

P2P LENDING, A NEW DIGITAL FINANCIAL INTERMEDIARY IN THE 4.0 ERA – LESSONS FOR VIETNAM

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ABSTRACT

This study aims to examine peer-to-peer lending, a novel practice in the 4.0 era. Recently, peer-to-peer lending has acquired widespread popularity and the interest of numerous scientists. With the advent of cutting-edge technology, "online peer-to-peer lending" now refers to the loan agreements between individuals on online platforms. In the meantime, financial institutions are viewed as required legal intermediaries. This study focuses primarily on providing an overview of the P2P markets on a global scale and from Vietnam's perspective to draw conclusions and make recommendations for this new digital financial intermediation.

Keywords: peer-to-peer lending, digital financial intermediation, Vietnam

1. INTRODUCTION

Peer-to-peer (P2P) lending is a practice where individuals or businesses borrow money directly from lenders through online platforms, bypassing traditional financial intermediaries like banks. P2P lending gained traction in the early 2000s as an alternative to conventional banking systems. It relies on social networks and connections as indicators of credit quality, benefiting borrowers with online friendships who are more likely to secure funding at reduced interest rates and lower default rates. Additionally, P2P lending platforms exhibit herding behavior, with lenders preferring auctions with more existing bids. The popularity of P2P lending platforms like Prosper and LendingClub grew due to their ability to provide individuals and small businesses with accessible financing. Technological advancements, increased internet penetration, and evolving regulatory frameworks facilitated the global expansion of P2P lending, leading to the emergence of specialized platforms catering to specific industries such as microfinance and real estate lending.

The study's structure includes an overview of P2P lending on a global scale and the factors influencing it. It also delves into the specific case of P2P lending in Vietnam and concludes with recommendations for new digital lending platforms.

2. LITERATURE REVIEW

Peer-to-peer (P2P) lending directly connects lenders and borrowers through online platforms, utilizing social networks as indicators of credit quality to increase funding opportunities and decrease interest rates for borrowers with strong online connections (Lin et al., 2013). P2P lending has emerged as an alternative financing source, especially for unbanked individuals, SMEs, and micro-entrepreneurs who face limited access to traditional financing options (Suryawati & Nurdana, 2021). Countries like China, India, Pakistan, and Indonesia with significant unbanked populations offer opportunities for Fintech expansion. The transition to digital platforms has revolutionized individual loans, making them more convenient and efficient compared to traditional private loans (Everett, C. R., 2015). Despite the growing number of academic studies on digital lending, P2P lending remains a relatively less defined and important area of research.

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2.1. The Fourth Industrial Revolution and Digital Financial Intermediation

The Fourth Industrial Revolution, known as Industry 4.0, is transforming various industries, including finance, by incorporating digital technologies like AI, blockchain, and IoT (Chandra & Wijaya, 2021). Fintech firms have emerged, offering innovative services like P2P lending (Nugroho et al., 2020). Industry 4.0 has influenced consumer behavior, increasing the demand for digital financial services and enhancing industry efficiency, transparency, and accessibility (Tian et al., 2022). However, it also poses challenges, requiring updated regulations for consumer protection (Bohme et al., 2015). This revolution has transformed the financial industry, presenting new opportunities and obstacles for financial institutions, fintech companies, and consumers.

The rise of digital financial intermediation is driven by technology and the demand for digital financial services (Arner et al., 2015). Utilizing digital platforms, fintech companies enable innovative financial services like P2P lending, digital payments, and online banking (Ahmed & Hasan, 2021). Consumers benefit from increased efficiency and accessibility (Ekpo et al., 2022), promoting financial inclusion for underserved populations (Yue et al., 2019). However, challenges such as data privacy, security concerns, regulatory compliance, and potential financial exclusion for those without digital access arise with the growth of digital financial intermediation (Ivez et al., 2020).

According to Lin et al. (2013), technology has been pivotal in reshaping the financial landscape through peer-to-peer (P2P) lending platforms. These platforms use digital technologies to directly connect borrowers and lenders, bypassing traditional intermediaries. Technology expedites the loan process, evaluates creditworthiness using signals like online friendships, and automates tasks like verification and disbursement, enhancing efficiency and accessibility (Linh, 2022). P2P lending's growth is also facilitated by technology, expanding financing options (Lan et al., 2023). However, concerns arise regarding default rates and regulatory compliance with the expansion of P2P lending platforms (Lan et al., 2023). As the Fourth Industrial Revolution continues to unfold, the financial industry must embrace technology-driven changes while addressing associated challenges to provide better financial services and inclusion for all.

