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How P2P Lending Unlocks the Spread Banks Have Kept for Decades

A bank fixed deposit yields 6–7% before tax. The same bank lends that money out at 12–16% or higher. If the bank defaults, the depositor’s capital beyond ₹5 lakh is at risk regardless. The saver earns less than half of what the institution makes by deploying that capital — and still bears risk. Peer-to-peer lending (P2P) removes the intermediary from this

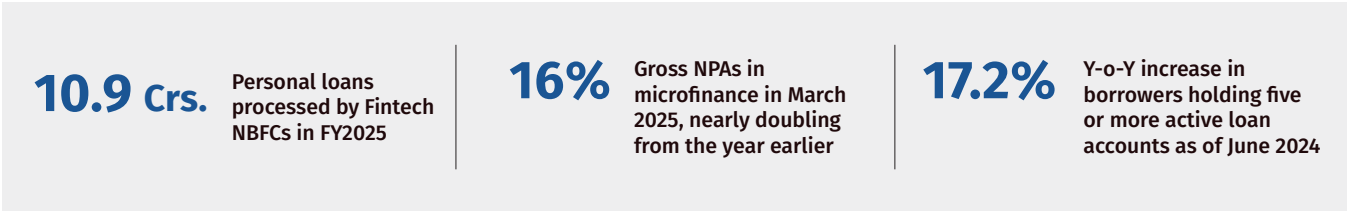
equation: the investor lends directly to vetted borrowers, captures the full credit spread, and diversifies across multiple small loans rather than concentrating exposure in a single institution.

The opportunity is structural. India’s personal loan market has expanded from ₹2.96 lakh crore in March 2015 to ₹17.33 lakh crore by April 2026, according to RBI data. That credit demand generates returns that have historically been captured entirely by banks and NBFCs. Globally, the P2P model has proven successful enough that in the United States and United Kingdom, institutional investors and banks have moved aggressively to capture these returns

— in many cases displacing the retail investors who pioneered the space. India is the only major market whose regulatory framework keeps the individual lender as the direct counterparty in consumer credit. The RBI’s comprehensive NBFC-P2P Lending Platform Directions of November 2025 represent the most detailed P2P governance framework the sector has operated under anywhere in the world.



How Unsecured Credit Grew Nearly Six-Fold in a Decade



India's personal loan market has grown nearly six-fold over the past decade. Much of this expansion was powered by digital lending infrastructure that compressed loan processing from weeks to minutes. Fintech NBFCs processed over 10.9 crore personal loans worth ₹1.07 lakh crore in FY2025, roughly 74% of personal loan originations by volume, according to the India Brand Equity Foundation (IBEF). The move from saving before spending to borrowing for consumption pushed personal loan lending from 20% in March 2015 to 25% by April 2026 of scheduled commercial banks' household credit.

For an investor, this credit expansion represents the demand side of the return equation. Every rupee lent through P2P earns a yield because borrowers in this segment are willing to pay 14–22% for credit that banks are slower to provide. The spread between what a bank pays on deposits and what

these borrowers pay on loans is the economic opportunity that P2P makes directly accessible.

That expansion has not been evenly absorbed. Stress has concentrated among borrowers carrying multiple active obligations. Microfinance, which shares some overlap with P2P's near-prime borrower segment, saw gross NPAs surge to 16% by March 2025, nearly doubling from 8.8% a year earlier, according to the RBI's Financial Stability Report. The number of borrowers holding five or more active loan accounts increased by 17.2% year-on-year as of June 2024, as per TransUnion CIBIL data. The RBI flagged that roughly 11% of borrowers taking personal loans under ₹50,000 already had an overdue personal loan, and unsecured advances accounted for 53.1% of new retail NPAs in H1 FY2025, as per RBI supervisory data.

The table below maps where P2P sits in this spectrum.

Where P2P Sits in India's Unsecured Borrowing Cost Spectrum

BORROWING CHANNEL	TYPICAL RATE FOR AVERAGE BORROWER	KEY CONTEXT
Credit card revolving debt	36-45%	Most cards charge 3.3–3.75% monthly, not linked to repo rate
NBFC personal loans	13-24%	Wide range across lenders; small-ticket and subprime segments can reach 30% or above.
P2P platforms	14-22%	Effective cost higher with 2.5–8.5% processing fees; ₹10 lakh borrower cap across all platforms
Bank personal loans	10-16%	Dropped sharply after cumulative 125 bps repo rate cuts through 2025; public sector bank starting rates fell by over 250 bps.

Source: Published rate cards of PSBs and PVBs, NBFC product disclosures, 1 Finance Magazine

The gap between bank personal loan rates and what near-prime borrowers actually pay through NBFCs or revolving credit card debt can exceed 10%. For a borrower who does

not qualify for bank rates, that gap represents a significant cost burden on every rupee borrowed. P2P platforms operating in the 14–22% range compress part of this spread,

offering a middle path for borrowers that banks are slower to serve.

“The bank earns 12–16% by lending your capital, pays you less than 7%, and your deposit beyond ₹5 lakh is uninsured. P2P lets the investor keep the spread.”

Why Borrower Repayment Economics Underpin Investor Returns

The investment case for P2P rests on the returns it generates for lenders, but the model works only if borrowers

repay. P2P platforms serve borrowers who fall between bank personal loans at 10–14% and credit card revolving debt at 36–45% — a segment paying rates far higher than their credit profile warrants. A borrower carrying two credit card balances at 40% and an NBFC personal loan at 30% could, if approved on a P2P platform, consolidate into a single loan at 14–20%, reducing both the interest burden and the number of monthly obligations. Beyond consolidation, P2P platforms offer structured repayment schedules, credit bureau reporting that builds the borrower's CIBIL profile over time, and faster access to funds than traditional bank channels.



P2P Lending from the Borrower's Perspective

MECHANISM	WHAT IT MEANS	IMPACT ON BORROWER
Debt consolidation	One P2P loan replaces multiple high-interest obligations	Single EMI, lower overall interest burden
Structured repayment	Fixed tenure, fixed EMI, clear amortisation schedule	Financial discipline and predictable cash outflows
Credit score building	Timely repayments reported to credit bureaus (mandatory under November 2025 directions).	Improved CIBIL profile and future borrowing eligibility
Faster access to funds	Digital onboarding and quicker disbursal than traditional banks	Prevents escalation of urgent debt situations

Source: RBI NBFC-P2P Lending Platform Disclosures 2025, platform disclosures, 1 Finance Magazine

The borrower economics of P2P are sound when underwriting is disciplined and loan sizing is controlled, and sound borrower economics are what generate the returns that make P2P attractive as an investment. India is not the

first country to test this model at scale. The experience of other markets, where P2P has proven successful enough to attract institutional capital and banking licences, offers a useful benchmark.

