
Money market executive's perception towards peer-to-peer (p2p) lending

DR. P. PRAVEEN KUMAR¹, MS. YUVASREE. V²

¹Associate Professor, Saveetha School of Management, Saveetha Institute of Medical and Technical Sciences, Saveetha University, Chennai – 600077

²MBA Student, Saveetha School of Management, Saveetha Institute of Medical and Technical Sciences, Saveetha University, Chennai – 600077

Email ID: praveenkumarp.ssm@saveetha.com

Abstract: Peer-to-Peer (P2P) refers to social lending and it is an emerging wealth management service that allows individuals to procure loans directly from investors without the intervention of a financial institution. P2P investors obtain better returns on their cash savings through lending in P2P lending platforms mostly through online web pages. The P2P model facilitates matching of individual investors with borrowers by assessing the creditworthiness on a periodical basis. P2P renders services for recovery of loan through this platform. Better interest rates are possible using these P2P online platforms. Borrowers who fail to obtain loans from traditional financial institutions can avail the services of these online platforms. The model also helps budding entrepreneurs to get their startups off the ground and it is a relatively new approach where borrowers can obtain loans from numerous individual investors pursuing multiple objectives when they pick loans to invest. Though P2P lending might seem like an attractive investment this is still a technically young industry.

Keywords: Innovations, peer to peer, lending, money market, fund

INTRODUCTION

P2P lending platforms are emerging as a fast growing investment market that attracts individuals investors and borrowers. P2P lending platforms remain as a crowdfunding platform that matches borrowers with lenders to provide collateral free loans. Debt financing is obtained by either an individual person or business borrower (legal entity). Interest rates are set by the platforms or on mutual agreement between the two parties. It plays an important role in satisfying the financial needs for those consumers looking towards an alternative finance. The platform provides services such as evaluation of borrowers creditworthiness and collection of loan repayments. The fees are based on the value of those services and for other general costs like registration fees, loan processing fees etc. The platforms do the credit scoring of the borrowers and help to manage the exposure to risk. Features of shorter repayment time is the biggest pull for borrowers in these online platforms. The loan processing time and entire disbursement process is much faster than traditional banks. P2P lending platform allows investors to obtain competitive risk adjusted returns and it is not affected by economic instability. It comes with the advantage of portfolio diversification and autonomy to choose the lender. It is a very transparent and easy accessible financial model. It enables individuals to choose a predefined tenure that best fits their purpose. P2P lending processes are quick and convenient as it is completely via online. Unlike traditional lenders, P2P lenders provide loans at lower interest rates. P2P is a fast growing industry but it lacks complete comprehensive regulations. Lenders are exposed to a huge credit risk. Moreover the interest earned in these platforms are taxed. Investing in credible platforms reduces the risk involved in this lending. Credit risk is much higher in P2P lending. Counter party's default probability is a greater concern for individual investors. Government does not provide insurance or any kind of protection to lenders against borrowers default. As P2P is via online platforms, borrowers and lenders lack a proper interaction. Interest earned through P2P investments are subject to tax requirements unlike traditional investments. It is always important to check the reputation of the platforms before investing. Managing a portfolio is challenging due to a wide range of loan choices and considerations. An inconvenience of peer to peer lending is that despite the fact that they regularly have various norms, if the credit ratings are low, admittance to these credits might be difficult. The guarantee of capital adequacy ratio is absent in these P2P platforms. They cannot absorb deposits unlike commercial banks. Due to irregularity in repayment of credit by borrowers and its inability to cope up with the growth of assets are the main reasons for its hardships in sourcing funds on time. Our research idea is based on the rich knowledge acquired by our peer teams across the university. (V. Narayanan, Kannan, and Sreekumar 2009; Anil K. Danda, S, and Chinnaswami 2009; Venugopalan et al. 2014; Anil Kumar Danda and Ravi 2011; Prasanna, Subbarao, and Gutmann 2011; Panchal, Jeevanandan, and Subramanian 2019; Rajeshkumar et al. 2019; Dua et al. 2019; Ezhilarasan, Apoorva, and Ashok Vardhan 2019; Ramesh et al. 2016; Krishnan and

Chary 2015; Prasanna Neelakantan et al. 2013; Vinod Narayanan et al. 2012; Ramadurai et al. 2019; Ramakrishnan, Dhanalakshmi, and Subramanian 2019; P. Neelakantan et al. 2011; Prasanna Neelakantan and Sharma 2015; A.C.Gomathi, S.R.Xavier Rajarathinam, A.Mohammed Sadiqc, Rajeshkumar 2020; Priya S et al. 2009; Manivannan, I., Ranganathan, S., Gopalakannan, S. et al. 2018). The primary purpose of this study is to find the risk management practices in P2P lending.

