

Ziobrowska-Sztuczka Justyna  
PhD in Economics, Assistant Professor  
University of Wrocław  
ORCID: 0000-0002-9572-1438

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## GROWTH PROSPECTS FOR PEER-TO-PEER (P2P) LENDING PLATFORMS

**Summary.** With almost unlimited access to the Internet, the financial market is constantly developing with new products and services. One service gaining particular popularity in recent years is peer-to-peer lending, also referred to as social lending. This article aims to present the concept of peer-to-peer lending as an alternative form of financing and to discuss the prospects for further development of lending platforms enabling this type of financing. In the first section of the article, the author explains the essence and features of peer-to-peer lending and introduces definitions of social lending. The next section of the article is devoted to the analysis of selected peer-to-peer lending platforms. In the last section of the article, the Author presents the advantages and disadvantages of this form of financing and identifies the main opportunities and threats to its further development. The paper uses the method of literature analysis and criticism as well as the method of document research and inference. The analyses carried out indicate that peer-to-peer lending is an attractive alternative to traditional financing in terms of, among other things, price and availability. However, it is not without its drawbacks, which include limited security, limited investment size, or tax settlement issues.

**Key words:** sharing economy, peer-to-peer, lending platform, non-bank lending, community lending.

*“More than one entrepreneur thanks heaven for poverty, which pointed out to him that the best capital was in his head, and not in bank loans”.*

*Henry Ford*

**Introduction.** Borrowing money is one of the determinants of the development of civilization, and it was initiated centuries ago. Borrowing was a perfectly natural practice resulting from the inequality of society. Regardless of the times, some people have always had more and others less. It was natural for man to seek to improve his situation and this is what drove him to borrow all sorts of goods: animals, objects, bullion, or money. A loan is therefore understood as the granting of a certain amount of money or certain objects at the disposal of the borrower. Today, borrowing money is easier than ever before. People choose to borrow a larger sum of money from a bank or non-bank institution specializing in fast loans or installment loans. When there is a need for an emergency expense, family or friends often also help. A popular alternative to the above ways of raising cash is various forms of crowdfunding, including social lending, which is part of the sharing economy. This type of economy involves the mutual provision of services by market participants. In other words, the sharing economy is the sharing, lending,

and exchange of resources between consumers and pro-consumers. Internet platforms enabling the transfer of debt capital in the form of direct retail lending (so-called social lending or peer-to-peer lending) are present in Poland, as well as globally, a significant development potential for online financial services. Their significant popularity is based on the use of public online networks, which operate based on algorithms to instantly connect borrowers and lenders. The growth of the social lending market comes from the competitive advantage of this electronic transaction method over standard loans. Platforms usually offer higher rates of return to entrepreneurs than bank deposits, while they guarantee greater affordability of capital to borrowers. There are a large number of such platforms in Poland. This paper aims to present the concept of peer-to-peer lending as an alternative form of financing and to discuss the prospects for further development of lending platforms enabling this type of financing. The paper uses the method of literature analysis and criticism as well as the method of document research and inference.

### 1. Essence and features of non-bank loans

In the consumer finance market, in addition to universal (commercial) and cooperative banks, there are also cooperative savings and credit unions, credit intermediaries and advisors, banks specializing in consumer credit, and non-bank lending institutions

[1]. A non-bank loan is not granted by a bank, but by another institution operating in the financial market [2]. Non-bank loans can be offered by specialized non-bank institutions, so-called *shadow banking* as well as by private individuals. Lending institutions may have capital or organizational links with banks or other financial institutions. However, they are not supervised by the Financial Supervision Commission. This means, in particular, that the FSC lacks the power to request information and explanations from these entities to inspect their activities for compliance with the law and to assess their compliance with the requirements prescribed by law [3]. Private non-bank lending may include loans granted to known, creditworthy persons, e.g. among family or friends (family model), and loans referred to as social lending, also known as person-to-person lending (market model). This second type of lending is generally done in an auction system, via online portals (by an online community). Here, too, two models can be distinguished: loans granted according to a one-creditor-one-borrower model and systems in which a given creditor transfers the amount he offers to several different borrowers. The purpose of this is to reduce the risk of loss for the creditor. In this system, the borrower also becomes simultaneously indebted to several persons at the time of the transaction [4]. The offerings of non-bank institutions differ (each group is bound by a different law), but what is important to customers above all is that they are available to them, whereas taking a loan from a bank is impossible. Unlike banks, which have considerably exorbitant requirements for their customers, loan companies have a great deal of flexibility in this regard. The chances of acquiring additional funds from a non-bank loan are open to both employed people and students, pensioners, or unemployed people living solely on benefits. Table 1 shows the main advantages and disadvantages of

loan offers from banks and non-bank institutions from the customer's point of view.

