

Foreign Experience In The Development Of Innovative Lending P2p

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Abstract: The article analyzes the history of the formation and the root cause of the development of a relatively new tool for lending to the population - P2P lending, and its analysis in Russia is separately conducted. Examples of leading organizations in this segment are given, prospects for their activities in the Russian financial market are indicated. The advantages and disadvantages of P2P are indicated.

Index Terms: P2P lending, borrower, lender, Internet platform, creditworthiness, microfinance organization (MFI), P2P lending platform, crowdfunding.

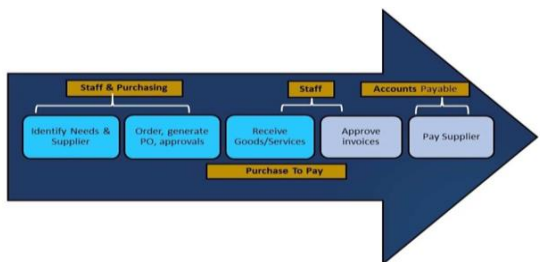
1. INTRODUCTION

The history of the banking sector began many centuries ago. Throughout all time, it has been actively developing, and new banking products and services have appeared. In the modern world, almost everyone uses credit services. The most important quality in the present is customer focus, including: convenient and understandable service, an individual approach to each client, quick adaptation of products and services to rapidly changing market needs. With the development of modern technologies, the banking sector is being transformed institutionally, and credit markets have received a powerful impetus for transformation [1]. At present, in the financial markets there are not only commercial banks, but also Internet - mutual lending platforms [2]. Ensuring the innovative development of credit activities of commercial banks is a prerequisite for maintaining their competitiveness in the market for loan capital. Therefore, Western banks pay great attention to the high and stable growth of innovative loan products. In 2018, the volume of such innovative Bank of America (USA) loan products as overdraft, credit card loans and syndicated loans increased by 17.4% compared to 2017 [3]. The value of this indicator in the bank Paribas (France) for the same period amounted to 11.6% [4]. In this regard, commercial banks are exploring new online lending platforms. We are talking about P2P lending as a process of lending and the provision of funds on specialized Internet sites occurring between individuals, without the intermediary of banks and other credit organizations.

To receive a loan product, a potential borrower must register on the site's website, provide information about himself and fill in passport data. Further, all the information received is processed, its accuracy is checked, the client receives the necessary approval. The next step is to place an application, which indicates the required amount, term and the desired interest rate. The lender, having analyzed the application, comes to an agreement with the borrower, concluding the contract. As a result, the money is transferred from the lender's account opened on the platform to a similar account of the borrower, and the online platform receives income in the form of a commission when returning funds (pic.1). Potential borrowers in P2P lending are individuals living in remote regions where there are infrastructural difficulties in obtaining a loan on favorable terms. Also, the service is popular with people with relatively low incomes, because of which commercial banks refuse them [5].

2 STAGES OF DEVELOPMENT

Historically, the first Internet site appeared in 2005 in the UK. Zopa is the first company to start providing equal loans in the UK. Since its founding in February 2005, it has issued loans worth £ 278 million and is currently the largest such lender in the UK, serving more than 500,000 customers. In 2010, RateSetter became the first peer lender to use a collateral fund to protect lenders from defaults of borrowers, and the Funding Circle portal was the first lender to work on an equal footing in a similar business concept. By analogy, the companies ThinCats, Market Invoice were organized, and in 2013 - Assetz Capital. FundingCircle is now the second largest lender with a loan of over £ 81 million. In 2011, the British lender Quakle, founded in 2010, stopped almost 100% of defaults, trying to measure the creditworthiness of borrowers by a special group score, similar to the feedback scale used on eBay; this model did not contribute to an increase in the share of repaid loans. In May 2012, the British government promised to invest £ 100 million in small businesses through alternative lending channels, including peer-to-peer loans, hoping to bypass large banks that are reluctant to issue such loans. According to forecasts, in 2012, peer-to-peer lending companies were to issue loans totaling up to £ 200 million. Equitable lending is guided by the standards developed by the independent Equal Finance Association. Equal depositors do not claim protection under the Financial Services Compensation Program (FSCS), according to which each bank is provided with a guarantee of up to £ 85,000 for each saver. However, the Equal Financing Association obliges its members to take credit servicing measures even when the