A GLOBALLY VALIDATED LENDING MODEL

P2P lending is not an experiment. The global P2P lending market was valued at approximately \$264 billion in 2024, according to Straits Research, and is projected to grow at a compound annual growth rate of roughly 30% through 2033.

The model has evolved differently in each major market, but the underlying economics — compressing the intermediation spread on consumer credit — have proven durable wherever regulation has been present.



THE UNITED STATES

Where regulation shaped the market and institutions validated the model



THE UNITED KINGDOM

P2P as a launchpad for banking licences

2006–2016	2016–2019	2020–2025
From regulatory crisis to the world’s second-largest alternative finance market.	How institutions reshaped the model.	The pivot from platform to bank.
Prosper launched America’s first P2P platform in February 2006; LendingClub followed in 2007. Both were forced to suspend operations in 2008 after the SEC ruled that P2P loan notes were unregistered securities. Prosper reopened in July 2009 with full SEC approval — a process that consolidated the market around two survivors. What followed scaled rapidly. According to the Cambridge Centre for Alternative Finance (CCAF), US marketplace and P2P consumer lending grew from \$7.6 billion in 2014 to \$21.1 billion by 2016. The broader US alternative finance market — including business lending and balance sheet models — reached \$42.8 billion in 2017. LendingClub’s December 2014 IPO, which valued the company at \$8.5 billion, was the largest US technology listing that year.	Net returns of 5–10 per cent on short-duration unsecured credit attracted hedge funds, fixed-income managers, and eventually banks. Institutional capital came to dominate funding on major platforms, and the industry rebranded from ‘peer-to-peer’ to ‘marketplace’ lending. P2P consumer lending fell 29 per cent the following year, from \$21.1 billion to \$14.9 billion, per CCAF. But capital was not leaving online lending — it was shifting form. Balance sheet consumer lending, where platforms fund loans directly, surged 409 per cent in the same period, from \$3 billion to \$15.3 billion. The economics had not broken; the delivery mechanism was evolving.	LendingClub retired its retail Notes programme in December 2020 and acquired Radius Bank for \$185 million, becoming the first fintech to buy a regulated US bank when the deal closed in February 2021. SoFi received a national bank charter from the OCC in January 2022. By Q1 2025, LendingClub alone had crossed \$100 billion in cumulative originations, reporting FY2025 revenue of \$998.8 million and net income of \$135.7 million. Prosper originated \$2.2 billion in 2024 and signed a \$500 million forward-flow agreement with Fortress Investment Group and Edge Focus in April 2025. The platforms that survived had converted themselves into banks.
2005–2016	2017–2019	2020–2025
The world’s first P2P market and the regulation that legitimised it.	How regulation separated strong platforms from weak ones.	Graduation from platform to bank.
Zopa launched in March 2005 as the world’s first peer-to-peer lending platform, five years before Funding Circle (2010) and RateSetter (2010) entered the market. What set the UK apart was the regulatory response. In April 2014, the Financial Conduct Authority became the first major regulator in the world to create a bespoke framework for P2P lending, giving platforms a compliance structure, investors a dispute-resolution mechanism, and the sector a legitimacy that few other markets could match. According to the Cambridge Centre for Alternative Finance, UK alternative lending volumes rose from £267 million in 2012 to £6.19 billion in 2017, with P2P lending alone accounting for approximately £4.6 billion of that total. In April 2016, the government went further — the Innovative Finance ISA gave P2P returns tax-free status, placing them on an equal footing with stocks-and-shares ISAs. By Q3 2018, cumulative lending by P2PFA member platforms had crossed £10 billion.	As the market scaled, so did the number of FCA-authorised platforms — 42 new firms received authorisation in 2017, the highest in any single year, according to an FCA Freedom of Information response. That rapid expansion inevitably included weaker operators. Collateral entered administration in February 2018; Lendy followed in May 2019 with £155 million in outstanding loans; FundingSecure collapsed in October 2019 with £80 million at risk. These were not failures of the P2P model itself — they were failures of individual platforms whose underwriting did not match the standards of the market leaders. The FCA’s response under PS19/14 tightened marketing rules, introduced investor appropriateness tests, and mandated wind-down plans. New authorisations fell from 42 in 2017 to just one in 2020 — a deliberate regulatory filter that ensured only well-capitalised platforms survived.	The platforms that emerged from this regulatory tightening did not simply survive — they graduated. Zopa received its full banking licence from the FCA in June 2020 and exited peer-to-peer lending entirely in December 2021. Metro Bank acquired RateSetter in September 2020 for up to £12 million — a traditional bank buying a fintech for its technology and credit data, not the other way around. Funding Circle closed its retail investor programme in March 2022, shifting entirely to institutional and balance-sheet funding. The UK story is not one of P2P’s failure — it is the clearest evidence that the model generates the credit data, operational scale, and institutional confidence needed to build lasting financial businesses.

CONTINENTAL EUROPE

Where regulation kept the individual investor in the market

While British and American platforms migrated to institutional capital, continental Europe built the infrastructure to keep individuals in. Mintos, launched in Latvia in 2015, is Europe's largest loan-investment marketplace, with more than 600,000 registered investors and over €11 billion invested cumulatively. Licensed as an investment firm in 2021 and supervised today by Latvijas Banka, Mintos structures the loans on its platform as MiFID-regulated financial instruments. Retail investors receive the protections of securities buyers: regulated disclosures, appropriateness assessments, and coverage under Latvia's national investor compensation scheme of up to €20,000.



2015

Launch year

Latvijas Banka

Supervisor

600,000+

Registered Investors

€11 Billion +

Invested cumulatively



The European Union went further. The European Crowdfunding Service Providers Regulation, applicable from November 2021, created a single passportable licence for lending-based crowdfunding to businesses across all member states, covering offers up to €5 million per project owner, with a key investment information sheet for every offer, an entry knowledge test, and a four-day reflection period during which a non-sophisticated investor can withdraw without penalty. Faced with the same growth that pushed the US and UK towards institutional capital, Europe's regulators chose the opposite path: they made retail participation safer.

