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UNRAVELLING P2P PLATFORM FAILURES: A SYSTEMATIC LITERATURE REVIEW OF KEY DETERMINANTS

MENGUNGKAP KEGAGALAN PLATFORM P2P: TINJAUAN LITERATUR SISTEMATIS TERHADAP DETERMINAN UTAMA

Lucan Feliciano D'Surya[1*], Henrycus Winarto Santoso[2], Sugeng Hariadi[3]
Faculty of Business and Economics, University of Surabaya, Indonesia[1,2,3]
lucanfeliciano@gmail.com[1*], henrycus@staff.ubaya.ac.id[2],
sugeng.hariadi@staff.ubaya.ac.id[3]

ABSTRACT

The rapid rise of Peer-to-Peer (P2P) lending platforms has redefined access to credit, connecting borrowers and lenders through innovative digital solutions. Yet, despite their global expansion, these platforms face mounting challenges, with failures becoming increasingly prevalent. This study delves into the critical factors driving P2P platform failures through a systematic literature review of 23 studies published in Scopus between 2014 and 2024. The research identifies financial, operational, and environmental determinants, further categorized into internal and external factors, using a structured review protocol. The study concludes that platform failures arise from a complex interplay of factors, necessitating holistic strategies to enhance resilience, improve transparency, and align operational practices with evolving regulatory frameworks. By offering actionable insights, this review aims to guide policymakers, platform operators, and researchers in addressing vulnerabilities and ensuring the sustainable growth of P2P lending ecosystems.
***Keywords**: Peer-to-Peer Lending Platform Failures, Platform Sustainability, Systematic Literature Review, Risk Management, FinTech*

ABSTRAK

Meningkatnya popularitas *platform Peer-to-Peer* (P2P) *lending* secara pesat telah mendefinisikan ulang akses terhadap kredit, menghubungkan peminjam dan pemberi pinjaman melalui solusi digital yang inovatif. Namun, meskipun mengalami ekspansi global, *platform-platform* ini menghadapi tantangan yang semakin besar, dengan kegagalan yang kian marak terjadi. Studi ini meneliti faktor-faktor krusial yang menyebabkan kegagalan *platform* P2P melalui tinjauan literatur sistematis terhadap 23 studi yang dipublikasikan di Scopus antara tahun 2014 hingga 2024. Penelitian ini mengidentifikasi determinan finansial, operasional, dan lingkungan, yang selanjutnya dikategorikan ke dalam faktor internal dan eksternal menggunakan protokol tinjauan yang terstruktur. Studi ini menyimpulkan bahwa kegagalan platform terjadi akibat interaksi kompleks berbagai faktor, sehingga diperlukan strategi holistik untuk meningkatkan ketahanan, memperbaiki transparansi, dan menyelaraskan praktik operasional dengan kerangka regulasi yang terus berkembang. Dengan menawarkan wawasan yang dapat diterapkan, tinjauan ini bertujuan untuk membantu pembuat kebijakan, pengelola *platform*, dan peneliti dalam mengatasi kerentanan serta memastikan pertumbuhan berkelanjutan ekosistem P2P *lending*.
Kata kunci: Kegagalan *Platform Peer-to-Peer Lending*, Keberlanjutan *Platform*, Tinjauan Literatur Sistematis, Manajemen Risiko, FinTech

INTRODUCTION

The financial landscape is undergoing a profound transformation, driven by innovative solutions that aim to address evolving market demands. In regard to the demand of capital, Peer-to-Peer (P2P) lending, a FinTech innovation, has been on the rise globally up to 80% in the subsequent years (Deng, 2022; Judge, 2015). This model offers streamlined credit access and investment opportunities, evidenced by its global rise. Countries such as the United States, United Kingdom, China, South Korea, India, and Indonesia attribute up to 50% of their nationwide alternative financing to P2P lending (CCAF, 2020). It was also revealed that the volume of new credit from P2P lending in China reached 61.5% in 2016 (Nemoto et al., 2019). According to Global Market Insights (2024), the P2P lending market in the United States was valued at $209.4 billion in 2023, with projections indicating a potential growth rate of up to 25% in the coming years.

The urgency of this study comes from the drawback of P2P lending as a disruptive technology with issues within the market (Lu, 2024). For instance, reports from Indonesian news outlets have brought attention to several P2P lending platforms facing stringent legal scrutiny due to their inability to deliver substantial returns, repay investors, or fraudulent activities (Puspadini, 2024; Saputra, 2024a, 2024b). China, once the leader in P2P lending with a market capitalization peaking at RMB 1.2 billion (approximately USD 16.37 million) in 2017, experienced a staggering platform failure rate of up to 80% in the subsequent years (Deng, 2022).

Previous researches highlighted issues such as information asymmetries (Cummins et al, 2019; Riggins & Weber, 2017; Yan et al., 2015), borrower's tendency of defaults (Mammadova, 2020; Yoon et al., 2019), and the need of an improved risk assessment and prediction model (Ge et al., 2017; Jin & Zhu, 2015; Setiawan, 2019). However, findings remain fragmented, emphasizing the need for a unified framework to drive actionable insights that enhance P2P lending platforms' resilience and sustainability.

