



Scrutinizing the Effectiveness of the NBFC-P2P (Peer-To-Peer) Lending System in India

Amit Kumar Jha^{1*} Dr. Saket Sharma²

^{1*}Research Scholar, Galgotias University Email: amitjha1976@gmail.com, ORCID Id: 0009-0002-9112-3534

²Associate Professor Galgotias University

Abstract:

A form of crowd-lending, peer-to-peer lending is regulated by the Reserve Bank of India (RBI) as NBFC-P2P lending. Although peer-to-peer lending has been around in India since the beginning of this decade (2011-2020), the "Reserve Bank of India (RBI)" did not include it in its purview until 2017 when it issued its Master Directions. There is no doubt that the regulations are a positive indicator that will augur the expansion potential of "peer-to-peer lending" while simultaneously instilling a sense of trust and confidence in the individuals who participate in peer-to-peer lending. On the other hand, the restrictions have not only restricted the breadth of peer-to-peer lending but also restricted its scope. In the current study, the objective is to investigate the effectiveness of the "Non-Banking Financial Company (NBFC)-P2P (Peer-to-Peer) lending system in India." A systematic literature review (SLR), has been developed, which resulted in the selection of 45 final references. In the current study, the concept and relevance of the "P2P (Peer-to-Peer) lending system in India" have been highlighted. Additionally, the "RBI Guidelines that govern Peer-to-Peer lending in India" have been examined. Along with examining the positive and negative features of the peer-to-peer lending system, the study has also conducted an analysis of the operating techniques utilized by NBFC-P2Ps in India.

Keywords: Peer-to-Peer lending, Non-Banking Financial Companies, P2P lending system, India, lending platforms

1.0 Introduction

1.1 Background for Review

The Internet and information technology have greatly transformed industries by connecting individuals in new and innovative ways, leading to a more disintermediated and democratized landscape. This development has greatly contributed to the rapid expansion of the "peer-to-peer (P2P) economy," leading to the emergence of numerous successful P2P platforms. "Uber" has rapidly emerged as the leading driving service globally, while "Alibaba" has achieved the status of the most valuable retailer (Caldieraro et al., 2018). Additionally, Airbnb boasts the largest number of rooms compared to any other hospitality service (Saraswat and Sisodia, 2022). "P2P lending" operates by facilitating direct connections between individual investors and borrowers through online platforms (Dharmastuti and Laurentxius, 2021; Neelima et al., 2023; Nguyen et al., 2024; Rabbani et al., 2022; Ravishankar, 2021; Savitha et al., 2022; Srivastava, 2021). P2P lending has seen rapid growth in recent times, challenging the dominance of traditional "banks and financial institutions" (Patil et al., 2022; Purwanto et al., 2023; Sunardi et al., 2022; Turguttopbas, 2022). Overall, according to Pierrakis (2019), P2P business lenders are individuals who possess a high level of sophistication and education and have investments in various other assets.

The online lending platform establishes agreements with both the lender and the borrower regarding the expense standards and payment methods for the information services it offers (Huang, 2018; Mitrega Niestro, 2016; Nichols, 2020). This allows individuals or companies to receive loans from lenders without the involvement of traditional financial institutions (Klein et al., 2023; Kumar et al., 2016; Lee, 2017; Saiedi et al., 2022). Through the use of their own computers or mobile devices, individuals are able to lend and borrow money online through a platform known as peer-to-peer lending. This eliminates the need for financial institutions such as banks or credit card firms to facilitate the transaction. It provides a convenient and unsecured way to access funds (Baruna et al., 2021). P2P Lending is also known as a crowdfunding or crowdlending platform (Sherly et al., 2022). Further, the P2P lending platform efficiently connects borrowers and lenders, facilitating credit contracts with or without collateral (Chulawate and Kiattisin, 2023; Rosavina and Rahadi, 2018). While maintaining a professional approach, it is important to consider that inertial routines can influence P2PT preferences. Additionally, the length of time one is exposed to transactions can also impact these preferences (Basu et al., 2021). The global valuation of peer-to-peer (P2P) lending in 2019 stood at \$67.93 billion, and experts predict a significant surge to "\$558.91 billion by 2027. This impressive growth is expected to maintain a strong Compound Annual Growth Rate (CAGR) of 29.7% between 2020 and 2027" (Bhatt et al., 2023).



