

P2P LENDING PLATFORMS



Future of Retail Lending

FINTECH REVOLUTION IN INDIA

2017 – Year of reckoning

- **Increasing digital penetration** in the country – must for fintech revolution
 - 500 Fintech startups today in India
 - Government's enthusiastic promotion of cashless technologies has also managed to restructure the financial sector, disrupting the long-held monopoly of traditional institutions like banks
- **Demonetisation** caused Internet-enabled cashless transactions to sky-rocket
 - Digital transactions increased 22% almost immediately after the ban came into effect.
 - Mobile banking transactions grew 175%
- Alternate fintech models gaining traction include
 - P2P lending, Micro-lending, Short-term payday loans, crowdfunding and social lending
- **P2P lending landscape** in India is also poised to grow into a \$4 Bn-\$5 Bn industry by 2023
 - 30 players currently; 3-4 being the most meaningful so far with increasing competition
- Alternative lending startups have already attracted \$220.66 Mn in funding between 2015 and 2017 out of the overall fintech funding of \$2 Bn during the said period

What P2P lending is all about

Type of debt financing without Banking intermediation

- **At present, the entire gamut of P2P lending** is handled by specialised online platforms that match lenders with borrowers based on their needs and demands
- **P2P lending promises higher returns** for lenders as well as substantially lower interest rates for borrowers than traditional banking institutions
- **P2P lending platforms provide following services** in exchange for a fee:
 - Matching borrowers with specific lenders and investors based on their investment criteria.
 - Moderating interactions between both parties.
 - Conducting background checks and due diligence on borrowers and lenders, including verification of bank account, employment status and income.
 - Structuring credit models for loan approvals.
 - Performing credit assessment and determining borrower credit risk.
 - Handling payments and fund transfer amongst borrower's bank account and lender.
 - Overseeing on-time loan repayment to prevent delinquency by appointing recovery agent.
 - Helping borrowers with documentation and legal compliance

Global P2P lending market

Origin of P2P lending globally coincided with the financial crisis of the early 2000s

- **The defining moment** in the history of P2P lending was the establishment of one of the world's first online lending platforms Zopa in the United Kingdom in 2005
- **The infamous bankruptcy declaration of Lehman Brothers in 2008**, social lending practices like P2P lending emerged as viable alternatives to conventional financial institutions
- The **Concomitant growth of social media and increased access to the Internet** allowed people from different regions to interact virtually and share files through applications like Napster (for music) and Limewire (file sharing)
- According to a study by KPMG with the Cambridge Centre for Alternative Finance, **the world's P2P lending market is worth \$130 Bn (as of October 2016).**
- **Growing at a rate of 51%**, the domain will likely cross the \$290 Bn mark by 2020, financial services firm Morgan Stanley predicts
- **UK, US, Canada, China, Australia** – main countries globally where P2P lending has gained traction with overall market size of ~130Bn
 - Also referred to as the grey market, the Chinese P2P lending industry is supposedly the largest in the entire world, dating back to 2007. Valued at over \$100 Bn (as of 2016), it is home to around 2,300 lending marketplaces that provide a wide variety of services

P2P LENDING MARKETS AROUND THE WORLD

Country	Year Of Origin	Lending Platforms	Market Size	Regulatory Body
United Kingdom	2005	Zopa, Funding Circle, ThinCats, RateSetter, LendingWorks	\$9.42 Bn	Financial Conduct Authority (FCA)
United States	2006	Prosper, Lending Club, OnDeck, Kabbage, LendUp, SoFi	\$32.8 Bn	Federal Regulation Securities and Exchange Commission (SEC)
China	2007	LuFax, WeLab, Ppdai.com, Credittease.cn, Wokai (shutdown)	\$103.43 Bn .5 Tn by 2019	Unregulated – till sometime back Now - China Banking Regulatory Commission (CBRC)
Australia	2012	SocietyOne, Moneyplace, ThinCats Australia, RateSetter	\$22Bn (by 2020)	Australian Credit Licence - mandatory
India	2012	I-Lend, Lendbox, Faircent, LendenClub, Rupaiya Exchange, Monexo, CapZest	\$4-\$5Bn by 2023	Reserve Bank of India (RBI) - rules yet to be instated
Canada	2016	Lending Loop, Lending Arch, FundThrough, Lendified, Vault Circle	No data available yet	Canadian Securities Administrators (CSA)

