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P2P LENDING AS AN ALTERNATIVE TO BANK LENDING

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ABSTRACT
In today's globalized world, when a person requires funds he can turn to peer to peer lending and borrow money from another person. Peer to peer lending is a platform for customer loans by which connecting the borrower and the lender through the internet. 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. Banks usually approve or reject loan, based on the applicant's repayment abilities. A person was judged depending on how much he made and what is his financial strength. The unique feature of P2P lending is that companies providing P2P lending operate online and therefore; they can provide these financial services at a cheaper rate as compared to banks. This paper attempts to study types of loans available through P2P lending, the best P2P Lenders – January 2021, the historical developments in global P2P lending funding volumes, steps in P2P lending, benefits of P2P lending to investors or lenders, Borrowers, the role of P2P lending intermediaries and how does it work. The study is based on secondary data. The study found that, Online P2P lending platforms are offering substantially higher rates of return on various investment opportunities as compared to traditional or conventional models banking.
Key Words: *P2P Lending, Intermediaries.*

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I. INTRODUCTION

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. 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.

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.

Peer-to-Peer (P2P) lending can be described as a type of debt-based crowd funding facilitated by online P2P lending platforms that connect borrowers and lenders by circumventing conventional loan processes, requirements, and intermediaries. The P2P lending market is showing impressive growth rates all over the world and provides much-needed finance to both startups and more established businesses. For investors, P2P lending offers the opportunity to receive stable returns in the form of frequent interest payments, why it can be a great supplement to more traditional asset classes like bonds and stocks. So far, P2P lending is still viewed as an alternative investment but with low interest rates on savings accounts as far as the eye can see, it is likely to develop into an essential part of a diversified investment portfolio.

P2P lending will have more business opportunities to grow as companies engaged in this new alternative source of finance will operate online and provide financial services at a cheaper rate due to low overheads. Such companies offer mostly unsecured loans to small borrowers and that too meeting personal credit requirement. Majority of them are those whose loan requests are rejected by banks. Appreciating the unique features of P2P lending and growing demand for it in India, the RBI, since 2016, has been regulating NBFC-P2P lending platforms to protect the interest of lenders and borrowers. While both borrowers and lenders benefitted from this new line of activity, the risk involved in it is high since P2P lending is totally technology driven and loans are mostly unsecured and low rated.

II. OBJECTIVES OF THE STUDY

1. To study the types of loans available through P2P lending.
2. To study the best P2P Lenders – January 2021.
3. To study the historical developments in global P2P lending funding volumes.
4. To study the steps in P2P lending.
5. To study the benefits of P2P lending to investors or lenders, Borrowers.
6. To study the role of P2P lending intermediaries and how does it work.

III. RESEARCH METHODOLOGY

The study is based on secondary data. The required data has been extracted from the various sources like research journals, periodicals, magazines, newspapers articles, government publications and the authenticated websites.

IV. REVIEW OF LITERATURE

❖ **Ryan Randy Suryono, Betty Purwandari and Indra Budi (2019)** the article entitled “Peer to Peer (P2P) Lending Problems and Potential Solutions: A Systematic Literature Review”. This study aims to identify problems in P2P Lending and present alternative technical and non-technical solutions to the problems. By implementing the Kitchenham Systematic Literature Review (SLR) approach from the ACM, AIS, IEEE, SCOPUS, and Science Direct databases, this research finds a rich picture, creates a table of problem identification and alternative solutions.

❖ **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 (AHP) 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.

❖ **Anna Eugenia Omarini (2018)** the article entitled “Peer-to-Peer Lending: Business Model Analysis and the Platform Dilemma”. The aim of the paper is to investigate the P2P outlining the importance of being a platform business model. Online peer-to-peer lending is a growing industry with huge potential for capturing customers from mainstream financial institutions and therefore setting a new standard for loan requests and for creating an additional investment opportunity. To get some benefits from this growth, companies operating in this industry should develop a resilient business model that aims at attracting the greatest number of lenders out of the whole lenders’ population and the greatest number or borrowers out of the whole borrowers’ population.