1.1 Review Objectives

The primary aim of the present research is to examine the efficacy of the NBFC-P2P (Peer-to-Peer) lending system in India. To accomplish this research aim, the following objectives have been proposed.

RO1: To analyse the concept, evolution and significance of the “P2P (Peer-to-Peer) lending system in India.”

RO2: To examine the RBI Guidelines governing “Peer-to-Peer lending in India.”

RO3: To study the NBFC-P2Ps' operating strategies in “India.”

RO4: To evaluate both the positive and negative aspects of the “peer-to-peer lending system.”

RO5: To investigate the potential future evolution of the “peer-to-peer lending mechanism” that is already in place in “India.”

1.2 Research Questions

RQ1: What is the concept, evolution and significance of the “P2P (Peer-to-Peer) lending system in India?”

RQ2: What are the RBI Guidelines governing “Peer-to-Peer lending in India?”

RQ3: What are the NBFC-P2Ps' operating strategies in India?

RQ4: What are the positive and negative aspects of the “peer-to-peer lending system?”

RQ5: What is the potential future evolution of the “peer-to-peer lending mechanism” that is already in place in India?

2.0 Inclusion and Exclusion Criteria

To make sure that pertinent studies are chosen, various inclusion and exclusion criteria have been used during the research selection process. First, a timeline of events has been developed, using which studies completed between 2016 and 2024 have been included in the analysis. Furthermore, all research that is readily translatable into English or that has been published in English has been used. Lastly, all studies that are publicly available (meaning anyone with the reference may access them) have been included in the analysis. These standards have been put in place to guarantee that all current, pertinent, and readily searchable studies are included in the investigation. And lastly, no book has been included.

3.0 Research Methodology

3.1 Search Strategy

This study has been conducted as an SLR (Systematic Literature Review) to identify specific criteria that can be used to select recent and relevant studies that align with the study's objectives. The decision to conduct the current study as an SLR is primarily driven by the need to eliminate researcher bias. By using this approach, one can ensure that the selection of papers is not influenced by personal opinions, resulting in a more thorough analysis and a comprehensive understanding of the topic. The current study seeks to analyse the effectiveness of the NBFC-P2P (Peer-to-Peer) lending system in India, necessitating a thorough and precise analysis, for which an SLR has been deemed adequate. In addition, the study has adopted the PRISMA methodology as mentioned in studies conducted by Page et al., (2021) and Page et al., (2021). The PRISMA methodology is widely recognised for its ability to effectively guide researchers through the process of selecting and filtering studies. It enables the creation of a comprehensive database that can be tailored to meet specific research objectives. Therefore, the PRISMA methodology contributes to the overall improvement of this study's quality.

3.2 Methods for Study Selection and Appraisal

After careful consideration of various criteria, the Science Direct database has been chosen as the most suitable option. For the initial search, three search strings were used: “P2P (Peer-to-Peer) Lending System,” “Non-Banking Financial Company P2P (Peer-to-Peer) Lending System,” and “P2P (Peer-to-Peer) Lending System In India.” These search strings resulted in the selection of 1442 references, which have been added to the initial database. After careful consideration, duplicate articles and titles have been removed from the study. This has resulted in a selection of 1142 articles that will be subjected to various inclusion criteria for the final selection of references. As a result, a timeline criteria was implemented to narrow down the references to those published between 2016 and 2024. This process resulted in the exclusion of 600 articles, leaving a final selection of 542 articles. After carefully reviewing these articles, a total of 392 selected articles were identified. These articles were sourced from various databases, ensuring a comprehensive and diverse collection. Articles that are books, as well as book chapters, are excluded from this database. Afterwards, every article undergoes a thorough review process to ensure its focus is primarily on the NBFC-P2P (Peer-to-Peer) lending system in India. During the final stage, the abstract of each article was carefully analysed to ensure it aligned with the study's objectives. This meticulous process results in the selection of 45 references that have been thoroughly analyzed in the study.

