



White Paper Analysis on Peer to Peer Lending and Crowdfunding



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Peer-to-Peer (P2P) Lending

INTRODUCTION

The financial landscape is rapidly evolving, and P2P lending is at the forefront of this change. By cutting out traditional intermediaries like banks, P2P platforms connect borrowers directly with lenders, offering potentially higher returns for investors and lower borrowing costs for individuals and businesses.





MARKET OVERVIEW

- **Global Market Size:** The global P2P lending market is projected to reach USD 380.1 billion by 2027, growing at a CAGR of 27.2% from 2022 to 2027.
- **Regional Distribution:** China dominates the market, followed by the US and Europe. However, emerging markets like India and Southeast Asia are experiencing rapid growth.
- **Loan Types:** Personal loans, small business loans, and real estate loans are the most common P2P loan types.
- **Platform Models:** There are different P2P platform models, including marketplace lending, loan origination, and credit scoring.

KEY STATISTICS

- In 2022, the global P2P lending volume reached USD 564.8 billion.
- The average P2P loan size varies significantly by region, ranging from USD 3,000 in China to USD 15,000 in the US.
- P2P lenders typically earn 5-12% annual returns, while borrowers enjoy interest rates lower than traditional banks.
- Default rates in P2P lending vary, but are generally higher than bank loans, due to the risk profile of borrowers.

CHALLENGES AND RISKS

- **Fraud and credit risk:** P2P platforms face challenges in verifying borrower information and assessing creditworthiness.
- **Regulatory uncertainty:** Evolving regulations can create compliance challenges for platforms.
- **Liquidity risk:** Investors may face difficulty buying or selling loans on the platform.
- **Platform dependence:** The success of P2P investments depends heavily on the platform's performance and sustainability.





FACTORS DRIVING GROWTH

- **Technological advancements:** P2P platforms leverage big data, AI, and blockchain to improve credit scoring, risk management, and user experience.
- **Increased financial inclusion:** P2P lending offers access to credit for underserved populations and small businesses.
- **Growing demand for alternative investments:** Investors seek higher returns in a low-interest-rate environment.
- **Regulatory developments:** Several countries are implementing regulations to protect investors and lenders, boosting market confidence.

FUTURE OUTLOOK

Despite the challenges, the P2P lending market is expected to continue its strong growth trajectory. Technological advancements, regulatory clarity, and increasing financial literacy will further boost market adoption. P2P lending is poised to democratize access to finance and disrupt traditional banking models.

The India P2P lending Market size is forecast to reach \$10.5 billion by 2026, after growing at a CAGR of 21.6% during the forecast period 2021-2026.

Unveiling the Dynamics of Reward-Based Crowdfunding

Introduction

Crowdfunding, a transformative force in alternative financing, manifests in various models catering to diverse funding needs. This white paper delves into Reward-Based Crowdfunding, offering insights into its mechanics and opportunities. This funding model stands out for its collaborative nature, where backers contribute funds in exchange for non-monetary rewards.



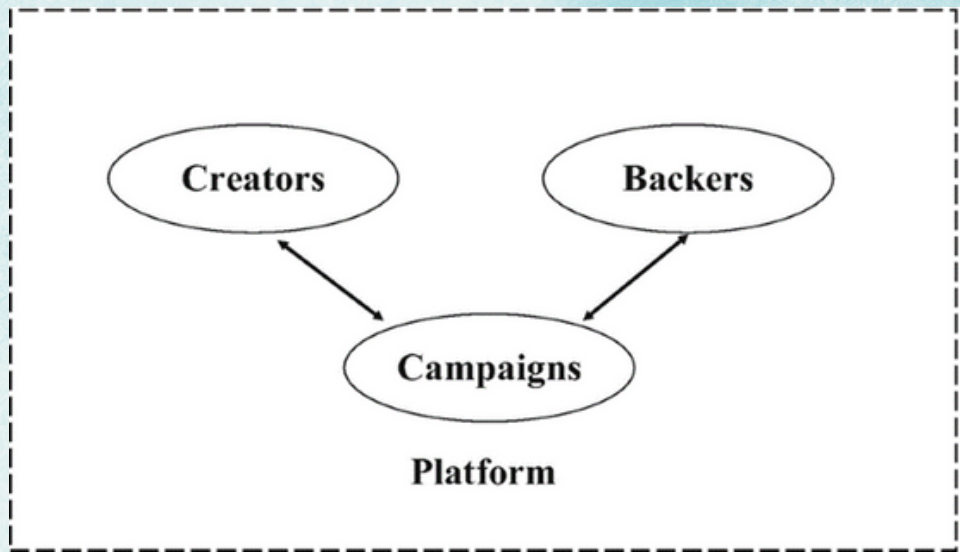
Mechanisms of Reward-Based Crowdfunding:

