
FACTORS AFFECTING BORROWERS' INTENTION IN PEER-TO-PEER LENDING PLATFORM IN MONGOLIA

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ABSTRACT

The current paper aims to examine factors that influence borrowers' intention to borrow from Peer-to-Peer lending platform in Mongolia. This topic has been attracting researchers' interest especially since 2008 when the 3rd round of fintech development starts over the developed countries. The most of those studies focus on investigating the factors that explain borrowers' intention to borrow, and a few of them research this perspective from the investors' side. It is hardly to find the study that explain intentions of parties to participate in a P2P lending platform in Mongolia. Our research tries to fill this gap by studying factors influencing borrowers' intention in Mongolian fintech market. We have used the TAM model as a theoretical framework and have collected survey questionnaires from investors and borrowers from all fintech companies in Mongolia. The result shows that borrowers' intention is mostly driven by initial trust and perceived risk. Other variables, perceived ease of use and perceived security, have no impact on borrowers' decisions to participate in P2P platform.

KEYWORDS Peer-to-peer (P2P), Borrowers, Mongolia



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INTRODUCTION

The era of the Fourth Industrial Revolution, characterized by speed, automatization, and ease, has brought changes and reforms to many sectors around the world, including health, tourism, and real estate, and has had a significant impact on the financial sector. Technology-based, smartphone-based financial services reach a group of

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people with sudden financial needs and urgent need for a small amount of money, allowing them to access credit services regardless of time or location without collateral.

Promoting sustainable economic growth and reducing inequality and poverty are important goals for policymakers in many countries (Staničková, 2017). Achieving both goals at the same time means that the country is creating inclusive growth in financial markets. “Innovation” is the key to increasing access to financial markets. Advances in products, services, and technology resulting from innovation promote competition in the marketplace, reduce costs, and increase efficiency (Ranieri & Almeida Ramos, 2013). There are many good examples around the world of technologically advanced financial products and services or fintech that provide financial services and access to many people who have been left out of the formal financial markets (Fornell & Larcker, 1981b).

Increasing access to financial markets through fintech products and services increases the chances of achieving sustainable development goals. In short, financial innovation is a bridge between the financial sector and sustainable development.

P2P lending, Internet lending or person-to-person online lending, involves individuals or “peers” who use online platforms without the involvement of a financial institution as a middle man (FUND, 2015).

The peer-to-peer (P2P) lending platform has become popular and is gradually becoming an alternative to the traditional model of financing (Zetzsche et al., 2019). P2P lending is considered an innovative approach that unites borrowers and lenders without collateral or the intermediation of financial institutions (Hoang et al., 2022).

The Financial Stability Board (FSB) defines fintech as “technologically enabled financial innovation that could result in new business models, applications, processes, or products with an associated material effect on financial markets and institutions, and the provision of financial services”. This definition has also been adopted by the Basel Committee on Banking Supervision (BCBS), and they introduced areas that fintech covers can be broadly described as: (i) credit, deposits, and capital-raising services; (ii) payments, clearing and settlement services, including digital currencies; (iii) investment management services (including trading); and (iv) insurance. Part of the technological backbone of fintech is the Blockchain technology. It has been suggested that there have been three phases of fintech and we are currently in the third phase (Zabala Aguayo & Ślusarczyk, 2020).

International studies have highlighted the importance of online P2P credit services, including the efficient allocation of assets, high interest rate competition, low transaction fees, and a mixed credit service mechanism (Arner et al., 2020). Investment in the fintech sector is growing rapidly year by year, in 2019 worldwide \$135.7 billion invested in the fintech sector (Chikalipah, 2020; Farahani et al., 2022). P2P loans increased by 262 percent from more than \$26 billion to \$68 billion from 2015 to 2019. Above all these suggests that P2P lending is evolving into a form of lending that will have a significant impact on future financial market development.

In Mongolia, as of the first quarter of 2020, a total of 388.3 thousand borrowers in financial sector received technology-based loan services, and the number of borrowers receiving these services is growing rapidly. The loan amount per person receiving this service is 336.0 thousand MNT, total loan amount already reached more than 80 billion MNT (Macchiavello & Siri, 2022). These are major incentives to increase access to financial services by promoting competition and increasing the efficiency of products and services. There are 15 non-banking financial institutions that are offering P2P lending in Mongolia. This research was conducted with the aim of knowing what factors influence a borrower's intention to obtain a P2P loan.

RESEARCH METHOD

We have prepared survey questions relating to our dependent and independent variables, precisely 5 items for perceived risk, 3 items for perceived trust, 3 items for perceived ease of use, 3 items for perceived security and 3 items for initial borrow intention. It is important to mention that all of our questionnaires have reached all fintech companies' borrowers and 347 respondents participated. For measurement, Likert-type five-point scale was used ranging from 1 "strongly disagree" to 5 "strongly agree".

In order to analyze the intention of borrowers in P2P platform in Mongolia, we used Partial Least Square (PLS) analysis that is mainly used among researchers on this topic.

