



THE FASTEST GROWING ALTERNATIVE FINANCE ACTING AS A MAKESHIFT: THE P2P LENDING

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Abstracts:

Money circulation forms the widespread market of the world today. Where financial institutions are certainly the spine of present economic system, there still is a gap between the loan seekers and the loan providers. Sometimes banks are unable to reach each corner of the country and the other times, the extensively lengthy process of loan application becomes lethargic. Evidences of financial illiteracy and financial inclusion are visible, where a large portion of India's population are unbanked or underbanked. Molding into the vacant space, Peer to Peer (P2P) lending concept emerged. P2P Websites or platforms were constructed offering public an open space to negotiate and lend their money to fellow Indians. These websites act as mediators in the loan process. In a way P2P lending could also be named as 'public to public' because it originates as a replica of banking system among the people. In this paper, the researcher aspires to acknowledge the need and role of P2P lending and narrate this current concept in greater detail. The study is exploratory in nature and based on secondary data. The study derives the good creditability of P2P lending system as it has received green signal from the regulating authorities. It's success ladder is constructing exponentially as we see that P2P lending has struck it's claws in Mumbai and is rapidly spreading it wings in India.

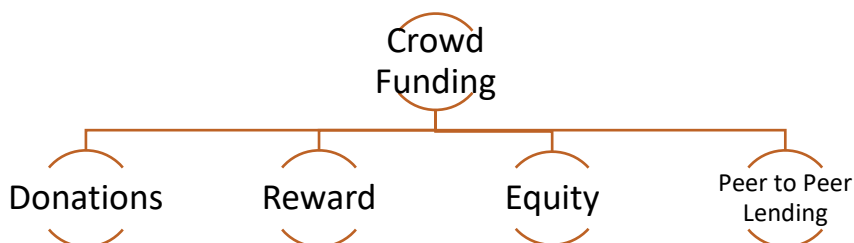
Key Words: P2P websites, Peer to Peer Lending, crowdfunding, crowd Lending

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Introduction:

Also known as "Crowd Lending" or "Social Lending has existed since 2005. Peer-to-Peer lending allows the individuals to procure loans directly from other individual thus eliminating all the financial institutions as middleman. It is an alternative approach of financing and there is website that facilitate P2P lending on a wide scale now. Peer to Peer websites enables the individual and small enterprises to lend out money to other persons or small business without using a bank as intermediary.

Amongst other crowdfunding, peer to peer lending is the most popular type, wherein a small amount of funds is collected from the individuals in a crowd, over the internet and provides larger finance together to businesses and individuals. The different modes of crowdfunding are displayed in the chart below.



History of Peer-to-Peer (P2P) Lending:

This concept started in UK in 2005. Zopa was the first site for P2P lending. In India Faircent, a Gurgaon based company, has the credit of being the first of such website launched in 2013. In the earlier times P2P lending emerged as a way to offer credit to those who were refused by conventional institutions. Then it was used to consolidate student loan debt at a favorable interest rate.

In the present time, however, the scenarios of P2P lending platforms have changed and expanded. Now they target customers who are looking for finances to pay off credit card debt at lower rate of interest, loans for home improvement, auto loans and such other purposes.

Review of Literature:

(Sharar 2021) attempts to analyze the reasons for loan performance in P2P lending. The study concludes that the lenders assume the risk involved and they suffer from information asymmetry since the entire dealing is online without each party knowing or seeing each other. To overcome this difficulty many P2P lending sites have come up with credit grading and has helped in instilling trust in the minds of the investor.

(Shabeen A. Basha, Mohammed M. Elgammal 2021) has conducted extensive review of literature from 2008 to 2020 and it surfaced that past researches on P2P lending were focused towards China and US highlighting the factors of funding success and attributes of loan, whereas, recent study concentrates on using logit, survival methods and extensive application of artificial Intelligence by the P2P companies.

(Khatri 2019) proclaims that P2P lending is catering to the financial needs of the weaker and the unorganized section of the society. The study surfaced that the default risk is on the lender only for the P2P lending sites only assess the creditworthiness of the borrowers and does not give any guarantee for the repayment of the loan amount.

(Asmy et al. 2019) examines the elements that influence the investors' behavioral intention to opt to invest in P2P lending in Malaysia. The outcome to the analysis show that invest decision is influenced mainly by trust. But perceived risk, security, easy usage has no impact on the intention to invest.

