

STUDENTS' ECONOMIC FORUM

A monthly publication from South Indian Bank

To kindle interest in economic affairs...
To empower the student community...

 www.southindianbank.com
Student's Corner

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P2P LENDING

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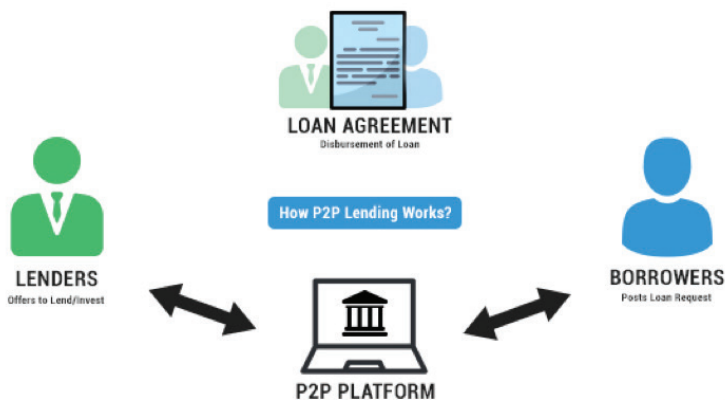


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The "SIB Students' Economic forum" is designed to kindle interest in the minds of younger generation. We highlight one theme in every monthly publication. Topic of discussion for this month is **"P2P Lending"**

The Concept

P2P lending, the commonly known acronym for Peer to Peer Lending, is the activity where an individual lends money to another individual for a specified rate of interest and duration over the internet. While the activity of borrowing or lending money has already been in existence for hundreds or even thousands of years, what makes P2P lending different, is the platform (internet) it provides to connect and engage in the transaction, keeping in mind a set of guidelines prevailing as per law.



What's the difference?

Earlier, individuals used to borrow money from others without having many options (lenders). The rate of interest charged was higher and there were no guidelines or regulations to ensure that the borrower/lender was treated fairly. This practice is still prevailing in many parts of our society. Such form of unorganised lending / borrowing is highly risky and open doors to many social evils. The level of transparency and accountability is also very less. P2P lending is carried out in the same nature of borrowing/lending but in a regulated setting, through a platform, where the borrowers and lenders can agree to the predefined terms and conditions put forward by the lender, borrower and regulatory agencies. Therefore, we may state the following as the basic features of P2P lending –

1. Unsecured in nature – In general terms, P2P platform loans do not hold any form of guarantee.
2. Online transactions – The point of connect between the lender and borrower is on an online environment and therefore there is no physical connect between the two.
3. Power to choose –The platform lists out the borrowers (based on availability) and their profile and hence may give a choice to lenders depending on the policies and regulations in place.
4. Pricing – The interest rates are fixed over a reverse auction process or is fixed by the P2P platform company.

Functions of a P2P Lending Platform

Some of the services which may be availed through a P2P Lending platform are –

1. Online Platform for investment – P2P lending model enables the creation of an online platform where investors can find suitable businesses or individuals to lend to, based on their risk appetite.
2. Borrower check – The identity of the borrower, genuine nature of business, bank account and pricing may be checked. Unqualified borrowers can be filtered out based on various parameters.
3. Legal compliance and reporting – Since various countries have restrictions and guidelines put in place for such form of lending, P2P platforms ensure that the necessary reports and data are shared with the regulatory authorities and ensure the compliance of various compliance requirements.
4. Attraction of new borrowers and lenders – P2P platforms create a common arena where new borrowers and lenders may come together and explore their options for borrowing and lending money.

P2P Lending on Popular Demand

According to certain estimates, as of 2019, the global P2P lending business was valued at \$67.93 billion and is projected to reach \$558.91 billion by 2027. The Asia Pacific region is expected to have a boost in the P2P lending business especially in India and Japan due to the presence of a massive student population and rising number of small businesses. The advantage of lesser operational costs coupled with lower market risk for borrowers and lenders fuelled by the digitization in banking sector has added to the growth of the P2P lending business. Some of the countries where P2P form of lending has been widely accepted is given below -

United Kingdom	China	United States of America	Korea
Indonesia	India	Sweden	Israel
Canada	Brazil	Latvia	Ireland
Indonesia	Bulgaria	Germany	

Win –Win for All!!!

Considering the potential benefits that P2P lending proposes, this methodology of accepting and lending money through an online platform was seen to be a big win for all. Some of the key benefits are listed below –

A. Borrowers

- A.1** – Access to easy finance which is not the case with the traditional and other such common system of borrowing in which the lenders take time to scrutinise the credibility, purpose and genuine nature of the borrower.
- A.2** – Reasonable rate of interest.
- A.3**– Faster source of funds as the borrowers are able to find a one stop solution which is fast, automated and easy.
- A.4**– Simple in nature as the process just requires the borrower to apply and get a quote instantly.

B. Lenders

- B.1** – Easy access to a new market of borrowers who may be funded based on the available parameter checks and credibility.
- B.2** – Source for higher returns as the lenders offer faster access to funds.
- B.3** – Higher transparency since application and disbursement of funds is done through an online platform thereby ensuring the purpose for which the funds are being lent.

C. Economy

- C.1** – Those who are not yet covered in the banking system also gets a chance to access funds to strive ahead.
- C.2** – Consumerism and Business activities get a thrust when funds are disbursed and utilised for genuine purposes.
- C.3** – Reduces the traditional risk of concentration of funds among a few as P2P lending is more about lending to many.

D. Society

- D.1** – Greater financial inclusion as more people in the society are getting access to funds for progress and development.
- D.2** – Creates more harmony in the society as P2P lending will reduce the exploitation by unorganised private money lenders.

Conclusion

Even though P2P lending proposes various long term and short term benefits to various stakeholders, one must understand that such form of lending has been highly risky and derails the very functioning of the system if the borrowers lacks financial discipline and if the P2P market is unregulated. Therefore, one must be very careful to understand the risks involved and ensure that such financial decisions are taken very carefully.

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