

Financial Risk Analysis of P2P Industry

-Taking “Yirendai” as an Example

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Abstract—Nowadays, the risks of China’s online lending platform mainly come from imperfect credit system, weak supervision of the network lending platform, and imperfect legal system. This paper takes the representative company in P2P network lending industry—the Yirendai as analysis object to analyze the company’s financial statements and to find out the financial risks in development. It also analyzes the future development tendency of P2P industry based on the actual situation in China and proposes countermeasures to other booming online lending companies. It is of great significance for promoting the development of China’s Internet finance, stimulating economic growth, and regulating market order. This paper mainly uses the literature method, normative analysis method and data analysis method to draw useful conclusions of the network lending platform. The innovation of the full text lies in: first, we combine the situation of China’s financial system to explore the practical significance of the P2P network platform; second, according to the financial statement analysis of the Yirendai company, the potential risks and countermeasures of the current lending industry are given; finally, it is concluded that the P2P online lending method is feasible, but at the same time, the company should also improve the responding level to financial risks and promote the steady development of the whole industry.

Keywords—p2p industry; Yirendai; Financial risks; Risk management

I. INTRODUCTION

In recent years, p2p lending as an individual lending model which is independent of other formal financial systems, it has borrowed a large amount of money with its unique low entrance barriers and low financing cost [1]. It has also rapidly became a fast-growing industry in recent years. P2p network lending has established a simple, fast and effective fund supply and demand platform between lenders and borrowers, and the convenience and benefits brought by it are self-evident. However, with the rapid development, the p2p network lending industry has also experienced various problems; varying degrees of financial risks ,legal risks have begun to appear. This paper takes the Yirendai as an example to analyze the risks of companies in the p2p industry and the actions they should take.

II. FINANCIAL RISK AND RISK CAUSE ANALYSIS OF YIRENDAI

Yirendai is China’s leading online consumer financial service platform that connects investors and individuals. In March 2012, the Yirendai website was officially launched [2]. In September 2013, Yirendai launched the world’s first app for

completing the full operation of credit loans on mobile phones. In October 2014, Yirendai launched a fast-speed model loan service based on big data risk control, which realized 1 minute for the extension of credit on mobile phones and 10 minutes for rapid approval [3]. On December 28, 2015, Yirendai successfully listed on the New York Stock Exchange and became the first overseas listing company of China’s Internet finance.

Yirendai company is the China’s online consumer finance market which connects investors and individuals. Its online automated platform is a key part of the business, that is able to effectively meet the requirements of borrowers and investors and execute their loan transactions. With the rich experience of its parent company-Yixin, the company provides an useful solution to meet the needs of most under-funded investors and domestic borrowers. The goal of Yirendai is to make it easier for Chinese consumers to access affordable credit investment opportunities through online markets.

A. Analysis of financial indicators

Due to the industry’s lack of standardization , high risks and so on, most of the enterprises in the p2p industry fail to meet the listing standards. In order to meet the current status requirement of p2p industry as much as possible, this paper selects the pre-ipo financial indicators of the Yirendai platform to analyzes from 2013 to 2015. Main financial indicators are shown in Table 1.

TABLE I. THE MAIN FINANCIAL INDICATORS OF YIRENDAI FROM 2013 TO 2015

Indicators	year		
	2013	2014	2015
Current ratio	0.00	0.01	0.02
Cash ratio	0.00	0.01	0.02
Asset-liability ratio	0.36	0.44	0.64
Shareholders' equity	0.64	0.55	0.36
Property ratio	0.56	0.80	1.76
Equity multiplier	1.56	1.79	2.77

1) Short-term solvency

As can be seen from the above table, the flow ratio of the Yirendai Platform from 2013 to 2015 was 0, 0.01 and 0.02 respectively. The current ratio was very low, indicating that the company's short-term solvency is weak and the short-term debt repayment risk is high. The company's cash ratio from 2013 to 2015 was 0, 0.01, and 0.02, respectively. The low cash ratio also indicates that the company's ability to directly repay current liabilities is weak.

2) Long-term solvency

As can be seen from the above table, the asset-liability ratio of the Yirendai from 2013 to 2015 was 0.36, 0.44, and 0.64, respectively. The asset-liability ratio increased year by year. The ratio of property rights from 2013 to 2015 was 0.56, 0.80, and 1.76, respectively, the trend is upward. The shareholder equity ratios from 2013 to 2015 were 0.64, 0.55, and 0.36, respectively.

The shareholder equity ratio showed a downward trend year by year, reflecting the growing ability of Yirendai lending to make profits. It also reflected the company's situation from one aspect. That is, the financial risks are increasing, the financial structure is unstable, the company's long-term solvency is steadily weakening, and financial risks are gradually increasing.

The property rights ratio of the Yirendai lending platform was 0.56 in 2013, 0.80 in 14 years, and 1.76 in 15 years. The company's property rights ratio is increasing year by year, which shows that the company more and more depend on debt. The company's ability to repay long-term liabilities is weakening, and the financial structure develops toward high risk and compensation directions.

3) Comparative analysis of cash flow

The cash flow of the Yirendai Platform from 2013 to 2015 is shown in Table 2.

