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P2p Lending in India: A Comparative Analysis of Trust, Product and Price of Select Platforms

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ABSTRACT; *Small businesses were largely cut off from the credit after the recent financial crisis. Revolutionizing credit is considered as the best possible solution in this regard. This is where the non-conventional lending platforms come into play with their technology allowing them to function more efficiently and at cost advantage over the traditional system. Peer to peer lending is one of the most popular source of non - conventional finance. In India the concept is new, but lending market is huge and therefore has great potential. This paper tries to explain the present status of the Indian p2p lending websites by carrying out a comparative analysis on the important aspects such as platform trust, product and pricing strategies adopted by the platforms. The legal aspects of the environment as well as the possible problems and prospects are also discussed in this paper. The study found that Indian p2p platforms maintain a proper security as well as structural assurance mechanism to instil a sense of belief among the online communities.*

KEYWORDS: *Peer to Peer Lending, Trust, Creditworthiness*

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I. INTRODUCTION

Microfinance is the provision of money to individuals those who are otherwise consistently ignored by the formal channels or who are unbanked. Even though the concept is growing over 30% over the decades, vast majority of the poor are still underserved. Empirically it is found that interest rates and the concerned transaction costs are often higher than the commercial lending rates.P2P online lending is a feasible option as it can reduce the operating cost as well as financing cost. Moreover it has a huge online market and increased outreach. This increased outreach would transaction costs as well as financing cost. This paper looks at this relatively new phenomenon of online P2P lending which targets both needy entrepreneurs and individuals looking for small financial solutions to their liquidity problems.

II. P2P LENDING – THE CONCEPT

Peer to peer lending is the process of acquiring funds from the internet community through a platform which act as an intermediary between those who have funds and those who need it. It can be defined as the use of an online platform to match lenders with borrowers to deliver unsecured loans. Borrower can be an individual or a legal person requiring a loan. Loans are paid back by borrowers with interest which may be set by the platform or by mutual agreement. Borrowers and lenders need to pay an amount as their fees towards platform. Borrowers pay an origination fee while lenders have to pay an administration fee plus an additional fee in case of availing additional services of the platform. The platforms deliver services like loan repayment collection and borrower's creditworthiness assessment.

2.1 P2P lending: Modus Operandi

P2P lending process may differ by platform, but generally involves the following steps:

I. Registration; People sign up to the platform either as borrower or lender.
II. Platform evaluates creditworthiness of the applicants. Using the credit information, platform will assign risk grade to the proposed loan and also the interest rate corresponding to the risk grade.
III. Loan request is posted on the platform's website, where lenders can review loans and look for those loans that meet their desired risk and return features.
IV. If satisfied with the interest rate and loan tenure, Lenders will transfer the amount to the borrower,
V. Repayment of the principal amount and interest before due date by the borrowers.

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VI. The platform receives a fee on the loan, origination and servicing fees, before lending the remaining proceeds to the underlying borrower.

III. STATUS OF P2P LENDING IN INDIA

Last decade saw the arrival of peer-to-peer lending in Western market and almost immediately it gained much attraction across the globe. P2P lending in India is relatively new and is yet to create a strong base. Over the last couple of years, several companies have come to offer peer-to-peer lending services in India. Some of the leading P2P platforms are Faircent, LenDenClub etc. these platforms have their own interest rates and terms of repayment based on nature of loan, number of borrowers etc. They provide web-based platform to bring lenders and borrowers together. P2P lending allow borrowers to get loans at lower rates than those offered by moneylenders/unorganized sector. Lenders are benefited from higher returns than what many conventional investment prospects offer. Interest rates and the methodology for calculating those rates may vary platforms to platforms. Interest may be flat (rate fixed by the platform), dynamic (rates fixe by mutual agreement between borrowers and lenders) or cost plus model (operational costs + platform commission + returns for lender).

Following table give information about some of the best peer to peer lending platforms working in India, which is also the sample for this study.

Table 1: Leading P2P Lending Platforms in India

Company	Location/ year of commencement	Website	Minimum loan amount	Maximum loan amount	Average interest rate	Evaluation of borrowers
Faircent	Gurgaon, 2014	https://www.faircent.com	30,000	5,00,000	22-23%	CIBIL score, salary, bank, account data
Lendbox	Delhi, 2015	https://www.lendbox.in	10,000	5,00,000	12-36%	Bigdata intelligence is used for analysis
i-lend	Hyderabad, 2013	https://www.i-lend.in /	25,000	5,00,000	16-23%	Social network data
LenDen Club	Mumbai, 2015	https://www.lendenclub.com /	5000	No upper limit	12.5-35%	Credit score, salary and other factors
Easy Rupiya	Delhi, 2015	https://www.rupaiyaexchange.com	5000(personal) 50000(Business loan)	Rs. 500000-Rs7000000	15-36%	All the borrowers are screened by credit underwriting team and only those fulfilling the credit criteria are approved