2.2. How Peer – to – Peer lending works

Davis et al. (2016) highlight that P2P lending connects borrowers and investors directly, bypassing traditional intermediaries. Borrowers' credit scores are evaluated, and their loan requests, along with relevant information, are listed anonymously on the platform. Lenders select loans based on risk, and P2P operators oversee the process, ensuring borrower-lender supervision. The P2P lending process is depicted as follows.

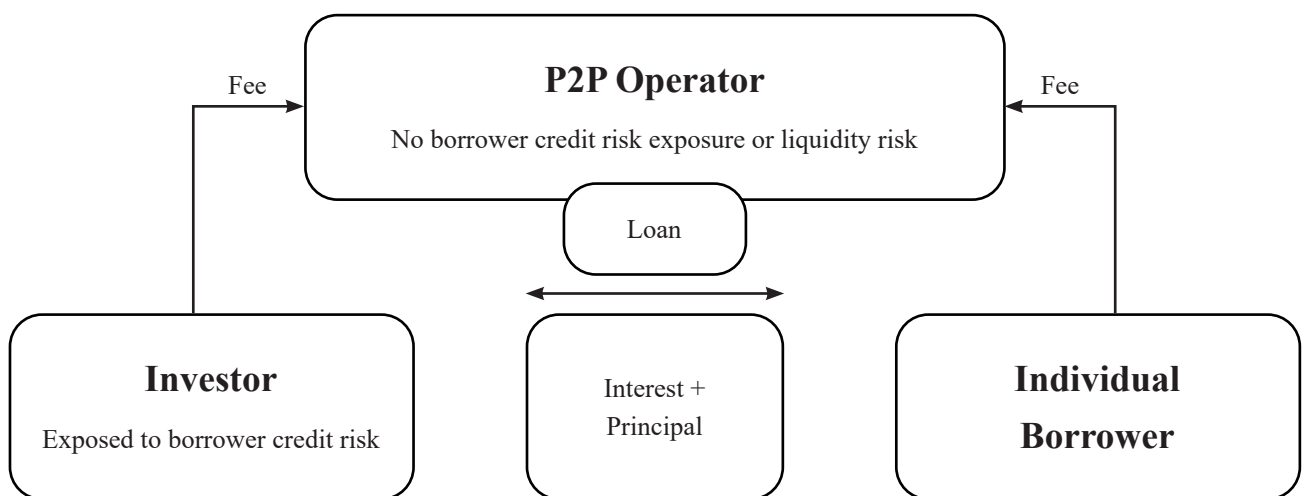


Figure 1: Basic P2P lending model Davis et al., (2016)

Davis et al. (2016) classified P2P lending into active and passive models. In the active model, lenders select borrowers based on risk thresholds and access creditworthiness details from anonymous loan applications. In the passive model, lenders provide their risk threshold and loan maturity, and the P2P operator matches them with eligible loan applications with customizable criteria. Traditionally, loans involved surplus capital lenders and deficit capital borrowers, but with the expansion of capital markets, financial intermediation became more common. P2P lending platforms have both internal and external perspectives. The internal perspective includes management, employees, and owners, while the external perspective involves lenders, consumers, communities, partner banks, and credit institutions. P2P lending moderators play a vital role in matching borrower and lender requirements, differentiating P2P from traditional loans. P2P platforms serve as financial intermediaries to meet the profit-seeking goals of lenders and the objectives of borrowers. Regulatory systems are crucial in fintech, implementing risk-reduction measures and verifying debtor data through credit bureaus or monitoring agencies during lending. The diagram represents the internal and external stakeholders of P2P lending.