Project Creation and Presentation:

- Initiation:** Creators showcase projects with clear goals.
- Funding Goals:** Realistic financial targets guide backers.
- Reward Tiers:** Varied incentives align with contribution levels.

Backer Engagement:

- Backer Motivations:** Understanding the reasons behind backers' support.
- Community Building:** Dynamic interaction fosters shared ownership.
- Incentivized Participation:** Unique rewards drive active participation.



Platforms

Diverse Ecosystem: Reward-Based Crowdfunding operates on dedicated online platforms.

Facilitating Transactions: Platforms serve as intermediaries, ensuring secure transactions.

Campaign Visibility: Projects gain exposure, reaching a wider audience through platform visibility.

Opportunities in Reward-Based Crowdfunding

Backer Motivations: Understanding the reasons behind For Project Creators:

Access to Capital: Direct funding for creative projects.

Alternative Funding Source: Support for projects struggling with traditional funding.

Independence: Retention of creative control and decision-making.

Market Validation: Backer support as a form of market validation.

Market Feedback: Insights into project potential.

Early Adopters: Backers as dedicated early adopters.

Community Building: Backer engagement fosters a supportive community.

Brand Loyalty: Emotional investment leads to long-term loyalty.

Word-of-Mouth Marketing: Community as an organic marketing force.

For Backers:

Unique Rewards: Exclusive, non-monetary rewards tied to supported projects.

Tangible Benefits: Enjoyment of tangible rewards aligned with preferences.

Memorable Experiences: Custom experiences contribute to personalized engagement.

Engagement in Aligned Projects: Active participation in projects aligning with passions.

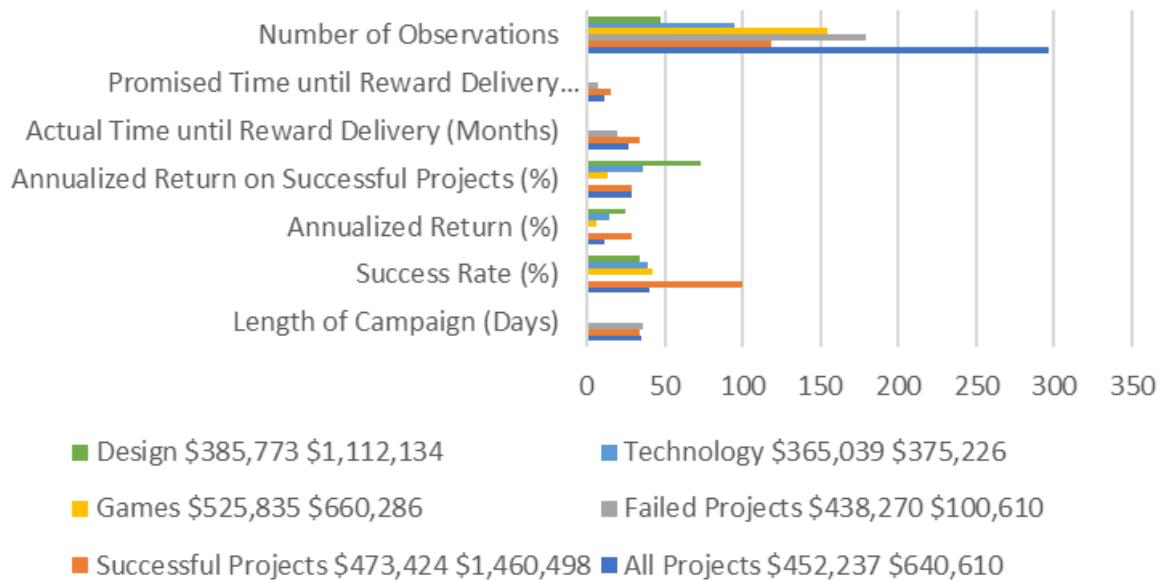
Alignment with Interests: Meaningful connection through shared values.

