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An analysis of European online micro-lending websites

Abstract

With the development of web 2.0, a new kind of lending is taking place on the internet, termed peer to peer lending or social lending. In Europe, this includes commercial lending websites such as Zopa, smava, boober, Kokos and Monetto. At the same time, following the lead of Kiva in the US, European microcredit web platforms are coming up including MyC4 and Babyloan in Europe. The paper examines how the legal design of the online websites differs from the microcredit websites in Europe and how this impacts social performance issues of the different models.

Since the population size of these websites is rather small, we use a comparative case study approach. The case study approach is the most adapted to studying small samples in more detail. The case studies are based on exploring of websites and review of academic literature and press reports.

We find that although web2.0 permits platform models, most sites (commercial or micro-lending) have retained intermediary roles and have not permitted direct peer-to-peer contact. The paper will outline the advantages to both borrowers and lenders in the different models and their motivations. Challenges for expansion, such as trust-building as well as a marketing analysis will also be presented.

The findings would lead microfinance institutions to lobby for specific laws, and invest in online lending solutions to radically reduce operating costs as well as to increase outreach.

This research would add value to those who are operating in or launching new online microcredit platforms to understand this young and fast changing marketplace.

Keywords: online lending, regulation, social performance, microfinance.

Introduction

Since the early 1970s, Microfinance is growing at 30% per annum, but the vast majority of the poor are still underserved. Moreover, most of them are being served at interest rates significantly over commercial lending rates, owing to small loan sizes leading to high transaction costs. The CGAP (Rosenberg et al., 2009) reports that operating costs are probably the main area to further reduce microfinance costs.

In addition to reducing operating costs, financing costs can and are being reduced owing to the reduction of spreads possible through peer-to-peer (P2P) online lending. In addition, online lending offers an increased outreach to people living in isolated rural areas. This increased outreach would further reduce both transaction costs from economies of scale and financing costs through larger loan negotiations.

This paper looks at this relatively new phenomenon of online micro-lending which targets both needy entrepreneurs and individuals looking for small financial solutions to their liquidity problems.

Kiva, an American company, started an online micro-lending model in 2005 to target mainly the needy entrepreneurs in the developing countries. This too was duplicated, with variations and adaptations by many operators. In Europe, we find

MyC4 and Babyloan. However, models are mushrooming all over the world, with a number of them in India alone.

Although traditional microfinance has developed in poor countries, today many developed countries are also using the system with adaptations based on local cultural differences. The online lending movement started in March 2005 with a European firm called Zopa, UK. Since then Zopa has gone to the U.S., Italy and Japan. Its model, with variations, has also been copied and adapted by many other competitors. Today, there are more than a dozen for-profit commercial operators in the online Peer-to-peer lending market. In Europe these include operators such as Zopa, smava, boober, Kokos, and Monetto.

In poorer countries, online micro-lending may have a more difficult future since most poor people are illiterate and do not have access to Internet via a computer. In such countries, mobile banking is considered the best solution. In India, for example, 37 million people have access to a computer but 370 million people would have access to a mobile telephone. In fact, the number of mobile connections outstrips landlines. Therefore, outreach of mobile banking has greater potential than that of online microfinance. As opposed to this, in developed countries, access to computers is far greater and using a computer to make financial transactions is far more comfortable than pressing small buttons on a telephone. Therefore, the future of online lending is probably more important than

that of mobile banking in the developed world, especially European, context. Perhaps the two will converge as satellite connections permit mobile web based access to computers.

The paper reviews the leading issues with the most significant impacts on the entrepreneurial business of peer-to-peer (P2P) micro-lending on the Internet. Accordingly, we will first study the legal environment of the sector and de facto forms of intermediation adopted by both commercial lending sites and micro-lending websites in Europe. Secondly, we will comment on social performance issues of the different models as this business is essentially a matter of interactions and relations between individuals, not only for giving and getting loans, but also for marketing and promoting them. Because trust is a critical issue in a sector whose mission is to promote transactions between individual strangers, we will devote the third section of this paper to the strategies used to enhance trust and overcome information asymmetry related issues. We will finally proceed to a comparative analysis of the marketing strategies of the sample's members to provide insights for entrepreneurs who may consider to launch or to modify their strategies in the field.

Table 1. Sample's members: P2P and social micro-lending websites and launch dates

	2005	2006	2007	2008	2009
U.K.	Zopa March				
U.S.A.	Kiva November				
Germany			Smava February		
Netherlands			Boober February		
Denmark			MyC4 May		
Italy			Boober November		
Poland				Kokos February	
Poland				Monetto March	
France					BabyLoan January

A case study approach, through review of academic literature and press reports, is adopted to explore European websites. Some non-European examples are presented when the model adopted is notably different. In our sample represented in Table 1, Boober, aimed initially to build a European network through Netherlands, Italy, Belgium, Germany and Spain. Boober in the Netherlands has apparently ceased operations, while Boober in Italy, a joint venture between Centax and Boober International, is currently operating. Since the size of our sample is

rather small, we use a comparative case study approach which is the most adapted to studying small samples in more detail.