Source: compiled by authors from different websites

3.1 P2P Lending In India: The Legality

P2P lending platforms are largely tech companies registered under the Companies Act and acting as an aggregator for lenders and borrowers thereby, helping create a match between them. Majority of the transactions are done through bank accounts, hence, KYC norms are maintained by the concerned banks. To ensure systematic progress and to prevent unhealthy practices in this volatile business RBI issued a proposed regulatory framework

A Bird’s View of RBI Regulatory Framework – P2P

RBI regulatory framework was laid emphasis on the following important aspects:

I. Permitted Activity

The platforms must act only as intermediary i.e. role of the platform is limited to bringing the borrower and lender together. Platforms are not allowed to give any assured return however it can provide valuable inputs on suitability as well as soundness of lenders and borrowers respectively. Proposed regulation prohibits cross border transactions. To avoid the threat of money laundering, direct transfer of funds from lenders bank account to borrower’s bank account made mandatory.

II. Prudential Requirements

Prudential requirements stipulate a minimum capital of Rs 2 crore for the platforms. Leverage ratio is prescribed so that platforms do not expand indiscriminately.

III. Governance Requirements

The guidelines insist 'fit and proper' criteria for promoters, directors and CEO. Additionally, platforms management and operational personnel's need to be stationed in the country. The guidelines also require the P2P lender to have a brick and mortar presence in India.

IV. Business Continuity Plan (BCP)

Since, the platform acts as the custodian of agreement/cheques, the proposed regulation demands for BCP and back up for the data along with an adequate risk management systems for its smooth operations. In case of platform failures, an alternative arrangement in the form of an agreement for continuation of its operations are also made compulsory.

V. Customer Interface

Proposed guideline urges the transparency in operations, measures for data confidentiality and minimum disclosures to borrowers and lenders via a fair practices code. Current regulations applicable to other NBFCs will be made applicable to the P2P platforms in regard to recovery practice. The platform should maintain a grievance redress mechanism to deal with complaints from both ends.

VI. Reporting Requirements

The platforms need to submit regular reports on their financial position, loans arranged each quarter, complaints etc. to the Reserve Bank.

3.2 Peer To Peer Lensing In India : The Issue Of Platform Trust

According to Zucker (1986) personal characteristics, institutions and the process of relationships are the sources of trust. Assadi and Oleysker (2006) observed the three sources for trust as: personality of the trusting party, reliability of the partner, and the third party certifier. Online trust contain both interpersonal trust and trust on intermediary. Intermediary trust in online marketplace involves platform mechanism, rules and regulations, which brings institution-based trust. In this study, among the sources of trust only the platform trust comes under the purview of the study.

A. The Intermediary/Platform Trust

For a social lending website to be trusted, approval of individuals who have used the site (relation-based trust), and who's word of mouth (reputation-based trust) are important. To convince the peers to involve in transactions, Word of mouth and popularity are exceedingly important. In this study, only cognitive based trust of platform trust is analysed.

Cognition based platform trust: Privacy protection and Structural assurance.

Perceived privacy protection refers to a user's sensitivity toward the private information and the belief that the intermediaries will try to protect user's personal information from unlawful use or rendering (Kim et al., 2008). Structural assurance includes precautions such as policies, regulations, laws, guarantees, provided by the platform which make the users feel safe. It also reduces perceived institutional risks lending online. In p2p lending intermediaries will verify and observe the parties and pay attention to the privacy and security of data and transaction. Preventing fraudulent users from doing lending activities enable platform to gain more trust from the user and reduce institutional risks. Here the researcher analyses the top Indian p2p platforms to understand the measures they have taken in order to build the trust in the platform.

a. Privacy protection

The leading p2p platforms in India; Faircent, i2ifunding, LenDenClub, Lendbox and Rupaiya Exchange all are very conscious about the privacy and confidentiality requirement. Platforms have strong safety standards to keep data protected and confidential at all times. They have designed the Privacy Policy to take all judicious endeavours to prevent unauthorized disclosure of user information to third parties. All these websites have devised a suitable physical, electronic and managerial procedures to safeguard and secure the information we collect online.

Profile of a registered individual can be viewed by all the registered lenders and borrowers in **i2ifunding**, in the format set by i2i. However, contact information such as address or phone number will not be displayed.i2i will not sell or rent Personal Information to third parties without the explicit consent of the user.