A Literature Review (LR) provides a broad summary of existing research, identifying gaps, and trends but often prone to bias due to lack of methodological rigor (Aimlay, 2023; Callahan, 2014). Meta-analysis (MA) combines results from multiple studies to quantitatively estimate effect sizes, however highly depends on comparable and high-quality datasets (Normand, 1999; Pigott & Polanin, 2019). In contrast. Systematic Literature Review (SLR) is advantageous due to its structured and transparent approach, ensuring reproducibility while minimizing bias (Davies & Dodd, 2002; Okoli & Schabram, 2015; Templier & Paré, 2015).

Despite its strengths, SLR relies on existing literature, which may introduce publication bias and limit exploration of under-researched areas. Additionally, strict exclusion criteria can filter out potentially relevant studies that adopt uncommon methodologies or are published in non-mainstream outlets. Researchers' subjectivity in synthesis is an issue as it may influence findings (Munn et al., 2018). Nevertheless, the structured nature of SLR offers a valuable tool for investigating complex phenomena.

The academic literature on P2P lending has grown substantially, yet the factors driving platform failures remain partial and ambiguous. To the best of the author's knowledge, there has been an absence of comprehensive research that systematically identified and categorized the key factors driving the failure of P2P lending platforms. This gap underscores the urgency and significance of conducting this study. Thus, the research questions are formulated as follows: **What are the key determinants contributing to the failure of P2P lending platforms as identified in the literature? Are these determinants rooted in internal factors, external influences, or both?**

This study is organized as follows: the next section outlines the research methodology and how it addresses its challenges, followed by a presentation of the findings and discussions. Conclusion is provided, addressing the study's contributions, limitations, and potential directions for future research.

RESEARCH METHODS

To address these limitations, this study used a multi-faceted approach for a more comprehensive review of P2P lending platform failure determinants. A structured search protocol was adapted from Kitchenham (2004) guidelines to ensure comprehensiveness. The literature search was conducted using Scopus, selected for its comprehensive coverage of articles and publications in business, technology, and finance. Then, search strings were developed to target studies, such as:

a. **For P2P lending**: “p2p lending,” “P2P lending,” “peer-to-peer lending,” "peer to peer lending," “online lending platform,” “marketplace lending.”
b. **For platform failures**: “failure,” “failing,” “potential failure,” “challenge,” “collapse,” “shutdown,” “platform insolvency,” “platform failure,” “determinant.”

To refine the results, the search was restricted to publications from 2014 to 2024, reflecting a decade of significant evolution in the P2P lending sector. This study included both journal articles and conference papers to maintain a high standard of academic rigor. The inclusion was limited to publications in their final stage and only those written in English.

The process, following the PRISMA framework, is shown in **Figure 1**. Priority was given to studies that explicitly addressed failure determinants and their impact on platform failures. Initially, studies with ambiguous or inconclusive abstracts related to platform failures were included. Studies focusing solely on risk quantification or unrelated topics of financial technologies were excluded. This decision was made to avoid premature exclusion and to facilitate a thorough review of their full content. This approach helps mitigate limitations and capture a broader range of insights to enhance understanding of the topic.

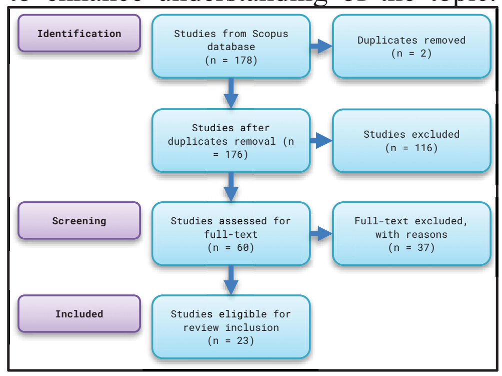

Figure 1. PRISMA Framework

The initial search yielded 178 studies, which were screened for duplicates and assessed for relevance based on titles, abstracts, and keywords. This resulted in the exclusion of 116 studies, leaving 60 for full-text review. Ultimately, 23 studies were deemed relevant to the research question, while 37 were excluded for lack of actionable findings. The final 23 studies were downloaded through their respective sources and subjected to a full-text review. Data were extracted based on parameters such as: determinants of failure, analytical approaches, and recommendations for sector sustainability. The synthesis process followed a structured approach to ensure consistency and reliability in the interpretation of findings.

This methodology acknowledges inherent limitations, including potential publication bias and the constrained scope of literature on under-researched areas. However, by including conference proceedings while adopting a transparent and structured protocol, this study seeks to mitigate these biases and provide actionable insights.

RESULTS AND DISCUSSIONS

General Results

Summary of the findings is presented in

Table 1, organized by the number of supporting studies. The 23 studies are categorized into financial, operational, and environmental determinants, further divided into internal and external factors. Additional relevant findings are listed at the end of the table.

Table 1 provides both a summary of the determinants and a reference for concept-based discussions. Systematic literature reviews should include tables similar to how empirical research presents data and results. The categorization into internal and external was performed by the authors.

