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Course of Financial Markets

Peer-to-Peer Lending: A Threat to Traditional Banking?

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1. Introduction

1.1 Background and Motivation

The global financial crisis of 2007–2009 marked a turning point for financial intermediation. After being faced with heavy losses, traditional banks were compelled to strengthen capital buffers, deleverage, and comply to stricter regulation. While this restructuring strengthened the systems stability, it also opened the doors for new entrants. At a time when banks became more risk-averse and lending standards tightened, financial technology, commonly referred to as fintech, began to reshape the industry's competitive landscape.

Over the past decade, fintech has grown from a niche phenomenon to a global force in financial services. Venture capital funding into fintech surged from USD 19 billion in 2015 to over USD 90 billion in 2021, before normalizing in subsequent years. By 2023, listed fintechs reached an aggregate market capitalization of USD 550 billion, while more than 270 private unicorns commanded valuations approaching USD 1 trillion. The Cambridge Centre for Alternative Finance (CCAF) highlights that, even in the middle of COVID-19 disruptions, global online alternative finance volumes outside China continued to expand steadily, reaching USD 113 billion in 2020, with small and medium-sized enterprises (SMEs) capturing nearly half of these flows. This data reflects not only the resilience but also the mainstreaming of digital intermediation.

Peer-to-peer (P2P) lending emerged as one of the flagship innovations of this fintech wave. P2P platforms bypass banks' balance sheets by directly connecting borrowers with investors, and offering them speed, transparency, and potentially higher returns. Initially it was marketed as a democratizing force, the sector now has grown into a billion-dollar market spanning consumer, SME, and real estate finance. The OECD underscores the comparative advantages of these models, lower operating costs, alternative data for credit scoring, and rapid loan disbursement, especially in times of crisis when bank channels are impaired.

The relevance of P2P lending however, extends beyond efficiency. For borrowers, it provides access to credit where traditional banks are unwilling or unable to lend, particularly in the SME segment. For investors, it offers yields significantly above deposit rates. Net returns after defaults typically fall in the mid-single digits, yet they remain attractive relative to conventional savings products, especially in low-interest-rate environments. Moreover, investor participation

is shaped not only by yield considerations but also by behavioural and social factors. Evidence shows that distrust in banks is a strong predictor of P2P participation, while platforms increasingly cater to sustainability-oriented preferences by offering ESG-linked products.

At the same time, traditional banks have not stood still. The European Banking Authority's 2025 stress test confirmed that lenders remain resilient even under severe hypothetical downturns, with significant capital buffers and the capacity to absorb losses. Banks have also adapted strategically by investing in proprietary digital platforms, partnering with fintech firms, or pursuing acquisitions. Examples from within the fintech sector itself, like the merger of Kapilendo, Invesdor, and Finnest, show that the industry is maturing into a more institutionalized and regulated space. This dynamic raises a central question: is P2P lending a disruptive threat that could erode the foundations of banking, or is it better understood as a complementary innovation that exerts pressure on banks to evolve?

1.2 Research Question

Against this backdrop, the thesis investigates the following question: Is peer-to-peer lending a threat to traditional banking, or does it serve primarily as a complementary force within the financial ecosystem? This question is timely given the dual forces at play: fintech's demonstrated ability to capture segments underserved by banks, and banks' continuing systemic resilience and adaptive capacity.

1.3 Research Objectives

To address the research question, the thesis pursues three interconnected objectives:

Theoretical objective: Apply Christensen's disruptive innovation theory to determine whether P2P lending exhibits the characteristics of a disruptive entrant, moving from niche footholds to mainstream markets, or whether it stabilizes as a complementary player.

Empirical objective: Examine loan volumes, investor returns, and borrower/investor profiles using global and regional datasets (e.g., IMF, CCAF, ECB, OECD) and secondary literature to understand the scope, risks, and performance of P2P lending relative to banks.

Practical objective: Assess the implications for stakeholders, banks adapting their business models, investors weighing diversification opportunities, and regulators balancing innovation with financial stability.

1.4 Structure of the Thesis

The thesis is structured into five chapters, following this introduction, Chapter 2 reviews the literature on traditional banking, P2P lending, and disruptive innovation theory. Chapter 3 outlines the methodology, including data sources and the analytical framework. Chapter 4 presents the analysis and findings, covering borrower and investor perspectives, comparative advantages, and the application of the disruption model. Finally, Chapter **5** concludes by summarizing findings, answering the research question, and discussing implications, limitations, and avenues for future research.

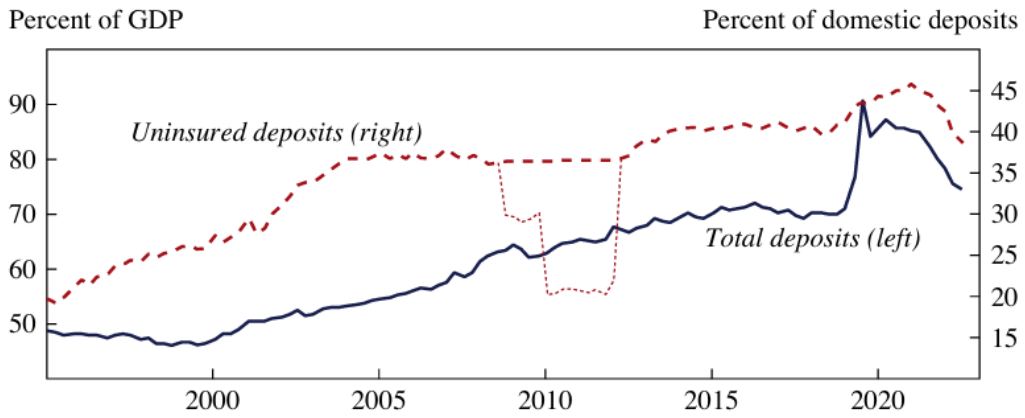
2. Literature Review and Conceptual Framework

2.1 Traditional Banking System

The traditional banking system is based on the principle of indirect financing, where banks serve as financial intermediaries between the savers and borrowers. Instead of funds flowing directly from households to firms, banks stand in between, accepting deposits, extending loans, and transforming maturities. This framework solves two key problems in finance. Firstly, banks pooling resources and standardizing processes which individuals would have to otherwise manage on their own, reduces transaction costs. Secondly, through screening and monitoring, banks help overcome the issue of asymmetric information, where borrowers know more about their risk than lenders, which would otherwise prevent efficient capital allocation (Allen & Santomero, 1998; Freixas & Rochet, 2008). Deposit-taking, credit intermediation, and maturity transformation together form the three pillars of modern banking.

As the cornerstone of banks' liability structure, deposit-taking refers to the practice of accepting funds from households and firms, placed in accounts that are either withdrawable on demand, checking, or subject to short delays, savings. Offering demandable deposits not only provides customers with liquidity, a safe store of value, and access to the payments system, but also forms the basis on which banks can extend credit and perform maturity transformation (Allen & Santomero, 1998; Freixas & Rochet, 2008). In exchange for convenience, reliability, and transactional services depositors often accept below-market returns, making deposits not just a funding source but also an economic utility (Hanson, Ivashina, Nicolae, Stein, & Tarullo, 2024).

Figure 2.1: Growth of Bank Deposits and Uninsured Deposits (1995–2023)



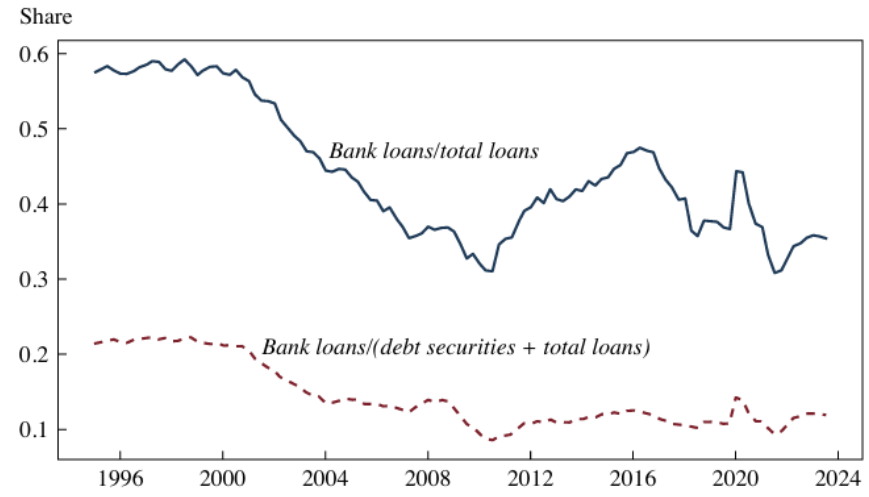
Source: Hanson, S., Ivashina, V., Nicolae, A., Stein, J., & Tarullo, D. (2024). The evolution of banking in the 21st century. Brookings Papers on Economic Activity, Spring, 331–399.

However, the nature of deposits has shifted considerably. As shown in Figure 2.1, in the United States, total deposits grew from 49 percent of GDP in 1995 to 75 percent in 2023. More importantly, the share of uninsured deposits, those exceeding the guaranteed government protection, rose from 20 percent to 39 percent, and now accounts for more than half of total deposits at globally systemically important banks (Hanson et al., 2024). This development has led to heightened fragility, since uninsured depositors are more prone to sudden withdrawals. The collapse of several U.S. regional banks in 2023 showed how relying on uninsured funding can accelerate bank runs. These risks are further amplified by digitalization, which enables depositors to withdraw or transfer funds almost instantly (Koont, 2023).

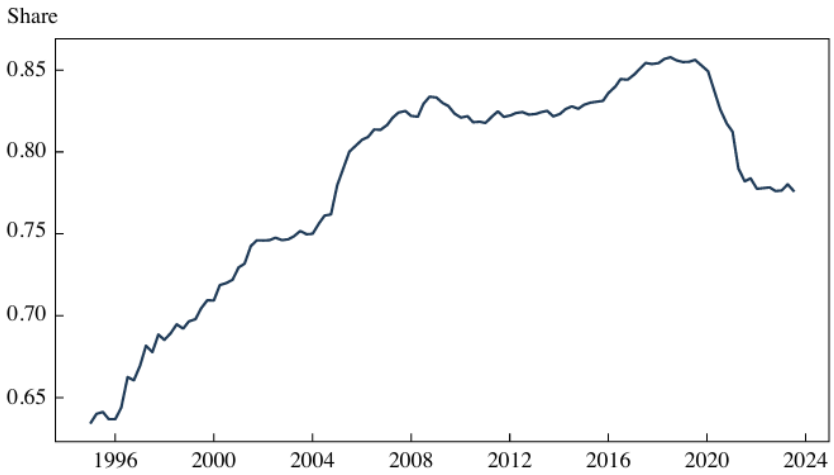
Banks transforming deposits into loans, referred to as credit intermediation, forms the second pillar. Historically, banks turned household savings into productive investment by supplying capital to firms (Allen & Santomero, 1998). Their advantage lies in reducing information problems: banks screen borrowers before lending and monitor them afterwards, limiting adverse selection, attracting risky borrowers, and moral hazard, borrowers misusing funds. Diamond's (1984) concept of delegated monitoring, further developed by Freixas and Rochet (2008), highlights banks' ability to assess borrower quality on behalf of depositors, thereby improving the efficiency of lending.

Figure 2.2: Bank Lending to Nonfinancial Businesses, 1995–2024

Pannel A: Bank loans as share of corporate liabilities.



Panel B: Bank loans as share of small business loans.



Source: Hanson et al. (2024). The evolution of banking in the 21st century. Brookings Papers on Economic Activity, Spring, 331–399.

This traditional role, however, has weakened over time. As demonstrated in Figure 2.2, banks' share of loans to nonfinancial corporations declined from 57 percent in 2000 to 35 percent in 2023, while their share of total corporate credit fell from 23 percent to 13 percent. Panel A illustrates this trend, by showing that corporate borrowers have increasingly relied on capita markets and nonbank intermediaries such as securitization vehicles, private credit funds, and business development companies, which have now captured the majority of the market. At the same time, banks have shifted a greater share of their portfolios toward securities, especially treasuries and agency mortgage-backed securities, rather than corporate loans. Still, Panel B of Figure 2.2 highlights that banks remain central in lending to small, noncorporate businesses, as

their share of this market has consistently stayed between 80 to 85 percent over the last two decades. This resilience shows banks' ongoing comparative advantage in relationship-based lending and in providing commitment-based credit lines, where the ability to fund with deposits continues to play a crucial role (Hanson et al., 2024).