RESULT AND DISCUSSION

Majority of respondents (borrowers) were women representing 73%, with men representing 27%. In case of age group, the largest percentage goes to age group between 19-24, followed by age group of 25-30 (17.6%) and 41-50 (16.1%) respectively. Most of the respondents work in private companies, government organization and students.

Table 1 Characteristics of Respondents

		Number	Percent
Gender	Male	94	27
	Female	253	73
Age Group	Up to 18	10	2.9
	19-24	120	34.6
	25-30	61	17.6
	31-35	39	11.2
	36-40	33	9.6
	41-50	56	16.1
	More than 51	28	8
Occupation	Government organization	72	20.8
	Private	115	33.1
	Self-employed	36	10.4
	Student	98	28.2
	Other	26	7.5
Income	Up to 200.000 MNT	68	20
	201.000-400.000 MNT	31	2.8
	401.000-700.000 MNT	45	13
	700.000-1.000.000 MNT	71	20.5
	1.000.001-1.500.000 MNT	72	20.7
	1.500.000-2.000.000 MNT	27	7.8
	More than 2.000.001 MNT	33	9.5

Model assessment

For model assessment, the convergent validity of items loading (Loading), average variance extracted (AVE), and composite reliability (CR) were tested.

The result shows that indicator loading was more than 0.5 meaning that they meet the criteria, three items (C1, C3, C4). Therefore, those items were removed because of the lower threshold of 0.5. Then all items met the AVE threshold of 0.5, and CR threshold of 0.7.

Table 2 AVE Result

	Items	Loadings ^a	AVE ^b	CR ^c
Perceived ease of use	A1	0.922	0.838	0.939
	A2	0.94		
	A3	0.883		
Perceived security	B1	0.792	0.665	0.855
	B2	0.752		
	B3	0.895		
Perceived risk	C1	*	0.632	0.774
	C2	0.763		
	C3	*		
	C4	*		
	C5	0.826		
Perceived Trust	D1	0.731	0.635	0.839
	D2	0.837		
	D3	0.819		
Initial Borrow Intention	E1	0.914	0.709	0.878
	E2	0.907		
	E3	0.685		

a- All items loadings > 0.5 indicates Indicator Reliability (Fornell & Larcker, 1981a)

b- All average Variance Extracted (AVE) > 0.5 as indicates Convergent Reliability (Bagozzi et al., 1998) (Fornell & Larcker, 1981a)

c- All Composite Reliability (CR) > 0.7 indicates Internal Consistency (Gefen, 2000)

*-removed because of lower threshold of loading

Then, we have tested discriminant validity using the formulation postulated by Fornell & Larcker (1981b). The square root of AVE from each construct was higher than the correlations between construct and other constructs, meaning that there is discriminant validity.

Table 3 Discriminant Validity

	Initial Trust	Initial Borrow Intention	Perceived ease of use	Risk	Security
Initial Trust	0.797				
Initial Borrow Intention	0.566	0.842			
Perceived ease of use	0.524	0.352	0.915		
Risk	-0.092	-0.235	-0.183	0.709	
Security	0.208	0.240	0.187	-0.095	0.815

The diagonals are the square root of the AVE of the latent variables and indicate the highest value in any column or row. It indicates that there is discriminant validity. In summary, the measurement model demonstrates adequate reliability, convergent validity and discriminant validity.

Then R^2 was used for goodness of model fit, and in our model R^2 was 0.368. That means the 36.8% variance of intention of borrowers to borrow from P2P platforms can be explained by the independent variables of perceived ease of use, security, risk and trust.

Afterwards, bootstrapping analysis with resampling 500 was managed to determine the significance of coefficients. Interesting result was found that perceived risk and trust have a significant relationship with the intention of borrowers in P2P lending platform, and other two variables have no impact.

As a result, we can see that trust is a very important factor that P2P lending platform exist in Mongolia in terms of both investor and borrowers.

Table 4 P2P Lending Platform in Mongolia

Hypotheses	Relationship	Beta	SD	T-Statistic	P-Values
H1	Perceived ease of use	0.025	0.092	0.349	0.727
H2	Perceived Security	0.130	0.140	0.813	0.417
H3	Perceived Risk	-0.187	0.088	1.990	0.047
H4	Perceived Trust	0.504	0.082	6.209	0.000

CONCLUSION

P2P lending has been developing for last 4-5 years in Mongolia, and its rapid growth attracted our interest to study intention of borrowers to participate in P2P platforms. According to the TAM model, initial intention can be explained by explanatory variables, namely perceived ease of use, security, risk and trust.

As a result of partial least square analysis, borrowers' intention to borrow from P2P lending platform is influenced by trust and perceived risk. Other variables have no impact. Therefore, trust effects positively on initial intention of borrowers, meaning that our hypothesis is supported. Moreover, perceived risk effects negatively on the initial intention of borrowers.

Through this research, we try to give contribution to the development of P2P lending framework. Regulators in Mongolia should consider this result to make their policy decisions. By using PLS analysis, our study can contribute to the literature of this field in Mongolia.

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