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Business Ethics Risks and Governmental Regulatory Mechanisms of Taiwan's P2P Lending Platforms

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Abstract

This study aims to investigate the business ethics risks associated with the operation of Taiwan's P2P lending platforms and the regulatory mechanisms implemented by governmental authorities. Using a case study methodology, we conducted an in-depth analysis of the ethical challenges prevalent in P2P lending platforms, including the causes of ethical risk events, their impact on the platforms and investors, and the shortcomings of existing legal frameworks. The research further examines the regulatory measures taken by government agencies to safeguard investors' rights and mitigate risks such as ethical misconduct and financial fraud on P2P lending platforms. We analyzed the strengths and weaknesses of current regulatory mechanisms and proposed improvements to enhance their effectiveness and responsiveness. Finally, based on the findings, this study offers practical recommendations and strategies to reduce ethical risks and prevent financial fraud in P2P lending platforms. The research outcomes aim to assist government agencies in formulating more effective policies and measures to protect investors' rights, ensure the stability of financial markets, and promote the sustainable development of the P2P lending industry.

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1. Introduction

Financial technology (Fintech) harnesses advanced innovations to redefine and deliver financial products and services with the goals of streamlining processes, enhancing operational efficiency, minimizing costs, and increasing accessibility. Inclusive finance, as a parallel objective, aims to empower underprivileged populations and small-to-medium enterprises (SMEs) by providing tailored financial services and facilitating access to capital, ultimately fostering economic development and social progress. However, traditional financial institutions, constrained by high operational costs and rigid structures, often fail to adequately address the needs of SMEs and low-income groups (Wang, Chen, Zhu and Song, 2015). Fintech applications effectively mitigate these challenges by leveraging digital platforms, such as online portals and mobile applications, to extend the reach and affordability of financial services. Moreover, Fintech plays a pivotal role in enabling small-scale lending through online platforms, granting individuals seamless access to credit (Chen and Han, 2012; Lee and Lee, 2012; Hsueh and Kuo, 2017; Huang, 2018; Suryono, *et al*. 2019). It also facilitates the integration of digital currencies and payment systems, enhancing transaction convenience and efficiency. Furthermore, technologies like blockchain significantly bolster transaction security and transparency, thereby mitigating fraud risks. In an ideal scenario, the advancement of Fintech would enable the full realization of inclusive finance, ensuring the provision of affordable and accessible financial services to a diverse and underserved population.

Peer-to-peer (P2P) lending platforms operate as digital intermediaries, connecting borrowers with lenders through an internet-based system. By eliminating traditional banking intermediaries, these platforms streamline the lending process and reduce associated costs (Galloway, 2009; Wang *et al.*, 2015; Hsueh and Kuo, 2017; Rosavina, et al. 2019). According to data from Acumen Research and Consulting, the global P2P lending market has exhibited exponential growth, with loan disbursements reaching $107.8 billion in 2022, climbing to $143.6 billion in 2023, and projected to surpass $175 billion in 2024, with annual growth rates between 20% and 30%.P2P platforms typically generate revenue by charging service fees to both borrowers and lenders. These fees cover transaction processing, customer support, and platform maintenance, ensuring operational sustainability. By leveraging advanced digital tools, these platforms enhance the efficiency of credit allocation while providing an alternative investment avenue for lenders.

P2P lending platforms function by connecting borrowers and investors through a streamlined digital process. Borrowers begin by registering on the platform and submitting loan applications that specify the loan amount, repayment terms, and repayment method. The platform conducts a preliminary review, verifying personal information and credit histories to assess the borrower’s repayment capacity and associated risks. Upon meeting the platform’s credit criteria, the loan request is posted to invite potential investors. Investors explore loan options on the platform, evaluating borrower profiles and deciding on the amount they wish to invest and the acceptable interest rate. Investments are then pooled together and disbursed to borrowers. Borrowers repay the loan, including principal and interest, according to the agreed terms, with the platform facilitating collection and distribution to investors. Utilizing advanced technologies, P2P platforms deliver efficient and cost-effective lending solutions while diversifying investment opportunities for their users.

Traditional banking loan processes depend heavily on financial institutions acting as intermediaries, resulting in significant operational and infrastructural costs. In contrast, P2P lending platforms enable direct interactions between borrowers and investors, effectively reducing intermediary expenses and increasing cost efficiency (Chen and Han, 2012; Wang *et al.*, 2015; Rosavina *et al.*, 2019). These platforms leverage advanced e-commerce technologies to streamline transactions, improve market efficiency, and mitigate capital lock-in effects. By introducing innovative financial products, P2P platforms effectively cater to the diverse needs of consumers and investors, thereby enhancing market competitiveness and contributing to broader economic development (Hsueh and Kuo, 2017).

Moreover, P2P platforms utilize sophisticated data analytics to evaluate borrower creditworthiness and implement proactive risk management strategies, thereby mitigating potential financial exposure for stakeholders. They also broaden financial inclusion by extending credit opportunities to individuals with strong credit profiles but lacking traditional collateral, fostering greater access to financing and supporting equitable economic growth (Zhao, *et al.* 2017; Rosavina *et al.*, 2019).

P2P lending platforms provide an efficient and accessible borrowing alternative. Borrowers can submit loan applications online, significantly streamlining the borrowing process. These platforms are particularly beneficial for small businesses and entrepreneurs, offering them improved access to essential funding (Suryono *et al.*, 2019). Unlike traditional banks with high loan approval thresholds, P2P platforms facilitate capital acquisition for these entities, driving their growth and development (Emekter, *et al.* 2015; Wang *et al.*, 2015). For investors, P2P platforms open new investment opportunities, enabling them to finance loans and achieve competitive returns. Additionally, these platforms provide intuitive online tools for portfolio management, allowing investors to diversify their investments across varying risks and terms, thereby optimizing returns.

