A Comparative study of Conventional Loans VS Peer to Peer loans

Abstract:

P2P investment is presently in its rudimentary phase in India. It is surfacing as an internet based platform where borrowers and lenders can directly deal with each other to borrow or lend money according to their requirements. This relatively newer arena for transactions is an effective alternative for the traditional methods of borrowing. During the last decade P2P investment has seen a phenomenal rise and has witnessed several developments. For the fintech sector the financial year 2019 has held great importance because it has seen the advent of a new phase for this method of investment. The exploding numbers of smart phone users and the instant access to the internet or mobile data packages at throw away prices have brought about a metamorphosis in India's digital economy. India is heading towards becoming a digital economy with an estimated worth of USD 1 trillion by 2022. Significant credit for this goes to the efforts undertaken by the government which include a reasonable budget appropriation to fuel up the digital economy of India. This paper studies the comparison between conventional loans and P2P loans. For the study micro finance, call money , informal modes are considered as conventional loan platforms to compare with p2p loans.

Keywords: P2P Loans, Conventional Loan

Authors

1. Krovvidi Krishna Kumari
2. Dr.Sriram Kothapalli

Introduction

The online P2P investment pertains to the direct transaction of borrowing and investment between two individuals through an internet platform. It caters to the borrowing requirements of small sized businesses and even single individuals. Peer to peer investment is a fast upcoming market. It is developing across the globe by leaps and bounds. A major difference between P2P investment and a traditional bank is that, in the bank investment, the lender is not restricted to procuring the loan's particulars and can also appraise the risk of bidding by keeping an eye over the social idiosyncrasy of the borrower. Under the P2P form of investment, an authorized agent gathers several borrowers and lenders and ensures the expeditious disposal of the borrowing process. Online investment has opened up new financial avenues for small sized undertakings and individual borrowers. As seen with any other novel field, even in the online P2P investment market problems are being encountered which need to be addressed. The traditional bank investment industry is still passing through the developmental phase which inherently holds high risk.

Types of P2P Loans

There are currently three types of P2P loans

a) **Peer to peer loans:** Peer loan is a kind of advance in which the borrower pays the money plus the interest amount**.**
b) **Crowd funding:** The concept of crowd funding is to fund a project or organization by small sums, typically through the internet, of a large number of people. Crowd funding is a form of alternative finance and crowd funding.

Benefits of P2P Loans for Borrowers

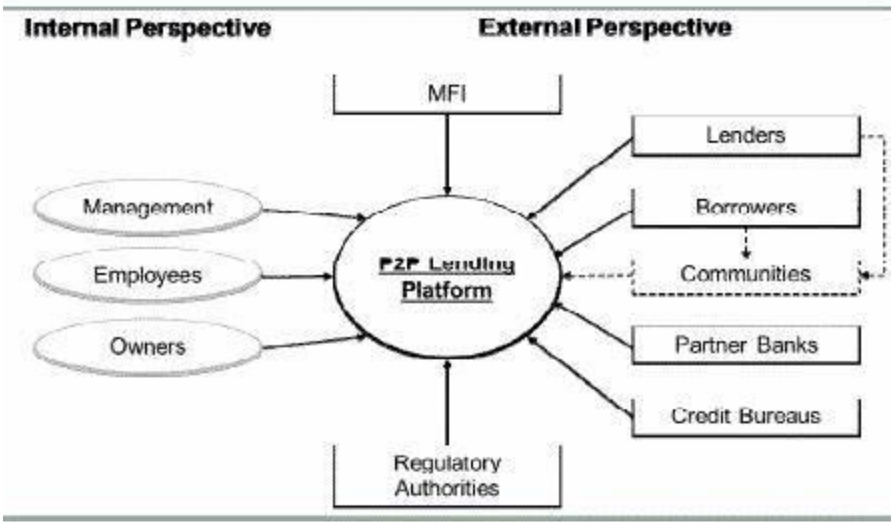
More flexibility and cost-effectiveness: Borrower must discuss and commit to loan terms directly with your prospective lender. Borrower can select who you want to deal with and under what terms instead of being obliged to accept certain conditions.

