PEER TO PEER LENDING

What Is Marketplace Lending?

Generally, Marketplace lending is used as an online platform where the borrowers can connect with the investors who want to offer loans. This platform provides both loans as well as refinancing. This platform has been developed and launched worldwide. In the year 2007, as per the reports of Fintech Global, an investment of $8.9 billion was made by venture capital firm in relation to the deal to 233 to the lending platforms. This is because a large sum of money was invested through this platform which was more than enough to attract the attention of the largest banks of the world. Goldman Sachs is considered as a key player in this platform as it has introduced its own platform for marketplace lending.

According to Transparency Market Research Report that was published in the year 2015, the aforesaid platform has secured a turnover of $26.2 billion in terms of loans across the globe. Out of which half of them belonged to the United States of America. The study shows that about 48.2% annual rate of growth is holding up for some worldwide platforms similar to this which can fetch $1 trillion by the end of the year 2024. An image of the marketing place lending process is annexed below:

Marketplace Lending: A Disruptive Threat To Traditional NBFC Or An Opportunity?

Although Non Banking Financial Companies and Peer to Peer Lending play a dominant role to reshape the financial market for consumer welfare, both of the terms and concepts are different from one another. NBFCs focused more on the rural and semi-urban area concentrating more on the inclusion of finance with extension of the credit for the population who are unbanked. On the other hand, Peer to Peer Lending considers the pre-urban route which covers the funding of the businesses as well as individuals who do not qualify to get the traditional loan.

Even though there has been a steady and fast growth in the flow of the consumers who do not use the internet, there is lacking of knowledge for the adoption and the growth instead of the dormant factor in this digital era. However, Non Banking Financial Companies have been hesitant to adopt technology; a few Non Banking Financial Companies have taken this as a challenge which came out with positive results.

The banks in this regard vary lending process for the customers who are using this for the very first time and don't have a credit history as a result of increase in the issues of debt and the Non Banking Financial Companies also focusing more on this side of the story. The expertise in this area backed by the innovative technological ideas will give dominance to the other peer to peer lending platform and it will also provide a strong competition.

While Peer to Peer lending platforms are being used to determine consumer's creditworthiness, the Non Banking Financial Companies are using a variety of innovation and ideas including mobile applications and psychometric tests for the evaluation of the social media profiles of the borrowers. This is being done to find out the behavior of the borrower as a part of the assessment of risk.

Non Banking Financial Companies have the edge on the sites of the Peer to Peer lending when there is a question of procurement of the customers as the consumers have relied on the most powerful marketing strategies which are known as word to mouth marketing. Today, many Non Banking Financial Companies hate dependency on the traditional financial institutions including the public as well as private sector banks. In order to raise funds, the Non Banking Financial Companies are also working through fund marketing and also opting for public funding.

On the other hand, Peer to Peer lending sites are completely dependent on individual investors. They can face a hard situation while providing education to the people regarding the new class of asset which will help them to understand the involvement of intricacies. The nature of Peer to Peer Lending is generally unregulated that makes the investor consider the fine line of skepticism tinted perception. While spreading the awareness it may also lead to suspicion in attracting the lenders and borrowers which is considered as a challenge that can be faced by Peer to Peer Lending Platforms.

The revenue models introduced by the Non Banking Financial Companies are very much similar to Peer to Peer Lending Platforms. NBFCs can acquire funds from somewhere else and can fund them to businesses or individuals at a higher rate.

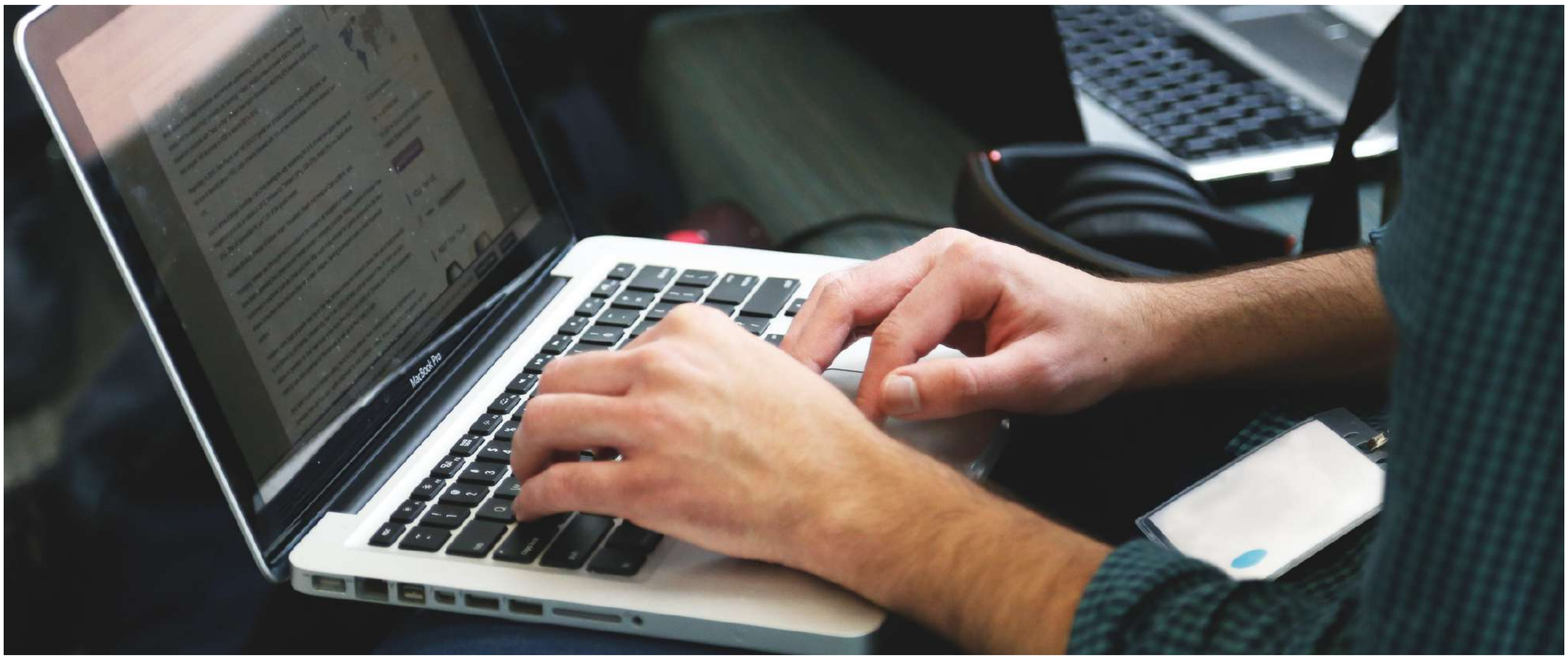
Comparison between Marketplace lending Vs Banks

There is a difference between the energy and cost that a bank is spending on the approval of the loan and what a peer to peer lending platform is spending for the same. Generally, Banks have to incur a large number of costs starting from paperwork required in loan transaction to payment of high salaries to qualified employees. Apart from that the bank also bears infrastructure cost.

On the other hand, a peer-to-peer lending platform will be able to invest an amount which can be less half of the expenses that the banks are investing. Thus, it can be said that peer to peer lending platforms can be helpful for those people who cannot afford the high rate of interest and borrowing cost provided by a bank.

Apart from that in banks, the borrower of the money is required to fit into the standardized categories and requirements so that it can be considered as a loan. However, many times this does not include 50% of the population who require the money that they can pay back to the bank as per the prescribed time. However, in most of the cases, people have refused the loans due to the conservative approach that are being followed by the banks.