The classic criteria used by lending institutions to grant a loan include being of legal age, having a valid identity card, an e-mail address, a telephone number, having a bank account with a Polish establishment, creditworthiness, regular and stable income from a variety of sources, e.g. employment contract, contract of mandate/ contract for specific work, and having no outstanding debts with the lender from which the person is applying for funds [6].

By community financial services we mean banking between people and communities that effectively decentralize traditional banking services. They often overlap with digital financial services, but should not be treated equally. They include crowdfunding (crowdfunding) and the aforementioned social lending [7]. Crowdfunding (peer-to-peer (P2P) lending) is a monetary transaction between unrelated individuals [8]. It is a social phenomenon that can be considered in terms of consumers, non-profit organizations, governance, and information technology [9]. The essence of crowdfunding boils down to “the creation of an electronic platform for the exchange of funds between individuals who have spare funds to offer and consumers who want to lend them” [10]. The name social lending comes from English and denotes an agreement between individuals to lend a specific amount of money for a specific time. It is an innovative way of borrowing money based on a commitment between two individuals. They contact each other using special online services (platforms) — without any intermediation from banks and loan companies. These services act as a lending institution. They bring together individuals who want to borrow money and those who are in a position to provide them with such assistance. The platforms offer solutions to conclude the transaction, control all costs, and also help to recover the

Table 1

**Main advantages and disadvantages of loan offers from banks and non-bank institutions from the customer's point of view**

Bank loans		Non-banking loans	
Advantages	Disadvantages	Advantages	Disadvantages
Higher loan amounts.	Failure to accept applications from customers who have no documented income.	A good solution for customers just starting out in the credit market who do not yet have a credit history.	Smaller lending values (low maximum debt amount).
A favorable offer for customers with profiles desired by the bank.	Failure to accept applications from customers with a bad credit history or customers who do not meet any of the bank's procedural requirements.	The possibility of obtaining a loan even if the customer's creditworthiness is not great.	Higher prices for making loans available to the customer.
Lower price of the loan/ credit received.	The process of granting such a loan may be longer than a non-bank loan.	Quick sales process, e.g. online.	Short repayment period and use of one-off loan repayment.

Source: own elaboration based on [5]

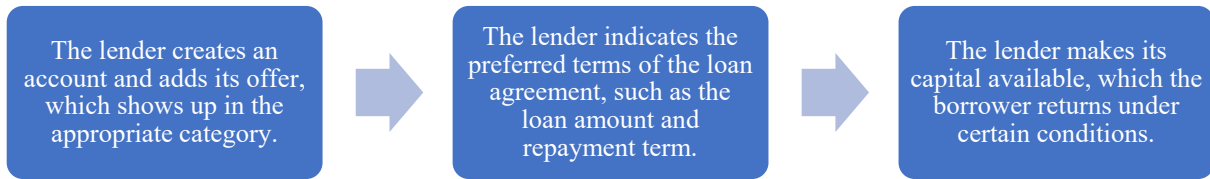


Fig. 1. The transaction process on a social lending platform from the lender's point of view

Source: own elaboration based on [11]

commitment if the borrower is late with the repayment. On social lending platforms, one can find both short-term loans (similar to so-called momentary loans) and long-term loans — in larger amounts and for longer periods. *Figure 1* shows an example of a transaction diagram on a social lending platform from the lender's point of view.

Social loan contracts resemble those that operate in online shops or sales portals. For security reasons, the identity of each party is subject to verification [12]. Each user has a publicly accessible personal profile, i.e. a page of information about themselves that is relevant to potential investors. These include the user's name (pseudonym), rating, credit history on the site, current loans, repayment status, and instant messaging contact details. It is therefore not possible to speak of complete anonymity of the transaction. Most social lending intermediary sites work similarly. Lenders' offers are displayed and interested parties, if they agree to the conditions presented, apply. In the first step, they choose a platform and register by providing details such as name, surname, date of birth, home address, PESEL, ID number, telephone and email address. They then confirm their identity and use the available panel to specify the size of the loan they are interested in and how long they need to repay it. Once they have received the loan, they must remember that it is a financial commitment like any other. 10–13% must be paid on time and in full. Otherwise, the lender may add additional costs [13]. By definition, companies and operators should not participate in the process of borrowing funds. They can only provide the space to provide the services described. The first social lending site was established in the UK. It was there that the service, the so-called 'anyone-to-anyone' — more accurately known as social lending — first appeared. The UK was followed by other European countries and the USA. In Poland, the topic of social lending has been around since 2008 [14]. It was not until the widespread use of personal computers and the Internet, the development of information technology, and the associated growth in popularity of social networks that P2P lending on the Internet was able to develop on such a scale. This innovative financing model significantly reduces the importance of intermediaries and the associated transaction costs [8]. This is done through

one of several websites where lenders would like to support those in need of funding with small loans (after reviewing the person's profile), as well as the proposed use of the funds [9]. The next section of this article will discuss a selection of peer-to-peer lending platforms in more detail.

