



Introduction

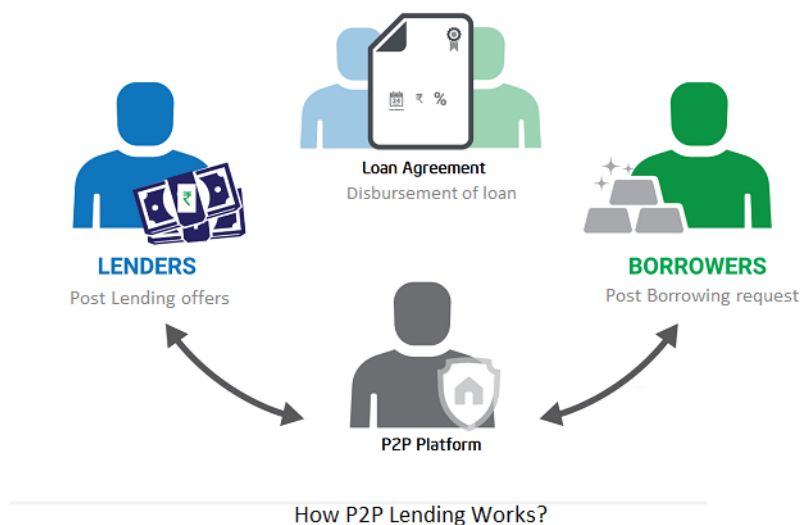
In the recent past, a host of online lending platforms have been launched. These platforms are providing even greater access to financing for people who do not fulfill the eligibility criteria to raise debt from traditional banking channels. In this article, we provide a brief overview of what these platforms are and how they are disrupting the non-banking financial sector.



Online Lending Platforms

Peer-to-peer (P2P) lending platforms match borrowers with lenders to provide unsecured loans. The loan is then paid back to the lender with interest. Both borrowers and lenders pay fees to the lending platforms. These platforms further the ability of the unorganized or overlooked sector to raise finances and may also reduce lending rates due to lower operational costs and increased competition with other financing channels.

Figure 1: How it Works



Source: [Money Excel](#)

Presently, there are around 30 start-up P2P lending companies in India¹ with some businesses reporting a growth rate of 30-35% per month and support from corporate bigwigs.² These platforms have become popular because they provide an investment opportunity for people looking to invest their savings while earning a great return on them and also provide creditworthy borrowers a way to secure personal loans.³

¹ [RBI Consultation Paper](#), April 2016

² Namrata Acharya, P2P lending on growth trajectory ahead of RBI guidelines, http://www.business-standard.com/article/finance/p2p-lending-on-growth-trajectory-ahead-of-rbi-guidelines-116091300589_1.html

³ Gaurav Dutt, Indian P2P Lending Platforms Are Helping The Un-catered Borrowers Get Access To Easy Finance,

In comparison with traditional lenders, online lending platforms have certain advantages⁴:

- ✓ Since they are available online, they are not limited by physical locations and can reach even the remotest corners of India;
- ✓ They have lower service costs as their operational costs are lower;
- ✓ They are able to offer customized offerings as they have access to advanced analytics about the various segments they are aiming to service.
- ✓ Availing loans is easier since their paperwork and processes are simpler and streamlined.
- ✓ They don't levy prepayment charges for early payment of the loan.



Online lending platforms as NBFCs

Recently, the RBI has issued a notification by which P2P lending platforms will be considered as NBFCs and will have to comply with RBI's regulations pertaining to NBFCs. This is a precursor to a more robust regulatory framework, which will govern P2P lending platforms. The proposed framework will include provisions for regulations on capital, governance, business continuity plan, customer interface and regulatory reporting, amongst others. These regulations are also expected to provide lenders and the platform with legal rights, which will enable them to take adequate steps against defaulters. It will also mean wider acceptability of the concept amongst the masses as risk will be lowered.⁵



What are NBFCs

NBFCs are engaged in the business of loans and advances, acquisition of shares/stocks/bonds/ debentures/securities, leasing, hire-purchase, insurance, and chit funds. Although they are considered an alternative to mainstream banking, they play a complimentary role in the financial inclusion agenda of the country.