P2P lending platforms, while innovative, have elicited significant legal and regulatory challenges worldwide. Table 1 presents a comparison of the regulatory practices of P2P lending platforms in various countries. Key issues include inadequate regulatory frameworks, insufficient transparency, flawed risk management, and poor capital operation practices (Lee and Lee, 2012; Byanjankar, *et al.* 2015; Wei, 2015; Suryono *et al.*, 2019). The inherent flexibility of P2P platforms compared to traditional financial institutions often renders existing regulations insufficient to address their unique risks (Wei, 2015; Huang, 2018; Ding, *et al.* 2021; Hsu, *et al.* 2021). This regulatory gap has allowed issues such as platform mismanagement, fraudulent borrowers, and even Ponzi scheme-like operations to arise (Li, *et al.* 2016; Ding *et al.*, 2021; Samad and Bukido, 2022).

Table 1: Comparison of Regulatory Practices for P2P Lending Platforms

Country	Authority	Regulations
United Kingdom	Financial Conduct Authority (FCA)	• Platform approval application, • Risk management, • Consumer protection, • Funds transfer to third parties, • Information disclosure, • Dispute resolution
United States	Securities and Exchange Commission (SEC)	• Platform registration, • Consumer protection, • Information disclosure
European Union	Australian Securities and Investments Commission (ASIC)	• Obtaining financial and credit licenses, • Fund segregation for operators and investors, • Information disclosure
China	State Council of the People's Republic of China, China Banking and Insurance Regulatory Commission (CBIRC)	• Funds transfer to third parties, Borrowing limit restrictions, Consumer protection
Japan	Financial Services Agency (FSA)	• Platform registration, • Regulation of platform operators' qualifications, • Funds transfer to third parties
South Korea	Financial Services Commission (FSC)	• Platform registration, • Investment limit restrictions, • Borrowers to provide collateral documents, • Funds transfer to third parties
Taiwan	None	• Platform self-regulation

Source: Central Bank of the Republic of China (Taiwan)

Another pervasive issue is information asymmetry. Investors frequently lack access to complete and accurate information about borrowers' financial status or creditworthiness. Similarly, platforms often have an incomplete understanding of borrowers' repayment capacities (Emekter *et al.*, 2015; Wang *et al.*, 2015). The lack of transparency erodes investor confidence and impedes platform growth. Weak risk management systems further amplify these issues, making effective mitigation challenging. Additionally, high capital requirements for operations pose liquidity risks, with poor fund management threatening severe disruptions and long-term viability.

In recent years, the rapid development of P2P lending platforms in Taiwan has brought accompanying risks and instances of fraud. Regarding risk management, these platforms must address various challenges, including credit risk, operational risk, market risk, and liquidity risk. Effective management involves credit assessments, risk evaluations, and continuous monitoring (Chen, *et al.* 2014; Byanjankar *et al.*, 2015; Li *et al.*, 2016; Hsueh and Kuo, 2017; Guo, 2020). However, these measures often fail to prevent fraudulent activities. Borrowers may provide false loan information to gain investors' trust and funds, ultimately defaulting on repayments (Li *et al.*, 2016; Ding *et al.*, 2021; Suryono, *et al.* 2021).

Platforms themselves have also engaged in deceptive practices, such as false advertising and fraudulent promises, to attract investors. These promises, however, often prove to be baseless (Wei, 2015). Table 2 summarizes the penalties related to illegal activities of P2P lending platforms in Taiwan. Some platforms consolidate investors' funds into a single pool for lending purposes. When operational difficulties arise, this pooling method may result in fund depletion, causing significant losses for investors. In other instances, platforms employ Ponzi scheme-like tactics, enticing more investors through fraudulent claims, which ultimately leads to catastrophic financial outcomes (Albrecht, *et al.* 2017; Samad and Bukido, 2022). These issues are further exacerbated by Taiwan's relatively lenient regulatory environment for P2P platforms, along with investors' limited awareness of potential risks, making them vulnerable to fraudulent schemes.

This research examines the management of financial business ethics risks in Taiwan's P2P lending platforms and evaluates the regulatory mechanisms implemented by government authorities. Employing a case study methodology, the study delves into financial fraud issues prevalent in P2P lending, analyzing their origins, impacts on both platforms and investors, and deficiencies in current legal frameworks. Furthermore, it investigates regulatory measures aimed at protecting investor rights and mitigating associated risks and fraudulent activities.

Drawing on the research findings, the study offers targeted recommendations and strategies to minimize risks, address financial fraud, and enhance the efficiency and effectiveness of regulatory practices.

Table 2: Penalty provision of P2P Lending Platforms in Taiwan

Illegal act	Content	Penalty provision
Illegal Fundraising	• The platform operator and investors agree that investors can earn high interest, with the principal returned at the end of the term and a guaranteed fixed profit. • Regardless of whether the lending contract is established, funds are collected from investors first, and the number of borrowers can increase at any time.	3~10 years fixed-term imprisonment (If proceeds of crime> 100 million NTD, more than 7 years fixed-term imprisonment)
Usury	Claims that the investor's return rate reaches 30.15%, and based on this calculation, the borrower's interest rate may exceed 20% annual interest as per the Civil Code.	Up to 3 years in prison
Misleading Advertisement	Using information such as high returns, low costs, and low risks to attract investments, which may involve false advertising.	Fine
Multilevel Marketing (MLM)	Initial debt is formed through 1-on-1 lending by members, then sold to other members for investment, with high returns used to attract public investment, possibly involving multi-level marketing regulations.	Fine

Source: Financial Supervisory Commission (Taiwan)

2. Literature Review

2.1 Development, Business Models, and Characteristics of P2P Lending Platforms

The advent of P2P lending platforms can be traced back to 2005 in the United Kingdom, heralding a transformative shift in financial intermediation. Rooted in internet-based technology, this model facilitates direct interactions between borrowers and investors, effectively bypassing traditional financial institutions. The rapid adoption of this model is largely driven by the inefficiencies and high transaction costs inherent in conventional banking systems. Scholarly investigations have extensively examined the evolution, business models, and service characteristics of P2P lending platforms. Galloway (2009) explored the multifaceted challenges and opportunities presented by P2P lending in the context of community development finance, highlighting essential reforms to propel this nascent industry. By forging efficient links between investors and revitalization initiatives in low- to middle-income communities, P2P lending has significantly bolstered the capital inflow into community development projects.