Digitalization has also altered intermediation. Traditionally, branch networks used to allow banks to gather "soft" information about borrowers through personal relationships. Koont (2023) finds that digital banks instead rely on standardized "hard" information, such as credit scores and financial statements. As a result, digital platforms lend disproportionately to high-income borrowers as they are easier to screen, while lending to low-income borrowers has contracted. This shift reduces the relational advantages that once made banks distinctive, while raising concerns about exclusion from credit markets. Together with structural changes in deposit-taking, these developments illustrate how the pillars of intermediation are being reshaped.

Maturity transformation, the third pillar, refers to banks funding long-term assets like loans and securities with short-term liabilities like deposits, allowing depositors to maintain liquidity while financing the real economy (Freixas & Rochet, 2008). The Diamond and Dybvig (1983) model demonstrates both the value and fragility of this arrangement, as banks provide liquidity insurance, but the structure remains vulnerable to runs if confidence erodes.

This function has become increasingly fragile as large banks now hold a higher share of long-term securities, while increasingly relying on funding by uninsured deposits. This combination of interest rate risk and runnable liabilities, often described as the "combustible mix", was a key factor in the collapse of the Silicon Valley Bank in 2023 (Hanson et al., 2024). Supporting evidence can be seen in Appendix Table A.1, tracking the growth of securities with maturities greater than three years in bank portfolios over the past two decades. Vulnerability is further increased by digitalization since enabling rapid withdrawals, leaves banks and regulators with little time to react (Koont, 2023).

The traditional banking system rests on deposit-taking, credit intermediation, and maturity transformation. Three vital roles that historically justified banks' central place in the economy by providing liquidity, allocating capital, and bridging maturity mismatches. Recent developments, however, have weakened these advantages with banks becoming more reliant on fragile funding in the form of uninsured deposits, loosing corporate lending to nonbanks,

and increasing their exposure to interest rate and liquidity risks in a shift toward securities. Additionally, digitalization has further challenged their comparative advantages by reducing their role in relationship lending and accelerating the risk of depositor runs These structural changes provide a foundation for exploring whether peer-to-peer lending and other direct financing models could present a genuine threat to the traditional banking system.

2.2 Peer-to-Peer Lending

Peer-to-peer (P2P) lending, a form of direct financing where digital platforms connect borrowers and lenders without the intermediation of a bank balance sheet, is among the most significant innovations in FinTech credit markets (Milne & Parboteeah, 2016). The platforms are the facilitators serving as an intermediary by handling loan origination, credit scoring, and servicing while charging fees for these services. However, unlike banks, platforms do not engage in maturity transformation or hold the loans on their balance sheets. With the underlying principle being disintermediation, achieved through reducing operational costs, bypassing branch networks, and cutting out bank margins, platforms claim to deliver higher returns to investors and cheaper access to credit for borrowers all without the bank middleman (Morse, 2015). This innovation is often described as the "household credit version of crowdfunding," due to the fact that its the individuals, rather than the institutions, who are providing the funding (Morse, 2015). Over time, P2P lending has evolved into what is now known as marketplace lending or FinTech lending, including not only consumer loans but also mortgages, small-business loans, and increasingly, products like buy-now-pay-later (Berg, Fuster, & Puri, 2022). A systematic review of 198 papers published between 2008 and 2020 reflects the growing academic interest in this model, tracing its development from an experimental niche to a central topic in digital finance research (Basha, Elgammal, & Abuzayed, 2021).

The direct financing model allows investors to capture returns that would otherwise be accrued to banks or to structured securitization markets (Morse, 2015). P2P platforms promise increased efficiency such as transparent loan-level data, lower operating costs, and potentially lower borrowing rates, by reducing intermediation layers. For borrowers, especially those that are typically underserved by traditional financial institutions, P2P lending represents an important alternative source of credit. At the same time, it is important to note that platforms' role differs fundamentally from that of banks. Milne and Parboteeah (2016) stress that even though the platforms facilitate transactions, they do not bear any credit risk, thereby making them closer

to brokers than to financial intermediaries in the classical sense. This distinction explains why many scholars interpret P2P lending as complementary rather than fully disruptive to banks, as banks continue dominating in maturity transformation, deposit-taking, and relationship lending, while platforms carve out niches in unsecured consumer and SME lending.

The evidence further supports this complementarity view. For instance, Mach, Carter, and Slattery (2014) found that LendingClub was more likely to fund small-business loan applications than consumer loans, suggesting that P2P platforms expand access to credit in areas where the banks are reluctant to lend. Although these loans in turn carry higher interest rates, often ones twice as high as those of bank loans, and exhibit higher delinquency and charge-off rates. Therefore, while P2P lending fills financing gaps, it does so at greater cost and risk, implying that borrowers turn to these platforms when banks are either unwilling or unable to provide them credit. Additional competitive advantage lies in the speed and user experience. Berg et al. (2022) discovered that many borrowers favour P2P platforms not solely due to superior credit terms but because of a faster processing of loans, digital onboarding, and enhanced accessibility. This convenience factor has proved itself particularly attractive to consumers prioritizing efficiency over personalized financial advice.

Nevertheless, P2P lending also entails unique risks as Suryono, Purwandari, and Budia (2019) highlight, specifically, persistent challenges such as weak borrower verification, information asymmetry, and the potential for fraud. These risks are worse in jurisdictions with regulatory frameworks that are underdeveloped, platforms may grow rapidly but without the proper safeguards in place the financial systems risk stability. Such vulnerabilities point to the tension between the innovative promise of P2P and its fragility as a financial model.

The origins of P2P lending date back to the mid-2000s when the first platform Zopa successfully launched in the United Kingdom in 2005, quickly followed by Prosper in the United States in the year 2006, and LendingClub entering shortly after. These platforms marketed themselves as “eBay for credit,” directly matching borrowers with retail investors (Milne & Parboteeah, 2016). The global financial crisis of 2008 represented a critical turning point. When banks tightened lending standards, particularily for SMEs, borrowers sought alternative funding channels, while investors disillusioned with banks looked for higher-yielding opportunities. Morse (2015) emphasizes that the crisis created the perfect environment for P2P lending to scale, positioning it as a partial substitute for bank credit.

Initially, the focus of P2P lending in the U.S. was on unsecured consumer loans. Platforms quickly expanded by marketing specifically to retail investors, but institutional funding soon began to dominate. By the mid-2010s, P2P loans were being purchased largely by hedge funds, asset managers, and even banks. A transformation that effectively shifted the model from "peer-to-peer" to "peer-to-institution," prompting concerns about whether the sector remained true to its original ethos (Berg et al., 2022). Despite the fact that P2P platforms in the U.S. make up a relatively small share of the overall consumer credit markets today, they have successfully put competitive pressure on banks, particularly by introducing innovations in loan processing and underwriting.

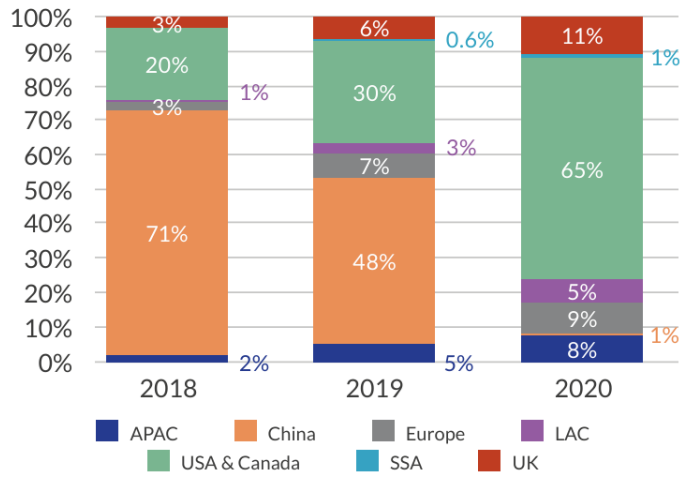
In Europe, the United Kingdom established itself as the global leader in P2P lending, with platforms like Zopa and Funding Circle achieving significant scale. Open regulation and early adoption helped growth, making the UK the benchmark market in Europe (Milne & Parboteeah, 2016). By contrast, continental European markets developed more slowly and remain smaller in volume. Nevertheless, P2P lending in the EU has been especially important for SMEs, as banks' were reluctant to extend credit post 2008 crisis leaving a gap that P2P platforms sought to fill (Mach et al., 2014). Evidence from the OECD (2022) shows that during the COVID-19 crisis, marketplace lenders and other FinTech platforms were able to complement government loan support schemes, especially in the UK and US, by reaching micro-enterprises and underserved groups. This suggests that while their absolute contribution was limited, their comparative advantage laid in speed, inclusivity and technological efficiency, which could be valuable for future policy frameworks. To further illustrate these regional trends, the Cambridge Centre for Alternative Finance reports that in 2020 the UK accounted for $12.6 billion in alternative finance volumes, compared to $10.1 billion across continental Europe (Ziegler et al., 2021).

China's P2P market on the hand surpassed all others, reaching more than 6,600 platforms and $1.2 trillion in cumulative loans by the year 2018 (He & Li, 2021). Its collapse, however, was equally dramatic, as the whole sector was discredited when weak regulatory oversight, widespread fraud, and excessive risk-taking led to mass platform failures. He and Li (2021) show that political factors further increased the instability, since enforcement was often delayed around major political events. This trajectory demonstrates how without proper governance, rapid FinTech expansion can undermine financial stability. This rise and fall is illustrated in

Appendix Figure A1, where the number of active platforms increased sharply until 2017 before collapsing.

Globally, P2P lending outside of China has experiences a more steady growth. The Cambridge Centre for Alternative Finance reports that worldwide P2P and marketplace consumer lending, excluding China, reached $34.7 billion in 2020, making it the largest category of alternative finance (Ziegler et al., 2021). Figure 1 shows how global volumes diverged after 2018, with China collapsing while the U.S. and UK maintained steady growth and continental Europe expanded more modestly therefore remaining smaller.

Figure 2.3: Market Share of Alternative Finance Activity by Region, 2018–2020.



Source: Ziegler, T., Shneor, R., Wenzlaff, K., Suresh, K., Paes, F. F. C., Mammadova, L., ... & Knaup, C. (2021). 2nd Global Alternative Finance Market Benchmarking Report. Cambridge Centre for Alternative Finance.

The World Bank (2024) similarly highlights the rise of digital lending in emerging economies, reporting a $5.6 billion lending portfolio in the fiscal year of 2024. At the same time, however, research has been heavily concentrated on the U.S. and Chinese markets, with far less studies on Europe and developing economies (Basha et al., 2021). A geographic bias that represents the need for more diverse empirical research, particularly as emerging markets explore FinTech lending as a tool for financial inclusion.

Overall, P2P lending has evolved from small-scale, retail-driven peer-to-peer platforms into institutionalized marketplace lending models. Although, its global share of credit markets remains limited, its strategic importance comes from expanding access to credit for underserved

borrowers and SMEs, thereby introducing efficiency, transparency, and speed into credit intermediation, and creating competitive pressure that in turn pushes banks to innovate (Mach et al., 2014; Berg et al., 2022; Morse, 2015; Milne & Parboteeah, 2016). Yet, as shown by the collapse of the Chinese sector, unchecked growth without adequate regulation poses substantial risks (He & Li, 2021; Suryono et al., 2019). The literature therefore portrays P2P lending less as a replacement for banks and more as a complementary layer of intermediation that has the potential to thrive under supportive yet stringent regulatory frameworks.

