

P2P Lending - Wading Through Uncertain Times Says Mr Agarwal

The entire financial system is at the edge of chaos, can accommodate stability and instability, certainty and uncertainty, order and disorder at the same time. This is the state where the components of a system are not stable, yet they do not "dissolve into turbulence". The "Change" is a constant feature of entire business echo system and the ability to manage it is seen as a core competence of successful organizations. The government/RBI are coming with lot of policy initiatives in order to have a stable financial system and at the same time fulfil the need of entire borrowing community either it's a Company or an individual. Seeing the rapid pace of catastrophic changes happening in the ongoing landscape it is felt that it would be a challenge for the conventional lenders to properly address the requirement of the borrowers (Individual/MSME) which are at the bottom of pyramid.

The entire humankind is passing through a most challenging time for its existence posed by COVID-19. This unprecedented situation is certainly taking its toll on the entire economy; across all businesses and walks of life. The interaction has been done with several industry players trying to understand the challenges / impact being faced by them. Currently there is a lot of uncertainty on the extent of damage and the time & resources it would take to be business as usual.



In the chaotic times of uncertainty Peer to Peer (P2P) lending platform has evolved as a reliable and expeditious way of addressing the borrowing needs of individuals and small businesses which are not so efficiently catered by conventional banking/NBFCs channels. The outbreak of peer-to-peer (peer to peer) lending has led worldwide economies as well as small businesses to a new financing era. Just in context of P2P lending refer to lending money to individuals through digital marketplaces who connect borrowers with lenders. The lender gets the chance to earn desired interest on its capital in the current situation of reducing interest rate regime and borrower gets the fulfilment of its capital requirements in prompt way. Moreover, in case of P2P lending, there is no risk of stock market volatility and investments here are less liquid as compared to stocks. Recently Companies like Faircent who are now deeply entrenched into this new echo system of lending are coming with diversified product range to fulfil the requirements of wide strata of borrower's need. India's financial system is dominated by state-owned and private banks which prefer lending to state-owned enterprises or large private companies and leaves a large number of small and micro medium sized enterprises (MSMEs) under-served.

The regulations and learning curve of P2P lending is evolving quite rapidly and going forward it is proved to be one of the biggest lending platforms for inclusive growth. The current regulation aims to eliminate fraudulent or poor business practices that afflicted the industry and re-create platform as information intermediary. Under the current regulation, a P2P platform separate its own funds from the funds of lenders and borrowers. The funds of lenders and borrowers kept in custody of a qualified commercial bank.

Going forward the penetration of P2P lending into semi urban and rural areas will help in eradicating the prevailing evil practices of unregulated money lenders. The dissemination of P2P lending would discourage the evil spread of ponzi schemes where illegal money pooling activities lured investors with promises of high returns on investments in a short period.

In this time of uncertainty while global and domestic markets are nose diving, the vast majority of peer-to-peer investors will continue to profit through the crisis, thanks to sensible underwriting standards, diligent and detailed credit evaluation , provision funds set aside to cover bad debts, and attractive interest rates. The private equity investors also evinced lot of interest in funding P2P platform in order to create a sustainable and scalable business model.

MSMEs and retail financing are a worldwide challenge. Lack of credit information, data and under-collateralisation are major factors accounting for the financial constraints faced by MSMEs. Traditional banks have been proved to be ill-equipped to tackle this challenge. P2P lending platforms seemed to offer a better solution by utilizing automated processes to reduce costs and credit risk models that use non-traditional data. Quick decision making and no collateral requirement rendered P2P sector an important financial source to MSMEs in India going forward.

Just to conclude the internet based financial intermediation on a peer-to-peer (P2P) basis will ultimately succeed as an economically superior form of organisation compared to the traditional banking business model. P2P lending is the most popular type of crowdfunding, whereby an internet platform collects small amounts of funds from individuals in a crowd to finance collectively a larger loan to individuals or businesses. In contrast to conventional banking channels the platform does not take risks through its own contractual positions and platforms decentralise the risks by spreading them to their users. In India at present P2P lending is in nascent stage however seeing the penetration of technology and fast moving digitalise transactions would prove to be creating a database of healthy borrowers; thus, deepening the penetration for explosive growth.

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