15 out of 23 studies relied on datasets from China, indicating a concentration of research based on Chinese sources, as noted by Kim (2021). Not all studies covered failure determinants across all three categories, with many focusing on specific areas. A notable trend was the use of empirical analysis, often employing logit binary data models to identify key variables influencing platform failure.

Financial Determinants

Internally, inadequate registered capital has presented itself as a determinant of failure (Gao et al., 2021; Gao et al., 2020; He & Li, 2021; Huang, 2018; Jiang et al., 2021; Li et al., 2016; Li & Hasan, 2021; Yeh et al., 2024), particularly affecting private companies compared to state-owned enterprises (SOEs) (Gao et al., 2021; Li & Hasan, 2021). Conversely, platform "run-offs" tendency is highly affected by high platform leverage (Gao et al., 2020; He & Li, 2021; Li & Hasan, 2021). Both inadequate loan or funding diversification compounds financial risks by concentrating exposure to specific sectors (Katsamakas & Sanchez-Cartas, 2024; Ramdhan et al., 2024; Yu & Shen, 2019), while over-diversification will dilute overall portfolio quality (Yeh et al., 2024). Platforms heavily relying on high-interest-rate loans attract riskier borrowers (Gao et al., 2021; Li et al., 2016; Serrano-Cinca et al., 2015; Wang & Li, 2023; Ye & Lin, 2023; Yeh et al., 2024). There is strong indication that inadequate credit assessment processes will affect overall lifespan of platforms (Gao et al., 2020; Huang, 2018; Kim, 2021; Serrano-Cinca et al., 2015; Sulastri & Janssen, 2023; Yeh et al., 2024). Platforms with high capital holding times and low cash withdrawal rates are more prone to failure (Li et al., 2016; Wang et al., 2021).

Although rare, a few external financial determinants exist. Riskier borrowers tend to have high level of indebtedness and conjure high default rates (Hasan et al., 2020; Huang, 2018; Liu et al., 2024; Muhammad et al., 2021; Xu et al., 2024). P2P lending insurance as a secondary product is considered contagion (Katsamakas &

Table 1. Summary of Key Findings in Regard to Platform Failures

Category	Subcategory	Findings	Authors (Year)
Financial	Internal	Low capitalization or registered capital	(Gao, Yen & Liu 2021; Gao Yu, Chen & Shiue, 2020; He & Li, 2021; Huang, 2018; Jiang, Liao, Wang & Zhang, 2021; Li, Hsu, Chen & Chen, 2016; Li & Hasan, 2021; Yeh, Chiu & Huang, 2024; Yu & Shen, 2019)

Category	Subcategory	Findings	Authors (Year)
		High loan interest rates	(Gao et al., 2021; Gao et al., 2020; Li et al., 2016; Ramdhan, Bujang, Muhamat & Kesumaningrum, 2024; Serrano-Cinca, Gutiérrez-Nieto & López-Palacios, 2015; Wang & Li, 2023; Ye & Lin, 2023; Yeh et al., 2024)
		Inadequate credit assessment processes, including reliance on self-assessed credit scores, inaccuracy, and auto-bidding systems	(Gao et al., 2020; Huang, 2018; Kim, 2021; Serrano-Cinca et al., 2015; Sulastri & Janssen, 2023; Yeh et al., 2024)
		"Run-off" due to high external funding or leverage	(Gao et al., 2020; He & Li, 2021; Li & Hasan, 2021)
		Inadequate funding diversification	(Katsamakas & Sanchez-Cartas, 2024; Ramdhan et al., 2024)
		High capital holding time and inadequate cash withdrawal rates	(Li et al., 2016; Wang, Zhang, Zhang & Gong, 2021)
		Over-diversification of loan portfolios	(Yeh et al., 2024)
Financial	External	Borrowers' indebtedness and defaults	(Hasan, He & Lu, 2020; Huang, 2018; Liu, Li & Zheng, 2024; Muhammad, Fakhrunnas, Hanun, 2021; Xu, Liu, Luo & Liu, 2024)
		P2P lending insurance contagion	(Katsamakas & Sanchez-Cartas, 2024)
		MSMEs preference towards concentrated large P2P investors	(Katsamakas & Sanchez-Cartas, 2024)
Operational	Internal	Risk management failures	(Gao et al., 2021; Huang, 2018; Jiang et al., 2021; Katsamakas & Sanchez-Cartas, 2024; Li et al., 2016; Liu et al., 2024; Muhammad et al., 2021; Ramdhan et al., 2024; Yeh et al., 2024; Yu & Shen, 2019)

