Emergence of Peer-to-Peer Lending Platforms in India - A Conceptual Framework

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Abstract
Peer-to-Peer (P2P) lending platforms have been increasing their landscape in India. There are large number of individuals, and business owners moving towards these platforms. Also, the lenders are also looking at alternative ways to earn higher interests. Hence, Peer-to-Peer platforms is becoming one of such options. As there are scant studies on the Peer-to-Peer (P2P) lending platforms in Indian context. Hence, the present study fills this gap and throws light on the emergence of peer-to-peer lending platforms in India.

Keywords: Peer to Peer lending, Interest rates, Risk, Economy.

Introduction

Peer-to-Peer (P2P) lending has spring up finance in a new direction as transformative force, revolutionizing the way individuals and businesses access funding.

Peer-to-Peer (P2P) lending has gained huge popularity in the last decade, all over the world and also in India. It provides an alternative option to both lenders who are seeking investment opportunities and borrowers who are seeking money. (Bholane, 7 feb 2024).

P2P lending services provide investors the chance to diversify their portfolios and make excellent returns, in addition to providing an alternate source of funding. As a result, the sector gaining more popularity in the recent times grew, drawing in investors and borrowers who wanted more flexibility and openness in the financing procedure.

This creative concept, which is frequently made possible by internet platforms, links lenders and borrowers directly and does away with conventional financial intermediaries like banks. The development of technology and finance globally is reflected in the history of peer-to-peer lending. The P2P lending has expanded to Asia, Africa, and beyond throughout the last ten years. Due to the distinct financial needs of their populations, P2P lending services have proliferated in nations like China, India, P2P lending platforms currently provide a wide variety of options in addition to personal loans, such as invoice finance, company loans, and real estate financing. P2P lending now serves a wider range of borrower profiles and investment preferences because of this diversification.

The Genesis

P2P lending originated in the early 2000s, when websites like LendingClub, Prosper, and Zopa were pioneers in the field. By establishing an online marketplace where people could lend money directly to peers in need of financing, these platforms sought to upend the status quo at a time when traditional banking institutions were frequently complicated and slow to issue loans.

P2P lending sites originally catered mostly to personal loans, giving borrowers a faster application process and potentially lower interest rates than banks. This strategy appealed to investors who wanted to earn larger returns than standard savings accounts and borrowers who wanted more easily available borrowing choices.

P2P lending had tremendous expansion and uptake in both Europe and the US during the middle of the 2000s. In the United States, LendingClub and prosper became household names, and in the United Kingdom, Zopa led the way. These platforms used technology to evaluate credit risk, find qualified lenders for borrowers, and quickly process loan transactions.