(Suryono, Purwandari, and Budi 2019) has questioned about the safety and security of this financial technological model P2P lending. China having the most of the P2P platforms, has raised the need for close monitoring as verification of the loan seeker's data is not proper and satisfactory. The study further states that even Indonesian Government is now paying special attention to this matter. Problems are identified and solution, technical and non-technical are suggested related to P2P lending.

(Lenz 2016) states that P2P is an online financial intermediation which is changing the face of the operations of



present age-old banking system. The study stresses that unlike the traditional banks, who records them in their balance sheet, these platforms do not take the risks but pass it on to their users.

(Wang et al. 2015) the author has discussed the various P2P lending models and a comparison about the loan process of P2P platforms with the regular traditional banks is undertaken. The overall conclusion drawn from the study is that the information flow and transparency is more in P2P lending than the conventional mode of borrowing loans. Also, quite different credit auction method having great reliance on information and decision model is used in P2P lending system. However, post-loan records are missing and so loan management remains incomplete in this P2P lending.

Objective of the study:

1. To understand the concept of Peer to Peer lending in detail.
2. To understand the entire P2P Lending Process including from obtaining license from RBI and how to extend and secure loan through these platforms.
3. To know the present and future scenario of P2P Platforms in India.

Research Methodology:

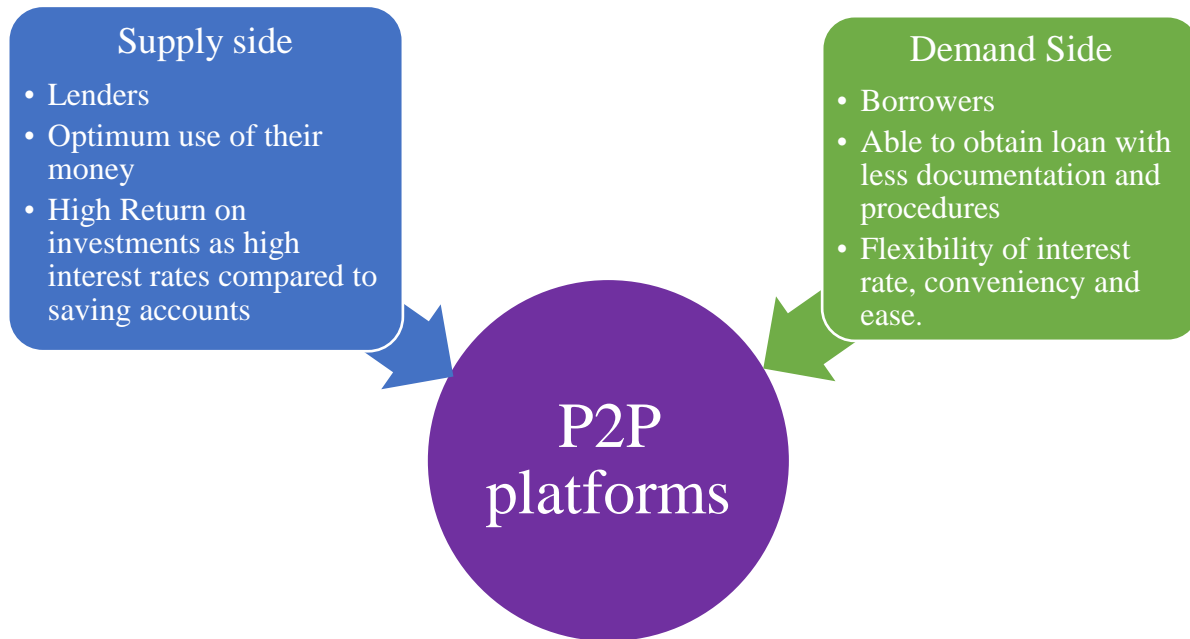
The study is based on secondary data and this exploratory paper attempts to explain in detail the process of P2P lending and the different aspects of regulations notified by the RBI and Indian Government. It also throws light on the projected growth of P2P lending in India in the near future.

