

# Study on the Influence Factors of Market Access to Internet Lending Industry in China

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**Abstract:** This paper, based on the perspective of internet lending platform, collects the related data of top 100 internet lending platforms, and uses the factor analysis method to build the access system of P2P lending industry with influence factors. The results show that the four main factors tightly linked with market access to internet lending industry including large-scale economies, operational risk, product difference, and enterprise advantage.

## Introduction

Internet lending, also called the peer-to-peer lending, is a new type of lending pattern that lenders lend money to borrowers with the specialized service through internet platform.

The platform of internet lending mainly functions providing information for both sides of supply and demand, investigating and assessing borrower's financial position and credit standing, while it does not participate in the actual creditor-debtor relationship. Internet lending compared with the traditional lending is a shortcut of financing, the improvement of efficiency, and a further reduction of lending costs about transaction, time, and procedures. With the rapid development of Internet financial technology, Internet lending is flourishing in developed and emerging developing countries.

The online debut that PPDAl made in Shanghai in 2007 marked the birth of the internet lending in China. According to statistical data, by the end of 2018, internet lending platforms in operation has amounted to 1,076, the turnover was 106 billion Yuan, and the balance remained 788.96 billion Yuan. On the other side, the internet lending platforms of transformation and closure went up to 2838, non-performing platforms up to 2699, respectively 42.91% and 40.81% of the sum of internet lending platforms by the end of 2018.

The rapid development of internet lending up to 6613 platforms in China rooted in the wild and free state of "no limit to enter, no regulation to obey, no administration to supervise". In the 3-no circumstances, there were a lot of defects built in, such as minimal capital, cash pooling, self-financing, fictitious financing projects, and evacuation funds. Financial risk of P2P lending was gathered that some of the questionable P2P lending platforms went bankrupt. But no owners or operators were responsible for the repayment of the lender's money. It was a typical financial crime no different from robbing money in public. The internet lending industry in China calls for the high admittance threshold.

Market access to the internet lending is the most important issue for its sustainable development. Influence factors of market access to internet lending are the foundation to promote the healthy and orderly development. This paper collected the related data of the top 100 P2P platforms to analyze their performance. These high quality P2P lending platforms, which embodied the health indicators of P2P lending, would also can reflect influence factors of market access to internet lending industry.

## 1. The Literature Review

The vigorous development of the internet lending market has attracted the attention of many scholars at home and abroad, the present study focused on several aspects such as operation mode, financial risk, and comprehensive competitiveness of P2P lending platform.

(1) The study of the patterns of Internet lending platform

Bachmann (2011), the operation mode of the internet lending platform can be divided into two kinds of platforms, commercial or profit-pursued model (Ltd.) and non-commercial type or charitable type (non-Ltd.) [1]. Chen et al. (2012), gave the comparative analysis respectively from "soft" and "hard" information on the result of borrowing differences between China and the United States in Internet lending market operation mode[2]. Yu-mei chang (2010) studied the P2P internet model, and points out that the P2P internet model of personal credit risk is difficult to prevent, lack of corresponding legal norms in China, the higher cost and no guarantee for the borrower information security. [3]. Yao Lianfang (2014) argued that the P2P internet platform model in the process of development gradually became Sinicization.[4].

(2) Studies of internet lending platform risk evaluation

Kumar to Prosper on the trading data of empirical research, the results show that the delinquency rate of borrowers in platform will be the influence factors of investors to evaluate the credit risk [5]. Borrowers' Freedmen, etc, the selfishness, when borrowing to hide information and even provide some false information, makes the increase of adverse selection [6]. Iyer, studied the relationship between the borrowers' credit ratings and the financing behavior, found facing the same credit rating of borrower, lenders can distinguish the different degree of credit, to choose suitable borrowers and lending interest rates [7]. Zhang Qiaoliang, zhang li (2015), the analytic hierarchy process (AHP) was used to construct a P2P internet platform risk evaluation index system and identify risks as eight: legal risk, market risk, competition risk, credit risk, technology risk, the internal management risk, reputation risk, and cooperation with institutions risk [8]. Chen Xiao (2013) explores the overdue risk of the borrowers, factors affecting the behavior of the overdue credit, mark, personal characteristics, etc., and suggestion of internet platform to establish a reasonable risk management mechanism and supervision system [9]. Lu Xin, rose lee (2015) from the viewpoint of regulators made market analysis of various risks faced by the P2P internet platform, and suggestions of the nets to prevent credit risks [10].

(3) The internet platform of comprehensive competitiveness research

Zhang zhao (2015), the internet lending platform integrated development of regional industry has carried on the empirical research, the results showed that: to build a P2P internet system of comprehensive evaluation that can objectively reflect the status of regional industry development, and internet lending industry comprehensive development are different region by region[11]. Guo Haifeng (2015), using the factor analysis method to measure the comprehensive competitiveness of each platform. He found its regional difference is serious, the characteristics of " Lost in central regions". Internet lending platforms integrated rank higher in western China, because of its high degree of financial repression, but in fact its overall development level is not high. Through the data analysis he also found that internet lending platform for mixed management can make more profitability, but small platform should not adopt diversification strategy; Finally caused by a lack of internet lending risk control, lead to small and medium-sized enterprise financing difficult problem is still not improve [12].