Category	Subcategory	Findings	Authors (Year)
		Lack of transparency, information asymmetry, or objective misalignment	(Gao et al., 2021; Gao et al., 2020; Jiang et al., 2021; Kim, 2021; Ramdhan et al., 2024; Serrano-Cinca et al., 2015; Sulastri & Janssen, 2023; Wang et al., 2021; Wang & Li, 2023; Ye & Lin, 2023)
		Fraudulent activities by stakeholders involved (borrowers, investors, owners)	(Gao et al., 2020; Jiang et al., 2021; Li et al., 2016; Li & Hasan, 2021; Ye & Lin, 2023; Yeh et al., 2024)
		Weak governance structures	(Gao et al., 2020; He & Li, 2021; Huang, 2018; Wang et al., 2021; Yeh et al., 2024)
		Ineffective business operations and reliance on traditional brokerage models	(Ramdhan et al., 2024; Wang et al., 2021; Ye & Lin, 2023; Yu & Shen, 2019)
		Lack of affiliations with SOEs, venture capitals, political ties, or any sort of third-party certification	(He & Li, 2021; Jiang et al., 2021; Li & Hasan, 2021; Yeh et al., 2024)
		Lack of a custodian bank or deposit insurance	(He & Li, 2021; Yeh et al., 2024)
		Poor platform UI/UX	(Sulastri & Janssen, 2023)
		Showing irrelevant borrowers' traits	(Serrano-Cinca et al., 2015)
Operational	External	Failure to adapt to changing regulations	(Huang, 2018; Liu et al., 2024; Yeh et al., 2024)
		Market oversaturation and intense competition	(Huang, 2018; Li et al., 2016; Yeh et al., 2024)
		Active discussions amplify awareness of platform issues, acting as a contagion	(Wang et al., 2021)
		High demographic mobility and tracking difficulties	(Gao et al., 2020)
Environmental	External	Regulatory uncertainties, pressures,	(Gao et al., 2020; He & Li, 2021; Jiang et al.,

Category	Subcategory	Findings	Authors (Year)
		and misalignments	2021; Li et al., 2016; Li & Hasan, 2021; Liu et al., 2024; Muhammad et al., 2021; Wang et al., 2021; Ye & Lin, 2023; Yeh et al., 2024; Yu & Shen, 2019)
		Economic downturns and “black swan” events	(Gao et al., 2021; Jiang et al., 2021; Katsamakas & Sanchez-Cartas, 2024; Y. Liu, Li, et al., 2024; Muhammad et al., 2021; Xu et al., 2024; Ye & Lin, 2023)
		Investors’ behaviours, such as herding and reliance on cognitive heuristics	(Gao et al., 2021; Gao et al., 2020; Kim, 2021; Muhammad et al., 2021; Wang et al., 2021; Xu et al., 2024; Zhang, Du & Li, 2023)
		Presence of other fraudulent platforms in the market	(Li & Hasan, 2021; Muhammad et al., 2021)
		Low social capital with lack of financial and digital literacy	(Hasan et al., 2020; Sulastri & Janssen, 2023)
		Lack of lending interest rate cap	(Wang & Li, 2023)
		Political instability	(He & Li, 2021)
		Lack of a credible source of credit score	(Serrano-Cinca et al., 2015)
		“Bank run” effects in P2P lending sector	(Gao et al., 2021)
		Crowding-out effect by formal finance coverage	(Deng, 2022)
Other findings	N/A	Chinese investors employ "Too Big to Fail" concept in which Transaction Volume and Total Loans are used as investment decision.	(Gao et al., 2021)
		NPLs should be included in a platform failure modelling, however insufficient data renders it insignificant and yet to	(Gao et al., 2021)

Category	Subcategory	Findings	Authors (Year)
		be proven.	
		High interest rates and large loan amounts do not exhibit evidence of moral hazard among borrowers, but should be further studied	(Wang & Li, 2023)

Sanchez-Cartas, 2024). MSMEs tend to prefer funding from a single large, concentrated investor (Katsamakas & Sanchez-Cartas, 2024). A financial dilemma arises as P2P lending platforms are often directed toward financing MSMEs, but the risk of high non-performing loans (NPLs) exacerbates their financial strain (Sulastri & Janssen, 2023). Hence, several financial moral hazards are present, namely MSMEs aversion (Sulastri & Janssen, 2023), mistrust and inaccuracy compensation (Ye & Lin, 2023), and fraud incentives (Gao et al., 2020; He & Li, 2021; Li & Hasan, 2021).

Operational Determinants

Internally, lack of robust risk assessment and management systems is indicated as a critical operational flaw (Gao et al., 2021; Huang, 2018; Jiang et al., 2021; Katsamakas & Sanchez-Cartas, 2024; Li et al., 2016; Liu et al., 2024; Muhammad et al., 2021; Ramdhan et al., 2024; Yeh et al., 2024; Yu & Shen, 2019). Platforms lacking operational and financial transparency erodes investor confidence, contributes towards information asymmetry, and may be an indicator of objective misalignment (Gao et al., 2021; Gao et al., 2020; Jiang et al., 2021; Kim, 2021; Ramdhan et al., 2024; Serrano-Cinca et al., 2015; Sulastri & Janssen, 2023; Wang et al., 2021; Wang & Li, 2023; Ye & Lin, 2023). He & Li (2021) and Yeh et al. (2024) found that platforms lacking custodian banks were more susceptible to mismanagement and fraud, while the absence of partnerships with SOEs, venture capitals, or any political ties heightened bankruptcy risks (He & Li, 2021; Jiang et al., 2021; Li & Hasan, 2021; Yeh et al., 2024). Gao et al. (2021) describe these failures as manifesting in withdrawal behaviours akin to “bank run” scenarios. Fraudulent behaviours by any stakeholders can ultimately result in platform collapse (Gao et al., 2020; Jiang et al., 2021; Li et al., 2016; Li & Hasan, 2021; Ye & Lin, 2023; Yeh et al., 2024), and weak corporate governance will help accelerate failure (Gao et al., 2020; He & Li, 2021; Huang, 2018; Wang et al., 2021; Yeh et al., 2024). Serrano-Cinca et al. (2015) observed that platforms which displayed irrelevant borrowers’ information will lead to poor investor decisions. Complication in designing default prediction models and poor UI/UX remain persistent in the market (Sulastri & Janssen, 2023). Many platforms remain dependent on traditional brokerage models, leaving them ill-equipped to identify market gaps and adapt during "black swan" events (Ramdhan et al., 2024; Wang et al., 2021; Ye & Lin, 2023; Yu & Shen, 2019).

