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Innovative platform

Peer-to-peer helps investors earn better returns, while borrowers find the cost of credit reduced

Ever since demonetisation, there has been only one lending platform that has benefited substantially – the business of peer-to-peer (P2P), as the banking system has been almost paralysed in functions like lending. All their efforts have, of late, been focussed on servicing customers with the exchange of notes, as also deposit of old notes. So, as banks become slower, more borrowers are turning to P2P lending platforms for speedy disbursals. The dip in interest rates is also getting lenders to consider this option. For instance, State Bank of India (SBI) alone has taken a lead in dropping the fixed deposit rates to 4.25 per cent. Added to this, earlier, the government had slashed off interest rates on small-savings schemes, including the Public Provident Fund and Kisan Vikas Patra.

Bubna: numbers are going up

"Confronted with delays in getting approvals in banks, people have found the new platform (P2P) to be quick, as the entire process is done online," explains the 33-year-old Vikram Singh, an IT professional based in Gurugram, Haryana. "It is convenient too and involves no paperwork, as all the submissions, disbursements, etc, are done online – via e-mail and phone". When Singh needed money to get rid of some high-cost personal loans, he had used the Monexo platform to borrow. "I came to know of this while surfing Google," he says.

Usha Unnikrishnan, employed by a law firm in Bengaluru, also got funds through this platform in 48 hours. "It was quick and easy," she says. "In the bank, it would take anywhere between 15-45 days – that too, after making repeated visits". Like Singh and Unnikrishnan, there are many more, who have been exploring the online route to meet their financial obligations.

"We have seen the numbers going up each day," says Mukesh Bubna, CEO, Monexo, which has been offering the platform. It was first launched in Hong Kong and has, in April 2016 (after a RBI consultative paper), built a system for the Indian market. "The recent P2P lending consultation paper, issued by RBI, is set to change the landscape," adds Bubna. Monexo stands apart from its industry peers on five counts: its data is science-driven for credit approval; it works with regulators to build industry; it has strategic partnerships; it has built customer trust; and it delivers the whole process digitally and conveniently to customers.

"After the demonetisation exercise, we have seen our call centre getting inbound calls from savers spread all over India (mostly metros, but even smaller town like Madurai)," says Bubna. "The volume of such calls has doubled over the previous month. Also, there are more website hits and longer stay to read the details of how we work – our average duration time on the website has gone up from four to about 12 minutes". Bubna has two decades of working experience in consumer banking with Citibank, across geographies in India, Singapore and Hong Kong, and has led diverse regional teams. Prior to it, he was CFO, cards & unsecured lending, Citibank, APAC region. Till recently, he was business head, financial inclusion programme for Asia, Western Union.

"P2P is doing substantially well in India. From just a minuscule number of start-ups a few years back, it has moved on to gather about 30 players in the field currently. These are of various types and business models. Investments in India's fintech sector have grown by 282 per cent during 2013-14, to reach $450 million in 2015," observes Rajat Gandhi, founder & CEO, Faircent, who feels that P2P has a special place in a country like India, which has a large amount of unutilised funds and an equally large number of people in need of such funds.

"P2P lending can help bridge this gap," adds Gandhi. "Considering the incumbent government's focus on digitisation, P2P players like its other fintech siblings have a larger role to play in the economy, going forward. With factors like immense technology potential in the country and the position of the banks vis-à-vis NPAs (affecting their rational of approving loans to SMEs), P2P could easily reach $4-5 billion in the next 5-6 years."

Traditionally (with banks and NBFCs), a borrower meets a third party representative from a bank or walks into a branch for applying for a loan. He then submits all the documents in physical copies and signs agreements on paper, before waiting for the decision for days, before he knows whether the bank has approved or rejected the application, or is waiting for more documents. In the digital process, customers apply for loans online – sharing documents/information online in privacy and signs contracts electronically.

"This whole process takes only 10-15 minutes and can be completed

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within a day," adds Bubna. "The customer gets a response in an hour and not days. The decision is data-driven and includes a personalised interest rate to the borrower. On the other side are our savers, who want to grow their savings beyond the inflation rate. This is our third pillar of democratising finance. We offer a complete cradle-to-grave solution, including repayment collection from borrowers to lenders".