Peer to Peer Lending platforms can be taken into consideration for a more logical holistic approach while evaluating the profile of each borrower and to ensure that the investors can be matched with the borrower. Borrowers have the advantage of being considered as an individual rather than as a category on a list of paper.



What Is User Experience Of Market Place Lenders Vs Banks? Why People Prefers To Apply For Loan thru Marketplace

Banks in India as well as other parts of the world, are considered as one of the oldest financial institutions which provide financial assistance in lending and borrowing of money since centuries. Peer-to-Peer lending is a rather as new concept as compared to the traditional banking system. This concept of Peer to Peer Lending mainly focuses on those segments of customers who are completely ignored by the traditional banking system.

Micro Lenders or Banks are very stringent when they analyze lending eligibility. Most of the borrowers who were ignored by the traditional financial institutions in the past have found new finding as per the modern money lenders popularly known as Peer-to-Peer lending platforms. One of the benefits of the Peer to Peer Lending Platforms is that these platforms harness the edge of the current technology which has been proved to be cutting down the TAT eventually. Finally, it can be concluded that due to Peer to Peer Lending platforms the availability of credit are very easy and Hassel free today.

It can be rightly said that banks have not gained the knowledge and mastery in this craft even though it could have but the level of regulations and compliances of the banks does not make anything apart from providing large secured loans including mortgages which are some of the difficult forms of lending and borrowing of money.

Peer to Peer lending provides the advantage to the borrower with low fees and low rate access and also provides the benefits to the investor to access the asset class and consumer loan which are not related with the performance of the stock market.

Future of Marketplace Lending in India

India is considered as the second fastest growing economic country across the globe. Today, 21 years old individuals are also focusing more on living their life as per their own wish to the fullest even the resources are limited to do the same. In order to satisfy their needs, people generally look out for money that is available at the disposal instantly for which they can restore new means of finance such as Peer to Peer Lending in India.

Recently, Peer to Peer (P2P) lending platforms are also called as Non-Banking Financial Companies (NBFC-P2P as per RBI directive 2017) which is considered to be setting a new innovation. With the development and advancements in digital technology in India, Peer to Peer Lending has been considered as one of the less tedious and hassle free service. One of the main benefits of Peer to Peer Borrowing is that the processing of loan is mainly done through a process which is based on online technology.

Part B

History of P2P Lending India

Origin of Peer to Peer Lending

The peer to peer lending in India is administrated and governed by the Reserve Bank of the country. The Reserve bank has published consultation regulation paper for this. Final guidelines regarding this subject are expecting to be realized soon. As per the reports, there are approximately more than thirty P2P lending sectors in India since 2016.

In the initial stage, all of the sites were not capable to capture business share and generate growth to their user strength. P2P lending sectors are beneficial for a large number of people to borrow who was previously rejected by the bank for permitting their loans. P2P lending is helpful for consumers to get loans without any credit scores or with a poor credit score.

In the market of P2P lending, PaisaDukan is the first entrant who got the registration certificate or CoR from RBI in the history of India. There are two more companies who were licensed from RBI are IndiaMoneyMart and RupeeCircle.

History of Peer to Peer Finance

Peer-to-peer lending is also said as P2P lending. It is the activity for lending money to the people or any business via online services which connect the borrowers with lenders. As the P2P provides online services to the consumers, they can have lower overhead and the lending companies can provide more cheaply rather than the other conventional financial sectors. For this, the lenders can enjoy higher returns than the offers generated from the banks. The borrowers have some risks by default on the taken loans from the peer-lending forums.

The term crowdlending is present in the market. It means several peer-to-peer unsecured loans via a few of the biggest values are lent to several businesses. Sometimes secured loans are offered with the usage of luxury assets like art, jewelry, aircraft, watches, buildings, vintage cars, and many more things. Other formations of P2P lending are included of payday loans, student loans, real estate loans, business loans factoring and leasing.

The lenders can determine the rate of interests. The investments of the lenders are usually not protected by the government. The lenders mitigate some of the services on the risk of any bad debt through the choosing process about which borrowers to provide lend. There are other models included in P2P lending organization managing a separate fund like RateSetter's Provision Fund that pays back the lenders in case of borrower default, but the number of such funds is subject to any further debate.

The intermediaries of lending are for-profit trades. They produce revenue by gathering a one-time charge on given loan from the borrower, also by doing an assessment of a loan servicing charge to the investors or to the borrowers. In comparison to the stock market, P2P lending can have less liquidity or less volatility.

How P2P lending is leading the Fintech Space around the world

The potentiality of the market for P2P lending has a great future. The country like India is already measured as the largest Peer-to-peer market in the world of offline. The online sectors of India are huge and very promising. The attractions of the consumers are increased because it caters the economic anxieties in a lower time span with negligible conditions and terms.

The additional rate of peer-to-peer in the India has been high from its establishment in 2012. There are no documented official data about the figure that has been transacted through the P2P lending companies but the trends are increasing with a rapid speed.

