

# Lighthouse in the Dark: Information in Private Lending

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## Background

- RISK in Fintech credit market (i.g., marketplace lending):
  - Direct participation of naive individuals→exacerbate asymmetric information problem
- How to effectively deliver information to naive individuals? By whom?
  - Information center by gov. (public goods)?
- From 2012, Private Lending Registration Service Centres (PLcenters) were gradually introduced by local governments in many Chinese cities
  - Dissemination of financial knowledge and local private lending market info
  - China is the largest market for FinTech credit
  - Staggered Difference-In-Difference setting

PLcenter  $\xrightarrow[\text{Offline, gov} \rightarrow \text{Online, private}]{\text{Information/Knowledge}}$  RenRenDai (P2P)

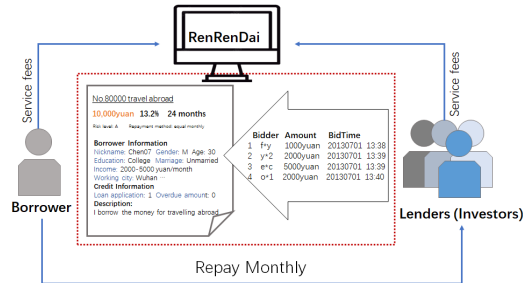
## PLcenters: public information center

- Physical location, one-stop service
- Disseminate local market information and financial knowledge

Example: 20140915, Weekly Wenzhou Index

1m	3m	6m	12m	1y+
19.87%	20.34%	17.48%	16.26%	18.01%

## RenRenDai: marketplace lending



## Research Question

PLcenters launched by the government introduce free reference information:

Local market information + knowledge

This paper tries to answer,

- With the introduction of PLcenters, will individual borrowers in the marketplace lending market change their setting of contracts and repayment performance?  
How?
- Will the marketplace lending market work more efficiently?

## Preview of Findings

- The number of P2P loan applications increases with the introduction of Pcenters. Interest rate  $\uparrow$ , loan size  $\uparrow$ , maturity  $\uparrow$ .
- With Pcenters, success rate and liquidity  $\uparrow$ . Interest rate proposed by borrowers contains more information. Less extremely low proposals.
- Pcenters reduce **the dispersion** in the contract terms (i.e., interest rate, maturity and amount). This effect is mainly driven by the lower educated.
- The introduction of PLcenters improves the repayment performance.

### Contribution

Novel evidence that information can work as public goods to guide the informal financial market (search cost  $\downarrow$ ).