This paper is addressed to practitioners who are considering adopting online lending solutions to reduce financial costs, to increase funding sources, to reduce transaction costs and get economies of scale through this process.

1. Legal design of the different websites

As explained in the introduction, there are two major kinds of online lending websites: commercial and microfinance. There are others which are slightly different, such as MicroPlace which is actually a broker for security issuers lending to Microfinance Institutions. However, we will not go into this for the limited purpose of this paper.

1.1. Legal forms of commercial online lending.

The legal form of all the commercial lending websites are for-profit companies. This is brought out in Table 2. They all use auction mechanisms to ensure that borrowers and lenders get the best rates based on market competition. Zopa was the first one in 2005. It took two years for others in Europe to enter the market¹, indicating that even in highly visible high technology sectors like internet, there is a time lag between innovation and competition coming in.

A prominent quirk is that these are all essentially domestic operations. When Zopa wants to enter a new market, such as Italy, it starts a new company. This is done essentially because legal regulations including contract laws in different countries are complicated enough and private international law rules are unclear in cross-border litigations, thus increasing risk significantly.

Although US Aid considers these direct P2P lending sites, our detailed examination of the cash flow movement indicates that cash does not move from lender to borrower for loans and vice versa for repayments. Indeed, each of these players is an intermediary, taking a commission for its operations.

The only exception to this intermediary role that we have found so far is the US based Virgin Money. Virgin Money took over what used to be called Circle Lending. This site is essentially the only facilitator that we have found which permits direct movement of funds between borrowers and lenders. This is because the borrowers and lenders already know each other before coming to Virgin Money. They come to Virgin Money's platform only to obtain legal documentation and to build credit histories of loan repayments.

¹ Donjoy in Korea and Propser in the US entered in 2005 and 2006 respectively, but we are looking only at Europe.

1.2. Legal forms of microcredit online lending.

There are a number of differences between Commercial online lending and microfinance online lending, as embodied by the US based Kiva, probably the only well-known model.

The first and most obvious difference is that as opposed to the for-profit commercial online lending, Kiva introduced a not-for-profit model for microfinance online lending.

The second difference is that Kiva operated as an international operator, transferring funds from US based individuals to the rest of the world. Obviously, this introduced asymmetric information based issues relating to trust which are greater in international capital movements than in domestic movements, because legal and cultural institutions differ.

This led to a third difference: Kiva added a second intermediary in the supply chain of funds from the US based lender to the poor borrower in the developing country. This intermediary was the local Microfinance Institution (MFI). It is expected that the local MFI has more information on the local borrower and this would overcome barriers to trust. Moreover, as opposed to borrowers in developed countries, ultimate borrowers in developing countries do not have a computer. As a result, they need a local bank who would receive the money for them. If they do not have access to a bank, this function needs to be performed by a local MFI.

To overcome domestic legislation on protecting small savings, Kiva informs its borrowers that the loans are interest free in any case, but it's better than giving outright donations because interest free loans come back and can be reutilized for giving loans again to other needy borrowers. It also presents to the borrower that its loans are interest free loans to MFIs, but that MFIs would normally charge interest to their ultimate borrowers to meet their own operating costs. Thus, a fourth difference in the Kiva model is that lenders are not motivated by commercial profits.

Since the loans are interest-free, Kiva does not require an auction mechanism and this is a fifth difference between Kiva and the commercial online lenders.

European microfinance lending institutions have followed some features of the Kiva model and have ignored other features.

As indicated in Table 2, both MyC4 and Babyloan, the two European Microfinance lending institutions we are studying are for-profit institutions set up as companies. Thus, they are not looking for donations, but are looking at a sustainable model of online

microfinance lending. In this they follow the same principles as other models such as MicroPlace or Investors Without Borders in the US and Dhanax and GlobeFunder in India. The only other non-profit models we have found are Rangle in India and Wokai in China.

Table 2. Legal design typology of online social micro-lending websites in Europe

		Legal status	
		Non-profit	For profit
Geographic coverage	International		BabyLoan, MyC4 (Sub-Saharan Africa), Smava (Germany)
	National	Kiva	Boober (Netherlands, Italy), Kokos (Poland), Monetto (Poland), Zopa (UK, Japan, Italy)

Again, we note that there was a two-year gap in following the first-mover, indicating that the first-mover advantage is again two years.

