

A Study on Compatibility, Opportunities and Challenges of Peer to Peer Lending in Indian Scenario

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ABSTRACT

P2P lending is the online platform which brings lenders and borrowers together virtually to lend and borrow directly at mutually agreed rate of interest. The study focuses on compatibility, opportunities and challenges of P2P lending business in Indian scenario. P2P lending is still in initial stage In India and majority people are not aware of this concept. During our study, we found there are a huge opportunities and challenges in P2P lending business in India. So, in order to analyse and interpret this concept in terms of opportunities challenges, secondary data has been used throughout. In the study, we found that P2P lending can become one of the major classes of Investment in near future if effective regulation is implemented and innovative techniques are adopted by P2P lending platforms to attract the lenders and borrowers.

Keywords: P2P Lending, Borrowings, Compatibility, Internet Finance, Micro Finance, NBFC's.

INTRODUCTION

Peer to Peer lending is popularly known as P2P lending. It provides online platform through which the lenders and borrowers deal directly by cutting out the financial intermediaries. It is a popular alternative to the traditional practise of borrowing money from financial intermediaries. The main advantage of using P2P lending is cheaper rate of interest for the borrowers and better rate of interest for lenders compared to the traditional banking system. Usually overheads rates are cheaper than financial intermediaries like commercial banks, Nationalised banks, Co-operative banks and so on. P2P lending operates through systematically developed software in online platform where individual lenders lend loans to the individual borrowers and businesses with the mutually accepted rate of interest.

Peer to Peer lending is not a new concept, it is there in our economic system since olden days where friends and closely related persons lend and borrow from each other. 'Zopa' is the first P2P lending company which was founded in February 2005 in the United Kingdom. In 2012, 20 million pound of investments was made by UK government into the businesses through P2P lenders. The intention was to give loans to smaller companies which were not able to borrow loans from high street banks. In United States P2P lending industry was started in February 2006 by the company called 'Prosper Market Place' and followed by 'Lending Club'. In 2008, it was made compulsory to register P2P offerings as securities, pursuant to The Securities Act of 1933. In China there are micro loan companies which serve the 40 million SME's, many of which do not receive adequate funds from State owned banks. The growing Internet and E – Commerce provided platform for starting many P2P lenders to fund target customers and business models.

In India, P2P lending business was started in 2014 when there were no regulations from RBI but after September 2017, RBI has notified this business as Non-Banking Financial Companies (NBFC's) through its guidelines. RBI has also issued various guidelines to safeguard the interest of all lenders, borrowers and P2P lending platforms. RBI has restricted maximum lending to ₹ 10 lakh by single lender and a single lender cannot lend more than ₹ 50,000 to the same borrower. Currently 11 P2P companies are registered with RBI. The major P2P lending companies operating in India are Lendbox, Faircent, Lendingkart, Finzy, i2iFunding, i-Lend, LenDenclub, PaisaDukan, RupeeCircle Monexo and cashkumar.

REVIEW OF LITERATURE

According to Monica Rosavina and Raden Ashwin Rahadi (2018), Peer to Peer lending as the source of finance, has eliminated barriers that hampered SMEs around Indonesia in obtaining their access to finance. The users of this platform are still low compared to the number of SME's scattered around Indonesia.

According to Vinod Kumar L, Natarajan S and Keerthana S (2016), The credit risk in P2P lending system of 'Lending Club' has been minimized by identifying the correct set of features. The overall return on investment will be high as the model identifies most of the good credit whilst identifying potential defaults.

According to Burkhardt Funk (2011), Online P2P lending has gained scientific relevance for the past years and there is scope to identify similarities and differences between traditional banking and P2P lending market.

OBJECTIVES

- a) To find the compatibility of P2P lending in Indian scenario.
- b) To find the extent of opportunities for lenders and borrowers.
- c) To find the challenges in P2P lending.

LIMITATION OF THE STUDY

- a) The study doesn't concentrate on technical issues of P2P lending.
- b) The study is confined only to the available secondary data.