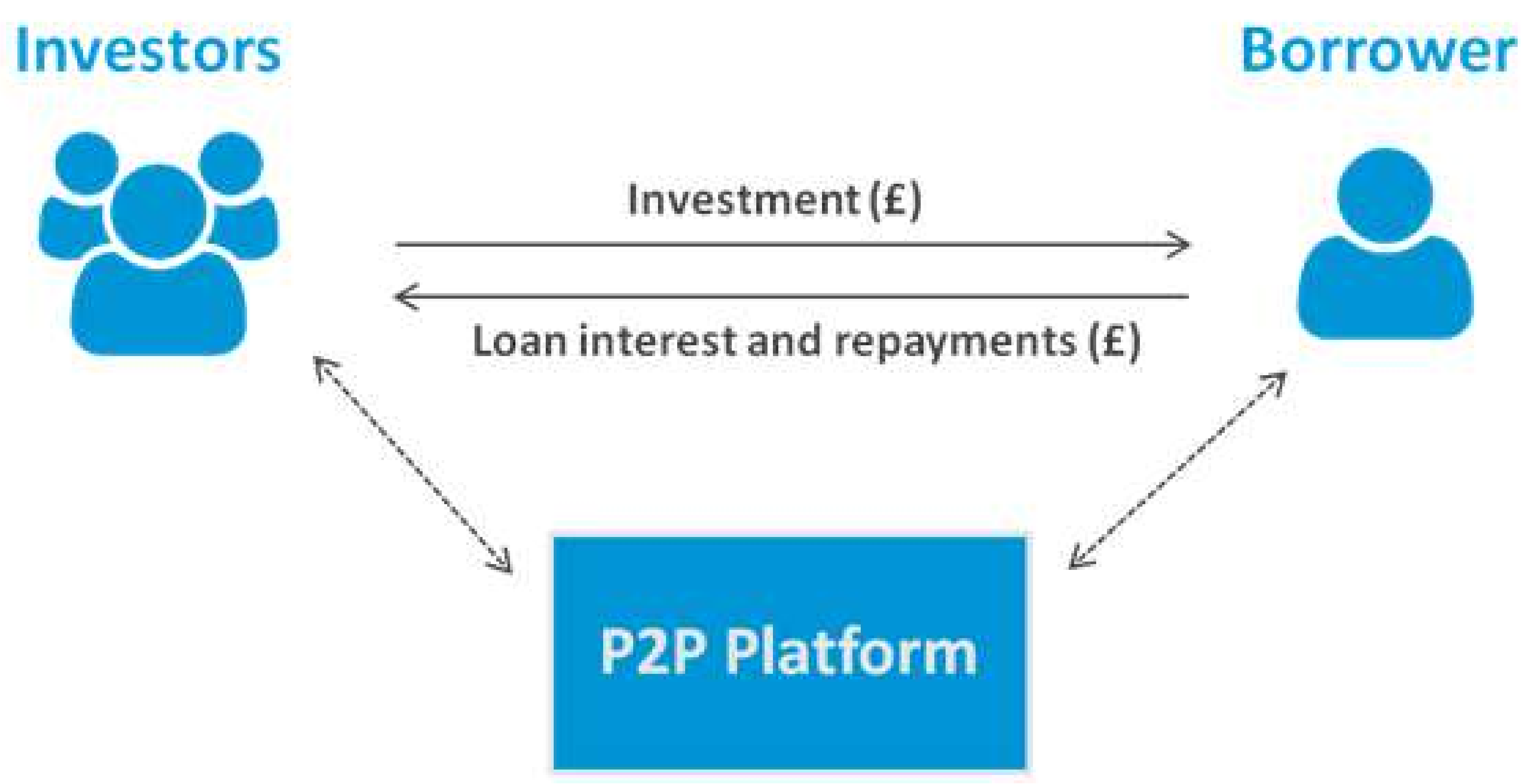
The Emergence of India Stack

The serious disadvantage from that the P2P lending is the non existence of legal and formal contracts to protect the process of lending. India got stack under the initiative named as Digital India that has been taken by the government was a revel for the deal with the non-presence of an official binding in any formation of e-sign. The effortless process and paperless get an allowance from e-sign to a legal binding of the loan contract between the lenders and borrowers on the online platform. It is the instrument of reducing the interference of any human and that is why the process is becoming faster.

Problems and Challenges

- P2P is beneficial for the generation of startups. It is providing loan amount in a reduced time and as a quick manner. As P2P companies and their businesses are growing, the human interference is being reduced in the loan sector and that is reducing any invalid and falsity in the lending system.

- The traditional lending markets are rigid in nature. The processes of these lending systems are very time-consuming. It involves a complicated intervention of several people. It also does not provide loans to the people who do not have any credit score or low credit score.



RBI Regulation on P2P Lending In India (Regulatory Framework)

RBI Approved P2P Lending Model

RBI regulations for NBFC- P2P Lending actions

- The crucial role of P2P lending will be played in the future. RBI has declared some regulations for governing this sector. Only the registered companies can have P2P registration from RBI.

- The companies, which have registration from NBFC-P2P, will have owned fund approximately of rs. 2 cr.

- They cannot give credit guarantee scheme or credit increment.

- They cannot permit any secured lending

RBI Regulations: NBFC – P2P Prudential Norms

- The loan maturity will be less than 36 months.
- Leverage ratio should not be more than 2.
- The loan amount to a specific borrower will not be more than rs. 50,000/-
- The aggregate amount of any borrower should not than 1,00,0000/-

The increasing growth of e-transactions fintech innovations and ongoing demand for affordable credit are the main factors for the growth of P2P and NBFC sectors of India. This segment of lending has totally dislocated the assets class and lending system of India.

Investor On-boarding process

Client on-boarding is a procedure for entering new clients to the P2P businesses and to the projects. It is the process of adding the clients to the speed of work so that both can work together effectively. It helps to build a relationship strong. The main aim of an efficient client on-boarding system reduces ambiguity and it enhances clarity, so it becomes easy for the clients to give all the requirement to the provider and they can provide their optimum confidant services.

1st Step to create an on boarding process to review current client:

- What are you communicating to your clients?
- What is working great right now?
- Where are you or your clients getting stuck or hitting a hurdle?
- What tasks are you repeating for every project you take on?
- What type of experience are clients having now and how/where can you improve it?

2nd Step for understanding and documentation:

- The expectations and boundaries that need to be set
- What new clients need to know and learn
- What new clients need to do
- What you need to do
- What new clients need from you
- The potential hurdles that can be overcome now
- Ways you can add value and create a stellar experience

3rd Step is helpful to organize the entire thing that has been documented in a sequential manner and make the needed content:

The provided content should be arranged in an easier way that helps the client to understand. Every new part of the content should be made upon the matter what has been conversed in the prior piece.

How many steps does there need to be in your onboarding process?

Will you drip the content out in a series of emails, provide a single project handbook or welcome packet, or give clients the content in a membership site?

What educational materials will you create and provide? Will they be ebooks, checklists, video trainings, collections of articles, or worksheets?

4th step:

Implement a system for your new client onboarding process

Document exactly what is going to happen, step-by-step and either automate it or delegate it

These mentioned steps will be helpful for the company to reduce the time consumption for a more meaningful output with the clients.

Underwriting

Underwriting is a procedure via that anyone or any institution carry out the financial risk for the charge. The risks are included of investments, loans, and insurances. Underwriting was generated from the practice of every risk taker to write their names under the mentioned total amount of risk that they are taking as a premium. It is the main functioning factors of the economic world.

Loan Limit and Investor Portfolio Exposure

Financial or economic exposure is that value amount on what the investors stand for losing in any investment when the investment is failed.

Key takeaways

- Financial exposure is the amount an investor stands to lose in an investment
- Financial exposure can be an alternative name for risk
- Experienced investors usually seek to optimally limit their financial exposure which helps maximize profits
- Asset allocation and portfolio diversification are broadly used strategies for managing financial exposure

Financial Exposure Explained

According to the general rule, the investors always wish to have a limit to their economic exposure that is beneficial for maximizing profit. Financial exposure is applicable not only for making an investment in the stock market but also for any individual when he stands for losing any principal value that has been spent. An example of financial exposure is purchasing a house. If the real estate falls, the owner will sell the house at a lower price than the actual price.

Trustee Bank Account Opening Process

The operation and formation trusts in India are under the governance of the Indian Trust Act of 1882. According to the Section 3of the Indian Contract Act 1882, it is stated “A trust is a commitment attached to the responsibility for, and emerging out of a trust in and acknowledged by the proprietor, or proclaimed and acknowledged by him, for the advantage of another, or of another and the proprietor.”

Step 1: Verification by State Public Trust

The banks open accounts on trust for the good candidates. A trust may be private or public. All the public trusts are needed to be registered by the Charity Commissioner under the Act of Public Trust. The Charity Commissionaire has to play several different activities before a bank opens an account for any trust. The prior thing of registering a valid trust, the Charity Commissioner goes through several important inquiries related to the trusty, the trust, and the procedure. The banks open any accounts after going through several possible precautions.

Required Documents:

A duplicate of the constitution of the trust

The trust deed, if available

Testament of enrolment and an affirmed duplicate of the passage of the general population trust's register

Open Trust Register Number

A rundown of the present trustees and the power designating them as trustees

The vital determination went by the trustees for opening the record with the bank

Attested duplicate of the determination marked by every one of the trustees on the behaviour of the record. For Trusts which have no constitution, instruments of trust or plan is required

While opening records of such trusts, the bank receives after reports

A testament of enrolment issued by the workplace of the Deputy/Assistant Charity Commissioner

A guaranteed duplicate of the most recent passage in the general population trusts registers (Public Trust Registration), which demonstrates the name of the trust, the Public Trust enrolment No. of the Trust, at which it is enlisted and name/s of the trustee/s

A presentation and a repayment from are gotten every one of the trustees

A determination went by the trustees identifying with the opening of the record

Step 2: Operational Precautions after the opening of Account

The trust accounts needed to be opened and needed to be led totally according to the terms and conditions of the trust. All the trustees need to act in a joint venture with all the people approved by the trust deed. The trustees do not have any inferred power vow trust any property without any provision is associated in the trust deed.