Better servive

As a company offering the matching service between borrowers and lenders, the P2P or even the traditional player (a bank and an NBFC) in the financial system does not put its own money but runs on the savers' money. However, it's the traditional player (a bank or NBFC), which makes the spread. For example, banks give 4 per cent interest on savings account and lend at higher rates. This is the spread they earn.

Compared to this, the P2P player only charges success fees: a one-time 2.5 per cent of the loan amount to the borrower and 2.5 per cent of the monthly installment payment collected, thus, making a top line fee income of 5 per cent alone – that too, only on successful completion of the deal. "We do not charge any registration fee like other P2P players. We earn when we provide service. Borrowers pay us 2-4 per cent, based on the risk grade. Lenders pay 2.5 per cent, when we collect repayment," says Bubna.

The fact that it is not a capital-guaranteed scheme should be understood by customers, before they get to Monexo, Faircent or other P2P lenders. Risk and reward are two parts of the same coin. "Lenders can walk away with an IRR of 15 per cent and the ability to compound this further in P2P lending. Lenders need to bring in a minimum ₹1,00,000 to IDBI Trust Services and lend as little as ₹5,000 per loan," says Bubna, while talking about the most critical capabilities that are already in play with P2P lending companies in India. The average ticket size is ₹1.50 lakh and the maximum is ₹5 lakh. And the interest rate varies between 13 to 30 per cent based on the algorithm risk ranking of M1 (less risk) to M8 (high risk) computed through the digital process.

Unlike other players, Monexo has a partnership with ITSL. They hold the lenders' money in an escrow account, so that it is independent of Monexo's day-to-day accounts. This complies with the guideline that the money should move from lender account to borrower account, as also that the P2P lending platforms should have a living will. This also enables Monexo to make the transaction smooth and fast for borrowers to receive and repay without losing their identity. There are a host of other players – Lendbox, Vote4cash, Loanmeet, i-lend, Rupiayaexchange, to name a few – which are active in the field.

In fact, the decision to lend is taken by the lenders themselves. Monexo provides information, screening grade of Monexo (M1-M8) with the price. It is up to each lender to create a portfolio according to their risk and return expectation. In case of default, Monexo through its partner will provide collection services and credit bureau reporting to collect the repayment from the borrower.

In India, P2P is a new platform but, globally, it has been there and growing. When P2P lending started in China in 2005, it was only a $2 million industry. Today, it has grown to become a $164 million industry and occupies still less than 1 per cent of the total balance sheet of lending books in the economy. India has only 10 per cent of consumer debt as a percentage of GDP today. "So, there is a huge opportunity here, as consumption grows with a younger population constituting a major bulk of the population. Moreover, SMEs are always on the lookout for less cumbersome, faster solutions with lower rates and lower transaction costs," adds Bubna.

As far as regulation is concerned, RBI has so far issued a consultative paper. "The RBI consultation paper aims to discuss regulating the P2P lending industry which, though at a nascent stage in India, has the potential to disrupt the financial system, as it has done in US and China. Amongst other things, the paper talks about classifying P2P as an NBFC and setting the minimum capital requirement for the business at ₹2 crore. It also considers allowing the platforms to operate only as an intermediary – which can only aggregate borrowers and lenders without the amount getting reflected in the balance sheet. The paper also considers that entities registered as a company would only be allowed to operate as a P2P lending player," says Gandhi of Faircent.

He supports RBI's initiative towards the sector and has been actively urging the regulator to provide guidelines. "It is great that RBI has the foresight to pre-empt the growth path of the industry and install safeguards to protect the borrowers and lenders. We, as a P2P lending marketplace, have been cognizant of the fact in safeguarding our borrowers and lenders and have various risk mitigation practices followed and upgraded regularly. Regulations would help weed out the non-serious players and only leave companies who are there for the long run – those who have a sustainable model and the right intention. However, since the devil is in the details, it is paramount that though the regulations should prevent malpractices at the hands of the players, they should also provide enough leeway for them to innovate and grow".

In a nutshell, the P2P lending marketplace is the right evolution in the financial services sector in India. In fact, personal financial advisors in India have already started recommending allocating smaller sums of money for this platform, so as to create a new diversified asset in HNIs' portfolio of investors as a platform that could get them better returns. Hence, the demand for P2P lending has a potential to receive a huge fillip in the future. P2P lending can become the third leg, after banking and NBFC, depending on how it evolves.

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