platforms were initially all based on international models. Zopa, founded in the United Kingdom in March 2005, was the first P2P lending company focusing on community-based P2P lending services. Zopa helped investors to minimize risks by diversifying their invested money. An investor’s money was automatically split into micro-loans (£50 each[[8]](#footnote-8)) that went to multiple borrowers. Zopa made no commitments to the security of the investors’ interest or principal, and bad loans were managed by collection agencies.

After Zopa was established, Prosper Marketplace Inc. (Prosper) was founded in the United States in February 2006. It matched investors with borrowers through an online auction system, where investors determined the investment amount and interest rate. Relying on the well-developed credit system of the United States, Prosper could check someone’s credit status and approve their loan application on the same day. Prosper and Zopa both made profits by charging borrowers and lenders.

In May 2007, another P2P platform, Lending Club (LC), went live in the United States. It went through three models: the promissory note model (June 2007 to December 2007), the bank model (January 2008 to March 2008), and the security model (after October 2008). Under the promissory note model, the borrowers issued promissory notes to LC, and LC provided the promissory notes to lenders. Lenders could choose to put as little as US$25 toward a borrower’s loan. Once the loan was in repayment, the lender would begin to receive payments of principal and interest. Under the bank model, borrowers signed a borrower membership agreement with LC and a loan agreement with WebBank. WebBank managed the money coming from lenders to fund the loan and dispersed the loan proceeds to the borrowers. At the end, WebBank endorsed the promissory notes issued by borrowers to LC, and LC assigned the promissory notes to lenders. Under the security model, investors purchased “Member Payment Dependent Notes,” the profits of which depended on the repayment of specific promissory notes submitted by the borrowers. In December 2014, LC was listed in the United States. However, when LC was reported in May 2016 for non-compliant loan sales, the founder and chief executive officer resigned, causing a dramatic decline in its stock price, with the total market value shrinking by 80 per cent.

In China, as the first P2P platform, CreditEase, used the “matchmaker” model, which searched for borrowers through offline channels. Borrowers were evaluated by CreditEase. If they qualified, they were recommended to professional lenders (often referred to as the controller of the P2P platform), who put money toward borrowers’ loans and got creditors’ rights. The professional lenders then transferred their rights to investors, who could earn interest from those rights.[[9]](#footnote-9)

CreditEase adopted this model because it could not match borrowers directly with investors on its platform. Both borrowers and investors lacked the awareness to arrange transactions on the platform in the first few years after it was founded. Through the “matchmaker” model, borrowers could get funding quickly. However, the model was called into question by outsiders, who even suspected that the cash pool was being used for illegal fundraising. The PBOC proposed the following red lines for P2P lending: “Do not offer guarantees. Do not set up a cash pool. Do not illegally accept public funds.”

Despite doubts, CreditEase evolved into a portfolio provider of wealth management services, inclusive finance, and Internet finance products. In early 2016, its offline service network covered 232 cities and 96 rural areas. Yirendai.com, launched by CreditEase in 2012, was an online P2P platform that specialized in offering credit-matching services for urban white-collar workers. It was listed in the United States in December 2015.

CreditEase used an online–offline model to control risks. Its credit account managers got valid information on borrowers through offline channels and submitted it to headquarters for review. Since 2012, the review process had been delegated to city-level subsidiaries and performed jointly by their credit audit departments and the headquarters.

Hongling Capital was another P2P company. Headquartered in Shenzhen, it was founded in 2009 and within five years, its transaction volume totalled over ¥20 billion. It had 30 provincial-level subsidiaries in China. These subsidiaries were in charge of identifying potential lending projects by controlling risks through offline investigations, assessments, and mortgage procedures. The qualified projects were then posted online to attract investment, most of which were for tens of millions of renminbi.

Unlike CreditEase and Hongling Capital, which relied heavily on offline channels, PPDAI Group Inc. (ppdai.com) had a fully online model.[[10]](#footnote-10) Established in June 2007, ppdai.com focused on providing individual customers with credit lending projects that required no guarantee.

“These P2P enterprises are not our competitors. The strongest competition comes from Baidu, Alibaba, and Tencent (the BATs), because they have excellent credit-checking resources and they can raise funds at a low cost,” said Wang Xiaoting, the founder and chief risk assessment officer of Jieyue.