Contributing to Innovation: Support for innovative ideas in various industries.



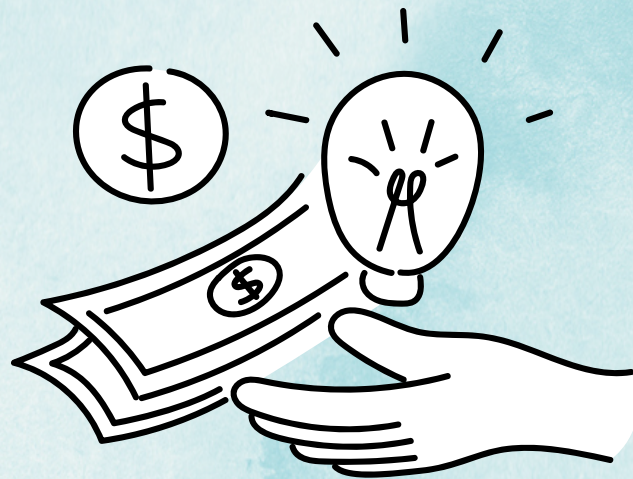
Data Insights and Sources:

Reward-Based Crowdfunding Analysis



Backers in reward-based crowdfunding benefit from "behavior-based price discrimination," obtaining unique advantages compared to regular customers. The average return on successfully funded projects is approximately 30%, making late-stage pledging a profitable strategy. This study, based on Kickstarter data, analyzes 297 projects in Games, Technology, and Design categories (2012-2017). Notably, 60% of projects fail to meet funding goals, yielding zero returns

Design projects stand out as the most profitable despite lower success rates, with an impressive 73% return on successful projects. The study identifies project length as a significant predictor of success, emphasizing the importance of prompt reward delivery. This empirical analysis adds quantitative evidence to crowdfunding profitability, highlighting financial motivation as a crucial factor for backers. The findings contribute valuable insights for investors in reward-based crowdfunding projects, complementing earlier research on campaign success determinants.





EQUITY BASED CROWDFUNDING

INTRODUCTION-

In equity crowdfunding, investors provide funds to a business in exchange for ownership equity or shares.

It allows businesses, especially startups, to raise capital from a large number of investors, each contributing a relatively small amount.

Investors become partial owners of the company and may benefit from its success through dividends or capital appreciation.

THE INDIAN SCENARIO: -

When it comes to equity-based crowdfunding, there are several restrictions that make it illegal. The thing is that most crowdfunding platforms raise funds through a private placement, and this way of fundraising is regulated by The Companies Act, 2013. The norms for private placements are specified in section 14, the Companies (Prospectus and Allotment of Securities) Rules, 2014.

According to the Indian crowdfunding regulations, an offer or an invitation to subscribe to securities under a private placement cannot be sent to more than 200 investors during one fiscal year. Also, such placements cannot be advertised, or announcements about them cannot be placed on social media. Moreover, an offer can be made only to those persons who have been identified as investors by the company in advance.



These rules make the use of a crowdfunding platform impossible because:

- Investors cannot be pre-identified when an offering is published on a crowdfunding platform.
- Crowdfunding platforms advertise offerings, and in the case of a private placement, doing so is forbidden.
- The limitation to 200 individuals only also contradicts the principles of crowdfunding.

So, even though equity crowdfunding is not explicitly forbidden or regulated in India, complying with all the requirements specified in the Company Act is impossible. Indian equity crowdfunding regulatory unclarity slows down the development of the alternative investment market in the country. However, even though SEBI accepts the fact that it is needed to create a clear regulatory framework to protect investors, the regulator hasn't advanced much in solving the issue.