P2P lending space becoming popular in India

Bridge for fast widening gap between traditional banking institutions and fund seekers



Following are some important advantages of the P2P lending model

- Easy, hassle-free registration and loan application process.
- Lower interest rates as compared to conventional financial institutions.
- Higher returns on investment for lenders. Unlike mutual funds and equity, P2P lending offers stable rates irrespective of prevailing market conditions.
- Less documentation as well as a shorter loan processing time.
- Because loans are unsecured, borrowers with a low credit score can also procure funds. This eliminates the need for collateral, which is often required for traditional bank loans.
- Easy availability of loans for SMEs and MSMEs. In India, dearth of assets is a common problem faced by small businesses and startups. In such cases, banks tend to reject loans in the absence of heavy asset strength. This is where P2P lending comes in.
- Round-the-clock customer support.
- Flexible liquidity plans without rigid lock-in periods.
- Fixed monthly payments of instalments from borrowers

Regulatory Overview

P2P platforms will be given the status of NBFC by the RBI bringing much required strong regulatory oversight



Key points from RBI's guidelines

- Existing P2P platforms must apply for Certificate of Registration by 3rd January 2018.
- Minimum INR 2Cr. Net Owned Fund requirement
- **Eligibility norms** - Indian company, Promoters and Directors (fit and proper), Adequate capital structure, necessary tech and managerial resources, robust IT systems, viable business plan
- **Permissible activities** - Act as an intermediary, conduct due diligence on participants, undertake credit assessment and risk profiling, assistance in documentation, and disbursement/repayment of loan, Borrowing limit of 10 Lakhs across P2P platforms for borrowers
- **Non-permissible activities** - not allowed to take deposits, or lend, or provide any credit guarantee, not hold funds in its B/S, not facilitate/permit securitised loan, no cross sell, not permit international flow of funds, storage of all data on database in India
- **Prudential norms** - Leverage ratio not exceeding 2, per lender aggregate exposure limit of INR 10 lacs, per borrower aggregate exposure limit of INR 10 lacs, single lender/borrower exposure limit of INR 50,000, loan tenure maximum 36 months
- Fund transfer to be managed by Trustee controlled Escrow account

i2i Funding, a Disruptive Innovation in Retail Lending



Company Overview

- i2ifunding.com is the second largest peer to peer lending platform in India having disbursed about INR 90 million
- It helps retail borrowers get small ticket sized loans of INR 25,000 – 300,000 from a group of retail individual lenders. The borrowers are rigorously evaluated using our proprietary analytics driven credit evaluation model
- It has more than 2500 retail lenders and has enabled lenders enjoy strong superior returns as there has been less than 1.5% default on last INR 20,000,000 loans disbursed
- On 5th October 2017, the Reserve Bank of India has issued guidelines to regulate the sector¹ which brings in strong regulatory certainty and paves the way for strong participation from institutional investors
- It has already raised angel investment of INR 20 million in May 2016 at a post money valuation of INR 250 million
- Post angel investment, it has achieved strong growth momentum with 6x jump in traffic and 9x jump in funding
- Currently it is looking to raise further INR 60 million to meet regulatory capital requirement of 20 million and 40 million as growth capital. Out of this INR 47 million has already been raised.