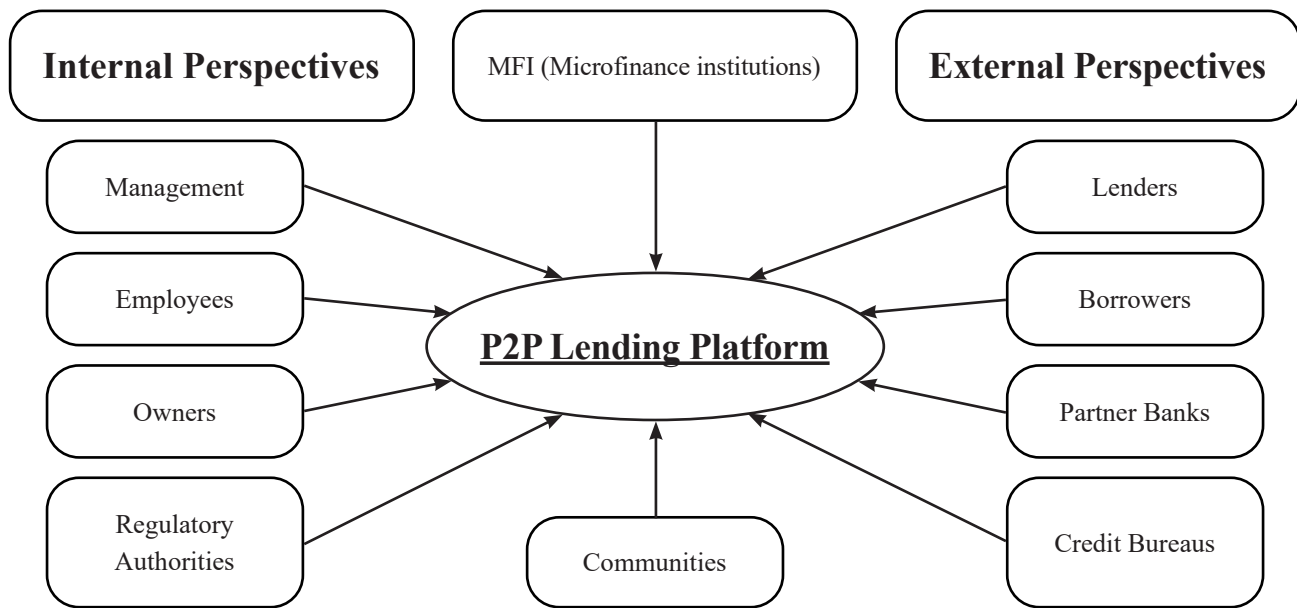


Figure 2. External and internal Stakeholders in P2P lending (Davis et al., 2016)

Borrowing through P2P lending involves several stages. Applicants create an account on the platform, providing personal and financial details (Fatmawati & Parulian, 2022). The platform may assess their creditworthiness (Ma et al., 2021). Once approved, borrowers create loan listings, specifying an amount, interest rate, and loan purpose (Lin et al., 2013). Lenders review listings and fund loans meeting their criteria (Herzenstein et al., 2011). In P2P lending, multiple lenders fund the borrower's loan, spreading risk (Herzenstein et al., 2011). Once fully funded, the borrower receives the loan directly in their bank account (Fatmawati & Parulian, 2022). During the loan term, borrowers make regular repayments to the platform, which distributes funds to lenders (Fatmawati & Parulian, 2022). The platform facilitates communication and loan administration (Lin et al., 2013). Timely repayments are crucial to building a positive credit history (Fatmawati & Parulian, 2022). P2P lending offers an alternative financing option with potentially lower rates and flexible terms (Widyanto et al., 2022). Borrowers should review terms, rates, and fees before making decisions.

Investing in P2P lending involves several stages. Investors create an account on the platform and choose loans based on their preferences and borrower information (Fatmawati & Parulian, 2021). Diversification is achieved by funding multiple loans to spread risk across borrowers (Lin et al., 2013). Investors earn returns through regular repayments from borrowers, facilitated by the platform (Fatmawati & Parulian, 2022). Monitoring investments, evaluating performance, and assessing loan listings and associated risks are crucial steps (Fatmawati & Parulian, 2021). Factors like credit ratings, loan purpose, and duration impact risk and returns (Nguyen et al., 2022). Investors must consider their risk tolerance and objectives while supporting borrowers and managing potential risks (Lan et al., 2023).

3. . METHODOLOGY

3.1. Document Search Technique

In this study, the researchers followed the methodology outlined by Milian et al. (2019) and conducted a comprehensive search for English-language journal articles related to online peer-to-peer lending. They utilized the Scopus and Web of Science (WOS) databases using key phrases like "online peer-to-peer lending," "online P2P lending," and "online peer-to-peer lending." The search included only articles classified as 'journal' or 'review' in Scopus and Web of Science. As online P2P lending is a relatively new research area, the researchers also considered secondary sources and articles in the process of publication from the Social Science Research Network (SSRN) and other relevant published data to provide a comprehensive overview. Articles were found in various disciplines, including business, economics, computers, decision sciences, mathematics, social sciences, and multidisciplinary sources, covering different aspects of online P2P lending. After the initial scanning process, 70 relevant articles were identified from the two main sources, Scopus and Web of Science.