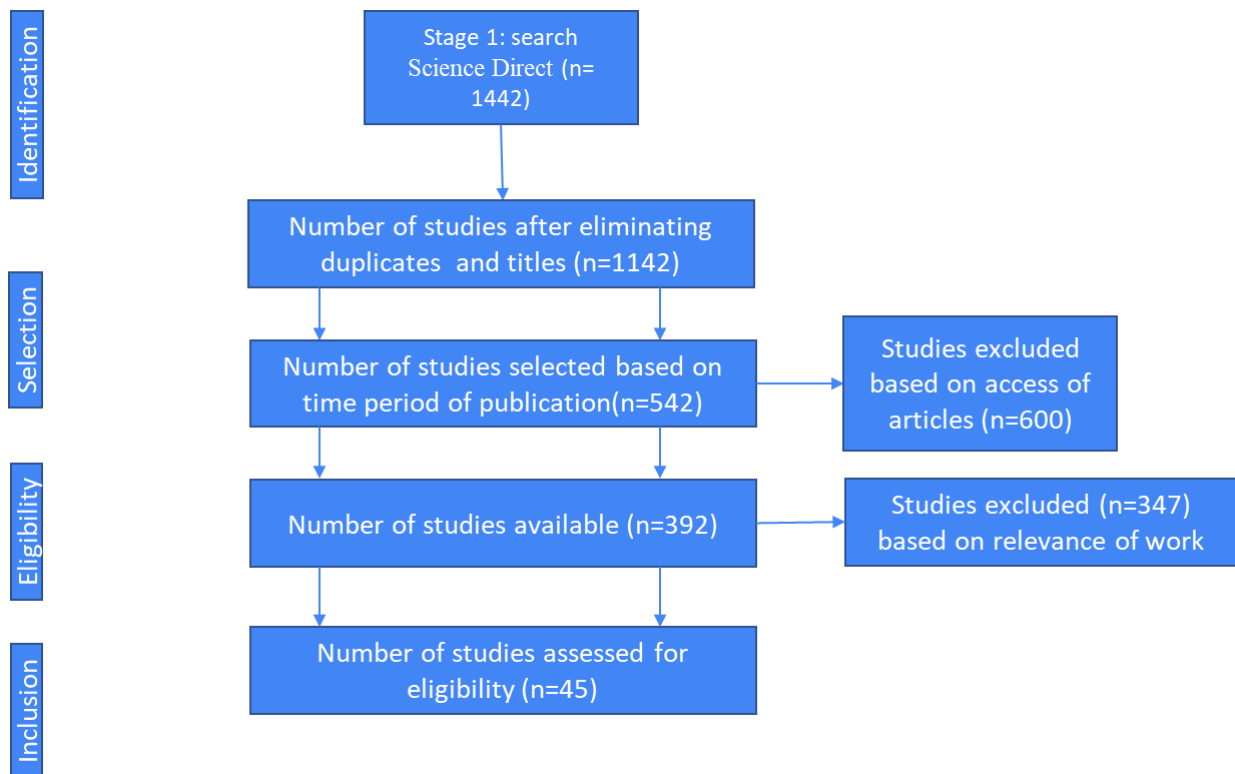


Figure 1: PRISMA Model

5.0 Review Results and Discussion

5.1 RBI Guidelines governing Peer-to-Peer lending in India

P2P lending platforms are typically tech organisations registered under the Companies Act. They facilitate the connection between lenders and borrowers, helping them find suitable matches. Companies are required to apply to the central bank, the RBI, for a license to engage in peer-to-peer lending (Balwani et al., 2020). In 2017, under “Section 451 of the RBI Act, the RBI established a guideline for companies operating in peer-to-peer lending platforms.” These companies are now classified as NBFC-P2P, which is the twelfth category of NBFC introduced by the RBI (Minupuri, 2018; Modi and Kesarani, 2023).

The growing prominence of P2P lending marketplaces results in the displacement of banks as traditional intermediaries (Berger and Gleisner, 2019). Faircent is India's first “RBI-registered peer-to-peer lending marketplace” where individuals have the opportunity to lend money to borrowers (Rao, 2020; Talezadeh, 2022).