Death of a Trustee

If any trustee expires, the property of the trust goes to the alternating trustees as per the procurement in the deed of trust. The expired trustee was the sole trustee. The person's agent does not have any right to occupy his trust cash.

Opening of Bank Accounts of Religious and Charitable Trusts

In India, all the trusts are organized for social reasons and the Department of Income-tax avows those. Forget about the, the exemption of any installment of the duty and all the benefactors can deduct the trust from the measurable wages. Organizations have their shape under Section 8 of the Act of Companies, 2013 for doing advancement philanthropy gets profit under a legal process that includes several different procedural procurements.

Step 1: Verification by Regional Charity Commissioner

For opening altruistic trusts and religious trusts, some States Acts have passed. The assistant Charity Commissioner or the Charity Commissioner of the specific district lists these trusts. A certificate for enlisting is then needed to be issued for the trust with power. For most of the parts, not all these trusts acquire any appropriate trust deed.

Needed Documents:

A resolution specifying the name of the bank, passed in a proper meeting held by all the trustees

Indemnity signed by all the trustees, indemnifying the bank for having allowed operations on the trust account

Step 2: Operational Precautions to be after opening the Account

Banks don't allow operations in the record by one individual

A reasonable number of individuals are required for opening and working of the record. If the quantity of trustees is larger, then the number of individuals working the record must be large. Bank occasionally acquires affirmation of parity in the record, marked by every one of the trustees

heading from the Charity Commissioner is acquired, allowing the bank to permit operations on the trust account in the way affirmed by the trustees

Collection process under P2P

Several investors get excited about hearing that Peer-to-peer can provide them a double amount in return. On the next moment, they could have asked what will happen in the case of defaults of the borrowers. In what way the P2P organizations manage such defaults.

For staying viable to the lending business, the P2P companies need to do strict inefficient credit assessment and strict KYC process.

In the beginning, P2P organizations evaluate the financial documentation of the borrowing parties via several different sources according to their system. Dhiren Makhija, the CEO, AND Co-founder of Cashkumar said that they try to provide assurance about the lone is given to the genuine consumers and they maintain a proper process of credit evaluation.

Restriction under P2P Lending Model

In recent years the peer-to-peer, companies are validated from RBI in order to raise their investors. To gain more investors, the P2P companies needs to follow the guidelines of RBI.

Limits defined for borrowers and investors,

Companies need to provide a market place in order to create a communication between borrower and lender, further they earn their revenues from rented money,

The company analysis the risk-taking method, such as interest amount of borrowers to a return of lenders, Provide a platform for credit scoring matrices, to bureaus related to credit scores,

Lenders use this P2P system as this provides a higher return. The company cannot guarantee the return, also if any loans default then the whole loss is a lender's as the loans are unsecured,

RBI implemented the rules regarding the money limit, also ensured the return,

It is very useful for the people, whose loan inquiry is rejected by banks,
This helps to maintain a good credit score as well.

Interest Rate, Processing Fees under P2P Lending Model

Under the terms, both investors and borrowers need to pay a certain amount of interest.

The P2P company asses the borrowers a lower interest rate in which they can never raise money.

In order to gain more profit, the lender needs to provide money at a high-interest rate that has a poor credit score.

All the platforms charge a fee from their parties in order to raise organizational money.

FDI in P2P Lending in India (Note to check FDI Policy for P2P NBFC)

Mumbai: Some entrepreneurs got frustrated from RBI and filed a written demand to the bank regarding the finalization of P2P policies, also demand the access of funds in order to achieve growth in the next round.

As the P2P system is totally technology used that allows the consumers to get a loan from the website with proper interest. In the last April, RBI provided a consultation paper regarding the P2P that includes a huge section of the lending industry.

In the last few months, it helped the companies to get their potential investors in order to gain more profit from the market.

Peer To Peer Lending In India

Scope of Activities

Scope of Activities of an NBFC–P2P

1. in addition,

- An NBFC–P2P needs to acts as a platform in the market,
- It cannot raise the deposits nor lend by their own under 45I (bb) of the Act or the Companies Act, 2013,
- Cannot permit international funds flowing,
- Cannot arrange credit enhancement,
- Ensures legal requirements,
- Collects and stores all the related information.

2. Further,

- NBFC–P2P needs to undertake the participants,
- Needs to risk analyses,
- Consent regarding credit info,
- Checks documents for verification,
- Provide repaid amount,
- Recover loans.

How it Works

If one is willing to take a loan from P2P then they need to fill up a form that charges 500 to 1000 INR. The company further checks the background of the borrower with the document they submitted such as Pan Card and makes sure that their income tax is clear and they are able to repay the loan by their Salary slip. If this is selected then the company puts their loan requirement on the website, and the lenders come to know about this from various social media platforms. One gets selected on the basis of their risk category, further one can take a loan of amount 25000 to 5 Lakh INR as personal loan, and 30 Lakh INR as their business loan. Interest can be 12 to 36% percent according to the time limit of 6 months to 5 years.

How P2P Platforms generate revenue

P2P's higher sales rate is due to the platform transparency, on the other hand, the bank has so many paper works and hidden pay schedules,

P2P is a simple and transparent lending system, where they provide a page related to all the fees they are charging in order to make money,

Both the bank and P2P have different fee structure. Such as,

P2P lender’s fee structure,

Fees charged from borrowers.

For e.g. LandBay has a two-fee culture for borrowers, 1st upfront fee of 2% to 2.5%. In addition, they charge 0.5% to 1.00% for annual margin on the loan outstanding.

So there are two main fees that are charged from borrowers are upfront and marginal interest. However, investors no need to pay any fee.

That means the company charges £101 from borrowers and pays £100 to investors, and keeps £1 to them, which is a fair coming from the company like Land Bay.

Propend charges fees from both borrowers and investors.

Borrowers have to pay the listing fee and completion fee as well as legal fees in order to take a loan from Propend.