2.3 Indirect vs Direct Financing

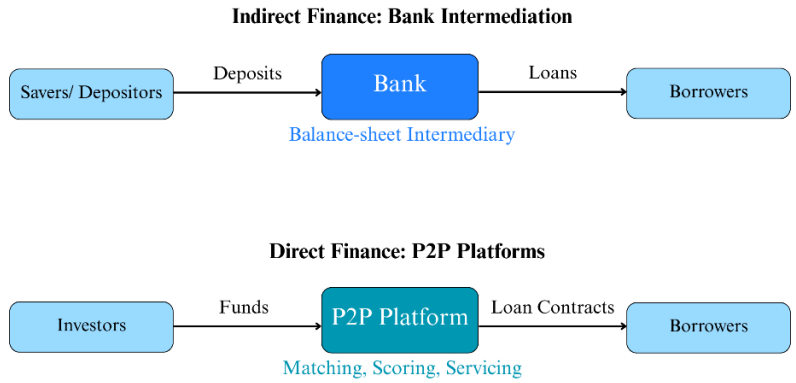
There is a fundamental distinction in finance is between indirect financing through intermediaries and direct financing through markets or platforms. In the case of indirect finance, financial institutions such as banks stand in between savers and borrowers, pooling deposits and allocating credit on their balance sheets, acting as intermediaries. In direct finance, on the other hand, the funds flow through markets or technological platforms which match borrowers and investors contractually, without an intermediary absorbing credit risk, instead the risks remain with the investors themselves. This important distinction forms the theoretical foundation to evaluate whether P2P lending represents a disruptive threat or serves only as a complementary channel to traditional banking.

Indirect finance is an idea stemming from the limitations perfect market models have. In theory perfect markets, such as in the Arrow-Debreu model, where households and firms would have direct transactions, make intermediation unnecessary. Only due to real-world frictions, in the likes of transaction costs, information asymmetries, and liquidity demands, intermediaries become crucial. Freixas and Rochet (2008) emphasize that banks perform delegated monitoring, screening and supervising of borrowers on behalf of depositors, thereby reducing adverse selection and moral hazard. They also provide liquidity insurance by transforming short-term deposits into long-term loans and through this solve maturity mismatch problems that direct markets cannot easily address. Functions that justify the persistence of indirect finance even though direct market debt is theoretically available.

Allen and Santomero (1998) add that the boundary between indirect and direct finance has weakened. Historically, individuals held securities directly, over time intermediation has grown and banks have persisted even as transaction costs fell and information became more readily available. Mutual funds, pension funds, and securitization now dominate markets that were

once characterized by direct participation. A paradox that led the authors to propose participation costs, the costs of learning, monitoring, and managing investments, as a modern rationale for intermediation. In other words, individuals now prefer intermediaries not because markets are inaccessible, but because intermediaries reduce the cognitive and administrative burdens of participation. Savers prefer not to have to invest time and effort into learning about markets, monitoring investments or managing risks, banks, therefore, represent a more convenient option. This insight is particularly relevant to P2P platforms, who portray themselves as reducers of participation costs, specifically for small investors and underserved borrowers by standardizing credit information and automating processes. The distinction between indirect and direct financing can be illustrated schematically as seen in Figure 2.4 which shows how banks act as balance-sheet intermediaries in indirect finance, while P2P platforms facilitate direct contractual matching between the investors and borrowers.

Figure 2.4: Indirect vs. Direct Financing Channels.



Adapted from Thakor (2020).

Milne and Parboteeah (2016) highlight that while banks act as balance-sheet intermediaries, P2P platforms resemble brokers more closely by handling origination, scoring, and servicing but not holding loans or transform maturities as credit risk remains with the investors. In this sense, P2P lending is best described as a direct finance model that does not rely on intermediation but rather on technology. However, as the authors point out, since P2P platforms lack deposit-taking and liquidity provision capacities, this does not imply functional equivalence with banks.

Thakor (2020) sharpens the conceptual contrast by clearly defining P2P lending as non-intermediated financing. P2P platforms are all-equity systems, investors act as equity holders in loans, while the platform itself bears no credit exposure, in direct contrast to banks, which are leveraged deposit-funded institutions that commit their own capital. Banks provide asset transformation, liquidity creation, and relationship-based monitoring, while P2P platforms primarily provide transaction-based matching and credit scoring. Thakor also highlights the different incentive structures as banks internalize risk due to their own capital being at stake, while platforms are fee-based businesses with limited "skin in the game." This consequently creates different agency problems, with banks facing risk-shifting incentives under leverage, whilst P2P platforms may over-originate loans to maximize fee income. The key contrasts between the two models are summarized in Table 2.1.

Table 2.1: Conceptual Comparison of Banks and P2P Lending Platforms

Dimension	**Banks (Indirect Finance)**	**P2P Lending Platforms (Direct Finance)**
Capital structure	Highly leveraged: funded mainly by deposits (debt) with limited equity capital	All-equity financed: investors act as equity holders in loans; platforms commit no own capital
Core services	Provide asset transformation, liquidity creation, delegated monitoring, and relationship lending	Provide matching and credit scoring; limited monitoring; no liquidity creation
Incentives	Capital at risk mitigates moral hazard; strong regulatory oversight reinforces discipline	Fee-based (origination and servicing fees); no "skin in the game," risk remains with investors
Intermediation role	Balance-sheet intermediary: absorbs risk, performs monitoring, and transforms assets	Transaction platform: connects borrowers and investors without balance-sheet intermediation

Adapted from Thakor (2020).

Koont (2023) adds that digitalization further blurs these distinctions as digital banks increasingly rely on standardized "hard" data rather than relationship-based "soft" information, undermining banks' traditional monitoring advantages. At the same time, competition intensifies as digital platforms lower entry costs and reduce geographic barriers. Nevertheless, relying only on hard information can lead to the exclusion of riskier borrowers, showing that technology has the potential to both reduce and deepen the divide between direct and indirect models.

Taken together, these perspectives frame the disruption question. Indirect finance is characterized by balance-sheet intermediation, risk transformation, and monitoring, while direct finance, exemplified by P2P lending, remains closer to market-based matching, leaving risks to the investors. Intermediation persisting despite technological progress highlights the resilience of banks' functions, yet P2P lending's rise illustrates how technology can reallocate roles, particularly in reducing participation costs and improving access. Whether P2P can replicate banks' essential functions or simply complement them remains the central issue for the disruption analysis that follows.

2.4 Advantages & Disadvantages of P2P

Peer-to-peer (P2P) lending offers easier access to credit and higher potential investor returns but also entails significant risks such as default, a lack of protection, and platform fragility. P2P platforms act as brokers since the risks remain entirely with the investors. Banks on the other hand absorb credit risk on their own balance sheets. To evaluate the advantages and disadvantages of P2P, both academic evidence and regulatory perspectives need to be taken into consideration.

The potential of higher investor returns is a central attraction of P2P lending in comparison to traditional deposits. Research by Dorfleitner et al. (2016) shows that relying on "soft information" such as borrower descriptions can help investors with identifying opportunities to generate relatively high yields, though it comes at a greater risk. In a similar vein, Caldieraro et al. (2018) find that borrowers can strategically signal their creditworthiness and in turn improve the efficiency of allocation, hence allowing investors to capture risk premiums. Furthermore, Chen et al. (2021) add that yield opportunities have remained available, even with the rise of automated investment tools, which means investors can still outperform traditional bank deposits.

Another advantage is the expansion of credit access. Mach, Slattery, and Carter (2014) demonstrate how small businesses, that are otherwise constrained by bank lending standards they have to face, were able to obtain financing through platforms like LendingClub, even though it typically came at higher costs. According to Ho et al. (2024), P2P also disproportionately benefits the borrowers in riskier urban areas, where banks are more hesitant to provide lending. Sifrain (2023) points to its importance in emerging economies that often have limited access to formal banking with P2P being able to extend loans instead. Evidence further suggests that soft information can give disadvantaged applicants a better chance of approval, for instance enabling funding of green or social projects that banks might tend to avoid (Dorfleitner et al., 2016; Chen et al., 2021).

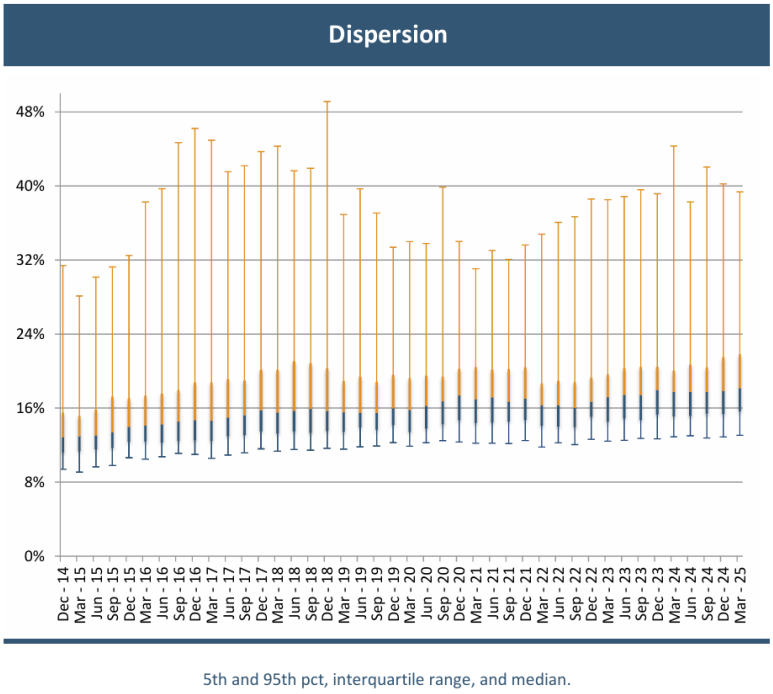
P2P lending has also fostered innovation in niche markets. Polyzos et al. (2024) describe how platforms can be used for community-based restructuring finance, which they refer to as the "perfect bail-in," bypassing banks entirely. Ho et al. (2024) further show that peer effects, where investors adapt their strategies based on observing the behaviour of others, can collectively improve access for the unconventional borrowers. Combined, these studies demonstrate that P2P lending not only fills financing gaps but also enables experimentation with SME lending, sustainability-linked finance, and localized community projects.

Benefits, however, that are counterbalanced by substantial risks with default being the most prominent of them all. Nigmonov et al. (2022) find that in the U.S. there is significant rise in loan defaults when inflation and interest rates increase, indicating the sensitivity of P2P portfolios to macroeconomic conditions and european evidence paints a similar picture. According to Nigmonov et al. (2024) platform-issued credit grades often tend to underestimate borrower risk, while delinquency histories have proven to be much stronger predictors of future repayment outcomes. Their study also suggests that investors who rely only on platform grades are consistently facing underappreciated risks. This vulnerability is further confirmed by complementary research finding that predictive models based on machine learning techniques significantly outperform platform ratings, yet they are limitedly adopted (Sifrain, 2023). In practice, this means that investors continue to chase high returns but often without the necessary tools to properly manage default risk.

P2P investors are further left exposed by the lack of deposit insurance or safety nets. While clients of banks benefit from their formal protection schemes, P2P investors bear the full burden

of both credit and counterparty risk themselves. Early warnings from the BaFin (2014) made it clear from the start that investors are fully responsible for losses, a position which they still reiterated almost a decade later when the regulator emphasized that platform insolvency does not trigger compensation (BaFin, 2023). Whereas banks operate with capital and liquidity requirements that effectively cushion shocks. The European Banking Authority (EBA, 2025), reports that since 2016 Common Equity Tier 1 (CET1) ratios across EU/EEA banks have consistently stayed above 15 percent. This resilience can be seen in Figure 2.5, which shows the median CET1 ratio together with its distribution across banks over time. The chart highlights the strong buffers that banks maintain, which is in direct contrast to P2P platforms, where investors have no protection of these sorts.