Chen *et al.* (2014) leveraged trust theory to construct an analytical framework elucidating the critical determinants shaping lenders' trust in P2P lending platforms. Their research revealed that trust in borrowers and intermediary platforms are both indispensable in influencing lenders' intentions. However, trust in borrowers emerged as paramount, exerting a stronger and more direct influence not only on lenders' willingness to provide loans but also on their perception of platform reliability. To foster trust among lenders, borrowers are required to present high-quality, transparent loan applications, while intermediary platforms must ensure exceptional service quality and implement robust security protocols.

Expanding on the topic of credit risk, Emekter *et al.* (2015) conducted an in-depth evaluation of P2P loans, focusing on their risk profiles and performance metrics. The study identified several pivotal factors, including credit ratings, debt-to-income ratios, FICO scores, and revolving credit utilization rates, as significant predictors of loan default. Their findings indicated that loans associated with lower credit ratings and extended repayment terms were prone to higher default rates. Furthermore, increased borrower credit risk correlated with a heightened probability of default, demonstrating that elevated interest rates were insufficient to compensate for the elevated default risks inherent in high-risk borrowers.

Wang *et al.* (2015) emphasized the importance of developing a conceptual model to address the market, managerial, and operational complexities inherent in P2P lending processes. Their study focused on constructing a process model specific to P2P lending and conducting a comparative analysis with traditional bank loan frameworks. The findings underscored that information flows in P2P lending are significantly more dynamic and transparent. Moreover, the study revealed that P2P platforms adopt a distinct credit evaluation methodology, leveraging decision-making frameworks intrinsic to the P2P system. However, loan management within P2P lending remains incomplete, as most platforms lack comprehensive post-loan borrower records. Zhao *et al.* (2017) provided a systematic categorization of P2P lending platforms by analyzing various mainstream models and offering a detailed comparison of their operational mechanisms. Additionally, they synthesized recent advancements in P2P lending research from economic, sociological, and data-centric perspectives, delivering a structured overview of the field’s evolving landscape.

2.2 The Impact of P2P Lending Platforms on the Financial Industry and Society

The P2P lending model offers significant advantages, such as simplifying borrowing procedures, minimizing intermediary costs, and diversifying investment opportunities for investors. Its rapid development has captured the attention of borrowers and investors worldwide. Chen and Han (2012) highlighted that P2P lending introduces an innovative method of borrowing and investing for online users, eliminating the need for traditional financial intermediaries. Their research reviewed existing literature and conducted a comparative analysis of P2P lending practices in the United States and China, revealing that variations in credit information significantly influence lending outcomes in both jurisdictions. Huang, (2018) proposed that the establishment of robust regulatory frameworks for P2P lending platforms could induce transformative changes, including market restructuring and closer collaboration between online lending platforms and traditional financial institutions. By examining the regulatory experiences of China and other jurisdictions, such as the United States, the United Kingdom, Hong Kong, and Japan, Huang's study analyzed how these frameworks balance the dual goals of fostering online lending market growth and ensuring financial consumer protection. While the frameworks are fundamentally sound, their effectiveness largely depends on the rigor and consistency of their implementation.

Suryono et al. (2019) highlighted that during the development of P2P lending platforms, China and several Asian countries have emerged as the largest markets for such platforms. However, this burgeoning industry faces ethical risks that require stringent oversight. These risks predominantly stem from inadequate verification of borrower information. In Indonesia, Fintech P2P lending has garnered significant attention due to the immaturity of its regulatory framework and policies. As an emerging industry, P2P lending necessitates further research to address its implementation challenges. Rosavina *et al.* (2019) investigated the factors influencing SMEs to utilize P2P lending platforms for obtaining loans. The study selected ten SMEs with diverse backgrounds in Bandung, Indonesia, as samples and employed semi-structured interviews to gather data. The findings identified key factors driving SMEs to secure loans through P2P lending platforms, including loan procedures, interest rates, loan costs, loan amounts, and the flexibility of loan terms. These factors significantly impact the willingness and ability of SMEs to adopt P2P lending as a financing solution.

2.3 Financial Risks and Illicit Activities Associated with P2P Lending Platforms

P2P lending platforms are inherently vulnerable to an array of financial risks, including credit, default, and operational risks. To mitigate these challenges, investors must rigorously evaluate and manage such risks, while platforms are obligated to implement robust risk management frameworks and continuous monitoring mechanisms. This ensures operations are conducted within a resilient and sustainable ecosystem. Simultaneously, regulatory authorities must strengthen oversight by instituting comprehensive rules and regulatory measures to protect the rights and interests of both investors and borrowers. Lee and Lee (2012) emphasized the rapid proliferation of online P2P marketplaces, noting that the majority of lenders in these environments are non-professional investors. Given the unsecured nature of P2P loans, lenders are exposed to substantial risks. While the P2P lending market exhibits certain parallels with other online markets regarding group behavior dynamics, it also encompasses distinctive characteristics that may obstruct such behaviors. Their empirical investigation into group dynamics within the P2P lending market identified paradoxical conditions and unique attributes inherent to this sector. The study provided compelling evidence of group behavior, with marginal effects diminishing progressively as the bidding process advanced.

Byanjankar *et al.* (2015) highlighted the substantial risks of investment failure inherent in P2P lending due to the lack of expertise in assessing borrowers' creditworthiness. Furthermore, the issues of information asymmetry, the unsecured nature of loans, and the absence of stringent rules and regulatory oversight exacerbate the credit risks associated with P2P lending. Their study proposed a credit scoring model based on artificial neural networks, demonstrating the model's effectiveness in identifying default-prone applications. Li *et al.* (2016) analyzed P2P lending platforms and their associated risks by examining and comparing datasets from successful and unsuccessful P2P companies. The findings revealed that an increase in registered capital corresponded to a reduction in the hazard ratio, whereas higher interest rates were associated with an increased hazard ratio. Hsueh and Kuo (2017) argued that in the absence of traditional financial institutions, P2P lending poses significant risk management challenges, including credit risk, operational risk, and market risk. Unfortunately, due to the rapid expansion of P2P lending and its operation outside conventional legal frameworks, there is insufficient regulatory oversight to protect unsecured personal loans. Their study examined the basic membership data and historical transactions of the well-known P2P lending platform Zopa, identifying associative rules between various variables through detailed analysis.