Fixed rates: When you pay the lender's interest rate, the amount does not change arbitrarily, stopping you from paying it. In this case a penal interest rate is also applied, if there is a default on your payments. As per the terms selected, you can better plan your cash flows.

No fees for prepaid: There will be no penalty fee for foreclosure if you decide to fully pay your loan early.

P2P Lending platform

Figure 1: External and internal stakeholders in P2P lending



www.icommercecentral.com/articles-images/JIBC-436-g001.gif

Review of literature :

Girija Gadre (2017), “P2P typically uses an online platform where the borrowers and lenders register themselves. Due diligence is carried out before allowing the parties to participate in any lending or borrowing activity. All P2P platforms will now be considered non-banking financial companies and regulated by RBI”.

Investopedia (2017), “Peer-to-peer lending (P2P) also known as ‘social lending’ is a method of debt financing that enables individuals to borrow and lend money - without the use of an official financial institution as an intermediary. Peer-to-peer lending removes the middleman from the process, but it also involves more time, effort and risk than the general brick-and-mortar lending scenarios”.

ISSN: 2278-4632
Vol-10 Issue-6 No. 12 June 2020

Objectives of the study:

1.The study looks at p2p as an alternative to conventional borrowing methods

2.The study focuses on the desirability of the conventional and p2p network for loans.

3. The study focuses on reasons for loan default.

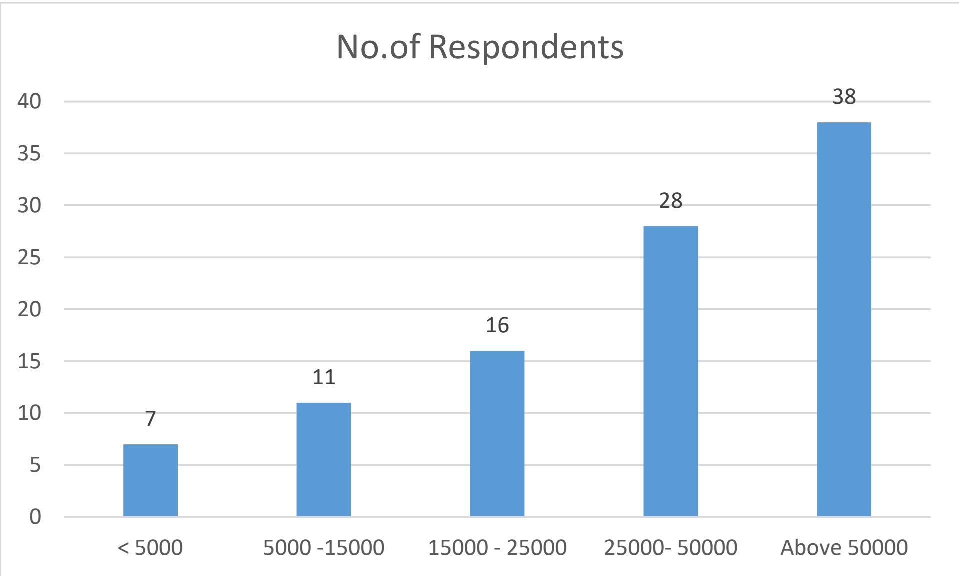
Methodology

This study is to understand how the P2P lending platforms and other lending platforms helps the society to get unsecured and secured loans to meet their requirements like Business improvement, Education and health emergencies etc. A descriptive study and annova test is conducted and for the study 100 data points have been gathered from the respondents on finding the Conventional loans Vs.P2P Loans.

Data Analysis and Interpretation:

The diagrams below illustrate how participants feel about lending peers a viable and successful alternative to other conventional investments.