## 2. Overview of peer-to-peer lending platforms

There are smaller and larger platforms offering social lending online. There are platforms exclusively for individuals as well as exclusively for entrepreneurs. The platforms differ in their offerings and in the level of interest rates, commissions, portal account fees, initial fees, or other service fees. Most of the loans provided have an interest rate of 10–13 percent per annum. In addition, the borrower may encourage potential investors with an additional bonus for granting the loan. Depending on the amount, this may be a few dozen or several hundred zloty [14]. The terms and conditions of a social loan are always agreed upon individually, between the parties. This means that the maximum amounts and repayment terms can be arbitrary. It all depends on the needs of the borrower and the possibilities of the borrower. In practice, popular platforms offer the possibility to borrow from PLN 100 to PLN 10,000, with repayment periods ranging from 1 to even 53 months. There are also places where it is possible to borrow more and for longer, but security is required with a promissory note or voluntary submission to enforcement in the event of delayed repayment. The undisputed forerunner and leader of the social lending market in Poland until 2019 was the Kokos.pl platform, whose owner, operator, and main investor was Blue Media S.A. It is a company that implements innovative solutions in the field of payment services and finance and has the status of a National Payment Institution. The investor on the Kokos.pl platform was exclusively a company registered in the Register of Loan Institutions (maintained by the PFSA). Loans could be granted for consumer and/or business purposes and the purchase of real estate [15]. The social lending service was closed on 11 December 2019. Since then, it has not been possible to take out new loans online and register on the platform [16]. However, new platforms were created or existing ones developed, such as monetto.pl, finansowo.pl. At the beginning of 2009, smava was launched (under the domain

Table 2

A review of the best platforms for investing in loans in 2022

Platform	Average rate of return	Protection	Type of investment	Flexibility	Currency
Nibble Finance	14,50%	redemption guarantee	consumer	1 to 60 months	EUR
Mintos	10,41%	redemption guarantee	consumer	from 1 day to 60 months	more than 10 currencies (including PLN)
Lendermarket	13,52%	redemption guarantee	consumer	30 days to 53 months	EUR
Bulkestate	14,37%	mortgage	property	12 to 24 months	EUR
GetIncome	11,81%	redemption guarantee	consumer	1 to 24 months	EUR
EstateGuru	11,33%	mortgage	property	6 to 18 months	EUR
PeerBerry	10,47%	redemption guarantee	consumer	10 days to 12 months	EUR

Source: own compilation based on platform data discussed in the table

smava.pl), a service that was established in Germany in 2006 and was one of the first social lending sites in the world [17]. Social lending can be used not only by a person who wants to commit. You can also find yourself on the other side of the market and lend funds to make money from it. The return on such an investment is higher than that which can be achieved on a bank deposit. Social lending can generate up to several percent return on investment. Table 2 shows selected lending platforms in terms of average return, protection, investment type, flexibility, and currency.

The first platform shown in Table 2 is Nibble Finance, which allows investment in short-term loans from Russia and Spain. Among investment platforms, it stands out above all for the scoring model used in terms of analysing the risk of borrowers. Using this, the platform determines in detail whether a debtor will return a loan with certain profitability and risk parameters, using NPL indicators<sup>1</sup>. A flexible choice of one of three investment strategies is also available on the platform, which is tailored to the investor according to return preference and security level. The average rate of return on the platform is 14.50%, the minimum investment is €100 and the maximum amount has no indicated limits [18]. The second platform is Mintos. Mintos is one of the first social lending platforms in Europe. It was founded in 2015 in Estonia, and today it is also considered one of the largest and most popular online investment platforms. The average return on investment is 10.41% per annum. It is possible to invest in loans from multiple countries, in different currencies (including PLN). Automated, personalized investment strategies are available, as well as a guarantee that most of the available loans will be redeemed by the platform [19]. Another platform is Lendermarket, which offers investment returns of 12% to 15% per annum. It is a credible primary

lender among Creditstar Group companies. It offers bonuses for new investors and a redemption commitment of up to 60 days for all loans [20]. Bulkestate is another platform offering returns in the range of 10% to 18% per annum. It allows for group investment in real estate and a mortgage security on the property. It also provides for the possibility of buying property outright. An advantage of the platform is the required small contribution to start investing in a property of €50 [21]. Another platform is GetIncome, which offers yields ranging from 7% to 12% per annum. Loans are secured by a redemption guarantee by the platform. The platform is characterized by information transparency about the lending companies and additional security tools, about the risk of non-payment by the lenders. The platform also has the advantage of requiring a small amount to start investing of €10 [22]. Another platform presented in Table 2 is EstateGuru, which offers returns in the range of 7% to 13% per annum and the possibility to resell investments on the secondary market. The platform ensures informative transparency through its published annual financial reports. In addition, it offers the possibility to take advantage of automatic investment. The amount needed to start investing is €50. The last platform is PeerBerry, which provides returns in the range of 10% to 12% per annum and a loan redemption guarantee through the platform. It offers an additional group guarantee of loan redemption by the platform and loyalty bonuses for investors. It requires a low amount to start investing of €10 (similar to GetIncome) [23].