External operational determinants can be described as external challenges that can impact platforms’ operations. Several findings conclude platforms’ inability to adapt to sudden regulatory changes as a determinant of failure (Huang, 2018; Liu et al., 2024; Yeh et al., 2024), as well as market oversaturation and intense competition (Huang, 2018; Li et al., 2016; Yeh et al., 2024). Wang et al. (2021) stated that active discussions among investors will act as contagion of platform failure. Hence, several operational moral hazards are present, such as borrowers' payment hazard due to demographic mobility (Gao et al., 2020), overestimation of borrowers' creditworthiness (Kim, 2021), platforms shifting risk towards investors with incomplete information (Gao et al., 2021), and debt leverage moral hazard (Gao et al., 2020).

Environmental Determinants

Environmental determinants tend to be external in nature. “Black swan” events, such as China's stock market downturn and regulatory tightening in 2015-2018, forced many platforms to cease operations due to abrupt compliance requirements and market index volatility (Huang, 2018; Jiang et al., 2021; Li & Hasan, 2021; Liu et al., 2024; Wang et al., 2021; Xu et al., 2024; Ye & Lin, 2023; Yeh et al., 2024). Similarly, the restrictive regulatory environment in China has been shown to stifle growth and contribute to platform failures (Yu & Shen, 2019), however the lack of regulations lead to increased fraud frequency (He & Li, 2021; Li et al., 2016). The absence of regulatory interest rate limits has led to a 65% default rate among Chinese borrowers (Wang & Li, 2023). Similarly, the absence of a regulated and credible credit scoring system can be seen as a catalyst for industry-wide instability (Serrano-Cinca et al., 2015). He & Li (2021) noted that platform failures were less common during stable political periods and failure rates tend to increase after a major political event.

Herding behaviour causes widespread withdrawals and operational halts (Gao et al., 2021; Gao et al., 2020; Kim, 2021; Muhammad et al., 2021; Wang et al., 2021; Xu et al., 2024). Previously mentioned “bank run” effects are also causes of platform failures, as pointed out by (Gao et al., 2021). Borrowers' limited financial & digital literacy (Sulastri & Janssen, 2023) and lenders' limited attention span due to entertainment apps (Zhang et al., 2023) are also attributed as sources of failure. Societal factors such as low social capital increases the likelihood of opportunistic behaviour, especially in areas with weak regulation (Hasan et al., 2020). There has been an indication of a P2P lending crowding-out effect by formal finance coverage (Deng, 2022; Sulastri & Janssen, 2023). The presence of platforms employing Ponzi schemes within the industry has also been noted as a critical vulnerability (Muhammad et al., 2021).

Addressing Internal Factors

This study found low capitalization is highly significant across majority of findings. Insufficient capital lead platforms into financial distress and increase vulnerability to market shocks, as they lack the necessary buffer to absorb losses or loan defaults (Gao et al., 2021; He & Li, 2021; Huang, 2018). This finding aligns with the resource-based view (RBV), which asserts that financial capital are critical to sustaining competitive advantage and ensuring survival (Barney, 2001). This perspective is supported by more recent studies conducted by Westhead et al., (2001) and Hendrawan et al., (2023). Conversely, external funding can attract fraudulent activities by incentivizing riskier behaviours. He & Li (2021) observed that 84.2% of China's P2P lending platforms have failed due to bankruptcy or "running off," with a larger share attributed to the latter. To address this duality, P2P lending platforms should proactively adhere to established guidelines for optimal capital structure (Scott, 1976). For instance, research indicates that a balanced debt-to-equity (D/E) ratio between 1.0 and 1.5 can enhance financial stability and reduce risks associated with excessive leverage (Faia et al., 2017), while exceeding a ratio of 2.0 is often deemed risky and unsustainable for most industries (Vassalou & Xing, 2004). While these benchmarks provide sufficient general thresholds, P2P lending platforms must carefully align their capital structure with industry-specific risks relevant to their geographical context, utilizing industry-level data for informed decision-making (Berry et al., 2019).