Amount of Loan taken

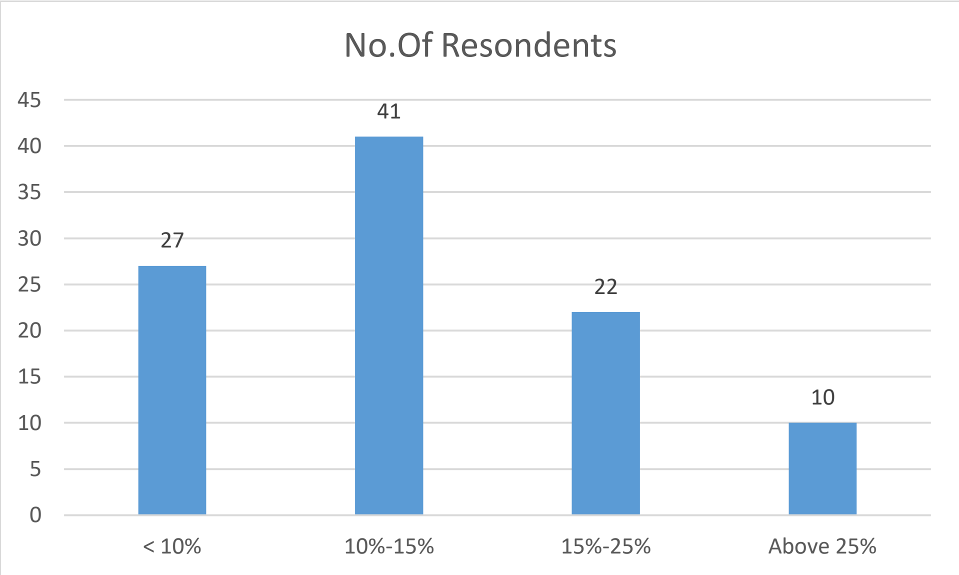


From the above it is understood that 7% of the respondents taking the amount of loan below 5,000 Rs ,11% of the respondents taking the amount of loan between Rs.5,000 to Rs. 15,000,

ISSN: 2278-4632
Vol-10 Issue-6 No. 12 June 2020

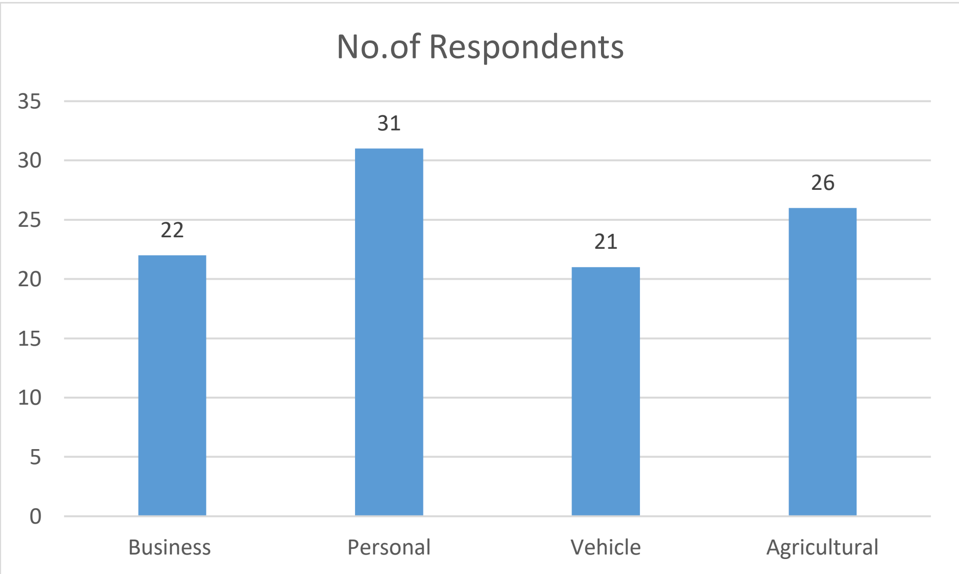
16% of the respondents taking the amount of loan between Rs.15,000 to Rs. 25,000, 28% of the respondents taking the amount of loan between Rs 25,000 to Rs. 50,000, 38% of the respondents taking the amount of loan above Rs.50000

Rate of Interest



From the above it is understood that 27% of the respondents paying the interest on loan below 10% ,41% of the respondents paying the interest on loan between 10% to 15%, 22% of the respondents paying the interest on loan between 15% to 25%, 10% of the respondents paying the interest on loan above25%,