REVIEW OF LITERATURE

(Li and Hu 2019) have studied the sample from Renrendai.com, an online P2P lending platform in China to determine the universities reputation in this lending. The results show that people who qualified from reputed educational institutions obtain a higher fraction of funds as they have a lesser probability of loan default ratio. The findings of the study suggest that the reputation of the universities is considered as they reflect the lenders and borrowers behaviour.

(X. Chen, Zhou, and Wan 2016) have analysed the connection between social capital of individual groups and their corresponding lending results in online P2P lending platforms. Especially in online lending, social capital as a common good could cause market failures despite its efforts to improve economic stability. In light of the investigations of transaction information gathered from one of the biggest online distributed loaning stages (United States), it was found that the borrower's financing and reimbursement execution was affected due to borrowers group inclusiveness, group trust and membership. We talk about the ramifications of our discoveries for accommodating two significant however clashing hypothetical perspectives on shared norms and for developing institutional component plans in an online monetary lending market.

(Dorfleitner and Oswald 2016) have studied the determinants of micro entrepreneurs' repayment nature whose credit is accessible to global charitable lenders. The main cause of credit default is the selection of borrowers through screening and monitoring quality of micro finance institutions. The probability of default is influenced by the credit term, loan size and duration of a possible allowance period. Individual women demonstrate a better pay back behaviour unlike their groups.

(Zhu 2018) has examined the effect of security assurance on credit funding and credit default risk by utilising information from P2P platforms. It is found that the model of rating the credit of borrowers is not in shape. Degradation in the quality of credit scoring and jeopardy is due to non disclosure of information. They have proposed a new tool (default-deviation) to estimate the discrepancies in information disclosure to borrowers.

(S. Chen et al. 2020) have studied how P2P lending platforms in China have considered the demographic characteristics of borrowers and behaviour for their lending decisions. It is found that online platforms like Renrendai from 2013 to 2015 have efficiently used the educational level of borrowers to determine creditworthiness and predicted loan performance. There is a lower probability of default in case of borrowers with high educational qualifications and it yields them high returns. However young female borrowers are funded less. (Babaei and Bamdad 2020) have explained that P2P lending has been attracting several money lenders and borrowers operating in the absence of traditional financial intermediary. Instead of fully funding one loan, lenders in the P2P lending sector are permitted to lend several loans. Investors in P2P lending do poor decision making as they are not experts in investments.

(Wu and Zhang 2020) have studied the credit rating of nascent borrowers from Renrendai, an online lending platform in China. It is clear from the investigation that the loan ratings of nascent borrowers does not reliably assume their evasion which accounts for 56%. These discoveries show that in China, P2P lending platforms allocate credit ratings themselves and guarantee loans without definitive credit agencies. This creates a greater investment risk for investors and systemic risk to the platform. Our outcomes may clarify why over 86% of Chinese loaning stages experience operational challenges.

(Jiang, Liu, and Lu 2020) have investigated the social heterogeneous variables that may influence the plan of the speculator's neighborhood inclination and bias in the P2P lending platform. Among investors there exists a common local bias which accounts for nearly 9.3% probability. They have lent nearly 105% excessive money to regional borrowers.

(Lu et al. 2020) have examined the links that exist within regional public capital and P2P online credits. It is found that there is low borrowing cost, lower probability of loan application rejection and default for borrowers from higher grades of social capital. There is a higher yield in rate of returns for the credits given to borrowers from upper grades of the state's social capital. The impacts of public capital on P2P credits are more grounded in districts with several bank rivalries and for credits with greater risks.

(He, Qin, and Zhang 2020) from 2015 to 2019, have centered around 224 major P2P lending platforms to examine whether the yield in an online lending platform is influenced based on the considerations of the investor. As investors basically use the Internet to get information on the platform, Baidu search record is used as a proxy of investor consideration. The results from empirical studies have shown that investor consideration will diminish the normal activities of the platform's rate of interest by 15% and this impact is impressively more grounded for center consideration level platforms. The outcome is powerful subsequently to control the endogeneity brought about by conceivable converse causality.

