



AN OVERVIEW STUDY ON P2P LENDING

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ABSTRACT: P2P lending is an alternative to traditional bank lending. Lenders and borrowers interact with one another in a particular website. P2P lending is a new concept in India. Traditionally, if a person required a loan, he had to go to a bank or similar financial institution to get the finance, person had to apply and wait for it to be approved by the banks and banks usually approve or reject the loan based on the applicant's repayment abilities. In today's globalized world, when a person requires funds he can turn to peer to peer lending and borrow money from another person. P2P lending is a type of debt financing without banking intermediation. At present, the entire gamut of P2P lending is handled by specialized online platforms that match lenders with borrowers based on their needs and demands. P2P lending promises higher returns for lenders as well as substantially lower interest rates for borrowers than traditional banking institutions. This paper attempts to study the procedure followed for P2P lending, list of top 10 P2P lending startups in India, the pros and cons of P2P lending and P2P lending market around the world and current status of P2P lending in India. The study is based on secondary data. The study found that, P2P lending has the potential to improve social welfare by conducting business at a lower cost. The study also found that, to start financial transactions, customer needs to either create a borrower or an investor account as per requirement.

KEY WORDS: P2P Lending, Banking, Features, Platforms.

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I. INTRODUCTION

P2P lending is an emerging internet based application where individuals can directly borrow money from each other. Peer to peer lending is the practice of lending money to individuals or businesses through online services that match lender directly with borrowers. In recent years, online P2P lending has developed rapidly in China. Online P2P lending is to borrow and lend on the internet and borrowers and lenders can use the internet platform to achieve online trading. It is considered to be a major innovation in the area of retail banking. In 2005, the first P2P lending platform in the world i.e. Zopa was launched in the United Kingdom. In China, online P2P lending platform first appeared in 2006. Since then more and more P2P lending platform has been created. At present the world's largest lending platform is Lending Club, which has totally accumulated about \$ 4.6 billion transactions. In the early days of P2P lending, it was regarded as a high risk high return investment way by investors. Government provides more and better supporting policies for the development of P2P lending. In these years, the number of P2P lending platforms as well as volume of transactions both has been steadily increasing. In today's networked economy, it is possible to run the largest taxi service in the world without owning a single cab, offer traveler's accommodation in a million rooms owned by other and broker billion worth of loans between those who want to lend and those who need to borrow.

P2P lending is a platform for customer loans by which connecting the borrower and the lender through the internet. The borrowers provide the information related to their personal and financial conditions, while the lenders assess the risk of the enterprise by themselves which later given the opportunity to choose their preference to be fund. The minimized barriers have increased the popularity of peer to peer lending as e-finance increases. Online sites like www.Indialends.com, www.i2ifunding.com and Fin tech Early Salary have started operations allowing the individuals to obtain loans or invest money through P2P lending without the intervention of banks and other financial institutions.

The online P2P lending refers to direct borrowing between individuals and individuals through the internet platform. The new lending mode breaks regional restrictions and meets more small businesses and individuals borrowing requirements. Peer to peer lending is an emerging financial market. The P2P lending is developing rapidly all over the world. The main difference between P2P lending and traditional bank is that, in the bank lending, each lender can not only obtain the loans information, but also evaluate the risk of bidding according to the borrower's social characteristic. Under P2P lending, an agent collects many borrowers and lenders, help users borrow money quickly. Online lending provides new financing channels for small, micro enterprises and individual borrowers. With the rapid development of online P2P lending market, more and more problems are encountered. The traditional bank lending industry is still in the stage of development, which is an industry with high risk.

II. OBJECTIVES OF THE STUDY

1. To study the procedure followed for P2P lending.
2. To study list of top 10 P2P lending startups in India.
3. To study the pros and cons of P2P lending.
4. To study P2P lending market around the world.

III. RESEARCH METHODOLOGY

The present study solemnly based on secondary data and the information collected from concerned sources as per need of the research. The required data has been extracted from the various sources like articles from relevant books, various journals, periodicals, magazines, government publications and the authenticated websites.

