



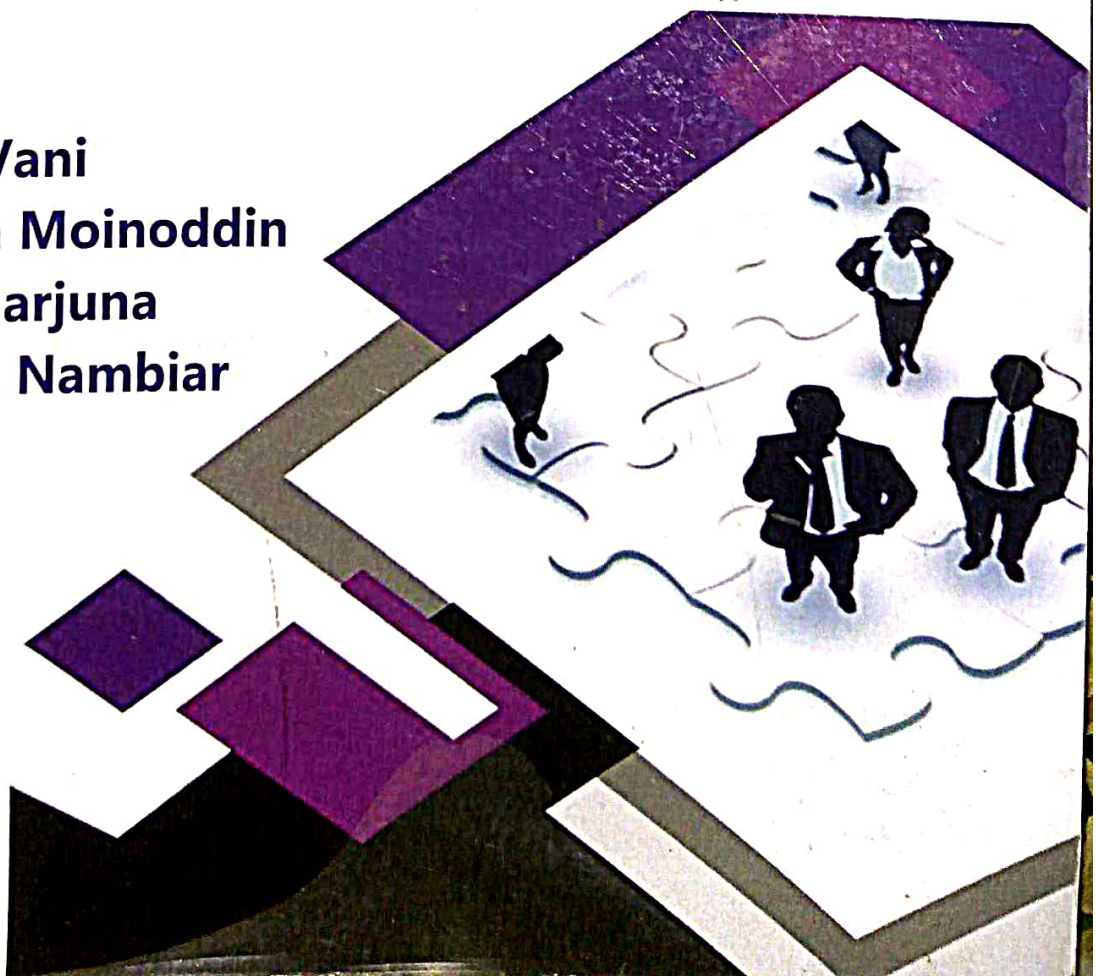
"Business Management Practices – Emerging Trends"

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FINANCIAL LENDING IS CHANGING - AN OVERVIEW OF PEER TO PEER LENDING IN INDIA

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Abstract:

Previously technology was used to enhance the services of the traditional financial sector but in the present scenario it is posing a threat to the existence of the traditional financial sector by trying to replace it with its modern, fast growing, technologically driven financial companies operating online. These fintech companies use technology to provide the various financial services by operating on an online platform. Peer to Peer Lending refers to the practice of providing an online platform to match the needs of borrowers of funds with those of the lenders. Peer to Peer lending belongs to the broader 'Crowdfunding' model.