Figure 2.5: CET1 Ratio Dispersion of EU/EEA Banks (2014–2025)



Source: European Banking Authority, Risk Dashboard Q1 2025

Another layer of concern is added by the fragility of the platform. Sifrain (2023) documents the collapse of thousands of Chinese P2P platforms after 2018, showing that fast growth without proper oversight can destabilize whole markets. Additionally, supervisory assessments point to similar vulnerabilities. The EBA (2019) Risk Assessment Report raised concerns about the growing risks associated with more aggressive lending, while the EBA (2021) noted record

operational losses during the pandemic, much of which were linked to ICT disruptions. The EBA (2023) then highlighted increasing threats from cyberattacks, fraud, and money laundering. Although these findings primarily addressed banks, they highlight risks that are arguably even more acute for P2P platforms, which depend entirely on digital infrastructures but lack prudential safeguards.

Finally, regulatory gaps remain significant as the EBA's Guidelines on Loan Origination and Monitoring (2020) impose rigorous requirements on banks, ranging from robust creditworthiness checks to fair pricing and integration of environmental, social, and governance (ESG) factors while P2P platforms, on the other hand, are not consistently subject to these obligations. In its opinion on the Mortgage Credit Directive, the EBA (2022) explicitly recommended the creation of a dedicated EU-level framework for P2P lending to ensure consumer protection and establish a level playing field. However, until such rules are adopted, the platforms will remain prone to governance weaknesses and misaligned incentives.

P2P lending democratizes finance through allowing investors to earn higher returns and borrowers, especially SMEs and underserved groups, to access credit that would otherwise be unavailable through banks. Academic research emphasizes these benefits in terms of their efficiency, innovation, and inclusion (Dorfleitner et al., 2016; Caldieraro et al., 2018; Chen et al., 2021; Mach et al., 2014; Ho et al., 2024; Polyzos et al., 2024; Sifrain, 2023), while supervisory perspectives highlight the persistent vulnerabilities around default risk, platform fragility, and the lack of investor protection (Nigmonov et al., 2022; Nigmonov et al., 2024; BaFin, 2014, 2023; EBA, 2019, 2020, 2021, 2022, 2023, 2025). The balance of these insights suggests that P2P lending should be understood as a complement to traditional banking rather than a substitute, with long-term sustainability strongly depending on coherent regulation that would both safeguard investors and enable innovation.

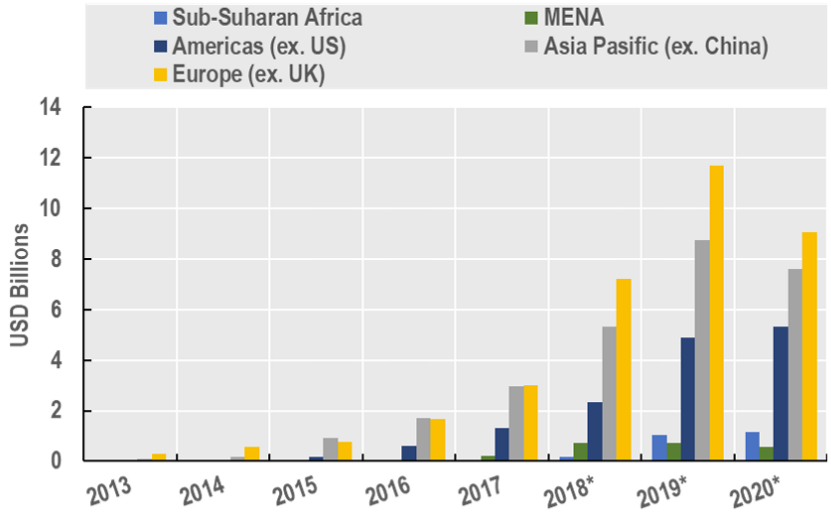
2.5 Why Borrowers and Investors Choose P2P

Peer-to-peer (P2P) lending has by addressing long-standing barriers in traditional financial intermediation managed to attract both the borrowers and investors. One of the primary motivations for borrowers is better access to credit in regions typically underserved by banks. As demonstrated by Eid, Yang, and Duygun (2024), P2P lending significantly expands in areas where banks presence is limited and particularly where small banks are scarce, therefore it fills local credit gaps and even can contribute to the improvement of borrowers' credit scores over

time. A role which became specifically visible during the COVID-19 crisis, when marketplace lenders supported small and medium-sized enterprises (SMEs) at a time when bank credit supply was constrained. OECD (2022) notes that fintech lenders, taking advantage of the automation and alternative credit assessment methods, were able to successfully reach micro-SMEs, minority-owned firms, and entrepreneurs without even having strong banking relationships.

The flexibility and speed of P2P platforms also draws in the borrowers since when compared to banks, which might take weeks to process SME loans, marketplace lenders can approve and disburse funds within minutes, facilitated by big data analytics and streamlined digital processes (OECD, 2022). Moreover, the auction-style structure that many platforms have further fosters inclusivity, and enables smaller loan sizes as well as rapid access to consumer finance (Komarova Loureiro & Gonzalez, 2015). However, this inclusivity does not come without its limitations as experimental evidence shows biases in lending decisions, like age discrimination or interpersonal competition based on the borrower characteristics, which can lead to the exclusion of certain groups despite the platforms' promised potential for financial inclusion. Figure 2.6, adapted from OECD (2022), further illustrates the scale of this expansion, by presenting yearly fintech lending flows by region between year 2013 and 2020. It highlights both the rapid global growth of marketplace lending as well as its increasing gain of importance as an alternative to bank credit, particularly during the period of the pandemic.

Figure 2.6: Yearly FinTech lending flows by regions (2013–2020)



Source: OECD (2022), Marketplace and FinTech lending for SMEs in the COVID-19 crisis.

For investors, P2P lending offers enticing opportunities for yield and diversification beyond the conventional bank products. TIME magazine's coverage of LendingClub's IPO highlighted net returns of around 8% for diversified portfolios, which is substantially above the traditional savings rates, with the loans typically yielding between 14% and 17% depending on the risk profiles of the borrower Chiles (2014). Similarly, the OECD (2022) emphasizes that institutional investors often value P2P platforms for their efficient access to SME risk exposure without bearing the costs of direct loan origination.

Attitudes toward banks also shape investor participation, as Saiedi et al. (2022) provide solid evidence that distrust in banks significantly increases the likelihood of individuals funding P2P loans, particularly for the smaller borrowers and those lacking access to banks. Furthermore, beyond the financial motivation, sustainability has also become a growing factor in many investor's decision making. The Zinsbaustein (2024) report shows that ESG factors are increasingly playing a bigger role in retail investment decisions, with many private investors now prefering projects with environmental or social impact even if these are associated with lower returns.

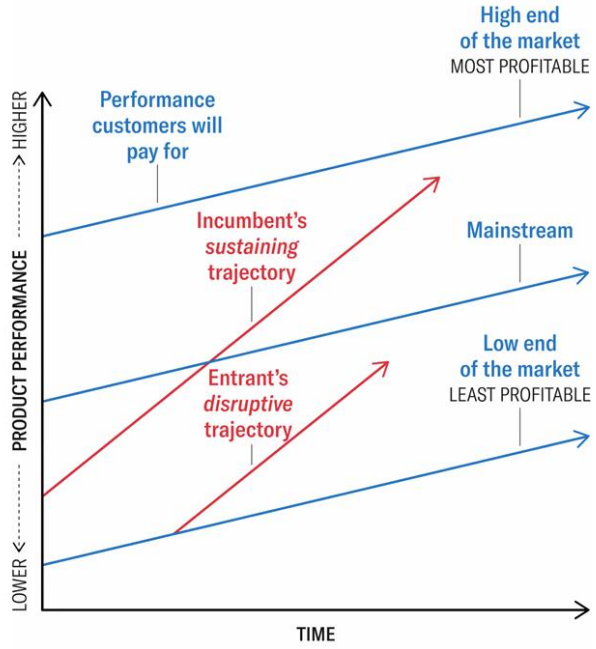
The motivations shed light on how P2P platforms simultaneously attract credit-constrained borrowers who seek flexible financing and also investors looking for return, diversification, and values-based opportunities. Still, the same features that make P2P appealing, automation, inclusivity, and high yields, also introduce risks like exclusionary biases, information asymmetries, and potentially overexposure to risky borrowers.

2.6 Disruptive Innovation Theory

Clayton Christensen's theory of disruptive innovation has become one of the most influential frameworks for understanding how new entrants can reshape entire industries. In The Innovator's Dilemma, Christensen (1997) distinguishes between sustaining innovations, ones improving already existing products specifically for an established firms' most profitable customers, and disruptive innovations, ones that begin as seemingly inferior alternatives, that are often cheaper, simpler, or more convenient, and initially appeal to either low-end market segments or entirely new markets. Sustaining innovations rarely manage to displace established players, disruptive innovations on the other hand, can reshape competitive dynamics once their performance improve enough to satisfy the needs of mainstream customers.

Therefore, the process of disruption can be described as a gradual and path-dependent one. New entrants typically manage to establish a foothold by catering to consumers that are otherwise neglected by incumbents and only later move upmarket. In doing so, they undermine dominant firms profitability and market share, but not by direct competition on the incumbents' terms, instead through redefining what customers see as valuable. Christensen, Raynor, and McDonald (2015) illustrate this process in their Disruptive Innovation Model, which charts how entrants typically start in low-end or new-market niches before advancing to mainstream customers this can be seen in Figure 2.7.

Figure 2.7: The Disruptive Innovation Model



Source: Christensen, C. M., Raynor, M. E., & McDonald, R. (2015). What is disruptive innovation? Harvard Business Review, 93(12), 44–53.

When applying this framework to financial services, it becomes evident that peer-to-peer (P2P) lending exhibits many characteristics of a disruptive innovation. Traditional banks are constrained by regulation and orientate themselves towards their most profitable customers and thereby often "overshoot" the needs of marginal borrowers, like small businesses or individuals with thin credit files. P2P platforms cleverly exploited this gap by offering direct credit intermediation that is based on digital technologies, big data, and automated algorithms, consequently lowering intermediation costs and improving access to credit for underserved segments. In this sense, P2P lending did not initially compete head-on with banks but targeted

customers typically overlooked by them, which is consistent to Christensen's notion of a low-end foothold.

Boot, Hoffmann, Laeven, and Ratnovski (2021) argue that fintech innovations like P2P lending only represent a continuation of long-standing trends toward digitization and the reliance on "hard" information rather than the relationship-based "soft" information. However, different to earlier waves of technological change such as ATMs or online banking, platform-based models have the potential to fundamentally disrupt the vertically integrated bank model by interjecting themselves between the banks and customers. This disintermediation manages to take over a substantial share of the informational and distributional value that banks historically profited from.

The disruptive character of P2P lending has been empirically documented across multiple different markets. Tang (2019) finds that P2P platforms act as substitutes for banks specifically when they serve infra-marginal borrowers, ones who could have received credit from banks but were displaced by regulatory shocks, while also acting as complements to traditional banking by focusing on the smaller loan segments that banks often ignore. Similarly, Cornaggia, Wolfe, and Yoo (2025) show that P2P platforms cut the personal loan volumes of small commercial banks by nearly 9% for a one-standard-deviation increase in platform activity, while simultaneously raising their charge-off rates by 19%. Suggesting that P2P lenders are effectively eroding banks' customer bases by competing on hard-information credit models and taking away their stronger clients, consequently leaving smaller banks with riskier borrowers and worsening portfolio quality.

De Roure, Pelizzon, and Thakor (2022) provide further evidence from Germany, which shows that P2P loans are riskier than bank loans but priced at lower risk-adjusted rates. They describe this as "bottom fishing", as P2P platforms absorb the riskiest segments of bank portfolios, especially when regulatory costs limit bank lending. This also aligns with disruption theory, where the entrants initially thrive in low-end or high-risk segments ignored by incumbents, then later on improve their models in attempts to capture more mainstream borrowers.

The disruptive potential of P2P lending is further emphasized by Vives (2019), who highlights how digital entrants, including P2P platforms, reshape competition in banking by moving toward customer-centric, platform-based models. Models that improve efficiency and financial inclusion but also put pressure on bank margins and force the restructuring of legacy

infrastructures. Established banks with costly branch networks and outdated IT systems face competitive disadvantages when set against digital platforms posing a potential threat to their long-term sustainability. Whether P2P lending will achieve full disruption, however, depends on regulatory responses and the ability of incumbents to adapt.

