Pre-Class Discovery Handout: P2P Lending Business Models

Activity 1: Business Model Canvas Detective

Scenario: Pick ONE marketplace lender you know about — LendingClub, Funding Circle, Prosper, Mintos, Auxmoney, or another P2P platform you have read about. Fill in the Business Model Canvas below by investigating how that platform actually works. Focus on how the platform creates value by matching two sides of a market, not on marketing claims.

Canvas Element	Your Analysis
Value Proposition *What friction does this platform remove for each side?*	
Customer Segments *Who are the borrowers? Who are the investors?*	
Channels *How does it reach both sides without branches?*	
Revenue Streams *Placement fee, servicing fee, interest spread? (type only)*	
Key Resources *Technology, licence, data, or balance-sheet capital?*	

Q1: What friction does the platform remove for the borrower? What friction does it remove for the investor?

Q2: Has the platform begun warehousing loans on its own books? If so, what new Key Resources did it need to acquire?

Q3: If this platform disappeared tomorrow, what would users lose that a traditional bank cannot replace?

Activity 2: Unbundling Map

Scenario: Traditional banks bundle origination, underwriting, funding, servicing, and risk management under one roof. Marketplace lenders attack individual links. Match each platform to the banking link it unbundled, then answer the questions below.

Platform		Banking Activity Unbundled
LendingClub	____	Retail-investor access to unsecured consumer loans
Funding Circle	____	Small-business term lending without a branch relationship
Prosper	____	Matching individual borrowers to individual retail investors
Mintos	____	Cross-jurisdiction exposure to external loan originators
Auxmoney	____	Thin-file underwriting where the public bureau is shallow

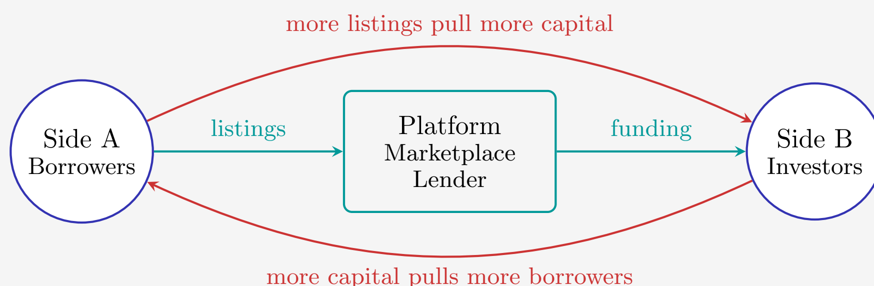
Q1: For each pair, describe in one sentence what friction the platform removes and who benefits most.

Q2: Which of these platforms has started rebundling toward balance-sheet activities? What did it add?

Q3: Why might a platform that starts as a pure matching engine eventually end up holding loans itself?

Activity 3: The Platform Puzzle

Scenario: A marketplace lender connects two sides of a market — borrowers seeking credit and investors seeking yield. Neither side finds the platform useful without the other.



Q1: Why does a platform with more committed investor capital attract more borrowers (and vice versa)?

Q2: The "chicken-and-egg problem": which side should the platform attract first — borrowers or investors — and why?

Q3: Once the platform reaches critical mass, what prevents a new entrant from copying the same business model?

Solutions

Activity 1: Business Model Canvas Detective

A1: **Model answer for LendingClub:** For the borrower, the friction removed is access to unsecured consumer credit priced off a soft-pull score rather than a branch relationship — the process is entirely digital and the offer arrives in minutes. For the investor, the friction removed is access to an asset class (personal-loan cash flows) that retail investors historically could not buy in fractional form.

A2: LendingClub pursued a banking licence and now warehouses a share of originations on its own books, which required new Key Resources: a bank charter, a capital cushion, a treasury function, and a compliance organisation sized for a regulated depository institution rather than an exchange.

A3: Users would lose the fractional-exposure product (for investors) and the score-based digital offer (for borrowers). A traditional bank typically cannot match the speed-to-offer on the borrower side or the fractional-exposure product on the investor side; the closest substitutes are much slower or much less granular.

Canvas elements (LendingClub):

- **Value Proposition:** Match retail demand for yield with retail demand for credit through a digital-first scoring and servicing pipeline.
- **Customer Segments:** Primary — near-prime and prime consumer borrowers; retail investors seeking yield. Secondary — institutional asset managers buying whole loans.
- **Channels:** App and web intake funnels, partner comparison sites, and institutional desks for whole-loan placement.
- **Revenue Streams:** Origination placement fees (type), servicing fees, and — after rebundling — net-interest income on warehoused loans.
- **Key Resources:** Scoring and fraud-detection platform, banking licence (after rebundling), capital cushion, compliance function, investor base.

Activity 2: Unbundling Map

A1: LendingClub → Retail-investor access to consumer-loan cash flows (removes the institutional-only gatekeeping that previously locked retail out of that asset class). Funding Circle → SME term lending without a branch relationship (removes the branch-based relationship-officer bottleneck). Prosper → Individual-to-individual matching (removes the bank's spread between depositor yield and borrower rate). Mintos → Cross-jurisdiction exposure to external originators (removes the single-country constraint on retail credit exposure). Auxmoney → Thin-file underwriting where the public bureau is shallow (removes the exclusion of applicants the bureau simply cannot score).

A2: LendingClub pursued a banking licence and now warehouses loans on its own balance sheet. Funding Circle added structured whole-loan channels and government-guaranteed programmes. Prosper has moved origination capacity onto its own books. These are all rebundling toward the balance-sheet side, rather than rebundling toward new product categories.

A3: A pure matching engine faces arrival-rate mismatch: borrower demand is steady while investor supply is sporadic. The platform warehouses loans to bridge the gap; each bridge becomes a balance-sheet item. Brand risk is asymmetric (an unfunded listing embarrasses the platform long before it embarrasses the investor), which pushes the platform toward own-book backstops. Cumulative small decisions produce the creep.

Activity 3: The Platform Puzzle

A1: This is a **cross-side network effect** applied to credit: more committed investor capital shortens time-to-fund on borrower listings, which attracts more borrowers; more borrowers deepen the investor pool by giving each investor more diversified choices. Each side's growth reinforces the other's.

A2: Most successful marketplace lenders attract the **borrower side** first — typically through credit-comparison funnels and digital prequalification — because investor capital is easier to bring in once there is loan supply to buy. The logic is symmetrical to a payment platform but inverted: supply-side liquidity (loan listings) is the scarce good because investors will not commit capital to an empty listings board.

A3: Once critical mass is reached, the platform enjoys a **data moat** on top of the network moat: years of repayment data let it price risk better than a new entrant. A new entrant would need to attract both sides from zero and simultaneously lack the historical data needed to underwrite competitively. The combination creates a structural moat that pure software cannot replicate overnight.

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