Key points of Equity-Based Crowdfunding in P2P Lending:

- **Investor Returns:** Investors may receive both interest payments on the loaned amount (typical of P2P lending) and potential equity returns based on the business's success.
- **Risk and Reward:** Investors take on a dual role as lenders and shareholders, diversifying their risk and potentially increasing their returns compared to traditional P2P lending.
- **Business Funding:** Startups and small businesses benefit from a more flexible funding model, combining debt and equity to suit their financial needs.
- **Regulatory Considerations:** This hybrid model often involves complex regulatory considerations, as it combines elements of both equity and debt transactions. Regulatory frameworks may vary by jurisdiction.
- **Platform Facilitation:** Platforms offering equity-based crowdfunding in P2P lending act as intermediaries, facilitating the connection between businesses seeking capital and investors looking for both debt and equity opportunities.
- It's essential for both investors and businesses to thoroughly understand the terms, risks, and regulatory implications of such hybrid models. Additionally, regulatory frameworks can impact the development and operation of these platforms, so compliance with relevant financial regulations is crucial.



- One well-known example of an equity-based crowdfunding platform is Kickstarter. However, it's important to note that Kickstarter primarily operates on a reward-based crowdfunding model, where backers contribute funds to a project in exchange for rewards or early access to the product, but they don't receive equity in the company.

In India, there are several equity crowdfunding platforms that enable investors to participate in early-stage investments and support startups in exchange for equity. One notable example is Ketto.

Here's a brief overview of Ketto:

Ketto:

Type: Ketto primarily started as a crowdfunding platform for various causes, including personal needs, social causes, and startups. Over time, it has expanded to offer equity crowdfunding services.

Equity Crowdfunding Model: Ketto offers an equity crowdfunding model where investors can invest in startups and receive equity in return.

Startups on the Platform: Early-stage and growth-stage startups looking for funding create profiles on Ketto. They outline their business plans, funding requirements, and the equity they are willing to offer.

Investor Participation: Investors, both individual and institutional, can browse the listed startups on Ketto's platform and choose to invest in businesses they find promising.

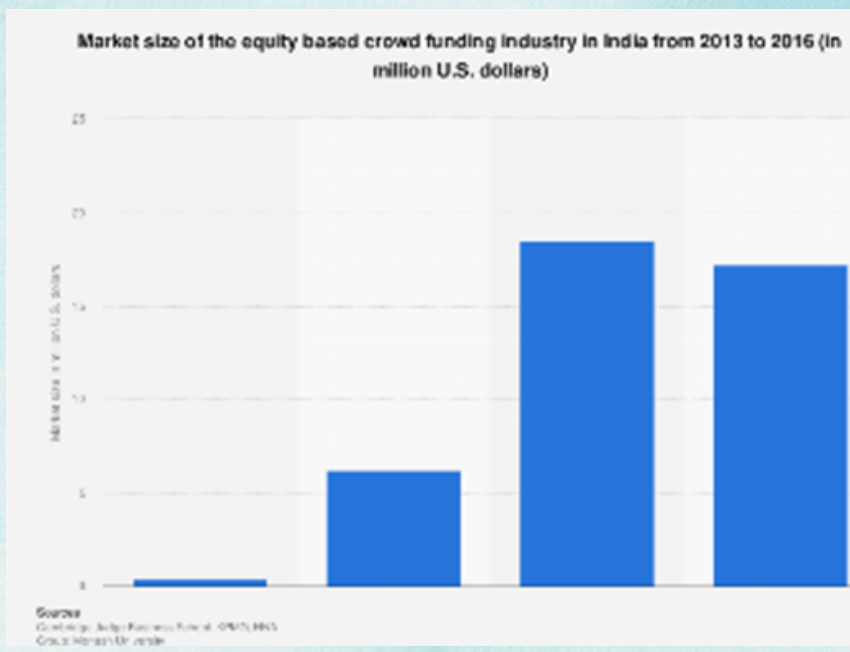
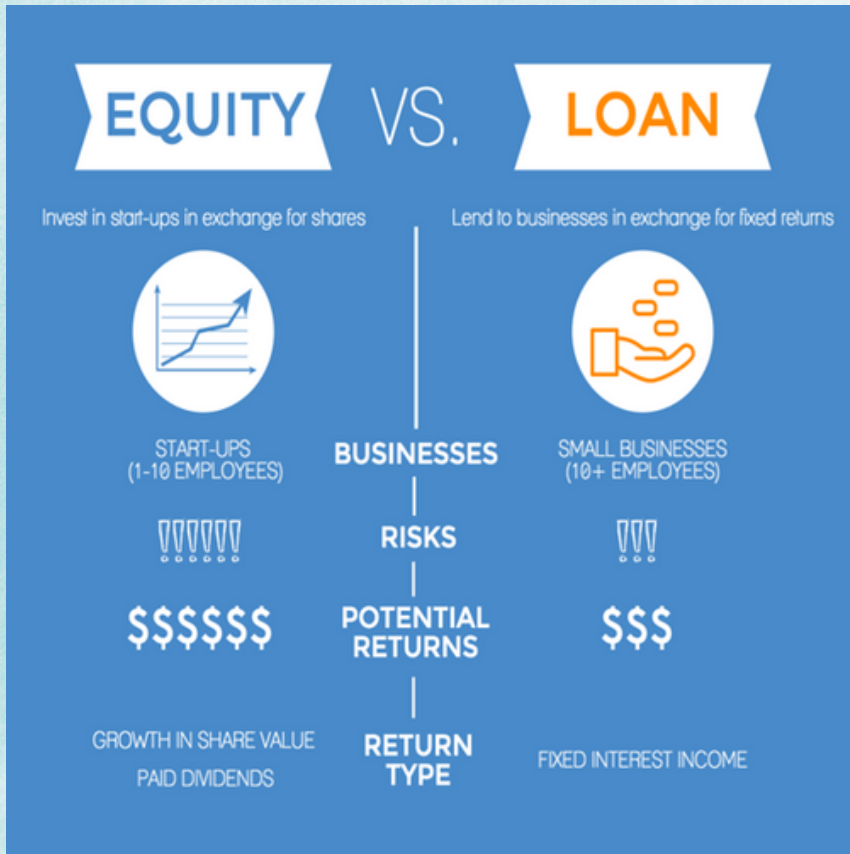