By the end of 2015, the BATs had not directly launched a P2P business but had co-operated with various P2P platforms. For example, Ant Financial, affiliated with Alibaba, established a joint venture with Hundsun and China National Investment & Guaranty Corporation, which launched the P2P platform wjs.com; Zhima Credit of Ant Financial established a strategic partnership with the P2P platforms Yinhu.com and 9fbank; and Tencent co-operated with China Rapid Finance to launch the “Xianjindai” P2P project.[[11]](#footnote-11)

The Jieyue Model

Jieyue was a Beijing-based company funded by Shanghai Zendai Group and Derun Tianheng Investment & Development Co., Ltd. By the end of 2015, Jieyue had established more than 200 outlets in more than 100 cities across 20 provinces in China. Through these, it had served over one million customers and completed nearly ¥14 billion in transactions. Jieyue had also developed its own subsidiaries such as Jieyue Credit, which made loans to borrowers, and Jieyue Fortune, which provided wealth management services for investors and had over 10,000 employees.

According to a senior manager at Jieyue, Jieyue’s P2P model was “similar to that of CreditEase to some extent.” For investors, Jieyue had set up wealth management service stores and an online service platform called xiangshang360.cn. The stores targeted customers who were not used to online investing, and those who disliked it, while the platform catered to online customers. For borrowers, Jieyue provided loan services at service outlets.

Jieyue served investors between 1950 and the early 1990s, of whom up to 65 per cent were women. By October 2016, Jieyue had opened 53 wealth management service stores across China. The online platform was launched right from the start, where the smaller-amount loans were matched to appropriate investors by the platform. The platform had more than 2 million registered users by the end of 2015.

Although Jieyue’s model was similar to that of CreditEase, the two companies had completely different target markets. CreditEase had more focus on the first- and second-tier cities, while Jieyue focused on the third-, fourth-, or lower-tier cities.

As to the business model, there were no major differences between Jieyue and the others whose platforms combined online and offline operations. Borrowers submitted their loan demands to Jieyue through its platform. Jieyue then developed various loans for investors to choose from and made money by charging borrowers for its services.

But Jieyue had also developed unique features of this profit model. Jieyue classified borrowers into five different categories, based on their qualifications, risk ratings, and occupational groups. It provided a specific monthly general rate for each of the five category—0.99 per cent, 1.8 per cent, 2.19 per cent, 2.35 per cent, and 2.45 per cent. The monthly general rate included the interest paid by borrowers to investors, the service fee charged by Jieyue, and the amount payable to the investor protection fund for ensuring investor profits.

The 0.99 per cent rate was for extremely high-ranking customers. The service fees charged to these customers could not cover the operating costs, so Jieyue was actually losing money on services to this group; the 1.8 per cent rate was for high-ranking customers, with Jieyue making a tiny profit; the remaining customers (i.e., those with a rate higher than 1.8 per cent) were the main source of income for Jieyue. By April 2016, the ratio of these three groups was 0.5:5:4.5.

If a customer wanted to borrow ¥40,000 for a 24-month term, for example, various charges might apply based on different monthly general rates (see Exhibit 4). Jieyue could earn service fees equivalent to 25 per cent of the total amount borrowed over 24 months, by providing services to customers from all the groups. After operating costs for customer services over the 24 months were deducted from the gross income, Jieyue could actually earn 8 to 10 per cent of the borrowed amount.

Jieyue TRIES TO Construct A Competition Bulwark

Finding Loan Demand through Its Offline Channels

“The main bulwark for a P2P company is its capacity to find the loan demand” one Jieyue executive said. Jieyue chose to look for loan demands through offline channels for the following two main reasons:

* It wanted to competitively differentiate itself from the BATs, which had begun as Internet companies. They had huge advantages in terms of online resources and were good at managing online operations. Thus, Jieyue had a natural tendency to avoid competing with these three giants online. Jieyue believed that the strong connections between Jieyue and its customers through service outlets would make it hard for any Internet company to compete.
* The credit-checking level in the Chinese market was so low that Jieyue had to check its customers’ credit face to face. In fact, Jieyue was more familiar with the rules of investigating credit on-site, as most of its team members came from traditional financial companies. To get more information from borrowers who had less credit record available, Jieyue had to have teams in the field for face-to-face communication and validation.

