THE SHARING ECONOMY AND COLLABORATIVE FINANCE: THE CASE OF P2P LENDING IN VIETNAM

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Abstract

Peer-to-peer Online Lending (P2PO) has received increasing attention over the last years, not only because of its disruptive nature and its disintermediation of nearly all major banking functions, but also because of its rapid growth and expanding breadth of services. This model offers a new way of investing in addition to investing in traditional channels such as banking or financial company. The transaction process is done online, the personal information and terms of mobilization are completely transparent and secure in the best way. The strong development of P2PO also raises a number of issues that require careful attention to promote positive and to limit negative aspects. The research aims to highlight particular aspects of this new business model and to analyze the opportunities and risks for lenders and borrowers in Viet Nam. The research combines qualitative analysis and data survey to serve descriptive statistics about P2PO in Viet Nam. The research show the potential of online peer lending is enormous but the regulators will restrict the Sharing economy model in general and P2PO lending in particular

Keywords: *Sharing economy, P2P lending, financial innovation, Disintermediation, Fintech*

INTRODUCTION

Developments in information technology are fundamentally changing many traditional business models. The advent of the internet and the consequently facilitated opportunities for entrepreneurial activities has given rise to an enormous number of new non-traditional businesses and business models that encompass the so-called “Sharing Economy”. The business models of the Sharing Economy are usually platform-based to match demand and supply. The increasing use of the internet and its possibilities enable online platforms that are easy and cheap to access. Independent of the rest of the design of these non-traditional businesses, the Sharing Economy companies usually provide these platforms. These, in turn, attract demand, often on a very large scale, since they are accessible world-wide.

Known under different names such as "Collaborative Consumption", "peer-to-peer exchange", "on-demand economy", this model is expected to achieve sales of 335 billion dollars in 2025 (Price waterhouse Coopers, 2015), equivalent to revenue of Traditional rental sector.

The model "sharing economy" has been bringing benefits such as cost savings, environmental protection, increased economic efficiency, reduced social waste and excess capacity of service products. These are the factors that make the sharing economy model have more potential for growth in the future Time magazine refers to the sharing economy as one of ten ideas which will change the world (Walsh 2011).

The online peer to peer (P2PO) lending model is one part of the Sharing Economy. With the upcoming popularity of online communities, a new way of loan origination has entered the credit market. It transfers the old idea of personal credits into the World Wide Web. In this kind of lending model the mediation of financial institutions is not required (Galloway 2009). The decision process of loan origination is given into the hand of private lenders and borrowers, and the website like huydong.com offers them a platform to engage with each other. Borrowers and lenders connect more easily, and demand for consumer loans is almost fulfilled all the motivations, bases, and needs for promoting this model (Lenz 2016)

The asymmetry between the benefits of the shared economy model and the P2PO platform with the reality in Vietnam in this sector has prompted a closer study of P2PO knowledge and awareness, which until now, no detailed research has been done yet, to make recommendations to promote P2PO platform development in Vietnam.

However, the researches about Sharing Economy in general and P2PO Lending are very limited. So this paper aim to collect and analyze the opinion of the financial community about the potential development of the P2PO platform in Vietnam and thereby try to give several policy recommendations for their development.

About the Sharing Economy

The Sharing Economy in recent times has emerged as a global phenomenon. Companies that are emerging in this new paradigm as a David are relying on internet technology to compete face-to-face with the Goliath giants. These new companies are actually Web platforms or Mobile application that brings together individuals who have underu tilized assets with people who would like to rent those assets short-term. This model has many economic benefits such as having a positive impact on economic growth and welfare, stimu-lating new consumption, raising producti-vity, and catalyzing individual innovation and entrepreneurship (Sundararajan 2014).

Sharing Economy companies have significantly increased competition in most markets they are active in. Even in markets that are already competitive, the entry of a Sharing Economy company causes an increase in competition that is mostly unparalleled when compared to traditional business models. The main reason for this is that Sharing Economy companies often do not apply the framework and regulation of the respective market to their activities while traditional companies do. The motivation for this behavior is that they believe that existing, pre-Sharing Economy regulation is inapplicable to Sharing Economy companies, especially P2P models. The argument being made is that the supplier is in fact an individual, not a company. In consequence, it is reasoned that a framework of a market geared to companies could not be applied. Not surprisingly, traditional companies disagree and strive to apply framework and regulation to all companies (and in case of Sharing Economy businesses to individual suppliers) in a market in the same way (Demary 2015).