The European route differs from India's in one structural respect. Retail access flows through regulated securities structures and business-lending frameworks; consumer-credit crowdfunding sits outside the EU regulation's scope. India remains the only major market where the individual lender is the direct counterparty in consumer credit. The larger point stands: where regulators choose to protect retail participation, it persists.

What this Means for India

In both the United States and the United Kingdom, the retail lenders who pioneered the market were eventually displaced by institutional capital — the platforms survived, but the individual investor's share of originations shrank to single digits. In 2024, only 7% of Prosper's originations came through its traditional peer-to-peer note channel, according to deBanked. India is the only major market that has moved in the opposite direction. The November 2025 Directions reinforced the role of retail lenders at the centre of the P2P framework. The exposure caps, escrow mandates, and lending limits were designed to preserve the retail lender's access

to this profitable asset class while eliminating the practices that had damaged trust. In practical terms, Indian regulation has ensured that the profitability the US and UK proved is accessible to individual investors — not locked away behind institutional minimums.

India's headroom is visible in the nearest emerging-market comparison. Indonesia has regulated P2P lending since 2016 and cleaned up its sector without shrinking it: outstanding fintech-lending loans grew from Rp 80.07 trillion in February 2025 to Rp 98.54 trillion by January 2026, up 25.5% year on year, with 90-day defaults (TWP90) near 2.75%, according to OJK data. At roughly \$6 billion outstanding, Indonesia's book is more than ten times India's post-reset AUM.

Five Markets, One Model, Five Endpoints

PARAMETER	INDIA	UNITED STATES	UNITED KINGDOM	EUROPE (EU)	CHINA
Regulator	RBI	SEC, CFPB, state laws	FCA	National regulators under EU ECSPR	CBIRC (shut down sector)
Active platforms (early 2026)	~10–12	Only 1 major pure retail P2P platform left	~15–20 (mostly secured)	181	0
Peak platforms	26 registered (June 2024)	Hundreds (pre-2015)	50+	Fragmented national regimes until 2021; harmonised under ECSPR since	5,000+ (2016–2017)
Dominant model	Retail lender, unsecured consumer	Institutional, AI underwriting	Property-secured, institutional	Retail investing via regulated instruments	Retail, guaranteed returns (pre-collapse)
Tax treatment of lender income	Income from Other Sources (marginal rate)	Ordinary income	IFISA available (tax-free wrapper)	Varies by member state	N/A
Key structural trend (2026)	Retail-centric under strict new guardrails	Retail displaced by institutional; survivors became banks or institutional lenders.	Platforms going secured or converting to banks	Retail-centric under EU-harmonised rules	Complete regulatory shutdown by 2020
Typical lender returns (gross)	10–14%	5–11%	5–10%	8–12%	10–18% (pre-collapse)

Source: RBI, SEC filings, FCA register, CBIRC, ESMA register, Mintos disclosures, Cambridge Centre for Alternative Finance, Prosper/Indian NBFC-P2P platform disclosures, LendingClub and Zopa Bank investor filings, Funding Circle annual results, 1 Finance Magazine

Of the five markets compared above, China is the only one where the sector no longer exists. What separates a thriving market from a collapsed one is not the model itself but the regulatory framework around it.

HOW CHINA LOST ITS ENTIRE P2P SECTOR

China's first P2P platform launched in 2006. Within a decade, the sector had grown to over 5,000 active platforms, according to contemporaneous regulatory and industry-tracker data, with annual transaction volumes exceeding \$400 billion by 2017. For nearly nine years, platforms pooled investor funds, guaranteed principal, and offered returns of 10–18% with no regulatory oversight. China's first formal P2P guidelines did not arrive until 2015, and even those were weakly enforced until the sector had already begun collapsing.

The Ezubao scandal in 2015 revealed a \$7.6 billion Ponzi scheme that had defrauded over 9 lakh investors. By 2018, platforms were collapsing weekly. The China Banking and Insurance Regulatory Commission (CBIRC), since absorbed into the NFRA, began forcing orderly shutdowns, and by November 2020, not a single P2P platform remained operational in China. Investors still held more than 800 billion yuan (roughly \$115 billion) of unpaid debt from failed platforms as of August 2020, according to the CBIRC.

The lesson is specific: China's collapse was caused by nine years of unregulated operation, not by any inherent flaw in the P2P model. India's regulatory trajectory diverged from China's in ways that explain why the Indian P2P sector contracted and corrected rather than collapsed.

HOW THE RBI IDENTIFIED AND CORRECTED EARLY MALPRACTICES

India's early P2P market showed some of the same warning signs — but the regulatory response arrived before they became systemic. Indian P2P platforms were registered as NBFC-P2P entities, classified strictly as information intermediaries. In practice, several platforms operated well beyond their mandate: they pooled investor funds into common accounts, offered guaranteed returns of 10–12%, and marketed P2P as a high-yield savings product with on-demand liquidity.

The RBI's inspection findings from June 2023 documented platforms acting as deposit takers and lenders rather than intermediaries. In some cases, repayments to existing lenders were being funded not from borrower EMIs but from fresh capital deposited by new lenders. This practice, in a subset of platforms, mirrored the pattern that preceded China's P2P shutdown, and it is precisely this practice that the RBI's August 2024 circular targeted.

The NPA trajectory below quantifies the damage those practices caused.

2006	China's first P2P Platform launched
2015	Ezbuao Scandal First formal P2P Guidelines
2016	5,000 Active platforms
2017	\$400 Bn+ Transactions
2018	Platforms collapsing weekly
2020	No remaining P2P platform 800+ Bn. Yuan debt held by Investors



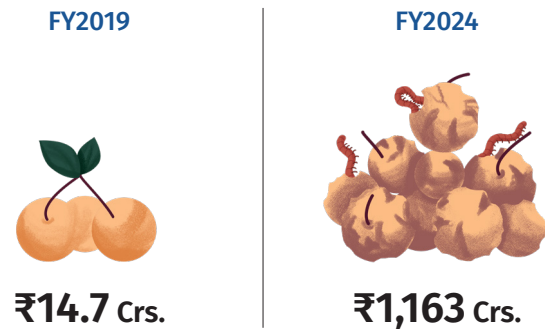
How P2P Sector NPAs Grew with Indisciplined Platforms

FISCAL YEAR	P2P SECTOR NPAS (CRORE)	YEAR-ON-YEAR CHANGE	FISCAL YEAR	P2P SECTOR NPAS (CRORE)	YEAR-ON-YEAR CHANGE
FY2019	₹14.7	—	FY2022	₹191.7	78%
FY2020	₹25.9	76%	FY2023	₹472.1	146%
FY2021	₹107.9	316%	FY2024	₹1,163	146%

Source: RBI data obtained via RTI responses to Capitalmind Financial Services. Published December 2024

Bad loans grew from ₹14.7 crore in FY2019, when the industry was nascent, to ₹1,163 crore by FY2024, implying an NPA ratio exceeding 17% against an estimated AUM of ₹6,500 crore at the time. This trajectory largely reflects platforms that pooled investor funds and delayed default recognition — practices the RBI has since prohibited. Among platforms that remained operational through the regulatory reset, early 2026 NPA disclosures at the platform level show a markedly better picture.