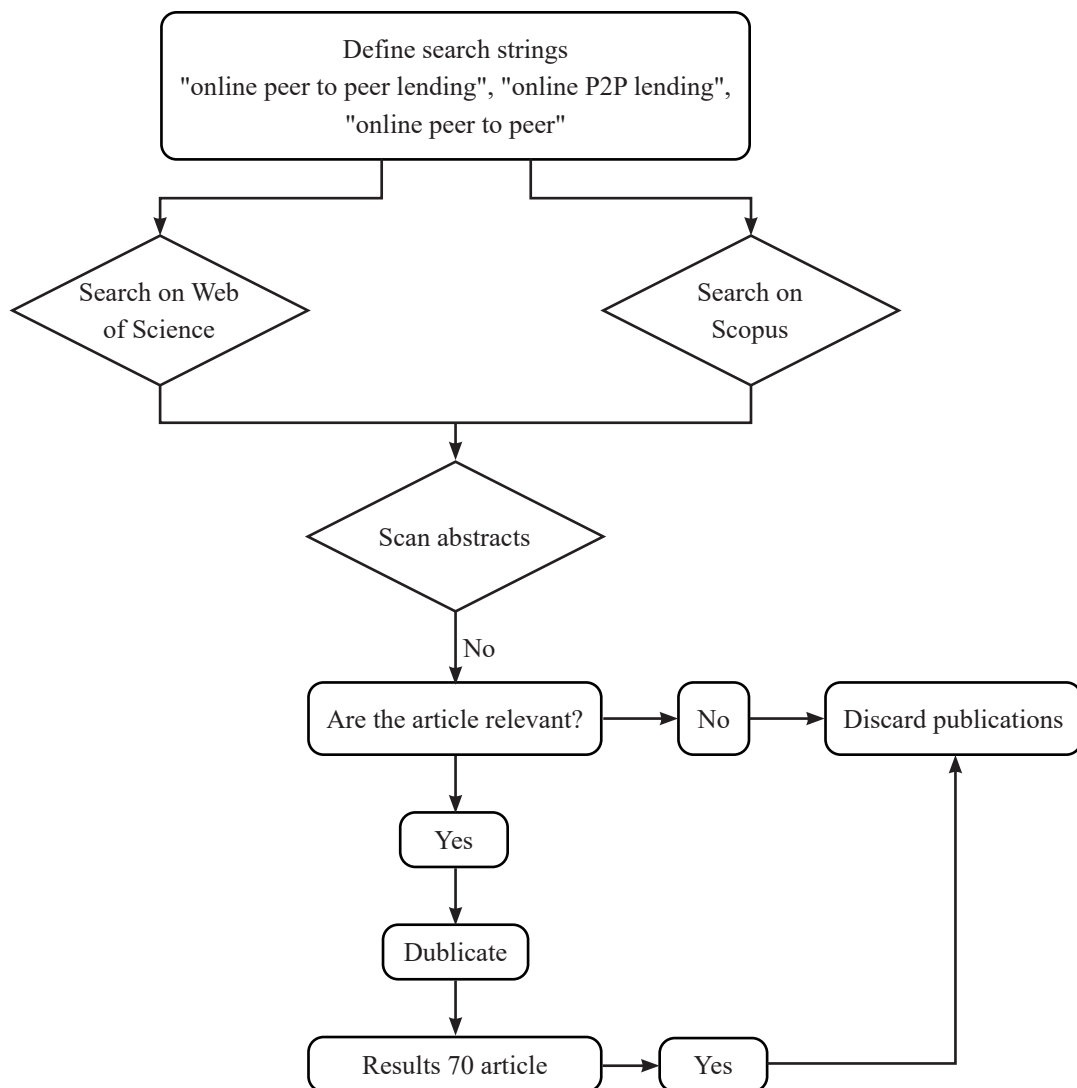


Figure 3. Research Scanning (Source: author's elaboration)