Nevertheless, disruption is not inevitable as Christensen (1997) himself stresses, good management practices can ironically lead to failure if firms focus their resources on sustaining innovations rather than disruptive ones. In banking, this dynamic is evident in how the large banks, with greater technological and capital resources, are often the ones who are better positioned to invest in sustaining innovations (e.g., digital banking apps), while smaller banks that are dependent on soft information, are more vulnerable to being displaced by P2P platforms.

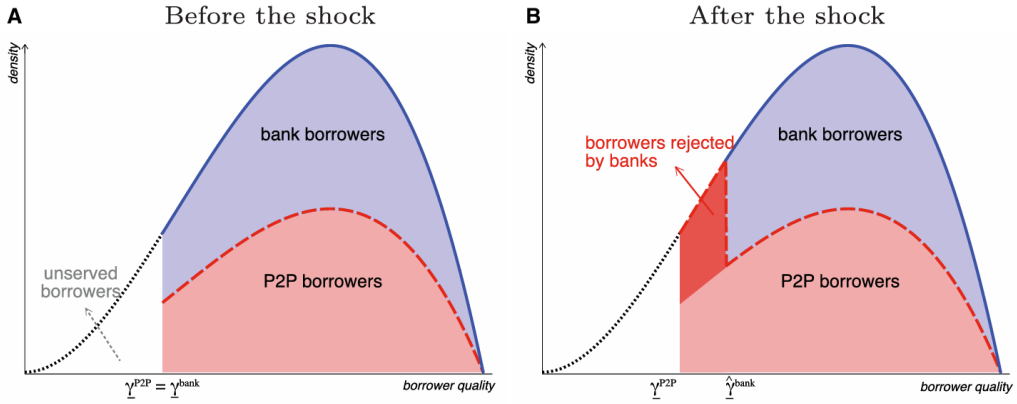
Overall, P2P lending embodies the two sides of fintech innovation as it simultaneously continues long-term trends in financial digitization while at the same time acting as a disruptive model that has the potential to reshape the boundaries of intermediation. While it had its start in serving neglected borrowers with "good-enough" credit solutions, it over time increasingly competes in mainstream lending. Whether it will evolve into a truly disruptive force that disrupts the traditional banking system or merely remain a complementary niche will depend on its trajectory of technological improvement, regulatory treatment, and the strategic responses of the incumbents.

2.7 Previous Research on P2P vs. Banks

The question of whether peer-to-peer (P2P) lending acts as a substitute or complement for traditional banks is central when evaluating its disruptive potential. The literature shows no single answer but instead a segmented pattern, where in some cases, P2P directly competes with banks, particularly the small local lenders, while in others it serves to previously unbanked or underserved borrowers and thereby broadening access to finance and only complementing the banking system. Tang's (2019) formal framework contributes significantly to this debate is, by showing that P2P lending substitutes for banks by attracting infra-marginal borrowers who would have otherwise used traditional credit. However, Tang also finds evidence that P2P complements banks in the case of small loans, where platforms fill the gaps that banks are either less willing or unable to efficiently cover. This duality in its role highlights how P2P platforms can both compete in traditional bank markets and expand access in niches that banks underserve

demand. As illustrated in Tang's original model, seen in Figure 2.8, the framework helps visualize this mixed outcome, depicting the conditions under which substitution versus complementarity is more likely to occur.

Figure 2.8: Borrower quality distribution: Perfect substitutes



Source: Tang, H. (2019). Peer-to-peer lenders versus banks: Substitutes or complements? The Review of Financial Studies, 32(5), 1900–1938.

Adding on to this theoretical framework, empirical studies further support the claims that the effects of substitution are more prominent for the smaller banks and lower-risk borrowers. As shown in earlier research finding a link that as P2P activity increases, small commercial banks' experience a decline in personal lending volumes and deteriorating portfolio quality (Cornaggia et al., 2025). The authors argue that platforms undercut the safest segments of bank lending by approximately 164 basis points, this demonstrates how P2P relies on hard-information screening technologies that erode the small banks' advantage in traditional relationship-lending. Likewise, de Roure, Pelizzon, and Thakor (2022) study German markets and find that P2P loans are riskier on average but nonetheless priced at lower risk-adjusted interest rates, particularly during periods when regulatory capital requirements restrict banks. These findings point toward a substitution effect, with platforms absorbing segments of the market that were once dominated by smaller, relationship-based lenders.

Other research shed slight on the more complementary role of P2P lending. This can be seen in Milne and Parboteeah's (2016) ECRI report, a comprehensive analysis of P2P business models, where they argue that P2P lending should be seen as a parallel credit channel rather than true intermediaries and hence do not replicate the core functions of banks. They anticipate hybrid

models where banks could cooperate with platforms or even operate their own marketplace lending arms, rather than being completely displaced. Evidence from borrower-side studies further supports this view with Eid, Yang, and Duygun (2024) showing that P2P lending expands more strongly in regions underserved by banks, particularly ones where branch density is low. In these cases, P2P availability is directly related to lower borrower default hazards and improved credit scores, which indicates that the platforms alleviate financial exclusion rather than simply reallocating existing lending. Complementarity is also evident in Tang's (2019) findings showing that platforms effectively cater to small-loan borrowers who fall outside banks' economically viable range.

Ofir and Tzang (2022) offer a broader empirical perspective having reviewed platform-level data and emphasize that P2P models vary widely in borrower targeting, investor bases, and risk management. Their study shows that while substitution and complementarity are not mutually exclusive they depend heavily on the specific institutional setting, platform design, and regulatory framework. This heterogeneity explains why different national markets produce divergent outcomes, ranging from substitutionary pressures in economies that are highly banked to complementary expansion in regions that are financially excluded.

The debate must also be situated within the context of the broader evolution of banking and financial intermediation. Hanson et al. (2024) document that banks have increasingly shifted away from information-intensive lending toward securities-based intermediation, while simultaneously becoming more reliant on uninsured deposits. Shifts that have left traditional banks, particularly regional ones, vulnerable to competition from nonbank lenders, including P2P platforms. A trend that provides fertile grounds for substitutionary dynamics, as fintech platforms capitalize on areas where banks have retreated and exploit these vulnerabilities. At the same time, Koont (2023) stresses that digitalization has intensified the competitive pressures, allowing digital banks to scale without having any extensive branch networks. While this creates heightened risks to the financial stability, it also suggests that the likely outcome is adaptation, with banks being able to leverage digital tools to likely be able to co-exist alongside the fintech entrants rather than being outright displaced.

These studies in sum reveal that P2P lending exerts substitutionary pressure on small banks by taking away prime, low-cost borrowers, while it simultaneously complements the banking system by extending credit access to underserved regions and loan segments. The relationship

between banks and P2P platforms can be best explaines as a dynamic continuum of competition and cooperation. Banks that are most vulnerable to substitution are those whose business models depend on relationship-based lending to prime borrowers, while complementarity arises in the markets with significant unmet credit demand. A dual outcome that is consistent to Christensen's theory of disruptive innovation, in which entrants initially target niches underserved by incumbents but later move upmarket, taking over segments once dominated by banks, thus forcing banks to adapt through either partnerships, acquisitions, or through digital transformation. Therefore, the evidence to date suggests that P2P lending is unlikely to displace banks wholesale, but rather likely to reshapes the landscape of credit provision by simultaneously competing with and complementing traditional intermediation.

3. Methodology

3.1 Research Design

The research design combines qualitative and quantitative elements to address the central question of whether peer-to-peer (P2P) lending represents a threat to traditional banking. On the qualitative side, the thesis employs a structured literature review of academic studies and regulatory reports, complemented by thematic case study analysis of selected platforms. This approach follows the systematic review logic that was outlined by Basha et al. (2021), and enables to connect lines between theory, empirical findings, and industry evidence. On the quantitative side, the thesis uses descriptive statistics and comparative analysis of secondary data. This includes benchmarking P2P lending volumes against bank credit flows (based on CCAF and ECB data), comparing investor returns with bank interest rates, and analyzing borrower and investor profiles through published studies and platform disclosures. This mixed-methods approach combines both broad coverage with detailed analysis, using descriptive data for empirical grounding and qualitative synthesis to place the findings within the broader theoretical and regulatory context.

3.2 Analytical Framework (Disruption Model)

The analysis is guided by Christensen's (1997) disruptive innovation theory, which explains how new entrants can challenge established firms by entering at the often ignored margins and later moving upmarket. The framework was operationalized along four dimensions:

1. Entry foothold: P2P lending's initial role in serving niche borrowers (SMEs, excluded households) and attracting investors seeking yield.
2. Upmarket trajectory: Evidence of P2P's movement into larger loan segments and mainstream adoption, assessed through platform data and institutional investor participation.
3. Incumbent response: Strategies of banks in adapting to P2P competition, such as partnerships, acquisitions, and digitalization (Hanson et al., 2024; McKinsey, 2023).
4. Outcome scenarios: Three possibilities were considered: (i) niche complementarity, (ii) catalyst for innovation, and (iii) full disruption, evaluated against empirical evidence and regulatory conditions.

This framework ensures that empirical findings are not only descriptive but also tested against a structured theoretical model.

3.3 Hypotheses

Based on the literature review and conceptual framework, four working hypotheses (H1–H4) were developed:

- H1: P2P platforms primarily serve borrowers underserved by traditional banks, such as SMEs and excluded households (OECD, 2022; Eid, Yang, & Duygun, 2024).
- H2: P2P lending attracts investors through higher returns relative to deposits and the availability of ESG-oriented projects (Saiedi et al., 2020; Zinsbaustein, 2024).
- H3: Banks respond to P2P competition by partnering with platforms, acquiring technology, and accelerating their digital transformation (Tang, 2019; Cornaggia, Wolfe, & Yoo, 2025).
- H4: P2P is more a catalyst for innovation in banking than a full substitute and exerts pressure, stimulating adaptation rather than outright displacement (Christensen, 1997; Hanson et al., 2024).

These hypotheses structured the analysis and were examined through both descriptive evidence and qualitative synthesis.

3.4 Data Sources

This thesis relies exclusively on secondary data drawn from a combination of academic literature, institutional reports, industry publications, and regulatory documents. At the macro level, cross-country datasets from organizations such as the Cambridge Centre for Alternative Finance, the World Bank, the IMF, the BIS, and the ECB were used to track loan volumes, interest rates, and broader trends in financial intermediation. At the micro level, platform-level disclosures and case studies, including LendingClub's financial reports, Zinsbaustein's investment publications, and the Invesdor–Kapilendo–Finnest merger, provided insights into borrower and investor dynamics. These were complemented by regulatory and supervisory materials from the EBA, ESMA, BaFin, and the European Union, which offered perspective on how authorities frame the risks and opportunities of fintech lending. Taken together, this diverse evidence base ensured that the analysis integrated theoretical insights, quantitative benchmarks, and policy considerations in a coherent way.

4. Analysis and Findings

4.1 Market Development of P2P

This analysis situates peer-to-peer (P2P) lending within the recent global and European credit dynamics, then quantifies its growth and relative weight against that of bank lending. First, market volumes and growth were summarized using the Cambridge Centre for Alternative Finance (CCAF) benchmarking data. Then those volumes were benchmarked against euro-area bank "new business" lending flows from the ECB's MIR (Monetary Financial Institutions Interest Rate) statistics in order to compute (i) compound annual growth rates (CAGR) and (ii) P2P market share, for the chosen data window of 2018 to 2024.

Outside of China, the global online alternative-finance market has expanded steadily since 2018. Global volumes in 2020, excluding China, reached $113 billion, with P2P/marketplace consumer lending remaining the single largest model, at about $34.7 billion, and at the same time, P2P/marketplace business lending rising in share together with the growth of on-balance-sheet models in North America (CCAF, 2021). These shifts indicate the fact that "marketplace" models remain key players but coexist with balance-sheet lenders in a continuously evolving ecosystem.