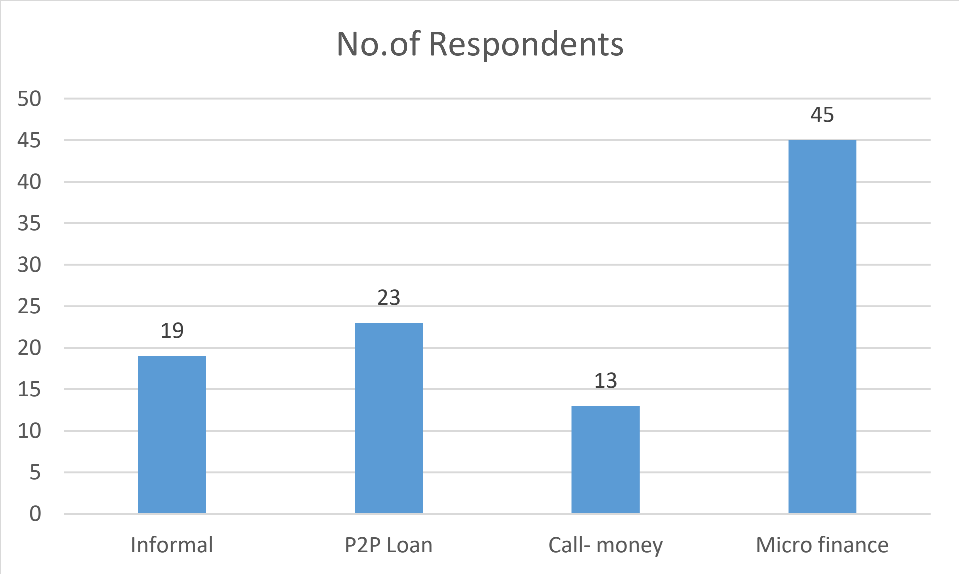
Purpose of a Loan



ISSN: 2278-4632
Vol-10 Issue-6 No. 12 June 2020

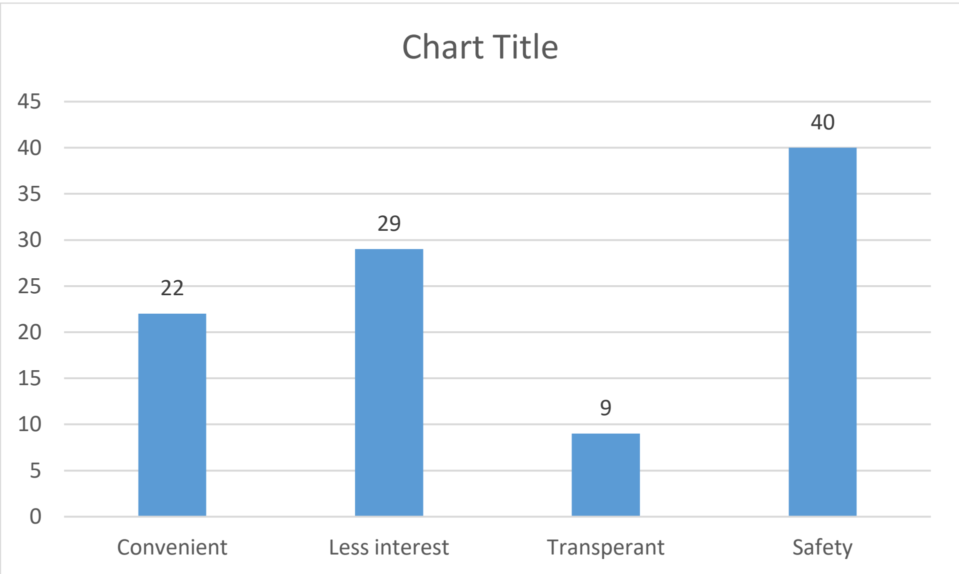
From the above it is understood that 22% of the respondents taken loan for business, 31% of the respondents taken loan for personal,21% of the respondents taken loan for vehicle, 26% of the respondents taken loan for agricultural.

