PEER TO PEER LENDING AGENCIES

DR. MAHADEVANAYAKA N S
Assistant Professor of Commerce
Government First Grade College Bannur,
Affiliated to University of Mysore.

Abstract: -

P2P lending will emerge as the most prominent alternative investment opportunity, many years ago person needs loan as to go to bank or similar financial institution to get it he had to apply and wait for to be approval by banks usually approve or reject the loan based on the applicant's repayment capacity. A person was judge depending on how much he made and what is the financial situation, butin present scenario if a person needs to borrow money, he can turn to *P2P* lending and borrow money from another person (individual).*P2P*lending is one such business model that has gathered momentum globally and is taking roots in India in this conceptual paper list of *P2P* lending in India, procedure followed for *P2P* lending to lend, and suggestion for implementation of *P2P* lending by banks, challenges opportunities and suggestion for *P2P* lending are expressed. *P2P* lending is a new concept in India online sites have started operation allowing the individual to obtain loan or invest money in *P2P* lending without intervention of banks and financial institution.

Keywords: **-P2P-P**eer to **P**eer,**NBFCS- N**on-**B**anking**F**inancial **I**nstitution KYC -know your customers

Introduction: -

Peer-to -peer lending or in its neo progressive term known as social or crowd lending is a form of lending having its origin from the early human civilization era and is still in existence without losing its importance and glory , having turned over many times , and it is the latest molded to get managed at the tip of our fingers and still bouncing ahead with today's modern world economic needs , but there exists a thinner line of separation that differentiates between *P2P* lending the investors are mere creditors. *P2P* lending is regulated by central banks and crowed lending is regulated by capital market regulators *P2P* lending is the mother of today's well stabilized banking system having a parallel wing of its own primitive structural existence meanwhile intermediaries were evolved at the time of churning of time to regularize and reduce the risk in *P2P* lending which later transformed into banks as the name suggested, in *P2P* lending there is no intermediate agencies for selection of borrower, but all the rights and risks are reserved and restricted at the loaner alone the growth of *P2P* lending is boosted because of its easiness to avail loan without much hurdles and the high returns from it the scope of *P2P* lending is spread from the very small hand loans given between corporate, this restricts the balancing and controlling of *P2P* lending under a single statutory and regulatory authority.

Peer to peer lending in India: -

In India *P2P*lending is regulated by reserve bank of India.A company holding a certificate of registration as NBFC-P2P and a minimum capital of Rupees twenty lakh only will be allowed to enter into *P2P*lending platforms in India which operates on commission basis for matching up of lenders and lender, the platform charge an orientation fee to the borrower and operation fee to the lender. The platforms should also be technically viable as per the standard norms by RBI.Peer to peer lending virtual platforms are still in infant stage in developing and under developed countries.

Review of literature: -

Why is there a need forP2Plending?P2Plending has advantages for the individual and the society.

Hulme, 2006. They increase the welfare of the society as they give borrowers loans at a lower cost and give lender higher returns the loan focus on the market for small loans, which banks don't serve

Dhand et al., 2008 they reach borrowers in needs of loans who haven't access to regular forms of credit.Somepeoples, like starting entrepreneurs won't meet the requirements to borrow money via banks but will via *P2P* lending platforms, in total more loans are being served and the total welfare of the society will increase.

De Roure, pelizzon, tasca 2016 The reputation costs, capital requirements and marginal costs make it more interesting for banks to not serve the riskiest borrowers or smaller loans.

