Peer to Peer Lending

Description: Recent media coverage tips Peer 2 Peer Lending (P2P) to have a bigger impact on financial services than file sharing has had on the music industry.

This report uses exclusive case studies, data and interviews from institutions, players, users, bloggers and industry experts from 30 different countries to answer the following questions:

- What is P2P lending?
- Who are the main players?
- What is their operating model and crucially their profitability projections?
- What are the practical issues involved in building a large virtual community of lenders and borrowers, such as compliance, identity verification, credit screening, IT infrastructure, customer service and marketing?
- Can borrowers and lenders really be peers?
- What short term lessons can financial services providers draw from P2P?
- The future for P2P lending... is it an opportunity or a threat for the lending industry?
- How to blend P2P with other financial services?
- Can it be rolled out across the full range of mass market retail financial services?

What is Peer to Peer Lending?
‘Peer-to-peer’, ‘person-to-person’ (P2P) lending is a means by which borrowers and lenders can transact directly without traditional financial intermediaries such as banks. P2P lending has two basic models; the ‘online marketplace’ model and the ‘friends and family’ model.

The Size of the Market
Some twenty P2P lending players worldwide have already originated over half-a-billion dollars in loans and a dozen more players are preparing to launch soon. With the buzz over social networking platforms such as MySpace and Facebook, P2P lending is receiving considerable media attention and has been featured in publications including The Economist, Time, Wall Street Journal, Forbes and Money. Jeremy Gutsche, who runs the website Trendhunter.com believes that P2P lending will be one of the key financial trends of 2008. A number of analysts predict that P2P lending will rapidly make inroads into the consumer loan market.

A Revolution in Financial Services?
The following is taken from the early version of a P2P lenders website and represents a clear call to arms for those disaffected with modern banking:

- “Banks have huge overheads, with thousands of employees to pay, hundreds of branches to feng shui, and countless fat cats to feed. And they take far more than their fair share of people’s money – last year, the Big Banks reported combined profits of over £30bn. By cutting out the banks with their huge overheads and large margins, both lenders and borrowers get better rates.”

Can P2P deliver on this radical agenda?
An alternative suggestion is that P2P is not part of a radical new agenda, but is in fact a way for individuals whose natural approach to borrowing and lending is not in synchronisation with what they perceive to be the more conservative elements of the banking industry and who would prefer at least some of their financial transactions to be a ‘sharing’ consumer experience. An example of this is ‘Weight Watchers’ - an opportunity to pool thoughts, experiences, and personal goals and to offer emotional support to like-minded individuals. For lenders with specific interests, perhaps connected to social responsibility, or ethical issues that are close to their heart, P2P offers a chance to directly fund projects that they feel strongly about. For example, someone who has had credit difficulties might find themselves able to help and fund someone who is experiencing short term credit problems.

Why You Need this Report...
This report is the first in-depth study of P2P lending and its potential impact on the financial services industry. It critically analyses the disruptive potential of the service in the context of both banking theory and practice and prevailing market realities. It discusses the business case for banks to enter the P2P lending space and the ways in which banks can compete with specific threats posed by P2P lending
without engaging in the space directly. The report also includes a detailed assessment of existing and prospective P2P lending players.

Financial institutions are feeling pressure to develop and implement innovative strategies to compete with the challenges provided by the electronic and mobile worlds and in particular the social networking phenomenon. However they face considerable uncertainty moving forward. In these vital early stages when critical decisions are being made, top executives will benefit from the comprehensive view of the industry and insights contained in the report.

Who should read this report?

Industry
- Financial institutions
- P2P lending players – existing and prospective
- Prospective investors in P2P lending startups
- Consultants, Analysts, Industry observers

Job Title
- CEOs, Heads of Retail Banking, E-channels, IT, Strategic Planners, Marketing Managers
- CEOs, Strategic Planners, Marketing Managers

What are they looking for?
- To understand the P2P lending industry, the extent of its potential threat to finance providers, the business case for providers to enter the space and how they can compete without entering it directly
- To understand the P2P lending industry, the activities of other players, the challenges the industry faces and how these might be overcome
- To understand the P2P lending industry and the challenges it faces in terms of profitability and growth
- To deepen their understanding of the P2P lending industry and the economics underlying it.

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