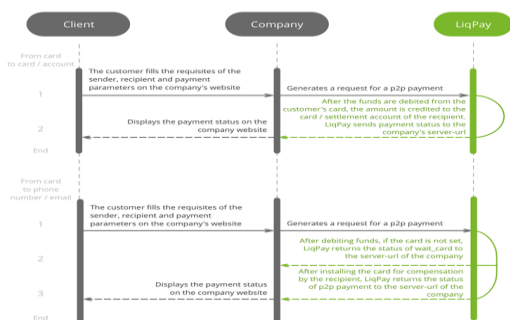


Pic.1. P2P steps

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intermediary company is declared bankrupt. As of July 2012, all British peer lenders have loaned a total of £ 300 million. In September 2012, Internet entrepreneurs Daniel Raikumar and Gary Lambi launched a project called rebuilding society.com. The first loans were closed in February 2013. The British government has announced that from April 2014, this industry will be regulated by the Financial Services Authority. A modern area of equal lending took shape in the United States in February 2006 - it was then that Prosper appeared, followed by Lending Club, and shortly after that other lending platforms opened. Both Prosper and Lending Club are registered in San Francisco, California. Initially, on peer-to-peer lending platforms, there were few restrictions regarding the right of borrowers to provide loans, which led to the appearance of a concomitant selection problem and an increase in the share of default of borrowers. In addition, some investors considered these loans to be insufficiently liquid, since most of them lasted at least three years. In 2008, the Securities and Exchange Commission (SEC) demanded that companies providing equal loans register their offers as securities, in accordance with the Securities Act of 1933. The registration process was extremely time-consuming; Prosper and Lending Club were forced to temporarily suspend the issuance of new loans, while other companies, such as the British Zopa Ltd., completely left the US market. Lending Club and Prosper have received approval from the SEC to issue medium-term bonds to investors backed by loan repayments. Prosper has improved its internal documentation registration process by allowing banks to sell already funded loans based on the Prosper platform. Lending Club and Prosper began to collaborate with FOLIO Investing to create a secondary market for their medium-term bonds, thereby ensuring their liquidity for investors. This allowed us to tackle the liquidity problem closely and, in contrast to the traditional securitization markets, made P2P loan applications more transparent for lenders and secondary customers, who can now access detailed information for each individual loan (without knowing at the same time, the real personal data of the borrowers) before deciding which loans should be financed. Equal lending companies are also required to detail their proposals in a specialized, constantly updated prospectus (pic.2.). The SEC Commission publishes its reports through the EDGAR system (electronic data collection, analysis and extraction).

