

The Rise of Peer-to-Peer Lending Platforms:A FinTech Revolution

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ABSTRACT:

The rise of Peer-to-Peer lending platforms represents a phenomenal change as a disruptive innovation in the financial services industry. These platforms facilitate the direct lending and borrowing between individuals and institutions through online ecosystems, passing over the traditional financial intermediaries. This research studies the rise, evolution and global expansion of P2P lending sector. It vitally analyses technology advancements, regulatory framework and dynamics of market that have contributed in the development of these platforms. The research identifies various important challenges such as regulatory scrutiny, market competition and economic volatility, while also showcasing the growth opportunities in the segment. A comparison between global and Indian peer-to-peer ecosystems revealing the convergence trends and structural differences that impacts the sustainability of platform. The research offers a strategic recommendations to enhance framework, supports confidence of investor and promote financial inclusion. The Findings of the study provide essential for policy makers, regulators, industry practitioners and researchers aiming to understand and shape the future of P2P lending platforms.

Keywords: Peer-to-Peer Lending, FinTech, Digital Lending Platforms, Financial Inclusion, Investment Strategies, Regulatory Framework.

I. INTRODUCTION

Do you want to take loan! BUT at what cost? Lot of time waste, energy waste, submitting various documents at different interval, at different desk, with different formalities and to different agent or institutions. And Still There Is No Guarantee Of Loan. Whereas people are able to do transaction in few seconds but loan procedure is still too lengthy and complicated that people are so frustrated with their System But what if we say that you can have loan from an individual or a financial institution on your tips like an online payment transaction. And that lead to introduction of PEER-TO-PEER LENDING SYSTEM.

PEER-TO-PEER LENDING is a system where an individual or a financial institution lend money through online platforms. It has made the lending process easy and feasible. Inclusion of online platform has made the lending system systematic, transparent, accessible and user-friendly.

PEER-TO-PEER LENDING PLATFORMS provide an innovative and digitalized platform for borrowers to connect with investors directly without any intermediaries and complexity. P2P has benefited both the counter parties in following ways:

BORROWERS: They get a digitalized platform for borrowing on their convenience. It leads to reduction or elimination of processing fees, verification cost and documentation cost. It helps them to borrow at ease without stressing out much about the procedure for the loan.

LENDERS: They are the individual or institutional investors/lenders who have funds with them and are ready to invest their money to the various borrowers through this digitalized P2P LENDING PLATFORMS and they also act or perform the role of the alternatives or substitutes of the traditional banks or the NBFC'S. This p2p lending facilitates the lenders with higher interest rates than the traditional bank deposits, sometimes also leading to the creation of the passive income for the lenders in the form of repayments.

II. LITERATURE REVIEW

The rapid advancement of financial technologies has significantly altered the structure and functioning of financial services and markets. Prior studies highlight that innovations such as digital payment systems, peer-to-peer (P2P) lending platforms, artificial intelligence, and blockchain have collectively contributed to the evolution of alternative financial models that operate beyond traditional banking frameworks. These technologies have enhanced accessibility, reduced transaction costs, improved information processing, and increased operational efficiency within financial systems (Zhao, 2023).

Within the fintech ecosystem, peer-to-peer lending has emerged as a prominent alternative financing mechanism. Research indicates that P2P platforms enable direct interaction between borrowers and lenders by leveraging digital infrastructures, thereby minimizing the role of conventional financial intermediaries. This structural shift has redefined credit relationships and introduced new forms of intermediation, particularly benefiting individuals and enterprises that face limitations in accessing formal bank credit (Ofir & Sadeh, 2019). The growth of such platforms has been further accelerated during periods of economic disruption, such as the COVID-19 pandemic, which acted as a catalyst in reshaping borrower behaviour and increasing reliance on fintech-driven lending solutions (Sharma et al.).

Several studies emphasize that fintech-enabled P2P lending platforms improve credit access by simplifying loan processes, strengthening borrower information systems, and enhancing platform efficiency. These platforms are often preferred by borrowers seeking faster and less restrictive financing options, while investors are attracted by opportunities for portfolio diversification and potentially higher returns. However, research also highlights critical challenges related to borrower risk assessment, default probabilities, and platform sustainability, underscoring the importance of robust risk management mechanisms (Sharma et al.; Lenz, 2016).

The regulatory dimension of P2P lending has been a central focus in existing literature. Early regulatory approaches largely aimed to encourage innovation and promote financial inclusion by supporting the expansion of digital lending platforms. Over time, increasing market scale and complexity prompted regulators to shift their focus toward investor protection, platform accountability, and systemic stability. Scholars note that traditional banking regulations are often inadequate for governing platform-based finance due to fundamental differences in risk structures and operational models, thereby necessitating specialized and adaptive regulatory frameworks (Ofir & Sadeh, 2019; Lenz, 2016).

