

UNIVERSITI TEKNOLOGI MARA

**DETERMINANTS OF PEER-TO-
PEER (P2P) SUCCESSFUL FUND
LENDING IN MALAYSIA**

NUR 'ASYIQIN BINTI RAMDHAN

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ABSTRACT

Peer-to-peer (P2P) lending is a financial technology (FinTech) innovation facilitated by online platforms. It relies heavily on the information provided to be extracted by investors and borrowers for successful P2P fund lending through the proposed campaigns. This study aims to determine factors contributing to lending approval on the P2P lending platform in Malaysia. The challenges of information disparities and platform sustainability in different economic conditions have been the drives for the study to be addressed in a unified model. An autoregressive distributed lag (ARDL) method was used to show how the factors that lead to successful P2P lending have different long- and short-term effects. Utilizing the monthly data covered the whole Malaysia P2P lending platforms stretching from 2017 to 2022, a segregation based on P2P financing types and sectoral industries is also being investigated. The results can be divided into two perspectives based on the analysis of the variables. The internal factors include platform interest rates, loan tenure, and investment size. Whereas the external determinants encompass variables such as base lending rates (BLR), inflation, and economic conditions. The findings mainly support the information asymmetry theory, in which the disparity of information on the determinants reacts differently towards successful P2P fund lending. In addition, the complexity of financial instability theory proxied by the effect of economic conditions has detailed the optimistic prospects for lending behaviour in Malaysia's P2P platform. The results indicate that, internally, there is a constant and significant relationship between investment size and successful P2P fund lending in both the short and long term. Meanwhile, the external factors of BLR and inflation demonstrated distinct dynamics towards P2P successful fund lending in both durations. In terms of economic conditions, findings show the volume of successful P2P fund lending was not influenced by the crisis. However, an economic condition model has evolved to reflect the dynamics of the factors determining successful P2P fund lending. The model with economic conditions revealed that investment size demonstrates a significant correlation in the long run only. While, in the short term, loan tenure becomes an important variable. Based on the financing types and sectoral industries in P2P lending, the internal and external variable results are inconsistent. The highlighted findings, with broadly supportive evidence from the Securities Commissions (SC) and Central Banks of Malaysia data, should aid P2P lending platforms, industries, and policymakers in understanding the signalling determinants involved and ensuring the sustainability of P2P lending platforms.

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CHAPTER 1

INTRODUCTION

1.1 Introduction

Peer-to-peer (P2P) lending is a credit activity facilitated by electronic platforms where the analysis of potential borrower characteristics will be determined for the success of the financing. This section discusses the current study's background, problem statement, objectives of the research, and research questions. The relevance and breadth of the investigation are also highlighted. Finally, at the end of the chapter, essential keywords are defined.

1.2 Study Background

Financial technology (FinTech) refers to digitally empowered financial innovations that allow for new business practices, implementations, procedures, or product lines. Technological developments in FinTech are enabling new businesses to challenge existing lending services by reducing costs of acquisition and saving time and effort in the application process (Pandey, Hassan, Kumari, Zaied, & Rai, 2024). The advancement of FinTech is prominent as a new normal in the financial economy due to its emphasis on networking, digitization, advanced technologies, and real-time information, which is in line with the National Policy on Industrial Revolution (IR) 4.0 (The Star, 2021). Innovations in FinTech are appearing in many areas of finance, including FinTech credit activity such as crowdfunding, marketplaces, and P2P lending. P2P lending is one of the core features driven by digital financing in accelerating funding for Sustainable Development Goals (SDG) numbers nine (industry, innovation, and infrastructure) and eleven (sustainable cities and communities) (Steiner, 2020).

The beginning of the P2P lending market started in several developed countries, such as the United Kingdom (UK) in 2005, with a successful fund of more than 1.5 billion pounds. In the United States (US), the P2P lending sector debuted a year later, in February 2006. P2P lending is popular in the US for various reasons, such as new loan suspensions during the economic crisis, borrower eligibility issues, and the duration of the loan. Despite the P2P industry's contribution to the country's development and its successfully granted loans, it has not yet been shown that new