P2P platforms acquire the “Certificate of Registration (CoR) from RBI” in order to initiate and conduct P2P business. The entity applying for registration should have the required technological and managerial resources, as well as a sufficient capital structure. It is expected to present a comprehensive and reliable IT system plan, accompanied by a feasible business plan. This CoR can also be revoked by the RBI if the “NBFC-P2P” fails to meet the necessary conditions (Khatri, 2019).

The key factors that the RBI considers when granting in-principle approval to a potential P2P Platform company are (Lakhotia, 2021):

1. An essential requirement is to have a “net-owned fund of at least Rs. 2,00,00,000” (Manda and Yamijala, 2019; Venu and Srinivas, 2020).
2. Directors and Promoters must meet the criteria of being qualified and suitable.
3. Necessary “technological, managerial, and entrepreneurial resources to provide top-notch services to our participants.”
4. Establishing a necessary capital structure to conduct the business.
5. A business plan that is practical for starting the business.
6. A plan for a secure and reliable IT system.

The in-principle approval is valid for 12 months. During this time, the P2P Platform must establish a technology platform, complete the required legal documentation, and fulfill other conditions. The RBI approves the CoR once it determines that the P2P Platform is ready to begin its operations.

5.2 NBFC-P2Ps' operating strategies in India



Operating strategies for NBFC-P2Ps in India include (Sankar and Bhattacharya, 2020):

1. Revenue streams for P2P platforms:

- Registration fees - Paid upon lender or borrower account creation on the P2P platform. "Registration fees typically cost around Rs. 500/-."
- Borrowers pay loan application fees when applying online for appraisal or listing on the P2P platform. Some platforms refer to this as "Loan documentation fees."
- The loan processing charge is withdrawn from the loan amount at the time of disbursement, based on the borrower's risk profile. Processing fees typically range from "2% to 4% but may increase to 8% for problematic borrowers."
- Transaction fees - Lenders pay a fee for providing loan funding opportunities on the platform. This fee is often collected from the borrower's EMI/installment payments to the lender. It could be levied on the amount lent or the platform's overall return.

2. Faster and easier credit process: "P2P platforms have exceeded traditional lending in processing loan applications by borrowers." Loan processing time has decreased and now depends on the borrower's credit risk profile.

3. Returns and costs: "P2P networks" offer substantial returns for investors/lenders on loan portfolios. Borrower interest rates are based on their risk profiles.

4. Types of loans offered: P2P platforms provide several lending options to fulfill diverse borrower needs. The platform offers various loan products, including "Travel/Pilgrimage, Home Improvement, Marriage, Family Function, Debt Consolidation, Credit Card Payoff, rent deposit, Medical, Salary Advance, Instant, Consumer, Business, Vehicle Purchase, and Education loans."

5.3 Pros and Cons of P2P Lending System

The benefits of P2P lending include:

1. P2P lending offers a risk-reward ratio that is superior to other asset classes.
2. P2P platforms utilize advanced algorithms, including discrete and AI-based ones, to enhance analytics and precisely reach their intended audience. They categorize borrowers according to their credit history, which can range from weak to non-existent. Investors can access a wider market that is customized to their risk tolerance, providing them with greater opportunities (Chaturvedi and Sinha, 2023).
3. With the growing competition among investors, borrowers can now enjoy appealing interest rates on P2P Lending Platforms (Cimino and Filella, 2016).

The negative aspects of the P2P lending system include:

1. One of the downsides of P2P lending is the presence of recovery risks, as most of the loans are unsecured (Chaturvedi and Sinha, 2023).
2. Even borrowers in high-risk categories have the opportunity to secure loans, unlike with organized lending (Suryono et al., 2019).
3. If a payment default occurs, P2P investors do not have any insurance or protection (Chaturvedi and Sinha, 2023).
4. Another issue with P2P lending is the lack of legally defined disclosure standards, which can make it difficult for lenders to fully grasp the risks involved with a particular P2P platform (Lenz, 2016).

