

# Analysis on the Risk and its Control of Cash Loan Business in China

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**Abstract**—In recent years, with the Internet as the medium, cash loan business with low threshold, small quota and fast lending has developed rapidly in China. At the same time, it gradually exposed many problems, resulting in adverse social impact. This paper takes the cash loan business as the research object to analyze its existence risk and its control by means of the literature method, the case analysis method and so on.

**Index Terms**—cash loan, risk, risk control

## I. INTRODUCTION

In recent years, cash loan businesses are in full swing, but their risks cannot be ignored. Comprehensive analysis of the risk and positive exploration for the risk control measures of cash lending business have important practical significance for the stability of the financial market order, protection of consumer rights and interests, reduce social contradictions.

## II. THE DEVELOPMENT OF CASH LOAN BUSINESS IN CHINA

In February 15, 2015, Tencent began to test the mobile phone "QQ cash loan". The difference between China and foreign countries is that the cash loan is mainly online at the beginning, the audience is more extensive, and the use of borrowing is uncertain, and the payday is not related to a high degree. With the tightening supervision of P2P network loan and campus loan in recent two years, many mutual fund enterprises began to transform cash loan, which brought about the explosive growth of cash loan business. On December 1, 2017, China's leading group on Internet financial risk rectification issued the Notice on Regulating and Rectifying the "Cash Loan" Business, which clearly defines "Cash Loan" as "Network Small Loan without Scenario Dependence, Designated Purpose, Customer Group Limitation and Mortgage". According to incomplete statistics, by the end of 2017, there were nearly 3000 cash lending platforms operating in China, with about 30 million active users. Among them, the well-known cash lending platforms are ant borrowing, Ping An Bank's Ping An I loan, Baidu Financial Cash Loan, Jingdong Financial Gold Bar and Tencent Weizhong Bank's particulate loan. Its customers are mainly young people under 30 years old, with low income, small financial burden, more advanced consumption concept, like to borrow in advance to

improve the quality of life. From the point of view of improve the quality of life. From the point of view of service mode, Chinese cash loan business mainly operates and provides services through Internet platform, greatly improving the convenience<sup>[1]</sup>.

## III. THE RISK OF CASH LOAN BUSINESS IN CHINA

The broad market and rapid development of cash loan cannot conceal the risks it currently exists. In the process of the development of cash lending business, cash lending platforms, funding institutions and borrowers are facing a variety of risks, resulting in the recent weakening of the development of Internet cash lending and triggering a series of social contradictions.

### A. Fraud risk

The first is the risk of fraud, that is, the risk of financial loss caused by fraud of financial institutions through forgery, fraudulent claims, malicious overdrafts, cash and other means. Cash lending is done over the Internet, and platforms tend to reduce audit time in order to make the customer experience better. For example, in 2017, Suning Finance joined hands with small wallets to launch a rapid micro-cash lending business, lending the fastest only five minutes. This way of qualification review, behind its rapid, is at the expense of the incomplete and inadequate information of the platform review. In addition, the borrowing items of the Internet cash lending platform have not been signed in person, so it is impossible to check whether the borrower is himself or not. As a result, many borrowers have cheated the funds through false identity registration, forged data. According to a report by ifeng.com on December 13, 2017, loan fraud societies appeared on the Internet in China. They often used false personal information to cheat cash loan platforms in urgent need of expanding the number of users, such as flash turnover, cash bus, flash silver and ant financial services. In 2015, the gang cheated more than 30,000 yuan from each cash lending platform per capita. For another example, in June 2017, nine rich super energy, a subsidiary of nine rich group, was duped with a loan of 1.5 million yuan by a false information "client", which was due to the insufficient examination of the real information of the borrower. At present, the cash loan has become the "major disaster area" of loan fraud industry chain. <sup>[2]</sup>

### B. Credit risk

For cash loan customers, they are mainly faced with default risk. The main customer group of Internet cash loan has low income and is relatively fixed, so its ability to resist risk is relatively weak. According to the statistics of Bairong, about 80% of the users of domestic cash loans are male, indicating that men are more likely to be the target customers of cash loans. Cash loan users tend to be younger overall, with 92 percent of the population aged between 18 and 40 years old. High interest rates on cash snowballed when borrowers failed to repay their loans, raising the risk of default. According to the Beijing Business Daily, the bad debt rate of the US cash loan business is about 20%, while that of China's small cash loan is up to 50%. For example, the cash loan business of 2345 companies is highly profitable, but the bad debt rate is also high. In 2017, 2345 loan kings had 960 million bad debts, and about 185 thousand of them failed to recover. In order to reduce the bad debt rate, on January 13, 2018, 2345 company transferred the original book value of 269 million yuan of receivables at the transfer price of 5.28 million yuan. According to the data of Internet Loan House, there are 380 cash loan collection platforms in China, involving the collection amount of 1.14 trillion yuan, up to the beginning of March 2018. At present, the recall rate of cash lending platforms has also decreased. It can be recalled to about 70% within 10 days, but now it is only 45% to 50%.<sup>[3]</sup>

