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EDITORIAL

PEER-TO-PEER LENDING (P2P)

In recent years, Peer-to-Peer (P2P) lending has emerged as a significant disruptor in the financial world, providing an alternative to traditional banking, by allowing individuals to lend directly to other individuals or small businesses. Under this model, the borrowers and lenders are connected through digital platforms and it offers an intriguing promise: greater accessibility to credit, potentially higher returns for lenders, and streamlined processes. But like any other financial innovations, P2P lending also brings its own risks and challenges, which needs careful consideration.

P2P lending platforms serve as intermediaries, bringing the borrowers in need of contact with individual investors, who are willing to lend their money at agreed-upon interest rates. For borrowers, particularly those who may not qualify for traditional loans due to strict credit requirements, this can be a great lifeline. For small business owners, freelancers and individuals who face difficulty securing traditional financing options, P2P lending provides them with opportunities, not available through mainstream financial institutions. Traditional investment options like savings accounts and bonds often offer modest interest rates. P2P lending, on the other hand, offers rates that can significantly outperform these conventional investments, through with higher risks.

One of the foremost concerns with P2P lending is the lack of regulatory oversight compared to traditional banking institutions in India. Many P2P platforms operate in a legal grey area, which can leave lenders vulnerable to potential defaults, without the protections that would be available through more established financial institutions. Defaults, fraud and platform failures are all real risks in this sector, as evidenced by some high-profile P2P lending platforms, which were shut down abruptly in recent years, leaving investors with heavy losses.

Moreover, P2P lending can expose borrowers to high interest rates, depending on their creditworthiness, making it essential for them to fully understand the terms of their loans. Unlike commercial banks, which have built-in mechanisms for assessing credit risk, P2P platforms often rely on algorithms, which may not offer the same level of personalized financial counseling, which could be disadvantageous particularly to less financially experienced borrowers.

Despite these challenges, the potential of P2P lending has received wide acceptance. It democratizes finance, creating direct channels for people to invest in each other's ideas, aspirations and needs. In countries with underdeveloped banking sectors, P2P lending platforms have even emerged as a tool for financial inclusion, providing credit to individuals and entrepreneurs who would otherwise be shut out of the financial system. As P2P lending continues to evolve, the regulatory bodies must step in to establish clearer rules and protections, to ensure sustainable growth and investor security. Meanwhile, borrowers and lenders alike, should approach P2P lending with caution, understanding both the opportunities and risks.

Ultimately, P2P lending is a testament to the power of technology in reshaping finance. It challenges the traditional gatekeepers of credit, offering a promising, albeit cautious, path forward in the quest for accessible, decentralized financial solutions. Like any other financial tool, it has the potential to empower the borrowers when used responsibly. But with its current risks and volatility, a prudent approach is essential for anyone looking to embrace this new era of peer-to-peer finance. As per the revised master direction issued by the RBI, a P2P platform should not promote peer-to-peer lending as an investment product with features like tenure-linked assured minimum returns, liquidity options, etc.

The forty first Issue (Vol.21, No.1) of the SMART Journal of Business Management Studies consists of ten articles, written by authors of repute, on different themes of contemporary relevance. I hope readers would find the Journal academically challenging and strategically stimulating.

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