6.0 Conclusions

Over the past few years, P2P Lending has gained significant recognition in the financial industry as a groundbreaking innovation embraced by global financial markets (Linawati et al., 2020). The P2P lending market is poised for substantial growth, thanks to the increasing presence of institutional investors. The future of the P2P lending market looks promising as the government takes steps to regulate processes on P2P lending platforms (Kumar, 2020). India is a recent entrant in the world of crowdlending, specifically in the P2P lending sector. However, it has been highly effective in embracing it. The regulations imposed by the RBI have also boosted the confidence of the different stakeholders in P2P lending. This resulted in a rise in the number of "P2P platforms in India." The number of lenders/investors on the platforms has also increased since then.

7.0 Limitation of Study

Several limitations have been identified during the study and should be addressed to improve reliability and accuracy. Firstly, the current study relies on an analysis of studies conducted by previous scholars. However, it is important to note that the analysis of the NBFC-P2P lending system typically relies on secondary data



analysis, observation, and simulation, which may limit the accuracy of the findings. In addition, it is important to mention that the current systematic literature review (SLR) is focused on studies published between 2016-2024, written in English, and available for public access. As a result, studies that do not meet these criteria have been excluded based on the selection criteria. However, it is worth considering that these excluded studies may have provided valuable insights that could have enhanced our understanding of the effectiveness of NBFC-P2P platforms in India. In addition, the current study is built upon existing research and therefore does not take into account data from all locations in India. This is a significant limitation that can be overcome by conducting primary data analysis.

8.0 Scope For Future Research

Future research can explore various aspects of the “NBFC-P2P lending system in India” to determine its effectiveness. Analyze the performance and regulatory effectiveness of India's P2P systems by comparing them to their global counterparts. Exploring the potential of cutting-edge technologies such as blockchain and AI may uncover possibilities for improved efficiency and security. Having a deep understanding of customer behaviour, market penetration, and the factors that drive borrower and lender participation can greatly enhance user experience and inform effective market strategies. It is essential to thoroughly analyze risk management frameworks and devise effective mitigation strategies to effectively address credit and operational risks. Exploring the wider economic impact and contributions to financial inclusion, particularly for SMEs and underserved populations, can shed light on the system's societal advantages. An in-depth analysis of regulatory and policy implications, coupled with recommendations for enhancements, will contribute to a stronger P2P ecosystem. In addition, it is important to consider social and ethical factors, such as data privacy and ethical lending practices, in order to maintain the system's integrity. Longitudinal studies on market evolution can effectively track growth patterns and sustainability over time. By integrating economics, technology, and social sciences, a holistic perspective can be gained on the P2P landscape. Finally, evaluating the influence of macroeconomic factors will offer valuable insights into the system's ability to withstand and adjust to changes in the economy.