### C. Information security risk

At present, Chinese cash lending platforms mostly check refusal by reading the borrower's phone address book before borrowing. If the borrower is overdue, the cash lending platform will call relatives and friends to collect debts and disclose personal privacy. In addition, there are "crawler products" in the competition of cash lending industry, such as Alipay crawler, which crawls to get all the registration information of customers of other cash lending platforms, and leaks users' real name, mobile phone number, Alipay, WeChat account, shipping address and even shopping records. There are also some platforms with chaotic internal management, which do not pay attention to the protection of customers' private information, and the phenomenon that employees sell customer information without permission. According to the Beijing News, the reselling price of customer information between cash lending platforms in China is 0.1-1.5 yuan each, including the borrower's name, telephone number, ID card number and loan amount.<sup>[4]</sup> It can be seen that in the cash loan industry, the personal privacy of borrowers is easily disclosed, and they are faced with greater information security risks.

## IV. RISK CONTROL OF CASH LOAN BUSINESS

### A. Establishing market access mechanism and limiting reasonable interest rate

In order to control the risk of cash lending business, we should start from the source, establish a market access mechanism, and raise the threshold of licence issuance.

Currently, the UK adopts the qualification certification method for cash lending, while the US adopts the record registration system. China can establish a special access system on the basis of experience, formulate the corresponding safety certification system and standards, and assist the self-regulation of the industry through registration, so as to purify the industry environment legally at the source. The root cause of the huge controversy over cash lending is that its high interest rate makes people unable to pay back, thus leading to a vicious social phenomenon. Based on the principle of problem oriented, regulators should make clear rules on cash credit lending interest rates, to set rates reasonable range, especially should strictly limit the rate cap, crack down on all kinds of nominal fee, put an end to by rigged a disguised form of usury, protect the legitimate rights and interests of borrowers, thus reducing the credit risk.

### B. Improving the framework of cash loan supervision and protecting consumers' rights and interests

China should actively build a complete regulatory system, including central to local authorities, official and industry self-discipline, third-party rating and independent consumer rights protection. We should carry out overall supervision of cash lending, make specific requirements on industrial standards and risk control and other aspects, clarify the definition scope of "scenarios", strengthen the supervision of cash lending platforms, so as to maintain a stable order of Internet finance. In order to avoid the lender falling into the gray trap unreasonably and the borrower is difficult to recover the funds, the relevant information disclosure should be improved, and the relevant interest rates and comprehensive actual costs of the loan application period, loan period, loan extension period and loan overdue stages should be clearly defined and disclosed in time. In addition, regulators also need to increase penalties for violent collection and information leakage in China. Throughout the world, America, Japan, France and other countries have a corresponding legal system to standardize the collection, for the collection of violence behavior has a clear penalty measures such as, particularly the United States, the United States has a strict management on loan company, ban on debt to the debtor to malicious harassment and direct contact, even phone aspect of dun have strict limits.<sup>[5]</sup> Therefore, there is an urgent need to formulate and introduce relevant bills on collection and information leakage in China to protect consumers' rights and interests.

### C. Establishing credit information sharing mechanism and constantly improving the risk control system

Chinese credit reporting system is far less developed than foreign countries, and it is more difficult to prevent such phenomena as multi loan and malicious fraud. At present, the credit reporting system between the cash loan platforms in China is mutually fragmented.<sup>[6]</sup> The lack of credit reporting is a major defect and deficiency in the construction of Chinese financial infrastructure. It is not enough to rely solely on banks and other traditional financial institutions. It is also necessary to collect and accumulate the underlying data through cash lending, so

as to improve the personal credit system based on big data. China needs to obtain multiple loan data and establish credit information sharing mechanism. Because the target group of cash lending is mostly long tail people who are not covered by traditional financial institutions and lack complete central bank credit data, the platform of cash lending business can realize the sharing of loan application data and form a reliable database on the credit of borrowers. In the future all kinds of databases need to be united and perfected.

In addition, anti - fraud is the primary subject of cash loan risk control. Cash loan industry should establish a set of anti-fraud rules, such as cross-validation, strong feature screening, risk relationship and user behavior data analysis, so as to avoid intermediary agency, gang crime, account embezzlement, identity fraud and cascade transactions and other fraudulent acts, to avoid risk. Cash loan platforms should learn to use big data risk control to conduct loan qualification assessment and credit verification and screening for borrowers, which not only saves time and effort, but also can truly be transparent, open and prudent.

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