In 2009, the American non-profit organization Zidisha became the first peer-to-peer lending platform, linking lenders and borrowers located on opposite sides of international borders without involving local intermediaries. This company also organized a risk assessment of borrowers in the absence of digital facts of financial history. More and more people began to apply to peer-to-peer lending companies for issues of granting and obtaining loans after the financial crisis of the late 2000s, as banks refused to expand their loan portfolios. On the other hand, investors began to study the peer-to-peer lending market more and more closely, as there were more and more cases of default by borrowers, and investors did not want to take unreasonable risk. As of June 2012, Lending Club was the leader in terms of the volume and income of loans issued, followed by Prosper. Lending Club is also currently the largest peer lending platform in the world. Smaller companies in the United States include the following: Perty Direct, Virgin Money US, Blackhawk Investments Corp. and Peerform, with the first two no longer functioning in the United States. The two largest companies jointly serviced over 180,000 loans totaling \$ 2 billion: as of March 22, 2012, Lending Club issued 117,412 loans totaling \$ 1,512,560,075, and the Prosper Marketplace issued 63,023 loans totaling \$ 433,570,651. Equitable lending, with annual growth of over 100%, is one of the fastest growing areas of investment. Interest rates range from 5.6% to 35.8%, depending on the loan term and borrower rating. Penalty interest rates range from 1.5% to 10% for more dubious borrowers. Heads of traditional financial institutions are increasingly joining peer-to-peer lending companies as board members, lenders and investors, and this is evidence that the new financial model occupies its own niche as part of the main trend. In 2008, in Bangalore (India), a social insurance site was launched that finances local NGOs that act as local lenders. Peer-to-peer lending platforms are also gaining popularity in Germany and China, with millions of small entrepreneurs and up to 200 million poor rural people who do not have access to financing from traditional sources, that is, these countries create an extensive market environment for numerous peer-to-peer lending groups. In Sweden, a service called Loan Land was trying to gain a foothold, but even before 2010, the company had a fatal failure. The service group was not able to achieve any meaningful volumes of lending, and in addition, all kinds of fraudulent operations began. The owner of Loan Land sold / turned over / donated all the creditors and borrowers to Trustbuddy. Trustbuddy is a company registered in Sweden and operates in Norway, Sweden, Germany and Finland. This organization began to function even before 2009, and its owners already had experience in playing poker games online at that time. This service is somewhat similar to short-term SMS loans with high interest rates, a peculiar form of gangster usury having a bad reputation. At the initial stage of its activity, Trustbuddy was accused of automatically sending SMS messages, whose recipients were charged a rather high fee. Trustbuddy specializes in relatively short-term loans. This business model can be compared with the activities of credit card companies that do not charge early repayments, but set high repayment rates if borrowers cannot repay the loan within 2 weeks. Trustbuddy had less turnover in 2012 than similar companies in the United Kingdom. In 2009, the Zidisha platform became the first peer-to-peer lending service operating internationally without involving local intermediaries. The Zidisha Web platform, run by a not-for-profit organization



Pic.2. Scheme of API P2P payments

in the United States, connects individual lenders from affluent countries and borrowers from developing countries who use a computer to file microfinance applications, allowing them to access small loans at a much lower percentage than they can guarantee local lenders. In Australia, SocietyOne was the first lender to grant equal loans in accordance with current requirements. Since its founding in August 2012, the company issued loans totaling more than 1.2 million US dollars, and the innovative mobile service technology introduced by it, which accelerated the process of processing loan applications and credit financing, was appreciated.

3 ANALYSIS OF THE RUSSIAN P2P MARKET

In Russia, P2P lending dates back to 2010. The innovators were the "Credit Exchange" and "Credit to All", a rather successful company "Vdolg.ru" appeared [6]. Since 2015, the Bank of Russia has been conducting voluntary monitoring of P2P, in which from 5 to 20 largest platforms with a total loan portfolio took part at different times. as of 04.2016 167.8 million rubles (the market volume as a whole is estimated at 380-400 million rubles) [7]. It should be noted the popularization of this financial product: it is about investor interest in Internet sites. An objectively restraining factor is the lack of legal regulation by the state and, as a result, the high risk of defaults on loans. In fact, the system of trust lending in Russia does not have a legal basis, being, in fact, a voluntary association of people, so it can be very difficult to provide a refund through the court in such circumstances [8]. Among the leaders of P2P lending, Fingooroo is an online national lending service that allows you to get a low-interest loan from individuals who are lenders, or the MFI of the service itself, regardless of the region of residence or registration, without leaving home. The motto of Fingooroo is to bank to person to person. With the help of this platform, anyone with a free amount of more than 100 rubles can lend to borrowers and earn 0.3-3% per day. This is a special "social network" in which lenders and borrowers look for, find and lend to each other, and all this happens under the control of the system administration. The advantage of the Fingooroo service is that there is a wide selection of ways to get money for the borrower. You can get money by credit card, Qiwi wallet, Yandex money, WebMoney, through the Contact system. All actions are performed from the personal account, which must be registered [9]. Analyzing P2P lending trends in Russia, we are updating the activity of WebMoney service, one of the first platforms that issued more than 90 thousand loans in the amount of \$ 30 million. The second place is steadily held by the Vdolg.ru site, which has strong information support thanks to lobbying by an authoritative resource Banks.ru.