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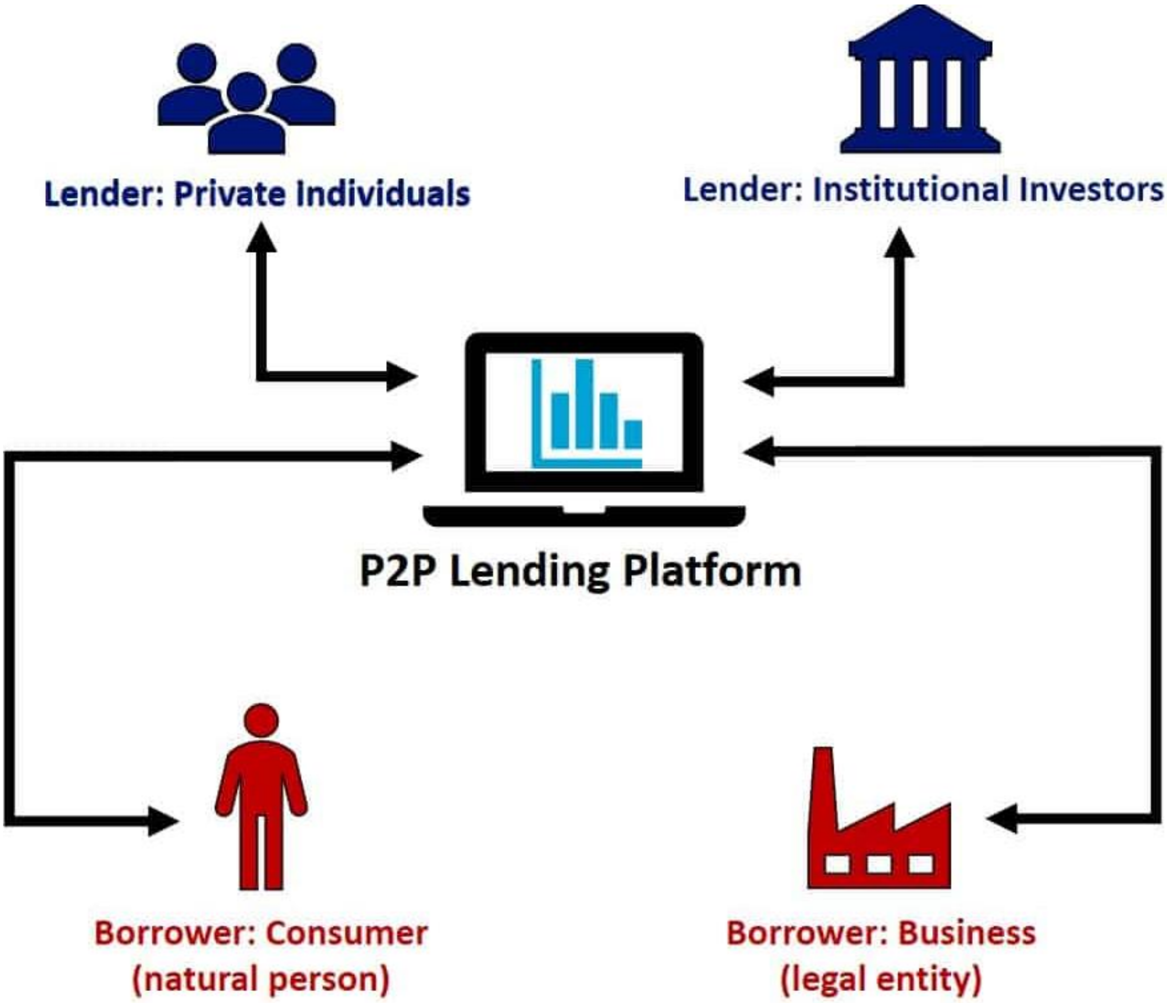
Peer-to-peer (P2P) Lending Operation



Sources: p2pmarketdata.com

The P2P, lending links investors seeking to earn a return on their investments with borrowers in need of funds, thereby functioning as private credit. In exchange for an interest rate, investors compete to finance loan requests submitted by borrowers to the peer-to-peer lender. The P2P websites handle the full process from beginning to end, including creditworthiness rating, loan servicing, payments, and collections. An investor first invests the amount that will be disbursed as loans by creating a profile on the website. Once financial data is submitted, a risk assessment is assigned to the loan application. Following that, the borrower's required interest rate is determined. From a variety of loan proposals, peer-to-peer lenders can then select the one. The interest rate that the borrower must pay is then established by this. Subsequently, peer-to-peer lenders are able to pick and choose loans based on which they believe they have a reasonable risk-reward ratio. Interest payments on the loans begin as soon as they are funded and the borrowers make timely repayments of their obligation. The money is disbursed and loan payments are collected by the peer-to-peer lending platform. Every transaction takes place on a private market; neither hedge funds nor banks are involved.

However, the major distinction between P2P lending and traditional banks is that, the Peer-to-peer financing is, in short, quicker, more accessible, and more convenient than traditional bank loans. P2P lenders offer far more accommodating terms for loans since they are exempt from the stringent rules enforced by banks, they are able to offer significantly more flexible terms for loans. (Christensen, 2023)

Evolution of P2P's

In the early 2000s, peer-to-peer lending (P2P) started off as an internet project that provided a means for individual borrowers to communicate with lenders directly, eschewing established financial institutions.

In 2005 in UK debut of Zopa entered, one of the earliest platforms for peer-to-peer lending.•

2006–2008: With the introduction of websites like Prosper and Lending Club, which provide an alternative to bank loans and conventional investing, the idea gained traction in the US.

2008: P2P lending has the potential to be a more robust and decentralized alternative to traditional banking institutions, as demonstrated by the global financial crisis.

2009–2010: The industry and regulations begin to catch up. Global monitoring is on the rise, with the SEC in the US requiring platforms to register their offerings as securities.

2012: The United States signs the JOBS Act into law, enabling the development of a regulatory framework that promotes the expansion of P2P lending and crowdfunding. Phase of rapid expansion.