In the Indian context, fintech-driven lending has gained prominence as part of the broader digital financial transformation. Studies examining the Indian P2P lending landscape indicate that these platforms function as digital marketplaces connecting verified borrowers with individual lenders, while avoiding rigid banking requirements related to collateral, documentation, and capital adequacy. Although the sector formally entered the Indian market in 2012, regulatory oversight was introduced later through guidelines issued by the Reserve Bank of India in 2017. Existing research documents the sector's potential to expand credit access for underserved segments such as micro, small, and medium enterprises, while also identifying concerns related to credit risk, as lenders bear the full exposure in P2P transactions (Khatri, 2019).

Broader analyses of fintech adoption in India further reveal that technological innovation in banking and financial services has strengthened financial inclusion and reshaped customer engagement. Using regulatory and policy reports, studies suggest that fintech development follows a progressive trajectory, influencing both institutional practices and consumer behaviour. The literature emphasizes the need for continued exploration of emerging financial technologies and their long-term implications for the banking sector, regulatory frameworks, and market participants (Goel et al., 2022).

Overall, the existing literature demonstrates that fintech and P2P lending have transformed financial intermediation by enhancing efficiency, accessibility, and innovation. However, it also points to persistent challenges related to regulation, risk management, and platform governance. While prior studies provide valuable conceptual and descriptive insights, there remains scope for empirical research that comparatively examines fintech-enabled lending models across different contexts and evaluates their performance and impact using quantitative measures.

III. RESEARCH METHODOLOGY

A. Research Design:

The study adopts a **qualitative and descriptive design**. The study entirely relies on **secondary data** and here the main focus is to review the existing evidences to highlight a comparative perspective and obtain insights for the evolution of Peer-to-Peer (P2P) lending platforms in both global and Indian contexts.

B. Sampling Method And Size:

As the study is based on the secondary data, here the **purposive sampling** has been used to select relevant and credible sources. There is no sample size defined numerically but the study has been focused on the **relevance, authenticity, and recency** of the literature.

C. Data Collection Tools:

The data has been collected exclusively through **secondary sources**, such as peer-reviewed journal articles, government. and reliable databases such as Google Scholar. No primary tools like surveys or interviews were used, as the objective of the research is to build insights from existing academic and industry knowledge.

D. Research Gap

As there is a widely growing body of study on the expansion of Fintech and Peer-To-Peer lending platforms, but the mostly existing studies revolve around or tends to focus isolated on the **global landscape** or narrowly focused on the **Indian ecosystem**. Research on developed economies such as the United States, United Kingdom, and China highlights advanced regulatory frameworks, rapid technological adoption and large-scale capital inflows. In contrast, Indian studies primarily emphasize domestic challenges, regulatory interventions and adoption barriers unique to emerging markets.

However, what is missing, is a notable gap in a direct comparative analysis between the global and Indian developments of the fintech industry. Without such insights and perspective, it becomes difficult to evaluate whether the India's growth trajectory is aligning or moving in line with the international trends and benchmarks or creating its own distinct path shaped by its policies. Acknowledging this is very crucial This absence of this holistic comparison creates a scope for the research that fills the **Global-Indian** divide thereby highlighting the strengths, structural differences and providing meaningful insights for the policymakers, investors and innovators who are shaping the next phase of the FinTech Revolution.

E. Identification Of Gaps And Justification For The Study:

The review of existing literature indicates that while global research on FinTech and Peer-to-Peer (P2P) lending is extensive, most Indian studies remain descriptive, focusing primarily on regulatory guidelines, adoption challenges, or financial inclusion aspects. International scholarship has explored advanced dimensions such as technological integration, investor protection, and cross-border regulatory practices, whereas Indian research tends to remain limited in scope and depth. This creates an imbalance in understanding, as there is little comparative evidence that positions India's P2P revolution alongside global benchmarks.

Addressing this gap is important because India is not only one of the fastest-growing FinTech markets but also a testing ground for inclusive financial models. By comparing India's P2P landscape with global trends, the present study seeks to highlight both commonalities and divergences. This comparative perspective justifies the research by offering insights into how Indian platforms can evolve to meet international standards while retaining their role in domestic financial inclusion. In doing so, the study adds academic value and provides practical direction for regulators, investors, and innovators navigating the future of digital lending.