Setting Up Lending Service Stores

In its first six months, Jieyue opened 30 stores in large Chinese cities. The next year, it opened 120 stores in prefecture-level cities; and in 2015, it continued to open 50 stores in lower-tier cities and towns. Opening new stores required a lot of upfront investment. Once Jieyue had used up ¥20 million invested by the Shanghai Zendai Group, its funding gap was mainly filled by the directors of the start-up team.

In the beginning, Jieyue simplified its management process to develop its offline provisions as quickly as possible, so that investment projects did not have to go through a lengthy approval process. It just had a simple internal check, including ceilings for the store cost and size, rules for furnishing, and staffing limits. After this simple check, the project could apply for direct payment from Jieyue’s finance division. This process was a modified version of the internal control model created by the Jieyue team from the model used in its former business. Taking advantage of this experience, it managed to open more than 200 stores within 2.5 years.

For the first six months, the aim of the Jieyue stores was to capture market share and train new staff, so the assessment of key performance indicators (KPIs) in these stores mainly focused on business volume. After 2014, with a growing number of stores, Jieyue began to add profitability requirements, and allowed the stores to keep independent accounts. Risk control and compliance were also included in the KPI assessment. The risk control assessment was to ensure that stores managed their assets effectively to generate a profit, and the compliance assessment was to protect financial security.

In 2013, every Jieyue store had 60–70 employees. In 2014, as each store gradually focused on a concentrated market, the staff numbers in each store fell to below 60. In 2015, as Jieyue moved into counties and towns, some stores were only allocated about 20 employees.

At each store, the store manager was held accountable for loan services, customer services, and risk control. The stores were managed by the Jieyue branches, each of which managed five or six stores. Jieyue had a total of 36 branches, with an average of one or two in each province of China. Every branch included human resources, finance, and administration functions.

For the above branches, Jieyue had defined three major regions: North China, East China, and South China. They all reported to Jieyue’s headquarters for credit services. In 2013, 2014, and 2015, the total transaction volume of Jieyue’s credit service reached ¥727,508,000, ¥6,109,994,000, and ¥7,795,667,000, respectively. In May 2015, Jieyue Credit was founded as an independent subsidiary of Jieyue and focused on credit services.

Exploiting Scenario-Based Lending Services

While Jieyue Credit was expanding its offline business network, it also made efforts to develop its scenario-based consumption lending services. Under the scenario-based lending model, the money borrowed through Jieyue was transferred directly to merchants, rather than to borrowers. For example, Jieyue’s account managers would go to a wedding dress shop, beauty salon, or home decor shop to offer lending services to customers on-site. Of course, account managers were selective about the places of business—that is, they preferred to offer these services in an Easyhome store rather than IKEA, because “IKEA’s customers were younger than Easyhome’s; the latter were more likely to be in their forties, with stronger purchasing power,” one Jieyue director said.

Jieyue gradually developed several scenario-specific services, such as a scenario-based mortgage loan service, and a scenario-based auto loan service. In June 2015, Jieyue launched its scenario-based mortgage loan service business, and set up a management division for it.

Most of Jieyue’s mortgage loans were so-called redemption loans. Redemption loans provided bridge funds or loans for real estate owners and buyers. A redemption loan requirement arose when the owner of a property needed to borrow a certain amount of money to pay off an outstanding mortgage before reselling property. A buyer could also need a loan to purchase the property, which could lead to another need. The lending service could be offered for each of these scenarios. However, if both the owner and the buyer needed loans, the owner could receive funds from the buyer first, and then use part of the money to pay off the own loan. Lian Jin Rong provided such loans for the second-hand property trading business of its parent company, Lianjia Real Estate, through the website LLJR.com.

Several small agencies were looking for redemption loans from Jieyue, but they were required to have real property deals confirmed before Jieyue could provide them with bridge funds. Jieyue created value for these agencies by helping them close deals faster.