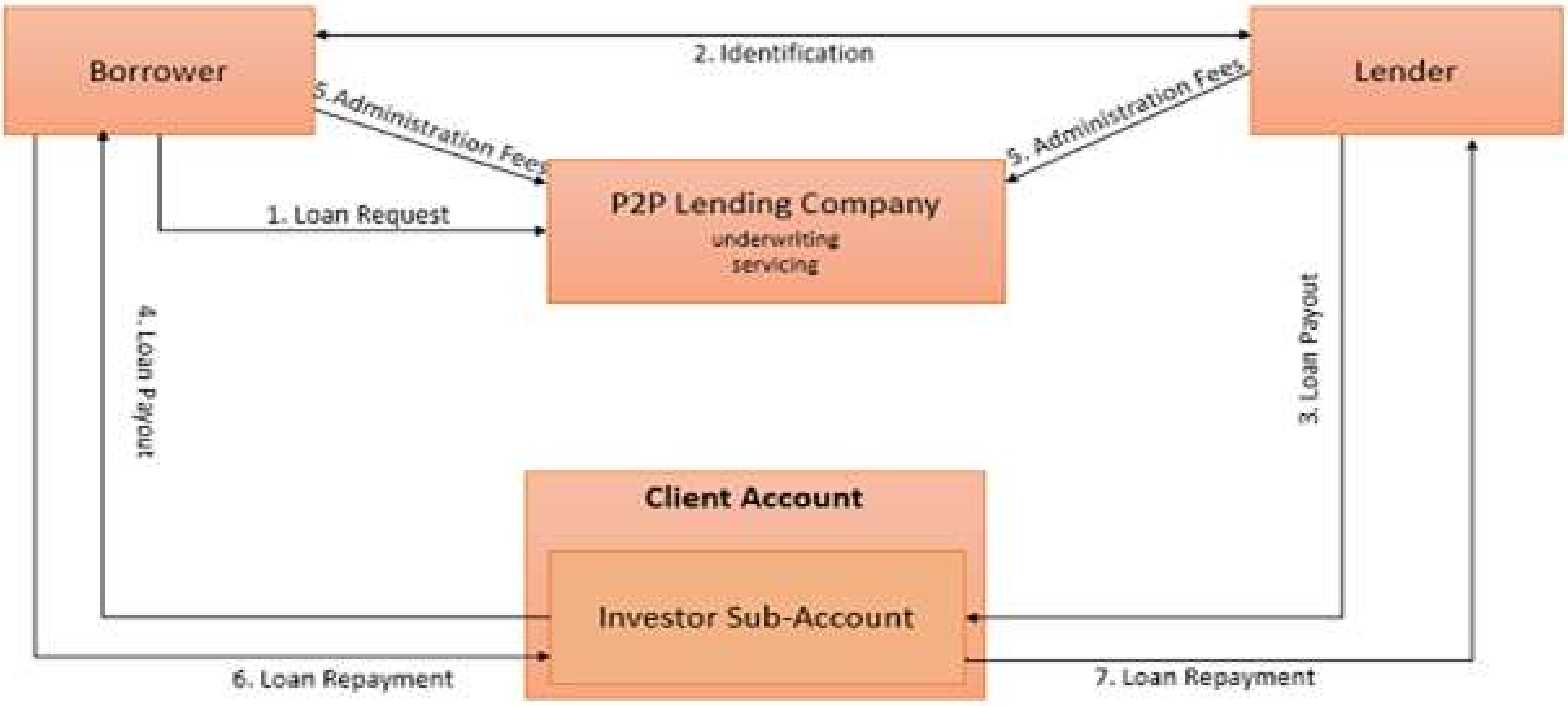
Investors need to pay 10% of receive interest.

P2P Lending Platform Revenue Models

Client-Segregated account model

Notary model

Client-Segregated account model

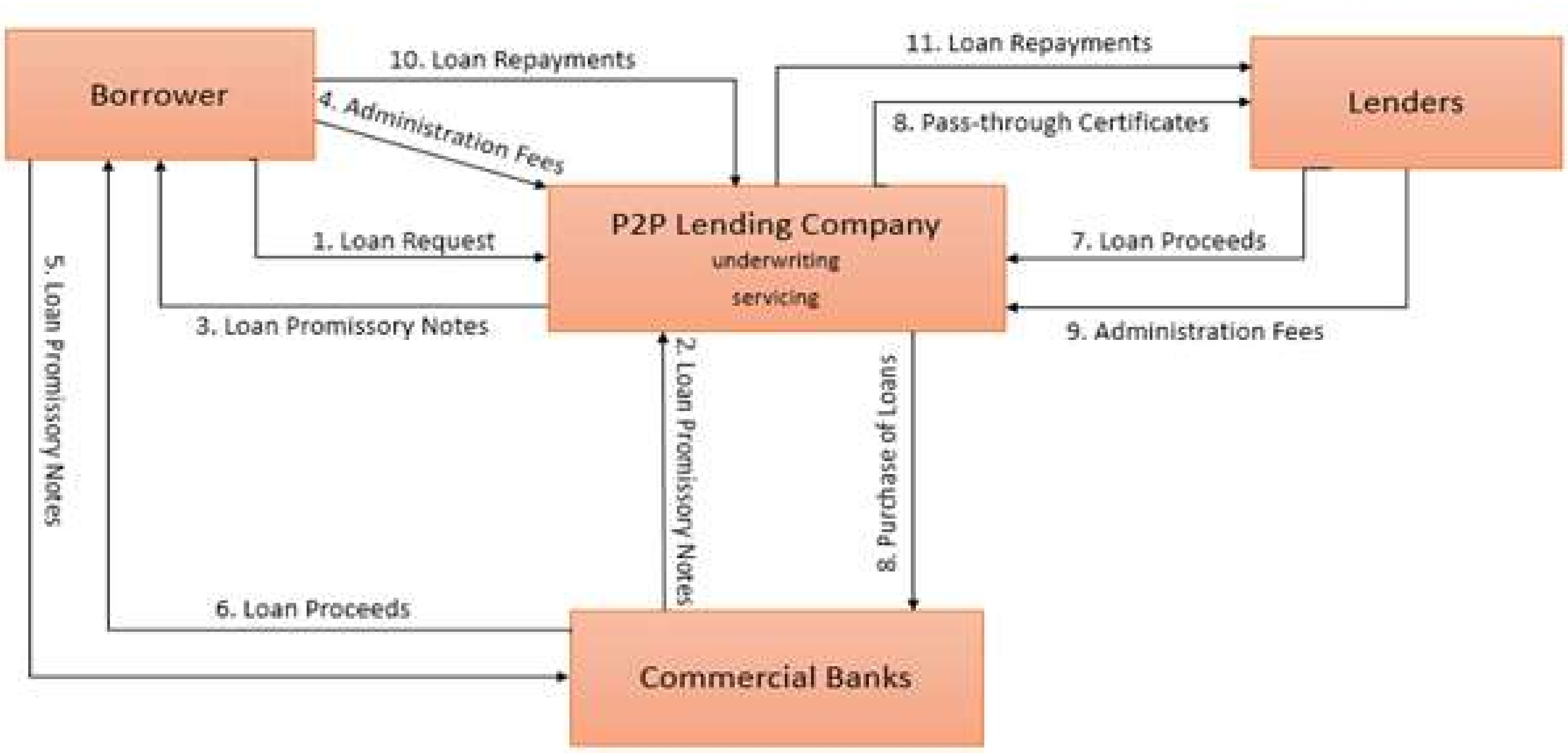


In this simple P2P model investors straight interact with borrowers. Such as,

1. Borrowers put the loan request on the P2P website,
2. Lenders identify the request,
3. Funds are deposited to the specific account of P2P
4. Then funds get transferred to the account of the borrower
5. The company charges administration fees from both parties,
6. In the time of repaying borrower deposits the money in the same account,
7. Then it gets available in the lender's account they can further withdraw it or they can use that again in P2P.

As both the parties know about their money, risks of bankruptcy reduce.

Notary model



This complex P2P system includes a commercial bank with lenders and borrowers. The process is discussed below,

1. Borrowers put their loan requirement on the website,
2. Then P2P pass this to the commercial banks, in order to get loan sanction,
3. The permission note then gets forwarded to borrowers,
4. Company charges for admonition fee,
5. Then the note submitted to the bank by the borrower,
6. The banks pay the amount
7. Meanwhile, P2P adds this loan need in their website,
8. After getting sufficient fund from the lender bank receives the amount,
9. Company then charges an administration fee
10. The borrower needs to repay its debts to the company,
11. This passes to the lenders by the company.

This method is highly used by Lending Club and Zopa, and they are the industry leaders.

P2P Lending in India: By the Numbers

In 2018 this eleven peer-to-peer (P2P) players got their license from RBI in order to operate as NBFC-P2P organization. Among 30 P2P company, very few managed to get their license from RBI, and Faircent was the first company among that.