F. Research Objectives:

1. To analyze the evolution of FinTech and Peer-to-Peer (P2P) lending platforms in the global context, with a focus on leading markets such as the United States, United Kingdom, China, and other developed economies.
2. To examine the growth trajectory of FinTech and P2P lending platforms in India, with a focus on regulatory frameworks, adoption patterns and unique challenges faced by the domestic ecosystem.
3. To conduct a comparative assessment between global and Indian FinTech revolutions for identifying similarities, differences and the extent to which India is aligning or diverging from global trends.
4. To evaluate the role of regulations, technology adoption and investor behavior in shaping the progress and development of P2P lending platforms in both global and Indian contexts.
5. To provide strategic insights and recommendations aimed at supporting policymakers, investors and entrepreneurs in strengthening India's position in the global FinTech landscape.

G. Structure Of The Paper:

This research paper is structured into four key sections to systematically analyse the development of peer-to-peer lending platforms, all drawing upon secondary data sources. The first section introduces the study, explains the relevance and conceptual framework of Peer-to-Peer (P2P) lending and sets out the research gap and clearly defines the objectives. The second section examines existing scholarly literature, synthesizing global and Indian perspectives on FinTech and P2P lending based on published studies, reports and regulatory guidelines. The third section outlines the research methodology, emphasizing the exclusive reliance on secondary data drawn from scholarly articles, industry reports and policy documents. The fourth section, evaluates the structural similarities and differences between global and Indian P2P lending ecosystems. The paper concludes by offering strategic recommendations for the investors, researchers and industry stakeholders focused on emphasizing the sustainable progress of the P2P lending platforms.

IV. RISE OF PEER-TO-PEER LENDING PLATFORMS: GLOBALLY

The essence of peer-to-peer lending system can be seen from ancient time when people use to borrow money from their neighbours, colleagues or boss with certain interest rate and for certain period of time.

But today's growing peer to peer landing system was seeded in 21st century with the massive growth of internet. The first ever step in this system was taken by UK based company, Zepo, one of the pioneer platforms, which made the lending procedure feasible and much more accessible. This app provided up platform for land to earn interest with simple procedure.

Following the success of Zepo, numerous lending platforms where established named lending club in United States and funding circle in UK. These platforms were created to provide personal loan student loan and business loan.

By 2008, China also started to enter into this peer-to-peer service providing platform for establishing alternative finance provider in the time of economic recession but with the advancement in peer-to-peer lending system it was necessary to have a regulatory system to ensure security and reduces fraud.

A. Regulatory framework:

By 2013 Government of different countries started to work on the framework for regulating peer to peer lending platform secure transaction and better safety. These protocols were established to protect not only the borrower but for lender too with fraud transaction and wrong identity of client.

B. Institutional lenders and market dynamics:

Borrowers started getting loan at their own convenience and with simple procedure, that feature attracted them to incline toward these platforms. These platforms also provide lenders diversified investment portfolio which minimizes their risk and maximizes their returns.

C. Recent Trends:

In recent years, the technological advancements have played a crucial role by influencing the development of peer-to-peer lending platforms:

➤ **Artificial Intelligence:**

Many platforms are now using AI based algorithms and analysis techniques to evaluate creditworthiness of the borrower, assess and mitigate risk more precisely and accurately.

➤ **Blockchain Based Technology:**

A number of emerging platforms are adopting the use of blockchain technology to ensure more secure, transparent and tamper-proof transactions without any reliance on any traditional intermediaries.

➤ **Mobile Technology:**

The emerging use of mobile applications has made the loan borrowing procedure simpler, allowing the borrowers to apply for the loan and receive approvals quickly and more conveniently through their smartphones.

D. Global Expansion:

The peer-to-peer lending is increasingly being expanded to emerging economies where traditional banking infrastructure is under developed or limited. Countries such as India and Brazil have witnessed a Substantial growth in homegrown P2P lending platforms which primarily caters the individuals and small businesses who are underserved and facing problems in seeking microloans.

➤ **Future Challenges:**

Though peer-to-peer lending platforms has witnessed a notable growth and development but it still faces several important challenges:

➤ **Regulatory Scrutiny:**

As these platforms are developing on a large scale, they seek more attention of regulatory authorities who are imposing more strict rules in order to ensure protection of consumer and financial stability.

➤ **Rising Competition:**

The increasing number of P2P platforms has intensified competition for market share, sometimes leading firms to use risky or unsustainable practices to attract more borrowers and investors, aimed to capture a greater market share.

➤ **Economic Volatility:**

Economic Instability and downturns can affect the borrower default rates, which on other hand could impact investor trust and may hinder growth of platform.