The second observation is that they are all following the Kiva lead by using local intermediaries to help screen the ultimate borrowers and to help in collecting repayments.

One legal problem is that while France has allowed Babyloan to provide French savers money to MFIs and borrowers in other countries, it has not allowed ADIE, a domestic French MFI to collect small savings to onlend to French borrowers. Thus, it is clear that French laws are providing protection from competition to French banks and they don't really care whether individual French savers/lenders are provided with protection.

2. Social impact

The comparative analysis of social impact of commercial online lending models and that of microfinance online lending models has shown similarities and differences. Before discussing these social impacts, a brief reminder of microfinance definitions may be in order.

A narrow definition of Microfinance is that of productive loans of small amounts to poor people. Thus, this includes only business loans to help them improve their businesses, leading to higher income out of poverty. A wider, intermediate definition, now gaining ground in European countries is that of social microfinance, which includes loans given to poor people for housing, cars, education or anything which would permit the poor person to increase his productivity. Finally, we have the widest definition which includes consumption loans, recognizing that money is fungible and that if a person takes loans for any purpose, his welfare is increasing.

If the last definition is accepted, any loan to anybody has a positive impact. If it is traded through a market mechanism such as auctions, evidently, the positive impact is on both the borrower and the lender who makes a profit. Since Marginal Utility is positive for both parties, ethical questions can be ignored to some extent as this is the basis of social exchange. Therefore, all commercial online lending sites involve gains both for lenders and borrowers: otherwise they would not participate.

In fact, participation of lenders has increased to include small savers since there is practically no minimum lending amount: some sites allow even USD 25. These small savers, therefore, no longer need to go to banks and get low interest on deposits or no interest on their checking accounts. Of course, to some extent risk increases, but the high interest rate ensures that the Reward to Risk ratio remains within the acceptable zone for the lender.

Similarly, participation of borrowers, who may not have got loans from banks, has also gone up because the lower transaction costs imply that they pay lower interest rates on loans they take. Therefore, people have benefited more than going to banks.

The social impact of loans from Microfinance online lending includes all the above advantages as far as inclusive finance aspects are concerned. People who could not participate as lenders or borrowers owing to small sizes can now do so. However, we would expect that financial advantages are now skewed in favor of borrowers who get loans at lower interest than they would from a bank or even a brick-and-mortar MFI. However, research results indicate that in reality this is not true. The only significant experience is with Kiva. It is found that the second intermediary, the local MFI has new transaction costs with this type of financing, which are the costs of writing and uploading biographies of poor people onto websites. These costs compensate for the interest free loans that they get from Kiva. As a result, no extra lowering of interest cost goes to the borrower. The social surplus lost by the Kiva lender (who lends interest free) is captured by the MFI or the people who are free lance writers. Therefore, to some extent, employment may go up in a poor country.

MyC4 also indicates that it is financing smaller SMEs who are just beyond the Microfinance limits. These small SMEs have no alternative source of financing. Thus, MyC4 manages to include them too.

The social impact of online Microfinance has also helped growing awareness of the needs and the rights of poor people to financing. This needs to be captured, at some stage, by brick-and-mortar MFIs

who could then accompany the entrepreneurs in a more human way than a website.

3. Trust building: three sources of trust in transactions

The review of the etymological roots and the related literature supports that three different factors, or a combination of them, explain the making of trust: personality of the one who trusts, competence and reputation of the one who inspires trust and, finally, the governance of a legal, auto-regulated or cultural third party that enforces trust.

Specific disciplines tend to privilege some of this trilogy's elements. Psychological literature stresses rather on the personality of trustor. Marketing puts emphasis on the competence and reputation of the trustee, a brand, for example. Legal and economic theories consider that trust can be built through the governance of complementary third parties, which regulate the relations between the agents of exchange and conduct them to respect their promises and engagements.

The above tripartite typology corresponds approximately to typologies suggested by different authors. Zucker (1986) identifies personal characteristics, institutions and the process of relationships as sources of trust. McKnight and Chervany (2000) underlie three dimensions that lead to trust and the willingness to depend on the others: a person's *disposition to trust*, *institution* which provide the needed conditions for a successful outcome in an effort, and the other party with reliable traits such as competence, benevolence, integrity, and predictability. Adler has also distinguished tripartite sources of trust: familiarity through repeated interaction, assessment of vulnerability and trustworthy values and norms (Adler, 2001). For a comprehensive review of literature on sources of trust, one should refer to Assadi and Oleysker (2006) who adhere also to the same trilogy of sources of trust.

We will also adopt the tripartite model of trust sources for analyzing the generators of trust on the different peer-to-peer lending websites. However, the first source of trust, personality of trustor, will not be included here because investigation on personality requires personal interview of lenders and borrowers which goes beyond the cadre of our observational method of case studies.