4 CONCLUSION

By a union of people, therefore, it can be very difficult to provide a refund through a court in such conditions [6]. With the relative simplicity and speed of service, among the negative components of the market, we also single out high interest rates on loans, on average from 30% to 60% per annum, as well as an extremely high level of credit risk. Lenders have to act almost blindly, trusting the credit rating provided to them by the borrower. To reduce such risks, each borrower is assigned a rating based on the data of credit bureaus and on which the conditions for granting a loan depend [3]. A factor restraining the growth of the Russian P2P market is certain differences in the behavior of borrowers and lenders:

- Russian borrowers are much less concerned about the consequences of a deterioration in their credit history;
- in Russia there is a much smaller layer of people who want to invest small free funds, which are not satisfied with the level of rates on bank deposits [8]. The prospects for the Russian P2P lending market are such that new leaders are expected to appear, mainly from the traditional financial sectors, the corporate P2P loan market for businesses (especially small and medium) will strengthen. Finally, a new direction appears on the Russian P2P market: the transfer of loans issued by partners with and without collateral. For example, Fingooroo allows its lenders, individuals, to repurchase loans issued on the security of real estate with a renewal of the mortgage, as well as loans issued by partner MFIs with an income guarantee of 20 percent per annum. Interestingly, this type of loans in Russia is still not regulated at the legislative level. Today, the Central Bank only monitors the activities of individual crowdfunding sites. About 20 of Russia's best services voluntarily report to the Central Bank on the results of their work (for example, City of Money, Fundico and Loanberry). Market regulation is necessary in order to minimize the likelihood of fraud. Today, any financial pyramid can be easily disguised as a P2P platform. An investor, of course, is not worth contacting. In the future, lenders will receive objective information about the solvency and debt burden of each borrower from the official register. Why P2P is popular with businesses. In connection with the fresh financial crisis, banks are losing a little bit of their position in the business lending market. First, banks are not always able to provide flexible conditions for entrepreneurs. Secondly, the cost of banking services is only growing every year. Well, and most importantly, banks basically do not give loans to business at the initial stage of development. At such sites, the investor chooses a company for financing. The borrower is scoring according to EBRD standards for small businesses with developing economies. To get a P2P loan, sometimes a businessman does not even need to provide a security deposit - just find a reliable guarantor.

Advantages of P2P systems:

1. P2P loans are ideal for small businesses. The size of loans starts from 300,000 rubles, and the term - from six months.
2. The conditions for obtaining P2P loans are much milder than in banks. No need to collect information and extracts for weeks. The borrower will require a minimum package of documents.
3. Approval of P2P loans takes less time. For the preparation and publication of the project - 5-10 days, for the auctions themselves - another 3-5 days. Typically, borrowers

receive money "on hand" for a couple of weeks. Loan applications in the bank are considered much longer.

4. At P2P lending sites, the amount of up to 1 million rubles for working capital replenishment can be obtained without collateral. For such borrowers, a simplified verification procedure is even provided.

5. The borrower can receive money remotely. All stages of P2P lending take place online: from submitting documents and bidding to issuing a loan.

Disadvantages of P2P systems:

1. The borrower will have to prepare an honest description of his business project for potential investors. It depends on the quality of the presentation whether the borrower will be given money, and at what percentage.

2. Like banks, P2P sites carefully check potential borrowers. Service representatives analyze their financial condition, evaluate their credit history, check the availability and value of assets, and even go to the place of business.

3. Low interest rates on P2P loans have not been and never will be - the risk is too high for creditor investors. Rates on loans will be unambiguously higher than on bank loans.

But lower than in a pawnshop or in an MFI.

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