Sharing Economy companies work hard to establish trust since it is a prerequisite for conducting business in this environment. The most common avenue of creating trust is a rating system where consumer and supplier rate each other after each transaction (Finley 2013). What separates peer-to-peer networks from electronic markets is that the main aim is sharing and borrowing, not buying (Gansky 2010).

Drivers of Sharing Economy

- Technology is the main driver of the Sharing Economy. It makes economic activities easier and it makes them cheaper by reducing transaction costs. Moreover, the customer's networking is connected easily and conveniently by social network and digital market.
- The advent of the Sharing Economy coincides with the global financial crisis. Research conducted by an expert team working for the European Commission shows that the loss of trust in traditional companies during the financial crisis was a major enabler for the feasibility of many business models of the Sharing Economy
- While technology is the main driver of the Sharing Economy, at the same time, an aversion to web-based applications in general or insufficient knowledge about their possibilities and limitations are obstacles to trust in Sharing Economy businesses (Dervojeda, Verzijl et al. 2013).

About Peer-To-Peer Online Lending (P2PO)

A category of Sharing Economy that require a different economic impact and regulatory discussion is P2PO lending.

"Peer-to-peer finance will challenge the nation's major financial institutions… mono-banking culture is on its way out" - Andrew Haldane (Bank of England)

"This would mean revolution, fundamentally re-shaping the financial system" – (Bank of England Governor, Mark Carney)

Peer-to-peer (P2P) lending platforms are online platforms where borrowers place requests for loans online and private lenders bid to fund these in an auction-like process. Such platforms became available in 2005 and have increasingly been used ever since. Nowadays, they are available in a wide range of countries, such as the United Kingdom (ZOPA), Germany (SMAVA), the United States (PROSPER) or Viet Nam (HUYDONG)

Unlike a commercial bank, the platform does not take risks through its own contractual positions. Whereas banks accumulate risks by taking positions on their balance sheet, platforms decentralize the risks by spreading them to their users.

The concept of private loans is not a new business model and rather the traditional way for private persons to borrow money without any mediation (Herrero-Lopez 2009). What makes online P2P lending a young phenomenon is the transfer into the internet using online P2P lending platforms.

The Motivation of This Model

Behind building such platforms was to circumvent banks as intermediaries, which may have the following advantages:

- An expensive middleman is replaced by a more cost-effective online platform, thus reducing transaction costs
- borrowers are given the chance to present their loan case in much detail, providing information to lenders that banks with their standardized decision processes usually do not take into consideration
- The loan generation process is transparent and creates a feeling of fairness (all bids visible and traceable online)
- Loans on peer-to-peer lending platforms are said to generate higher returns for investors (compared to traditional bank savings) and to be cheaper for borrowers. (Klafft 2008)

Lending Process

Online P2P lending platforms differ in the way the borrower's interest rate is set. Sites, like prosper.com use an auction process (Galloway 2009) where bo-rrowers are able to set a maximum interest rate they are willing to pay.

If the lending process leads to a fully funded loan-request, some platforms like prosper.com have implemented another verification of the borrower's ability to pay, including the verification of a steady income. The loan is then granted to the borrower, who will eventually start the repayment process (Garman, Hampshire et al. 2008).

The platform conducts its own assessment of the underlying credit risk. If the credit risk is acceptable and fits the platform's risk categories, the platform sets a risk-appropriate interest rate.

If the borrower agrees with the platform's pricing, the platform publishes the offer to its users for a predefined period, typically two or four weeks. Requests for consumer loans are published anonymously, while those for business loans are normally published with the name of the potential borrower. Lenders have this period to place their offers to provide small portions of the required financing amount.