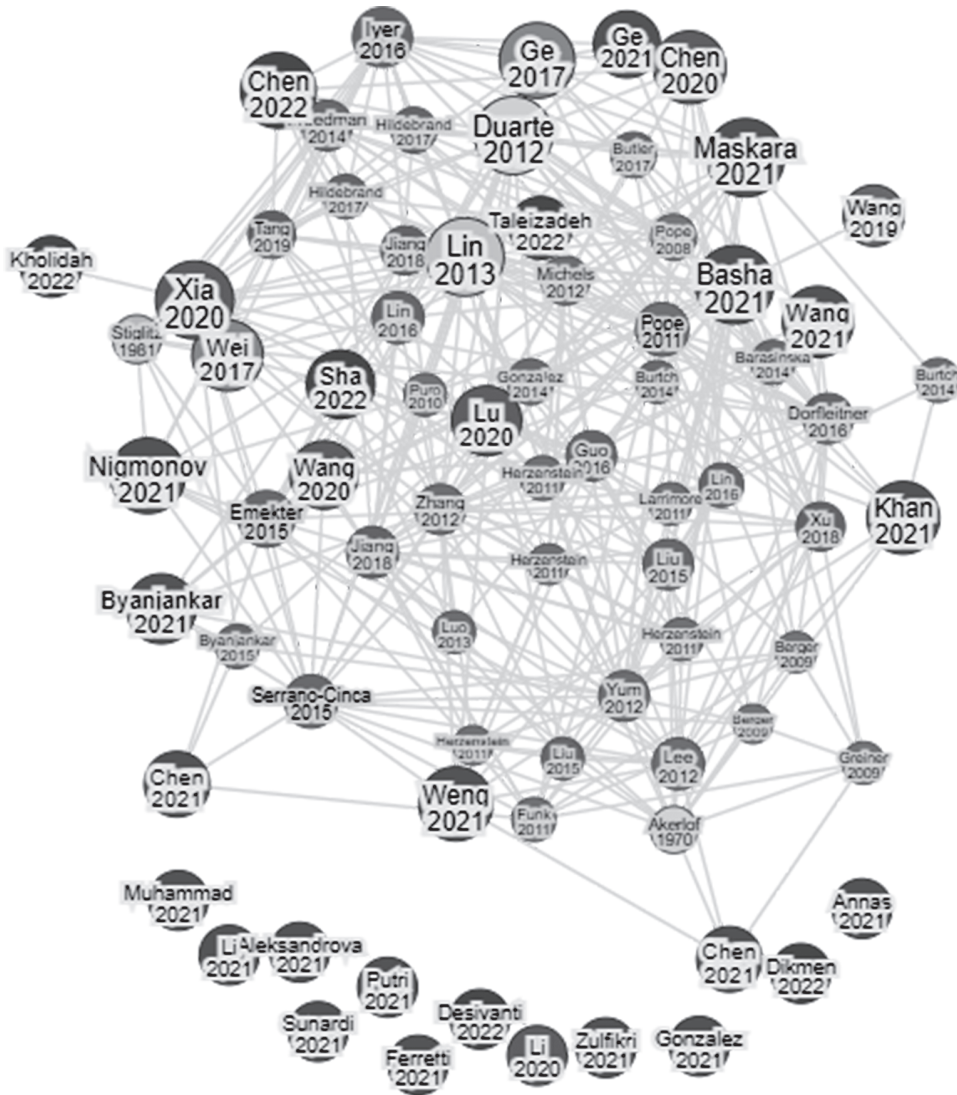


Figure 4. Linked contents (Source: author’s elaboration)

3.2. Analytical procedure

This investigation employs the content analysis method, which incorporates the synthesis and problem-generalization methods. This study classifies discovered papers into three distinct categories. (1) The first group consists of research paper abstracts related to P2P on the global scale (2) P2P in Vietnam setting (3) Benefits and challenges of P2P.

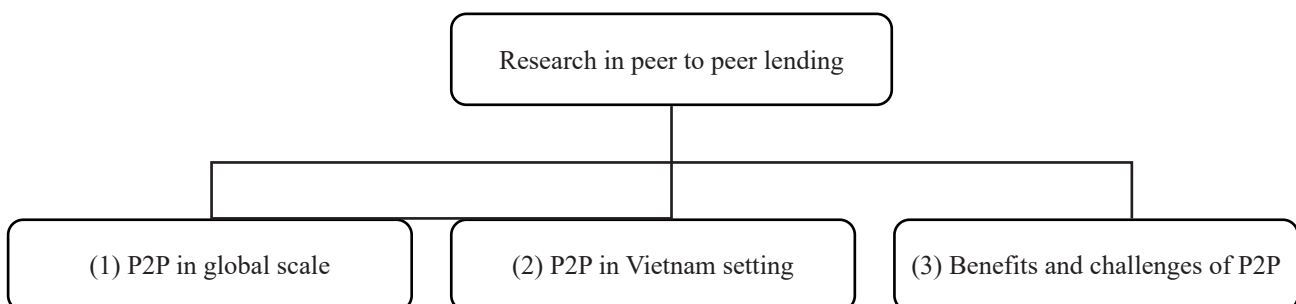


Figure 5. Document classification diagram (Source: synthesis of Google Scholar, Scopus Source, and Proquest)

4. RESULTS AND DISCUSSIONS

4.1. Peer-to-peer lending on a global scale

Tracing the history of P2P, the first company to enter the P2P market was Zopa (prosper.com), which was founded in 2005 in the United Kingdom. In 2006, the company launched its first online platform in the United States. Since then, the new lending platform has expanded significantly on a global scale, spawning several digital financial intermediaries such as Smava (smava.de) in Germany and Tima (tima.vn) in Vietnam, among others. The table below illustrates the loan volume retrieved from P2P-Banking.com in June of 2023.