When taking a look at data from within Europe, the CCAF shows continental volumes, excluding those of the UK, experience a dip in 2020 amid COVID-19 but remaining above

2018 levels which can be seen in Table 4.1. Model-level data reveal that P2P/marketplace consumer lending decreased from $4,183m in 2019 to $2,901m in 2020, while P2P/marketplace business lending on the other hand experienced an increase from $1,481m to $1,844m, similar to P2P/marketplace property lending which rose from $375m to $500m. These time series models show a focused view of "off-balance-sheet" P2P intermediation which is central to the question of substitution or complementarity in regards to banks. Since 2022, the fintech sector has shifted from "growth at all costs" toward sustainable and profitable growth (McKinsey, 2023a), an emphasis that continued into 2024 through broader policy and market commentary on nonbank intermediation (IMF, 2024).

Table 4.1: Europe (ex-UK) P2P/Marketplace origination by model (EUR bn), 2018–2020

Model	2018 EUR bn	2019 EUR bn	2020 EUR bn
P2P Consumer	**2.447**	**3.737**	**2.542**
P2P Business	**0.845**	**1.324**	**1.615**
P2P Property	**0.123**	**0.335**	**0.438**
Total	**3.415**	**5.397**	**4.595**

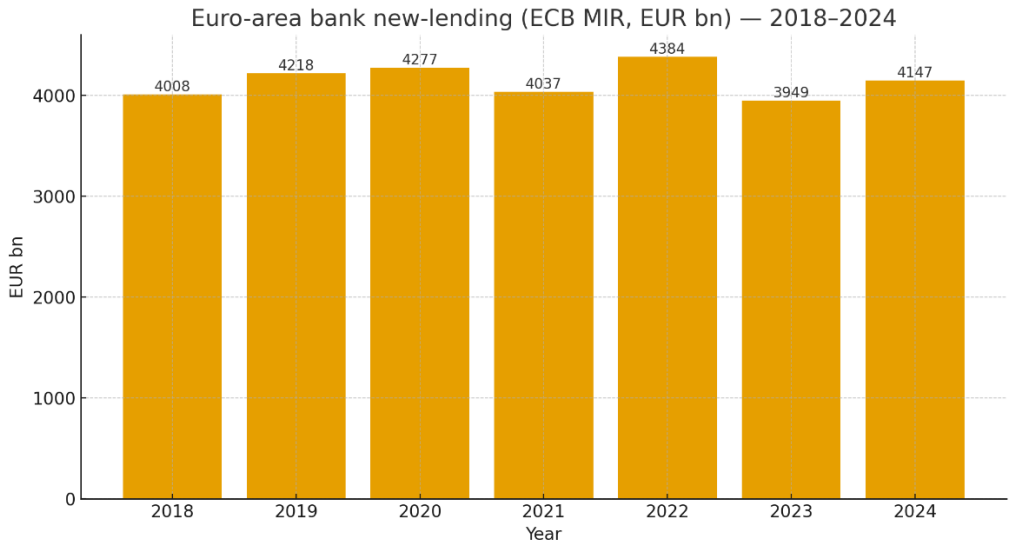
Model volumes from CCAF 2nd Global Alternative Finance Market Benchmarking Report (Table 2.1). EUR figures obtained by converting USD amounts at ECB annual-average USD/EUR reference rates.

The CCAF model volumes were originally reported in USD and therefore had to be converted to EUR which was done using the ECB euro foreign-exchange reference rate of USD per EUR averaged by calendar year. Specifically, EUR = USD ÷ (annual-average USD per EUR) was applied using annual averages for 2018 of 1.180955, 2019 with 1.119475, and 2020 which was 1.142196. The resulting values of EUR for the P2P/marketplace Consumer, Business, and Property models are reported in Table 4.1, and the per-year totals also in EUR feed into the market-share and CAGR calculations below.

To benchmark the scale and shares of P2P, euro-area ECB MIR "new business" loan volumes that were aggregated from monthly EUR to annual totals, were used. The denominator includes households, combining house purchases, consumer credits, and other purposes, plus non-

financial corporations (NFCs), which is a like-for-like flow comparator to platform originations since they capture new originations rather than existing stocks (ECB SDW—MIR). For context, ECB MIR lending and deposit rate statistics indicate a sharp rate cycle in 2022–2023, helping to explain the normalization in annual new-lending flows that is shown in Figure 4.1.

Figure 4.1: Euro-area bank new-lending (context, 2018–2024)



Source: ECB SDW—MIR "new business" volumes, Euro area (changing composition); households (house purchase + consumer + other) and NFCs; monthly EUR aggregated to annual totals. Author's calculations.

Using euro-converted CCAF P2P/Marketplace model totals for Europe, excluding UK, on Consumer, Business, Property, as well as ECB MIR "new business" bank flows for the euro area, monthly EUR aggregated to annual totals, growth and shares over 2018 to 2020 were computed. The CAGR is $(\text{End}/\text{Start})^{1/n} - 1$, therefore, over 2018–2020, P2P CAGR ≈ +16.1%, while bank new-lending CAGR over the same time window ≈ +3.3%; for context, 2018–2024 bank flows imply ≈ +0.6%, which is consistent with the post-pandemic rebound and subsequent normalization depicted in Figure 4.1. Market share is $\text{P2P}_t/\text{Bank}_t \times 100$, reported only for the overlapping years giving the results of 0.085% for 2018, 0.128% in 2019, and 0.107% in 2020, these annual shares are summarized in Table 4.2.

Table 4.2: P2P vs. Euro-area bank new-lending & market share (EUR bn, %), 2018–2020

Year	P2P (EUR bn)	Bank new lending (EUR bn)	P2P share (%)
2018	**3.415**	**4007.8**	**0.085**
2019	**5.397**	**4217.9**	**0.128**
2020	**4.595**	**4276.6**	**0.107**

Sources: CCAF model volumes (Europe ex-UK); ECB euro reference rates (annual averages) for conversion; bank flows from ECB Statistical Data Warehouse (MIR "new business" volumes), author's aggregation

Two trends can be seen based on these findings. First, P2P/marketplace business lending in Europe ex-UK expanded through 2020 even as consumer P2P volumes softened with the pandemic as net, total marketplace P2P volumes in 2020 remained above 2018 levels. Providing evidence suggesting that P2P platforms can reallocate toward SME credit when household risk appetite weakens, which is consistent to the broader shift toward business funding that was noted by the CCAF. Secondly, as can be seen in figure 4.1, bank new-lending flows were able to rebound strongly after 2020 in the euro area, which reflects both policy normalization of 2022-2023 as well as the restoration of private-sector borrowing, while nonbank credit channels continued to deepen globally, especially private credit, which underscores that P2P sits within a larger "nonbank intermediation" trend rather than a one-to-one replacement of banks, an interpretation aligned to contemporary global financial-stability diagnostics. This further aligns with the World Bank's 2024 emphasis in their annual report on mobilizing private capital and expanding digital financial inclusion in order to support SMEs and resilient growth. Additionally, reports point to the mainstreaming of alternative lending, including P2P, alongside tighter regulatory scrutiny and a higher-rate environment, compressing nonbank margins, therefore, incumbents are now responding with new funding models and AI-enabled underwriting and collections (McKinsey 2025).

Industry context supports these findings which can be seen through 2022–2023 banks' profitability and capacity to lend improving alongside higher net-interest margins, even as fintech and balance-sheet lenders grew in selected niches which limits direct displacement on the one side but amplifies competitive pressure and specialization on the other. This aligns with the pattern seen in evidence of the banking-cycle, where NIM/ROE was higher in 2022-23, as

well as with the IMF's emphasis on the expanding role of nonbank intermediation, raising both opportunities and prudential challenges (McKinsey, 2023b; IMF, 2024).

4.2 Borrower Perspectives

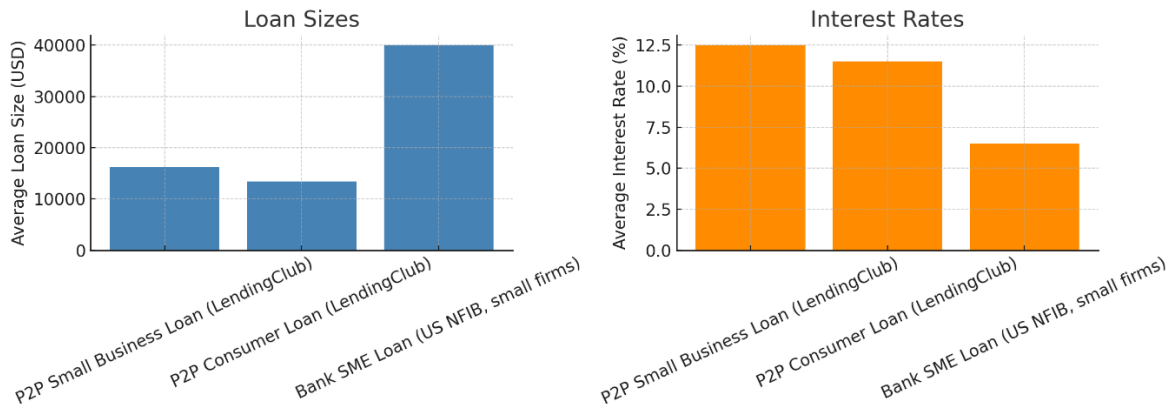
Borrower characteristics and loan outcomes were examined by using recent case data and focusing on identifying who turns to P2P platforms, the types of loans that were provided, and how they compare with traditional bank lending. A consistent finding is that P2P platforms most strongly expand in the regions that are underserved by banks. This can be seen in Eid, Yang, and Duygun (2024) findings which underline that lending volumes are especially significant in areas where local bank presence is weak, and particularly in ones without small community banks. Furthermore, they document that P2P borrowing not only serves as a substitute for missing bank credit but also contributes to an improved financial well-being, which is reflected in the higher borrower credit scores after that are seen loan origination. From a policy perspective, according to the OECD (2022), marketplace and fintech lending has especially been relevant for small and medium-sized enterprises (SMEs), who often face informational opacity and lack of collateral. Platforms reduce these asymmetries through taking advantage of automation and alternative credit scoring which provides "thin-file" borrowers access to credit that banks frequently deny them of. This is a dynamic that was particularly visible during the COVID-19 crisis, when marketplace lenders in the US and UK reached micro-SMEs and minority-owned firms that were otherwise excluded from government and bank loan programs, even though their aggregate market share stayed modest.

However, this inclusivity is not universal as Komarova Loureiro and Gonzalez (2015) demonstrate that biases in decision-making on platforms can unintentionally lead to exclusion. Their experimental evidence shows that younger borrowers and those perceived as more attractive or financially successful than their peers face systematically lower probability of receiving funding, as a direct result of interpersonal competition amongst the investors. Findings that illustrate how even if platforms might widen the overall access, borrower outcomes can still be shaped by non-financial attributes.

The structural characteristics of P2P loans are further revealed by case evidence such as Mach, Carter, and Slattery's (2014) analysis of LendingClub's loan-level data, where they report that while small business loans represent only a relatively small share of funded applications but, when approved, were larger than consumer loans, averaging around USD 16,200. However,

these loans were issued at nearly twice the rates of comparable bank loans and exhibited substantially higher delinquency and charge-off rates. Additionally, more recent findings confirm that LendingClub originated USD 1.85 billion in loans in Q4 2024, marking a year-on-year growth of 13 percent, but detailed sectoral breakdowns were not made public (LendingClub, 2025). Moreover, european platforms like Auxmoney and Zinsbaustein also reported growth, particularly in their real estate and ESG-linked projects, yet these reports are only aggregated and marketing-driven rather than standardized regulatory filings (Zinsbaustein, 2024; Zinsbaustein, 2025). Unlike banks, which have to meet strict regulatory disclosure requirements, P2P platforms are not obligated to share detailed audited lending data. This lack of transparency complicates any efforts to benchmark the performance or risk profiles on a like-for-like basis.

Figure 4.2: Average loan sizes and interest rates in P2P versus bank lending



Data reflect average loan sizes and interest rates for P2P borrowers compared to bank SME loans. P2P small business loans are smaller in size but carry significantly higher rates. Sources: Mach, Carter, & Slattery (2014); LendingClub (2025).