Understanding Peer-to-Peer Lending:

In this method of lending the borrowers and lenders are connected directly through P2P websites. The interest rates vary according to the creditworthiness of the applicant. The procedure is explained below:

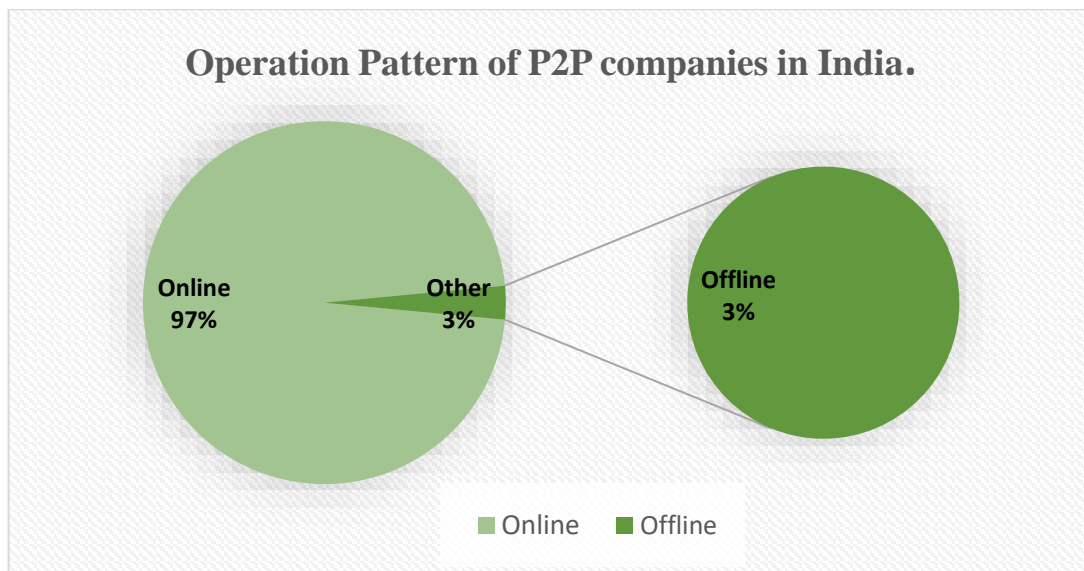
1. An account is opened by the investor with the P2P website and deposits an amount that is to be utilized as loan.
2. A financial profile is posted by the loan applicant in which the risk category is stated. Interest rate is decided on the basis of this category.
3. The person seeking loan reviews the different offers and then accepts one out the many options available.
4. The loan amount that is transferred and the monthly EMI are all executed and handled by the P2P website.
5. The process can be fully automated or both the parties the lender and the borrower can haggle and finalize the deal.

There are different P2P websites or platforms that take advantage of the demand and supply of finance market. Specialized P2P websites like those designed for small businesses, some for big business and some are for “Patient Solution” like the Lending Club, linking doctors with the prospective patients and likewise. Many P2P sites are public companies, where the investor can also invest in them through buying their stock.



Operation Pattern of P2P companies in India.

P2P lending can be carried on online as well in physical form that is offline. However, online mode of operation is anticipated to hold up to 97% share of the entire lending market as shown in the pie chart below.



Making use of the modern technology, these fintech firms make sure that the overhead costs are reduced to the minimum as there is no requirement of physical offices and staffs. This in turns benefits both the company and the borrowers. Also operating online enables faster loans processing than the traditional channels followed by banks and other financial institutions. According to Cambridge Centre for Alternative Finance, this industry has grown to \$ 364 Billion in 2019 as against \$11 Billion in 2013.



Is Peer-to-Peer Lending (P2P) Safe?

P2P lending is a risky affair as it is riskier than the savings account or say even the certificate of deposit. But investors are willing to bear this risk as the interest rates are much higher than the interest rates earned while parking their money in banks or any other financial institutions.

RBI Regulations regarding P2P Lending:

In India P2P lending is supervised by the Master Directions for NBFC Peer to Peer Lending Platform as issued by RBI in 2017. Accordingly, only an NBFC can register as a P2P lender with the permission of RBI, and that every lender should obtain a certificate of registration from the RBI as per the publication of 12-Oct-2021.

The procedure to get P2P Lending License from RBI.