There are some other P2P companies who managed their license from RBI are, Finzy, OMLP2P, Monaco, AnyTimeLoan, etc.

In 2018, some high funded P2P companies vanished, and some new companies took their place as they were unsuccessful to meet the rules of RBI. In addition, RBI defined the NBFC-P2P as the non-banking organization that carries the industry related to P2P lending stage.

The risk involved in P2P Lending Sector

In order to deal with the lending money risks, RBI implemented some rules, in which one can get their money back with interest.

One needs to understand this platform,

One needs to know how the system works before investing,

Never hesitate in the time of asking about any queries,

Never invest all of your savings in order to get more returns.

How it is different from banks?

Both of these are very different from each other. In a P2P system, people lend money from another party in order to increase their fund, and other people borrow these funds in need.

In P2P the contributors create purchasable loans. The investors invest in these loans and get extra benefits in the name of interest. This also offers risk plans, which is a big difference from the usual bankers.

In addition, the retailers only seek this investment in order to boost their savings only.

So how does P2P lending platform generate revenue?

P2P's higher sales rate is due to the platform transparency, on the other hand, the bank has so many paper work and hidden pay schedules,

P2P is a simple and transparent lending system, where they provide a page related to all the fees they are charging in order to make money,

Both the system has different pay rates.

Other Services of P2P Lending Platform

In simple terms, crowd funding indicates a method in which a small amount of money raised from a group of people by the portal acting system. There are various types of crowd funding such as donations with no financial benefits, equity crowd funding of the finance market.

Operational business models in India

In India this P2P are associated with the technological industry that comes under the act of aggregator, and further creates a match between lenders and borrowers. After signing at the website, this P2P platform accepts their participation in lending or borrowing activity.

Characteristics

Sometimes used as a profit section,

No prior bond between lenders and borrowers,

Online transactions,

This can be non-protected and protected as well, but government bodies do not protect this loan,

To prevent threats lenders directly sends money to borrower's bank account,

All the platforms need to have injustice redress mechanism,

Needs to provide a regular report to the Reserve bank of India (RBI)

Institutional Investor Outlook on P2P Lending

In recent years, this crowdfunding and P2P become one of the most accepted lending systems around the world. This investment in the loans section gives the investors enough scope to create diversity in their investment aspects, and from this, they gained 7% annual return as well. The P2P policies of Swedish, Danish, and Finnish also offer some credit risks regarding the sold loans.

The Financial Supervisory Authority of Finland mainly authorizes fellow Finance that is the largest P2P company in the Nordic countries, also the company holds 20M€ around the market which indicates there huge capital investments as well.

Growth of P2P lending in India

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In 2018, some high funded P2P companies vanished, and some new companies took their place as they were failed to meet the rules of RBI. In addition, RBI defined the NBFC-P2P as the non-banking organization that carries the industry related to P2P lending stage.

RBI also mentioned that NBFC-P2P companies are not allowed to raise the deposits, lend things by their own; also, they cannot permit or help to lend in the platform.

Further, "an NBFC-P2P shall act as an intermediary providing an online marketplace or platform to the participants involved in peer-to-peer lending". The RBI provided this P2P company with a validate license, that witnessed a flow in the loan section with the second half of that year.

Future of P2P Lending in India

Future of P2P Lending in India In the recent world culture, P2P became one of the most relevant funding systems, while in India it is still not very activate or not even that much recognized by the Indian culture. In addition, there are not prominent rules are made by the government bodies regarding this P2P system. However, most of the P2P laws are based on UK common laws. There is still confusion regarding whether this P2P in India act like a crowdfunding system or collective investment schemes. However, still, there is a long way to go before the draft regarding this implement by The Securities Exchange Board of India (SEBI). On the other hand, the main reason that P2P is still not that active in India is the backward mindset of people. The people still trust the bank investment and deposit system, in order to higher their funds. To get the early benefits India needs to catch up on this new age funding system.

Business Model under Peer to Peer Lending Model

Client Segregated Account Model

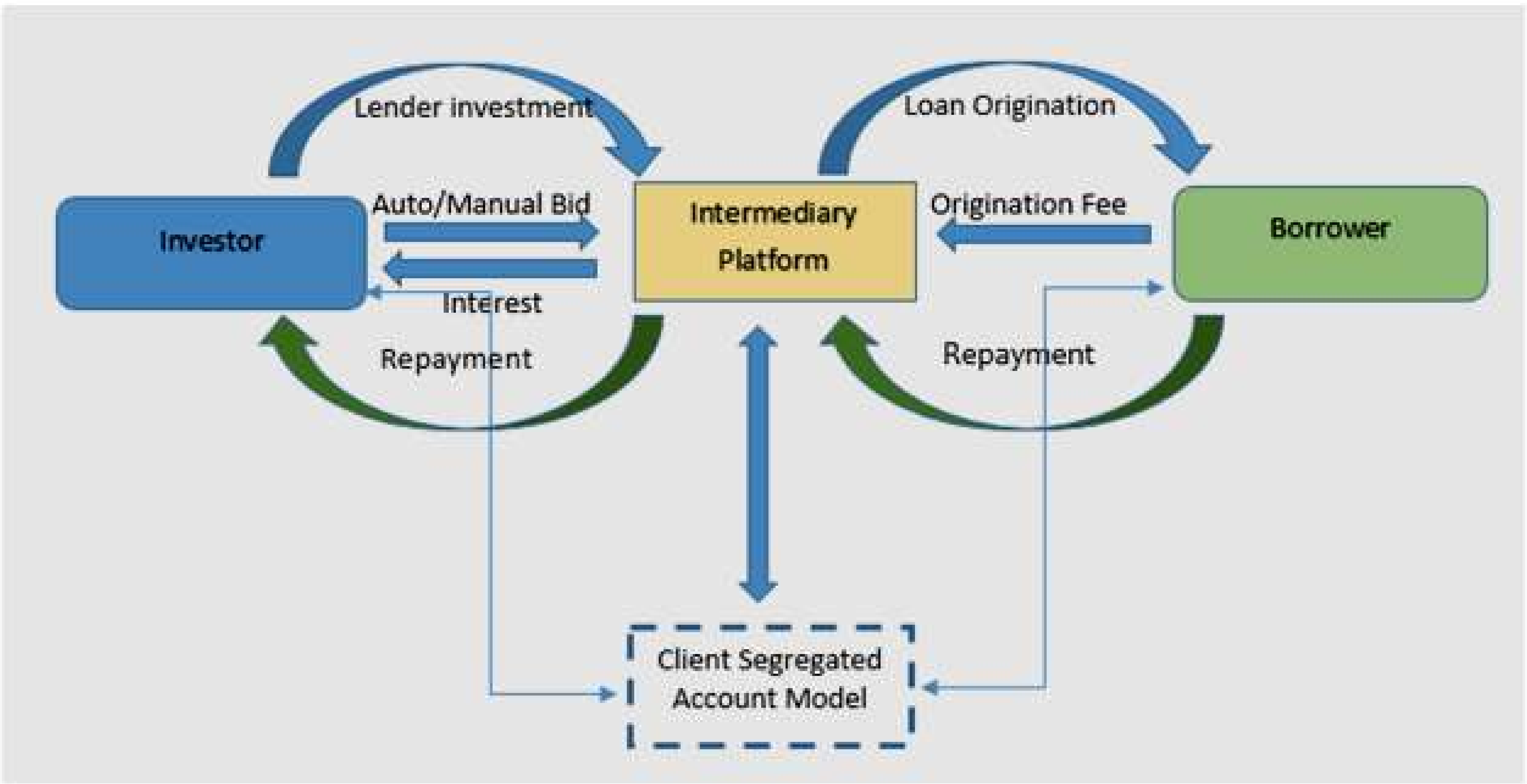
In this model was introduced with the help of a platform which was intermediary by making a match of individual borrower and lender. In this model, the lenders use to allocate funds to the businesses and individuals in the below mentioned ways;