References

- Balwani, N., Mohanty, S.S., Shrestha Banerjee, A.G., Nanda, N. and Sinha, R.K., 2020. Advances in Peer to Peer Lending: An Evidence from India. *Test Engineering and Management*, 82, pp.1308-1326.
- Baruna, S.S.A., Dalimunthe, Z. and Triono, R.A., 2021, November. Factors affecting investor switching intention to fintech peer-to-peer lending. In *International Conference on Business and Technology* (pp. 63-73). Cham: Springer International Publishing.
- Basu, S., Aulakh, P.S. and Munjal, S., 2021. Pluralistic ignorance, risk perception, and the governance of the dark side in peer-to-peer transactions: Evidence from the Indian banking industry. *Journal of Business Research*, 129, pp.328-340.
- Berger, S.C. and Gleisner, F., 2019. Emergence of financial intermediaries in electronic markets: The case of online P2P lending. *BuR Business Research Journal*, 2(1).
- Bhatt, M., Chandarana, P., and Shah, T., 2023. Peer To Peer Digital Lending Platform. *International Research Journal of Modernization in Engineering Technology and Science*, 5(2), 1727-1736.
- Caldieraro, F., Zhang, J.Z., Cunha Jr, M. and Shulman, J.D., 2018. Strategic information transmission in peer-to-peer lending markets. *Journal of Marketing*, 82(2), pp.42-63.
- Chaturvedi, P. and Sinha, S. K., 2023. An Insight Into The Peer To Peer Lending Industry Of India. *IJJ Journal of Management*, 11(2), 1-9.
- Chulawate, N. and Kiattisin, S., 2023. Success Factors Influencing Peer-to-Peer Lending to Support Financial Innovation. *Sustainability*, 15(5), p.4028.
- Cimino, A. and Filella, M., 2016. An empirical analysis of peer-to-peer loans to business companies. The case of Lendix platform.
- Dharmastuti, C.F. and Laurentxius, J., 2021. Factors and Benefits that Affect Lender's Interest in Giving Loans in Peer to Peer (P2P) Lending Platform. *Binus Business Review*, 12(2), pp.121-130.
- Huang, R.H., 2018. Online P2P lending and regulatory responses in China: Opportunities and challenges. *European Business Organization Law Review*, 19, pp.63-92.
- Khatri, P., 2019. An overview of the peer-to-peer lending industry of India. *International Journal of Business and Management Invention*, 8(3), pp.1-11.
- Klein, G., Shtudiner, Z. and Zwilling, M., 2023. Why do peer-to-peer (P2P) lending platforms fail? The gap between P2P lenders' preferences and the platforms' intentions. *Electronic Commerce Research*, 23(2), pp.709-738.
- Kumar, D.P.P., 2020. Money market executive's perception towards peer-to-peer (p2p) lending. *The journal of contemporary issues in business and government*, 26(2), pp.585-590.