(Ye, Dong, and Ma 2018) have determined an productive method for evaluation of credit risk in P2P lending as it drastically affects the investment decisions and profits of the lenders. Random forest approach based on machine learning is gaining attention in P2P lending. In any case, the credit assessment model dependent on Random Forest expects to improve the general precision, which can't ensure that the bank benefit is boosted when the general exactness is amplified on the grounds that the benefits of each advance are unique. To additionally improve the credit assessment impact and moneylender benefits, Random Forest enhanced utilizing a hereditary calculation with profit score (RFoGAPS) is proposed. To start with, thinking about the real and expected returns and misfortunes, another profit score is considered.. Secondly, Optimisation of combination of decisions in Random forest is by genetic algorithm. Trial results depict that RFoGAPS can acquire greater benefits to moneylenders contrasted and real benefit and conventional techniques. A few recommendations are proposed dependent on exploratory outcomes to encourage the sound improvement of P2P lending.

(Guo et al. 2020) have examined the impact of vague factors, including inner boundaries, for example, term, volume, and members, and external factors like interest rates that are risk free, private lending ROI (Rate of Interest), and virtual consideration, on the average interest rate of P2P micro loans in China. Observational discoveries uncover that the most huge impacting factor was the private lending interest rates. From June 15, 2018, China's P2P market was changed; the impact of lending interest rate of private players turned unimportant, and the negative values of the advance period, negative coefficient of the loan period, and online consideration got positive.

(Caglayan et al. 2020) have analysed mispricing on Bondora, a main European P2P lending stage. By executing machine learning techniques, they have determined the probability of accomplishment for credit auction on Bondora's auxiliary market and have contrasted our forecasts on the forecasted market results. The distinctions noticed reveal two wonders which were identified as a separating view of market members on resource costs and related essentials: few non-sellable resources were sold, while the auction of exceptionally sellable resources weren't fruitful. Dealers' estimating conduct changes once they notice purchasers' activities uncovering the purchasers' convictions regarding the estimation of the resource. The outcomes seem vigorous to different statistical and machine learning strategies.

RESEARCH METHODS

A structured questionnaire was applied to collect the data in this study. The questionnaire was categorised into demographic variables and risk related to Peer-to-Peer lending. The data have been obtained on a five-point Likert scale from 75 executives who work in the money market. Mean analysis, Frequency analysis, KMO And Bartlett's Test were used for the collected data. The results are depicted via pie charts. SPSS package was used to conduct the statistical analysis.

The sample study of the study is represented through the following pie charts

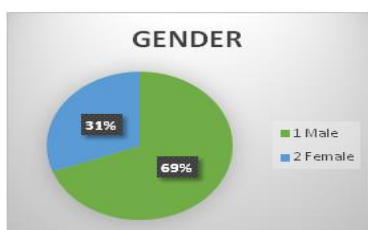


Fig.1: shows the frequency of gender. Out of 75 respondents, 69% are male and balance 31% are female.

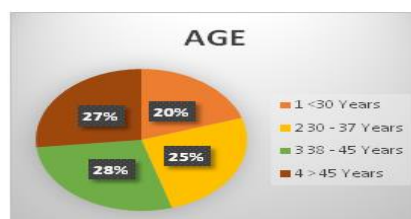


Fig.2: shows the frequency of age most of the respondents are of more than 38-45 years of age which occupy 28% of the respondents followed by the age more than 45 years with 27%.



Fig.3: shows that out of 75 respondents 33% of them are post graduates which is 44% and remaining 29 and 13 are Undergraduate and PhD scholars respectively.

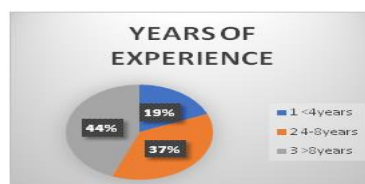


Fig.4: shows that the majority of the respondents are senior level executives (44%) followed by Middle level executives (37.3%) and junior level executives (18.7%).