Growth in Bad Loans



WHY INDIA'S P2P REGULATION ARRIVED BEFORE A CRISIS, NOT AFTER ONE

India's regulatory trajectory diverged from China's in four structural ways.

Why India's P2P Sector Contracted Rather Than Collapsed

S.NO.	INDIA	CHINA
1	The RBI regulated P2P lending in 2017, when the market had ~5 platforms and ~ ₹200 crore in AUM.	China's first formal guidelines, which came in 2015, by which point 5,000+ platforms were operating.
2	India required mandatory NBFC registration, ensuring only entities vetted by the central bank could operate.	No mandatory licensing requirement until 2015. Any entity could launch a P2P platform without central bank or financial regulator approval.
3	Platforms were classified as intermediaries from day one, not lenders.	Platforms operated as de facto lenders and deposit takers, with no regulatory distinction between intermediary and lender.
4	India's digital identity system (Aadhaar verification, PAN-linked KYC, and CIBIL reporting) gave a layer of borrower identification and credit history.	No unified digital identity or credit reporting layer like Aadhaar-PAN-CIBIL. Borrower verification relied on platform-level processes, which varied widely in rigour.

Source: RBI Master Directions, CBIRC public records, 1 Finance Magazine

The cumulative effect of these four differences is that India's August 2024 intervention was pre-emptive — it arrived before a systemic crisis, not after one. China's regulatory action began only in 2015, after the Ezubao Ponzi scheme, and escalated until the entire sector was shut down. When the

gap between the 2017 framework's intent and the industry's actual practices widened, the RBI intervened. The 16 August 2024 circular introduced structural and operational requirements designed to restore the intermediary model.

Key Changes Introduced by the RBI's August 2024 Circular



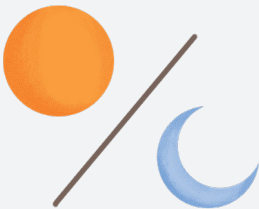
Mandatory Escrow via bank-promoted trustees

Lender and borrower funds held separately, platform cannot commingle them



Lender approval required per match

No automated or pooled matching without explicit lender consent



T+1 settlement mandate

All escrow funds transferred within one business day



Ban on guaranteed returns and closed-user-group matching

Platforms cannot promise fixed yields or route funds to preferred borrowers



Exposure caps formalised

₹50,000 per lender per borrower across all platforms; ₹50 lakh aggregate; ₹10 lakh maximum per borrower

The RBI backed these requirements with enforcement. Between August 2024 and March 2025, fines totalling roughly ₹5 crore were levied across multiple platforms, as per RBI enforcement disclosures, and show-cause notices were issued to six platforms in October 2024. On 28 November 2025, the RBI issued the comprehensive NBFC-P2P Lending Platform Directions, 2025, replacing all prior P2P regulations. The new framework includes a ₹2 crore minimum net owned fund, a 2x leverage cap, a 36-month maximum

loan tenure, APR-based pricing mandates, mandatory credit bureau reporting, and detailed governance and disclosure requirements. The practical effect of this regulatory architecture is that an Indian investor deploying capital through P2P today operates under the most prescriptive lender-protection framework any P2P market has produced — and that framework is what makes the credit spread accessible with managed, diversified risk.

INDIAN P2P INDUSTRY AFTER THE REGULATORY RESET

India's November 2025 Directions kept individual lenders at the centre of the P2P framework. In the US and UK, the model migrated towards institutional capital and bank balance sheets, effectively removing the retail investor. India's regulatory redesign moved in the opposite direction, tightening the guardrails around individual lenders rather than replacing them.

Of the 26 RBI-registered NBFC-P2P platforms on record, roughly 10–12 remain operational in some capacity, with 3–5 actively disbursing new loans. The consolidation is a pattern seen in mature global markets, where regulatory tightening accelerates the exit of unsustainable participants and concentrates activity among compliant operators.

Industry AUM stood at approximately ₹10,000 crore in early FY2024 as per industry estimates. Following the August 2024 circular, much of this volume exited as platforms that had operated outside their mandate wound down or paused operations. By March 2025, estimated AUM had fallen to under ₹3,000 crore. The decline reflects the removal of non-compliant activity from the sector's reported numbers rather than a contraction in borrower demand for P2P credit.

The table below maps the status of all 26 RBI-registered NBFC-P2P platforms, including those that have exited or gone inactive. Of the 26, roughly 10–12 remain operational in some form; the remainder have ceased new originations since August 2024.

India's P2P Platform Landscape as of Early 2026

1-2 Platforms



Active and profitable

Profitable in FY2025; NPA below 5%; new disbursements continuing

2-3 Platforms



Active, recovering

Volumes rebuilding post-regulation; operational compliance confirmed

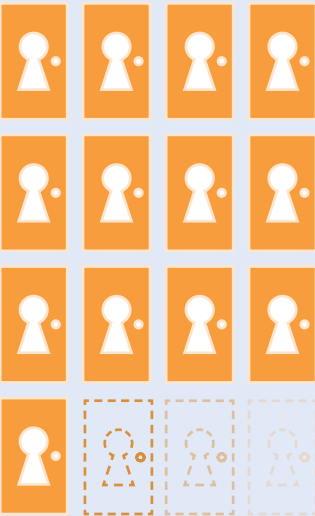
2-3 Platforms



Collections-focussed

New lending paused; managing existing portfolios

13+ Platforms



Inactive or exited

No new originations since August 2024

Source: RBI NBFC-P2P platform registry, company disclosures, 1 Finance Magazine.