Automatic lending basing on the random allocation method in the Platform

Allocation based on manual bids consider the own judgment of the lender

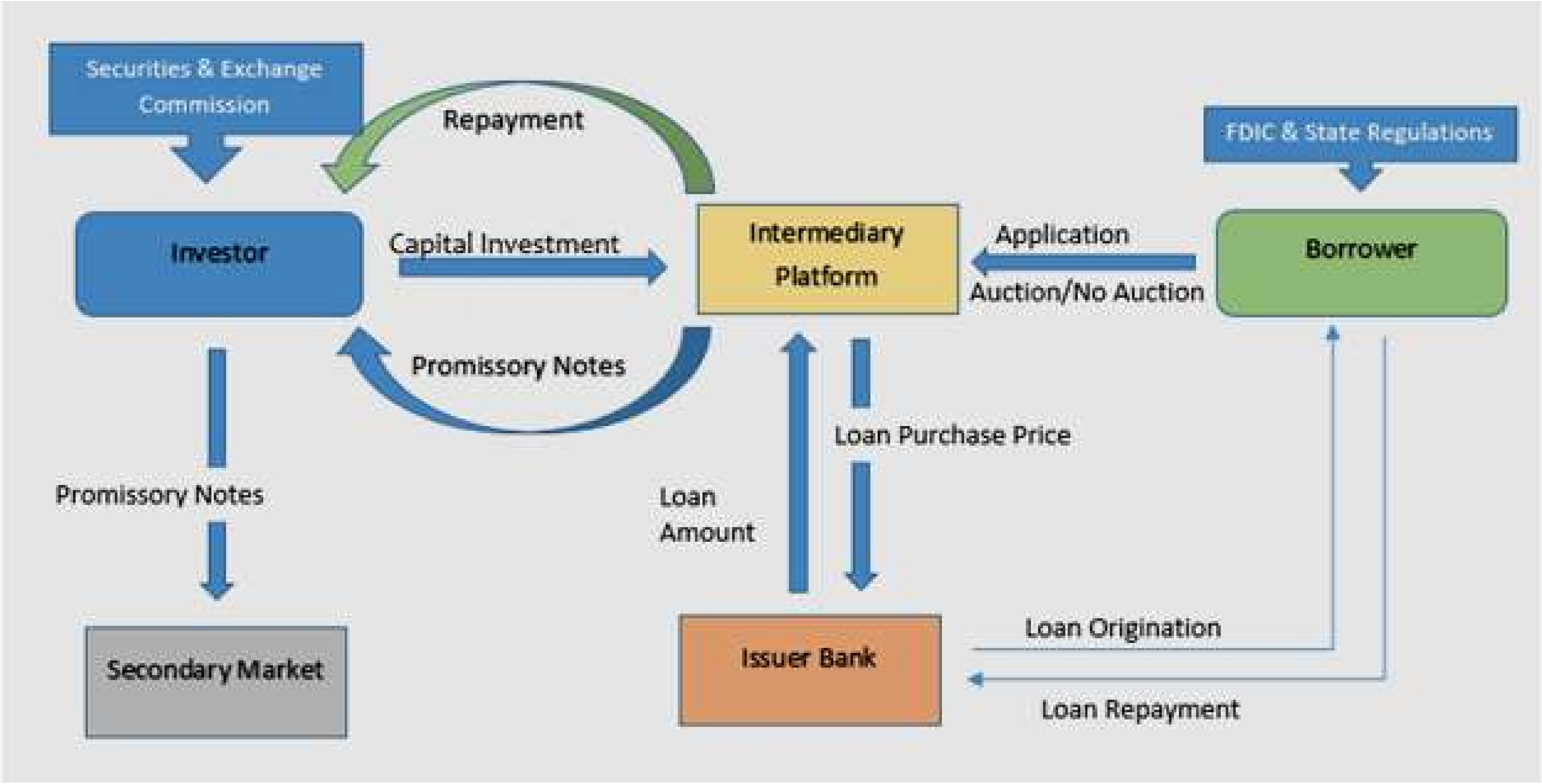
According to this model, the funds are directly transferred between the lender and the borrower without the involvement of the bank.

The P2P platform provides an opportunity to the lender and borrowers to get separated from the intermediary and its balance sheet with the help of segregated client account.



Notary Model

This is a peer-to-peer lending business model where the online platform can be termed as a intermediary between the borrower and investor. The risk profile of the borrower can be analyzed with the use of the loan issuing underwriting guidelines of the bank and the approval of the application. The loan requirement of the borrower is usually listed on the website of the platform for the investor for the verification of funds. After obtaining confirmation from the clients, the loan amount transferred by the issuing bank to the borrower.



Guaranteed Return Model

Apart from the aforesaid two models there is also another business model for Peer to Peer Lending Platform which is guaranteed return model. Although this model is widely accepted. According to the name of the model, the lender can expect a fixed interest rate on the amount of investment. According to the reports of market, the investor can interest to practice this model can be termed as high but the demand will be less from the borrower.

Funding Process under Peer to Peer Lending

The following are some of the processes of Peer to Peer Lending Process;

P2P Funding Via Auction

Under the aforesaid process, the lender at the Peer to Peer Lending Place will compete against one another to fund the requirement of the borrower's loan in low rates of interest. The loan of borrower will be funded by minimum seven to twenty lenders which completely depend on the amount of loan and each part of the loan can have a different interest rate.

Via A Fixed Rate Auction

Under the aforesaid scenario, the amount of interest will be fixed and the amount of loan is required to be funded by the lenders. This model is considered accurate as compared to the marketplace method.

The Marketplace P2P Lending Model

Under the aforesaid method, The Peer to Peer Lending platform by itself or through its financial associates will complete and underwrite the requirements of the borrower with this platform. Once this process gets completed then the Peer to Peer Lending platform will sell the IDs of loan to the interested lenders.

Procedure of Obtaining Peer to Peer lending License

Any business who wants to commence its business of Peer to Peer Lending or a company registered whether it may private limited or public limited registered on the database of Ministry of Corporate Affairs can apply to the Reserve Bank of India for the license of Peer to Peer Lending. For obtaining the license of Peer to Peer Lending the following criteria must be fulfilled;

- A Company must be registered in India as a Public or Private Limited Company which has a clear objective of financing including.

- A net owned fund of minimum INR 2 crores.

- Mobile Application or Website flow of work.

- The availability of online application can be checked on the website of Reserve Bank of India i.e. known as COSMOS.

- The hard copy of the application along with the copies of required documents must be submitted to the office of the Reserve Bank of India.

- The license can only be granted after the inspection and verification of the application and the copies of the document attached by the vigilance department.