To sum up, at present, the rapid development of the internet lending industry has attracted extensive concern of many scholars both of the academic and industry experts, research in this field are also continued to further and deepen. But most focus on internet lending platform operation mode research, credit risk assessment research, P2P internet platform comprehensive competitiveness research. Although some scholars to research the barriers to entry, but from the perspective of government and regulators. This article, based on the related data of top 100 internet lending platform, analyze internet lending platform development, such as registered capital, operating ability, internet technology level, liquidity, transparency, etc. The empirical analysis to influence factors of market access of the P2P internet platform is the basic conditions required.

## 2. Internet Lending Market Access and Influence Factors

Internet lending platform stopped business and run bankrupt frequently in recent years. Internet lending industry in the absence of access threshold, regulation, administration, establish capital threshold to enter the internet lending market is in the first place to block these inferior internet platform out of net lending industry and raise the internet lending industry admittance mechanism.

A P2P lending platform did not establish minimal registered capital as reserve resources to resist risk to near zero at present. The management and professional staff do not have enough financial expertise and management qualification. The risk-control systems are weak, or even are made fashion. The qualification system of debtors and creditors, especially of creditors are not completed yet. All the incompleteness should be influence factors of market access of internet lending industry.

Many scholars who study the standard of market access of internet lending tend to draw lessons from the P2P market access in Anglo-American countries. But the P2P market condition is not the same as the European and American countries. The financial development of the internet lending in China starts late, in spite of the rapid development in the past years, but as a result of regulatory policy of P2P lending is not perfect. This paper, according to the basic situation in China, attempted to construct the fundamental index system of market access to the P2P lending industry.

The basic index of influence factors should be able to fully reflect the comprehensive strength of the internet lending platform, platform innovation, risk control ability, absolute cost advantage. Therefore, to select the reasonable and effective representative indicators is the key to correctly reflect the market access conditions. This article from the perspective of rationality, comprehensive and objective selects 10 specific indicators, including the volume, turnover, capital, leverage, liquidity, dispersion, transparency, technology, brand, and reputation. Each indicators' meaning and specification are as follows:

Q1: volume, the complete transaction data released by the borrower in internet lending platform.

Q2: turnover, the operating income of internet platform, reflecting the platform business scale.

Q3: capital, the registered capital of the internet lending platform.

Q4: leverage, the size of leverage rate used by the internet lending platform, reflecting the internet platform's ability to resist the operational risk.

Q5: liquidity, the speed of the lending platform to borrow and return of principal and interest rate.

Q6: dispersion, the degree of the distribution of borrowers in the lending platform, the higher the dispersion degree, the lower the operational risk.

Q7: transparency, the degree of information disclosure of the lending platform.

Q8: technology, the extent of the technical ability of the lending platform.

Q9: brand, the intangible assets providing better quality and making difference with others.

Q10, reputation, the degree of good fame, praise, and attractiveness.

## 3. The Empirical Analysis of Influence Factors of Market Access to Internet Lending

### (1) Statistical description and statistical analysis

This paper used data collected from a third-party internet website in China, Wang-Dai-Zhi-Jia, part of data collected directly from the internet lending platform's website. Individual missing values adopt the linear regression method to estimate and alternative. This article uses the factor analysis method to find which affect successfully the market access to P2P lending industry, and uses the principal component analysis to select indicators, and extract the main factors affecting the development of internet lending platform. Based on this, the related suggestions about market access are put forward to the P2P internet lending industry.

The software, SPSS 18.0, is used to standardize data processing and the dimensionless processing. Among the top 100 platforms, the platforms that registered capital below 100 million Yuan account for 84.1%, above 50 million Yuan accounting for more than half. Those questionable platforms went bankrupt, can be found that the failure lied in the inadequate registered capital, all below the average level. Some platforms even only spent tens of thousands of Yuan to operate online. With insufficient

capital, those platforms definitely have insufficient ability to control and manage all kinds of risk. Most of the top 100 platforms are pursuing their own business model to grow their own brands up in the process of diversified development.

The internet lending platforms will be of large-scale economy only if the access standard is established to the internet lending market. The internet lending platforms existed have to match the compulsory standard, while newcomers to the market of internet lending have to meet the same compulsory standard. The access standard will interpose restrictive condition to the unqualified platforms entering the internet lending market

(2) The factor analysis

**Table 1.** KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.807
Bartlett's Test of Sphericity	Approx. Chi-Square	493.642
	df	45
	Sig.	.000

For the method of factor analysis, KMO and Bartlett test value will be within the 0 and 1, and more close to 1 showing the data more suitable for factor analysis. P values of Bartlett test to refuse the original hypothesis, suggest that the data set is more suitable for factor analysis. According to the test results, KMO statistical value is 0.807, the chi-square value of Bartlett sphericity test is 493.642, and the significance level is 0.000, less than 0.05. Suggestion is obvious that the original data is suitable for factor analysis.