The loan taken from



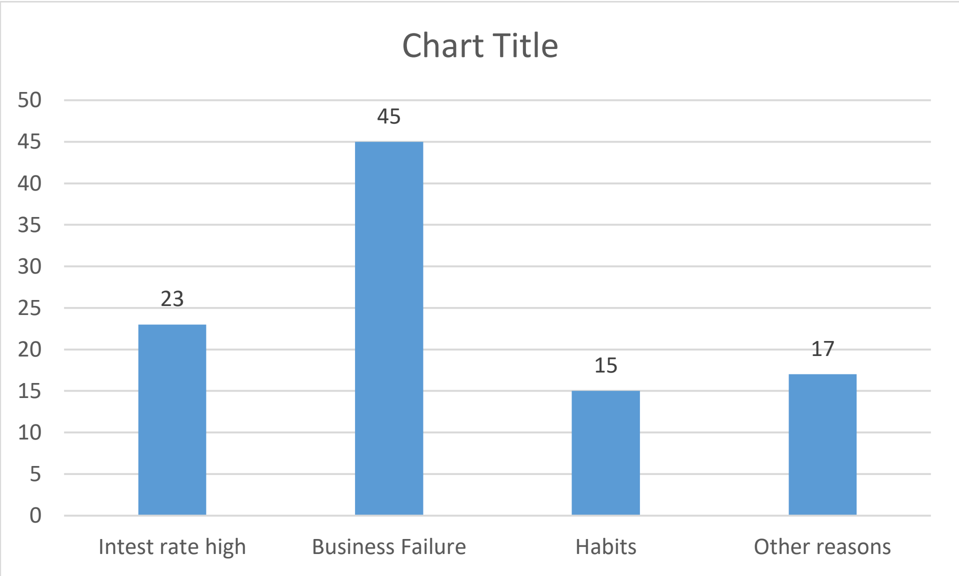
From the above it is understood that 19% of the respondents taken loan from informal, 23% of the respondents taken loan from p2p loans,13% of the respondents taken loan from call-money, 45% of the respondents taken loan from micro finance.

What attracts you to take loan from above modes



From the above it is understood that 22% of the respondents taken loan from above modes due to convenient , 29% of the respondents taken loan from above modes due to less interest, 9% of the respondents taken loan from above modes due to transparent and 40% of the respondents taken loan from above modes due to safety.

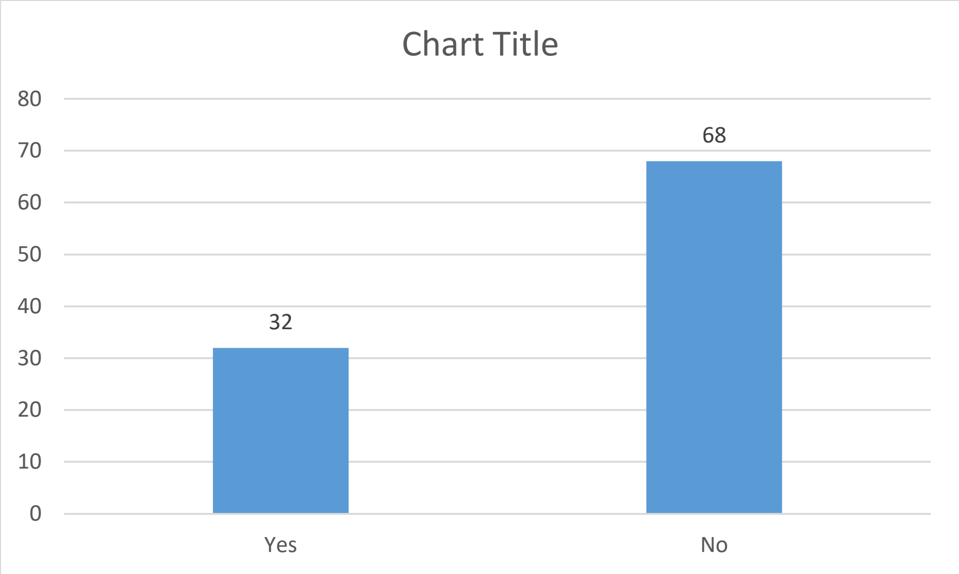
Reasons of default



From the above it is understood that 23% of the respondents agree that credit default due to high interest rate, 45% of the respondents agree that credit default due to business failure, 15% of the respondents agree that credit default due to habits, 17% of the respondents agree that credit default due to other reasons.