❖ **Yuejin Zhang, HaifengaLi, Mo Hai, Jiaxuanli and AihualiLi (2017)** the article entitled “Determinants of loan funded successful in online P2P Lending”. In this article, an empirical study was conducted by using public data set from Paipaidai, the largest online P2P lending in China. We analyze the factors that determine the probability of obtaining the loan in online P2P lending. The result indicates that annual interest rate, repayment period, description, credit grade, successful loan number, failed loan number, gender, and borrowed credit score are significant factors to loan funded successful on Paipaidai platform.

V. TYPES OF LOANS AVAILABLE THROUGH P2P LENDING

P2P loans can be used for many of the same purposes as personal loans. Here are a few of the loan types you may find on popular P2P websites.

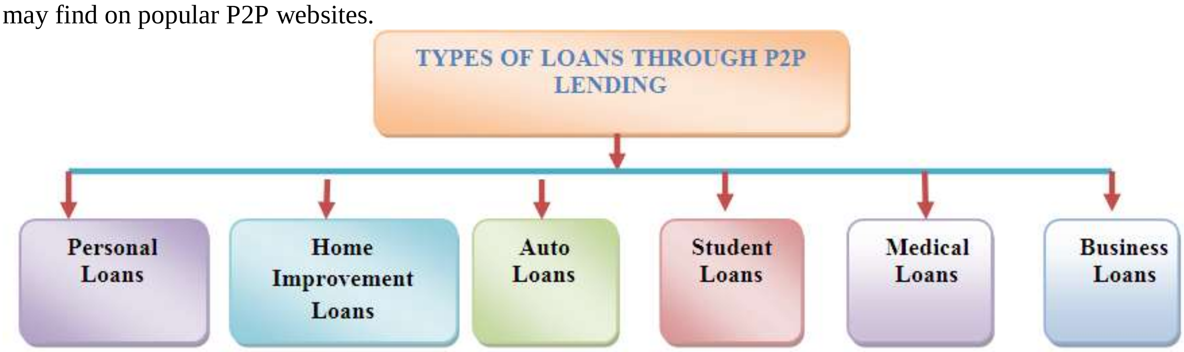


Table 1: BEST P2P LENDERS – JANUARY 2021

Lender	Best For	APR Range	Minimum Loan Amount	Maximum Loan Amount	Terms	Recommended Credit Score
Peerform	Best Rates	5.99%–29.99%	$4,000	$25,000	3 or 5 years	600+
Lending Club	Best for Fair Credit	10.68%–35.89%	$1,000	$40,000	36 or 60 months	600+
Upstart	Best for Limited Credit History	8.41%–35.99%	$1,000	$50,000	3 or 5 years	600+
Prosper	Best for Established Credit History	7.95%–35.99%	$2,000	$40,000	3 or 5 years	640+
Funding Circle	Best for Small Businesses	11.29%–30.12%	$25,000	$500,000	6 months–5 years	660+
Payoff	Best for Fair Credit	5.99%–24.99%	$5,000	$40,000	24–60 months	640+

VI. HISTORICAL DEVELOPMENTS IN GLOBAL P2P LENDING FUNDING VOLUMES

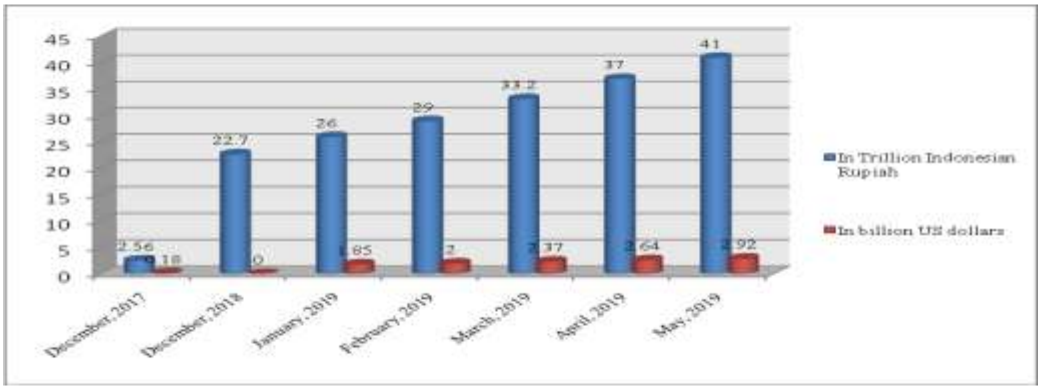
Looking at the global P2P lending market volume we find a market that experienced its first every year-on-year decrease after having developed rapidly since 2013. However, as explained above, the data set is skewed by the large weight of China, which means that even though the total global market dropped in 2018, all other regions continued their growth. It is again important to keep in mind that insecurities in the numbers used can have a great impact on the actual market size. However, the numbers presented here are the best estimate we have.