TABLE II. THE CASH FLOW STATEMENT OF YIRENDAI FROM 2013 TO 2015

Indicators	year		
	2013	2014	2015
Net cash flow from operating activities	-1127.40	-3684.60	6354.60
Net cash flow from investing activities	-12.30	-58	-4497.90
Net cash flow from financing activities	1139.70	3765	111365.20
Net increase in cash and cash equivalents	0.00	22.20	13041.90
Balance of cash and cash equivalents at the end of the period	0.00	22.20	13064.10

According to the above table, the net cash flow of operating activities of Yirendai Platform from 2013 to 2014 showed a downward trend, decreasing from -1127.40 to -684.60, and it showed an upward trend from 2014 to 2015, rising from -3684.60 to 6354.60, which indicated that the company has made great progress in its business activities from 2014 to 2015. The net cash flow of the company's investment activities were negative in 2013, 2014 and 2015, and the value was rising sharply. This shows that the company's investment in the past

three years is huge, and the capital investment is constantly increased. Thus it is possible that quantity of investment can't be recovered. The net cash flow of the company's financing activities has been on a rising trend from \$1,139,700 in 2013 to \$1,13,365,200 in 2015, which reflects a large increase and fast speed in net cash flow. On the one hand, it resulted from the large cash flow demand for investment activities; On the other hand, it also reflects the huge debt pressure on the company.

B. The causes analysis of financial risks

Due to the particularity of the industry in which the Yirendai Company is located, the company adopted a radical business strategy to expand its share of the industry as much as possible. In the face of rapid expansion, it also faces large financial risks. The main reasons are as follows:

1) The financial structure is unreasonable and the solvency is weak

The arrangement of the financial structure of the Yirendai platform is not reasonable enough. As the assets increase, the liabilities are also increasing. This facilitates the cost of capital and brings the financial risk of short-term insolvency. From the perspective of various financial indicators, the company's current ratio and cash ratio are far lower than the general standard, which also indicates the company's low level of capital utilization, weak capital liquidity and short-term solvency.

2) The ability to attract investment is weakened and financial risks are increased

The company's shareholder equity ratio is decreasing year by year, reflecting that company's assets that its owner has put into the firm is reduced, which is easy to weaken the company's ability to resist external shocks. At the same time, the reduction of the owner's investment also shows that Yirendai platform's ability to attract investment. is steadily weakening.

3) The investment structure is not reasonable enough

The pleasant cash flow generated by the Yirendai from 2013 to 2015 was negative, and the numerical value gradually increased. The company's investment structure was not reasonable enough, and It was relatively blind. The investment arrangement was not based on actual situation, which may leads to an increase in the debt of the Yirendai and an increase in the pressure to repay the debt, thereby an increase of the potential financial risk.

4) The sensitivity to financial risks is not high

The liquidity ratio, cash ratio and asset-liability ratio of Yirendai platform are all different from the normal range. They also have an increasing trend. On one hand, it indicates that the Yirendai platform does not pay attention to and take sufficient measures to adjust the financial structure and reduce financial risks. On the other hand, it indicates that the company is insensitive to financial risks, which goes against the long-term stable development of the company.

5) *The high proportion of fundraising increases financial risks*

The Yirendai Platform has experienced more fund-raising activities during the period from 2013 to 2015. The proportion of fund-raising activities is relatively high. So the net cash flow generated by fund-raising activities also shows a rapid upward trend. While, Large-scale fund-raising activities may bring the risk of being unable to repay debt. The company's fundraising activities should be considered on the premise of recognizing their own situation. According to data from the Yirendai Platform, the company is a expansion enterprise and relies more on the cash flow generated by fundraising activities.

III. SUGGESTIONS ON FINANCIAL RISK MANAGEMENT AND CONTROL MEASURES FOR YIRENDAI

The Yirendai platform is more representative in China's p2p network lending industry. The analysis of the company has reference significance for the p2p industry risk analysis [4]. For the problems and financial risks of Yirendai mentioned in this article, the following risk management measures can be taken.

A. *Reasonably arrange the financial structure and improve the solvency*

Yirendai can gradually adopt a more stable financial policy in combination with the company's own situation to reduce financial risks. The firm can make a detailed plan for the use of funds ,While continuously increasing the operating income and expanding the scale of assets. The company will increase the utilization rate of funds and reduce the risk of debt repayment [5].

B. *Optimize the investment structure and reduce financial risks*

Yirendai should clarify the direction and purpose of investment, rather than blindly expanding the scale of investment and pursuing high growth rates. Based on the actual situation of itself and the industry, the company needs to optimize the investment structure and promote its long-term stable development. If you invest blindly for a temporary high growth rate, it will only put the company at a disadvantage in the industry competition.

C. *Establish a comprehensive risk strategy management system*

The operational objectives, financial reporting objectives and compliance objectives together make up the risk strategic objectives. Yirendai should transform the primary risk management goals into compliance goals, establish a comprehensive strategic risks management system, and strengthen the auditing of lender credit. It is also indispensable to reduce the credit risk of borrowers, e the overdue rate, and maintain regular capital flow.

D. *Establish a perfect organizational structure*

The scientific organizational structure is the basis for the company's better development. The Yirendai platform should focus on the internal organizational structure, such as the establishment of relevant risk committees and supervisory agencies [6]. At the same time, an audit committee should be set up to monitor the financial risks ,in order that the relevant organizations and sections will cooperate with each other and work together to reduce the risks faced by the company and lay a solid foundation for the company's development.

E. *Improve the sensitivity of financial risks*

The company should improve sensitivity and alertness in the face of potential financial risks, and propose positive countermeasures after discovering financial risks. What's more, bringing the potential financial risk to an acceptable level is conducive to the long-term and stable development of the company.

IV. CONCLUSION

Through the above analysis, we found that it is necessary to analyze the financial statements when analyzing the financial status of a company. This paper makes a brief analysis of the financial statements of the Yirendai Platform from 2013 to 2015. There are still many shortcomings. For example, the professional and accuracy of the analysis needs to be strengthened . However, I hope to give some advice to the accounting staff , financial statement users and companies in the p2p network lending industry. When the boss undertake company financial management, we financial accountants should treat every financial data seriously. In order to assist accounting information users to make correct financial decisions, we needs to improve our professional ethics, and find the typical problems in the face of various financial data.

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