MODULE 2 UNIT 4
Video 1 Transcript

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LAUREN COHEN: Great news, you've finally found the spot of your dreams for your honeymoon. So, you go into the bank, you talk to the bankers, so excited, explain this wonderful beach location, and unfortunately, they send you out with no money. But, all isn't lost because there's a new way that you can finance that honeymoon, and it's through peer-to-peer lending. Peer-to-peer lending is one big part of FinTech that's not only touched the retail space, but has now moved into small business lending and bond.

So, this disintermediation that's going on in this peer-to-peer market, both on the small firm and the consumer-lending side, where does that leave banks? Right, traditionally, if you wanted money, it was clear: You had to go to the bank – well, maybe go to your family first, but then you go straight to the bank, right. And now, essentially, people are bypassing these banks and going to different sources of capital.

CHRISTOPER MALLOY: And a question is: Are they bypassing them or are these loans that banks never would have wanted to make in the first place? In the sense that, is this sort of just splitting the surplus between banks and these new incumbents? Or is it really growing the pie? Is it a set of new loans and new opportunities that consumers never could have had, or businesses never could've had?

COHEN: Yeah, and it has very different implications for the future of banks, right? If these are just new loans, then maybe banks are totally cool with it. Because they say, "Okay, well we weren't going to lend these people the money for the speedboats or whatever else anyway, and so you guys can have it. Yeah, you online lenders, you guys can have this." But if they start eating into the borrowers that these banks would otherwise traditionally go after, then the banks start getting worried, right.

And so, you kind of need both sides of this transaction to understand what's going on here, right? And so if it's going to be the proper disintermediation of these banks, then the banks start to get worried and they start to grab for their piece too.

MALLOY: Exactly. Another interesting dynamic too is on the investor side, the people supplying this capital. You know, why are they attracted to this peer-to-peer lending space? Well, they're attracted of course because the rates are very high; but, at the same time, what are they worried about? They're worried about the falls being really high as well.

COHEN: Right. And they're worried about trusting that intermediary, right? So, they used to give Citibank their money and say, "Okay, yeah, Citibank, we trust you to lend this to the right person and then to return our capital with a little bit of interest on it." Now are they going to trust these lending clubs and these SoFis in the same way, pulling money out of Citibank and giving them their money.

MALLOY: Exactly, and on the consumer side too, will consumers trust— I mean, consumers love peer-to-peer lending and these platforms because they can go on and get a loan within 5 seconds—

COHEN: Right.

MALLOY: So, the ease of the transaction and the speed with which they can get financing is really incredible from the consumer's point of view.

COHEN: Yes, but, in even worse news to this financial industry, it's not just on the consumer side, right, because these have also now been integrated into small firm financing, right? And so, this thing which has traditionally been run by these venture capitalists, angels, and other sources of financing, have now been crept into by this peer-to-peer space as well.

MALLOY: Yes, exactly. Particularly the crowdfunding area where now, if I want to start a business, I can literally go online and put up some idea and then have people fund my business. I don't need to travel to Silicon Valley.

COHEN: Yes. Yeah, and in some ways it's very democratizing, right? Because now I don't need to convince these stuffy, tie-wearing guys who don't have any idea of what I'm going to actually fund. I don't need convince them of my great idea, I can go to the world, and now the world from day one can decide whether my idea is great or not.

MALLOY: Yeah. And again, the question is on that lending side, on that investor side— like if you were to go to one of these websites, do you really trust the person, at the end, the consumer that's putting up this crazy product that they're asking to fund?

COHEN: Right, and what's interesting is then from the financing side, from the venture capitalists, if they're driven out of business, can you really ever fund the cure for cancer, right? Or the next, let's say, innovation in efficient energies, can really fund that on a platform, right? Can we get billions of dollars on these platforms?

MALLOY: Agreed.

COHEN: And the answer is probably not.

MALLOY: Agreed. And these investors— well, the from the venture capital side, they will always say crowdfunding is not a problem because entrepreneurs, the next Uber, the next Google, they want the certification effect. They want to be able to say that they raised money in Silicon Valley. So, they're always claim they're not worried about this, because if I go and start a business and say, "Oh I raised it on crowdfunding.com," maybe the cache isn't quite there.

COHEN: Alright. Two big open questions, and when I say big, I mean gigantic. These could change the face of how we deal with banks today. First, we want you to wrestle with this idea of where banking will be in 10 years – but not only banking, where capital raising, money raising is going to be. So, you want to raise money for your honeymoon, for your speedboat, or for your small business, how are you going to do it? Will you even need to talk to a single person 10 years from now? And, if you don't, if it's all done on a platform, who's going to run the platform? Is it going to be the lending clubs or the Kickstarters of the world? Or will Citibank and chasers in HSBCs get a little bit nervous and come in and create those platforms that we're using?