Data collection by the CCAF started in 2011 in the UK, and in 2012 the European market was included as well. In 2013, all regions of the world were covered for the first time. To have the best possible basis for making predictions for the global P2P lending market and compare regional differences, we will, therefore, begin our data series with the numbers from 2013. Below, you will find the figure "Global P2P Lending Market 2013-2018 in billion USD ($)" that will give you an overview of both the regional development and the overall market size in terms of funding volume.

Table 2: TOTAL P2P LENDING

Period	In Trillion Indonesian Rupiah	In billion US dollars
December, 2017	2.56	0.18
December, 2018	22.7	1.62.
January, 2019	26.0	1.85
February, 2019	29.0	2.00
March, 2019	33.2	2.37
April, 2019	37.0	2.64
May, 2019	41.0	2.92

Source: OJK



VII. STEPS IN P2P LENDING

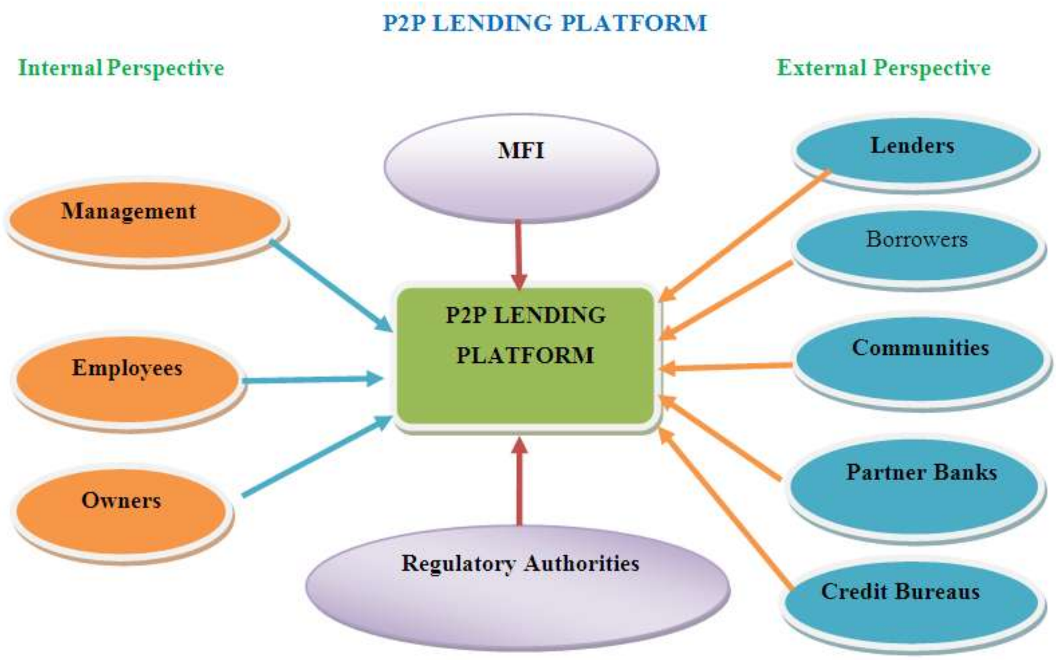
- Register and create a profile of borrowers and lenders.
- Upload documents.
- Comply with KYC requirements and carry out risk assessment through a credit scoring model.
- Understand the loan requirements of borrowers.
- E-connect the lender or investor with the borrowers.
- Get documents including loan agreements executed?
- Ensure that funds from the lenders account get directly transferred to the borrowers account.
- Confirm whether loan repayments are made as agreed upon.
- Close the loan account.