Online peer-to-peer investment platforms have become very popular around the world in recent years. They are most often used for transactions between companies in need of funding and individual investors. In addition to the transfer of rights to the proceeds of the loan, the investor's collateral can also be shared in the mortgage. There is an inherent risk in any investment, but the investor has a relatively high possibility to mitigate this risk

<sup>1</sup> NPL (non-performing loan) is the English-language equivalent of a non-performing loan.

by choosing platforms, diversifying, and selecting loans in the investment portfolio. The final section of the article focuses on outlining the key advantages and disadvantages of peer-to-peer platforms and the opportunities and barriers to their further development.

### 3. Strengths and weaknesses of peer-to-peer platforms

As the previous sections of this article show, taking on debt by bypassing traditional financial institutions is possible, so it is worth looking at the advantages and risks of community lending. Among the undoubted advantages of community loans is their accessibility. An application can be made without leaving home, online. There is no need to worry about having to complete an extensive list of required documents. The interest rate on the debt is agreed directly between the parties to the transaction. The right argumentation can result in a lower price than you will pay at the loan companies. The possibility to negotiate the cost of a loan usually occurs when the customer submits to voluntary identity verification. Due to the very wide range of amounts offered and the possibility to allocate the funds to any purpose, it is possible to take out a loan to meet very diverse needs, such as replacing a broken window in a telephone or capital for the renovation and modernization of a boat or yacht. Community loans are granted even to people in debt [24]. When starting on social lending platforms, users can decide for themselves whether they are more suited to the role of a donor or perhaps the recipient of capital. Both roles can also be performed simultaneously. Furthermore, the person transacting with another individual is treated as a business partner. By incurring a liability with a financial institution, the position of such a person melts down to that of a supplicant. This is a direct result of the huge power imbalance between the parties to the transaction. It is better to be a partner than a mere supplicant.

Unfortunately, social lending also has several disadvantages that can effectively discourage people from taking them out. Since the outbreak of the financial crisis in 2008, we are still distrustful of solutions that carry any kind of risk, and social lending fits perfectly into this trend. These include a reduced level of security. This is particularly important when a person plans to take on the role of investor. Verification of borrowers by a loan portal is by no means a guarantee that the borrowed funds will be returned. There is a high risk of fraud. Therefore, investments in social loans are subject to a high level of risk. Unlike government bonds

or investment funds, sometimes up to 100% of the invested capital can be lost. In addition, obtaining the right amount may fail or require borrowing from several investors at the same time. Future servicing of such a commitment can be very burdensome. Investors and borrowers are also required to pay tax on the loan (by the borrower) and capital gains tax (by the investor) to the tax office. Investors making a profit in the form of interest on their loans should pay 19% capital gains tax. On the other hand, borrowers who have borrowed more than PLN 5,000 in the last three years are required to pay a civil law transaction tax of 2% of the value of the loan. The need to settle the tax by hand also discourages borrowing of this kind. The lack of legal regulations protecting both parties to the contract, as well as the high total cost of the loan (for service and verification fees, among other things), and the longer waiting time for the money than in a bank or loan company are other disadvantages associated with taking out a social loan [24].

However, the social lending market has good growth prospects both in Poland and worldwide. Particularly important for the growth of trust in this form of investment is the provision of adequate protection for lenders, clear rules for charging fees by the services providing platforms for contracting, and an efficient enforcement system for unpaid debts. Social lending is a particularly attractive alternative for people who have hitherto used the services of para bank institutions, which offer loans with a much higher APR than that offered by retail banks. Over the next few years, social lending could have a significant impact on retail banking.

**Summary.** In summary, peer-to-peer lending is, on the one hand, an opportunity for borrowers to raise capital at a lower cost than in a bank and, on the other hand, an opportunity for lenders to obtain higher deposit rates than in a bank without leaving home. The analyses carried out indicate that peer-to-peer lending is an attractive alternative to traditional financing and investment considering, among other things, price and availability. However, it is important to bear in mind that investments in risky forms of capital multiplication should only consume a small part of our savings. The growth and development of peer-to-peer platforms are beneficial if the online platform is registered with a regulatory authority. Many portals are offering social lending, but the lack of regulation makes them not fully secure. Before taking out a social loan, it is a good idea to check online for recommendations and ratings on a particular platform.

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