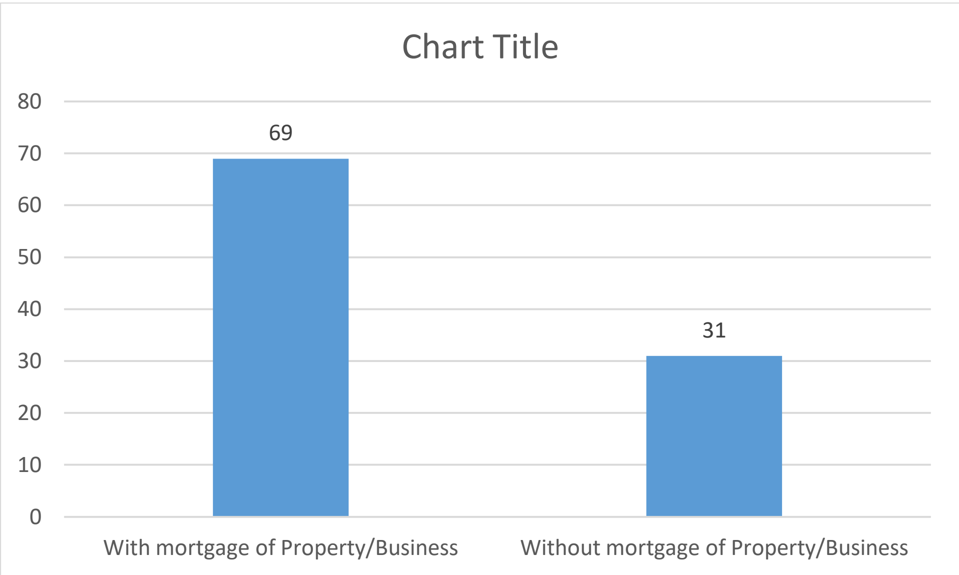
Any help received from Governmement

ISSN: 2278-4632
Vol-10 Issue-6 No. 12 June 2020



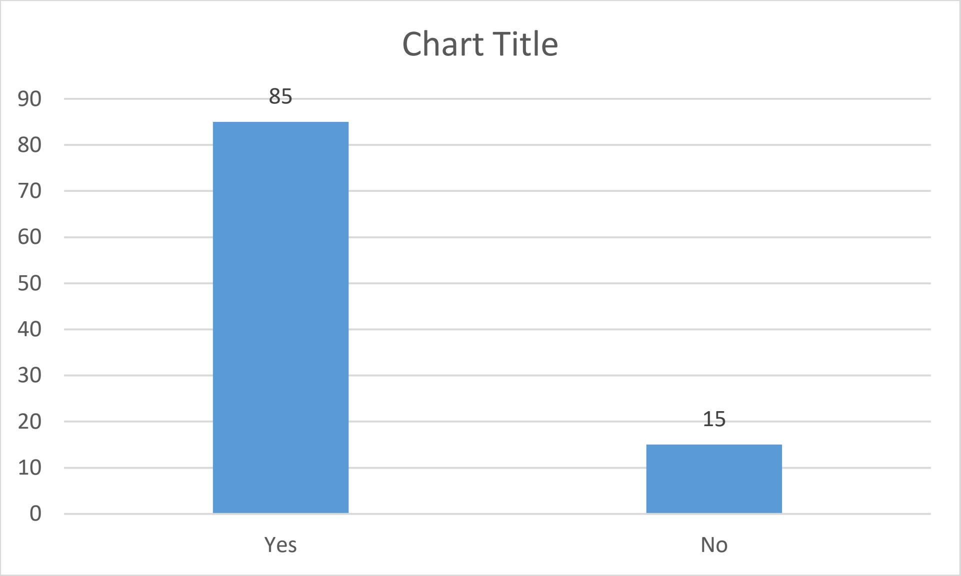
From the above it is understood that 32% of the respondents agrees that help from the government and 68% agrees no help from the government.