2013–2015. P2P lending platforms have a substantial increase in the number of loans they issue. Additionally, during this time, a wider range of services are offered, including as financing for real estate, business loans, and more.

2015–2016: Defaults, obstacles from regulations, and the requirement for improved risk management are some of the first significant issues facing the business.

Starting in 2016: Launch and growth in India. P2P lending establishes itself in India and presents a viable substitute for conventional banking.

Starting in 2016: Launch and growth in India. In India, peer-to-peer (P2P) lending is gaining traction as a possible substitute for traditional bank loans and loans from non-banking financial companies (NBFCs).

In India in 2017 the Reserve Bank of India (RBI) issued guidelines for P2P lending platforms, classifying them as NBFC-P2Ps, so formalizing the industry. This regulatory recognition is an important first step that offers legitimacy and a development framework (Singh, 2017).

P2P Lending systems in India

P2P lending has grown ten times year over year in 2023. The Reserve Bank of India's recognition, which governs the whole industry under a distinct classification known as P2P NBFC, contributed to the sector's growth. As a result of laxer regulations back in December 2019, when platform lending limits increased from ₹10 lakhs to ₹50 lakhs. Investors are excited by an average annual return of 12 to 14 percent return. During the year of the COVID-19 pandemic, the lenders on peer-to-peer lending platforms made money. Compared to just 50,000 registered lenders at the end of FY20, about 4,50,000 new lenders joined a P2P platform in FY21. There are 5,00,000 registered lenders on the platform overall, a 900% increase in just a single year. As the platforms serve as a middleman between lenders and borrowers, who may be small businesses or individuals. An individual with excess funds seeking a short-term investment has the option to invest and extend credit to debtors (Ijalr, 2022). The P2P lending market is currently valued between Rs 7,000 and Rs 8,000 crore. Approximately twenty P2P licensing platforms are registered as NBFCs with the RBI in India.They earn revenues from registration fees, processing fees and repayment collected.

19 Aug 2024.

Table-1: List of P2P Lending Companies in India (2024)

Sl. No	Name
1	i2i Funding
2	Lend box
3	Cash Kumar
4	Finzy
5	IndiaP2P
6	Fello
7	LenDenClub
8	Lendingkart
9	13 Karat
10	Faircent
11	12% Club
12	Mobikwik Xtra
13	Rupee Circle
14	LiquiLoans
15	Cred Mint

Source: Das, Jul 15th 2024

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Peer-to-peer (P2P) Lending Platforms in India and Other Countries: A Comparative Analysis

Peer-to-peer, or P2P, lending is a disruptive force in the global financial ecosystem that connects lenders and borrowers directly through internet platforms, offering an alternative to traditional banking. After the global financial crisis of 2008, this approach became quite popular since it provided an answer to the tightening lending climate.

An Overview of India's P2P Lending

In 2014, the P2P lending industry in India began to garner notice with the introduction of platforms like RupeeCircle, Lendbox, and Faircent. In 2017, the Reserve Bank of India (RBI) designated these platforms as Non-Banking Financial Companies (NBFC-P2P), putting them under regulatory watch, and established explicit criteria for their operations.

Important Elements

• The Reserve Bank of India is the regulatory body (RBI)
• Investment Cap: Lenders are required by the RBI to invest no more than ₹10 lakh ($600) per borrower.
• Loan Tenure: The duration of loans is normally issued in increments of three to six months.
• Interest rates: normally fall between 12% and 36% annually.

Challenges

Higher-risk borrowers who might not be eligible for conventional loans are frequently drawn to the platforms, increasing the chance of defaults.

• Credit Risk: Risk assessment is challenging in India due to the country's sizable unbanked and underbanked population.

• Limited Awareness: In India, P2P lending is still a relatively new industry, and many lenders and prospective borrowers are not aware of its advantages.

Peer-to-peer lending in the US

Some of the most popular P2P lending sites, such as LendingClub and Prosper, are based in the United States. These platforms were founded in the middle of the 2000s, and their rapid growth was fueled by investor demand and regulatory latitude.