Higher loan interest rates, while potentially attracting more investors, correlate with a significant increase in default probabilities. While investors and stakeholders may favour higher returns, adopting a long-term perspective could be more effective in ensuring reliable loan payments. To better set interest rates for borrowers, several studies leveraged the power of machine learning algorithms, such as the XGBoost model (Aleksandrova & Parusheva, 2021; Cheng et al., 2021; Liu et al., 2024; Yeh et al., 2024), Random Forest models (Liu et al., 2024; Setiawan, 2019; Yeh et al., 2024), or incorporated broader machine learning techniques (Chen et al., 2019; El Annas et al., 2020; Niu et al., 2019; Raimundo & Bravo, 2024), which all have shown promise in improving the generalization capabilities of credit scoring systems. Platforms should also account for the varying capacities of MSMEs and private borrowers to produce reliable financial statements and explore alternative metrics to assess financial capability, as this capability often varies by region. However, Polena & Regner (2018) concluded while supplemental borrowers' characteristics are useful for predicting defaults, caution is necessary as the significance of these predictors varies across different risk classes of loans.

Another critical finding is that poorly diversified loan portfolios can disrupt repayment cycles, erode investor confidence, and trigger an increase in withdrawal requests (Li et al., 2016; Wang et al., 2021). Both loan and funding diversification is crucial to spread risks, but excessive diversification without robust oversight can undermine portfolio quality and diminish potential returns (Katsamakas & Sanchez-Cartas, 2024; Yu & Shen, 2019). Over-diversification may lead to challenges in monitoring and managing an extensive range of loans, increasing operational complexity and the likelihood of inefficiencies (Yeh et al., 2024). Furthermore, it can obscure visibility into the performance of individual loans or sectors, potentially masking early warning signs of default or distress (Ramdhan et al., 2024; Xu et al., 2024). Effective diversification requires a balanced approach that spreads risk without undermining the ability to maintain oversight and optimize returns. A curation rule can be applied to filter loan applications; however, it may not be sufficient to eliminate risk due to interconnectedness of borrowers (Katsamakas & Sanchez-Cartas, 2024).

One of the most significant contributors to platform failures is the inadequacy of internal risk management systems. Many platforms fail to implement comprehensive frameworks capable of mitigating risks effectively. This oversight often results in the underestimation of borrower creditworthiness, mispricing of loans, and poor portfolio performance. Platforms need to adopt advanced risk assessment tools (Guo et al., 2016), integrate predictive analytics (Lam et al., 2021), and continuously refine their operational practices to manage risk proactively (Tsapa, 2024). Ineffective corporate governance often manifests in poor decision-making, inadequate oversight, and an inability to adapt to dynamic market conditions (Yeh et al., 2024; Yu & Shen, 2019). Inadequate executives' education and banking experience are more susceptible to financial mismanagement, ethical lapses, and operational inefficiencies, all of which increase the likelihood of platform failure (Cole et al., 2021). Strengthening governance frameworks by incorporating practices, such as independent board oversight, regular audits, and stakeholder accountability, is crucial for enhancing platform resilience and ensuring sustainable operations

Ineffective business operations and reliance on traditional brokerage models further compound these challenges, as such outdated practices and poor UI/UX often hinder a platform's ability to tap into evolving markets and identify market gaps. This rigidity can result in missed opportunities, reduced competitiveness, and, platform failure. Supported by Zhang et al. (2023) and Sulastri & Janssen (2023), platforms should focus on an inclusive, accessible UI/UX to accommodate varying literacy levels and cognitive shortcuts used by borrowers and investors. A clear, intuitive interface improves user experience, promotes transparency, and boosts investor confidence.

Platforms without custodial bank face heightened vulnerabilities, including mismanagement and fraud (He & Li, 2021). Empirical evidence also suggests that P2P lending platforms with SOEs, venture capitals, or political affiliations demonstrate stronger financial resilience of up to 10% (Gao et al., 2021), highlighting the importance of partnerships as proven by Liu et al. (2019). Establishing political ties with local governments or politicians significantly enhance the credibility and resilience of platforms, as these entities are inclined to provide support during their tenure and crises to safeguard their reputation (He & Li, 2021; Jiang et al., 2021; Sheng et al., 2011; Shi et al., 2013). Moreover, these affiliations often necessitate higher standards of governance and operational efficiency to meet the expectations of their partners and stakeholders (Brinkerhoff & Brinkerhoff, 2011; Mundle et al., 2017). This alignment not only instils confidence but also ensures robust structures to withstand market pressures.

A recurrent issue is the lack of transparency and the prevalence of information asymmetry within platforms. As Deng (2022) stated, if a (financial) technology does not reduce information asymmetry, no matter how innovative or groundbreaking, it may not benefit society. As investors often rely on incomplete or misleading data when making investment decisions, this deficiency erodes trust. Objective misalignment further aggravates this issue, where the goals of stakeholders fail to align, leading to conflicting priorities. For example, platforms that prioritize short-term growth may compromise on loan quality and overestimate borrowers' creditworthiness, ultimately undermining long-term sustainability (Klein et al., 2023). Fraudulent activities represent another pervasive issue. Such activities may involve borrowers providing falsified information, investors engaging in manipulative practices, or platform operators mismanaging funds for personal gain. Regulatory oversight, coupled with supervision mechanism controls, is vital to minimizing fraudulent behaviour (Yeh et al., 2024). Additionally, leveraging technologies like blockchain can provide a secure and transparent record of transactions, reducing opportunities for malpractice (Arora & Kaur, 2021; Madan & Moray, 2024). Addressing these challenges necessitates a commitment to transparent communication and the implementation of mechanisms that ensure the integrity and accessibility of information among all stakeholders.