As well as the redemption loan business, Jieyue also provided financing for residential leasing. For instance, Jieyue co-operated with Beijing Zhongtian House Real Estate Agency Co. Ltd (ZTZD), the largest real estate leasing agency in Beijing. ZTZD often rented hundreds of apartments, and then partitioned them into smaller rooms for leasing. Jieyue provided a financial service for ZTZD, so it could raise funds to pay for the apartment rental. ZTZD would then use the rent collected from tenants to pay back the money borrowed from Jieyue, which would then return the money to the investors.

Jieyue also provided end customers with a direct lending service. A typical leasing contract often required tenants to pay several months of rent in advance. At this stage, Jieyue could offer lending services to the tenants to help them pay this advance rent, and allowed them to pay it back by instalment.

By the end of 2015, Jieyue’s credit service division had 92 stores across China, and the monthly loan amounts per store were over ¥34 million, with the single highest credit line reaching ¥15 million. The total loan amounts for September, October, and November of that year reached ¥35 million, ¥66 million, and ¥130 million, respectively. By April 2016, the revenue from all scenario-based lending was 20 per cent of total revenue.

Risk Control Model

Jieyue was full of confidence in its scenario-based lending business, not only because of the high profits it generated, but also because of its relatively controllable risks. The founding team had a financial background, so it viewed financial risk control as the top priority. Jieyue controlled the risks of P2P lending in two ways: 1) by ensuring that transactions were conducted with real persons (borrowers); and 2) by ensuring that transactions were authentic. In scenario-based lending, it was easy to monitor the authenticity of the transaction and the borrower, so Jieyue could control how and where the money was used, and could access information for post-lending monitoring, such as the customer’s name, phone number, and delivery address.

One important reason for Jieyue to continue developing lending projects on-site was to get authentic credit information by interacting directly with the borrower. Thanks to such authentic information, Jieyue’s risk control process worked effectively.

Jieyue Credit had set up a risk management department as head of all the risk control teams that belonged to each city-level subsidiary. This department, and the Credit Extension and Checking Centre (CECC) at Jieyue headquarters, made up the risk control system.

CECC was in charge of customer credit checks, credit loan approval, and ongoing optimization of the entire risk control process. Initially, CECC had over 110 staff, including 80 who were responsible for credit checks, seven or eight who sent notices of overdue repayment for loans, and another four or five in charge of auditing. There was also a small data analysis team. However, by 2016, the staff numbers had dropped to 70, with 30 staff members responsible for credit checking, and the rest focusing on data analysis and model optimization. The reduction of team members was not done to lower costs. It was the result of evolution in the risk control model after replacing manual operations with a more automated system.

*Risk control model from 2013 to 2014*: With a hope of leveraging the standard international method, Jieyue first used the FICO credit-scoring system for credit checking. The FICO credit-scoring system was used by all U.S. administrative bodies for individual credit evaluation. Its five main components included loan repayment history, amounts owed, length of credit history, new accounts, and credit products used. The score ranged from 300 to 850, and the higher the score, the better the credit. However, Jieyue abandoned this system after three months, because Jieyue found that it was almost impossible to collect the information required by the FICO system from borrowers in China.

The FICO system was based on the mature credit-checking system of the United States. This meant that data that were easy for U.S. companies to obtain would be hard to collect in China due to its incomplete individual credit-checking system. China’s official individual credit-checking system was designed by PBOC. In January 2006, PBOC established a basic database for individual credit, and then began collecting individual credit information and preparing credit reports. The reports consisted of many records, such as loan repayment information (including credit cards and personal loans), personal basic information (including name, identification number, contact information, marital status, etc.), and other information (including housing provident fund and pension funds). Yet, by 2015, this system covered only 800 million out of China’s population of 1.4 billion. Among the 800 million people covered, only 300 million had transaction records that made them eligible for credit checking, and only basic information was available for the other 500 million.[[12]](#footnote-12)

Although the FICO was not suitable for China, it did give Jieyue some inspiration for building its own credit-checking system in such aspects as dimensions for individual credit checking and fields for making judgements. After absorbing some of FICO’s ideas, Jieyue developed its first risk control model. In this model, borrower information included strong variables such as income and account statements, and weak variables such as expense records, consumption habits, and even social information.