V. RISE OF PEER-TO-PEER LENDING PLATFORMS: INDIA

A. Initial Period:

The time when finance industry saw a new beginning. Startups like faircent, i2iFunding and LenDenClub entered the market to fill the gap. Gap was to provide easy credit availability for any individual. They provide loans or credit to borrowers with low credit score that is those people who are rejected by bank for getting any loan. They were high in demand because of this gap. But by the government there was no formal regulation on the operations of these startups. Due to no formal regulation and the policy of providing loan to less credit score holder was the drawback as people were not trusting their goodwill and

their capability to repay the loan. But these startups were capable of getting appropriate market share in metropolitan cities where people were digitally more aware.

B. Turning point:

In October 2017, RBI took the matter of these institutions into their hands. RBI classified these institutions as non-banking financial companies: peer to peer lending institution (NBFC-P2P). RBI imposes few measures on these institutions:

- Lenders cannot give loan directly. They have to use intermediaries for transaction.
- Borrowers can take loan worth of 10 lakh in aggregate from all platforms.
- Lenders can invest only of 10 lakhs in aggregate across all platforms, with no more than 50000 to single person.
- Lender should use escrow account for secure transaction.

These regulations made these institutions more reliable and trust were the for lenders as well as borrowers.

C. Post regulation period:

SD regulation brought trust and reliability, various institutions aggressively started giving personal and business loans and captures market with attractive schemes. The returns from this investment were higher than fixed deposit that attracted lenders virus the formality and paper work well less that attracted the borrowers. Institution started focusing on MSME (micro,small and medium enterprise) but that investment or decision doesn't turn to fruitful result as it required more legal formality and legal credit. There were various government initiative that held Peer to Peer lending institution to grow such as UPI that streamlined transaction and fund transfer and aadhar- based KYC.

D. Pandemic impact:

During covid 19 pandemic 2020, some sector faces difficulties whereas other institution increased their market share. But peer to peer lending sector, faced few problems with new opportunities.

E. Problem:

- Borrowers were not able to pay their dues.
- Lenders started losing their interest as earnings from borrows where at stake.
- People started becoming saving centric is expenses were increasing and incomes were stopped.

F. Opportunities:

- People started becoming techno friendly and usage of various UPI platform increased rapidly.
- People started becoming familiar with these platforms and that lead to increase in market share, demand of these services and increase in number of borrowers and lenders. In this way, pandemic not only challenged this institution but also brought new opportunities.

G. Recent times:

Top leading platforms like LenDenClub, LendBox, Faircent, Mobikwik Xtra and Finzy have rapidly increased their market share and are dominating Peer to Peer lending sector. Retail investors, high net worth individuals and institutional investors growing their investment in lending system. They have started to use hybrid model, in which they use non-banking financial companies and Bank for credit loan. Tier 2 and tier 3 cities are likely to be growing market for peer-to-peer lending system.

VI. DRAWBACKS IN INDIAN MARKET

A. Financial Literacy:

one of the main reasons behind late adoption of Peer-to-Peer lending system in India. People were not much educated about how to use their financial resources efficient. People tend to go to the same institution for their financial need even if that lead to lengthy procedure, high interest rate, late in credit availability and tedious.

B. Adoption of technology:

Indian companies where not much equipped with new technology and proper work force. These services require Hi-Tech equipment with skilled human resource as India is highly depended on labour intensive techniques which has unskilled labours more than the skilled on Companies were lacking skilled manpower which could have helped in faster adoption of peer-to-peer lending platform. Thus, this led to delay in adoption of this system.

C. Mindset of consumer:

people never feel safe and secure on these platforms. Indian market is quite sensitive towards security as people in India do not easily believe platform which are connected with their finance. That lead to delay in acceptance of these platforms.

D. Mindset of lender:

lenders were not sure with the authentication of borrowers. Lenders feared credit risk (risk that is associated with default of borrowers) on online lending system. Lenders were not sure that where they dealing with real people or fake or fraud one, that lead to delay from lender side.

VII. CONCLUSION AND RECOMMENDATIONS

Financial system sows a new seed in lending system by introducing peer to peer lending platforms which enable borrowers to get easy loans and lenders to get maximum return out of their investment. India took time for peer-to-peer evolution but new startups are fighting equally in the global market for equal share, with better efficiency and growing technology. Indian market is known for its strength and non-rigid nature towards any service or product. Peer to peer lending system is getting its boom in Indian market. People are ready to accept this online system as a new source for finance and investment. These systems not only provide loan at a better rate but also help to have diversified portfolio to mitigate risk and optimize return.

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