How safe is Peer-to-Peer Lending in India?

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Guest Post

Investing in P2P Loans and understanding the market in India

Peer to Peer lending, has presented itself as an alternate investment option largely due to high yielding returns. With companies such as Prosper and Lending Club defining the P2P market in United States, this segment in India is dominated with online marketplaces which connect Borrowers with Lenders.

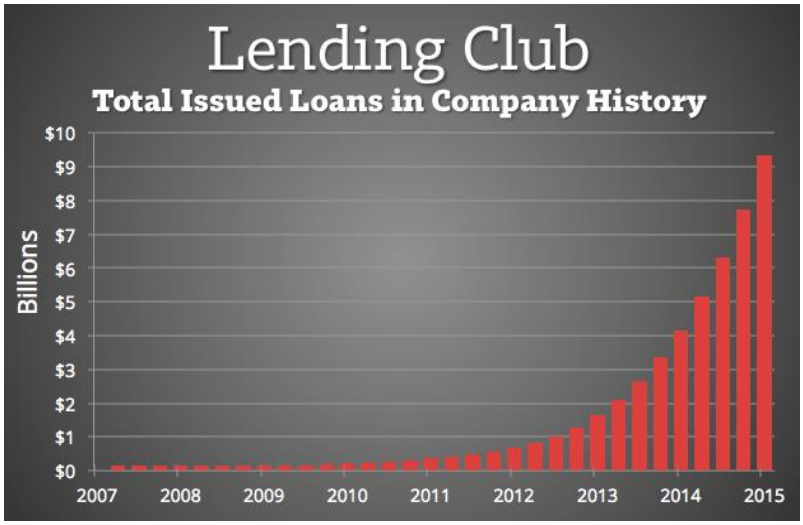
The rapid growth of peer to peer lending has led individuals lend money directly to other individuals removing the banks in the middle.

Many people like the concept of peer-to-peer lending either because of low interest rates or for high rate of returns on their investments. While it is necessary to get out of debts by taking a loan, the process is not fun. From a borrower point of view, taking a loan is a necessary evil.

From an investor's angle, it is a great thing to save up for retirement, to reach the threshold in savings. But there is a long road between that and could be ages too. Peer-to-Peer lending is uprooting some of these myths with their fair mechanism and algorithms to grade borrowers, predicting borrowers with low risk or a lower chance to default.

The Trend setters in P2P Industry

The Two giants in the P2P segment namely Prosper and Lending Club have dominated the space. The Industry leader, Lending Club, founded in 2007, has gone to issue over $9billion in loans. Their site has the best user interface and largest 3rd party investor ecosystem.



Lending club investors typically earn between 5% and 9%, depending on how much risk is taken.

Prosper made history when they launched in 2006, the company has disbursed an incredible amount of $3 billion. Investors on prosper earn typically between 5% and 9.5% depending how much risk is taken.

Peer-to-Peer lending platforms provide an average rate of return of upto 6 percent, which are higher than the rates offered by savings account and conventional investment options. With every investment the risk of loss is inbred, but a lot of these platforms have baselined a set of protections for the lenders.

Social Lending

P2P is a by-product of social trends and technology.

1. A new breed of people who believe in collaborating and working across multiple projects than a single company has surfaced. This people trust technology, individuals than the archaic financial institutions.
2. The disintegration of intermediates due to globalisation and better tech in many vital business
3. The spread of web technologies which foster mass collaboration. Social networking sites such as Facebook, Twitter have been aiding to this.
4. Community based lending has been prevalent since a long time, with the micro-lending in place giving loans to people with fewer assets has become important.

How Peer-to-Peer lending is different from Banks?

Just like the e-commerce industry rocketed because of providing cheaper goods than the traditional stores. P2P lending sites do this for loans, with loans being issued across varied interest rates.

Banks have to pay for over 100,000 employees, computers, website, professionals and branches in multiple cities. Whereas Peer lending companies pay for computers, websites, professionals, less than 1000 employees and have offices in two or three different locations.

Less overhead cost is one of the factors in the success of this model across the globe.

Peer-to-Peer in India

Rupaiya Exchange, i-Lend and LenDen club are some of the leading websites which have established themselves in facilitating unsecured loans (Collateral Free).

At a point when people are going desperate for safe and high returns, the returns provided by the platforms are becoming more lucrative for an Indian customer too.

As to the conventional investment options with limited return options, a lot of professional investors are turning towards P2P lending. Lending is done with more diligence, borrowers are given a grade rating based on the credit checks, and are cherry-picked for lenders, and assigned a risk.

Investors on the platform can earn interest rates upto 30 % on pieces of loans lent to peers.

Safety Fund

On Rupaiya Exchange, each lender has an option of diversifying his portfolio by spreading his risks across multiple loans and thus earn a fixed rate of return. The entire process on the platform is transparent for both a borrower and a lender. The advantage on the platform is lender protection fund which guarantees that a lender's principal is safe at all times, an option which is unmatched by some of its competitors. Each loan which is fulfilled is insured from the point of view of an investor which makes this a good way to earn interests on savings.

Rupaiya Exchange holds a reserve fund, which is continually topped up using part of the fee paid by each borrower. The reserve fund is used to compensate the lenders in the event of any missed payment or defaults, and is enough to completely cover the platform's expected rate of default.

How do these sites work?

All P2P websites operate in different ways and on different models. In UK sites such as Zopa, RateSetter work in the mainstream, In case of Zopa – choose the amount of money that you want to lend and the period. The money is then sent in small amounts to multiple borrowers.

As far as for sites operating in India, only some of them follow a similar approach. Rupaiya Exchange with its authentication and verification process, distributes the money across credit worthy borrowers.

The lending experience on Rupaiya Exchange is close to a market analysis screen in a stock market, a screen which comprises of the loans lent to borrowers along with the payment schedule.

Borrowers can use the services on Rupaiya Exchange for any number of reasons, ranging from debt consolidation to medical needs. With borrowers getting the amount disbursed to them without much hassle and at a lower rate of interest than a bank, lending and borrowing is a safe bet for people across.

Earning safe and high returns on Rupaiya Exchange

1. **Diversify –** The risks of a perspective lender can be split to a number of loans which ensures an average fixed return of 10%. This should be based on loan grade, loan type, loan duration and interest rate.
2. **Start slow –** Get a better understanding on the market place and start by investing amount as low as Rs 1000.
3. **Due Diligence -** Inspect all documentation from the borrower such as credit history and after checking the grade, risk assigned by Rupaiya Exchange.1

How to get started as an Investor?

1. Open a free account at Rupaiyaexchange(rupaiyaexchange.com)
2. Enter the amount that you want to invest.
3. Browse through multiple borrowers and invest.

How to get started as a Borrower?

1. Open a free account at Rupaiyaexchange(rupaiyaexchange.com)
2. The site will assign a risk to you and you can borrow at the going rate for your risk category
3. Next your loan is auctioned to members with funds to lend. The lender/bidder sees the pertinent information you have provided: the reason you need the money, loan history etc.