Important aspects of the US

• The Securities and Exchange Commission (SEC) is the regulatory body.
• No Investment Cap: Although some jurisdictions have their own caps, there are no federal restrictions on the total amount a lender may invest.
• Industry Size: With billions of dollars in loan originations each year, the United States has the largest P2P lending industry in the world.
• Loan Term: Usually between 36 and 60 months.
• Interest rates: Depending on credit scores, they range from 6% to 36%.

Challenges

• Regulatory Complexity: Platforms face operational complexity due to varying legislation across different states.

• Intense Competition: As the market has grown, a large number of firms have forced smaller platforms to consolidate or shut down.

China's peer-to-peer financing

Platforms like as Yirendai and Lufax dominated the largest P2P lending market in the world, which was formerly China. But since 2020, the industry has drastically contracted due to tighter laws brought forth by widespread fraud and the failure of multiple platforms

Important Aspects of China

• China Banking and Insurance Regulatory Commission (CBIRC) is the regulatory body.
• No Investment Cap (History): Lenders were able to invest an unlimited amount of money before 2020.

• Default Rates: China used to have one of the highest default rates in the world, with fraud causing several platforms to completely collapse.

• Market Size: As a result of regulatory crackdowns, the market, which formerly saw annual loan originations reach $100 billion, has significantly contracted.

Challenges

Fraud and Trust Issues: At first, a lack of regulation caused fraud to be widely practiced, which in turn caused enormous defaults.

Regulation Shifts: As a result of more stringent government intervention, a number of platforms have shut down and others have changed to adhere to new rules.

Peer-to-peer lending in the UK

Platforms such as Funding Circle and Zopa are at the forefront of the well-established and regulated P2P lending business in the United Kingdom. The Financial Conduct Authority (FCA) in the U.K. ensures that P2P platforms are well-regulated, ensuring trust among users.

Important Aspects of the UK

The Financial Conduct Authority (FCA) is the regulatory body.

• No Investment Cap: Platforms must comply with strict disclosure and risk management guidelines, but there is no cap on investments.

• Creative Finance ISAs: The introduction of IFISAs by the U.K. allowed investors to lend through P2P platforms without paying taxes, greatly stimulating the industry.

• Interest rates: Depending on the risk profile, they normally vary from 3% to 10% each year.

• Duration of Loan: 12 to 60 months

Difficulties

• Stricter Regulation: Due to heightened oversight, platforms need to uphold strict operational protocols, potentially leading to elevated expenses.

• Market Saturation: This is one of the most developed markets, thus there is fierce competition and a steady decline in lender returns.

Key Regulatory Differences

• India's Strict Caps: To reduce risk exposure, India's regulatory structure caps the amount of loans each borrower can receive as well as their investments. In comparison, there are no restrictions on direct investment in more developed countries such as the United States and the United Kingdom.

• China's Regulatory Environment: Due to regulatory shortcomings, the country's P2P lending industry had a sharp upswing before collapsing and being heavily regulated by the government. Conversely, India imposed regulatory measures at an early stage of the industry's expansion.

• Regulatory Flexibility in the U.S. and U.K.: These nations have robust legal frameworks for peer-to-peer lending that prioritize consumer safety and transparency, enabling the industry to expand in a sustainable manner.

Table-2: Comparison between P2P in different countries

Feature	*India*	*United States*	*China*	*United Kingdom*
Regulatory Body	RBI (Non-Banking Financial Company)	SEC	CBIRC	FCA
Cap on Investment	₹10 lakh ($12,000)	None	None (until 2020)	None
Market Size	$50-100 million	$100 billion+	Was $100 billion+, now shrinking	$5 billion+
Interest Rates	12% to 36%	6% to 36%	Historically high, over 25%	3% to 10%
Loan Tenure	3 months to 36 months	36 months to 60 months	12 months to 36 months	12 months to 60 months
Default Risk	High	Moderate	Very High	Low to Moderate

Sources: secondary source

Conclusion

Although P2P lending platforms in India are still in their infancy when compared to more developed markets such as the United States and the United Kingdom, there is significant room for expansion. Nonetheless, the industry has to overcome obstacles including credit risk and low knowledge. On the other hand, because of well-established regulatory frameworks, platforms in the United States and the United Kingdom have more flexibility and investor trust, but they also have market saturation and lower returns. Once a worldwide leader, China's market is now a cautionary story of unbridled growth, with government involvement changing the game.

Every market will need to strike a balance between innovation and regulation as the P2P lending industry expands globally to guarantee long-term growth.

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