WHY POST-REGULATION UNDERWRITING IS FUNDAMENTALLY DIFFERENT

Early Indian P2P platforms relied on basic CIBIL scores to evaluate borrowers. Platforms that survived the regulatory reset have moved towards more layered models, incorporating income verification, bank statement analysis, Fixed Obligation to Income Ratio (FOIR), and behavioural signals. The Account Aggregator framework has made it technically possible for platforms to access real-time financial data from a borrower’s bank accounts, insurance policies, and tax filings, though the extent of AA integration varies across platforms.

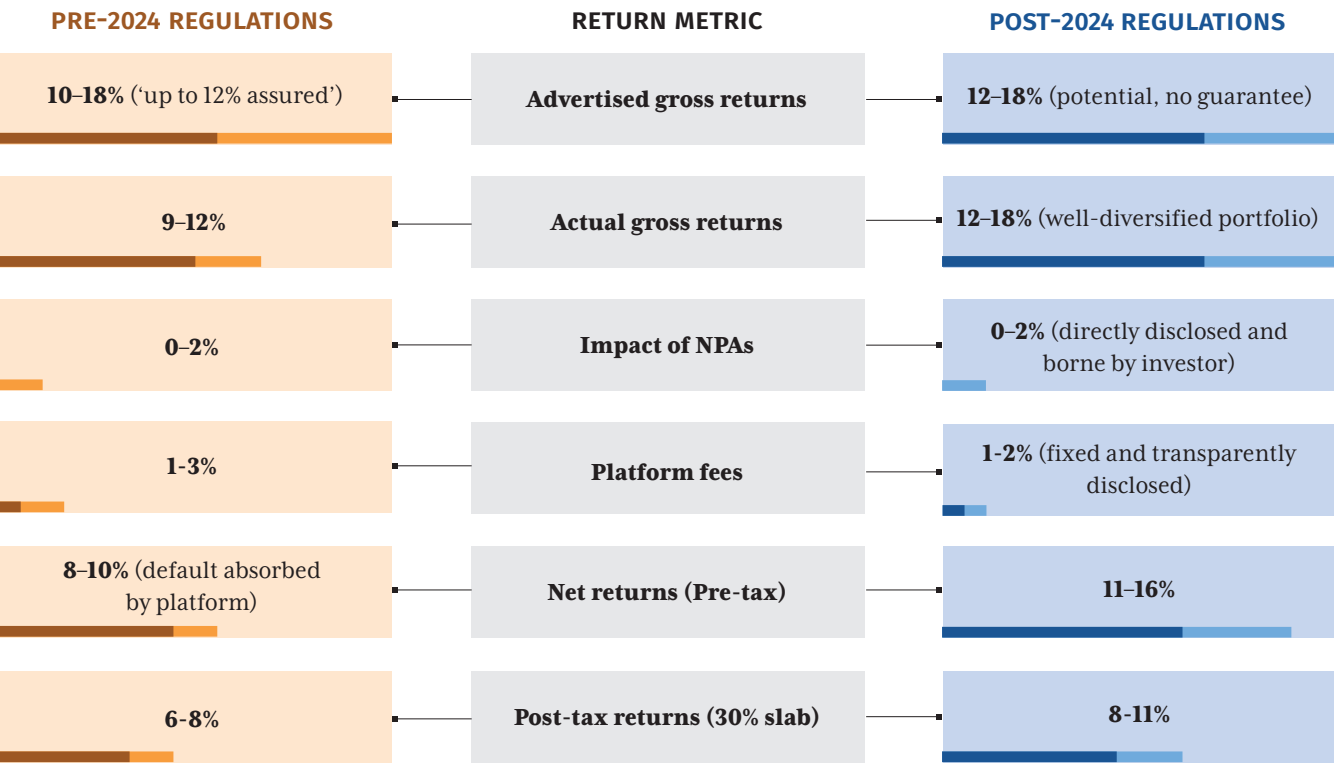
WHAT AN INVESTOR EARNS AFTER DEFAULTS AND TAXES

Before August 2024, most platforms smoothed investor returns by absorbing default losses through interest rate spreads. A platform would charge borrowers 18–24%, pass through 8–12% to investors, and use the remaining spread

The platforms that collapsed or exited after August 2024 were the ones still operating on basic credit checks while marketing guaranteed returns. The surviving platforms are now operating through their first full post-regulation credit cycle, and early NPA disclosures suggest the underwriting discipline is holding. For advisors evaluating a platform today, the platform’s underwriting methodology and its track record through stress are the first things to check.

to cover defaults and earn margins. The RBI has banned this model. Under the current framework, credit risk is visible to and borne directly by the investor — and counterintuitively, this has improved actual returns.

Investor Returns Before and After the August 2024 Regulatory Reset



Source: 1 Finance Magazine estimates based on platform disclosures and Income Tax Act provisions. Individual platform returns may vary.
Note: Post-tax returns assume a 30% income tax slab without surcharge or cess.