IV. REVIEW OF LITERATURE

- ✚ **Yesaya Eglesias Paulus (2018)** the article entitled "The Emergence of Peer-to-Peer Lending in Indonesia: A Study of Risk Management Analysis on Conventional Banking Companies". This study aims to understand peer-to-peer lending business in its comparison with conventional banking and to identify and analyze probable business risks in conventional banking companies regarding the emergence of peer-to-peer lending in Indonesia. The data is collected through questionnaires and from the websites of banking and peer-to-peer lending fin tech companies. The identified risk had analyzed using analytical hierarchy process to measure the importance of each risk. The study found that, peer-to-peer lending has some advantages over conventional banks by using a more advanced technology. The advantages are in terms of loan rate, lending rate, innovative features and service convenience.
- ✚ **Pushpa BV and Phani Satish (2016)** the article entitled "Prospects of Non Conventional Sources of Credit - A Case Study on Peer to Peer Lending in India". In this article an attempt has been made to study the ecosystem of peer to peer or market place lending today and the Indian scenario of peer to peer lending. The study found that, in peer to peer lending model, companies draw profit from servicing and late payment fees rather than from repayment of principle and the interest on loan.
- ✚ **GAO Ruiqiong FENG Junwen (2014)** the article entitled "An Overview Study on P2P Lending". This article gives an overview study on the research development of the P2P lending from the theoretical and empirical literature on P2P lending at home and abroad. The study found that, P2P lending provides not only a lending mode but also a new option for individuals, investors except for saving and traditional ways of investment.
- ✚ **Burkhardt Funk (2011)** the article entitled "Online Peer-to-Peer Lending-A Literature". This paper gives a brief overview of the P2P lending market and reviews the research on the determinants of P2P and differences between financial and demographic characteristics of the borrower. The study found that, online P2P lending has gained scientific relevance over the past years. The availability of data about markets and transactions allows researchers from different disciplines to investigate the various determinants that play a role in the process of funding.

V. PROCEDURE FOLLOWED FOR P2P LENDING

Customers need to register at the website to participate in any transaction. Registration is free for all users. To register, the customer has to fill in personal details and create a login id. As part of the registration process, email id and mobile number will be assigned a relationship manager and the customer will have access to more functionality. To start financial transactions, customer needs to either create a borrower or an investor account as per requirement.

- ❖ **Creation of Borrower Account:** To create a borrower account, the customer has to fill a simple and easy online form regarding loan requirement, personal details, employment history and financial details along with scanned self attested copies of the required documents. Customer may also opt to have a co-borrower

which might be helpful in getting faster loans at better rates. To increase chances of funding the consumer has to fill in optional fields as well.

- ❖ **Rate of Interest:** The website helps the borrower and the investors in setting the interest rate. Using the proprietary credit score model, it recommends an interest rate for each loan based on its credit risk. A borrower can borrow at an interest rate which is higher than or equal to this rate.
- ❖ **Listing Period:** The Company will verify the credentials of the parties after registration by the interested lenders and borrowers. Display the list of active investors who are willing to lend the money on the portal.
- ❖ **Post the Loan:** A borrower post the loan at an interest rate higher than or equal to the portal recommended interest rate. During the listing period, the borrower will have the option to increase the interest rate to provide higher returns to attract investors. Once interest rate has been increased the same rate will be applicable to the investors who have already made the commitment.
- ❖ **Creation of Investor Account:** To create an investor account the customer has to fill a simple and easy online form regarding investment requirement along with personal and employment details. Customer have to submit the scanned self attested copies of required documents to complete KYC requirements and then customers are ready to invest. After successful creation of investors account customer wallet will be activated along with customers' brief profile and investment preference.
- ❖ **Invest in a Loan:** An investor can commit to lend to a single or multiple borrowers. Before making the commitment key information of a borrower including his or her report will be available. Once the commitment has been made the investor will have access to further documents as uploaded by the borrower. Any time before deal closure the investor and the borrower can interact and clear their doubts through the portal messaging system.
- ❖ **Loan gets Funded:** To mitigate investment risks a loan is funded by multiple investors. All the investors for a particular loan will enjoy the same interest rate to avoid any speculation and should lead to the fair discovery of market based assessment of borrowers risk profile.
- ❖ **Physical verification and signing of a Legal Contract:** Once a loan is closed by the borrower, the portal could conduct physical verification of the borrower along with matching the uploaded documents with hard copy or ID proof. In case of any discrepancy the transaction will be cancelled along with severe penalty on the borrower, which would include barring him or her for carrying out any new transaction at the portal.
- ❖ **Receiving of Funds:** Once the loan has been closed requisite documents have been collected the verification process has been successfully completed and the loan agreement has been signed, investors are obligated to transfer the money to the Nodal Escrow Account for disbursal. Money from Nodal Escrow Account is transferred to the borrower's bank account on the next working day.
- ❖ **Repayment of EMIs and Loan Closure Certificate:** The repayment schedule is provided to the borrower. Any delay or default attracts severe penalty. The borrower may also prepay the loan without any pre payment charges. Once total loan amount has been repaid as per the given schedule, a loan closure certificate is issued to borrower.

