Can Technology Undermine Macroprudential Regulation?
Evidence from Peer-to-Peer Credit in China

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Discussion by Olena Havrylchyk
Paper summary

• P2P lending platforms undermine LTV caps in mortgage markets.

• Why? Not because of technology, but because P2P lending does not fall under macro-prudential regulation. Why?
Identification strategy

• Very convincing!
  – The **dataset** (e.g. data on borrowers and lenders) as well as **policy design** (only some cities (?) were affected by LTV cap) allow to identify the impact.

• Parallel trend assumption is satisfied visually, although there are some differences in home-ownership and education between control and treatment group.
  – Why there are no borrower level controls?
Market share of the RenrenDai

Loans RenrenDai = $3.7bn (2010 – 02/2017)
Loans P2P China = $195.8 bn (2013-2016)

<table>
<thead>
<tr>
<th>Model</th>
<th>Volume 2013-2016</th>
<th>Volume 2010-2017</th>
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</thead>
<tbody>
<tr>
<td>Peer-to-Peer (Marketplace)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer Lending</td>
<td>$3.85bn</td>
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<tr>
<td>Business Lending</td>
<td>$1.44bn</td>
<td>$14.30bn</td>
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<tr>
<td>Balance Sheet</td>
<td>$0.14bn</td>
<td></td>
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<tr>
<td>Business Lending</td>
<td>$0.57bn</td>
<td></td>
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<tr>
<td>Peer-to-Peer (Marketplace)</td>
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<tr>
<td>Real Estate Lending</td>
<td>$0.23bn</td>
<td>$1.84bn</td>
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<tr>
<td>Balance Sheet</td>
<td>$0.02bn</td>
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<tr>
<td>Consumer Lending</td>
<td>$0.12bn</td>
<td>$9.45bn</td>
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</tbody>
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Source: Cambridge Centre for Alternative Finance
Gaining additional market share?

- Is RenrenDai trying to gain additional market share? Has it succeeded?
- How representative is this platform?
- How do other platforms behave?
What is the business model of RenrenDai?

- Standard P2P lending platforms do not transform maturity and risk and do not have any leverage.
- But a lot of experimentation! Havrylchyk & Verdier (2018)
  - Does RenrenDai propose secondary markets, automated lending, institutional investors and securitization, provision fund, etc.?
(Un)sophisticated investors?

• If default rate goes up, who bears credit looses? Retail/institutional investors? Provision fund?
• Authors find that investors with large portfolios (sophisticated) lend more. Correlated with Uplan?
• Less clear about experience (not possible to compare the magnitude between two separate regressions).
• Why not put all lender characteristics in the same regression?
(Un)sophisticated investors?

• Surprising results
  – Vallee and Zeng (2018): sophisticated investors outperform (US)
  – In the UK, many market observers feel that institutional investors received preferential treatment (FCA, 2016)
• Is platform’s growth limited by funding demand by borrowers or funding supply by lenders?
• Is return still higher (than in similar asset classes) even after higher default?
• What happens at the portfolio level? Do diversification benefits outweigh slightly higher default for few loans?
• Do (sophisticated) lenders decrease the supply of funds in response to higher default?