The intermediating online P2P lending platforms generate their revenue via service fees, which they collect from borrowers as well as lenders (Klafft, 2008). Many collect a closing fee of a certain percentage of the funded loan from the borrowers, as well as fees for late or failed payments. Lenders often have to pay a servicing fee based on the amount they have funded to borrowers.

he platform then services the loan, collecting and distributing interest and redemption payments until the loan matures. Normally P2P-loans are struc-tured as monthly annuity loans. If the borrower defaults, the platform is obliged to arrange the collection of payments on behalf of crowd lenders although the platform itself is not liable for losses, which are borne by lenders/investors. Some platforms arrange a sale of non-performing loans on behalf of lenders to a debt collection agent for a fixed price to recover a mini-mum amount (for exam-ple, 15% to 30%) of the credit claim. Others have developed automated litigation and recovery processes for when loans default. Here, the recovery rates are higher.

In a research about Peer-to-peer lending and financial innovation in the UK, the authors found that generally, loans run between 12 and 60 months, though loan agreements often can be sold before maturity in secondary markets ope-rated by platforms. The platforms typically make their profits by charging various transaction fees at origination(Atz and Bholat 2016) .

RESEARCH METHOD

The paper combines qualitative analysis and data survey to serve descriptive statistics about P2PO in Viet Nam. Firstly, the authors study the published works related to Sharing economy and P2PO in the world, combining with the reality in Vietnam to build a specific research structure and questionnaire survey. The questionnaire which was modified after testing surveys will be used in the official survey. The results will eliminate invalid answers, and in total we had 147 valid responses for the next analysis.

The questionnaire is designed for the following three directions:

- Firstly, the situation of P2PO lending has 9 questions that are designed to collect personal background informa-tion and historical data from borrowing and lending.
- Secondly, the prospect of the new P2PO model and the development dynamics of this model as well as barriers, this section contain 11 questions.
- Finally, with 5 questions designed to examine the reaction of Vietnamese

regulators to this model, could be used to support or restrict this new model in Vietnam.

The final data will serve as descriptive statistics to answer the research questions. The method in our opinion is reasonable because this study is one of the first scientific research on P2PO lending in Vietnam in general and Da Nang in particular. Therefore, the results of this study will greatly contribute to the foundation of further qualitative and quantitative research in the future.

RESULTS AND DISCUSSION

Current Situation in Viet Nam

Data analysis results indicated that nearly 90% of respondents have been involved in lending or borrowing directly without financial intermediaries such as banks. We observed a remarkable point that more than 70% have never loaned any unacquainted person. It is also interesting to note that, according to the analysis above, the important feature of online P2P lending is the openness of the data disclosure of participants in the system and the assessments, the comment of the borrower or the lender. So we can provide credit to people who have never known based on the assessment. So we see that the opportunities for P2PO are huge with market gaps that traditional financial institutions do not yet meet.

When participating in the P2PO system, profits from lending activities will be taxed according to the law and according to the group of authors, this can be an obstacle to this activity. However, as a result of the statistics obtained, more than 70% of respondents are willing to pay taxes to be safer in direct borrowing and lending.

Willingness to participate

In particular, nearly 90% of respondents choose to participate in the P2PO system in order to make the borrowing process become more convenient and more secure. This can be explained by the advantages of this model over that of traditional banks. In practice, banking regulations and procedures are relatively complex, and consumer finance companies use simpler procedures with very high interest rates ranging from 40% to 60% And the operation of these companies also put a lot of questions about management. Therefore, 90% of respondents claim to participate in the P2PO lending system demonstrates a legitimate expectation of consumers about a more appropriate financial option for them. The demand having a system that helps people who need a loan can directly connect people who have unused funds and want to earn higher interest rates than traditional banks is actually a reality in Vietnam.

Motivations

This research also explores the motivations for interviewees to participate in the P2PO lending system. We found that two factors, in which "Know the information of lenders, borrowers as well as transaction history, evaluation (eg in Uber, Grab is 4 stars, 5 stars)" has more than 62.6 % selected, and "when lending in the platform of new system, interest rates will be higher than bank deposits" with 51% of respondents choosing. This result is also consistent with many studies in the world, for example, the loan generation process is transparent and creates a feeling of fairness and loans on peer-to-peer lending platforms are said to generate higher returns for investors (compared to traditional bank savings) and to be cheaper for borrowers (Klafft 2008)

Barriers

Among the barriers to be investigated, two factors were specially paid attention by the investigators: "There is no insurance against the lender" and "Not yet aware of the law". These two factors are in line with the authors' prediction as these are the two most differentiating factors from traditional bank deposits. First, with the bank, when opening an account and depositing savings, according to the law, depositors are insured deposits up to 50 million. However, when lent to an online peer-to-peer loan system, the loan amount is not, or, more accurately, uninsured. Thus, the risk to lenders is higher if the borrower deliberately or unwillingly does not pay the loan.

