

A Study on Non Conventional Financing with Special Reference to ‘P2P Lending’ and its Growth during COVID-19 Pandemic in India

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Abstract

The new financial face imploded after the collapse of the so longed conventional system in 2008 after demonetisation, and following covid-19 pandemic, India witnessed a millions of extraordinary debt bearing borrower in all sectors. The instable stock markets, bond prices and devaluation of domestic currency popularized the term dis-intermediation and prompted more investors to turn to a cashless financial system and non-conventional sources funding. With the gradual growth of global market Indian potential investors and borrowers face some financial challenges and this is where these digitalisation and green banking system became an inevitable technology which enabling them to operate more efficiently and at cost advantage than the traditional banking system. Several online portals have sprung up in India to facilitate such lending, especially after demonetisation and some even getting private financing and investments from investors, even it isis still at an emerging stage comparing with US and China. RBI brought a discussion paper on P2P lending in April 2016, it points that there were 30 such start-ups have emerged in the country. After that it have been proceeded as a fast-growing sector and came out with some regulations in October 2017 and this study aims to analyse the mode and operations of the non-conventional lending P2P system and its initial growth during pandemic period.

Keywords: Non-conventional sources of finance, Peer to peer lending, Demonetisation, Digitalisation, Pandemic

Introduction

Indian economy is characterised by a very strong financial system. For a serene and stable functioning of any financial market a strong capital base and financial inclusion in all fields are very necessary. The Government of India and RBI have taken considerable steps in the last few years to achieve financial inclusion. After the global financial crisis, digitalisation and the globally effected covid-19 pandemic which the world has never witnessed, investor appetite for alternative sources of yield, big data and enhanced analytics, faster response times, quicker loan approval times and faster funding are few factors that lined the way for innovations in credit platform. In such instances, the capital-hungry entrepreneur seeks for a number of non-traditional financing sources to secure funds for their activities. Borrowing against the cash value of a life insurance policy selling assets, and second mortgage system was so common then. The financial sector is not immune from the initiation of online industry and its potential impact. For this reason, it is attracting attention of analysts, customers, businesses, investors and regulators in a major way. Peer-to-Peer (P2P) lending the method of debt financing that enables individuals to borrow and lend money - without the use of an official financial institution as an intermediary and removes the middleman from the process is such a business model that gathers momentum globally and taking roots in India.

Objectives

- To study the benefits and drawbacks of P2P lending system
- To study the changes in investments in P2P during COVID pandemic period

Source of Data

To study about the peer to peer lending system, secondary data is collected from the journals and from the reports published about non conventional lending systems by RBI. The growth of P2P lending in India especially in pandemic period ,its benefits and drawbacks are collected from some P2P online sites.

Peer-to-Peer Lending (P2P Lending)

P2P lending is an another type of crowd-funding mainly used to raise loans which are paid back with an interest. It defined as an online platform that connecting lenders with borrowers in order to deliver unsecured loans. The borrower could be an individual or a legal person needing a loan. The interest rate is fixed by the platform or by a mutual agreement between the parties. Both the lender as well as the borrowers are paid with fees. An origination fee are paid by borrowers according to their risk category. The lenders, have to pay an administration fee, depending on the terms of the platform and if they prefer to use any additional service (e.g. legal advice etc.), they have to pay an additional fee. The platform offer the service of collecting loan repayments and doing preliminary assessment on the borrower's creditworthiness. The fees go as the cost of these services and as a general business cost. They mark a credit scoring and make profit from arrangement fees. P2P lending which fall within the domain of the Bank. Peer-to-peer lending platforms guaranteed by dis-intermediation are continued by a wide range of intermediaries, including banks, secondary markets facilitated by note trading platforms, third party investing tools that analyse loan data and automate the investing process, wealth consultative firms that help large investors manage portfolios of loans, and marketplace platforms that match lenders and borrowers within a larger pool of peer-to-peer parties.

P2P Lending: The India Scenario

The concept of P2P lending in India is moderately new and is yet to create a strong foothold. Over the last few years, a lot of companies have come forward by offering peer-to-peer lending services in India. The Indian market is huge and massively potential for P2P lending platforms. There is a need now to educate and broaden awareness about this to consumers in Indian who are now in the scaffold of formal credit. A financial market as regulated and conquered by legacy like India would require P2P lending companies spotlight strongly on their customers. With high bank rates, stringent loan margins, formalities and documentation conventional sources of credit is slowing becoming out of favour among borrowers. It is in these scenarios that peer-to-peer lending can help borrowers reward quick loans. As most of the P2P lending platform enables direct dealings between borrowers and lenders, loan settlement becomes an effortless process. With the authority to negotiate for the best interest rates, the borrowers are ensured of loans at justified rates and fast as well. On the other hand, investors with an outlook to invest can discover multiple investment options with peer-to-peer lending. With the ability to choose multiple credit worthy borrowers, investors are now guaranteed of fixed monthly returns. P2P lending servicers have been in business since early 2014 in India, but until 2016, there were no regulations around it. In September 2017, RBI advised that these will be registered as non-banking financial companies and emerged with new guidelines for platforms a month later.

