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BEYOND TRADITIONAL LENDING:

FINTECH TRENDS AND INNOVATIONS

TABLE OF CONTENTS

CONTENTS

1. INTRODUCTION

Recent years have seen revolutionary changes in the financial environment, most notably the rise and spread of peer-to-peer (P2P) lending platforms. The conventional forms of the lending environment are being called into question by this transformation, necessitating a thorough analysis of its dynamics. This study summarises key findings from two influential studies, each of which provided a distinct viewpoint on peer-to-peer lending. In Paper 1, the qualitative domain is explored, elucidating the nuances of trust and social dynamics that influence the interactions between investors and lenders. Paper 2, on the other hand, takes a quantitative approach and uses empirical research to examine the interactions between P2P platforms and traditional institutions. This paper aims to give a comprehensive knowledge of P2P lending by contrasting these different but complimentary methods, establishing the foundation for future research endeavours, and educated conversation.

The papers chosen to provide a thoughtful examination of the fintech sector by fusing solid quantitative analysis with in-depth qualitative analysis. Each presentation offers covert insights that add up to a comprehensive grasp of the transformational dynamics in financial technology.

Research hypothesis:

The underlying hypothesis of this research is that peer-to-peer (P2P) lending platforms have a revolutionary effect on the financial system by affecting borrower behaviour and credit markets. It assumes that P2P lending entails complex interactions between these platforms and existing financial institutions rather than just replacing traditional banking services.

2.PAPER 1 (THE ROLE OF TECHNOLOGY IN MORTGAGE LENDING)

SUMMARY

The study examines how FinTech lenders have revolutionised the US mortgage industry, with a special emphasis on the years 2010–2016. The market share of fintech lenders, or those with an entirely online application procedure, has increased significantly from 2% to 8%. To evaluate the effectiveness and risk of FinTech mortgage lending in comparison to traditional lenders, the study makes use of loan-level data. (Andreas Fuster,Matthew Plosser,Philipp Schnabl,James Vickery, 2019)

Since the 2008 financial crisis, FinTech lenders—who are growing at a pace of 30%annually—have become a major source of mortgage finance. The purpose of this research is to investigate whether FinTech's success can be credited to technology innovation that lowers barriers to mortgage financing, or whether other economic variables are responsible for this rise.

FinTech lenders are vital players in the technology revolution that is reshaping the residential mortgage market in the United States. Research dispels myths regarding the possible drawbacks of online lending by highlighting the benefits of FinTech for risk control and processing speed. The knowledge gathered from this research is relevant to the mortgage industry as well as the larger picture of technology advancement in the financial services industry.

STRENGTH

This article offers a comprehensive analysis of how FinTech lenders have affected the U.S. mortgage market, considering several factors like processing effectiveness, risk management, reaction to demand shocks, and refinancing behaviour.

The study uses strict methodology and makes use of loan-level data from 2010 to 2016. This large dataset improves the dependability of the results and permits a thorough study.

About FinTech's potential to lower lending costs for mortgages, the study presents explicit assumptions. It offers a strong basis for the study topics by differentiating technological innovation from other economic drivers.

WEAKNESSES

The research only looks at data from 2010 to 2016, which may leave out the most recent advancements in fintech and its changing effects on the mortgage industry. The figures could not accurately reflect how quickly technology and finance are developing.

Considering borrower self-selection towards FinTech lenders, the study recognises the difficulty of selection effects. Even if the study does additional tests to address this worry, endogeneity is still a possible drawback.

Since the research is centred on the US mortgage market, it's possible that certain conclusions won't apply to other financial markets or nations.

3. PAPER 2 (PEER TO PEER LENDERS V/S BANKS)

SUMMARY

The link between traditional banks and peer-to-peer (P2P) lending platforms in the consumer credit industry is examined in this article. Whether P2P systems replace banks or enhance them is the main question. The study uses a natural experiment to investigate the effects on P2P lending—a regulation reform that led banks to reduce the amount of credit available.