VI. LIST OF TOP 10 P2P LENDING STARTUPS IN INDIA

According to a report by Boston Consulting Group (BGC) the fin tech space has witnessed an explosive growth in the recent years and digital lending industry is expected to touch \$1 trillion over the next five years. As the government is focusing on digitizing India, the number of online users in the country is set to grow creating a new market for the growing industry: Following are the top 10 P2P lending startups in India:

- **Faircent:** Is a Gurugram based P2P lending platform, founded by Nitin Gupta, Rajat Gandhi and Vinay Mathews in 2013. It is one of the first P2P lending platforms to start operations in the country. It connects the borrowers and lenders directly eliminating intermediaries to provide better rates for both. It last raised \$4 million in a series B funding from Muthoot Fincorp and Incofin Investment management in December, 2017.
- **Lendingkart:** Is an Ahmedabad based fin tech startup founded by Harshvardhan Lunia and Mukul Sachan in 2014. The startup uses data analysis to connect borrowers with lenders based on their credit worthiness to facilitate loans. This fin tech startup aims to enable SME's and other individuals by providing easy access to credit. The startup had last secured 300 crores in debt funding Aditya Birla Sun Life AMC and others in August, 2018.
- **Finzy:** Is a Bengaluru based P2P lending startup founded by Abhinandan Sangam, Amit More, Vishwas Dixit and Apoorv Gowde in 2016. It provides a digital platform to facilitate quick, easy and secure loans at personalized rates based on borrowers' capabilities. The startup recently raised \$1 million in its second round of pre series a funding in August, 2018.
- **i2i Funding:** Is a Noida based fin tech startup founded by Abhinav Johary, Manisha Bansal, Neha Aggarwal, Raghavendra Pratap Singh and Vaibha Pandey in 2015. It provides a platform for borrowers to

get loans at attractive rates along with high returns for the lenders. The startup had raised \$5 crores in seed funding from Sue SEED Venture Partners in May, 2018.

- **i-Lend:** Is a Hyderabad based P2P-NBFC platform founded by Mukesh Kothari, Niti Gupta and VVSSB in 2012. It provides an online marketplace connecting borrowers and lenders for loans. Borrowers can get attractive loans at 18-24% rates, while lenders can get high returns compared to a savings account and fixed deposits. The startup raised an undisclosed amount of seed funding from 50K ventures in May, 2017.
- **LenDenClub:** Is a Mumbai based P2P lending startup founded by Bhavin Patel and Dipesh Karki in 2015. It provides a technology led platform for borrowers to connect directly with lenders removing the intermediaries and cutting involved costs. The platform currently has more than 25,000 borrowers from over 7,500 lenders. The startup last raised \$500,000 from venture Catalyst and Anirudh Damani, MD of Arhta India Ventures.
- **PaisaDukan (BigWin Infotech):** Is a Mumbai based P2P lending startup founded by Rajiv Ranjan in 2018. It enables financial inclusion by providing a technology led platform to facilitate smooth and seamless loans between borrowers and lenders. Paisa Dukan is owned and operated by Big Win Info tech. The startup last rose to \$225,000 in seed funding in May, 2018.
- **RupeeCircle:** Is a Mumbai based fin tech startup founded by Ajit Kumar, Abhishek Gandhi, Ashish Mehta and Piyush Saurabh in January, 2018. It leverages cutting edge technology to provide cheaper interest rates on loans compared to traditional financial institutions. It also provides higher returns for the lenders by removing intermediaries. The startup had last raised \$4 crores in seed funding from Mahindra finance in July, 2018.
- **Monexo:** Is a Mumbai based P2P NBFC founded by M. Sundar, Mukesh Bubna and Sonal Bengani in 2014. It provides an online marketplace to facilitate peer to peer lending by bringing together borrowers and lenders. This P2P lending platform raised \$500,000 in seed funding in December, 2014.
- **Cashkumar:** Is a Bengaluru based fin tech startup founded by Dhiren Makhija, Kannana Kandappan and Yogesh Joshi in 2012. It uses various data points to ascertain the creditworthiness of the borrower to facilitate seamless loan ranging from 20,000 to 1 lakh, through low interest EMI's. The startup last raised 5 crores in seed funding from a clutch of investor including Vishal Sampat, Mohan Kumar and Operator VC in May, 2018.

Along with providing an affordable lending platform for the borrowers, the startups will also provide lucrative returns on lender's investments by removing any intermediaries. As the number of Indian online users increase, more fin tech startups are expected to leverage the growing opportunity.