1. <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11137&Mode=0>

Product Description

<u>Parameter</u>	<u>Description</u>
Loan Amount	INR 25,000 to 3,00,000
Tenor	3 months to 36 months
Interest Rate	12% - 30%
Target Segment	Salaried employees with monthly income more than 25,000 <ul style="list-style-type: none">• New to credit borrowers• Borrowers whose CIBIL score has been impacted due to one time financial trouble Micro enterprises
Loan Purpose	Salaried employees <ul style="list-style-type: none">• Payment of credit card dues• Debt consolidation• Marriage of relatives• House renovation• Education of children Micro enterprises: Business Expansion

Impact of RBI Regulation on P2P Lending in India

RBI regulations were much awaited and a welcome step towards establishing P2P lending as a reliable credit and investment option

Key Points	I2i Compliance Status
INR 20 million (NOF) requirement	Complaint
Permissible activities - Act as an intermediary, conduct due diligence on participants, undertake credit assessment and risk profiling, assistance in documentation, and disbursement/repayment of loan	Complaint
Non-permissible activities - not allowed to take deposits, or lend, or provide any credit guarantee, not hold funds in its B/S, not facilitate/permit securitised loan, no cross sell, not permit international flow of funds	Complaint
Prudential norms - Leverage ratio not exceeding 2, per lender aggregate exposure limit of INR 10 lacs, per borrower aggregate exposure limit of INR 10 lacs, single lender/borrower exposure limit of INR 50,000	Complaint

- **Impact of regulations on P2P industry**

- P2P platforms will be able to report delay/default to credit bureau affecting credit score of borrower
- P2P platforms will be able to attract institutional investment, which will help in increasing the awareness about P2P
- Regulations will bring credibility to registered players making investor acquisition easy
- RBI regulation has created some entry barrier for new entrants
- Per Lender aggregate exposure limit of INR 10 Lacs across platforms.

✓

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X

Attractive Value Proposition for Borrowers in Tier 1 and 2 cities

<u>Target Borrowers</u>	<u>Market Potential</u>	<u>Our edge</u>
Salaried Customers (Ideal salary range: 20k – 70k)		
<ul style="list-style-type: none"> - New to Credit borrowers overlooked by banks and charged high interest by small NBFCs and money lenders - Stuck in expensive credit card debt of ~50% p.a. interest rate but have been repaying regularly - Low CIBIL score due to one time issues such as inadvertent / disputed delays in payment of small sum of money in past 	<ul style="list-style-type: none"> - Estimated market potential of INR 219 billion for target borrower in P2P lending - To launch payday loans for the target segment where market potential is INR 650 – 900 billion as per various estimates 	<ul style="list-style-type: none"> - Unique ability to provide credit at the lowest interest rate compared to any other source - No prepayment penalty - Minimal documentation
Loans for Business Expansion (Ideal income range: 40k – 60k)		
<ul style="list-style-type: none"> - Self Employed borrower such as doctor etc. - Owner of small business such as water purification plants, Shops etc. 	<ul style="list-style-type: none"> - Present INR 6.6 trillion market potential 	<ul style="list-style-type: none"> - Interest rates are much lower than informal sources - Collateral free loan

Winning Proposition

- Automated underwriting leading to scalable business model
- Cost of operations low to do small loans despite providing doorstep services
- Lower cost of acquisition with economies of scale

Attractive Value Proposition for Lenders across India

All loans ever listed on i2i have been closed, a unique feature amongst all P2P players, clearly showcasing our ability to win client trust