Using one of China's most notorious recent P2P lending scandals as a case study, Albrecht *et al.* (2017) meticulously detailed how investors were manipulated in a fraudulent scheme. The study revealed that while Ponzi schemes have existed for decades, fraudsters continue to innovate new strategies to exploit such schemes for manipulating and deceiving investors. In this case, the company employed audacious advertising campaigns and falsified appearances of success and governmental support to mislead and exploit a large number of vulnerable investors. Ding *et al.* (2021) examined the development of P2P lending in China and evaluated its future prospects. The study highlighted how the sector has long been plagued by deeply problematic and often fraudulent business models. Prior to 2015, the industry operated in a largely unregulated environment. A stringent new regulatory framework has since been introduced, including rigorous capital and registration requirements. While these measures aim to address systemic issues, they have significantly reduced the scale of the P2P lending sector in China.

Hsu *et al.* (2021) highlighted that during its early stages, China's P2P lending industry experienced rapid growth due to the financial constraints faced by small enterprises and individual consumers. Operating within a loosely regulated environment, the sector quickly expanded to fill unmet financial needs but simultaneously generated increasing risks and unsustainable business models.

While regulatory measures were gradually introduced, a significant regulatory overhaul occurred in 2018, mandating the registration of P2P platforms, followed by an industry-wide shutdown and consolidation in 2019. The experience of China's P2P lending sector underscores the critical importance of robust financial management expertise in assessing credit risks and mitigating operational vulnerabilities. Guo (2020) analyzed both traditional financial risks and information technology-related risks inherent to P2P lending platforms. The study noted that due to inadequate regulatory oversight, credit risks associated with P2P lending are inevitable. Using the regulation of P2P lending platforms by Indonesia's Financial Services Authority (OJK) as a case study, Suryono *et al.* (2021) identified illegal fintech lending activities occurring beyond OJK's jurisdiction and authority, including the collection and distribution of personal data without proper safeguards. Their research explored several issues, including public awareness of P2P lending, personal data protection, data fraud, illegal fintech lending practices, and the ethical considerations of product marketing.

3. Case Analysis

This study focuses on analyzing the financial fraud risks of Taiwan's P2P lending platforms and the regulatory measures undertaken by governmental agencies. A case study approach was adopted as the primary research method. The research begins by reviewing relevant academic literature and previous studies to identify the risk factors associated with P2P lending platform fraud and the corresponding regulatory policies. This step aims to uncover gaps in existing research and potential contributions to the field. Subsequently, the scope and methodology of the research were defined, including the selection of cases and the methods for collecting relevant data. Comparative analyses were conducted using multiple cases to enhance the reliability of the findings. Representative fraud cases involving P2P lending platforms were selected for in-depth analysis. Data such as news reports, documents, and investigative reports were collected to understand the background of the cases, the fraudulent methods employed, and the characteristics of affected investors. Detailed analysis and comparisons were performed on the selected cases to examine patterns of fraudulent behavior, variations in fraud techniques, and the characteristics of impacted investors. In parallel, the study evaluated the regulatory measures implemented by governmental agencies, focusing on their effectiveness, shortcomings, and areas for improvement. Finally, the research discusses potential solutions and recommendations aimed at mitigating fraud risks and strengthening regulatory oversight.

3.1 Case Study 1: A Taiwanese Businessman Caught in the Financial Turmoil of China's P2P Collapse

Following the 2008 financial crisis, P2P lending platforms in mainland China experienced a rapid surge, attracting significant participation from investors. These platforms promised high returns with low risks, drawing substantial amounts of capital from investors. By 2012, China witnessed an exponential growth in "FinTech innovation" startups, a trend that garnered widespread acclaim from Chinese media and markets. This phenomenon even impacted Taiwan's financial and digital technology sectors. However, as time progressed, cracks began to appear in the sector. Starting in 2017, a growing number of P2P platforms faced severe issues, including fraud, embezzlement, and collapse. One critical issue was the lack of stringent credit and risk assessments for borrowers, resulting in high-risk individuals gaining access to these platforms and significantly increasing the financial exposure of investors. Additionally, some P2P platform management teams engaged in fraudulent activities, including misappropriation of investor funds. These funds were often diverted for personal expenditures, high-risk investments, or used to pay returns to earlier investors, thus creating a classic Ponzi scheme. Market panic and subsequent bank runs further exacerbated the crisis, driving even previously stable platforms toward insolvency. Furthermore, many P2P platforms suffered from inadequate risk management practices and regulatory oversight. Regulatory authorities often lacked the capacity and frameworks necessary to monitor and mitigate risks effectively. This regulatory shortfall contributed to the inability to identify and address problems in a timely manner, thereby amplifying the severity of the financial crisis.

In 2018, China's online P2P lending market, recognized as the largest globally according to research institution statistics, achieved a production value of 1.3 trillion RMB and registered over 50 million users. By the end of July that year, the number of P2P platforms had reached 1,645, a stark contrast to the United States—a leading P2P market—which hosted only approximately 70 platforms, highlighting a difference exceeding twentyfold. As an emerging financial model, P2P lending platforms demonstrated unique advantages in information intermediation. These platforms were designed to serve as intermediaries connecting lenders and borrowers through accurate and transparent information, thereby reducing information asymmetry and offering investors more diversified options.

However, a significant number of P2P platforms deviated from their original role as information intermediaries and instead assumed the function of credit intermediaries, a shift identified as a key factor contributing to the widespread collapse of platforms. Information intermediation refers to the role of P2P platforms as neutral connectors, facilitating transactions by providing accurate information without taking on financial liabilities. In contrast, many P2P platforms, in addition to performing information intermediation, began offering guarantees such as risk protection, assurances of principal and interest returns, and buyback commitments in the event of borrower defaults. These guarantees essentially transformed the platforms into credit intermediaries rather than maintaining their role as true information intermediaries. The inability of many platforms to honor these guarantees led to a wave of closures, causing significant financial losses for investors. By operating in direct violation of their stated commitments, these platforms left investors in financially precarious and challenging circumstances.