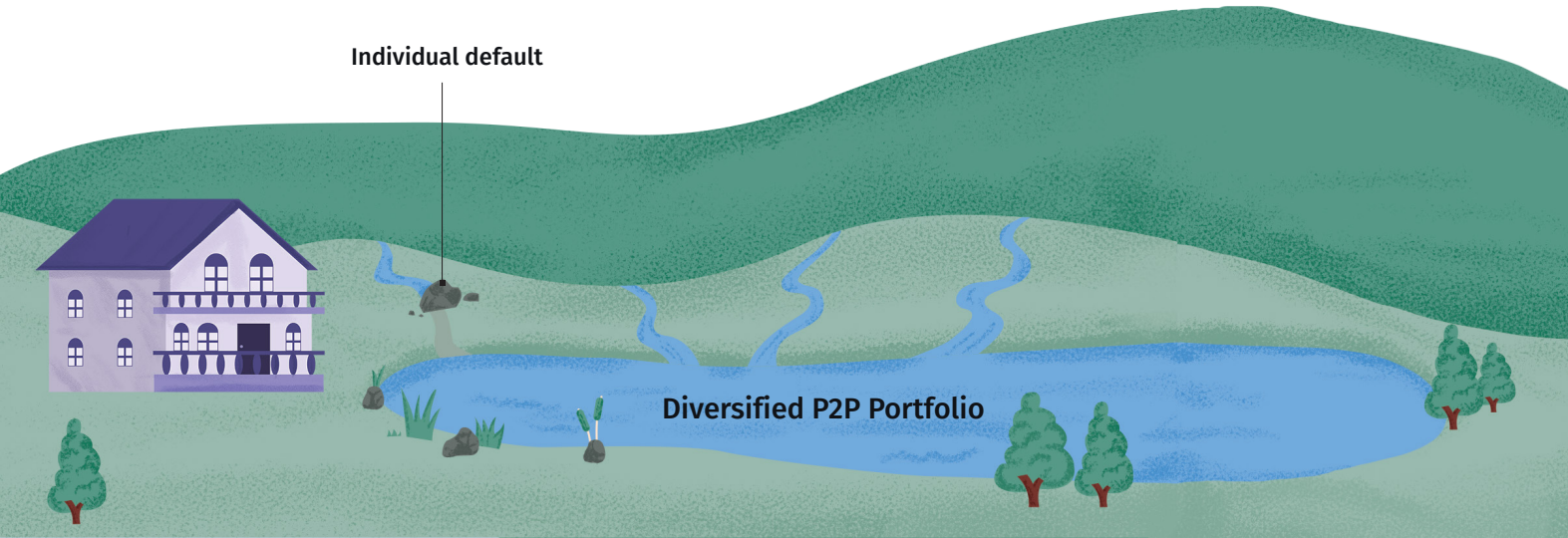
The core investment logic of P2P is best understood through what happens when money sits in a bank. A fixed deposit yields 6–7% pre-tax. The bank deploys that same capital as personal loans at 12–16% or higher, capturing a spread of 5–10%. That spread is the bank’s revenue — earned by deploying the depositor’s capital. The risk the depositor bears is not trivial. Any deposit exposure above the Deposit Insurance and Credit Guarantee Corporation (DICGC) ceiling of ₹5 lakh — which is common for investors allocating meaningfully to fixed income — is effectively uninsured. The depositor earns less than half of what the institution makes by deploying that capital, and bears residual credit risk on every rupee above the DICGC threshold. P2P lending inverts this equation: the investor deploys capital directly to vetted borrowers, retains the full credit spread, and — under the RBI’s post-2024 framework — diversifies across multiple small loans rather than concentrating exposure in a single institution.

The traditional objection to P2P — that lending to individuals is inherently risky — is valid only under the pre-regulation model where a single borrower default could wipe out a significant portion of a lender’s capital. The RBI’s

diversification mandates have structurally addressed this. With a ₹50,000 cap per lender per borrower across all platforms, an investor deploying ₹10 lakh is spread across a minimum of 20 borrowers. At that level of diversification, individual defaults become a statistical cost factored into the return — not a portfolio-ending event. The NPA impact on well-diversified post-regulation portfolios bears this out.

At a 30% tax slab, FDs deliver roughly 4–5% post-tax. P2P lending may deliver 8–11% post-tax for an investor in the same bracket. The table on the following page places P2P alongside other short-term investment products to contextualise the risk–return trade-off.

“With a ₹50,000 cap per borrower, an investor deploying ₹10 lakh is spread across at least 20 loans. At that level of diversification, individual defaults become a statistical cost — not a portfolio-ending event.”



What DICGC deposit insurance actually covers

Under the DICGC Act, each depositor is insured for a maximum of ₹5 lakh per bank. The limit covers the aggregate of principal and accrued interest across all deposit accounts — savings, fixed, current, recurring — held in the same name and same capacity at that bank. The ceiling was last revised

in February 2020, up from ₹1 lakh, which had remained unchanged since 1993. The insurance premium is paid entirely by the bank, not the depositor, and settlement in the event of a bank being placed under the RBI’s All-Inclusive Directions can take up to 90 days.

Risk–Return Comparison Across Short-Term Investment Products

PRODUCT TYPE	PRE-TAX RETURN	POST-TAX RETURN*	RISK LEVEL	PRIMARY RISK TYPES
Fixed Deposits	6–7%	4–5%	Low	Counterparty Risk, Inflation Risk
Arbitrage Funds	6–7%	5–6%	Low	Basis Risk, Liquidity Risk
Debt Funds	7–9%	5–6%	Moderate	Interest Rate Risk, Credit Risk
Corporate Bonds (A & above)	8–10%	6–7%	High	Credit Risk, Interest Rate Risk
Corporate Bonds (BBB & below)	10–14%	7–10%	Very High	Credit Risk, Interest Rate Risk, Liquidity Risk
P2P Lending	11–16%	8–11%	High	Credit Risk, Liquidity Risk
Government Bonds	6–7%	4–5%	Very Low	Interest Rate Risk
Securitised Debt Instruments	10–12%	7–9%	High	Credit Risk, Prepayment Risk, Liquidity Risk
Invoice Discounting	10–12%	7–9%	High	Credit Risk, Counterparty Risk, Liquidity Risk

**Post-tax returns assume 30% income tax slab without surcharge or cess for fixed income products and 12.5% tax rate for Arbitrage funds (LTCG exemption limit of ₹1.25 lakh not considered). Source: 1 Finance Magazine.*

Among the products listed above, P2P lending offers the highest post-tax return range at the “High” risk tier. Fixed deposits and government bonds deliver comparable safety but roughly half the post-tax yield. Debt funds and arbitrage funds offer marginally better returns than FDs but remain in the 5–6% post-tax range. For an investor seeking predictable, income-generating returns above fixed deposits without

the volatility of equity, P2P occupies a distinct position in the spectrum.

For investors who meet those conditions — adequate liquidity elsewhere, diversification across borrowers, and a platform with demonstrated underwriting discipline — the post-tax premium over bank fixed deposits represents a meaningful yield enhancement in a diversified portfolio.

P2P interest income is classified as ‘Income from Other Sources’ under the Income Tax Act and taxed at the investor’s marginal slab rate.

THE ADVISOR’S ROLE IN UNLOCKING P2P FOR CLIENTS

In a market where unsecured credit is growing at double digits and the disintermediation spread exceeds 10%, P2P lending is one of the few regulated asset classes that offers retail investors direct access to credit returns. India’s regulatory framework has preserved the individual lender’s seat at the table. For financial advisors, this creates both an opportunity and a responsibility.