VIII. BENEFITS OF P2P LENDING TO INVESTORS OR LENDERS

- Higher rate of return than interest on bank deposits.
- Selection from the high quality borrowers of the lenders choice.
- Minimizing risk through credit scoring model and compliance of the diligence.
- Simple and convenient online process.
- Wider geographical area to reach.
- Dependable support system.
- Regular Monthly EMI.
- Safe P2P lending is legal

IX. BENEFITS OF P2P LENDING TO BORROWERS

- ✓ The lower interest rate for high quality borrowers.
- ✓ No collateral securities.
- ✓ Simple documentation and faster disbursement.
- ✓ Online operations.
- ✓ No pre payment charges.
- ✓ Loan available for all purposes.
- ✓ Secured P2P lending platform.



X. ROLE OF P2P LENDING INTERMEDIARIES

- Online investment platform to enable borrowers to attract lenders and investors to identify and receive loans that meet their investment criteria.
- Development of credit models for loan approvals and pricing.
- Verifying the borrowers’ identity and other details like bank account, employment, income etc.

- Performing the borrower's credit checks and filtering out the unqualified borrowers.
- Processing payments from borrowers and forwarding them to the lenders who are interested to lend.
- Servicing loans, collecting payments from borrowers who are in default, complying with legal formalities and reporting.
- Finding out new lenders and borrowers on a regular basis.

XI. HOW DOES P2P WORK?

- The platform provides assistance to the public by giving out a list of lenders and their respective terms and conditions.
- The process begins by people signing up to the various lending platforms like Peer Lend as a borrower or as a lender.
- A borrower submits an application for availing a loan along with his details and KYC documents.
- The platform then identifies the credit worthiness of the said borrower. A credit check is conducted to identify the risk involved in investing in a particular borrower and this further determines the rate of interest.
- The profiles of the borrowers are seen by various lenders. They then review these profiles and can ask further questions before deciding whether to invest in them or not.
- Such platforms allow lenders to directly lend to other people by having them register and providing their ID and address proof.
- Once the loan offered by the lender is accepted by the borrower, the platform then proceeds on preparing a loan agreement document which is signed by both the parties.
- Subsequently, the lender makes an online payment of the loan amount and the borrower pays back to the lender online in equated monthly installments.
- Both the lenders and the borrowers subsequently pay an amount as commission to the platform for the said services it provides.

XII. WORKING OF P2P LENDING

XIII. FINDINGS OF THE STUDY

1. Online P2P lending platforms are offering substantially higher rates of return on various investment opportunities as compared to traditional or conventional models banking.
2. P2P lending is emerging as a lucrative asset and a phenomenal source of alternate demand for P2P lending.
3. P2P platforms contribute towards financial inclusion only in a limited sense by providing unsecured loans to those who do not get elsewhere.
4. P2P lending intermediaries would be a competitor to banks in regard the financing of small borrowers.

XIV. SUGGESTIONS

1. A simplified version of recovery agency like Lok Adalat shall be used to tackle default under P2P lending.
2. The P2P lenders may join the process of resolution under insolvency and bankruptcy code (IBC) as and when the same for individual and proprietorship is notified.
3. Simple steps for administering the products should be provided for easy access for all the members.
4. Comprehensive training should be given to every staff members for implementation of P2P lending.
5. Publicity about the process and procedure involved in P2P lending.

XV. CONCLUSION

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 online P2P lending company, Zopa, was launched in the United Kingdom. Web-based financial intermediation on a peer-to-peer (P2P) basis will eventually prevail as an economically superior form of organization compared to the traditional banking business model. P2P lending is the most popular type of crowd funding, whereby an internet platform collects small amounts of funds from individuals in a crowd to finance collectively a larger loan to individuals or businesses. 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.

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