From 2018 to 2019, the proliferation of these issues culminated in a financial crisis within China's P2P lending sector. Numerous platforms faced severe liquidity shortages, leaving investors unable to recover their principal and interest payments. This resulted in substantial financial losses for investors, eroded public confidence in P2P lending platforms, and disrupted the stability of the broader financial system. The causes of China's P2P lending crisis are multifaceted. During the initial rapid expansion of the P2P sector, regulatory oversight of this emerging industry was relatively weak. The absence of robust regulatory frameworks and corresponding legal provisions left significant vulnerabilities and risks unaddressed. Furthermore, as the market grew rapidly, the government's inability to adapt regulatory measures in a timely manner contributed to the accumulation of systemic risks. A prevalent operational model among many P2P lending platforms was the pooling of funds, wherein investor capital was aggregated and subsequently allocated to borrowers. However, this model often led to mismanagement and misuse of funds. Certain platforms diverted investor funds for unauthorized purposes, such as high-risk investments or personal expenditures, thereby exacerbating the risks faced by investors.

Due to inadequate credit assessments of borrowers by some P2P lending platforms, borrowers with poor repayment capacities were not effectively screened, leading to an accumulation of non-performing assets. Concurrently, weak risk management practices on these platforms failed to detect and mitigate risks in a timely manner, further amplifying financial vulnerabilities. In the early stages of P2P lending, certain platforms attracted a large number of investors by promising high returns. However, many investors lacked a thorough understanding of P2P lending platforms and exhibited low risk awareness. Driven by the pursuit of high returns, these investors overlooked the associated risks, resulting in significant financial losses during the financial turmoil. Additionally, issues of information asymmetry and lack of transparency were prevalent in some P2P lending platforms. Investors often faced difficulties in obtaining accurate information about platform operations and risk disclosures, preventing them from comprehensively evaluating the balance between returns and associated risks.

The eruption of the P2P lending financial crisis in China has had profound implications for Taiwanese businesses investing in the region. Many Taiwanese investors allocated capital to affected P2P lending platforms, exposing themselves to significant risks of investment losses. The collapse or fraudulent activities of these platforms have resulted in scenarios where Taiwanese investors are unable to recover their principal or interest. This financial upheaval has likely fractured the trust of Taiwanese businesses in China's financial system, fostering skepticism about the stability of its financial markets. As a consequence, Taiwanese investors may adopt a more cautious stance toward further investments or business expansions in China. For those who have incurred losses in P2P investments, financial strain could ensue, potentially impacting their operational viability and liquidity. Such circumstances might compel these businesses to explore alternative methods to offset losses or secure additional funding. In some cases, Taiwanese businesses may also face legal risks associated with the financial crisis. They may be required to initiate legal actions to safeguard their interests, participating in related litigation and legal processes. Furthermore, the Chinese government's intensified regulatory measures in the financial sector, including stricter scrutiny and oversight of Taiwanese business operations, could exacerbate the regulatory risks and increase compliance costs for Taiwanese enterprises operating in China.

To address the financial crisis in the P2P lending sector, the Chinese government intensified its regulatory oversight of P2P platforms beginning in 2018, implementing a series of comprehensive measures. The government enhanced the capacity of financial regulatory agencies by increasing human resources and professional expertise, thereby improving their ability to supervise P2P lending platforms. This effort included training regulatory personnel to better understand and manage the unique risks associated with P2P platforms. Stricter licensing and registration requirements were introduced, mandating that P2P platforms meet specific criteria, such as minimum capital requirements and robust risk management systems. Only platforms that satisfied these standards were granted licenses and registration, thereby reducing the prevalence of non-compliant entities.

The Chinese government also mandated the establishment of comprehensive risk assessment and monitoring mechanisms for P2P platforms. These mechanisms included credit evaluations and risk analyses for both borrowers and investors. Platforms were required to submit regular reports on their risk status and were subjected to close supervision and audits by regulatory authorities. Additionally, P2P platforms were obligated to provide extensive information disclosures, including details about their operational models, performance reports, and risk alerts. Such disclosures aimed to enable investors to better understand platform operations and associated risks, facilitating more informed investment decisions. Simultaneously, the government increased penalties for non-compliant platforms and strengthened the enforcement of relevant laws and regulations. These measures were designed to eliminate fraudulent platforms, safeguard the legitimate rights of investors, and ensure greater stability in the P2P lending sector.

3.2 Case Study 2: Fraudulent Debt Scheme in Taiwan's P2P Lending Platform

In 2023, Taiwan's online real estate lending platform, im.B, shocked society when its CEO was accused of absconding with investor funds, leaving over a thousand individuals defrauded. Preliminary estimates suggest financial losses totaling NT$2.5 billion. This case also highlighted coordination issues between Taiwan's judiciary and the Financial Supervisory Commission (FSC). Despite opportunities for investigation as early as 2017, regulatory and legal constraints, stemming from an official document issued by the FSC, prevented action against the platform. According to the Bureau of Investigation, im.B had been reported for irregularities seven years prior. However, the FSC issued a document asserting that im.B did not violate the Banking Act, effectively stalling any investigative efforts. The FSC later clarified the document's contents, stating that it did not explicitly confirm im.B's compliance with the Banking Act and invited judicial and investigative authorities to determine whether unlawful fundraising activities had occurred based on further inquiry. The im.B case has drawn significant public attention and raised questions about the effectiveness of financial regulatory enforcement. Many victims expressed that they had confidence in the platform's legitimacy and subsequently invested substantial sums, only to find themselves in financial turmoil. These individuals are now urging relevant authorities to expedite the recovery of misappropriated funds and hold the responsible parties legally accountable.

Judicial and investigative authorities will determine the extent of alleged illegal activities based on factual findings. This incident serves as a reminder for governments and regulatory authorities to strengthen oversight of online lending platforms, ensuring the protection of investor rights and maintaining financial market stability. As early as 2018, during the widespread collapse of P2P platforms in China, similar incidents emerged in Taiwan, where some P2P platforms abruptly shut down operations without prior notice. These events caused widespread panic among investors and prompted multiple members of parliament to call for comprehensive regulation of P2P platforms by the FSC. However, at the time, the FSC merely stated that it would conduct a thorough review, offering an ambiguous response on whether it would implement direct regulatory measures.

