ORIGINAL RESEARCH PAPER

Commerce

EFFECTIVENESS OF PEER-TO-PEER LENDING IN FINANCIAL ACTIVITIES- WITH SPECIAL REFERENCE TO THE INDIAN BANKING SYSTEM

KEY WORDS: Peer to Peer lending networks, Crowdfunding, Retail banking activities, Platform to meet lender and borrowers.

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ABSTRACT

Banking activities are getting more strength after the banking regulation act of 1949 was implemented in India. Banks plays vital role as lender and borrower of public money. There is also Non-banking financial services provides better services to the required customer, there is a need of activity which understands the requirement of different income level of customers. With this there is a platform which makes the lender and borrowers to meet each other and obey the requirements among one another. Peer to Peer lending networks creates an opportunity to both lenders and borrowers to make the contract on the basis of their income generating activity. There are different varieties of customer, who wish to save single rupee by making adjustable contract. Peer to Peer lending is welcoming the borrower to borrow the money from lender at agreed rate of interest. This is one kind of options for the borrower and lender to make little amount of profit and the basis of their method of financial activities. Reserve bank of India (RBI) has given the permission to run these kinds of financial activities in the different region of the country. The Peer to Peer lending activities are getting more famous in the field of self help groups and micro financial activities of the country.

INTRODUCTION:

Information technology is proportionately plays a significant role in all the financial activities of the present era. Way back to the olden system of barter era, there was no currencies to be exchange for the products, they use to exchange the product for the product. But now a day, customers are very advanced about using all the transactions in technological process. There is more developments are undertaken especially in banking activities. The purpose of considering the new methods of banking activities is to attract the customers and make them free to use all the banking transactions with online, e-banking, m-banking and net banking system. There is more scope for chain link activities of financial institutions.

As there is core banking system, which influence to control entire activities of banking system. Similarly Peer-to-Peer lending is also one of the platform for bringing the close relationship of all the stake holders of banking system. Peer-to-Peer lending network is slowly developing its effectiveness in the banking activities. When looking for a little more yield, retail and institutional investors are turning increasingly to crowd funding. But crowd funding is "no free lunch" and investors do not get higher yields for nothing. In return for a yield pick-up, they have to accept higher risks including some new and different risks that are specific to crowd funding. Some investors might not even be aware of these risks.

Background of P2P lending market:

Technology improvements in the 2000's produced a wave of crowd funding ventures that have disrupted the financial intermediation market. The term crowd funding encompasses many forms of capital accumulation: reward-based platforms like Kickstarter and Indiegogo, debt based platforms like SoFi and LendingClub, non-profit sourcing of funds like Kiva, and more recently equity-based platforms like SeedInvest and Wefunder with the passage of Regulation Crowdfunding (Freedman and Nutting (2015)). Out of this emerging field, we focus on one segment of the debt-based crowdfunding market, unsecured consumer loans, to identify its influence on the traditional financial intermediary system of commercial banks. Peer to peer lending is also called as social lending, person to person lending.

Peer to peer lending is "a certain breed of financial transaction (primarily lending and borrowing, though other more complicated transactions can be facilitated) which occurs directly between individuals or 'peers' without the intermediation of a traditional financial institution." Basically, it involves people with money (investors) lending to people who need money (borrowers). Obviously this is something that has taken place since the invention of money thousands of years ago.

Crowd funding is used as an umbrella term and stands for any type of web-based collection of small quantities of funds from platform users to finance a project. It could be commercial, where under expect some kind of financial return, or non-commercial and based on donations. Crowd lending is one of the commercial types of crowd funding, whereby an internet platform collects small amounts of funds from individuals in 'the crowd' to finance collectively a loan of a higher amount to individuals or businesses.

Stake holders in Peer to Peer lending activities:

Borrowers:

A borrower's loan will remain on the web site for a short amount of time, up to two weeks. During that time investors can ask the borrower questions in order to decide whether or not to invest in the loan. While no personal information is displayed, information from the borrower's credit report is provided for the investors, many of who screen these loans based on different criteria. A number of things can happen while the loan is being funded:

1. The loan can be pulled off the platform because it fails some part of the verification process.
2. The loan can become fully funded, in which case it is taken off the platform and the borrower will receive their money less an origination fee
3. The borrower may cancel their loan and delete it from the platform.
4. The loan fails to obtain funding after 14 days.

Investors:

From an investor perspective, peer to peer lending allows you to directly invest in other people, thereby completely bypassing the banking system. Typically, there will be hundreds of loans to choose from for investors. Both Lending Club and Prosper allow investors an easy way to invest by providing automated plans. Prosper provides several different automated plans based on credit risk or you can build a customized plan based on your own selection criteria. Lending Club provides you with three automated options (low, medium and high risk), or you can use their slider tool to choose an average interest rate. Then you just choose the total amount you want to invest and your money will be allocated automatically among many different loans.

Effectiveness of Peer-to-Peer lending activities:

1. The borrower, an individual or a business, contacts the lending platform and indicates required amount and maturity of the loan.