A less significant yet understudied determinant is the importance of concealing irrelevant loan information from lenders. Irrelevant traits can introduce bias and hinder accurate assessments of underlying risk (Serrano-Cinca et al., 2015), however, the purpose of a loan should be clearly defined, transparent, and accountable.

Addressing External Factors

Borrowers' financial behaviour significantly impacts the stability of P2P lending platforms. Heavily indebted borrowers often fail to meet repayment schedules, creating a domino effect that diminishes investor confidence and exacerbates withdrawal trends (Aliano et al., 2023). The prevalence of defaulting borrowers not only disrupts platform liquidity but also increases the likelihood of cascading failures within the broader ecosystem. Hasan et al. (2020) and Xu et al. (2024) highlight how borrower financial instability is a recurrent cause of platform distress, emphasizing the need for platforms to implement rigorous credit screening processes and robust risk mitigation strategies. Some studies attribute this phenomenon to financial literacy, suggesting that borrowers with inadequate financial knowledge may overlook the implications of their loans and the associated consequences (Hussain et al., 2018).

The use of P2P lending insurance as a second product, while intended to provide a safety net, has emerged as a potential contagion factor for platform failure. Katsamakas & Sanchez-Cartas (2024) highlight that poorly structured P2P insurance mechanisms can create a false sense of security. By linking borrowers to insurers through loan insurance products, these mechanisms amplify financial vulnerabilities when insurers engage in risk-seeking behaviours (Katsamakas & Sanchez-Cartas, 2024). Such misalignment encourages riskier borrowing, leading to higher default rates and straining platform resources. The interconnectedness between SME borrowers and P2P insurers exacerbates these risks, as failures in one part of the network—such as an insurer default—can trigger a chain reaction in the entire P2P ecosystem. Furthermore, platforms that rely heavily on insurance as a risk mitigation strategy become increasingly vulnerable to systemic shocks and cascading failures (Yeh et al., 2024).

Government practices further complicate the financial landscape of P2P lending. In many regions, policymakers encourage platforms to extend credit to high-risk markets, particularly MSMEs, as a means of fostering economic growth. While this directive aligns with broader development goals, it often leads to an increase in NPLs, increasing financial distress. Studies emphasize that while MSMEs play a vital role in economic development, their financial unpredictability (Sulastri & Janssen, 2023), limited credit histories (Sulastri

& Janssen, 2023), and preference for a single large investor (Katsamakas & Sanchez-Cartas, 2024) render them inherently risky borrowers. For P2P lending platforms, balancing the pressures of supporting MSMEs with maintaining financial sustainability is a significant challenge, especially in the absence of robust governmental or institutional safeguards. Due to existing health criterion, some platforms have been labelled as unhealthy after funding these MSMEs, leading to investor withdrawals and ultimately resulting in platform failure (Sulastri & Janssen, 2023).

While such regulations aim to ensure stability and transparency, many platforms struggle to adapt, leading to increased scrutiny, operational disruptions, and even forced closures (Gerwe, 2024). Huang (2018) stated while regulatory issues can lead to failures, the framework itself is not a direct determinant of failure but rather a response to existing challenges. Regulatory compliance is particularly challenging for P2P platforms due to their dual role as financial intermediaries and technology-driven businesses, requiring them to navigate overlapping regulatory domains. Compliance costs, including licensing fees, system updates, and staff training, can strain smaller platforms with limited resources (Claessens, 2007). Regulatory changes, such as stricter capital requirements or loan-to-value limitations, often necessitate costly restructuring (Challoumis & Eriotis, 2024). Establishing robust compliance frameworks, leveraging technology for automated reporting, and allocating resources for training can help platforms navigate regulatory complexities. Smaller platforms, in particular, may benefit from forming industry alliances to share compliance resources and reduce individual burdens (Li & Hasan, 2021).

Market oversaturation further complicates the operational environment. As the P2P lending industry has matured, the number of platforms has proliferated, leading to increased competition. While this fosters innovation, it also presents challenges for platforms striving to differentiate themselves in a crowded market. The saturation of the P2P market often leads to diminishing returns, as platforms are forced to engage in "race-to-the-bottom" pricing strategies or reduce due diligence processes to increase loan volumes, which exposes them to higher default rates (Huang & Wang, 2021). According to studies by Jagtiani & Lemieux (2018), intense competition can also undermine platform sustainability by lowering the quality of services offered. The result is a more fragmented industry, where smaller or less resilient platforms struggle to stay afloat, exacerbating the risk of platform failure. To address this, platforms must prioritize differentiation by offering specialized services or targeting underserved niches within the market (Jagtiani & Lemieux, 2018). Moreover, platforms should focus on sustainable growth strategies, such as forming strategic partnerships or mergers to consolidate resources and improve resilience.