3.1. Trustee as the source of trust. Trust can emerge from a perception of partner's competence, dedication, benevolence, honesty, available means, absence or limitation of opportunism and resistance to outside shocks. The counterpart is believed to behave in accordance with prior commitments and

avoidance to take excessive advantage of an exchange partner even if the opportunity manifests.

Here, trust has a cognitive basis: knowledge, impression or inference that the partner has the ability and intention to perform according to expectations, and to refrain from opportunistic behavior. However, one might ask how does the trusting party finds out that his/her counterpart is worth trusting? The answer is: the trustor comes across the other party's trustworthiness, either directly through relational experience, or indirectly via reputation, as a consumer may find out about a brand's competence through direct usage or word-of-mouth communication.

Trust acquired by relations is seldom spontaneous. It is often progressive, adaptive and evolves in a slow process, starting with minor transactions in which little trust is required because little risk is involved and in which partners can prove their trustworthiness, and consequently expand their relation and engage in major transactions (Shapiro, 1987). As the relationship develops, knowledge about the other party fosters the predictability.

"Relational signaling" (Lindenberg, 2000), a special type of relational experience, means the observation of actions and expressions, aimed not only at the observer, but also at others, as when the latter can infer something from the way a partner treats his colleagues and employees. Due to a lack of direct relational experience, one might rely mainly on the other party's reputation, originating from experiences and judgments issued by informal sources such as peers and friends. The role of reputation to engender trust is noticeably emphasized in marketing (Doney and Cannon, 1997) as well as in economics (Williamson, 1991). If a customer perceives that other people think that a brand is fair, just, and good, s/he may trust the brand enough to purchase it (Anderson and Weitz, 1992).

Reputations emerge as a result of social network effects, when information on an actor's behavior in one relation spreads to others via an information network (Granovetter, 1985). It is this social or collective nature that gives reputations the power to reduce uncertainty and serve as a means to engender trust. Electronic markets with their particular network characteristic can be seen as important facilitators for the diffusion of reputation (Einwiller and Will, 2001).

For a social lending website to be trusted by both lenders and borrowers, satisfaction and excitement of individuals who have used the site (relation-based trust), and who subsequently share the idea with others (reputation-based trust) are important. Word of mouth and popularity are exceedingly important

for attracting peers and convincing them to proceed to transactions. Once trusted, a P2P website investors consider repayment behavior, reputation, relational signaling, along with borrowers' projects. MFI or field partners do the same.

3.2. Third Party Institutions as a source of trust.

Even if there are many relationships in which trust is grounded in mutual assessments, there are many others in which the trusted person does not honor his promises. The possibility of opportunistic behavior, defined as self interest seeking with guile and incomplete or distorted disclosure of information with calculated efforts to mislead, disfigure, disguise or obfuscate (Williamson, 1985), creates a major source of uncertainty about a partner's trustworthiness and consequently raises the transaction costs actors on monitoring others parties' behavior (Williamson, 1975). In addition to the risk of partners' opportunism, people do not have ongoing relationships in a complex society to judge others' trustworthiness. Strangers or people who encounter each other infrequently need to be assured more for cooperation than people who interact frequently and repeatedly.

In the case of trust deficiency, and when people do not know each other enough, they may look for the third institutional parties to sponsor trust through coercion by rules and sanctioning the partners who do not live up to their promises. The third parties as sponsors or enforcing agents of trust can emerge from cultural, politico-legal or non-governmental organizations.

Compliance with cultural norms of honesty and non-maleficence is secured by arranging incentives for observing obligations and the threat of exclusion or non-inclusion (Kandori, 1992). For example, on Smava.de group belongingness, in addition to conventional criteria, is considered as an important element for having access to loans.

Trust can also be created between parties thanks to reliable and safeguarding politico-legal systems which support and enforce contracts (Lyons and Mehta, 1997). For example, to become a Kiva's "Field Partner", the postulating microfinance institution must currently serve at least 1,000 active microfinance borrowers, have a history of at least 2-3 years of lending to poor and/or vulnerable people for the purpose of alleviating poverty or reducing vulnerability, be registered as a legal entity in its country of operation and be able to show at least one year of financial audits and preferably be registered on the MIX Market (www.mixmarket.org).

Agents might also rely on a third party agency to verify the credentials of their partners. Third-party endorsements and expert endorsements (Dean &

Biswas, 2001) can possibly change opinions (McGinnies & Ward, 1980) and influence purchase intentions (Ohanian, 1991). For example, the Polish websites in our sample, Kokos and Monetto, verify not only borrowers' profiles through confirmed bank personal data, ID and income statement evidence along with telephone proof; but also consult all different third party certifiers such as credit bureaus (BIG), debtors' registry (KDR), and Infomonitor which is an economic information bureau. They also have agreements with collection companies and provide loan insurance options as well (Owczarek et al., 2008).