2. The platform conducts its own assessment of the underlying credit risk. If the credit risk is acceptable and fits the platform's risk categories, the platform sets a risk-appropriate interest rate.
3. If the borrower agrees with the platform's pricing, the platform publishes the offer to its users for a predefined period, typically two or four weeks. Requests for consumer loans are published anonymously, while those for business loans are normally published with the name of the potential borrower.
4. Lenders have this period to place their offers to provide small portions of the required financing amount. To gain access to the platform, they must first sign a service contract with the platform operator and complete a due diligence process to comply with Money-Laundering-Regulations. Lenders' names are not published and are referred to on the platform by coded user names. However, every platform user can see their individual offers and the remaining amount needed to fully cover the loan.
5. When the sum of investment offers matches the required loan amount, it gives an opportunity to originate the loan amount. The platform collects the money from lenders' bank accounts and transfers it to the borrower. In return, investors receive a credit claim, as a fragmented part of the total loan, which documents the borrower's legal commitment to pay interest and to redeem the principal in the future. For this matching, the platform receives a fee paid by both sides: borrower and lenders. It is worth mentioning that the transfers of cash and credit claims are done (after deduction of platform fees) contemporaneously as counterclaims; the platform does not collect lenders' money in advance and forward it after the loan is originated.
6. The platform then services the loan, collecting and distributing interest and redemption payments until the loan matures. Normally P2P-loans are structured as monthly annuity loans. If the borrower defaults, the platform is obliged to arrange the collection of payments on behalf of crowd lenders although the platform itself is not liable for losses, which are borne by lenders/ investors.

Need for the Study:

Banking activities plays a vital role by providing the core facilities to the customers. Different income categories of customers are able to lend and borrow the money in the banks. But middle and lower income categories of customers are avail to adjust on to the rules and policies of the banks. But in case of peer to peer lending no such rules are involved, it's only a proper understanding of borrower and lender on the basis of their financial leverages. So there is a need to study about the peer to peer lending activities of financial system. By giving the more preferences to the peer to peer lending, it may attract more number of customers depending upon their monitory requirements.

Statement of the Problem:

The customs of banking activities are briefly known by the educated and literate customers. But the uneducated and illiterate customers can't make effective utilization of banking activities. The concept of Peer to peer lending slowly knows to the different groups of customers. When the financial transactions took place, eventually in the beginning there will be proper agreement between the borrower and lender but in the later stages, there is more chances of cancelling the agreement on peer to peer lending activities due to improper management of time while settling the money or borrowing the money. Majority of the contracts under this peer to peer lending is rarely completes but rest of the contracts are breach. It is one of the problems for borrower and lender of money under peer to peer lending activities.

OBJECTIVES OF THE STUDY:

1. To identify the significance of Peer to Peer lending financial activities
2. To measure the effectiveness of Peer to Peer lending among the Small and Medium borrowers
3. To study the role of Peer to Peer lending among the different stake holders.

Scope of the Study:

Financial activities are getting more strength in present banking system. Bank focuses on lending and borrowing the finance from and to the public. Banks follows the regulations which are framed by the RBI. Different rate of interest are charged by the banks to various levels of citizens in India. But to follow the entire formalities of banking, public feels dissatisfactions about getting adequate required facilities from the banks. In this view, Peer to Peer lending welcomes the various income level of public to borrow and lend money which suits on the basis of their self financial strengths and weaknesses. Peer to peer lending is one of the platforms to reach the public financial requirements. It is a stage to make the borrower to find suitable lender of money or vice versa. If the lender fixation rate of interest is agreed by the borrower, then they can make the transactions in peer to peer lending concept. RBI has issued the license for few peer to peer lending agencies to make its financial activities. There is more scope for these kinds of peer to peer lending activities in present scenario.

Research Methodology:

The present study focuses only on the basis of secondary methods of collecting the data which are required to strengthening the studied concept. The study gathered the information through books, journals, newspapers, websites etc., Less number of customers are interviewed about the concept of P2P lending activities who involves in this process.

Limitations of the Study:

The study focuses on the effectiveness of Peer to Peer lending, in which there are many financial institutions which providing the different kind of banking and financial services to the customers. Customers always think about more savings on the part of their expenses. If the banks fail to fulfil the requirements of customers, they may change the banks. But in the concept of Peer to Peer lending, if one borrower is not agreed with conditions of investors, within no time customers can change the lender or investors. This study mainly identifies the role of Peer to Peer lending of financial channels. In the present situation, the concept of P2P lending is emerging in a significant manner. To know about this P2P lending activities, the study limits to only customers who deals financial activities only through P2P lending channels.

CONCLUSION:

In the present situations, banking activities are playing rapidly on the requirements of customers. Even though they provide different services of customers, they fail to recognize the actual requirements of customer' needs on the basis of financial strengths of customer. In this sequence the concept of Peer to Peer lending emerges to meet the variety of borrowers and customers under the single shelter. Banking services are like mandatory following of rules and policies, where as Peer to Peer lending services are on the basis of the requirements of different lenders and borrowers. There is a more scope for focusing the effectiveness of P2P lending in the present days of financial activities.

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