Table 1. Loan Volume originated in June 2023 (P2P platform)

Company	Country	New loans (M. Euro)	Vs Previous month
Bondora	UK	-4%	24%
Buikestate	UK	-29%	-71%
Crowd Property	UK	58%	31%
Debitum Network	Czech	286%	185%
Esketit	Spain	9%	-59%
Estateguru	France	14%	-9%
Finansowo	Spain	0%	-30%
Folk2Folk	Lithuania	-58%	-56%
Geldvoorelkaar	UK	19%	-9%
Heavyfinance	Latvia	N/A	-30%

Bholat et al. (2018) conducted a quantitative analysis and interviews with founders of prominent P2P lending platforms in the UK, such as Zopa, RateSetter, and Funding Circle. The study found that London was the largest lender and the second-largest borrowing region, after the Southeast. The growth of the P2P market in the UK was influenced by public sector interest and encouragement, along with regulatory support. The Financial Conduct Authority established minimum requirements for P2P platforms in April 2014, providing a basic standard for their operations. Additionally, interest from P2P loans was made tax-free for individual saving accounts (ISAs), further promoting P2P activity. Bholat et al. (2018) highlighted the advantages of P2P lending, including reduced prices for unsecured personal loans and encouraging traditional banks to enhance their digital services to compete in the evolving digital banking sector of Industry 4.0.

L. Deer (2015) conducted surveys of 935 borrowers and lenders from China's first online platform Paipadai in China in 2015 and concluded that P2P in China now is the biggest market as compared with a global scale. The majority of P2P companies had grown dramatically since the first unsecured company Paipadai established, which fostered the demand for borrowers, specifically 56% reported that they had no relation with any banks before and 87% said that it was an easy borrower audit process. P2P lending can fill the gap that traditional banks cannot provide for borrowers who have an absence of credit rating such as consumer credit, or mortgage financing.

The important question is what kinds of determinants affect P2P lending recently. The most substantial things that affect to success loan originate from the borrower's perspectives such as income, age, gender, career, collateral, and so forth. Sunkpho, (2018) conducted 193.614 loan applications from the biggest platform in China, Paipada, for the period January to June 2014, specifically 43837 applications obtained the loan and 149777 failed. The data constitutes the ID of borrowers therefore this study is divided into four main categories for borrowers, including basic information, loan information, credit information, and social information. Basic information constitutes the age, and gender of the borrowers, while loan information includes the amount of loan, annual interest rate, repayment period, the total

length of the loan, and purposes of the loan. Credit information shows the credit grade that was provided by the Paipada platform, the successful loan number, failed loan number. The final is social information, which includes friends' number, post numbers, membership score, forum currency, and contribution which reflects the performance of borrowers on the platform. A key result refers that while annual interest rate, credit grade, successful loan number, gender, and borrowers' credit score are positive and significant on loan success; the other determinants such as the repayment period, description, and failed loan number are a negative impact.

While developed nations prefer online methods to support peer-to-peer lending, developing nations, particularly China, prefer offline processes to educate and advise individual investors (Deer, 2015). There is a difference in the default rate between Prosper (USA) and Paipadai (China) because of the appearance of independent third-party credit evaluation institutions, which can reduce the default risk, as compared to Dongyu, (2012).

Table 2. Comparison between P2P in USA and China (Dongyu, 2012)

	Transaction Fee	Credit Rating	Social Network	Growth	Risk Control	Default Rate
Prosper (USA)	Middle	High	Medium	Fast	High	1% - 2%
Paipadai (China)	Medium	Low	Weak	Medium	Low	2% - 3%
My089 (China)	High	Medium	Weak	Medium	Medium	Unknown

4.2. Peer-to-peer lending in Vietnam

In 2015, the first peer-to-peer lending model appeared in Vietnam, and since then, this industry has been booming. At the beginning of 2019, the State Bank of Vietnam reported that approximately 40 P2P lending companies were operating under names such as Tima, Monily, HuyDong, TietkiemOnline, Lendbiz, and LendDragon. According to data provided by Tima.vn, which was founded in 2015, the number of applications is nearly 8 million, the capital to be lent is 93,440 billion VND, there are 4.8 million borrowers, and there are 45,000 lenders. In addition, another P2P-lending model, Lendbiz, is operating in Ha Noi in partnership with Tima Platform to provide unsecured loans of up to VND1 billion to small and medium-sized enterprises (Lendbiz, 2020). (See appendix Table 3)

4.3. Benefits and challenges of P2P

Table 5 presents a summary of prominent P2P lending platforms in Vietnam, offering diverse loan types like student loans, small and medium-sized business loans, and secured, and unsecured loans. While some platforms charge notably high-interest rates compared to the average bank rate, currently at 7.71% per year*, the P2P market in Vietnam continues to attract clients and is projected to have substantial growth potential. Several factors contribute to its appeal and resilience.