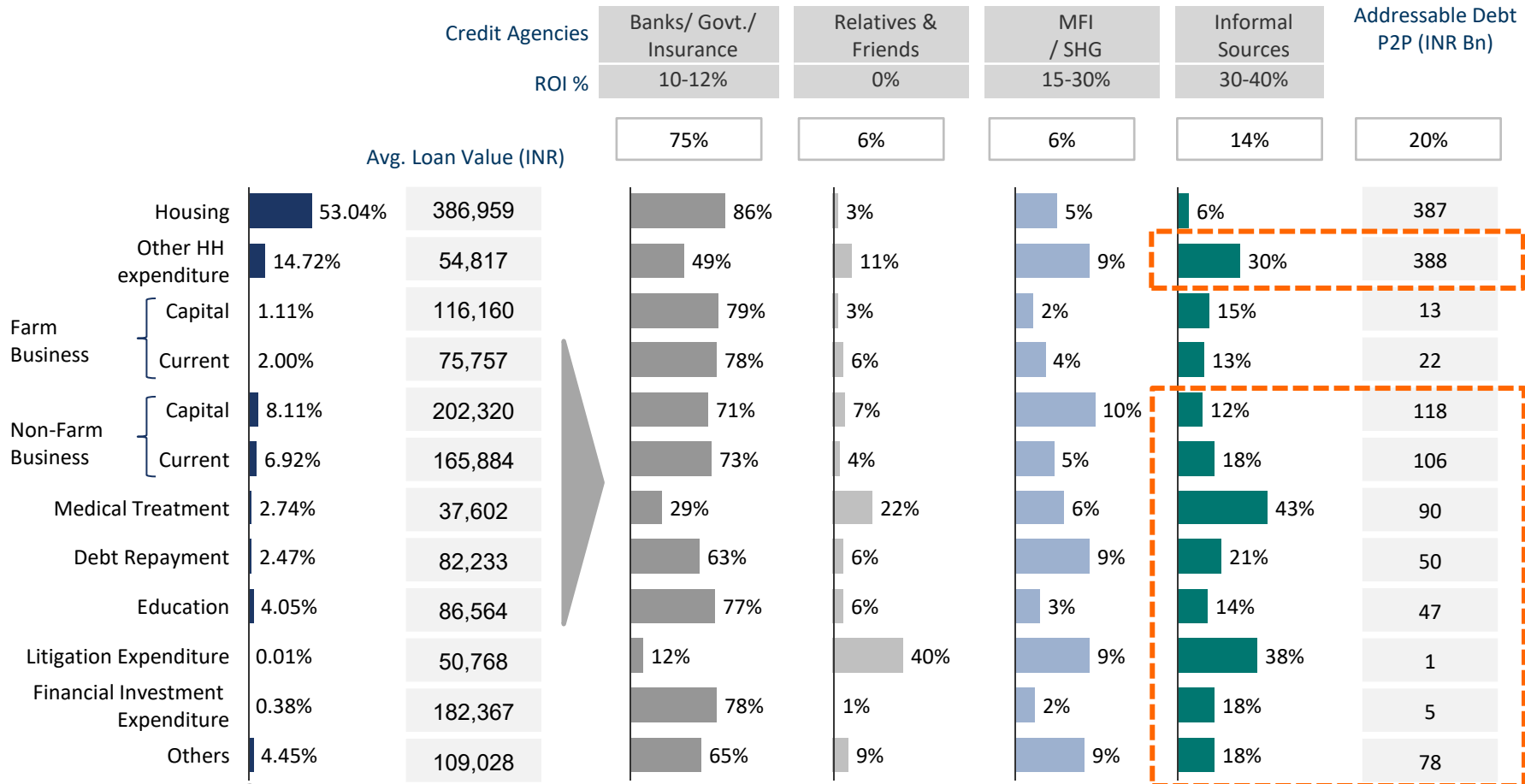
<u>Target Lenders</u>	<u>Market Potential</u>	<u>Our edge</u>
Retail Lenders		
<ul style="list-style-type: none"> - Age Group: 25 – 45 years - Salaried class - Annual Income > 1,000,000 INR - Exposure in MF/ Equity markets 	<ul style="list-style-type: none"> - Highly attractive when compared to tepid / patchy returns from real estate, gold and equities - In sweet spot to attract retail savings which is estimated to be \$12 trillion over next ten years 	<ul style="list-style-type: none"> - An opportunity to earn upto 30% p.a. (current average returns of 18% at i2i) - Risk Distribution Fund* to mitigate loan default risk (only provided by i2i) - Honest guidance in assessing credit risk - Seamless User Experience and End to end loan servicing
Small NBFCs		
<ul style="list-style-type: none"> - NBFCs with sub Rs. 250 cr loan book and annual disbursal of ~Rs. 100 cr 	<ul style="list-style-type: none"> - Rs. 10,000 cr of annual lending capacity 	<ul style="list-style-type: none"> - High returns with nil incremental opex - Access to diversified borrowers - Limited exposure to one borrower

