Peer-To-Peer Lending, Friend or Foe? By Steve Nikatas

Loan growth is paramount for nearly every financial institution.

To help accomplish that objective, banks target younger consumers whose need for credit products is more pronounced than older Americans. Certainly, this is a daunting task. Making it even more difficult, financial institutions are facing increased competition from peer-to-peer (P2P) lenders, including start-ups known as FinTechs.

The P2P space currently comprises a small slice of the credit market today (just $12 billion in originated loans in 2015), but it is expected that more than $150 billion will be disbursed by 2025. You know who these P2P lenders are: Funding Circle®, Kabbage®, Prosper®, and Lending Club, to name a few.

If banks are ignoring these alternative lending services, they better start thinking twice.

Many of the P2P lenders are much faster on their feet than banks and credit unions. They have the wherewithal to strengthen their technologies to deliver an enticing and cost satisfying experience for consumers.

And, as financial institutions continually struggle to come up with ways to attract Millennials, P2P lenders are a step ahead via their expertise in providing access this particular age demographic finds most appealing.

Maybe – just maybe – banks and credit unions ought to pony up with these P2P lenders and serve as their funding resource. Why spend your time and energy trying to create a new wheel when it already exists and others are continually refining it?

Financial institutions can use the P2P channel to fund low-balance loans (personal and auto loans, for instance) and focus on reaching out to account holders in need of larger balances for home purchases, repairs or refinances.

Or, for another example, banks could focus their efforts on serving as a resource for P2P lenders that concentrate on the healthcare market. Health insurance premiums continue to climb while deductibles go through the roof. Today, as many as 30 percent of Americans have deductibles of at least five percent of their income. Affording health care has certainly become a tough nut to crack for consumers. Partnering with a P2P lender may be a way for banks and credit unions to address this opportunity.

These are just a couple of the opportunities that exist for financial institutions to partner with P2P lenders. They’re worth considering for banks and credit unions that want to grow their loan portfolios.
To learn about more loan growth opportunities via Harland Clarke, check out the webcast, “What’s Best and What’s Next for Growing Consumer Loans.”

Steve Nikitas joined Harland Clarke in October 2010 and has more than 30 years experience in strategic planning, marketing, public relations and executive speechwriting. He has been a senior executive at financial institutions in New York, California and Massachusetts, developing and implementing sales and marketing programs that resulted in significant growth rates in loans, deposits and accounts.

As senior strategist with Harland Clarke Marketing Services, Steve provides consultative services to banks and credit unions, helping them craft marketing and retail strategies and campaigns to take advantage of existing market and financial conditions and to grow targeted portfolios.