Rupaiyaexchange, similarly will not share the personal information with anyone other than those listed in their privacy policy.Furthermore, their platform is secured using 128 bit SSL and also claim that they have best security practices from the industry.

LenDenClub state that the identity is protected and not visible to any other member of the portal. Details like lenders name will be shared with the borrower only at the time of signing agreement.**Lendbox** do not disclose the sensitive personal data or information to any third party, except i) with prior permission of the user; ii) for compliance of a legal requirement if any.**Faircent** ensure the security of sensitive data by encrypting that information using secure socket layer technology (SSL).

b. Structural Assurance

Leading Indian p2p lending market players have their own structural assurance mechanism. Each platform has discrete mechanism to rate the creditworthiness of the borrower to ensure the platform trust. Failure at even in one project may curb the growth of the platform, therefore lending platforms are very vigilant in assessing the creditworthiness. Lender Protection Fund is a reserve fund created by LenDenClub to protect the lender's principal amount in case of default by the borrowers. .However, in rupaiaexchange borrowers are screened by credit underwriting team and only those fulfilling the credit criteria are approved.
The detailed mechanism followed are shown in the following table.

Table 2: P2p Lending Platforms and Borrower Evaluation Strategy

Lending Platform	Structural Assurance Mechanism (Borrower Evaluation)
Faircent	• Borrowers are evaluated on more than 120 criteria across 400 data points which includes Financial, Professional, Social and educational background, loan records, etc. Apart from the CIBIL score • Faircent physically checks office and residential addresses, verifies income statements, payment capabilities, past performance in order to understand their ability, stability and intent.
Lendbox	• Borrowers are subject to financial, personal, professional and social background check performed through the use of sophisticated technology and machine learning algorithms (big data analytics) • Lendbox takes into account 1000s of data points to assess the creditworthiness of the borrower such as net salary, expenditure trends, locality of stay, educational qualification, utility and mobile bills, asset holding, Investments, Credit card bills and online spending behaviour etc.
i2ifunding	• It uses i2i's proprietary Credit Score Model (based on 20+ parameters in addition to CIBIL score) and assigns i2i Risk Category from A – F, A being the category with the strongest credit profile and F being the weakest. Social network data is also used. • i2ifunding provides comprehensive protection plan to its investors as well as legal support for recovery.
LenDen Club	• Five point credit check is used for borrower evaluation; it includes Personal Details, Professional Details, Financial Details, Credit History, and Physical- Personal Verification. • Credit Score is calculated based on various permutation combination of borrower's verified details. They verify more than 100 data points of the borrower to derive Credit Score. Higher the score better the credit profile.
rupaiaexchange	• Verification and rating are based on Financial, Social & Behavioural patterns.

Source: compiled by authors from different websites

IV. PEER TO PEER LENDING IN INDIA : THE CASE OF PRODUCT AND PRICING

4.1 Product policy analysis of selected online P2P lending websites in India.

P2P lending offers small loan as its product to a person outside the conventional banking and financial sector. Availability of the loan (for borrowers) and the higher rate of return (for investors) are the major benefit in P2P lending. In the markets like USA and Europe, one can notice that there exist a stiff competition between the P2P lending websites on the basis of support services it offer. When the product is sophisticated and confusing, the customer support services can make major impact. But in country like India, the scenario is completely different. Simply obtaining the loan is almost all that is expected of the micro- lending companies, not much room is there for online convenience services since here, the market is still under developed. There is no credible data available as far as the lending volume of the country is concerned. But then the researcher have taken effort to analyse the product analysis of the Indian P2P lending websites.

Faircent, one of the leading P2P lending platform claims that Lenders Committing to Lend around Rs 133,980,000 whereas Borrowers Seeking to Borrow around Rs 143,509,000. And has a ROI ranges between 12.55% and 27.66%. Most of the loans, 56.7% are made for the appliance purchases and business need. According to lendbox, More than 40,000 users are actively using Lendbox. lendenclub has 4772 Registered Borrowers along with 1968 Registered Lenders. Rupaiexchange has now existing lender commitment up to Rs.1170, 00.000

Table 3: P2p Lending Platforms and Product Specifications

Lending Platform	Minimum loan amount	Maximum loan amount	Loan period (in months)
Faircent	30,000	5,00,000	6-36
Lendbox	10,000	5,00,000	-
i2ifunding	25,000	5,00,000	3, 6, 12, 18, or 24
LenDen Club	5000	No upper limit	3-18
rupaiaexchange	5000(personal) 50000(Business loan)	Rs. 500000-Rs7000000	6-36

Source: compiled by authors from different websites

4.2. Pricing analysis of select online P2P lending websites in India

For customers, in an online lending market interest rates represent the cost or price of loans. This price is influenced by many factors the level on interest rate depends on the loan amount and the repayment duration.