Winning Proposition

- Skin in the game approach helps win lenders' trust readily
- Strong underwriting leading to lower default has been key to repeat lenders
- Economies of scale to reduce cost of acquisition

Huge Market Potential to replace informal sources of lending

P2P Lending has potential to replace money lenders in the following segment which is estimated to be INR 883 Billion



Housing and household expenditures contribute to ~68% of overall debt followed by non farm business (~15% of debt)

**883
Of
1,1,35**

Source: NSSO, Census of India

INR 219 Billion of Market Potential for P2P Loans to Salaried Employees

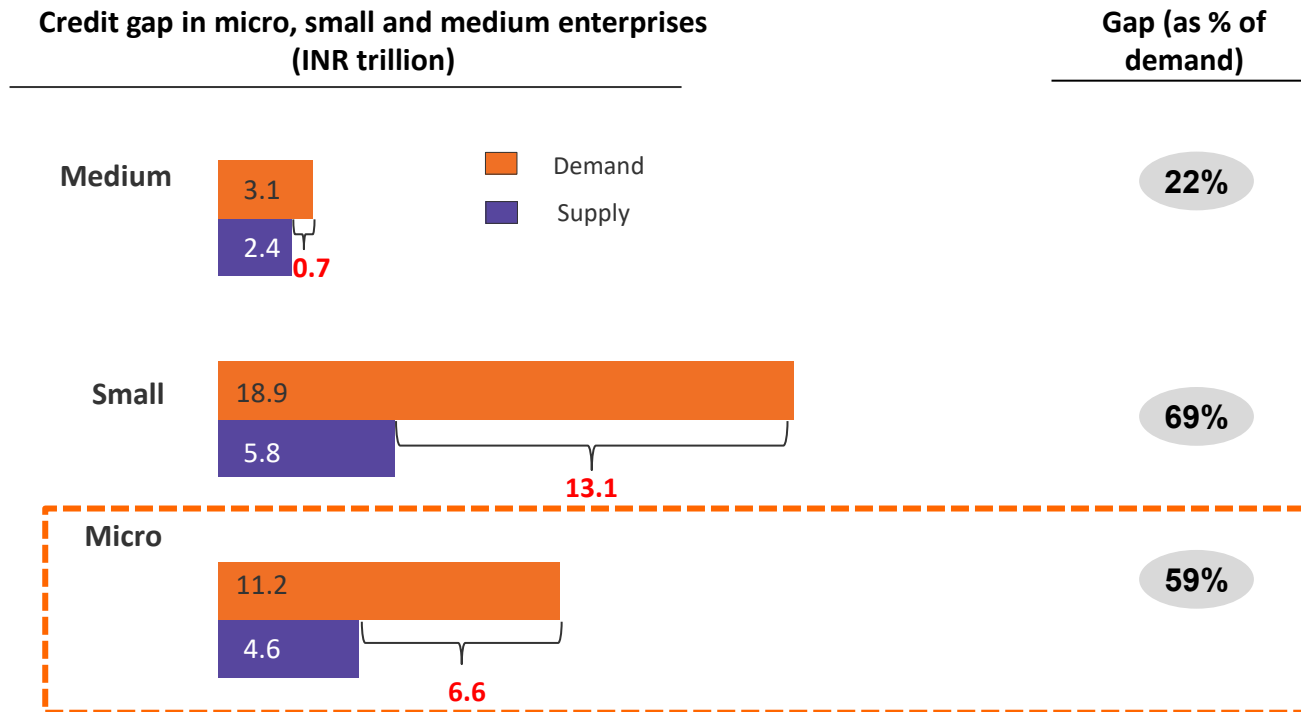
	Public Sector				Private Sector				Total Potential (INR Billion)
	# of Workers (Million)	Target for P2P (%)	# of Borrowers (Million)	Loan Potential (INR Billion)	# of Workers (Million)	Target for P2P (%)	# of Borrowers (Million)	Loan Potential (INR Billion)	
Agriculture, hunting etc.	0.5				0.8				
Mining and quarrying	1.1				0.2				
Manufacturing	1.0				5.9	10.0%	0.6	177	177
Electricity, gas and water	0.9	2.0%	0.0	5	0.1	2.0%	0.0	1	6
Construction	0.9				0.1				
Wholesale and retail trade	0.2				0.9	10.0%	0.1	28	28
Transport, storage & communications	2.1				0.3	10.0%	0.0	9	9
Finance, insurance, real estate etc.	1.4				2.6				
Community, Social & personal services	9.4				2.5				
Total	17.4		0.0	5	13.5		0.7	214	219