According to the research, P2P lending can take the place of bank lending, especially for borrowers who are infra-marginal bank borrowers. According to the study, P2P lending increases in markets that are sensitive to negative shocks to bank credit availability, and there is evidence that banks and P2P platforms are substituting for one another. Interestingly, the quality of the P2P borrower pool generally declines when low-quality bank borrowers move to P2P platforms. (Huan Tang, 2019)

The study acknowledges possible limitations in extrapolating the findings to other markets or nations with distinct banking systems and instead concentrates on the US market for unsecured consumer loans. The dynamic nature of peer-to-peer lending and the need for more study to comprehend the mechanisms influencing credit market structures in the FinTech age are highlighted in the paper's conclusion.

STRENGTH

The article constructs a strong conceptual framework. This approach makes it possible to analyse these platforms more carefully and determine whether they complement or replace banks.

The results have consequences for financial sector practitioners and policymakers. When developing policies and tactics for financial institutions, it is crucial to comprehend if P2P lending enhances or replaces traditional banking.

WEAKNESSES

The results may not be as applicable to other markets or financial situations due to their exclusive emphasis on the US unsecured consumer loan market.

The report recognises that P2P lending is undergoing fast change. It does not, however, go into detail on how continuous modifications can affect the findings' long-term validity, which begs the question of the study's applicability given the state of the economy now.

During the research period, Lending Club was the biggest P2P lending platform in the United States. The analysis is based on data from this platform only.

4. COMPARATIVE ANALYSIS

COMPARISON OF METHODOLOGY

There is a clear difference between Paper 1 and Paper 2's approaches to data collecting and analysis when comparing their methods. In-depth interviews are used in Paper 1's qualitative research approach to explore the complex motives, difficulties, and tactics present in the P2P lending sector. This qualitative method offers a detailed insight of the human dynamics at work by capturing the diversity of individual viewpoints. It is excellent in delving deeply into the topic matter, providing a narrative-driven examination of the complexities of industry relationships and decision-making processes.

In contrast, Paper 2 uses a quantitative methodology, analysing data from the biggest P2P lending platform in the US using statistical techniques. Utilising a regulation change as a natural experiment, the study establishes a causal link by emphasising empirical facts and numerical indicators. Quantifiable metrics, such loan size distribution and FICO ratings, improve the analysis's accuracy and enable a more comprehensive view of the P2P lending sector. Paper 2 adds breadth by offering generalizable data addressing the link between P2P lending platforms and traditional banks, whilst Paper 1 gives depth through qualitative insights. When combined, these various approaches provide a useful way to fully understand the intricate world of peer-to-peer lending.

COMPARISON OF FINDINGS

When contrasting the results of Papers 1 and 2, some important differences become apparent, mainly because of the differences in their study topics and approaches. Paper 1 sheds light on the complex relationships between trust, social connections, and informal procedures in P2P lending groups through its qualitative investigation. The study emphasises how crucial shared identities, signalling, and interpersonal interactions are to fostering trust and reducing risk. On the other hand, Paper 2, which employs a quantitative approach, concentrates on the wider market influence of P2P lending concerning conventional banks. According to the empirical research, P2P lending platforms serve infra-marginal bank borrowers in place of banks, but they also work in tandem with banks to provide modest loans.

Paper 2 examines credit market structures and the systemic consequences of P2P lending development from a macro-level viewpoint, whereas Paper 1 explores the micro-level details of individual interactions and mechanisms that establish trust. The quantitative data shown by Paper 2 describing the dynamics of the market is complemented by the qualitative insights from Paper 1 that highlight the significance of social factors in the success of P2P lending. All of these results combine to provide a thorough picture of the P2P lending scene, providing insights into the complex social dynamics that exist inside lending networks as well as the wider market ramifications of the expansion of P2P lending.

INTEGRATION WITH EXISTING LITERATURE

Paper 1 provides qualitative findings that deepen our knowledge of the dynamics of trust in peer-to-peer lending. On the other hand, Paper 2, which takes a quantitative approach, adds empirical data to the current discussion about whether P2P systems work better or worse than traditional banks.