P2P lending is regulated by the RBI as a lending product, not classified as a security under SEBI. SEBI’s December 2024 amendment to the Investment Advisors Regulations clarified that registered investment advisors may advise on products outside SEBI’s purview but must disclose that no recourse from SEBI is available for grievances related to those products. The responsibility for due diligence falls on the advisor.

Under the post-regulation framework, defaults are no longer absorbed by the platform’s spread. When EMIs are missed, the platforms initiate collections through in-house teams, auto-debit mandates, and digital reminders, escalating to third-party recovery agencies and legal action if the borrower remains unresponsive. Portfolio diversification across borrowers at small ticket sizes is what changes the recovery economics — on a loan of ₹5,000 to ₹10,000, the cost of legal recovery can approach or exceed the principal itself.



P2P investing is best suited as a medium-term allocation for investors with adequate liquidity elsewhere. It is not designed for capital that may be needed at short notice, as an emergency corpus, or for any allocation where a delay in repayment would create hardship for the client.

The due diligence framework above is necessarily general. The specifics of how underwriting works, how platforms responded to the August 2024 reset, and what the rebuilt model looks like in practice vary across platforms. The following conversations with two founders who have operated through major phases of India’s P2P journey shed light on these specifics.

Four Points to Remember Before Recommending P2P to a Client

01

Has the platform been verified independently?

NBFC-P2P registration on RBI’s list, published NPA disclosures, escrow account structure with a bank-promoted trustee, credit bureau reporting compliance, and adherence to the November 2025 Directions.

02

How is underwriting done?

Platforms should use multiple data points, like income, repayment capacity, bank statement analysis, fixed obligation to income ratio, etc., to find borrowers.

03

What is the lender exposure per borrower?

No single lender can deploy more than ₹50,000 to any one borrower across all platforms.

04

Does the client have adequate liquidity elsewhere?

P2P loans are held to maturity. There is no early exit. Monthly EMIs return capital progressively, but the lender cannot recall principal before tenure ends.

Industry Perspectives



Bhavin Patel
Co-founder and CEO, LenDenClub

01 India’s unsecured personal loan market has grown 5x in the last decade. What does your data tell you about the typical borrower, what they are borrowing for, and how they repay?

Our borrower base reflects a large segment of India’s working population that historically had limited access to formal short-term credit. Many are young salaried professionals, gig-economy workers, small merchants, and self-employed individuals. Most loans on our platform are small-ticket and short-tenure, used for practical financial needs: managing temporary liquidity gaps before salary cycles, working capital for small businesses, medical or household contingencies, or

short-term consumption needs.

Earlier, this lending gap was largely ignored. Digital credit platforms are now helping formalise borrowing that previously existed in informal and expensive channels. What our data consistently shows is that repayment behaviour remains stable when loan sizing is disciplined and underwriting is strong. When loans are aligned with a borrower’s repayment capacity, the intent to repay remains high.

02 Your NPA stands at 3.5% as of February 2026, with personal loans at 4.1% and merchant loans at 3.3%. What does your underwriting approach do differently from the broader industry?

In unsecured lending, defaults will always exist. The real test of a lending system is how well it anticipates, prices, and distributes that risk. Our underwriting is guided by three principles. First, disciplined borrower selection. We evaluate borrowers using a multi-layered data framework combining bureau history, cash-flow indicators, behavioural signals, social proofs, and past repayment behaviour. Second, strict loan

sizing. Many credit problems begin when loan amounts exceed repayment capacity. Our model focuses on controlled exposure and short-tenure structures. Third, loan diversification. The platform encourages lenders to distribute capital across hundreds or thousands of small-ticket loans. Diversification is one of the most important protections for retail lenders.



03 LenDenClub posted a ₹34 crore net profit in FY2025. How did your lender base respond to RBI’s new regulations?

When the RBI issued the August 2024 directions, many elements of the framework were already aligned with how we were operating. That preparation helped us transition smoothly. Our ₹34 crore net profit in FY2025 was not the result of short-term regulatory changes. It was the outcome of several years of operating discipline: building sustainable unit economics, strengthening compliance processes, and diversifying our lending ecosystem.

From a lender perspective, we did not see

panic withdrawals because we had zero exposure to liquidity-based products, meaning we never offered on-demand withdrawal features or pooled investor funds, which was the core issue at the industry level. Instead, we saw something healthier: a more informed and risk-aware investor base emerging. P2P lending should never be presented as a guaranteed-return product. It is a credit investment, and investors must participate with a clear understanding of both risk and return.

04 A financial advisor needs to answer four things before recommending P2P: minimum investment, lock-in period, realistic net return, and what happens if the platform shuts down. How would you address these?

We recommend that investors begin with around ₹1 lakh and diversify across multiple borrowers. On the platform, investors can allocate ₹250 to ₹500 per borrower, spreading capital across hundreds of loans. Loans typically have tenures ranging from 2 to 12 months. Some provide daily repayments, others monthly, allowing investors to generate regular cash flow.

Historically, lenders on closed loans have earned around 15 to 20% p.a. in gross interest, though this varies by portfolio composition and risk profile. This should never be

viewed as a guaranteed return. Actual returns depend on the credit risk of the portfolio and platform fees.

On platform shutdown risk: investor and borrower funds are held in separate escrow accounts managed by ICICI Bank Trusteeship Services. The platform itself does not control these funds. Collections management can be handled by the trustee working with a collection management company, ensuring continuity of repayments even if the platform ceases operations.

05 If an advisor is trying to do due diligence and evaluate which platform to recommend to a client, what criteria should they look at, beyond NBFC registration?

Registration with the RBI is the starting point, but advisors should look deeper. First, fund flow architecture: ensure that funds move through trustee-controlled escrow accounts with minimal platform discretion. Second, transparency of borrower information: the platform should clearly disclose borrower credit assessment

details, risk category, loan amount, tenure, and other relevant information. Third, portfolio performance transparency: review NPA levels, cohort-level defaults, recovery performance, and portfolio mix over at least 8-12 quarters. Platforms that publish clear performance reports provide better visibility. Fourth, diversification design: the

platform should enable lenders to spread investments across many borrowers at small ticket sizes, reducing concentration risk. Fifth, collections capability: underwriting is important, but collections and recovery processes ultimately determine lender

outcomes. Sixth, governance and operating discipline: advisors should evaluate the platform's compliance culture, reporting standards, and overall business resilience. In credit investing, governance and risk management matter as much as returns.