First, there are numerous unbanked people. According to a report by the World Bank, more than 70% of Vietnam's population does not have a bank account. The main barrier to financial inclusion in Vietnam for formal bank accounts is a lack of income (T. H. Son et. al., 2019). The P2P lending model, with its small loan amounts and straightforward procedures, is accessible to this group. Second, the Vietnamese propensity for using cash and the prevalence of small-dollar loans from family, acquaintances, or even the black credit market. These forms of borrowing are characterized by their simplicity, sometimes requiring only oral agreement. Therefore, it is becoming an opportunity for the development of the peer-to-peer lending model, which provides a similar method of obtaining a loan. Third, many businesses face challenges in obtaining bank loans due to the lengthy and complex evaluation process. Small and medium-sized enterprises (SMEs) often require quick financing to address backlog issues, but formal bank procedures pose difficulties in meeting requirements. Consequently, around 14–25% of Vietnamese SMEs are financially constrained, and about 35% resort to informal credit sources. If the P2P model can streamline procedures and overcome complexities, it has the potential to encourage more SME loan applications.

The P2P lending model offers a simpler and faster loan process compared to traditional banks, making it an attractive option for SMEs. Banks often require collateral due to high-risk assessments caused by SMEs' unstable cash flows and short operating periods. Moreover, the complex document preparation process adds to the challenges faced by business owners. In contrast, P2P lending has streamlined procedures and doesn't demand collateral, enabling individuals to receive loans within one day and SMEs within three days (Dragonlend, 2020). While P2P lending provides an alternative financing source, it operates without specific regulations, and most companies are registered under other categories, which raises potential risks for the market, lenders, and borrowers.

First, P2P companies may provide lenders with misleading information about borrowers. Most lending websites in developed markets, such as the United States, use a variety of criteria to determine a borrower's creditworthiness. They are typically extracted directly from Credit Rating Agencies (Y Zhang et. al., 2017). In Vietnam, however, credit scores are primarily determined by the information provided by the debtors themselves. According to Table 5 (see appendix), the available information on borrowers is restricted to occupation, gender, age, and marital status for individual borrowers, identification of the business owner, enterprise registration paper for the business, and financial information provided by banks, such as bank statements, or by other institutions, such as tax reports and VAT voices of sales contracts, to demonstrate specific income streams. In the end, it is difficult for lenders to obtain comprehensive borrower information, resulting in a severe information asymmetry between borrowers and lenders.

Secondly, the absence of cybersecurity oversight on P2P lending platforms is a significant concern. Bkav Technology Group's cybersecurity assessment revealed that computer viruses caused substantial damage to Vietnamese users in 2019. Ransomware affected over 1.8 million computers, including agency servers, leading to business disruptions. Despite the enactment of the Law on Cyber-Information Security in Vietnam, it still requires improvement as it lacks detailed provisions. This poses challenges for P2P lending platforms to effectively avoid cybersecurity risks and obtain adequate government protection against potential damages. Additionally, there are concerns about potential predatory lending practices and misuse of consumer information by P2P lenders.

Legal protection for both borrowers and lenders in case of disputes is inadequate in the current P2P model. The industry's ability to control money laundering activities also raises worries. While the State Bank of Vietnam is taking measures to draft a regulatory sandbox mechanism for fintech in banking activities, the rapid growth of fintech companies without proper regulations could have adverse societal consequences.

5. CONCLUSIONS AND RECOMMENDATIONS

This study reviewed global and Vietnam's peer-to-peer lending literature, emphasizing the potential of new digital financial intermediation for the evolving generation of borrowers and investors. P2P lending's rapid expansion is driven by streamlined processes, reduced costs, and competitive interest rates. This evolution benefits unbanked users and supports small and medium-sized businesses. Policymakers should consider appropriate regulations to safeguard lenders and borrowers and foster the growth of P2P lending in the digital technology 4.0 era.

Many countries, such as England, the United States, China, Germany, and France, have recognized the economic significance of P2P lending and established legal frameworks for its operation. In Vietnam, P2P lending offers undeniable benefits, but it also faces risks like borrower defaults and loan shark practices. To maximize the benefits and mitigate risks, the government should swiftly implement measures. Establishing a comprehensive legal framework for P2P lending platforms is crucial, addressing interest rates, loan guarantees, cybersecurity, violation management, and transaction oversight. Learning from China's experience with a 2016 crackdown on P2P lending platforms can provide valuable insights for Vietnam's approach to this model.