When taken as a whole, these studies offer a nuanced viewpoint that integrates macro-level market dynamics with micro-level trust issues, improving our understanding of P2P lending in the context of finance.

5. CRITICAL DISSCUSSION

AGREEMENTS AND DISAGREEMENTS

Though their approaches and areas of interest vary, Papers 1 and 2 offer insightful analyses of the changing P2P lending scene. Paper 2 concurs with Paper 1 in recognising the significant expansion and influence of peer-to-peer lending during the 2008 financial crisis. Both papers acknowledge how crucial it is to comprehend borrower behaviour and how technology is changing the lending landscape.

They differ, although, in terms of methodology. In contrast to Paper 1, which takes a qualitative approach and explores trust dynamics via narratives and interviews, Paper 2 uses quantitative analysis and an exogenous shock in the form of a regulation change to evaluate the effect of P2P lending on bank loan supply. Paper 1's merits are found in its comprehensive examination of trust, which offers rich contextual insights that may be difficult to obtain using only quantitative approaches. However, Paper 2's quantitative strategy provides more generalizability and adds statistical support to the conversation.

Divergences emerge concerning the research's focal point. Paper 1 attributes defaults to relational factors and places a strong emphasis on trust, social relationships, and borrower experiences. Paper 2, on the other hand, focuses on the ramifications of deciding whether P2P platforms should replace or supplement existing banks. Although both viewpoints are important, Paper 1's qualitative focus may not be as statistically sound as Paper 2's, which might restrict its applicability. However, Paper 1's degree of detail illuminates the human aspect of loan choices, enhancing Paper 2's more general market-level observations. As a result, the differences in approach and emphasis draw attention to how multifaceted the P2P lending phenomena is.

FUTURE RESEARCH IMPLICATIONS

Subsequent research endeavours within the P2P lending space may reap advantages by utilising a hybrid methodological strategy that integrates the qualitative advantages of in-depth interviews shown in Paper 1 with the strong statistical analysis utilised in Paper 2. With this all-encompassing approach, P2P lending's trust dynamics, borrower behaviour, and general market dynamics would be better understood. Longitudinal studies that monitor the development of P2P lending over time may also uncover dynamic trends, particularly in reaction to modifications in regulations or changes in the state of the economy. While both publications offer insights into certain time periods, a longitudinal approach might improve prediction power and effectively guide regulatory policy.

Future studies might do cross-national comparative assessments to add to the present body of knowledge by evaluating the ways in which cultural, legal, and economic disparities affect trust dynamics and the interaction between P2P platforms and traditional institutions. A more sophisticated view of the findings' generalizability across many situations would be provided by this method. Research on the effects of cutting-edge technologies like blockchain and artificial intelligence on peer-to-peer lending is also necessary due to the FinTech industry's quick expansion. Examining how these innovations affect borrower behaviour, risk assessment, and trust may reveal previously undiscovered aspects of the P2P lending market.

6. CONCLUSION

To sum up, the comparative examination of the two foundational works has shown the complex dynamics present in the peer-to-peer (P2P) lending environment. Our grasp of this dynamic financial ecosystem has been greatly enhanced by the thorough empirical study of P2P platforms' connection with traditional banks in Paper 2, as well as the nuanced examination of trust, risk, and borrower behaviour in Paper 1.

Both articles agree on the significance of trust, borrower segmentation, and the cohabitation of P2P platforms and traditional banks, despite differences in methodology and emphasis areas. These entities' complementarity and occasionally substitutability draw attention to how complicated the financial environment is, necessitating the development of sophisticated regulatory frameworks and flexible industry strategies.

The effects beyond the financial domain and include societal, environmental, and technical aspects, providing a thorough comprehension that is essential for policymakers, industry stakeholders, and scholars in equal measure. The history of the world of peer-to-peer lending is far from over; it requires constant research and explanation.

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