The FSC of Taiwan recently clarified that P2P lending platforms are classified as "information intermediaries," distinct from the "credit intermediary" role played by banks and the associated risks they bear. Unlike banks, which operate as credit intermediaries, P2P platforms are not subject to financial examinations, nor are they bound by requirements such as deposit reserves or capital adequacy ratios. This lack of regulatory oversight increases their susceptibility to insolvency risks. The FSC explained that, as credit intermediaries, banks offer depositors the advantage of focusing solely on interest rates when evaluating lending conditions, without needing to account for other factors. This is made possible because banks are regulated entities that must comply with requirements such as deposit reserves and capital adequacy ratios, while also undergoing financial examinations by supervisory authorities. These regulatory mechanisms enable banks to effectively fulfill their role as credit intermediaries. The FSC further highlighted four key risks associated with P2P lending platforms. First, there is a lack of familiarity between borrowers and lenders, making it difficult to assess default risks. Second, online P2P platforms are vulnerable to operational risks such as embezzlement, fraud, hacking, and data breaches, which can result in the theft of transaction records or the leakage of personal information. Third, P2P lending involves liquidity risks, as loan repayments are not guaranteed to be recoverable on demand. Finally, the inability to ensure loan recovery is one of the most common and significant risks faced by these platforms.

The FSC announced that to encourage collaboration between banks and P2P lending platforms, the Banking Association's self-regulation guidelines were officially recorded in December 2017. These guidelines outline multiple areas of cooperation, including the provision of fund custody services, financial transaction services, credit evaluation and scoring services, loan facilitation through the Peer-to-Bank model, advertising collaborations, and the safekeeping of debt-related documents. The FSC emphasized that opening these collaborative opportunities will enhance regulatory oversight of P2P lending platforms. This initiative aims to establish additional regulatory channels to ensure that the operations of P2P platforms comply with existing legal frameworks while safeguarding the rights and interests of investors. The FSC reiterated its commitment to working closely with relevant entities to strengthen oversight of P2P platforms, thereby maintaining financial system stability and fostering investor confidence. Furthermore, the FSC warned that any P2P lending platform collecting funds from the public under the pretense of "high-interest fake debt claims" for investment purposes may be in violation of Taiwan's Banking Act. However, the investigation and determination of criminal liability in such cases must be conducted by judicial and prosecutorial authorities based on the specific facts of each case.

In September 2018, the Central Bank of Taiwan published a report titled "Development Experiences and Lessons from Major Countries on P2P Lending", highlighting the risks associated with P2P lending platforms. These risks included default, platform collapses, fraud, information asymmetry, and liquidity issues. The report urged the government to implement "appropriate regulatory measures and risk mitigation strategies" to address these challenges effectively. The Central Bank's report emphasized that nearly all advanced economies require P2P platforms to undergo registration and approval processes. It also outlined various risk mitigation measures adopted by different countries. For instance, nations such as the United Kingdom, Australia, China, Japan, and South Korea mandate that client funds be held in segregated third-party accounts. Japan imposes stringent qualification requirements for P2P platform operators, while South Korea limits the annual investment amount that an individual investor can allocate to a single lending platform. Additionally, the report detailed regulatory practices in key jurisdictions, including the United Kingdom, the United States, Australia, China, Japan, and South Korea. It identified the primary regulatory authorities responsible for P2P platforms in each country: the Financial Conduct Authority (FCA) in the United Kingdom, the Securities and Exchange Commission (SEC) in the United States, the Australian Securities and Investments Commission (ASIC) in Australia, the China Banking and Insurance Regulatory Commission (CBIRC) in China, the Financial Services Agency (FSA) in Japan, and the Financial Services Commission (FSC) in South Korea.

Amid increasing scrutiny from several Taiwanese legislators, the FSC of Taiwan has maintained its position that P2P lending constitutes private lending activities and, as such, falls outside its regulatory purview. Similarly, other government departments, including the Ministry of Digital Affairs, the Ministry of Justice, and the Ministry of Economic Affairs, have also asserted that they are not the primary regulatory authority for P2P platforms. Despite the FSC's steadfast stance, legislators have continued to voice concerns regarding the lack of oversight for P2P lending platforms, urging the government to adopt a more proactive regulatory approach. Lawmakers argue that the financial risks and fraudulent practices associated with P2P platforms have had severe repercussions for investors and the broader financial system, necessitating stronger regulatory measures to safeguard investor interests. Additionally, several experts and academics have called for the government to promptly establish a comprehensive regulatory framework for P2P platforms to address existing issues. They emphasize that the operational model of P2P platforms differs significantly from traditional financial institutions, requiring tailored regulatory standards to ensure platform stability and the protection of investor rights.

In light of this context, the (FSC faces mounting pressure to enhance its regulatory oversight. Some observers contend that the FSC should reevaluate the existing legal and regulatory framework and strengthen collaboration with other relevant government agencies to address the risks and challenges posed by P2P lending platforms effectively. For the victims, there is an urgent call for the government to take swift action to hold those responsible accountable and to facilitate the restitution of their financial losses. Additionally, victims hope for stronger government regulation of P2P platforms to prevent the recurrence of similar incidents in the future. As pressure continues to build from both the legislature and the broader society, the Taiwanese government and the FSC will inevitably have to confront the risks and issues associated with P2P lending platforms. Proactive measures will be required to safeguard the stability of the financial system and protect the rights and interests of investors.

4. Discussion and Suggestions

4.1 Ponzi Scheme Fraud Traps in P2P Lending Platforms

In recent years, Ponzi scheme fraud traps associated with P2P lending platforms have garnered significant attention. This fraudulent practice involves perpetrators using fictitious loan projects or manipulating platform information to deceive investors into contributing funds for fraudulent purposes. Fraudsters often present borrowers on the platform as individuals with stable income and excellent credit backgrounds, promising high returns to lure investors into committing their capital. However, these projects are frequently fabricated, designed solely to attract investments without genuine underlying transactions. Platform information is often deliberately falsified, with forged borrower credit ratings, income details, or repayment plans being used to create the illusion of secure and credible investment opportunities. Investors, failing to meticulously verify the provided data, are highly susceptible to deception. Fraudsters frequently use the promise of high returns as bait, enticing investors to allocate substantial amounts of capital. Claims of low-risk investments or fixed high-interest rates often drive investors to recklessly pursue returns while neglecting associated risks. Furthermore, investors are often provided with counterfeit debt certification documents, such as loan agreements, receipts, or guarantees, to bolster their confidence and trust. These documents are typically meticulously forged, making it exceedingly difficult for investors to detect the fraud.

