

PROCEEDINGS OF THE NATIONAL SEMINAR

EMERGING TRENDS IN BANKING AND FINANCE



EDITORS

Dr. P. VASANTHAKUMARI

JESITHA J.

REKHA MENON



PG DEPARTMENT OF COMMERCE

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Edited By
DR.P. VASANTHAKUMARI
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Ms.REKHA MENON

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36. PEER-TO-PEER LENDING- A NEW FRONTIER OF FINANCE

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ABSTRACT

The financial sector is not immune from the advent of online industry and its potential impact. For this reason, it is attracting attention of analysts, investors, customers, businesses and regulators in a major way. Peer-to-Peer (P2P) lending is one such business model that has gathered momentum globally and is taking roots in India. Although nascent in India and not significant in value yet, the potential benefits that P2P lending promises to various stakeholders (to the borrowers, lenders, agencies etc.) and its associated risks to the financial system are too important to be ignored. This paper basically attempts to assess the various business models that are operational both domestically and internationally and the legal framework within which these institutions operate. Data for the study has been collected from secondary sources.

INTRODUCTION

The global financial crisis of 2008-2009 has changed the financial market dynamics significantly, the impact of which can still be felt. A slew of regulations and reforms followed the crisis, which enhanced capital requirements of traditional lenders, as well as put more stringent requirements for ascertaining the credit worthiness. This has left a sizeable gap between lending supply and borrowing demand, thus creating a ripe opportunity for alternative financing.

A number of Fin Tech firms have taken the opportunity to launch their offerings such as crowd funding, peer-to-peer lending and direct lending. While on one hand their business models are new and their market share limited, they have been effective in providing convenience, speed of delivery, and in many cases a superior customer experience. To attract and retain borrowers of all segments, firms need to embrace technology to optimize their operations. More automation, machine learning, data analytics, and smart contracts, are not only expected to increase operational efficiency but also result in lower costs and an enhanced customer experience.

What is P2P Lending?

Peer-to-peer lending, sometimes abbreviated **P2P lending** can be defined as the use of an online platform that matches lenders with borrowers in order to provide unsecured loans. It is one such business model that has gathered momentum globally and is taking roots in India. Although nascent in India and not significant in value yet, the potential benefits that P2P lending promises to various stakeholders and its associated risks to the financial system are too important to be ignored.