Table 4: P2p Lending Websites and Pricing Strategy

Lending Platform	Lenders registration fee	Borrower registration fee	Average interest rate	Bidding process
Faircent	1000	500	12-28%,	Reverse auction bidding
Lendbox	-	1500	12-36%	Mutual agreement at a particular rate.
i2ifunding	Nil	Nil	16-23%	Own proprietary model, 'risk adjusted interest rate' based on the i2i Rating
LenDen Club	500	1500	12.5-35%	Mutual agreement at a particular rate.
rupaiaexchange	Nil	Nil	15-36%	Reverse Auction Manner

Source: compiled by authors from different websites

The table 3 shows that the average interest rate of crowdfunding platforms range in between 12% to 36%, which is higher than the prime lending rate of many commercial banks. Most of the companies adopt a reverse bidding mechanism to fix the interest rate. Among the platforms compared,rupaiexchange do not have any registration fee. In case of the default of the borrower, the platforms have different mechanism to address the issue. The table given below will explain the same.

Table 5 P2P Lending websites and default mechanism

Lending Platform	Penal interest (applied to the amount due for the duration of delay)	Collection charges if any	Other charges
Faircent	24% or Rs 50 whichever is more	500	250 (towards a dishonoured cheque)
Lendbox	2%	500	-
i2ifunding	24%	-	
LenDen Club	Default interest rate for the delayed period(if delayed period is more than 1 week)	-	250(return charge) + any other expenses
rupaiaexchange	48% applied for the tenure of the default or Rs. 50 per Day (whichever is higher)	-	-

Source: compiled by authors from various websites

Lendenclub's process of recovery support includes visit to borrower's residential /work premises followed by legal procedure. Faircent will facilitate the collection through an in-house collection mechanism and also send a legal notice on behalf of the lender to the borrower. In the worst case scenario Lend box, i2ifunding, rupaiexchange and faircent all will use empaneled agencies for collection, followed by legal process for recovery of funds.

V. INDIAN P2P MARKET: A PROSPECTIVE SWOT ANALYSIS

As already stated p2p lending concept is of very recent origin in India. Even for e- commerce, Indian economy took times to get acclimatise with the concept. P2p lending has a great future, here, the researchers analysing the problems and possibilities of the concept through the strength, weakness, opportunity and threat analysis.

Strengths

- Low operational cost and ease of using online platforms;
- P2p can provide very easy loans
- Platform can provide customised loans and further advances

- Interest is normally fixed through reverse bidding
- Transparency of platforms through uniform and clearly disclosed loan terms
- Efficient decision-making through the use of technology to quickly assess and assign risk grades and interest rates to loan applicants.
- Provision of credit to some categories of borrowers unable to access bank lending;

Weaknesses

- Yet to be regulated in India
- Money laundering can pose serious threat
- A very new concept in India, it may take some time for people to feel comfortable with p2plending
- Complete mechanism work in online, so there are its own limitations. Increased potential for fraud due to the anonymity associated with Internet lending
- Inefficiencies in the proprietary risk-scoring models of P2P lending platforms;
- Limited diversification of funding sources for P2P lending platforms;
- P2P lending platforms are not obligated to make any payments to investors if borrowers do not make payments on the underlying loans; and

Opportunities

- Availability of huge Indian market of start-ups, personal loans and online communities.
- Unorganised lending market in the country can be captured.
- P2p can meet the demand of bank less rural people.
- Can generate huge employment opportunity in the country. They provide greater access to credit.
- Technical innovation improving the quality and speed of service to both borrowers and lenders.
- The cost of acquiring P2P loan is comparatively lower. Administrative and overhead costs required for setting up a P2P platform are also relatively low.

Threats

- Stiff competition from mutual funds, equities and traditional banks.
- NBFC's can challenge p2p lending greatly
- Risk of fraud may tarnish the image and confidence in p2p lending among masses
- The industry also needs to openly confront the risks of platform failure.

VI. CONCLUSION

Business models and economics of P2P lending suggest, rather than disrupting the banking systems, P2P lending is complementary to conventional bank business models, allowing banks to economize on risk capital and concentrate on the provision of liquidity services, which are the fundamental core of their business model. There is need for clear cut regulation regarding the p2p lending industry in India. Government can, by setting up rules and monitoring the same can instil a belief among the mass online communities of our nation in this most modern financial innovation. The analysis show that trust issue is one of the most important problem in any p2p lending market. Indian platforms are not an exception. The price and product analysis along with the swot analysis reveal that the p2p lending is here to stay in the country for good and can revolutionise the credit mechanism of the country.

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