4. Marketing analysis of the European micro-lending peer-to-peer websites

Enterprises achieve, knowingly or not, their marketing and commercial goals through a combination of four elements of the marketing-mix, namely product, price, place and promotion. In the following we comparatively analyze how the members of our sample apply their marketing strategies.

4.1. Product policy analysis of online P2P lending websites in Europe. A *product* is "anything that is offered to a market to satisfy a want or need" (Kotler, 1997). Correlatively, in a market of financial services, the motivating reason for buying a product resides in its benefit solving a user's need or want, and provides value (Ledgerwood and White, 2006). Micro-lending as a product is a small loan offered to a person outside of the conventional banking and financial sector. The benefits of these loans are higher returns for lenders and the ability to obtain loans for borrowers.

The Internet increases benefits in many ways to its users: convenience, personalization, and most importantly, knowledge enabling consumers to shop by comparison and competition (Frost and Strauss, 2001).

There is a sustainable relationship between the customer value hierarchy and the economic status of countries. Currently, most customer-value in developed countries such as in Europe resides in the product-plus services level, while in developing countries it is mostly based on the basic expected benefit of the product. These differences in the focus of product marketing levels have been influential in the development of micro-lending in both developed and less developed countries. Simply obtaining the loan is almost all that is expected of the micro-lending companies in underdeveloped countries, not much online convenience services.

In Europe, the competition between online P2P lending websites is considerably based on the support services. Customer support can actually be

one of the main reasons a consumer chooses one online firm over another, especially when the product is sophisticated and confusing, a good quality firm will have customer support services that are easily accessible, available continuously, and facilitate customer usage. The exception is logically MyC4 which targets the needing entrepreneurs, out of Europe, in Sub-Saharan African entrepreneurs.

For example, Kokos.pl position itself not only as being able to offer a much more beneficial interest range for both the lenders and borrowers, but also a higher level of security than on other web based auction systems (Janik). Higher return on investment (ROI) is also the value that the German Smava promises to lenders: Despite the current credit crisis, 99% of the approximately 2500 Smava's active lenders earned a total profit of 210,861 Euro in 2008, while the 1% who did incur a loss, lost only 60 Euro. For that period, the ROI ranged from 5 to 10%.

While the biggest loan volumes are generated in the US market, many p2p lending websites have been established in other markets such as in Europe. The following table overviews loan volumes operated by the members of our sample. Still, the reader should remember that they are not directly comparable for they are cumulative since launch of each service and represent different time spans.

Since its launch in 2007, Smava, the German P2P lending service, has funded, up to March 2009, 1350 loans for a total loan volume of about 7.9 million Euro, approximating 10.7 million US\$ (P2P-Banking.com, 2009). In 2008, the average loan requested and granted was between 6,000 and 7,000 Euros (Earlybird.com, 2008).

On our Polish websites, the minimum amount of loan is \$25, while the maximum amount is \$125,000 on Kokos and \$50,000 on Monetto. Both of them consider monthly installment for repayment, but while the payment term is 12 months on Kokos, it is 36 months on Monetto (Owczarek et al., 2008).

Table 3. Loan volumes of P2P lending sites, million US \$, January 30th, 2009

Boober	3.3
BabyLoan	0.8
Kiva	0.1
Kokos	57.9
Monetto	1.5
MyC4	0.9
Smava	9.0
Zopa	45.6

Source: P2P-Banking.com, P2P lending companies by loan volume – Jan 09.

Kokos.pl has now extended its product lines to insurance options for borrowers, in cooperation with Cardif Polska S.A and Cardif Assurances Risques Divers S.A.. Insurable risks include death, disability to work and unemployment. There is a choice of eight different insurance packages. Monetto.pl, offers also new products, in addition to P2P lending, such as financial facilities on some e-commerce websites in Poland such as Kupujemy.pl (P2P-Banking.com, 2008).

4.2. Pricing analysis of online P2P lending. For customers, interest rates represent the cost or price of loans. This price, like other types of price, is influenced by factors such as: competitor's pricing, profitability targets, consumer's price sensitivity, cost of supplying the product to the market, and especially risks, regulations, and economic and social considerations within the banking industry.