**Table 2.** Explanation of the Total Variance

Total	Eigen Values		Sums of Squared Loadings		
	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
4.486	44.860	44.860	4.486	44.860	44.860
1.599	15.986	60.846	1.599	15.986	60.846
1.074	10.740	71.586	1.074	10.740	71.586
1.001	10.010	81.596	1.001	10.010	81.596

As shown in the table 2, amongst the column of initial characteristics value, only four factors' eigen values are greater than 1, so only four factors are extracted. The column of sums of squared loadings shows that the contribution rate of the first factor variance is 44.860%, the largest proportion; the contribution rate of the second factor variance 15.986%, the contribution rate of the third factor 10.740%, and the contribution rate of fourth factor variance 10.010%. Four factors' variance totally account for 81.596%. Obviously, the extracted four factors can well explain the original variables.

**Table 3.** Rotated Factor Matrix

Factors	Component			
	1	2	3	4
Volume	.751	-.152	-.002	.495
Turnover	.762	-.067	-.089	.541

Reputation	.109	.067	.893	.250
Technology	.514	.010	.306	.543
Leverage	-.137	.903	-.073	.128
Liquidity	.040	.917	.198	-.139
Dispersion	-.420	-.633	.291	-.003
Brand	.098	.159	.930	.022
Capital	.790	-.076	.038	-.072
Transparency	.325	-.092	-.061	.780

According to the result in rotated component factor matrix (table 3): volume、turnover and capital in the first factor are of high load. Volume, turnover, and capital reflect the size of the internet lending platform, so the first factor is called economies of scale. Leverage, dispersion, liquidity has high load on factor 2, which is named as operational risk factors. Reputation and brand have high load and better explain in the third factor that factor 3 is defined as the product difference factor. Technology and transparency in the fourth factor is of high load, which is the enterprise advantage factor.

Four factors are extracted by factor analysis, respectively as: the factor of large-scale economies, the factor of operational risk, the factor of product difference, and the factor of enterprise advantage. The weighted coefficient of economies of scale factor occupies the largest proportion in the measure of comprehensive strength. New internet lending enterprises to successfully enter the internet lending market must achieve large-scale economies to reduce average cost, and to enhance its ability to resist risk. If new enterprises to enter the internet lending market, they must have enough capital. The average registered capital of the top 100 platforms is of 81.9269 million Yuan by the end of 2014, this paper argues that all internet lending platforms shall be treated as pure financial institutions, and minimum capital adequacy requirements can be in accordance with commercial banks.

Operational risk factor can be measured for the internet lending platforms for a large proportion in terms of comprehensive strength. Internet lending enterprise is a combination of financial industry and internet technology. The operational risk broadly exists in both financial sector and internet field. An internet lending enterprise can control operational risk from every aspect. The internet lending enterprises should make policies to measure, monitor and manage the operational risk. Planning ahead enables us to identify potential hazard and take action to prevent them. The internet lending enterprises need to be able to detect when business go wrong and then react quickly and put them right, then learn from them.

The factor of product difference of internet lending platforms mainly shows that every internet lending platform has distinctive financial products that they are associated with their own platforms. The internet lending platforms develop the internet lending business in the light of the factor of product difference. The financial products should be so innovative that enterprise competitiveness must be sound and strong.

The factor of enterprise advantage mainly refers to the advantage of internet lending enterprise compared with others. Registered capital and information transparency take up the most important two factors when the factor of enterprise advantage is disintegrated. Enough registered capital is the inherent advantage. Information transparency can form the enterprise advantage by the means of information exposure to the public.

## Conclusions

The internet lending platforms play the key role of information medium organization bridging borrowers and lenders, but the internet lending industry is of nature of internet finance. So the internet lending platforms should be regarded as financial institutions by the China Banking Regulatory Commission. The internet lending platforms that match the access standard will keep on business in the market of internet lending.

In this paper, the market access of internet lending industry is to establish the access standard for the internet lending enterprises, based on the related data of top 100 P2P platforms. The paper uses

the factor analysis method to build the access standard system of P2P lending industry with influence factors and shows the four main factors tightly linked with market access to internet lending industry, including large-scale economies, operational risk, product difference, and enterprise advantage.

The amount of the internet lending platforms is sharply decreased to 473 by the end of October, 2019, and will be further decreased to the extent that only the top head can survive and transform. People's Bank of China and other 10 ministries jointly issued the Guiding Opinions of Promoting the Healthy Development of Internet Banking in July 2015. The market access standard of the internet lending platforms will be strict and sound in the internet finance highlight.

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