FINANCIAL TIMES

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One of China’s biggest P2P lenders quits ahead of clampdown Hongling Capital to wind up business ahead of tightening of rules for $120bn industry

JULY 31, 2017 by: Louise Lucas in Hong Kong and Sherry Fei Ju in Beijing

China’s pending regulatory crackdown on the $120bn peer-to-peer lending industry has claimed its first scalp before it has even begun, with one of the biggest players saying it will wind up its business in an industry full of bad loans and no profits. P2P lending, in which borrowers are matched with investors via online platforms, has mushroomed in the past five years, with China boasting more than 2,100 such platforms, but so too have scandals. Last year was marked by multibillion-dollar scams in China and a governance scandal that rocked New York-listed LendingClub.

Beijing this month said it would delay regulations that will bar online lenders from guaranteeing principal or interest on loans they facilitate, cap the size of loans at Rmb1m for individuals and Rmb5m for companies, and force lenders to use custodian banks — a requirement only a fraction of the industry has met so far. Imposition of the new rules has been delayed from next month until June next year to give companies more time to comply. But Hongling Capital has already thrown in the towel, with founder and chairman Zhou Shiping last week admitting that “P2P lending is not what we are good at, neither is it something we see potential in. This [P2P lending] business of ours would always be cleared out eventually — it’s only a matter of time.” Hongling, which has Rmb17.6bn ($2.6bn) in loans, plans to wind down its eight-year online lending business by the end of 2020. “Hongling’s long-established business model targeting high-value borrowings has become increasingly incompatible with regulatory expectations,” said Cao Lei, director of the China E-Commerce Research Centre.

There have been other casualties of the looming rules. Lufax, one of China’s largest P2P lenders and online wealth managers, has delayed its highly anticipated initial public offering and — according to local media reports — last week suffered a virtual run on funds after a screenshot on social media claimed it was being singled out for punishment under the new regime. Mr Cao said the delay in the rules coming into force showed both Beijing’s desire for ramped-up regulation and the unruly state of the industry. Others have been blunter. Last year Guo Guangchang, chairman of Fosun Group and self-styled “Warren Buffett of China”, said the market was “basically a scam”, while just weeks earlier the president of Ping An Insurance told the Financial Times that most P2P lenders were “fakes” and that most of China’s P2P lenders would not survive. Wang Zeng, founder and chief executive of Mujinnong, a Beijing-based fintech company, said the government was trying to push P2P lenders out of bigger loans, restricting these to banks. “With China’s economy slowing down, even major banks would have to deal with non-performing loans, not to mention online financing companies,” he said. “The risk is too high.” According to Online Lending House, a website that tracks the industry, the number of P2P lenders peaked at 2,600 in 2015, while 3,795 platforms have collapsed since 2011.

Outstanding loans from China P2P lending platforms totalled Rmb816.2bn ($121bn) at the end of December, double the figure of a year earlier, according to P2P consultant WDZJ.com. Chinese police last year arrested more than 20 people associated with “a complete Ponzi scheme” that took more than Rmb50bn ($7.6bn) from investors; a few months later, another struggling P2P lender resorted to offering to repay its investors in baijiu, the popular Chinese liquor, after its chairman was detained. The string of casualties highlight Beijing’s waning appetite for the sector, which it once championed as a growth engine along the lines of tech giants like Tencent.