RESEARCH METHODOLOGY

In order to achieve the research objectives efforts were made to collect the relevant data from various secondary sources like the past literature from journals, books, annual reports and websites. The available Secondary data is extensively used for the study. The research design is conceptual in nature.

STATEMENT OF THE PROBLEM

Even if P2P lending can be an alternative lending and borrowing platform, there are many risks and challenges associated with it. There is defaulting risk on lenders from the borrowers. Borrowers can't borrow required amount as there is a limit on borrowings. Borrowers have to fulfil various guidelines prescribed respective P2P lending companies.

COMPATIBILITY OF P2P INDIAN SCENARIO

India has second largest internet users after China. There are smooth and flexible policies relating to online business. Government has been encouraging to make all the transactions digital through digitalisation. As a result so many businesses have been established by utilising the scheme called "Start-ups". Following are the trends which paved the way for conducting P2P lending.

- a) **Digitalisation of money:** Invention of technologies such as NEFT, RTGS, Internet banking have paved the way to transfer money from one account to another account digitally.
- b) **Increased mobile applications:** There are more and more people using various mobile applications for their routine transactions like day to day buying, ticket booking, money transfer, online trading and so on. This trend shows that there is a good platform to further improve P2P lending.
- c) **Protection from hackers:** Strict measures like OTP, UPI and user password are taken to protect money and personal details from hackers.
- d) **Flexibility in switching:** These days, people can easily switch from one merchant to another with less cost or no cost at all.

For Example: Simcards, Loans and Bank A/c etc.

- e) **Infrastructure:** The required infrastructure such as online platform, credit rating process, digital P2P payments companies and software has already been well established in Indian market.

OPPORTUNITIES

India has got largest young population and majority of them are not able to get loan from banks because of strict regulations. Banks are really failing to recognise genuine borrowers without going beyond their pre-determined norms. Following are the Indian trends which can be considered as opportunities for P2P lending:

- a) **Huge number of Un-served and Underserved categories:** Majority of individuals, small businesses and professions are not able to get loans from existing Financial Institutions.

- b) **Sharing Economies:** There are online sharing businesses happening in other countries. For Example: Car, space, business places, jewels etc. This trend is also approaching India by indicating huge opportunities in lending businesses.
- c) **Very low interest on Fixed Deposits and Savings Accounts:** Banks being intermediaries between saving category of people and borrowers have offered very low interest on savings. P2P lending is a better alternative for these money savers to lend their savings directly to the borrowers at far higher rate of interest (14% to 20%).
- d) **Strict norms and policies for approving loans in Banks:** Banks themselves cannot negotiate and compromise with the present norms by RBI and individual banks with respect to individual borrowers. But in case of P2P lending, lenders can negotiate with borrowers as they could see each other without intervention from third parties.
- e) **Low rate of interest for Borrowers:** Borrowers can borrow loans directly from lenders at better rate of interest compared to the banks.
- f) **Huge number of rejected Applicants:** there are huge number of individuals, professionals and small business people who are rejected from banks being not able to fulfil their strict norms. These borrowers can be reconsidered through other psychometric tests to assess their credit worthiness which has already been adopted by some P2P lending companies.
- g) **Availability of data:** There are many companies which are engaged in collecting individual database and these data's are made available in the market. These databases can be used by P2P lending companies to bring lenders and borrowers together in one platform in great number.