On what security basis getting loan



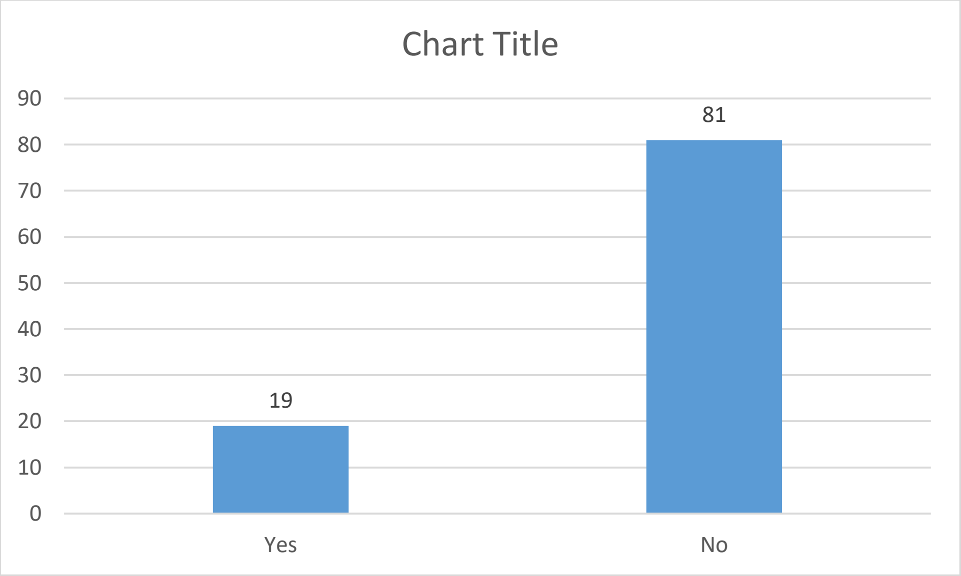
From the above it is understood that 69% of the respondents agrees that getting the loan on security basis and 31% of the respondents agrees that getting the loan without security basis

Fulfil needs by taking loans



From the above it is understood that 85% of the respondents agrees that needs are fulfilled by taking loans and 15% of the respondents agrees that needs are not fulfilled by taking loans

Any abuse/Harassment by lenders



From the above it is understood that 19% of the respondents agrees that harassment by lenders
and 81% of the respondents agrees that no harassment by lending .

Conclusion

Lending 'peer to peer' is increasing at an unprecedented pace, but the returns must be carefully measured against the estimated risks. There has been a growing awareness of peer-to - peer (P2P) loans, but people have a vague idea of how it works and shine with fear. P2P

ISSN: 2278-4632
Vol-10 Issue-6 No. 12 June 2020

lenders did take effective steps to mitigate this. Lending Works is the first peer-to - peer lender to offer insurance coverage that protects lenders from borrower defaults, along with other threats such as fraud, cybercrime, and a major economic downturn and slump in the worst case. This insurance is part of our market-leading protection that lending works shield, besides the stringent underwriting process and reserve fund to cover arrears and defaults. P2P Lending also yields benefit as it severs for social cause. P2P lending is rising and has the potential to hit a tipping point to compete with traditional goods, though borrowers' knowledge remains a daunting challenge**.**

References:

1. *www.lendbox.in/peer-to-peer-lending-vs-bank*
2. http://www.business-standard.com/article/finance/peer-to-peer-nbfc-lending-restricted-to-36-months-or-less-117100401292_1.html
3. https://www.bloombergquint.com/business/2017/10/04/rbi-introduces-caps-on-peer-to-peer-lending
4. https://www.i2ifunding.com/
5. http://www.financialexpress.com/industry/technology/peer-to-peer-lending-has-emerged-as-a-viable-alternative-to-traditional-banking-channel/306717/
6. http://www.investopedia.com/articles/retirement/051016/p2p-lending-yet-another-risk-investors.asp
7. https://www.stableinvestor.com/2018/01/nifty-annual-yearly-returns-historical.html
8. *www.faircent.com/P2P/Lending*
9. https://www.faircent.com/view/stat
10. *https://www.rbi.org.in/scripts/PublicationsView.aspx?id=14475*