CONCLUSION:-

Regulations: Equity crowdfunding platforms in India need to comply with the Securities and Exchange Board of India (SEBI) regulations. SEBI introduced specific guidelines for crowdfunding platforms to ensure investor protection and transparency.

It's crucial to conduct thorough research on any equity crowdfunding platform, review the terms, understand the risks involved, and ensure compliance with regulatory guidelines.

Additionally, the Indian regulatory environment for crowdfunding may evolve, so staying informed about the latest developments is essential. Always consider seeking professional advice before making investment decisions.





DEBT BASED CROWDFUNDING

INTRODUCTION:

Debt-based crowdfunding, also known as peer-to-peer lending or crowdlending, is a form of crowdfunding where individuals or businesses can borrow money directly from a large number of investors or lenders. In this model, the fundraising entity (borrower) seeks to raise funds by borrowing from a crowd of individual lenders rather than obtaining a loan from a traditional financial institution, such as a bank.

Here's how debt-based crowdfunding typically works:

- 1. Borrower's Request:** The borrower creates a profile on a debt-based crowdfunding platform and specifies the amount of money they want to borrow, the purpose of the loan, and the interest rate they are willing to pay.
- 2. Investor Participation:** Individual investors, often referred to as lenders, review the borrower's profile and decide whether to invest in the loan. Each investor can contribute a small or large amount towards the total loan amount.



3. Loan Approval: Once the total loan amount is reached, the loan is considered funded, and the borrower receives the money. Some platforms may have a threshold that must be met for the loan to be approved.

4. Repayment: The borrower is required to repay the loan over a specified period, typically with regular installments that include both principal and interest. The crowdfunding platform facilitates the repayment process, distributing the funds back to the individual investors.

5. Platform Fees: The crowdfunding platform charges fees for facilitating the borrowing process. These fees can include an origination fee, servicing fee, and possibly other charges.

CONCLUSION:

Debt-based crowdfunding provides an alternative financing option for individuals and businesses that may have difficulty obtaining traditional loans. It also offers investors an opportunity to earn interest on their money by lending it directly to borrowers. However, like any investment, there are risks involved, and borrowers should carefully consider the terms and conditions before participating in debt-based crowdfunding. Additionally, regulatory frameworks may vary by country, so participants should be aware of and comply with relevant regulations.



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