Minimize Risk and Maximize Returns on the Peer to Peer Lending Platform

A person very easily minimizes the risk factor in lending if he can choose the borrower is creditworthy. The Peer to Peer Lending platforms are concerned with listing borrowers after the assessment of the creditworthiness with various processes. Once you choose a platform, you can personally meet the buyer for enlisting the borrowers so that you can understand the method of P2P lending. The following are some of the methods which can help you to minimize the risk in Peer to Peer Lending platform;

To check borrower's creditworthiness

The creditworthiness of the borrower is one of the important aspects for Peer to Peer Lending Platforms. The complete details of the borrowers have to be checked to know to whom you are actually lending money. Close attention has to be paid to understand the intention and capability of the borrower to pay.

Diversify across borrowers

Diversification can be considered as the golden rule in case of investment. The practice of Peer to Peer Lending has also diversity across various classes of borrowers. The investments can be segregated while you can choose buyer from different segments of lending. In this way, you can minimize the risk.

Looking for a platform which assists in loan recovery

Although due precautions are being taken, the borrowers still can have defaults in the loan process. For the mitigation of risk in the investment, the registration in such Peer to Peer Lending platform is required so that they can collect the loans which are in default.

Make sure the overall lending process is transparent

Besides, checking the profile of the borrower, it should also be ensured that the overall process of lending is transparent. The Peer to Peer Lending Platforms have generally transaction policy which is non-ambiguous in nature. Thus, you can be confident that your money is safe.

Challenges face by Peer to Peer Lending platform in India

The following are some of the major challenges that India is facing in Peer to Peer Lending Platforms;

Loss of money as a result of fraud

In case of investment in Peer to Peer lending, there is a high possibility that the online lender can submit application with the use of fake identities while registering himself in P2P Platforms by creating fake profile for borrowing.

Loss of money as a result of P2P lending platform going bust

In case one of the P2P lending platforms is in the process of application of Non Banking Financial Corporation and Peer to Peer Lending license from Reserve Bank of India to close its operations, then there is a substantial risk that you will not be able to get the money back from lending. The Reserve Bank of India will track the Peer to Peer Lending Platforms by taking legal action and recovery of money.

On the other hand, some of the Peer to Peer Lending platforms are not registered with the Reserve Bank of India so that they can claim for the guaranteed return in websites and advertisements in lending. The consumers must be aware of such fake promises in lending money and loss of money.

Loss of money due to rise in bad debts of the borrower listed on P2P platform

There is high possibility that if the credit profile of the borrowers deteriorates for some reason after listing the same in Peer to Peer lending Platforms and raise money from more than one lender.

Pros and Cons of P2P Lending Model in India

Pros of P2P Lending for Borrowers

The following are some of the pros or advantages of Peer to Peer Lending in India for borrowers;

Fast and easy online application system

Low rate of interest in traditional financial instruments and credit cards

Availability of loans

Fixed rate of interest and monthly payments

No penalty in want to pay to decide to pay loan before the due date

The loans provided are unsecured

Pros of P2P Lending for Lenders

The following are some of the pros or advantages of Peer to Peer Lending in India for lenders;

The lenders may be institution or individuals

High rates of return between the ranges of 12% to 36%

It is really easy to open an investment account online

The investment is low initially

The investments can be made in thousands of loan portfolios

Diversification of risk in different loans rather than concentrating in single loan

The choice is up to the lender to reinvest in payment or withdraw funds from P2P accounts

Cons of P2P Lending for Borrowers

The following are some of the cons or disadvantages of Peer to Peer Lending in India for borrowers;

It is not available when the amount is large

If the credit is less than good credit, the borrower will stuck in a interest rate which is high and can also help in long run. This can also improve the credit before applying.

Cons of P2P Lending for Lenders

The following are some of the cons or disadvantages of Peer to Peer Lending in India for lenders;

The lenders have the chances to make good returns but it also involves high rate of risk. The loans issued by lenders are generally uninsured. In simple words, the lender can lose whatever he can invest in loan. Lender can reduce the risk factor by good credit score of the buyer.

The investors can also use the stock market and find the requirements of the peer to peer lending during the adjustment period as they cannot sell what actually they want. Once the loan is approved through P2P lending, he will be committed to the terms of the loan which can be calculated in terms of years.

The 8 Best Peer-to-Peer Lending Companies of 2019

The following are some of the best Peer to Peer Lending Companies in the year 2019;

Lending Club

Lending Club comes first to anyone's mind before investment in Peer to Peer Lending. The company had loaned more than $35 billion and in the year 2014 it was recognized as first ever public traded Peer to Peer Lending company. The company has been dominating the share market since then with 45% of share.

Upstart

Unlike any other traditional lending platform, the company Upstart considers not only credit score but also the evaluation of creditworthiness. Apart from that the company also considers area of study, education and job history before making a decision. In this company the borrowers can get loan up to $50,000 with starting interest of 8.85 percent interest.

Fund Rise

Fund Rise is considered as a landlord due to its working style. Fund Rise is a great place to invest in case a person wants to invest in private real estate and the negotiation of the sale to keep the low price and there can be a lot of difference in stock market.

Funding Circle

Funding Circle works helps the businesses to grow and expand. In this company, a borrower can borrow up to $500,000 by showing creditworthiness up to five years. Currently, the company has been working with over 40,000 businesses across United States of America and United Kingdom.

Street Shares

The company Street Share has been offering businesses to provide a loan up to$100,000 for a period of three years validity. Apart from that the company also offers the fine line of contract and credit financing which is taken into consideration for the analysis of the earning potential and ultimately the amount of loan will be based on the capacity of repayment.

Peerform

Peerform company was founded some finance and tech experts in the late 1990s. The company provides investment and loan opportunity which are transparent in nature as well as fast. The company can provide a loan to the borrower up to $25,000 excluding the rate of interest depending on the credit score of the borrower.

Prosper

The company Prosper became the first peer-to-peer lending platform in the year 2005. Since then the company has helped many people and provided more than $13 billion in loans. The company provide loan considering the capacity of the borrower and the rate of interest without having any impact on the credit score.

Kiva

Kiva is somehow a different Peer to Peer Lending Platform as compared to other platforms. Rather than investing the loan amount in a specific grade the company Kiva makes you invest in projects as well as individuals who have a name and face as well.

Peer to Peer Landing In Global Scenario

Globally, the Peer to Peer Lending market has been gaining recognition for its growth prospective. The industry today is fully mature regarding the concept of Peer to Peer Lending and this has already made high rate of investment opportunities in India as well as on international level. There is a possibility that due to the inherent gap of the borrowers the rise in interest can be seek out for alternatives resources for financing.

The concept of P2P can be viewed and analyzed differently in different parts of the World. This can be better analyzed with the help of an example. For example, United Kingdom and Canada use Peer to Peer Lending Platforms as intermediary whereas Germany and France consider this platform similar to banks. In United States of America, the rules and regulations of Peer to Peer Lending vary from state to state. Similarly, China is considered to have largest Peer to Peer Lending market globally. China has integrated the Peer to Peer Lending Platform so that it can become a staple in the future financing of the country.

Despite all the above-mentioned differences, there is one thing that is common for Peer to Peer Lending across the globe that is the projection of growth prospective. According to the reports of Transparency Market Research, the opportunity of the worldwide Peer to Peer lending market has a worth of $897.85 billion until the year 2024 which was earlier $26.16 billion in the year 2015. Apart from that it can also be predicted that the Peer to Peer Lending platform will gain about 45% of the worldwide share market by the end of the year 2020.


Peer to Peer Lending Market
BY END-USER
Consumer credit loans
Small business loans
Student loans
Real estate loans
BY BUSINESS MODEL
Alternate marketplace lending
Traditional lending
BY REGION
North America
Europe
Asia-Pacific
LAMEA

Thank You