Objectives: -

- To study *P2P* lendingplatforms institutions,
- To analyze procedure followed for *P2P* lending to lend,
- To analyze challenges and opportunitiesand suggestion for implementation of *P2P* lending by banks

List of *P2P* lending platforms

P2P lending platform	Founded by started in the year	Fund raised or partners
i2i funding	Abhinav johary , Manisha bansal, nehaaggrawal in 2015	$1.1 million from succeed venture partners
Faircent	Nitin guotha ,rajat Gandhi and vinay Mathews 2014	JM finamcial,aarin,,Das capital others
Finzy	Abhinandansangamamit more and vishwasdixit in 2016	Raised $2.3 million in investment from BFSI industry
i-lend	Mukesh kothari ,Nitigupta and Shankar	Angaroscapital ,Brand capital ltd
Len Den club	Bhavin Patel and Dipesh karki in 2015	$611.8k from venture catalyst, Anirudh Damani
Paisa dukan	Rajiv Ranjanin 2017	
Rupee circle	Ajitkumar in 2017	Funding from Mahindra finance
Monexo	M sundar, Mukesh bubna and sonalbengani in 2014	CRIF ,Trust company ,IDFC bank
Cashkumar	Dhiren makhija , Kannan Kandapan and yogeshjoshi in 2014	--------Data unknown ------------
Lendbox	Bhuvanrustagi,jatinmalwal, Ekmeetsingh in 2017	20000 online lenders
Loan babab	Sankethasabnis in 2015	$320K

(Source ; startup wonders .com)

Procedure followed for *P2P*lending

Customers'need to register at the website to participate in any transaction Registration is free for all users.To register the customer must fill his personal details and create a login id as part of the registration process, email id and mobile number will be verified.Post successful registration, the customer will be assigned a relationship manager, and the customer will have access to more functionality to start financial transactions, customer needs to either create a borrower or an investor account as per requirement.

Borrower account creation

The customer as to fill a simple and easy online form regarding loan requirement, personal details, employment history and financial details, along with scanned self-attested copies of required documents. Customers may also opt to have a co-borrower which might be helpful in getting faster loans at better rates, to increase chances of funding, the customers has to fill in "Optional" fields as well.

Interest rates

The website helps the borrowers and the investors in setting the interest rates.Using a proprietary credit score model; it recommends an interest rate for each loan based on its credit risk. A borrower can borrow at an interest rate which is higher than or equal to this rate.

Listing period

After registration by the interested lenders and borrowers, the company will verify the credentials of the parties and will display the list of active investors who are willing to lend the money on the portal.

Post the loan

A borrower can post the loan at an interest rate higher than or equal to the portal recommended interest rate during the listing period, the borrower will have the option to increase the interest rate to provide higher returns to attract investors.Once interest rate has been increased, the same rate will be applicable to the investors who have already made the commitment.

Investor account creation

To create an investor account, the customer has to fill a simple and easy online form regarding investment requirement along with personal and employment details customers have to submit the scanned self-attested copies of required documents to complete KYC requirements and then customers are ready to invest, after successful creation of investors account, customer wallet will be activated along with customers brief profile and investment preference.

Invest in a loan

An investor can commit to lend to a single or multiple borrower.Before making the commitment, key information of borrower including his /her reportwill be available.Once a commitment has been made, the investor will have access to further documents as uploaded by the borrower any time before deal closure, the investor and the borrower can interact and clear their doubts through the portal messaging system.

Loan gets funded

To mitigate investment risks, a loan is funded by multiple investors; all the investors for a particular loan will enjoy the same interest rate to avoid any speculation and should lead to the fair discovery of market-based assessment of borrower's risk profile.

Physical verification and signing of legal contract

Once a loan is closed by the borrower, the portal could conduct physical verification of the borrower along with matching the uploaded documents with hard copy /ID proof. In case of a discrepancy the transaction will be cancelled along with server penalty on the borrower which would include barring him / her for carrying out any new transaction at the portal.

Investor will also be duly informed of the outcome of the verification upon successful verification the borrower and the investor will sign a loan agreement which is legally binding document enforceable in the court of law.

Borrower receives funds

Once the loan has been closed, requisite documents have been collected he verification process has been successfully completed, and the loan agreement has been signed investors are obligated to transfer the money to the nodal escrow account and to customer bank account on the next working day post this the borrower needs to update the status on the portalfor record keeping.