In numerous cases, platform risks and regulatory violations are deliberately concealed, including undisclosed financial issues, illegal activities, or improper internal management practices. Such lack of transparency makes it exceedingly difficult for investors to ascertain the platform's true condition, leaving them vulnerable to fraudulent schemes. A common fraudulent tactic employed by P2P lending platforms involves the creation of a fictitious "funding pool." In this scheme, fraudsters use new investors' capital to pay the principal and interest owed to earlier investors, thereby maintaining the illusion of platform stability and generating false returns. This deceptive practice not only misleads investors but also perpetuates the fraud until the scheme inevitably collapses.

Certain P2P lending platforms suffer from inadequate transparency and insufficient monitoring mechanisms, which hinder investors from accessing accurate information regarding platform operations and borrower profiles. This lack of transparency creates opportunities for fraudsters to exploit the system. Additionally, in some regions, regulatory frameworks and enforcement measures for P2P lending platforms remain underdeveloped and weakly enforced, further exacerbating the issue. Fraudsters may also establish counterfeit P2P lending platforms that simulate authentic investment environments. These fraudulent platforms generate fabricated transaction records and account balances, misleading investors into believing the platform is functioning normally. Consequently, unsuspecting investors are deceived and suffer financial losses. Moreover, fraudsters frequently employ social engineering and deceptive tactics to manipulate investors. By impersonating legitimate borrowers or investors, they cultivate trust-based relationships, which they subsequently exploit to perpetrate fraudulent schemes.

4.2 Reasons Why Investors Fall into P2P Lending Platform Fraud Traps

Investors' insufficient understanding of the operations and risks associated with P2P lending platforms renders them particularly vulnerable to fraudulent schemes. Lacking comprehensive knowledge of financial markets and investment products, some investors are easily swayed by false promises and the allure of high returns, leading them to make uninformed investment decisions without adequate professional advice or risk assessment. Many investors fail to recognize the inherent risks associated with high-yield investments, driven by greed or an overemphasis on profit potential while neglecting the associated dangers. Fraudsters exploit these tendencies by manipulating investors’ perceptions of risk and return, often leveraging their eagerness for quick profits to execute deceptive schemes. Fraudsters commonly employ sophisticated social engineering techniques, such as fabricating documents and creating false profit records, to gain investors’ trust. These meticulously designed scams often involve fictitious collaboration projects or guarantees of substantial returns, thereby enticing investors into fraudulent transactions. Moreover, some investors overly rely on information provided by P2P lending platforms without independently verifying its authenticity. Fraudsters capitalize on this by disseminating false disclosures to mislead investors into making misguided financial decisions. In certain cases, investors are influenced by recommendations or participation from friends and family, which fosters excessive trust in P2P lending platforms. This misplaced confidence, coupled with inadequate due diligence, creates fertile ground for fraudsters to exploit unsuspecting investors. P2P lending platforms are often plagued by inadequate regulatory frameworks and underdeveloped risk management mechanisms, creating fertile ground for fraudulent activities.

The absence of robust oversight and effective risk management systems provides fraudsters with opportunities to exploit vulnerabilities, thereby increasing the susceptibility of investors to deceptive schemes. Certain P2P platforms lack stringent identity verification and risk assessment protocols, enabling fraudsters to impersonate investors or borrowers to carry out fraudulent activities. Additionally, in some regions, regulatory and legal frameworks governing P2P lending platforms remain underdeveloped, allowing fraudulent actors to operate with relative impunity. The lack of effective regulatory authorities and legal protections further exacerbates the risks for investors, making it challenging to seek recourse and safeguard their rights, thereby amplifying the potential for fraud.

4.3 Establishing a Regulatory Framework for P2P Lending Platforms in Taiwan

The Taiwanese government should enact clear and comprehensive laws and regulations to govern the operations and regulatory requirements of P2P lending platforms. These legal frameworks should encompass licensing and registration requirements, operational restrictions, risk management mandates, and consumer protection measures. Such provisions will ensure that platforms operate within a legitimate, transparent, and sustainable framework. A dedicated regulatory authority should be established to oversee and monitor the operations of P2P lending platforms. This authority must be equipped with sufficient powers and resources to effectively execute its regulatory responsibilities, including licensing and registration reviews, risk monitoring, compliance inspections, and grievance resolution processes. The government must strengthen compliance audits and enforcement measures for P2P lending platforms. After obtaining the necessary licenses and registration, platforms should be subject to regular oversight and supervision by the regulatory authorities. The implementation of these regulatory measures will contribute to the establishment of a secure and reliable P2P lending ecosystem, protecting investor interests and fostering the healthy development of financial markets. The government, regulatory authorities, and platform operators must collaborate to ensure the regulatory framework for P2P lending platforms is robust and effective. Through collective efforts, a well-regulated and trustworthy environment for P2P lending can be achieved, safeguarding the interests of all stakeholders and enhancing market confidence.

The government should mandate P2P lending platforms to establish robust risk management and monitoring mechanisms. Platforms must conduct regular risk assessments and implement effective monitoring processes to identify and manage potential risks. Regulatory authorities may require platforms to submit detailed risk reports and operational data, as well as conduct on-site inspections and audits to ensure compliance. Comprehensive, accurate, and accessible information disclosure should also be a key requirement for P2P lending platforms. Platforms must transparently disclose their business models, financial status, borrower information, and risk assessment results. Such disclosures enhance transparency, enabling investors to better understand and evaluate the platforms' operational integrity and associated risks. Transparency and effective risk management are essential tools for safeguarding investor interests and ensuring the stability of financial markets. Governments and regulatory authorities must intensify oversight efforts to ensure that P2P lending platforms adhere to established regulations, providing investors with a secure and reliable investment environment.