Key Words: Fintech, Peer to Peer Lending, Crowdfunding, intermediary.

1. Introduction Financial Technology or as it is popularly called 'Fintech' is the application of technology in the process of providing various financial services. These financial services include fund raising, lending, transfer, payment, investing etc. The relation between finance and technology is not something new. The invention of credit cards, debit cards, ATM machines, online stock trading, use of computers by the banks for storing data and performing various operations, advent of e-commerce were all application of technology in the financial sector. Previously technology was used to enhance the services of the traditional financial sector but in the present scenario it is posing a threat to the existence of the traditional financial sector by trying to replace it with its modern, fast growing, technologically driven financial companies operating online. These companies can be both startups and established financial companies trying to incorporate technology in their operations to compete in the changing scenario. Mostly it involves the startup companies only. These fintech companies use technology to provide the various financial services by operating on an online platform. The use of internet for all of their operations is the most vital feature of these companies. One of the areas of Fintech that is rapidly growing is Peer to Peer Lending.

Peer to Peer Lending refers to the practice of providing an online platform to match the needs of borrowers of funds with those of the lenders. It completely rejects the concept of a traditional brick and mortar bank and thereby reduces its overheads by removing any kind of intermediary between the lenders and the borrowers. It is a favorable situation for both the borrowers and the lenders. The lenders get a higher rate of interest by lending rather than just saving and the borrowers on the other hand have to pay a lower rate of interest as opposed to borrowing from a traditional bank. The various types of loans given under this arrangement include student loan, medical loan, house renovation loan, foreign trip loan, business expansion loan, etc. Peer to Peer lending belongs to the broader 'Crowdfunding' model. Crowdfunding is basically financing a project/ idea/ venture on an online platform by raising small amount of funds from a large number of investors who have an interest in project/ idea/ venture. This interest could be the economic benefits or any kind of rewards associated with the success of the project or a simply a connection with the underlying message or purpose of the project. This project/ idea/ venture can be an idea for a startup business, a new product launch, making of a movie, or simply a loan for some kind of personal or professional motive. This is a purely online platform where the seekers of funds have to raise the required amount of funds for their projects within a stipulated period of time by grabbing the interest of the investors. This can be achieved by either uploading videos, photographs relating to the project or engaging in continuous campaigns to popularize the idea on some social media

5.3 The growth prospects and the challenges that might be faced by this sector are:

Growth Prospects	Challenges
<ol style="list-style-type: none"> 1. It's a quick and easy process. It requires less documentation. 2. The borrowers are charged a less rate of interest due to the removal of intermediaries. 3. No collateral is required as loans are unsecured. 4. The investors can invest a small amount of money too. 5. The investors can diversify the risks by investing in a number of projects. 6. The investors have the choice of deciding in which project they want to invest. 7. Early recover of loans as the maturity period of a loan cannot exceed 36 months. 	<ol style="list-style-type: none"> 1. Risk is involved in this type of lending as the loans are given without any collateral. 2. Lesser penetration of internet and technological ignorance is a major challenge faced by this sector. 3. Usually loans of a small amount are given under such arrangement. For a large amount of loan people still have to depend on the traditional banking system. 4. Credit information especially of the borrowers is shared on this platform. Although strict data security measures are undertaken, the fear of misuse of data still remains in the minds of people.

6. Conclusion and Recommendation

This fintech industry is fast growing. Due to large internet connection penetration, positive attitude towards startups, growing technological development, fierce competition in the financial sector, large portion of unmet financial demand and the recognition provided by RBI this industry is soon to take an important position in the Indian economy, making India a global fintech hub.

In the present scenario it is difficult to imagine a financial market without the operation of a bank. These companies require more awareness among the people. More marketing programs should be undertaken by these companies to increase their exposure as the idea is still unknown and at a nascent stage in our country.

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