Repayment of EMI and loan closure certificate

The repayment schedule is provided to the borrower. Any delay or default attracts severe penalty the borrower may also prepay the loan without any prepayment charges once total loan amount has been repaid as per the given schedule, a loan closure certificate is issued to borrower.

Opportunities of investor in peer to peer lending

Higher rate of return
Peer-to-peer investor is the most benefited party among all the parties involved in peer-to-peer lending system

Selection of the borrower

Lender alone is reserved with the rights of selection of a loanee lender can have a detailed viability study before lending which reduces the risk factor.Lender can reject any loanee applicant. Theloanee does not hold any legal rights to avail loan from *P2P*lender.But in banking system the borrower will have rights to avail loans.

Evasion of statutory obligations

The money lenders evade statutory obligations like tax on interest income by managing the investment portfolio without accounting into the banking system. More than ninety percent of the *P2P* transactions are unrecorded which creates a wider scope of evasion of tax and accumulation of higher income.

Short term investments

Eighty percent of the loans are having less than one-year maturity period.This indicates that the funds are deployed for short term duration with higher rate of return.This creates a scope for redeploying the funds.

Smaller chunks of investments

Investors are having an option to make the investments in smaller multiples of accepted minimum deposit this allows the investor to make multiple investment of the money in different borrowers.

Challenges of lender in *P2P*investments

Higher risk compared to other investments
Even though the returns are high in *P2P*lending recovery of the due amount can't be guaranteed recovery of amount in *P2P* banking is four times tiresome than the normal recovery risk taken by banks.

Lack of statutory / regulatory and legal protections

Legal protection for recovery of dues is time and energy consuming. Countries in which p2p lending is restricted do not have any recovery mechanism to assist the lenders

Technical assessment of loans

Investment portfolio just by checking the value of the securities available with them Wrong appraisals may lead to mortality of the assets and turning them to NPA

Returns depends upon economy

More than eighty-five percent of the investments are unproductive loans. These loans were majorly for consumer durables and other expenditures. Income is not generated in all these investments and will be turning to NPA at very early stages of economic recession when the economy is upward income will be churning around, but it can't bear even a small jerk and get spilled out everywhere.

Investments are in smaller chunks

The investors investing in smaller chunk of money in different borrower for reducing the risk find it difficult to recover the amount from individual borrowers as the sum of money will be considerably lesser the investor better write off than expending recovery expenses.

Suggestion for implementation of *P2P*lending in banks

1)Comprehensive training should be given to every staff member of the banks in the branch for implementation of the *P2P* lending.

2)Introduce a onetime campaign to enable all staff members to know the basic features of *P2P* lending.

3)Simple steps for administering the products should be provided for easy access for all staff members and should also be updated regularly.

4)Publicity in electronic, print media platforms about the process and procedure involved in *P2P* lending be launched.

Conclusion

P2P lending in India is still in its very basic form it needs greater interest and traction from lenders with the real estate market being subdued, economic certainty playing out in the stock markets, and opaqueness around gold, we will see people increasingly looking at alternate sources of finance as an investment tool.

P2P lending will emerge as the most prominent alternative investment opportunity.On the borrower side, things are grim.This is particularly true for SMEs have been squeezed hard by demonetization and loans from banks have come to almost a screeching halt. SME and MSME will look at alternative sources of funds to fuel growth and would be the biggest beneficiary of *P2P* lending due to faster and cheaper access to credit. It is uncannily difficult to raise loan from a bank and it has become tougher last year 34 percent of small borrowers used this avenue toexpand and fund their business, creating more jobs and adding to the growth of our economy.We expect this part of borrowing to grow considerably for the entire *P2P*sector, both in terms of percentage and volume one gray area for the has been the lack of guidelines and regulatory provisions. Last year the RBI had put out a consultation paper on *P2P* lending in India the paper proposes NBFC status for *P2P* lending platforms and is largely in line with what the sector has been asking far. Accordingly, *P2P* lending platform can be introduced in the public sector as well as private sector banks to enhance the customer satisfaction to meet the day to day competition and to go along with the present trend of digitalization.

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