Governments can mandate P2P lending platforms to establish a risk reserve fund designed to mitigate potential risks and losses. This fund would serve as a protective mechanism for investors, ensuring sufficient financial resources are available to address adverse events. Additionally, governments should facilitate collaboration and information-sharing among various regulatory agencies by establishing cross-institutional regulatory cooperation frameworks. Such mechanisms enhance regulatory efficiency and provide a comprehensive approach to addressing risks and fraudulent activities associated with P2P lending platforms. Collaboration among financial regulatory authorities, law enforcement agencies, and consumer protection organizations is imperative to combat illegal and fraudulent activities effectively. Governments should intensify enforcement measures against P2P platforms, imposing stringent penalties for violations and fraudulent practices. These measures may include financial fines, license revocations, and criminal prosecutions to deter and prevent unlawful conduct. A robust penalty system should be instituted to hold violators accountable and protect market integrity. Severe sanctions against non-compliance and fraudulent behavior, combined with enhanced enforcement efforts, will deter potential offenders and promote a safer, more reliable investment environment for all stakeholders.

Lastly, the government should enhance public awareness and educational initiatives targeting investors and borrowers to increase their understanding of the risks associated with P2P lending platforms and improve their vigilance. By organizing awareness campaigns, publishing educational materials, and offering training programs, the government can empower investors and borrowers to better comprehend the inherent risks and regulatory requirements of P2P lending platforms. This will enable them to make informed decisions regarding investments and borrowing activities.

5. Conclusion

This study has comprehensively examined the financial fraud and ethical risks faced by Taiwan's P2P lending platforms, alongside the role of governmental regulatory measures, culminating in a multi-dimensional analysis of conclusions and recommendations. With the rapid development of P2P lending platforms, significant operational vulnerabilities have been exposed, including fraudulent loan applications, falsified documentation, and the deliberate concealment of risks. These issues have not only inflicted financial losses on investors but have also undermined public trust in the broader financial market. Such challenges are not merely the result of operational failures by individual platforms but reflect systemic deficiencies in the regulatory framework and structural challenges within the market's developmental trajectory.

Governmental regulatory measures have, to some extent, enhanced the transparency of P2P lending platforms, encouraging the implementation of improved risk management practices and more comprehensive information disclosure. These efforts have positively contributed to the protection of investors' interests. However, existing regulatory mechanisms remain insufficient in several critical areas. Specifically, the lack of comprehensive and adaptive regulations tailored to the rapidly evolving financial technology sector, coupled with inadequate enforcement capabilities, has allowed certain platforms to exploit regulatory gaps and continue engaging in non-compliant activities. This regulatory shortfall further exacerbates the trust deficit within the market. Notably, Taiwan currently lacks dedicated legislation addressing the unique challenges of P2P lending platforms, leaving a significant void in the legal framework required to ensure market stability and investor protection.

Further considerations, cross-departmental collaboration and information sharing are pivotal in the regulatory oversight of P2P lending platforms. Financial regulatory authorities, law enforcement agencies, consumer protection institutions, and other relevant entities must work collaboratively to establish an integrated regulatory framework. Such collaboration not only enhances enforcement capabilities but also strengthens the capacity to anticipate and address financial fraud effectively. Technological innovation is a critical means of mitigating the financial risks associated with P2P lending platforms. Governments should actively promote the adoption of advanced technologies such as AI, blockchain, and big data analytics as vital tools for improving regulatory efficiency. AI can be employed to identify high-risk transactions through risk modeling and behavioral analysis, while blockchain enhances data transparency and ensures immutability. Big data analytics, on the other hand, facilitates the detection of potential fraudulent patterns, enabling early warning systems and rapid response mechanisms. Furthermore, the continuous updating and adaptability of regulatory policies are essential for addressing the dynamic nature of the financial technology landscape. Governments should regularly review and refine existing regulatory frameworks to ensure their alignment with the evolving demands of the market.

Concurrently, the establishment of feedback mechanisms and monitoring systems is crucial for dynamically adjusting regulatory strategies, thereby preventing policies from becoming outdated or ineffective.

International collaboration is a critical strategy for addressing the business ethics and financial fraud risks associated with P2P lending platforms, particularly in the context of globalization, where the rise in cross-border financial fraud poses unprecedented challenges to the regulatory systems of individual countries. The rapid development of financial technology and the cross-border nature of P2P lending activities have rendered domestic regulatory measures insufficient to effectively address these issues comprehensively. Consequently, Taiwan must actively engage in international regulatory cooperation, working in partnership with other nations and regional regulatory authorities to tackle these challenges collectively. International collaboration facilitates the establishment of harmonized regulatory standards. Through exchanges with global regulatory institutions, Taiwan can draw lessons from the successful regulatory practices of other countries, particularly in areas such as monitoring cross-border capital flows, enhancing transparency, and combating transnational fraud. Such standardized regulatory frameworks not only enhance the transparency and credibility of domestic markets but also reduce friction in cross-border regulatory efforts, thereby bolstering investor confidence. Financial fraud often involves multi-jurisdictional capital flows and complex cross-border financial transaction structures. Establishing an international information-sharing platform can enable regulatory authorities to swiftly track suspicious transaction activities and take timely action. By participating in international organizations, Taiwan can elevate its influence in the global financial regulatory landscape. This engagement not only fosters coordinated global regulatory efforts but also ensures that Taiwan maintains a voice and competitive edge in the international financial market.

Finally, enhancing public education is one of the most sustainable strategies for addressing the risks associated with P2P lending platforms. The government should organize awareness campaigns, publish educational materials, and provide investor training to improve the risk awareness and preventive capabilities of both investors and borrowers. Such efforts not only help investors make more informed investment decisions but also enhance societal understanding of and trust in financial technology. Addressing the financial risks posed by P2P lending platforms in Taiwan requires a concerted effort from the government, regulatory authorities, platform operators, and the public. The government must act across multiple dimensions, including legal frameworks, technological innovation, international cooperation, and public education, to establish a more stable, secure, and transparent financial environment. Only through such comprehensive measures can the healthy development of the P2P lending industry be ensured, achieving the dual objectives of investor protection and market stability.

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