Similar to the offline market, the level on interest rate depends on the loan amount and the repayment duration. There is usually high consumer demand elasticity for low interest rates. Charitable organizations such as Kiva, do not charge a rate at all, while Zopa sets their own interest rates. On Monetto.pl, the interest rate is fixed, always annually, between lender and borrower directly. Still, lenders often declare the lowest levels at which they might accept to lend (company's site). On Monetto.pl, the interest rate varies 1% to 22%. According to Smava.de in April 2009, the borrower pays a fee only upon successful completion of a credit contract: For a period of 36 months, the borrower pays a fee of 2.0% of the loan, alike 0.66% per year (minimum 40 Euros); while for a period of 60 months, the fee amounts to 2.5% of the loan or 0.5% per term year (at least 60 Euros).

Currently (April 2009), the range of the interest rates on the site varies between 1 to 22%. Table 4 shows the average interest rates being provided by our sample websites which are always higher than the conventional rates. Still, one should notice that the higher interest rates on the online lending websites cover the cost of petty loans and high risk of some borrowers' credit record. Studies show that people interested in borrowing through social lending are distinguished by significantly higher risk having more often problems with payments on their liabilities in the past. Main reasons for interest in social lending are related to more favorable interest rate compared to the banks, inability to obtain loan at the bank and cumbersome bank formalities (Owczarek et al. 2008).

Table 4. Prime rates and social lending sites' interest rates: Europe and United States

	Prime rate		Interest rate
	September 2008	Online lending site (%)	Online lending site (%)
Britain	5.00%	8.75 to 16.99% (Zopa)	8.75 to 16.99% (Zopa)
Germany	4.00%	4 to 18% (Smava)	4 to 18% (Smava)
Poland		1 to 22% (Monetto)	1 to 22% (Monetto)
United States	5.00%	0% (Kiva)	0% (Kiva)

In addition to interest rate, borrowers might have to pay fees that the social lending websites decide to charge to offset the cost of producing online P2P services encompassing: Programming fees for updating products, services, and security; maintenance of the site; marketing of the site and salaries (Prosper Lending Review, 2007). They might also charge lenders for the same online services. The following table shows the comparison of the prices charged to each party in our sample.

Investing in the platform is free of charge. MyC4, however, charges the African business two fees for providing the infrastructure. One flat fee of two percent payable is charged when the loan is disbursed and another fee of two percent of the amount is repaid on the basis of a declining balance. Loans are repaid by the African entrepreneur on a monthly basis, with the incentive to repay as quickly as possible because the interest rate is applied on a declining balance basis. The currency used at MyC4 is typically the Euro, however, the local currency may be used depending on the amount of the loan issued.

Table 5. Fees of using social lending sites: lenders and borrowers

	Cost for lender servicing fee % of loan	Cost for borrower % of loan
Boober (Italy)	-	19.95€
BabyLoan	1€ per 100€	Free
Kiva	Lender fixes price, upon repayment lender chooses whether to donate funds, re-lend, or withdraw	N/A
Kokos	-	0.5%
Monetto	0.5 to 1.5%	0.5 to 1.5%
MyC4.com	No fee for lenders	2% upon disbursement, then additional 2% of total when loan is completed
Smava	4€ per successful transaction	2 to 2.5%
Zopa	No – users buy a Zopa CD	Depending on CD

Source: Corresponding websites.

There are also some non-pecuniary psychic costs such as confusing websites, slow Internet, service speed, or other technical frustrating problems (Frost and Strauss, 2001). While administrative and financial costs usually provide the foundation for interest rates at a banking firm by using a percentage markup associated with the costs, risk is a large influencing factor in lending (Ledgerwood and White). In order to offset the psychic cost of risk, banks charge interest rates at different levels corresponding to the market.

One can logically expect that when online interest rate, along with all other pecuniary and non-pecuniary costs, is lower than that of conventional banks, more consumers shift from traditional channels to more affordable option of online social lending. The contrary is also true. As the state and financial environments in different countries reduce basic interest rates to face the current financial crisis, one might wonder if the online P2P lending websites will remain attractive as lending and borrowing prospects.

The pricing objective and approach varies from company to company. Considering the small amount of fees and commissions, the P2P social lending websites need to multiple the volume of transactions, and accordingly accelerate growth. Some site charge membership fees while others implement a percentage by transaction approach.

Table 6. Price settlement on social lending websites

Boober	P2P Auction
BabyLoan	Two intermediaries
Kiva	Two intermediaries
Kokos	P2P Auction
Monetto	P2P Auction
MyC4	Two intermediaries
Smava	P2P Auction
Zopa	P2P Auction

4.3. Distribution analysis of online P2P lending.

Place, another element of the four P's, encompasses the various activities the company undertakes to make the product available to target customers, through channels of interdependent intermediaries, such as suppliers, wholesalers, brokers, resellers, agents, retailers, merchants, agents, facilitators, and so on (Kotler, 1997). Internet has pushed the high-tech strategy further resulting in market deconstruction, and types of new intermediaries (Frost and Strauss, 2001).