VII. PROS AND CONS OF P2P LENDING

The process of P2P lending carries its own set of merits and demerits

★ For The Borrowers:

PROS	CONS
<ul style="list-style-type: none"> ❖ Lower interest rates and lack of collateral required for a loan. ❖ Online and paperless application. ❖ Fixed monthly payments. ❖ Credit requirements may be less strict than at a bank. ❖ No prepayment charges. ❖ P2P lenders may be more inclined in to invest in business ideas than banks. 	<ul style="list-style-type: none"> ❖ Lower loan amount as compared to a bank. ❖ Missed payments will hurt our credit score. ❖ Lower security than a bank. ❖ No uniformity when it comes to requirements, changes from lender to lender. ❖ Sometimes more borrowers than lenders.

★ For The Lenders:

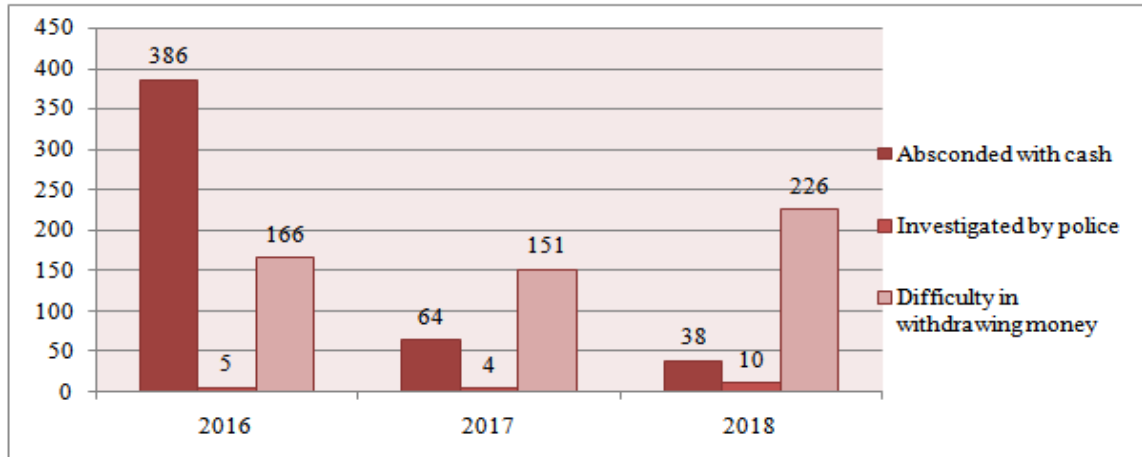
PROS	CONS
<ul style="list-style-type: none"> ❖ Potentially higher returns than savings and mutual funds. ❖ Receive monthly payments with interest. ❖ Diversify our risk across many different loans rather than making a single loan or investing only in stocks. 	<ul style="list-style-type: none"> ❖ Risk of losing our money if borrowers default. ❖ Less liquidity than stocks or bonds because of long time horizons. ❖ Lesser protection or regulation to prevent fraud delinquency.

VIII. MOST TROUBLED P2P PLATFORMS

Table1: Types of troubled P2P platforms

Particulars	2016	2017	2018
Absconded with cash	386	64	38
Investigated by police	5	4	10
Difficulty in withdrawing money	166	151	226