Source: Ministry of Finance and i2i estimates

- Market potential has been estimated based on (i) target customer base, (ii) % penetration achievable in medium term and (iii) average loan size of INR 0.3 million
- Salaried employees with strong digital footprint present huge market potential through a range of products. i2i aims to provide affordable loans to this class by using alternate data sources to measure their credit rating

Huge Market Potential (Micro Enterprise Borrowers)

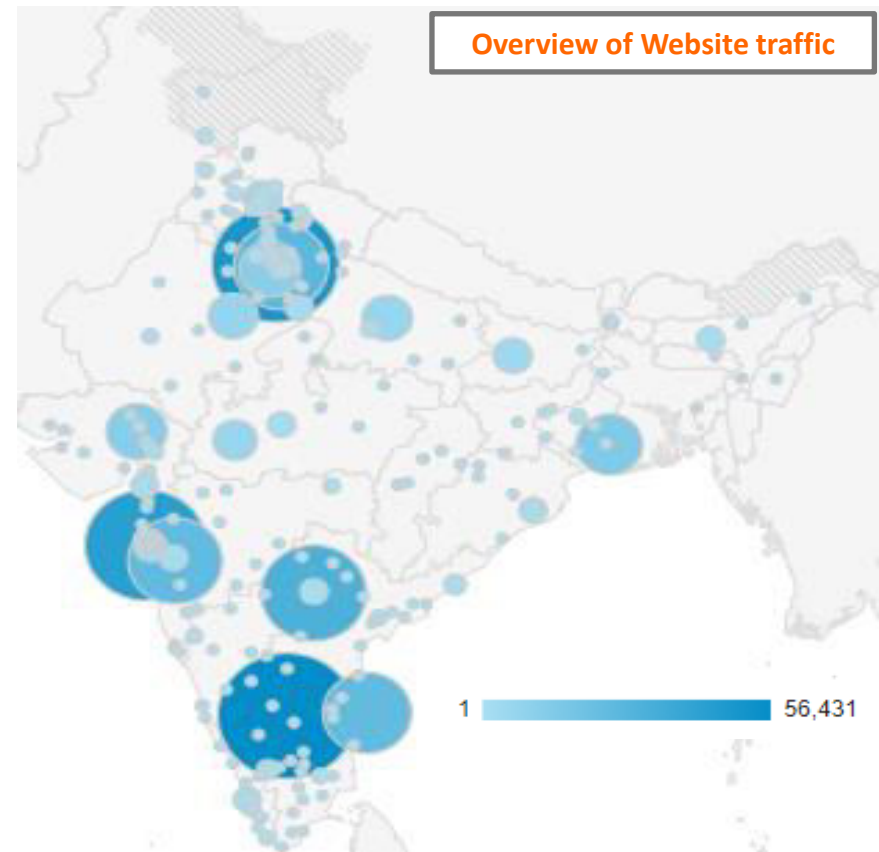
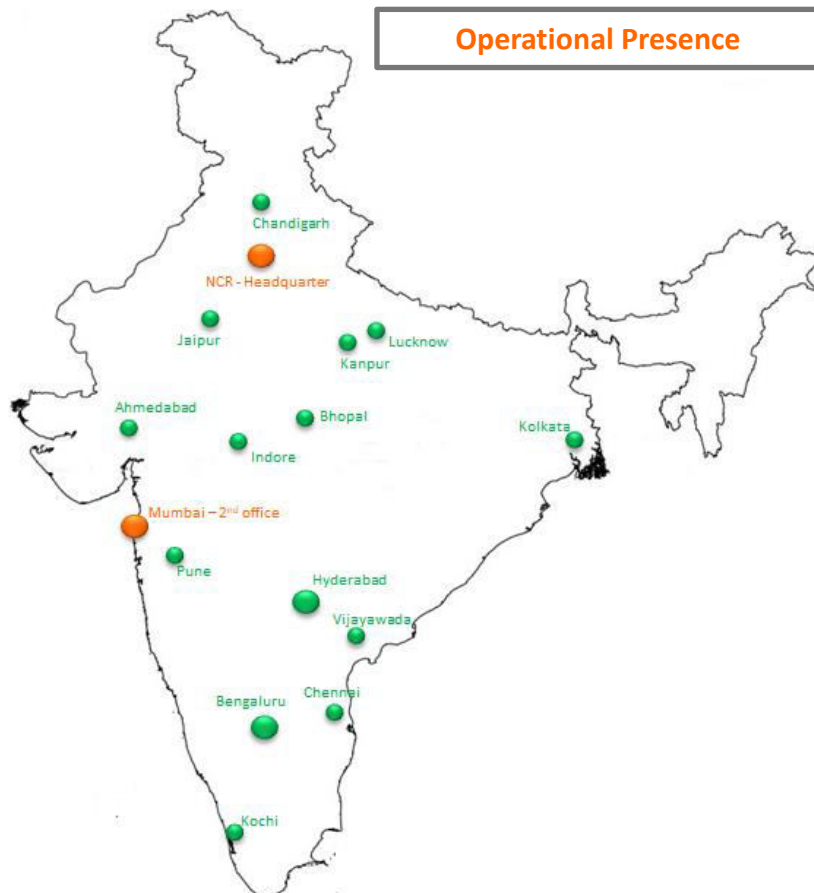
Credit starved Micro Enterprises present INR 6.6 Trillion opportunity as P2P players well suited to leverage technology for credit evaluation using non traditional methods



Based on Priority Sector Guidelines, i2i can partner with banks and help them meet the PSL requirements

Online Scalable Distribution Network - *60% traffic to website is organic*


















- **Offices** – Noida and Mumbai ●
- **Borrowers** : ●
 - Started operation in Delhi NCR first and then in Mumbai.
 - After a year expanded services to provide loans to borrowers from all major cities.
 - Planning to start loan operations in top 100 cities of India by 2018.
- **Lenders** : Spread across India, NRIs



Reaching out to the target Customers

Borrowers

Investors

Marketing and Promotional Activities <i>Sustainable effort towards brand building through online marketing activities</i>	1. Face book Campaigns		1. Face book Campaigns	
	2. Google AdWords and PPC		2. Google AdWords and PPC	
	3. SMS and Email campaigns		3. SMS and Email campaigns	
	4. Publication in vernacular new papers		4. Publication in financial newspapers	
	5. Blogs and articles		5. Blogs and articles	
	6. Commission based referral program		6. Commission based referral program	
Tie up with Channel Partners	1. Strategic tie ups with E-commerce portals such as travel agents, matrimonial sites etc.		1. Retail Lenders	
	2. Promotional activities at large BPOs/KPOs/IT companies		<ul style="list-style-type: none"> ■ Tie-up with insurance agents, financial advisors, CAs etc. on commission basis ■ Reaching out to NRI communities 	
	3. Commission based sourcing from likes of BankBazaar etc.		2. Institutional Lenders: Tie ups with small NBFCs	