CHALLENGES

- a) **Profile of the Borrowers:** Since default risk always lies with borrowers, collecting and displaying the genuine borrowers' profiles will be the biggest task. In order to reduce the risk on lenders, there will be great responsibility on P2P lending platforms to collect the key personal and professional details from potential borrowers.
- b) **Restrictions from RBI:** From 2017, RBI has issued various guidelines to be followed by the P2P lending businesses. One such key guiding factor is limitation on lending which is maximum of ` 10 lakh at a time across the P2P lending platforms.
- c) **Inaccessibility to the student category:** Due to the strict KYC norms, students cannot access the P2P lending platforms to lend or borrow the loans.
- d) **Multiple options available for salaried groups from Banks:** Salaried persons can easily avail loans from banks at reasonable rate of interest based on their earnings as there is a tough competition among various banks.
- e) **High Cost of operation:** Cost of operation involves document collection, assessing credit worthiness and other formalities. These activities increase the overhead cost which forces the P2P lending platforms to put higher service charges.
- f) **Very less people are aware of this Business:** Since P2P lending in India is in seed level, majority of population are not aware of this platform. Only some educated people and persons who are in the related field know about this concept but people who are not in investment business are not aware of this concept of P2P lending.
- g) **People view it as risky, unsafe and illegal:** Since P2P lending is a new concept to India, majority of people perceives this concept as unsafe and illegal.
- h) **Delayed payment and default in payment:** lenders who are already active in many P2P lending platforms have been experiencing late payment of EMI and default in payments. This experience has been spreading across by discouraging the potential lenders through this platform.

- i) **Only unsecured loans:** As of now P2P lending platforms are allowing only unsecured loans but not secured loans. This is a big challenge as lenders are feeling unsecured to lend loan without any collateral security.
- j) **Difficulty in assessing non-salaried class:** Since non-salaried people don't have active banking transactions, it is very difficult to assess their income, credit worthiness and repaying capacity.

FINDINGS

- a) Currently, the total size of P2P market in India is 200 crore and projected to be \$4-5 billion by 2023.
- b) At present, investors are not aggressive on this class of investment.
- c) Out of 30 P2P platforms, only 11 P2P platforms have received the RBI licence in the year 2018.
- d) RBI has defined P2P lending as Non-Banking Institution.
- e) Most of P2P companies focus on salaried class.
- f) Small and medium enterprises are of huge potential which have not been fully tapped by any P2P platform.
- g) All the P2P platforms have been only focusing on major cities like Bangalore but not on tier 2 cities.
- h) Many of the P2P lending companies are still in seed investment level.
- i) Still small merchants take short-term loans from local money lenders at high rate of interest.
- j) Majority of people view this concept as risky and illegal.
- k) P2P lending is booming in India indicating P2P lending as a greater potential investment class like stock market.
- l) Dashboards displayed by many P2P lending platforms are very confusing according to the experience of active lenders on P2P platforms.
- m) P2P lending platforms have been focusing only on unsecured loans.
- n) P2P lending platforms are facing difficulties in assessing credit worthiness of non-salaried class as their true income is not available in any source of information.

SUGGESTIONS

- a) P2P platforms have to do aggressive marketing to create awareness in the mass since majority of population are not aware of this concept.
- b) Many high net worth individuals have been discouraged because of maximum limit on lending. So, RBI has to increase the maximum limit on lending.
- c) P2P platforms should try to adopt some new techniques to assess accurate credit worthiness of borrowers as there is default risk on borrowers.
- d) P2P platforms should use user friendly software so that even common people can understand and do transactions on the platform.
- e) P2P platforms should display simple and attractive dashboard as there is a complaint from lenders on complicated dashboards.
- f) P2P platforms should take measures to reduce default risk and ensure prompt & timely payment.
- g) P2P lending should be put under the proper regulation to gain confidence of the people.
- h) It has to make effective strategies to cover tier 2 cities since there are huge opportunities.
- i) It should also concentrate on non-salaried class who are not able to get loans from the banks.
- j) It should find out effective and innovative techniques to reconsider the rejected applicants from the bank.

k) It should take measures to convince the mass that this business is legal, risk free and easy.

CONCLUSION

In spite of finding many challenges in P2P lending business, there is a huge potentiality in this business provided P2P platforms would find out the effective ways to access into tier 2 cities & towns and find some innovative techniques to embrace the majority of population who don't maintain proper record of their income but still have good credit worthiness. Still there is a requirement of effective regulation from RBI to safe guard lenders and to accelerate the business. P2P lending platforms have been charging the high cost on loan origination, so, they need to reduce the cost on loan origination. Many P2P platforms are not able to manage delayed payments or defaults unless lenders put pressure on P2P platforms.

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