Table 1: Perception towards Risk Management Practices in P2P Lending

| S. No. | Perception towards Risk Management Practices in P2P Lending | Mean | Rank |
|--------|--|------|------|
| 1 | Information provided by the intermediaries to the lenders may be outdated /fraudulent in P2P lending (Information) | 4.7 | 1 |
| 2 | Robust front-to-back IT system will help to follow RBI regulations (IT System) | 4.6 | 2 |
| 3 | Profile and pay back ability of the borrower's plays a vital role in risk related to P2P lending platforms (Ability) | 4.5 | 3 |
| 4 | Strong cyber security could expose the platform for P2P lending (Cyber Security) | 4.2 | 4 |
| 5 | Regulating the loan disbursement cash flow model could result in good tracking of loan amount (Model) | 4.2 | 5 |
| 6 | Gradual investment for a reasonable period of time helps in risk evaluation and aversion (Gradual Investment) | 3.9 | 6 |
| 7 | Investing in a well-established platform reduces risk involved in P2P lending (Investment in Good Platform) | 3.9 | 6 |
| 8 | Portfolio diversification leads to potential risks in P2P lending (Portfolio) | 3.7 | 8 |
| 9 | Grants by traditional lenders may reduce default risk (Traditional Lenders) | 3.3 | 9 |

Table 1 includes mean and ranks scores pertaining to money market executive's perception towards risk management practices in P2P lending. It is seen that variable Information has the highest mean of 4.7, followed by IT System, Ability, Cyber Security, Model, Gradual Investment, Investment in Good Platform, Portfolio and Traditional Lenders. Executives have a perception that grants given by the traditional lenders may not reduce the default risk and portfolio diversification will not lead to potential risks in P2P lending. Factorization is performed to gauge relationships among nine statements. The data requirement for factorisation is measured by conducting KMO and Bartlett's test. The test values are stated in Table 2 and 3.

Table 2: KMO, Bartlett's Test and Total Variance Explained

| Component | KMO and Bartlett's Test | | Rotation Sums of Squared Loadings | | |
|-----------|-------------------------|-------|-----------------------------------|---------------|--------------|
| | KMO | Sig. | Total | % of Variance | Cumulative % |
| 1 | 0.717 | 0.000 | 2.475 | 27.498 | 27.498 |
| 2 | | | 1.680 | 18.669 | 46.167 |
| 3 | | | 1.630 | 18.115 | 64.283 |
| 4 | | | 1.462 | 16.240 | 80.523 |

Table 2 shows KMO and Bartlett's test's significant value as 0.717 (more than 0.6) and 0.000 (less than 0.05) respectively. Since both the values fall under thumb rules, it is concluded in the way that 75 samples are sufficient to conduct factor analysis. Furthermore, based on "Eigen Value", nine statements have been grouped into four factors and it collectively explains 80 percent of variance. The details on grouping is shown in Table 3.

Table 3: Rotated Component Matrix

| Perception towards Risk Management Practices in P2P Lending | Component | | | |
|---|-----------|-------|-------|-------|
| | 1 | 2 | 3 | 4 |
| Portfolio | 0.913 | | | |
| Traditional Lenders | 0.817 | | | |
| IT System | 0.791 | | | |
| Ability | | 0.898 | | |
| Investment in Good Platform | | 0.643 | | |
| Gradual Investment | | | 0.757 | |
| Information | | | 0.671 | |
| Model | | | | 0.851 |
| Cyber Security | | | | 0.750 |

It is observed that variables Portfolio, Traditional Lenders and IT System grouped in factor 1. Factor 2 includes variables Ability and Investment in Good Platform. Variables Gradual Investment and Information included in 3rd factor and variables Model and Cyber Security are listed in factor no. 4. Based on the nature of the variables, four factors are named as Diversification, Profile, Gradual Investment and Model respectively.

CONCLUSION

Growth of a flourishing multi-billion dollar global industry is mainly due to the less cost of operations and market risk for lenders and borrowers. The P2P lending market is expected to grow significantly due to the emergence of institutional investors. Financial technologies like 'virtual cards' enable customers to transact online or at definite retailers and add a significant value to peer-to-peer lending platforms. Few banks have realised the power of P2P and have signed up as clients for loan decisions. P2P models are now opening doors to small and mid-sized investors. The trend of young borrowers opting P2P is rising globally as it is user friendly and up to date. It is expected to grow at CAGR 26.6 % by 2026. P2P lending has paved the way for financial inclusion in under-banked areas. The future of P2P lending market is bright with government stepping in to regulate the processes in P2P lending platforms. The future development of AI and Machine learning could accelerate the industry making a social difference for the world.

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