For a social lending site to be available to the public, it needs to have suppliers, which are also known in this type of industry as capital providers or investors. Charitable social lending organizations

(such as Kiva) are funded by grants and group or individual philanthropic donations while many others are funded by private lenders or investors.

On the borrowers' side, Kiva works with "Field Partners" which are local existing microfinance institutions; usually short on funds, but with the access and ability to choose qualified borrowers/entrepreneurs from world-wide impoverished communities.

On the lender side, Kiva encourages potential loan givers to choose directly among entrepreneur profiles uploaded onto the site and subsequently sponsor their business. On listings borrowers are presented in terms of name, age, country, business, conditions of repayment, etc. Lenders are also given the option to present themselves on the site. The course of a loan is usually between six to twelve months and its amount can be as little as \$25 at a time. Once a loan is repaid, the lender can withdraw the funds or re-loan them to a new entrepreneur.

Boober.it does not intervene to establish automatic matching. Parties select their partners. Borrowers decide about the conditions of the loan that they need: Amount, duration and, especially interest rate and then publish on-line with your request. Lenders decide also about amount of loan and risk profile among requests published online: The transfer of money takes place only when a loan request is fully funded. Boober.it does not ask lending investors to transfer money to a bank account waiting to be affected to borrowers. Thus, the money stays at lender's disposal until the transfer.

On Smava.de borrowers declare the amount of money that they aim at – compulsory between 1,000 and 25,000 Euros, the purpose of loan and the interest rate that they are ready to pay. Borrowers with a credit grade of at least "H" and a sufficient income, have good chances to obtain a loan. As 95% of the German population has credit grades between "A" and "H", only about 5% are excluded on Smava because of the credit records. Between 2007 and 2009, about 60 percent of the listings were funded (P2P-Banking.com, 2009). Almost half of the borrowers on Smava are self-employed persons and freelancers (Earlybird.com, 2008). The share of online transactions in the overall credit market of 60 billion Euros per year is 4 percent in Germany. Smava capitalizes on a growth rate of 30 percent per annum of this sector in the years to come (Earlybird.com, 2008).

The first fifty Smava lenders funded about 1,690,000 Euro, representing around 21% of total loan volume (P2P-Banking.com, 2009). Lenders on Smava might consider an investment line from 250 up to 100,000 Euros at a desired interest rate. In

addition to traditional investment criteria such as risk and repayment profile of a borrower, investors will receive supplementary information on borrowers such as membership in a group. Each group is formed according to the repayment behavior, and so the reliability of its members. Smava groups are thus an important element for having access to lower interest rates.

Kokos.pl checks primordially borrowers' credit history through Biuro Informacji Gospodarczej (BIG) to assign them rating in the system. The borrowers with higher rankings are more likely to find lenders and better interest rates. Kokos.pl offers two ways of lending: "borrow now" feature and auctions. The choice between these options depends on the conditions of the loan and the intended purpose of the credit. For ensuring security, Kokos.pl spreads each loan across a large number of lenders to offset the risks taken on by any single lender. Since Kokos.pl has access to no more than Polish credit rating institutions, only residents of Poland may use the system at this moment. It does not make contact between lender and borrower. It administers and transfers the funds. The users always transfer funds to Blue Media's account which is then sent out to the appropriate recipients.

On Monetto.pl, another Polish P2P website, borrowers and lenders have interestingly dissimilar sociological profiles. Borrowers are usually aged 35 to 50, and live in rural areas or small cities, while lenders, on the other hand, are typically aged 25 to 30 and live in the major cities (P2P-Banking.com, 2008). On Monetto.pl, one can borrow USD 25 000 at once and 100 000 USD in total (company's site).

When an individual borrows a Zopa loan, he can publish a profile and explain the reasons of the loan request to the potential lenders who might choose to lend (help) by buying a Zopa CD. To invest (lend) and buy a Zopa CD in the United States, lenders must be over 18, U.S. citizen or permanent U.S. resident, and fit Zopa's underwriting requirements. In March 2008, those requirements meant: (a) a minimum credit score (FICO) of 640; (b) income of \$2,000 per month; and (c) a few years of credit history. In the U.S., those who invest in a Zopa CD get a guaranteed, federally insured investment. Buyers of a Zopa CD can choose whoever they'd like to help based on where they live, what happened to them, a shared interest, or by loan purpose. Investors decide how much they want to help (loan rate) which means a reduction in the net monthly loan payment that a borrower needs to pay. The bigger their Zopa CD, and the lower the rate they choose to receive the more help they give.