Major peer to peer lending companies in India are i2i funding, Faircent, Fincy, I-Lend, Len-Den Club, Paisa Dukan, Rupee circle, Cash Kumar, Rupaiya Exchange etc. RBI has issued a list of five companies that been registered as P2P lending NBFC seven though there were a lot of websites suing P2P lending services in India. Two more platforms had register after that though it yet not been updated in the list. The list is updating every quarter. The size of the Indian P2P lending market is around Rs. 200 crore, by the words of different CEO's of platforms.

How to Invest in P2P Lending System?

To being an investor in P2P lending, the desired investor have to login to the registered P2P lending company and fill the application form providing them. Then he has to upload the details of his PAN card details and address. Through this he becomes the investor of that platform.

All the details regarding application for fund from borrowers, and their financial details are available in the site. He can examine and evaluate the details and decide for whom he have to lend the money.

P2P lending has their own systems to ensure the quality and worthiness of the fund applications. Only those applications with is credible will be redirect to the investors

All the agreements regarding the Interest rate and repayment period should be made between the parties. Agreement, number of repayments, cheques, etc can be transferred through P2P platform. After completing all the procedures the investor should transfer the money to Unique Nodal Escrow Account. The borrowers will be get this amount from this account. The amount repaying by the borrower will be available to the lender through his Bank Account.

Major Benefits of P2P Lending

- Lenders can enjoy returns above those for a bank CD. At the same time, borrowers enjoy similar cost advantages compared with rates at a bank or credit union.
- Many persons like knowing who they're lending money to and why they need the money. Not only does it give them a sense of personal pleasure, but they can also prefer borrowers who they believe will repay the loan in full and on time.
- There can be a true sense of society at a P2P lender site. Forums tend to be active, and information is keenly exchanged about lending and borrowing experiences. Planned changes in the policies of the P2P lender are strongly debated.
- Some people just hate banks and will do anything to evade using them.

Drawbacks of P2P Lending

- Credit risk: Peer-to-peer loans involve high credit risks. Borrowers who applying for P2P loans possess low credit ratings that do not allow them obtaining a conventional loan from a bank. Therefore, a lender must be aware of the default tendency of his counter party.
- No insurance and government protection: The government does not provide insurance or protection to the lenders in case of the borrower's default.
- Low liquidity: Cash cannot regain in the case of urgency
- Investor cannot withdraw his cash before period of lending as per agreement
- Foreign cash dealings are prohibited

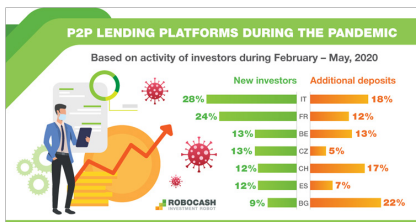
The Growth of P2P Lending During COVID Pandemic Period

Peer-to-peer lending, otherwise known as P2P lending, is the practice of lending money to businesses and individuals through online platforms to connect lenders and borrowers. The main aim of P2P lending is to enhance the lenders' returns and lower the borrowers' interest rate. The platform provide fast and accurate loans, since P2P lending is an online platform. However, the lockdown across countries, has meant constrained movements and little to no access to banking infrastructure. The Major Changes Pointed by the Recognised Platforms as a Result of this Pandemic are

- P2P lending platforms earns an average 12-14 per cent during pandemic-stricken period. As per the data of P2P lending platform LenDenclub 4,50,000 new lenders joined the platform in FY21 comparing 50,000 registered lenders at the termination of FY20. By this total registered lender on its platform become 5 lakh, an increase of 900 per cent in an year.
- India's first P2P lending platform Faircent, which received NBFC-P2P licence by the RBI witnessed 2 lakh lenders at the end of FY21. It expended Rs 1,145 crore credit in FY21 compared to Rs 920 crore in FY20, a shoot up of 24 percent.
- LenDenClub claims a record of 739.10% shoot up in disbursement in FY21.

- Faircent notifies the average portfolio return for the lenders stood at 12-14 per cent for a period of one year.
- Faircent reported 6-7 percent NPA, while it was 3.94 percent on FY21 for LenDenClub. It reported 5.82 percent NPA in FY20.
- According to the regulations stated by RBI, an individual can invest up to Rs 50 lakh in P2P platforms with a minimum amount is Rs 25,000. The tenure of a single loan should not exceed three years. Contact to a single borrower cannot drive above Rs 50,000.

Growth of Investors and Depositors in P2P Lending during Pandemic



Source: Robocash Investments

Conclusion

While P2P lending is a fast growing sector very significantly after the digitalisation of economy there is certainly fraud and default risks involved. Various non conventional forms of lending emerged out of which peer to peer lending or marketplace lending is one which started as a relatively effortless system for aid loans between individuals. P2P Lending has gained a firm hold in the Western market and it would be a matter of time before it sets grip in India as well. However, the highly regulated economic system in India would make things time consuming. The investors can earn a profitable margin by investing through the platform by allowing credit to such credit worthy borrowers. Today these loans are acquired by large investors like banks, hedge funds and wealth management firms. The entry of these investors has stimulate a growth of start-ups and offer to advising investors, performing loan data

analysis, and automating the investment process. At a basic level, P2P lending platforms provide a facility building a marketplace where investors who wish to lend funds could find potential borrowers and provide credit through P2P Agreement. The preference of P2P lending platforms due to the easy accessibility of loans and lendings, have increased the activities in such platforms. As there existing some fault practicing in the P2P platforms along its growth, it calls for various governing issues and increase a need to regulate such platforms with more laws and rules.

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