In addition to connecting borrowers and lenders, the government should allow P2P lending companies to engage in other banking-related activities. These activities may include loan disbursement at reasonable interest rates, limited capital mobilization per investor, loan provisioning, and debt collection. Permitting P2P lending companies to undertake some traditional banking functions will expand access to capital for individuals and businesses while enhancing the performance of traditional banking activities. This transformation will encourage traditional banks to restructure their operations to compete with the evolving banking technology. Additionally, P2P lending companies should develop their credit rating system, considering various financial and non-financial indicators. Access to

borrowers' credit information from the national database, managed by the Credit Information Center (CIC), will provide an additional source for reliable loan evaluations, reducing the risk of defaults in the P2P lending process compared to traditional banks.

Due to the limited data available from the P2P market, this study offers an incomplete insight into the current state of P2P lending in Vietnam. To address this limitation, future research endeavors to gather more data and conduct a survey to comprehensively identify the factors influencing P2P activity among both borrowers and lenders. Furthermore, P2P lending companies should develop their credit rating systems, considering various financial and non-financial indicators. Additionally, granting them access to the national credit information database managed by the Credit Information Center (CIC) would enable P2P lenders to assess loan applicants' creditworthiness from an additional reliable source, mitigating the higher risk of defaults compared to traditional banks' lending procedures.

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APPENDIX

Table 4. Typical P2P lending platforms in Vietnam (Source: collected from the websites by the writer)

Websites	Business information	Typical services	Interest rate
Tima.vn*	<ul style="list-style-type: none"> ▪ Established in 2015 ▪ charter capital of 150 billion VND, ▪ successfully raising 3 mil USD from Belt Road Capital Management Fund 	<ul style="list-style-type: none"> ▪ unsecured loan, ▪ student loan, ▪ mortgage loan ▪ secured by family-registered book, ▪ loan secured by motor registration; loan provided according to utility bill 	identified by matching lending order with borrowing order
Dragonlend.vn*	founded by Fram - a Swedish IT group; Fram^ – is listed on NASDAQ First North (part of NASDAQ Stockholm) and focuses on venture capital of technological industries as well as e-commerce	<ul style="list-style-type: none"> ▪ Working capital loan, ▪ Loan advisory, ▪ risk rating 	identified by matching lending order with borrowing order
Monily.vn*	owned by Fintech Global Partners LP located in Scotland, running business in 9 countries including Vietnam.	unsecured loan	1%-1.2%/day
HuyDong.com*	owned by Finsom Corporation, established in 2015	working capital loan	10-25%/year
Tietkiemonline.vn*	owned by SHA Global Corporation	consumer loan	8%-16%/year
Lendbiz.vn*	established by a group of executives experienced in the financial industry.	working capital loan	from 1.2%/month

Table 5. Characteristics of some typical P2P lending platforms in Vietnam (Source: authors elaboration)

Platforms	Name of service	Required documents	Time efficiency	Loan amount
Tima.vn*	Loan secured by family-registered book	Original family-registered book	1 day	50 mil VND
	Loan secured by motor registration	Original motor registration or purchasing contract	2 hours	3-30 mil VND
	Loan provided according to utility bill	Utility bill from 300.000VND in the latest 3 months	1 day	50 mil VND
dragonlend.vn*	Working capital financing package - Tailored product for SMEs owners in Ho Chi Minh City	No collateral needed. Tax report (Balanced Sheet, Income Statement) in 2018. Original VAT paper in 2019 in quarters. Internal financial statements in 2019. Original Bank statements from corporate accounts in 2019. Enterprise Registration Paper. ID of business owner/ legal representative. Original Bank statements are from personal accounts (if revenue is transferred into it) in 2019.	3 days	from 100 to 300 mil VND for testing period, then high possibility to increase amounts for next loan
monily.vn*	unsecured loan	valid ID card, bank account and mobile phone number	in 3 to 4 days for the first times, in 30 minutes from the second times	up to 10.000.000VND
tietkiemonline.vn*	consumer loan	the valid ID, driver license and bank account	from 1.2%/month	up to 11 mil VND
lendbiz.vn*	working capital loan	No collateral needed. Enterprise Registration paper. Financial ability proving documents. Existing business proving documents. Capital budgeting.	2 daysca	up to 1 bil VND

Authors

The contribution share of authors is divided as follows.

Hang Dang Thi Thu – literature review, methodology; Vi Tran Thi Hoang – results and discussion; Hung Ngo Huu – introduction, conclusion and recommendation.

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