According to the model, Jieyue first asked borrowers to provide 10 pieces of personal information, and six phone numbers of friends or family. To judge the authenticity of the information, Jieyue used a “manual” approach. For example, to verify an income certificate, a Jieyue employee at a store would accompany the customer to the bank to get a copy of it. This approach was also used to check property ownership certificates, vehicle registration certificates, and so on. Meanwhile, another employee would call the six phone numbers provided to verify the relevant information. Any false information found would lead to the immediate rejection of the borrower, who would also be added to the customer blacklist.

For those who were confirmed to have provided authentic information, Jieyue store managers would deliver their information to a credit reviewer based at the headquarters, who would make a detailed check in terms of risk assessment, credit extension, and so on. The Jieyue reviewers were divided into seven grades based on different credit amounts. Only when the lending deal had been carefully assessed, and the risk was eliminated, could an aspiring investor’s application be activated on the platform to eventually close the deal.

*Risk control model after 2015*: Compared to the early model, the main improvements in this model were applying automated and systematic modules, and refining the risk control process to reduce the risks and increase efficiency. For example, anti-fraud and credit-scoring modules were added to the process. The anti-fraud team focused on one key task, which was to check the results of the anti-fraud module to find out whether a borrower was on the blacklist or grey list,[[13]](#footnote-13) or was suspected of possible fraud. If the borrower was a qualified lender, he or she was given a credit rating. This step was followed by the credit check and approval and follow-up online auditing, where another set of rules was then applied to filter any high-risk customers, high-risk reviewers, high-risk account managers, and even high-risk customer service employees in the auditing process. The filtering was based on all the information produced from Jieyue’s receipt of the loan application to the final credit extension process, including all the call records, videos, reports, and corresponding remarks.

Jieyue was able to add in these extra modules because after a year and a half of development, it had developed a database with information about millions of customers. The large quantity of authentic customer data enabled Jieyue to accurately assess a borrower’s personal profile, and continuously optimize the anti-fraud and credit-scoring modules.

Over this 18-month period, Jieyue also accumulated a large amount of industry data. As one of the first companies to connect to the credit systems of Shanghai Credit Information Services Co., Ltd., Jieyue also co-operated with related companies and credit-checking companies to access industry black and grey lists, as well as information about customer behaviour in spaces such as social networks and e-commerce.

As the data continued to grow, automated review modules—such as anti-fraud, credit scoring, and online auditing—were bound to play an increasing role in Jieyue’s risk control process. According to Jieyue’s plan, the ultimate risk control system would definitely be automated plus manual. The automated system would play a major role, while the manual part would only involve accessing and verifying data and collecting payment.

Jieyue Facing Uncertainty

For the P2P lending industry, 2016 was a year full of uncertainty. The regulatory authorities were becoming stricter with the P2P platforms, while news of P2P players letting their companies go bankrupt caused social unrest. In this kind of market environment, Jieyue wondered whether to focus on development as usual or simply adjust its pace and pay more attention to risk control and business compliance. What kind of core skills did Jieyue need to develop to get through tough times in the industry? These questions aroused heated discussion at the Jieyue executive training course.

Exhibit 1: Transaction Data from China’s P2P Industry

Source: Compiled by the authors using P2P industry annual reports from “Your Online Loan Expert,” WDZJ.COM, accessed June 19, 2018, https://www.wdzj.com.

Exhibit 2: Annual Growth in Number of Companies in China’s P2P Industry

Source: Su Manli, “The Number of Dysfunctional P2P Platforms Increases by 2.6 Times in 2014,” Beijing News, January 8, 2015, accessed June 5, 2016, www.hn.xinhuanet.com/2015-01/08/c\_1113920262.htm; Lu Pei, “Wdzj.com Releases 2015 Annual Report on the Chinese P2P Industry,” sootoo.com, January 8, 2016, accessed June 5, 2016, www.sootoo.com/content/660068.shtml.