Provisions of Laws

Indeed, provisions of the law with regard to sharing economy in general and lending system online, a component of the sharing economy system, in particular, has not kept pace with the rapid development of this model economy. This fact is not only in Vietnam but also in many countries in the world, including in developed countries. We can find many cases the law applicable to the model of new economy are not consistent even within a country, such as Uber and Grab can operate in Hanoi and Ho Chi Minh City, while in Da Nang, there have been cases where Uber and Grab drivers were subjected to be fined by traffic inspections with a fine of 2.5 million VND, close to one month of minimum Vietnamese income.

Opportunity or Risk?

Another interesting point from this research is that when asked whether P2PO lending is an opportunity for traditional banking, 51% of respondents agreed with the above, while only 11.6% did not agree. In another view, 25.8% of respondents said that P2PO lending would be a threat to the old model, while the opposite is nearly double, 41.5%. From the above data, we can draw many implications. It is clear that since the emergence of a new paradigm - the sharing economy in general and P2PO lending in particular, competition has increased dramatically in the sectors which has the presence of this new model.

If traditional banks could have a respect for this new model and combined with the P2PO lending companies, leveraging the strengths of both, at that time, the rights of customers would get more care and then served more fully. This new paradigm with advantages of technology and innovation, once combine with the old paradigm - with the strength of credibility, government assurance and a new paradigm will bring benefits for both in the spirit of win-win. This argument is more relevant when, in the next question of the study, 47% of respondents believe that the traditional banking market experience can be applied to the P2PO lending market compared to 15% who do not agree.

Competition

Returning to the topic of competition, from the survey results, the authors found that the field will be "the main battlefield" between traditional banking and the new model is the field of consumer loans with 65.3% selected, and unsecured loans with 51% of the respondents (differ with consumer loans in which this type of loan does not have collateral). This finding corresponds to several studies that have been conducted which confirmed that the consumer credit market is one of the largest, most important credit markets, with outstanding credit of $3.5 trillion in 2015(Balyuk 2016).

On the other hand, with P2PO lending, loan screening is primarily based on algorithms, and the process can also be flexibly adapted to suit the time. In addition, the authors agree on the "knowledge used to manage and assess risk" as one of the fundamental differences between the two models. In the traditional model, bankers are generally well-educated, so the knowledge that is used to manage and assess risk can outperform the new paradigm when lenders, who may not have a strong financial background, play an important role in deciding whether to lend or not to lend their own money. That is one of the things to keep in mind while doing further research.

The research team looked at what factors motivated the P2PO platform to develop, and it is interesting to note that the survey results show that the first and second factors are: High demand for customer loans and ability to meet high demand based on technology, at 64.5% and 47.4%. High demand for consumer loans motivates borrowers to seek cheaper financing, more favorable loan conditions, and a P2P platform that meets this requirement. And to satisfy this need, the connection between the borrower and the lender can only be based on the new technology that can be realized as perceived by the P2PO platform. This result is also consistent with the results of the study of data on the prosper.com platform in the US market (Funk, Bachmann et al. 2015), and the research results in the Chinese market are booming P2PO model (Feng and Qin 2016).

Governance

The survey also showed that the number of people who believed that the government would support and would not support was similar, at 28.8% and 27.4%, respectively. While most, 44.1%, survey participants did not identify the attitude of the Government to the P2PO platform. This reflects the Government's unclear behavior on the model and platform that reflects on the perceptions of the people. This situation is also consistent with what has taken place in the real that has been reflected in the problem space of the paper, as the same type of business, but the activity is licensed and activities are not granted. And even if it is allowed by the Government, the local government still bans.