06 You have spoken about your goal of lowering the cost of credit for borrowers by 200-300 basis points through technological efficiencies. Is there a limit to how low P2P lending rates can go in India before the risk-return equation breaks for lenders?

Yes, there is always a natural floor. In unsecured lending, the interest rate must cover expected credit losses, servicing costs, compliance requirements, and a fair risk-adjusted return for lenders. Technology can remove operational inefficiencies and make lending faster and more efficient, which can help reduce borrowing costs by a few hundred basis points. However,

technology cannot eliminate credit risk. If interest rates fall below the true risk-adjusted cost of lending, either lenders are undercompensated for risk, or underwriting standards eventually weaken. The goal should not be the lowest possible interest rate. The goal should be the most efficient and sustainable rate for a well-underwritten borrower.

Note: This is an edited excerpt from our interview with Bhavin Patel



Neha Juneja
Co-founder and CEO, IndiaP2P

01 Your research showed that women borrowers had amongst the lowest default rates of any segment in India, yet they remained credit-starved. Why did the traditional system consistently underprice the creditworthiness of this segment?

It is not just our research. There is longstanding, continuing data evidencing that women in India tend to have higher credit scores than men. Oliver Wyman estimates that financial services firms are losing approximately \$700 billion in revenue each year by not meeting the needs of women customers. Women's World Banking's research finds that portfolios with a higher

share of women customers have been associated with 1.5 times faster growth.

Historically, the gap has been driven by cultural biases and outdated processes. Several banks still seek a husband's No Objection Certificate when a woman applies for a loan. In joint accounts, banking systems sometimes default to assuming the male account holder as primary. For lending



02 A large slice of the "Other Personal Loans" category in India's banking data is unsecured, high-interest, short-term credit. How do your borrower profile and loan structure differ from this broader trend, and why does that distinction matter for investors?

Given the nature of the Indian economy, it is no surprise that there is a large market for unsecured credit, as most borrowings tend to be small-ticket in nature. Within unsecured credit, the highest-risk and highest-interest-rate category is typically that of payday loans, which are very short-term borrowings that carry significant pricing premiums.

We onboard small business owners, particularly women with prior loan repayment records. The median credit score of our borrowers is above 750, which is why our interest rates are considerably lower than payday loans, and loan tenors range between 12 and 24 months to better serve the business needs

the last decade, it has been predominantly women-focused lenders that have received new banking licences and undertaken some of the most successful IPOs.

of borrowers.

Smaller loan ticket sizes tend to attract higher interest pricing in general, largely on account of the processing charges incurred by lending institutions and their input cost of capital. Large lenders such as banks often do not disburse sub- ₹10 lakh loans for precisely this reason, leaving the space predominantly to NBFCs. NBFCs themselves borrow capital from banks, which means their cost of funds and, consequently, their cost of lending is already elevated.

For investors on any P2P platform, it is essential to understand the borrower profile you are funding at a broad level before assessing individual borrower risk.

03 The RBI's August 2024 directions were seen as catastrophic for the industry. What changed in IndiaP2P's operations, and which changes do you believe are good for the long-term health of the asset class?

Other than the T+1 settlement rule, the RBI's 2024 directions did not introduce major new requirements but were largely clarifications to existing guidelines. The escrow mandates and the ₹50 lakh lending cap were always part of the regulatory framework. What had been stretched was the practice by some platforms of marketing P2P lending as a high-yield savings product, implying assured returns combined with on-demand liquidity.

In the immediate aftermath, the industry did experience negative growth, with several platforms receiving show-cause notices

and penalties. This also fed a negative media cycle. However, with time, both users and platforms have adapted, and for compliant platforms, volumes have shown signs of recovery. For IndiaP2P, T+1 settlements represented a significant operational shift. Previously, a lender could transfer ₹50 lakhs in one go and select loan plans at leisure. Under T+1, funds must be transferred and loans selected within a single-day window. The industry has now adapted to this cadence, and it brings P2P lending on par with other investment products.

04 Now that P2P platforms can no longer promise fixed returns, what is the argument for why an investor should put money into P2P lending?

P2P platforms were never permitted to promise fixed returns. Any platform that did so was operating outside the regulatory framework. The case for allocating a portion of your portfolio to P2P lending remains compelling. It is a regulated, non-market-linked product that generates potentially high yields through a fundamental value addition rather than speculation.

That value addition is the disintermediation of the credit value chain. As a growing and inflationary economy, India structurally has high interest rates. Yet there exists a significant gap between deposit rates and the rates at which borrowers ultimately

access credit. This spread is often 10% or more, built up from lender margins, credit costs, and operational costs. For small loans, capital travels a long journey through multiple intermediaries: from savers to banks, through one or more NBFCs, and finally to the borrower. The disintermediation of this chain alone can account for approximately 8% or more of the yield advantage.

With P2P lending, individual investors can capture this value directly while managing risk through micro-diversification across a large number of borrowers. Both features are distinctive to this asset class and not easily replicated elsewhere.

05 Mis-selling has been a recurring theme across Indian financial products. What are the things a distributor absolutely must disclose to a client before onboarding them onto a P2P platform?

The responsibility of any distributor begins with educating the investor on how P2P lending actually works. Much of the mis-selling witnessed in the past can be attributed to distribution entities, both online and offline, operating from their own interpretations and scripts rather than from a grounded understanding of the product and its regulatory framework.

Following that foundational education, the distributor must ensure the investor clearly understands the risks involved, including the risk of borrower delay or default, the absence of guaranteed returns, and the illiquid nature of the investment. Only after this should the conversation turn to whether and how P2P lending fits into the investor's broader financial goals and risk profile. In short: educate first, disclose risks clearly, and then assess suitability, in that order.

Note: This is an edited excerpt from our interview with Neha Juneja

Closing Note

The investment thesis for P2P lending rests on a simple structural observation: banks capture a 5–10% spread on every personal loan they originate using depositor capital, yet the depositor earns less than half that spread and still bears residual risk above ₹5 lakh. P2P inverts this by placing the investor directly into the credit chain. India's post-2024 regulatory framework — with mandatory diversification across borrowers, escrow-protected capital flows, and the most detailed P2P governance directions any market has produced — has made this spread accessible to individual investors on terms that no other major P2P market currently offers. For advisors, the question is no longer whether the model works; the global evidence and the post-regulation Indian data both confirm that it does. The question is which platform, at what allocation size, and for which client profile.