Focusing on Sub-Saharan Africa, MyC4 allows African entrepreneurs of small and medium size businesses to obtain loans through a network of local providers. All applicants must undergo a screening process before they are accepted into the MyC4 network.

MyC4 allows investors to see all potential borrowers, a description of the business, the amount of loan needed, and the maximum interest rate that can be afforded. Then a Dutch-style auction takes place among lenders who would like to provide the loan. This process ensures that the African entrepreneur is receiving the best deal possible.

According to its website, the distribution channel of Babyloan is composed of four levels: Social lender credits Babyloan's bank account for the amount of loan, plus one Euro. Babyloan retains the one Euro to cover money transfer costs and the website operating expenses and send the money to a specific local Microfinance Institution (MFI) partner. The MFI affects finally the money to an entrepreneur of the initial lender's choice. This latter receives the loan to launch or develop his/her project. Since Babyloan works as a REfinancing platform and not as a direct financing system, it can happen that the MFI already "advances" the loan to the entrepreneur at the moment of the lender's commitment earlier than the effective reception of money.

When the entrepreneur pays back, then money travels back too. The entrepreneur reimburses the loan to the MFI which then transfers the money into the lender's account at Babyloan piggy bank. The lender finally decides to take back the loan or to support another project.

4.4. Communication and promotion analysis of online P2P lending. The fourth of the four P's is *promotion*, also known as communication, encompasses all activities such as advertising, promotion, direct marketing and public relations that the company undertakes to communicate and promote its products to the target market (Kotler, 1997). We will now consider the types of promotion being used by social lending sites.

Despite continuous growth, the P2P micro-lending market is still relatively modest compared to its potential. For example, Smava's market is still composed of less than 5000 active users (P2P-Banking.com, 2009). Internet is the primary media for the respective websites to attract new customers through advertising, news stories on financial websites, propagating press releases, links to other sites, and especially registering with search engines.

However, a short survey 2009 by the authors discovered that the P2P social lending websites do

not exploit the potential of Internet, for example online indexation, to promote their services. On April 30th, the authors analyzed the performance of the research sample' members on the most important search engines Google and Yahoo, for the some relevant keywords: P2P lending, social lending, peer lending, microlending, micro-credit, microcredit, microfinance, and personal loans. The objective was to check if the sample's members appear on the first page of results, containing 10 links, for each keyword.

The observation was unexpected: none of our European members appeared, while the American websites, not for profit such as Kiva, or especially for profit such as LendingClub, PertuityDirect and Prosper came into view most often.

It seems that the European websites privilege most likely some other innovative methods. In 2008, for example, Smava sent its lenders an email asking them to produce short videos telling their personal experiences using the site. The German P2P lending website remunerated by 50 Euro (approximately 75 US\$) for each posted user-generated video (P2P-Banking.com, 2008). Kokos.pl, as the first Polish social lending site, capitalized on a large coverage by mainstream media, including the major newspapers, magazines and 2 TV stations, all within the first week of the launch in February 2007. At present, the system is largely discussed on the forums, industry portals and blogosphere.

Conclusion

We have endeavored to study the leading issues with the most significant impacts on the entrepreneurial business of online P2P micro-lending in Europe. The legal environment examination firstly revealed that all sample's members are rather for profit and national-market oriented companies. Those which go international create independent operations in each new market. The differences between not-for-profit Kiva and European for-profit P2P social lending websites were also widely discussed.

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Secondly, the social impact analysis revealed that investors and borrowers consider the P2P social lending websites as an appropriate channel to reintegrate into loan-related transactions instead of the conventional financial institutions which discourage some by low interest rates, and discard some others because of modest credit records.

Trust issue was thirdly discussed and divulgated the importance of satisfactory relations, positive reputation, but also the third parties such as group belongings, legal instances and independent certifiers. Finally, a comparative analysis of the marketing strategies of the sample's members provided insights about similarities and differences between different websites in terms of product, price, distribution and communication of their P2P lending operations.

The limitations of this study should also be mentioned. They might orient further research: Comparative analysis between websites of different national origins, mainly American and European, and dissimilar missions, non-for-profit or commercial to better understand possible strategies and operations in the field. A more important sample than the one used in this study should then be envisaged.

The basic intermediation role of social lending sites is exchange facilitation, while many more roles are played by them as the research in hand showed. As a result, the intermediation roles of the P2P lending websites can also be an axis of research.

Finally, a research project might investigate lenders and borrowers personality and collaborative attitude in the process of trust building which is necessary for P2P transactions. The personality-based trust, as a psychological trait, is sometimes prior to relationship and without complete or prior knowledge about others. What is the psychological profile of those who prefer to lend and borrow money out of conventional channels? The answer provides insights for better segmentation and targeting.

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