Business Process Overview

i2i is an online platform connecting qualified borrowers looking for unsecured personal loans and investors looking for alternative investment opportunities for higher returns



Our Key differentiation

Robust Credit Evaluation of Borrowers

- i2i's proprietary credit evaluation model takes into consideration 50+ parameters to thoroughly analyze each loan before it is listed on i2i.
- i2i is developing fully automated in-house developed Credit Evaluation Model based on real time integrated analysis of data from mobile, social media, CIBIL history, bank account statement etc.



Skin in the Game – Principal Protection

- i2i is first player to introduce well thought out Principal Protection program to safeguard investors in event of borrower default. This “skin in the game” approach ensured only quality borrowers get funded.
- Before committing investment, investor has the option to select of PP% ranging from 0 to 100%. This gives new investors option to try out



Customer Centric Approach

- i2i funding is obsessed with customer service and we always put customer interest ahead of all the issues.
- i2i monitors and provides end to end loan servicing and it is not just a market place.
- i2i provides recovery and legal support in case of any default from any borrower



Backed by highly capable team with expertise in flawless execution + Robust platform to service full loan life cycle

Technology

- Fully functional P2P lending platform
- Borrower mobile App in place to capture alternate data
- Investor mobile App version 1 released
- Fully functional channel partner module
- Fully automated Principal Protection module

Credit Evaluation

- Proprietary credit evaluation model factoring in data from alternate sources
- API based validation for PAN, Aadhar, EPF, ITR
- Automated analysis of credit bureau reports
- Work in progress for automated analysis of bank statement

Operations

- Tie up with third party for Physical verification across India
- Tie up with IDFC bank for offering the Nodal account based disbursal
- More than 100 registered Business partners to source borrowers/lenders
- Tie up with HDFC Life for group insurance of active borrowers

Key Alliances

- Currently pilot in progress with 3 NBFCs so that they can lend to i2i borrowers
- In advanced stages of discussion with two NBFCs to offer them alternate data based underwriting solution
- Sharing business loan leads to two NBFCs

Challenges

Like everything else, P2P also has its challenges and teething issues

- **Lack of credit infrastructure** in India
 - In a country with population over 1.31 Bn, only 220 Mn people have PAN cards – which are used to declare and file Income Tax returns. This makes the task of verification incredibly difficult
 - The infrastructural issues include national identity cards (getting resolved through Aadhar), credit bureaus (getting much better), identify or residence verification agencies (lacking currently) and also collection issues (a challenge to address)
- **Risk of bad investment** - Possibility of higher loan delinquency
 - In the UK, for instance, Quakle ceased operations due to a near-100% default rate in 2011
- Lack of proper and effective regulations and explosion of P2P lenders may give way to **fraudulent companies**
- **Relatively high interest rates** for some sections due to inadequate infrastructure and lack of credit documentation – though still better than not getting access to credit and getting into money trap of Loan sharks

Conclusion

- RBI regulations will herald a **new age of economic reformation and inclusion** in the country
- **P2P regulation in India would make India a credit inclusive society** wherein
 - Every Indian can access instant credit and
 - Those who have better repayment/digital footprints would have better and transparent negotiation power when it comes to cost
- It would **democratise the entire money circle** and give power in the hands of millions of people which, today, is in the hands of a few select corporates/large banks, NBFCs
- P2P regulated properly could **transform the entire landscape of our economy** in the years to come
- P2P may also emerge as one of the **best alternate assets** for people

An organization's ability to learn, and translate that learning into action rapidly, is the ultimate competitive advantage.

Jack Welsh



Thank you