As can be seen in Figure 4.2, the average P2P small business loans on LendingClub are considerably smaller, roughly equalling to USD 16,200, than those that were obtained from banks which are around USD 40,000 for SMEs, although they exceeded the size of P2P consumer loans which were about USD 13,400. At the same time, interest rates charged on P2P loans are notably higher as small business borrowers on LendingClub typically paid 12–13 percent, compared to the 6–7 percent that were paid on bank-issued SME loans (Mach et al., 2014; LendingClub, 2025). A gap that underscores both the inclusivity and the limits of P2P

platforms, since they provide credit access to underserved segments but at a cost that reflects higher borrower risks as well as the absence of relationship lending.

Comparative research further confirms that P2P platforms often attract riskier borrowers than banks, which de Roure, Pelizzon, and Thakor (2022) describe as "bottom fishing," showing that P2P loans are on average riskier, even though risk-adjusted rates might be lower than those of banks. Simultaneously, platforms can complement the banks by filling financing gaps in small-loan segments with limited bank participation.

Therefore, it can be said that P2P borrowers are mostly SMEs, consumers with limited credit histories, and entrepreneurs who were excluded from traditional finance. Their loans are typically smaller sized in regards to bank SME credit, but on the other hand their interest rates are higher in order to compensate for the greater risk. While platforms have improved financial inclusion and enabled fast digital access, limited transparency and possible biases make the evaluations of their long-term accessibility complicated.

4.3 Investor Perspectives

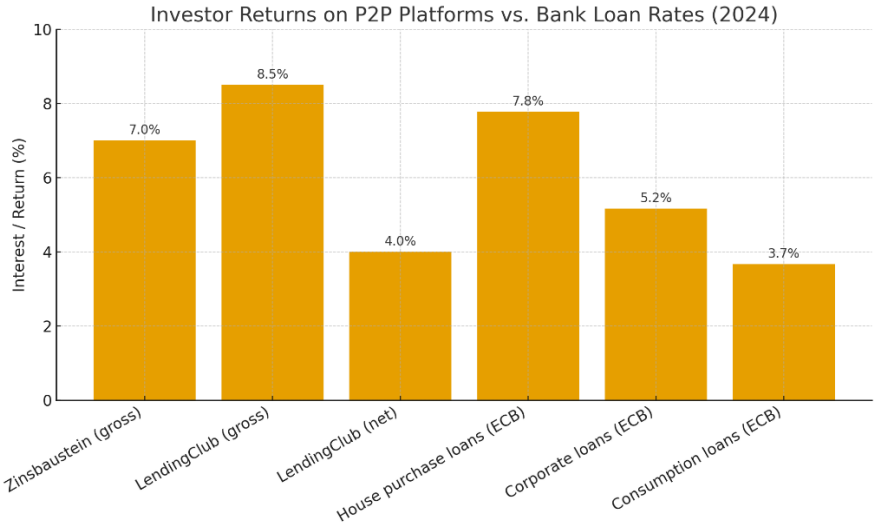
From the investor side, peer-to-peer (P2P) or marketplace lending has managed to establish itself as an alternative asset class, promising higher returns, portfolio diversification, and increasing sustainability-linked opportunities. Early evidence showed net returns of around 8% for diversified LendingClub portfolios at the time of its IPO (Chiles, 2014), which were substantially above savings rates. More recently, empirical studies confirm that these returns remain key opportunities to continue motivating participation, even if attitudes toward banks also play a role. This becomes evident in Saiedi, Mohammadi, and Broström's (2020) findings that show how distrust in banks significantly increases the likelihood of individuals funding P2P loans, in particular for smaller borrowers and those excluded from traditional finance. At the same time, Caldieraro, Sahoo, and Saini (2018) show that strategic information transmission within platforms have the potential to influence risk perceptions, while Chen et al. (2021) demonstrate how automated investment tools reduce herding behavior but do not systematically improve return on investment, which suggests that technology changes allocation patterns rather than the performance outcomes.

The types of returns investors can expect are further illustrated by case evidence with LendingClub reporting $1.85 billion in loan originations in Q4 2024, alongside a reduction in

net charge-offs from 6.6% in the previous year to 4.5%. Implying that while nominal gross yields on consumer loans can range between 8% and 9%, risk-adjusted net returns fall closer to 3.5–4.5% once defaults are considered (LendingClub, 2025). In Europe, real-estate–backed platforms such as Zinsbaustein typically offer between 5% and 8.5% in annual yields, with low default rates reported due to their strict project selection and due diligence (Zinsbaustein, 2024a, 2024b). In line with findings from the Zinsbaustein (2024a) ESG Investment Report, many investors assign more and more weight to environmental and social dimensions when evaluating projects, even if self-assessments continue to rank return as the main driver. This indicates that sustainability has become a differentiating factor in investment decisions, which confirms the trends outlined in Chapter 2.5.

Comparing with bank lending conditions shows what makes marketplace lending appear as an attractive choice to investors. According to ECB monetary interest rate statistics, average euro-area rates on new loans in 2024 stood at 7.77% for household house purchases, 5.16% for non-financial corporations, and 3.67% for household consumption credit (ECB SDW, 2024). Figures that imply gross platform yields are broadly similar to the borrowing costs charged by banks, and significantly higher than the returns available on deposits. For investors, this drastic difference in yields represents the appealing promise of capturing margins that banks traditionally earned through intermediation. However, once the default risk is accounted for, net returns narrow toward the mid-single-digit range, showing that the premium stems largely from directly assuming the borrower credit risk. In order to put these findings into perspective, figure 4.3, compares gross and net investor returns on P2P platforms with average euro-area bank lending and deposit rates in 2024. This comparison illustrates that the yield advantage of P2P investments mainly comes from investors taking on the credit risk that banks would have otherwise absorbed on their balance sheets. Thereby showing that the P2P “premium” mainly represents risk compensation rather than a pure efficiency gain, reinforcing the trade-off between higher yield and a greater exposure to borrower risk.

Figure 4.3: Investor Returns on P2P Platforms vs. Bank Loan Rates (2024)



Sources: LendingClub (2025); Zinsbaustein (2024a, 2024b); ECB MIR and deposit rate statistics (2024). Net P2P returns are adjusted for average default losses.

However, as also pointed out in the literature review, these opportunities come at major risks. Unlike bank deposits, marketplace investments are not covered by deposit insurance or prudential safeguards (BaFin, 2014; 2023). Investors in turn bear the full exposure to defaults, counterparty risk, and the fragility of the platform itself. Nigmonov et al. (2022; 2024) show that borrower risk is often underestimated by platform credit grades, while macroeconomic shocks such as rises in interest-rates quickly translate into an increase in default rates. Historically, platform failures such as the one in China are evident that unchecked growth without robust oversight can wipe out investor capital entirely (Sifrain, 2023). For this reason, while P2P investments can offer returns outpacing conventional deposits and enable access to ESG-oriented opportunities, their long-term attractiveness is dependent on successful platform risk management and regulatory frameworks protecting the investors.

4.4 Comparative Advantages and Disadvantages

Comparing peer-to-peer (P2P) platforms and traditional banks shows trade-offs across risk, efficiency, and trust, which reflect their different financial architectures. Banks, operating as balance-sheet intermediaries, internalize credit risk and maturity transformation, whereas P2P platforms act as transaction brokers by passing the risks directly to the investors (Milne & Parboteeah, 2016; Thakor, 2020). A fundamental difference determining the relative advantages and disadvantages for each model.

From a risk perspective, P2P lending is defined by a heightened exposure to borrower defaults and systemic fragility. In the United States, empirical evidence shows that defaults rise especially high in response to a rise in interest rates and inflation, with low-rated loans being more sensitive to macroeconomic shocks (Nigmonov, Shams, & Alam, 2022). Similarly, European evidence also indicates that platform-issued credit grades often underestimate borrower risk, while past delinquency is a more optimal predictors of repayment outcomes (Nigmonov, Shams, & Urbonas, 2024). Peer effects further add to this problem of vulnerability, while ex-ante borrower selection can improve allocation efficiency, ex-post learning fosters contagion in defaults, spreading risk across the platform (Ho, Gu, Yan, & Gozgor, 2024). The absence of deposit insurance or prudential safeguards leads to the weaknesses are compounded by, leaving investors fully exposed to losses (BaFin, 2014; 2023). Banks in contrast maintain stronger resilience through capital buffers, supervision, and diversified portfolios. According to the European Banking Authority (EBA, 2023), EU banks' non-performing loan (NPL) ratio stood at a historical low of 1.8% in mid-2023, supported by Common Equity Tier 1 (CET1) ratios that have been consistently above 15% since 2016 (EBA, 2025). These regulatory mechanisms cushion shocks and reinforce stability in ways P2P platforms simply cannot replicate.

However, P2P platforms hold clear advantages in terms of efficiency, by bypassing branch networks and automating origination processes, they operate with leaner cost structures and enable faster access to credit (Morse, 2015). Research shows that "soft information" in borrower descriptions improves the accuracy of the credit assessments and therefore helps make allocation more efficient, where banks often rely primarily on hard financial data (Dorfleitner et al., 2016; Berg, Burg, Gombović, & Puri, 2020). Additionally, peer dynamics further contribute to this, as investors learn from the others' decisions, though excessive herding risks distort market outcomes (Ho et al., 2024). Innovative use cases such as community-based restructuring finance, the so-called "perfect bail-in", help further demonstrate how P2P platforms can bypass banks entirely in niche markets (Hornuf & Schwienbacher, 2023). By contrast, banks benefit from economies of scale and standardized credit-risk models while remaining constrained by structural inefficiencies. Across the EU, cost-to-income ratios often exceed 60%, which reflects banks' operational rigidities (EBA, 2021). Conversly, P2P's strength lies in offering agility and inclusion, while banks prioritze stability over trade efficiency.

Finally, trust mechanisms diverge sharply as P2P platforms rely on transparency tools, such as loan-level disclosures, borrower ratings, and social signaling, in order to build community-based trust (Berg et al., 2020). These features are particularly appealing in contexts where distrust in banks is particularily pronounced (Saiedi, Mohammadi, & Broström, 2020). Yet trust in P2P is inherently fragile, as defaults, fraud, or platform failures, such as the collapse of thousands of Chinese platforms after 2018, possess the power to very quickly undermine the confidence of investor (He & Li, 2021; Sifrain, 2023). Banks, who benefit from systemic safeguards, including deposit insurance schemes, prudential regulation, and reputational capital, have durable confidence even under stress (EBA, 2019, 2021, 2023).

Table 4.3: Comparative Advantages and Disadvantages of Banks and P2P Lending Platforms

Dimension	**Banks (Indirect Finance)**	**P2P Lending Platforms (Direct Finance)**
Risk	Diversified portfolios, regulated capital buffers (CET1 > 15% since 2016), NPL ratios at historic lows (1.8% in 2023), systemic safeguards (EBA, 2019; 2021; 2023; 2025)	Exposed to borrower defaults and macro shocks (Nigmonov et al., 2022; 2024), platform fragility and contagion risk from peer effects (Ho et al., 2024); no deposit insurance (BaFin, 2014; 2023)
Efficiency	High structural costs (branch networks, cost-to-income ratios >60%); economies of scale in standardized credit assessment	Lean digital intermediation; use of "soft" information improves allocation (Dorfleitner et al., 2016; Berg et al., 2020), peer learning enhances efficiency but risks herding bias (Ho et al., 2024), rapid loan origination
Trust	Institutional trust through deposit insurance, regulation, and reputational capital	Community-based trust via borrower narratives, ratings, and transparency (Berg et al., 2020), fragile confidence easily eroded by defaults, fraud, or platform failures (He & Li, 2021; Sifrain, 2023)

The crucial trade-offs between banks and P2P platforms across risk, efficiency, and trust are summarized in Table 4.3, which highlights how P2P's strengths in digital intermediation and inclusivity often come at the expense of weaker risk absorption and systemic safeguards.