Social influences, such as market sentiment and active discussions, amplify platform vulnerabilities. Negative sentiment, often fuelled by operational issues or defaults, spreads rapidly via social networks, triggering investor withdrawals akin to “bank run” scenarios and compounding financial distress (Agoraki et al., 2022). Building an active community of investors and borrowers through regular updates, responsive customer service, and clear contingency plans can also mitigate the spread of negative sentiment. Proactive engagement with stakeholders, including education campaigns on platform resilience and financial health, may prevent panic-driven withdrawals and bolster confidence.

External operational challenges are compounded by its demographic mobility, since it poses challenges for platforms that rely on stable, localized borrower profiles for credit risk assessments. The inability to track borrowers accurately increases the risk of defaults, as platforms may not be able to assess their financial health in real-time (Gao et al., 2020). Furthermore, inconsistent or unreliable borrower data due to insufficient verification processes exacerbates the problem. This issue is particularly prevalent in emerging markets, where digital financial literacy may be lower, and the infrastructure to monitor borrowers' financial behaviour is still underdeveloped (He & Li, 2021). Collaborating with local financial institutions and leveraging alternative data sources, such as utility payments or mobile money transactions, can improve credit assessments (Mhlanga, 2021). Furthermore, platforms operating in regions with high demographic mobility should develop tailored products that accommodate the needs of mobile borrowers while minimizing default risks.

Yu & Yin (2021) and Huang (2018) analysed regulatory responses towards online P2P lending, comparing practices in China with those in the US, UK, and other regions. Their findings highlighted that while policy adjustments are necessary within the P2P market, however they may provoke market restructuring, emphasizing the potential need for collaboration between P2P platforms and traditional banking institutions. This was further supported by the existence of a crowding-out effect, where the development of formal finance reduces the likelihood of high-quality borrowers participating in P2P lending (Deng, 2022). Additionally, borrowers from regions with better access to formal finance tend to face higher interest rates and financially constrained, indicating the growth of formal finance can worsen P2P lending market. Platforms and regulators can learn from China's 2018 "One Size Fits All" tightening regulation to help avoid similar market failures. The absence of a universally robust credit score and regulatory caps on interest rates are proven to result up to 67.5% higher default rate among borrowers (He & Li, 2021). Indonesia, for example, employed a Maximum Economic Benefit Limit to regulate interest rates, however its analysis is still scarce due to the novelty of this regulation (AHP, 2024). Consequently, regulation should consider the most vulnerable actors and the effects applied unto them.

Investors’ behaviours, such as herding and reliance on cognitive heuristics, significantly influence the dynamics of the P2P lending market (Kim, 2021; Wang et al., 2021; Xu et al., 2024). Herding behaviour can exacerbate market instability during times of uncertainty, leading to rapid “bank run”-like outflows of capital. Similarly, reliance on cognitive heuristics, which arises from investors' limited attention spans and the complexity of financial decision-making, may cause overreliance on superficial cues (Zhang et al., 2023). Enhancing transparency is a critical step; platforms should offer clear, digestible risk disclosures and use intuitive tools like visual dashboards or risk-rating systems to help investors make informed choices (Nayak, 2022). Platforms must actively monitor market sentiment and trends to address systemic risks, such as offering incentives for maintaining investments or diversifying liquidity reserves to handle sudden withdrawal surges, can further stabilize investor confidence (Acharya & Rajan, 2024). To further enhance credibility, platforms should consider publicly partnering with a trusted custodian bank through Banking as a Service (BaaS) and/or collaborating with payment insurance companies (Levantesi & Piscopo, 2022; Resano, 2021), however this has been proven to be challenging due to a perception that FinTech is a threat to banking industry (Sulastri & Janssen, 2023).

CONCLUSION AND SUGGESTION

This review identifies internal and external factors contributing to P2P lending platform failures. Internal factors include financial issues (e.g., insufficient capitalization, poor credit risk management) and operational weaknesses (e.g., weak governance, outdated practices). External factors involve borrower defaults, regulatory challenges, market oversaturation, and investor biases. These failures result from the interplay of internal inefficiencies and external pressures, highlighting the need for holistic and adaptive strategies.

A limitation of this review is the use of Scopus as the sole data source, which may exclude relevant studies from other databases. Additionally, most papers originated from China, potentially limiting the generalizability of the findings. The focus on English-language publications may also overlook valuable studies in other languages, and excluding grey literature might limit the breadth of insights on the topic.

This study highlights the need for further investigation to capture the nuances of regional and platform-specific dynamics. The regulations of many jurisdictions have progressively become obsolete with respect to the P2P lending system that is rapidly developing, which implies risks for lenders and borrowers alike (Brescia, 2016). Future research could benefit from empirical investigations into emerging technologies, such as blockchain and AI-driven risk assessment, as well as comparative analyses of regulatory frameworks across different regions. This paper also encourages future researchers to expand their studies to a broader geographical scope, as our findings primarily focus on China. P2P lending platforms are particularly impactful in developing countries, offering potential economic development benefits. Exploring the successes and failures of these platforms in such regions would provide valuable insights into their role and effectiveness in fostering financial inclusion and economic growth. Another potential area for future research is the exploration of moral hazards within the P2P lending industry, which was not fully addressed in this study or its findings. Additionally, integrating the abundance of existing credit risk models into specific geo-economic contexts could help stimulate the emergence of new P2P platforms tailored to those regions.

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