15. Kumar, V., Natarajan, S., Keerthana, S., Chinmayi, K.M. and Lakshmi, N., 2016, September. Credit risk analysis in peer-to-peer lending system. In *2016 IEEE international conference on knowledge engineering and applications (ICKEA)* (pp. 193-196). IEEE.
16. Lakhota, M., 2021. Peer to Peer Lending-From the People, For the People. *For the People (April 15, 2021)*.
17. Lee, S., 2017. Evaluation of mobile application in user's perspective: case of P2P lending Apps in FinTech industry. *KSII Transactions on Internet and Information Systems (TIIS)*, 11(2), pp.1105-1117.
18. Lenz, R., 2016. Peer-to-peer lending: Opportunities and risks. *European Journal of Risk Regulation*, 7(4), pp.688-700.
19. Linawati, N., Moeljadi, M., Djumahir, D. and Aisjah, S., 2020. The role of peer to peer lending in increasing funding for micro, small, and medium enterprises. In *SHS Web of Conferences* (Vol. 76, p. 01031). EDP Sciences.
20. Manda, V.K. and Yamijala, S., 2019. Peer-to-peer lending using blockchain. *International Journal Of Advance Research And Innovative Ideas In Education*, 6, pp.61-66.
21. Minupuri, N., 2018. Rushing to Regulate: Rethinking the RBI's Directives on Peer-to-Peer Regulations in India. *Emory Int'l L. Rev.*, 33, p.433.
22. Mitręga-Niestró, K., 2016. Recent Developments of the P2P Lending Market in Poland. *Studia Ekonomiczne*, (186 cz 2), pp.264-277.
23. Modi, A. and Kesarani, V., 2023. Digital Lending Laws in India and Beyond: Scrutinizing the Regulatory Blind Spot. *Indian Journal of Economics and Finance*, 3(1), pp.1-7.
24. Neelima, K.M., Chandra, R.K. and Brijesh, P., 2023. Transformation to Digital Economy: Findings from a Survey on Peer-to-Peer (P2P) Lending Platforms in India. *Prajnan*, 52(1), pp.9-27.
25. Nguyen, L., Ahsan, M. and Haider, J., 2024. Reimagining peer-to-peer lending sustainability: unveiling predictive insights with innovative machine learning approaches for loan default anticipation. *FinTech*, 3(1), pp.184-215.
26. Nichols, C., 2020. P2P Lending Can Increase Capital To Capitally Starved Indian Country. *American Indian Law Journal*, 8(2), p.2.
27. Patil, L., Pillai, A., Honrao, S. and Wagh, J., 2022. P2P Lending System on Blockchain. *International Journal of Scientific Research in Computer Science, Engineering and Information Technology*, 8(3), 120-125.
28. Pierrakis, Y., 2019. Peer-to-peer lending to businesses: Investors' characteristics, investment criteria and motivation. *The International Journal of Entrepreneurship and Innovation*, 20(4), pp.239-251.
29. Purwanto, I., Isnanto, R.R. and Widodo, A.P., 2023. Investigation of the Impact of the Peer-To-Peer Lending Market on the Membership Motivation of the MSME. In *E3S Web of Conferences* (Vol. 448, p. 02037). EDP Sciences.
30. Rabbani, M.R., Bashar, A., Hawaldar, I.T., Shaik, M. and Selim, M., 2022. What do we know about crowdfunding and P2P lending research? A bibliometric review and meta-analysis. *Journal of Risk and Financial Management*, 15(10), p.451.
31. Rao, P., 2020. A study on Indian Lending FinTech Ecosystem. *Journal of Accounting and Finance*, 34(2), 62-76.
32. Ravishankar, M.N., 2021. Social innovations and the fight against poverty: An analysis of India's first prosocial P2P lending platform. *Information Systems Journal*, 31(5), pp.745-766.
33. Rosavina, M. and Rahadi, R.A., 2018. Peer-to-peer (P2P) lending platform adoption for small medium enterprises (SMEs): A preliminary study. *International Journal of Accounting, Finance and Business*, 3(10), pp.1-14.
34. Saiedi, E., Mohammadi, A., Broström, A. and Shafi, K., 2022. Distrust in banks and fintech participation: The case of peer-to-peer lending. *Entrepreneurship Theory and Practice*, 46(5), pp.1170-1197.
35. Sankar, P. and Bhattacharya, M., 2020. Study of Shadow Banking in India with a Specific Reference to P2P-NBFCs. *International Journal of Economics and Financial Issues*, 10(5), p.23.
36. Saraswat, S. and Sisodia, R., 2022. A Study On Perception Of Indian Customers Towards Peer-To-Peer Accommodation. *Journal of Positive School Psychology*, 6(2), pp.4614-4624.
37. Savitha, B., Hawaldar, I.T. and Kumar, N., 2022. Continuance intentions to use FinTech peer-to-peer payments apps in India. *Heliyon*, 8(11).
38. Sherly, D.S., Devitasari, R. and YunitaLojok, N., 2022. The Influence of Peer to Peer Lending Fintech on MSME Performance in Medan City. *American Journal of Humanities and Social Sciences Research*, 6(2), 285-290.
39. Srivastava, D.A.K., 2021. Digital Lending in India: The Loan Trap. Available at SSRN 4681458.
40. Sulastri, R. and Janssen, M., 2023, July. Challenges in designing an inclusive Peer-to-peer (P2P) lending system. In *Proceedings of the 24th Annual International Conference on Digital Government Research* (pp. 55-65).



41. Sunardi, R., Hamidah, H., Buchdadi, A.D. and Purwana, D., 2022. Factors determining adoption of fintech peer-to-peer lending platform: an empirical study in Indonesia. *Journal of Asian Finance, Economics and Business*, 9(1), pp.43-51.
42. Suryono, R.R., Purwandari, B. and Budi, I., 2019. Peer to peer (P2P) lending problems and potential solutions: A systematic literature review. *Procedia Computer Science*, 161, pp.204-214.
43. Taleizadeh, A.A., Safaei, A.Z., Bhattacharya, A. and Amjadian, A., 2022. Online peer-to-peer lending platform and supply chain finance decisions and strategies. *Annals of Operations Research*, 315(1), pp.397-427.
44. Turguttopbas, N., 2022. Peer-To-Peer lending in US and China: a guide for emerging market countries. *Universal Journal of Finance and Economics*, pp.16-30.
45. Venu, A., and Srinivas, K. A., 2020. Theoretical and Regulatory Framework of Crowd Funding and P2P Lending in India. *IOSR Journal of Economics and Finance*, 11(3), pp.33-38.