Testing fintech inclusion around the world: the case of Covid-19 in Peer-to-Peer Lending

by

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Online peer-to-peer (P2P) lending first developed in the U.K. and U.S. in 2005, and quickly experienced exponential growth worldwide fueled by the 2008 bank crisis. The P2P lending model facilitates borrowing and lending between strangers who meet on online platforms. The intention is to remove intermediaries and facilitate quicker better-priced loans that support financial inclusion. Recently, Federal Reserve research has found evidence of financial inclusion facilitated by the P2P lending model (Jagtiani and Lemieux, 2017). However, the COVID-19 pandemic arguably allows further examination of worldwide changes in the pricing of credit risk when financial inclusion is most needed.

This study is based on a unique novel hand-collected dataset of 1,363 P2P loans. It includes 772 P2P loans collected between October 2019 and February 2020, as well as 591 loans collected between October 2020 and April 2021. The pre- and COVID-19 sub-samples include loans posted on platforms in U.S., Germany, Czech Republic, Lithuania, Mexico, Peru, and Argentina. The sample also includes loans from India, South Korea and Switzerland, and incorporates Hofstede national measures of cultural values. As Aggarwal and Goddell (2014) point out as a need in finance literature, this study also explores further the *connection* between national culture and individual behavior. More specifically, Aggarwal and Goodell (2014) document less access to financing in association with Hofstede cultural dimensions of uncertainty avoidance and masculinity, besides smaller national wealth, and worse investor protection. This is consistent with the findings of LaPorta *et al.* (2008) for traditional financial contracts in civil vs. common law nations.

As the innovative P2P lending sector has grown, it has drawn worldwide the interest of regulators, who scrutinize the business model and explore its potential. In addition, P2P has also drawn the interest of the mainstream financial industry that it professes to undermine. For example, in May

2018 Google purchased a 7% share of US Lending club, and in September 2018, BlackRock joined Sequoia Capital banking US Prosper. As a result, by December 2018 Lending Club and Prosper had nearly tripled their loan volume in twelve months.

Overall, the analysis of the unique sample data, which controls for loan and country value measures, shows interesting changes in the COVID sample. Specifically, P2P loans posted during the COVID-19 pandemic were more highly rated and secured funding faster but required higher interest payments. Thus, P2P lending platforms arguably need to fine-tune all resources to attenuate increased perceptions of credit risk for more highly rated loans when financial inclusion is most needed. These resources could include varied uses of blockchain and collaterals.

This is a pioneer multinational study on COVID-19 and P2P lending. It uses unique hand-collected data and contributes to the understanding of how credit risk is priced in association with loan and country factors. The Covid-19 pandemic arguably provides a unique opportunity to examine changes in credit risk pricing and much-needed inclusion around the world.

References

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