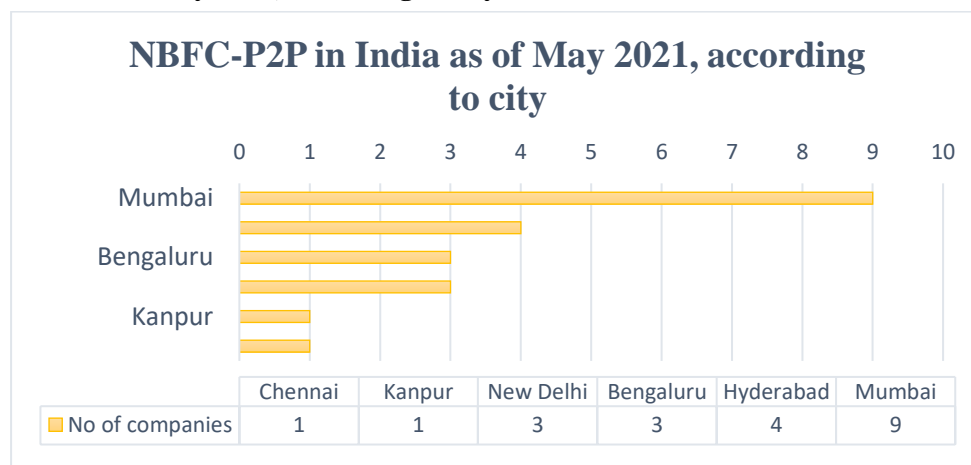
1. Form a company with minimum net owned fund of Rs.2 crores.
2. Apply online for Certificate of Registration or License from RBI and submit this physical copy with other relevant documents to the Regional Office of the RBI.
3. RBI shall examine the submitted application and may demand additional documents and clarifications in order to issue the Certificate of Registration to carry on the business.
4. Choosing of a domain name. The name should be easy to remember by the potential customers.
5. Setting up of Peer to Peer Lending software.
6. Use Advertisement to attract customers and getting established in the market.

RBI has published a consultation paper and final guidelines in 2017 on P2P lending. As of 2016, there were 30 P2P lending companies in India and they are helping a large number of borrowers whose previous application for loan have been rejected by the banks. By August 31, 2019, there were 19 companies who were granted license by the RBI.

As of May 2021, the RBI has registered 21 NBFC to run P2P platforms. Out of the 21 such companies, 9 are placed and operating in Mumbai. Thus Mumbai was declared as the P2P hub of India that year.

According to a report declared by Statista as on 26 April, 2022 there were 21 Non-Banking Financial Companies in India licensed by RBI in India up till May 2021.

NBFC-P2P in India as of May 2021, according to city:



Source: Statista



A summarized information about India's few of the top P2P companies:

Sr.No.	Company	Date of Establishment	Founder / Area of specialization	Location
1.	Lendbox	2015	Ekmeet Singh / Personal Loan sector	New Delhi
2.	Faircent	2013	Rajat Gandhi / credit to all specially to MSME segment	Gurgaon
3.	Lendingkart	2014	Harshvardhan Lunia and Mukul Sachan./ AI-based FinTech startups	Ahmedabad
4.	LenDenClub	2015	Bhavin Patel and Dipesh Karki./ technology-driven platform	Mumbai
5.	RupeeCircle	2018	Ajit Kumar, Abhishek Gandhi, Ashish Mehta, and Piyush Saurabh/ AI-based FinTech startup	Mumbai
6.	Capital Float	2013	Gaurav Hinduja and Sashank Rishyasringa / Buy Now Pay Later credit	Bengaluru

Future of P2P Lending Market

The market size of P2P lending business in India is estimated to reach \$ 10.5 Billion by 2026, as the CAGR is having been forecast at 21.6% for the period of 2021-2026. The attributes responsible for this growth is transparency in Lending, use of block chain technologies, smart contracts that are incorporated in these lending platforms, the motive of India being cashless economy and promotion of 'Digital India' by the Indian Government. According to the reports of Precedence Research the global P2P market was \$ 83.79 Billion in 2021 which is estimated to reach \$705.81 Billion by 2031.

The founder and CEO of the top P2P platform Faircent, Mr. Rajat Gandhi, in an interaction with one of the leading new channel, stated that "P2P industry is likely to reach Rs.7000 –Rs.8000 crore or at least Rs.5000 crores in gross loan volume by the end of 2022. After this growth it is still estimated to touch Rs. 10,000 – Rs. 12,000 Crore in the coming years". Thus these P2P sites will continue to expand as a viable investment alternative for people with more checks in place and better returns.

Conclusion

The enthusiastic support and promotion of the Indian Government along with RBI has aided in the growth of P2P lending companies. It has disrupted the long-held monopoly of the regular brick- and-mortar banks as well other such traditional institutions who follow the protocol while extending loans to the needy borrowers.

P2P is a unique model because it is based on the online, digital operations, which is the need of the hour, where the investors and loan providers provide loans to the loan seekers in a quick, economical and efficient manner. P2P Lending has managed to overcome almost all the loopholes in the traditional credit system.

The modern market today is inclining slowly and steadily towards the P2P lending system due to its customer to customer approach. Thus, P2P lending serves as a catalyst in circulating the money in the economy as it enables the exchange of money hand to hand.

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