Current NBFC Scenario

Despite a decrease in number of registered NBFCs, the share of NBFC assets as a percentage of scheduled commercial banks assets has increased from 7% in 1998 to 14.8% in March 2015. NBFCs have also steadily grown in number and market share, indicating the success of their business models and the potential of the target markets.

NBFCs have recorded a healthy growth—a compound annual growth rate (CAGR) of 19% over the past few years—comprising 13% of the total credit and expected to reach nearly 18% by

<https://medium.com/@gauravdutt/indian-p2p-lending-platforms-are-helping-the-un-catered-borrowers-get-access-to-easy-finance-3cf27461be7d>

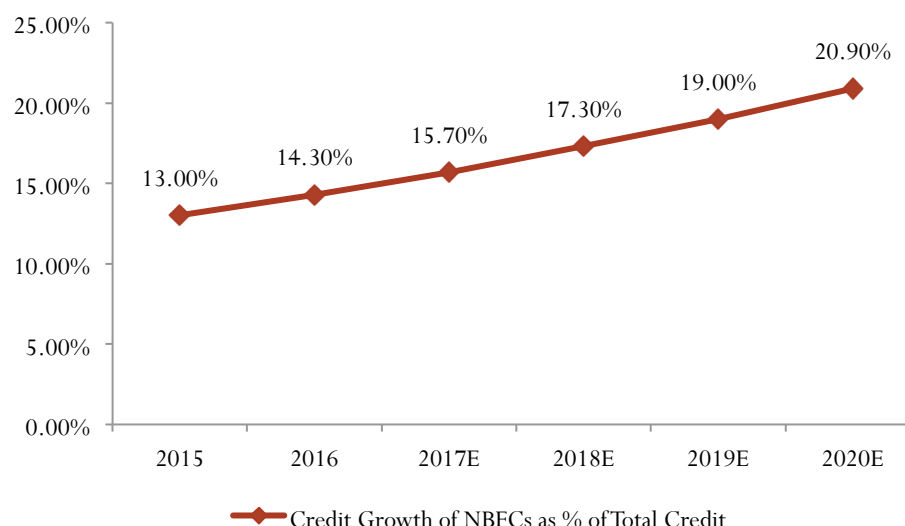
⁴ Nitin Agarwal, How online lending platforms are penetrating Tier II and III cities,

<https://yourstory.com/2017/09/online-lending-platforms/>

⁵ Beena Parmar, RBI to treat peer-to-peer lending platforms as NBFCs,

<http://www.moneycontrol.com/news/business/economy/rbi-to-treat-peer-to-peer-lending-platforms-as-nbfc-2392627.html>

2018–19.



Outlook

With the proposed regulatory framework, P2P lending platforms will gain more legitimacy and are expected to grow in popularity. While it is tough to speculate what the final guidelines will be, the consultation paper released by the RBI in April 2016 suggests that P2P lending platforms will only be allowed to act as intermediaries with their role being limited to matching borrowers and lenders. The lending and borrowing will not be reflected on its balance sheet. There will no escrow account with funds moving directly from the lender's account to the borrower's to ensure there is no money laundering.⁶

They may also include eligibility criteria for the CEO, directors and the Board and that the platforms have a brick and mortar presence. The platforms may be required to submit a Business Continuity Plan, incorporate a grievance redressal mechanism and take adequate measures to ensure data security. Further, the RBI is expected to provide for a reporting mechanism for P2P lending platforms.

Online lending platforms are disrupting the NBFC industry by providing an additional layer for raising financing. Although, NBFCs focus on segments neglected by banks; non-salaried professionals, individuals, traders, transporters and stock brokers, online lending platforms have a wider penetration and are gaining popularity in Tier II and Tier III cities.



Conclusion

NBFCs' business models have unique strengths and operate in a growing market wherein they can leverage these to be able to deliver exception performance and prove to be both crucial and successful in the vibrant, competitive and dynamic financial system that is the Indian money market. Online lending platforms have taken this mandate further and the regulations proposed by the RBI are expected to help them become more popular.

⁶ Aman Malik, Here's why RBI wants to regulate online P2P lending, <https://www.vccircle.com/heres-why-rbi-wants-to-regulate-online-p2p-lending/>