Source: Home of online lending

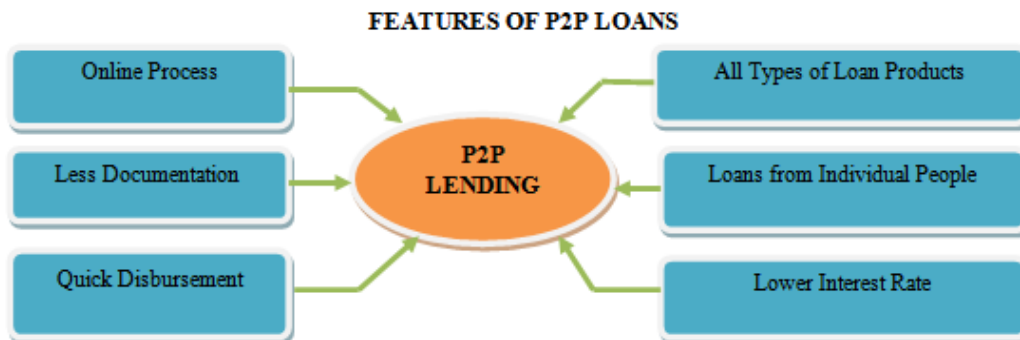


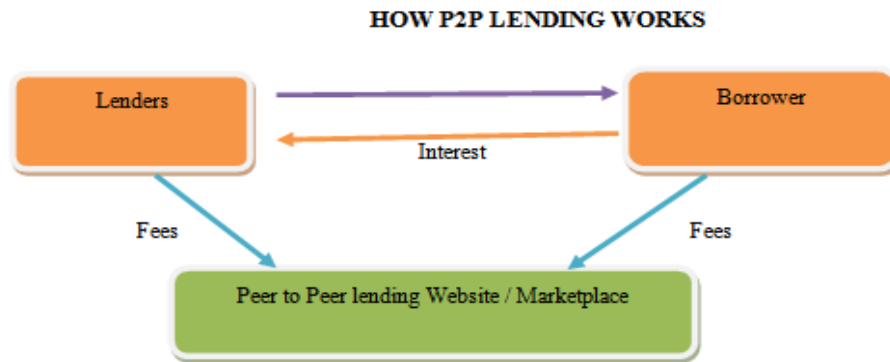
IX. P2P LENDING MARKET AROUND THE WORLD

COUNTRY	YEAR OF ORIGIN	LENDING PLATFORMS	MARKET SIZE	REGULATORY BODY
United Kingdom	2005	Zopa, Funding Circle, ThinCats, RateSetter, Lending Works	\$ 9.42 Bn	Financial Conduct Authority(FCA)
United States	2006	Prosper, Lending Club, OnDeck, Kabbage, LendUp, SoFi	\$ 32.8 Bn	Federal Regulation Securities and Exchange Commission (SEC)
China	2007	LuFax, WeLab, Ppdai.cn, Wokai (shutdown)	\$ 103.43 Bn	Unregulated – till sometime back Now- China Banking Regulatory Commission (CBRC)
Australia	2012	SocietyOne, Moneyplace, ThinCats Australia, RateSetter	\$ 22 Bn	Australian Credit Licence-mandatory
India	2012	I-Lend, Lendbox, Faicent, LendenClub, Rupaiya Exchange, Monexo, CapZest	\$ 4-\$5 Bn	Reserve Bank of India (RBI) – rules yet to be instated
Canada	2016	Lending Loop, lending Arch, FundThrough, Lendified, Vault Circle	NA	Canadian Securities Administrators (CSA)

X. CURRENT STATUS OF P2P LENDING IN INDIA

P2P lending is legal in India and in August 2017, the Reserve Bank of India has classified the entire Peer to peer lending sites under Non-Banking Financial Companies (NBFC). Currently, the P2P lending space in India has more than 30 players which include Faircent, i2iFunding, LenDenClub, LendBox, Monexo, IndiaMoneyMart, Rupaiya Exchange, LoanBaba, CapZest, and many others. P2P lending has been in India since 2014, but it gained momentum in 2016-17 due to the slowdown in the lending by most banks. The pricing of the loans is based on the risk quotient. For example: For a default rate of 2%, the lending rate will be somewhere around 12% to 15%, while for a default rate at 9% to 10%, the lending rate will be as high as 30% to 35%.





XI. FINDINGS OF THE STUDY

1. P2P lending has the potential to improve social welfare by conducting business at a lower cost.
2. Help to restore the close connection between the financial world and the real economy.
3. To start financial transactions, customer needs to either create a borrower or an investor account as per requirement.
4. Customers need to register at the website to participate in any transaction. Registration is free for all users.

XII. SUGGESTIONS

1. Publicity in electronic, print media and social media platforms about the process and procedure involved in P2P lending is launched.
2. Comprehensive training should be given to every staff members for implementation of P2P lending.
3. Introduce a onetime campaign to enable all the members to know the basic features of P2P lending.
4. Simple steps for administering the products should be provided for easy access for all the members.

XIII. CONCLUSION

A method of debt financing that enables individuals to borrow and lend money without the use of an official financial institution as an intermediary. P2P lending removes the middlemen from the process, but it also involves more time, effort and risk than the general brick and mortar lending scenarios. The merit of P2P to the lenders is that the loans generate income in the form of interest, which can often exceed the amount of interest that can be earned by traditional method i.e. Bank lending. P2P lending is direct lending between lenders and borrowers online without using traditional financial intermediaries like banks. P2P lending works best for early stage startups and entrepreneurs who need to kick start their business. These businesses usually seek seed or venture funding to acquire the cash to get started. Getting a loan from a bank demands higher interest rate and collateral. This is where alternative modes of lending like P2P come to play. Entrepreneurs can borrow smaller amounts of money from individuals with ease. P2P lending will emerge as the most prominent alternative investment opportunity.

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