Exhibit 3: Laws and Regulations in China’s P2P Industry (end of 2015)

|  |  |  |  |
| --- | --- | --- | --- |
| **Month (2015)** | **Laws and regulations** | **Issued by** | **Details** |
| July | Guidance on Promoting the Healthy Development of Internet Finance | PBOC and other 10 ministries and commissions | P2P referred to direct lending between individuals through Internet platforms. Direct lending conducted on P2P platforms was viewed as private lending and was subject to Contract Law, the General Rules of Civil Law, and other applicable laws and regulations, as well as to the legal interpretations of the Supreme Court. P2P institutions needed to clarify their role as information intermediaries whose main purpose was to provide information services to the lenders and borrowers. P2P institutions should not provide credit enhancement services or raise funds illegally. |
| July | Guidance of the State Council on Actively Promoting “Internet Plus” Activity | State Council | This guideline existed to regulate the development of P2P lending and online consumer credit businesses and to explore innovation in Internet financial services. |
| August | Regulations of the Supreme Court on Laws Applicable to Private Lending Cases | Supreme Court | The lender and the borrower established a financial relationship through a P2P platform. The platform provider only provided intermediate services and was not responsible for providing a guarantee. However, if the platform provider explicitly offered a guarantee, through a declaration on its website, an advertisement, or other media, or was proven to have made a guarantee to the borrower, the People’s Court might deem the P2P platform provider to be responsible for the guarantee, under the request of the lender. |
| September | Guidance on Accelerating the Creation of the Platform to Support Public Entrepreneurship and Innovation | State Council | This guideline existed to encourage Internet companies to set up P2P lending platforms and provide information exchange, matchmaking, and credit assessment services for lenders and borrowers. It encouraged companies to take advantage of Internet technology to develop a risk control system to avoid information asymmetry and prevent potential risks. |
| December | Administrative Measures for the Online Payment Business of Non-Bank Payment Institutions | PBOC | The Non-Bank Payment Institutions were forbidden to open payment accounts for financial institutions or other institutions that offered credit, financing, wealth management, guarantees, or currency exchange services. |
| December | Interim Measures for Managing the Business Activities of P2P Lending Agencies (Draft for Comments) | China Banking Regulatory Commission and other authorities | P2P lending agencies should provide information services in accordance with the applicable laws, taking integrity, voluntary participation, and fairness as their guiding principles. The agencies should protect the legal rights and interests of lenders and borrowers. They should not provide credit enhancement services, set up cash pools, raise funds illegally, or harm the national or public interest. |

Source: “2015 Annual Report on China’s P2P Lending Industry (Full Version),” Yingcan Consulting, January 7, 2016, accessed May 3, 2016, www.wdzj.com/news/baogao/25661.html.

Exhibit 5: Comparison of Fees Paid by Borrowers with Different Credit Ratings in Jieyue

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Monthly general rate (%)** | **Amount borrowed (¥)** | **Term of loan (months)** | **Monthly repayment amount (¥)** | **Amount loaned (¥)** | **Total repayment amount (¥)** | **Annualized rate of return for the lender, calculated by the average principal plus interest method (%)** | **Guarantee fund rate for the lender (%)** | **Jieyue service fee rate (%)** |
| 0.99 | 44,933.09 | 24 | 2,062.67 | 40,000 | 49,504.08 | 9.48 | 10 | 10.98 |
| 1.80 | 51,991.10 | 24 | 2,386.67 | 40,000 | 57,280.08 | 9.48 | 10 | 21.67 |
| 2.19 | 55,389.40 | 24 | 2,542.67 | 40,000 | 61,024.08 | 9.48 | 10 | 27.78 |
| 2.35 | 56,715.34 | 24 | 2,606.67 | 40,000 | 62,560.08 | 9.60 | 10 | 29.47 |
| 2.45 | 57,516.48 | 24 | 2,646.67 | 40,000 | 63,520.08 | 9.72 | 10 | 30.45 |

Source: Company files.

1. P2P was a business model that involved peer-to-peer lending through online platforms. Investors who were willing to lend their money and borrowers with loan requests posted their information on P2P platforms to find a match. The platforms provided credit checking and matching and charged management and service fees. [↑](#footnote-ref-1)
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3. ¥ = CNY = Chinese yuan renminbi; all currency amounts are in ¥ unless otherwise specified. ¥1 = 0.1604 on December 31, 2012; ¥1 = 0.1577 on December 31, 2015. [↑](#footnote-ref-3)
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13. Customers on the grey list were a specific group of users whose irregular behaviour did not meet the blacklist criteria and could not be managed, based on credit ratings. [↑](#footnote-ref-13)