The reason which accounts for the highest proportion, 50.7%, for that the government would supports this model is it will promotes competition, strengthens the lending market and, in particular, consumer loans, thereby providing additional benefits to the participants. Secondly, 46.7%, said that the government supported the model for growth, contributing to the mobilization of idle capital in the population and increasing the borrowing capacity of the people, thereby stimulating production and business development. These choices are consistent with the review because the lending market is being priced by intermediary financial institutions. As well as willingness to participate in this model, 88.8%, is a motivation for government support.

The survey results also show that improving the legal system must be in top priority, at 52.6%, which is appropriate, since this platform has been innovated traditional lending model with intermediary financial institutions, so it is necessary to regulate, protect and promote it (Bruton, Khavul et al. 2015). Moreover, this model is in need of government development support, at 42.6%, because of its novelty over traditional lending models such as direct versus indirect and technology-based interaction instead of through intermediary financial institution. In the process of development, each economic model must going through periods from young to maturity stage. And in the initial stage, government support is needed (Balyuk 2016).

In contrast to the above, the percentage of respondents said that the government would not support, with the first reason, at 57.2%, which was the group interest from the traditional Bank.

This is a fact in general and Vietnam in particular. It is not just financial circles that connect with the politics that make up the plutocrat, as often happens, but also the drafter of financial legislation in Vietnam, so protecting their own interests, traditional Bank, is sure. Therefore, instead of researching new policy proposals to meet development needs, they are willing to rely on the fact that there is no legal basis to delay the implementation of the legislation; resulting in up to 48% respondents said that the government did not support the P2PO model, due to unconfirmed legal bases, as appropriate.

The survey results show finally that the first tool the Government will take, at 56.6% that is to restrict credit limit. This is in line with the economic reality, as any model when applied requires small-scale trials before mass deployment and larger scale. And also in line with the nature of P2PO is the unsecured microloans (Lin, Prabhala et al. 2013). The next tool of choice, at 47.7%, is that the Government will heavily tax the P2PO model. Tax instruments are always a powerful and legitimate tool to regulate economic activities. Therefore, when the government has not wanted to develop the P2PO model, this option is appropriate. This result is also consistent with research in the United States (Chaffee and Rapp 2012).

CONCLUSION AND SUGGESTION

Theoretical Contributions

This study has shown three new points in research on particular peer lending and financing in general.

- Firstly, in Vietnam in general and Da Nang in particular, the potential of online peer lending is enormous because of the need and the support of consumers when they have more choices besides banking and traditional financial service.
- Secondly, P2PO is both an opportunity and a threat to the traditional banking industry. However, opportunities remain more than threatening. Once the traditional model recognizes the advantages of this new paradigm and joins together to serve the neglected segments of the market, the benefits of both and the interests of consumers are guaranteed.
- Thirdly, the views of the respondents on the support of regulatory authorities show that there is almost a similarity in the proportion of respondents who believe that the government will support and vice versa, saying that regulators will restrict the Sharing economy model in general and P2PO lending in particular. This reflects the reality in Vietnam and is a useful basis for further research.

Administrative Implications

This study may indicate a number of recommendations for the leaders of the traditional banks as well as the macro-level management.

P2PO not only put pressure on the traditional banks, but regulators are also under pressure to reform existing regulations in order to better manage the competition and ensure harmony of interests, and do not hold back the development of models that benefit consumers.

Traditional banks should not consider P2PO as a threat and use their impacts to influence regulators in favor of their industry. This will sometimes be counter-productive as consumers may favor stronger new models. Choose the strengths of the new model and find a direction to combine with the ultimate goal of better serving customers would be a solution. Because the positive aspects of peer-to-peer lending, in addition to economic efficiency, are helping to connect better between the financial world and the real economy, avoiding manipulated credit in areas such as real estate, highly risky speculation. As a result, the benefits of the economy as a whole, the new and old models as well as the interests of consumers would be ensured.

Limitations and Further Research Directions

The main drawback of this study is that the sampling is based on the online survey tool, and the sampling technique is convenient. Further studies may test generalizability with other sampling methods as well as examine the surveyed subjects from a variety of sources. At the same time, new factors could be added to this new paradigm in research.

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