Overall, the evidence suggests that P2P lending demonstrates clear advantages in efficiency and accessibility, offering faster origination, innovative allocation mechanisms, and higher potential yields for investors. However, these benefits are countered by greater exposure to borrower defaults, platform fragility, and weaker institutional trust. On the other hand, banks retain their comparative advantage in stability and systemic confidence but remain burdened by cost inefficiencies. These trade-offs echo Christensen's (1997) disruptive innovation framework: P2P platforms exploit neglected niches with cost advantages and digital convenience, yet their inability to replicate banks' functions of risk absorption and trust preservation limits their potential for wholesale disruption. In consequence, they can be best understood as complementary channels, pressuring incumbents to innovate while relying on coherent regulation for long-term sustainability.

4.5 Banks' Response

The rise of peer-to-peer (P2P) lending and other marketplace credit models has motivated incumbent banks to adapt strategically rather than to retreat completely. Consistently to Christensen's disruption framework, banks facing pressure of substitution from fintech entrants, particularly in the smaller loan segments and among the regional lenders, have been forced to respond, which they accomplished through a combination of partnerships with fintechs as well as the development of their own digital lending platforms. Their adaptive strategies illustrate that existing establishments are reshaping their operating models to be able to preserve their central role in financial intermediation while simultaneously accommodating technological change.

An important mechanism that has emerged are collaborative models through which the banks mitigate any challenges posed by marketplace lending. Boot, Hoffmann, Laeven, and Ratnovski (2021) emphasize that digital platforms interject themselves more and more in between banks and customers, which in turn disrupts the incumbents' informational and distributional rents. Instead of giving up this channel, banks often integrate platforms into their own ecosystems by

co-lending with them or outright acquiring the technological capabilities. The merger of Kapilendo, Invesdor, and Finnest in response to the European Crowdfunding Service Providers Regulation (Drost, 2021) provides further evidence of consolidation within the crowdfunding and P2P ecosystem itself, which has continued to facilitated such cooperation by creating larger, cross-border platforms that are more attractive as bank partners. Why collaboration is a rational solution is further underlined by empirical research such as the work of Tang (2019) who demonstrates how P2P platforms substitute for banks when targeting infra-marginal borrowers but complement banks in the case of small loans, which suggests a natural basis for co-lending and referral programs. Similarly, Cornaggia, Wolfe, and Yoo (2025) show that increases in marketplace lending reduce small banks' personal loan volumes by nearly 9 percent and raise their charge-off rates by 19 percent, these pressures make cooperation preferable option especially when compared to head-on competition. From a strategic perspective, industry reports also highlight that collaborative arrangements can allow banks to access new origination pipelines, share technological costs, and retain customer relationships in the face of digital disruption (McKinsey & Company, 2023a).

Many banks have, in parallel to partnerships, expanded their proprietary digital capabilities in order to compete more directly with fintechs. Koont (2023) research shows that once banks adopt digital platforms, they are able to expand into more markets without having branches, which is especially the case for mid-size banks who benefit the most from the combination of digital scale and retained relational capacity. This reflects a broader trend toward digitization, where incumbents reconfigure origination and underwriting through standardized, data-driven models instead of relying exclusively on branch-based "soft" information. Industry evidence further confirms that digitalization has become a central priority, which can be seen in McKinsey's Global Banking Annual Review (2023b) where a "Great Banking Transition" is reported in which activities shift toward capital-light players, requiring banks to upgrade distribution, invest in artificial intelligence, and build first-party digital lending platforms in order to be able to defend margins. Moreover, Hanson et al. (2024) documents that banks remain central in intermediation but must adapt their business models to the secular decline of corporate lending and the rise of uninsured deposits. The crucial ability to invest in such transformation is reinforced by resilience, as EU banks emerged from the 2025 stress tests with stronger capital positions than in 2023, which demonstrates their capacity to withstand losses while continuing to modernize their operations (Müller, 2025). Competitive pressure is particularly acute in

consumer credit markets, where they now consider AI-enabled underwriting and digital onboarding as standard practice (McKinsey & Company, 2025). In Table 4.4 the main adaptive mechanisms that in response to marketplace lending get pursued by banks are summarized.

Table 4.4: Bank Response Mechanisms to Marketplace Lending

Response Type	Mechanism	Evidence
Partnerships with fintechs	Co-lending, acquisitions, distribution partnerships: banks integrate platforms into ecosystems	Platforms interject between banks and customers, forcing incumbents to partner rather than cede the channel, consolidation (e.g., Kapilendo, Invesdor, Finnest) creates stronger counterparties
Strategic rationale	Mitigate substitutionary pressure, preserve customer base	P2P substitutes for infra-marginal borrowers but complements banks in small loans, small banks most pressured (↓9% loan volumes, ↑19% charge-offs)
Own digital platforms	Launch proprietary digital origination and underwriting models	Banks adopting digital platforms expand branchlessly into new markets, mid-size banks gain share: reliance shifts to “hard” information
Industry transformation	AI-enabled lending, distribution upgrades, digital stacks	“Great Banking Transition”: incumbents invest in AI and digital platforms to defend margins, consumer lending digitalization now table stakes
Capacity to invest	Balance-sheet resilience enables transformation	Despite structural challenges, banks remain central, EU stress tests confirm capital strength to pursue digital transformation

These responses when taken together reveal that banks are not passively losing ground to P2P lending but actively adjusting their business models through hybrid strategies. Partnerships

allow them to preserve relevance in niches where the platforms otherwise would have comparative advantages, while proprietary digital channels enable incumbents to defend scale and systemic centrality. Dynamics that further reinforce the perspective of P2P lending being a catalyst for adaptation rather than a wholesale substitute.

4.6 Disruption Model Application

Christensen's theory of disruptive innovation emphasizes the fact that entrants usually begin by targeting low-end or new-market footholds which established firms tend to neglect, before then potentially moving upmarket and challenging the incumbents directly. When applied to P2P lending, this perspective suggests that the model first gained traction by addressing borrowers and investors that are underserved by the traditional banking system, then slowly expanded into broader credit market segments. Studies of regional banking structures show that platform lending expands the most rapidly in areas where bank presence is weakest, particularly where small community banks have limited reach. In such markets, P2P platforms not only fill an access gap but are also able improve borrower outcomes ex post, with research documenting lower default hazards following platform engagement and even modest improvements in credit scores (Eid, Yang, & Duygun, 2024). From the investor side, the initial foothold similarly reflects a niche segment as yield-seeking retail and institutional investors are drawn to the promise of disintermediation rents and diversification benefits (Morse, 2015).

Platforms have consistently been able to scale, which begs the question whether they have remained confined to being niches or have started to move upmarket. The evidence on this is mixed, on the one hand, regulatory shocks to bank credit supply reveal that P2P platforms substitute for banks by attracting infra-marginal borrowers who could otherwise have accessed bank credit. On the other hand, however, their low fixed costs of origination allow them to compete effectively in small-ticket loans, where banks have little incentive to engage, thereby complementing rather than replacing traditional lenders (Tang, 2019). In the European context, de Roure, Pelizzon, and Thakor (2022) show that while overall bank lending volumes remain much larger, new consumer lending through platforms such as Auxmoney has been steadily increasing, often at lower risk-adjusted rates than the ones of banks. Suggesting at least partial mainstream adoption, as platforms have an overlap with bank clientele while still catering to the underserved borrowers.

The response of incumbent banks further reflects the tensions highlighted in the disruption literature as large banks have had a tendency to adapt by investing in sustaining innovations, such as digital origination channels, algorithmic underwriting, and partnerships with fintech platforms, while protecting their core franchises from direct threats. By contrast, the smaller banks are more exposed, as their comparative advantage lies in relational lending and the use of soft information. U.S. evidence indicates that increased P2P activity has reduced small-bank personal loan volumes by almost 9 percent and raised charge-off rates by about 19 percent, while platforms undercut the safest bank loans by roughly 164 basis points (Cornaggia, Wolfe, & Yoo, 2025). Such findings suggest that platform reliance on hard-information technology directly challenges the traditional soft-information niche of smaller institutions, while forcing larger banks to modernize.

These dynamics point toward several possible outcome scenarios. If platforms continue specializing in segments unattractive to banks, such as small loans and borrowers in underserved geographies, they may settle into a niche complementary role that enhances overall financial inclusion without displacing incumbents. If, alternatively, banks absorb platform innovations into their own operations, P2P lending may function primarily as a catalyst for innovation in the traditional banking system, accelerating the digital transformation of incumbent institutions. P2P lending evolving into a full disruptor by consistently attracting infra-marginal bank borrowers, eroding the profitability of small banks, and sustaining its advantage in risk-adjusted pricing is a more far-reaching possibility.

For the time being, the balance of evidence suggests that P2P lending operates mainly as a complementary and catalytic force by filling the gaps left by traditional banks and pressuring incumbents to innovate, yet it remains constrained by regulatory boundaries and reliant on institutional capital. The potential for deeper disruption, nevertheless, remains if platforms can maintain their technological edge and scale beyond their initial footholds, thereby challenging the core intermediation functions of the banking sector.

5. Conclusion

5.1. Summary of findings

This thesis has examined whether peer-to-peer (P2P) lending represents a genuine threat to traditional banking by reviewing theoretical foundations, analysing borrower and investor

perspectives, and applying Christensen's (1997) disruption model. The findings have indicated that P2P platforms have experienced rapid growth since the financial crisis of 2008, in support by digital innovation, investor demand for yield, and borrowers' need for alternative credit access. Data from the Cambridge Centre for Alternative Finance (CCAF) and the World Bank confirmed the steady expansion of global P2P volumes outside of China, with particular growth being seen in Europe with SME lending (Ziegler et al., 2021; World Bank, 2024).

On the borrower side, P2P platforms have been successful in targeting underserved markets, particularly SMEs and households excluded from mainstream bank lending (Eid, Yang, & Duygun, 2024; OECD, 2022). For investors, P2P has delivered yields above the traditional deposits, often in the mid-single-digit range after defaults, while its appeal is further broadened by ESG-linked opportunities (Saiedi et al., 2022; Zinsbaustein, 2024). However, these benefits come at significant risks as defaults are sensitive to macroeconomic shocks (Nigmonov, Shams, & Alam, 2022), investors lack deposit insurance (BaFin, 2023), and platform failures can undermine trust (He & Li, 2021).

Meanwhile, banks have not been displaced but have been able to adapt through the means of partnerships, acquisitions, and digital transformation (Hanson et al., 2024; McKinsey, 2023b). EU banks maintain their strong capital buffers (EBA, 2025), which enable them to absorb shocks more easily and invest in needed technological upgrades. Overall, the comparative analysis highlights a trade-off as P2P lending excels in efficiency and inclusivity, while banks retain their resilience and systemic trust.

5.2 Answer to the Research Question

The evidence shows that P2P lending exerts competitive pressure on traditional banks but is unlikely to fully replace them. Instead, it functions primarily as a catalyst for change, by filling gaps in underserved segments and while forcing incumbents to intensify their digital transformation. This duality aligns with Christensen's disruption theory, since P2P began in niche footholds but, while expanding upmarket, remains constrained by scale and regulation (Christensen, 1997; Tang, 2019; Cornaggia, Wolfe, & Yoo, 2025).

5.3 Implications

For banks the implications are that continued digital transformation is essential. Banks have to adapt by integrating fintech innovations, deploying AI-driven underwriting, and exploring

hybrid partnerships to remain competitive (Hanson et al., 2024; McKinsey, 2023b; Koont, 2023).

On the other hand, for investors, P2P represents a diversification tool rather than a substitute for traditional banking products. While their returns can outpace deposits, they require careful risk management and awareness of platform fragility (Saiedi et al., 2022; Zinsbaustein, 2024).

While for the regulators, a balanced framework is needed that fosters innovation while safeguarding financial stability. The European Crowdfunding Service Providers Regulation (EU, 2020/1503), EBA risk assessments, and ESMA guidelines all point toward the gradual institutionalization of P2P lending (EBA, 2023; ESMA, 2025).

5.4 Limitations

There are several limitations with the first one being the fact that the analysis relies on secondary data, which is difficult with platform disclosures often being limited or only superficial and often marketing-driven, this restricts the ability to compare P2P efficiently to regulated bank reporting. Secondly, the scope of the research has largely been European-focused, leaving emerging market dynamics underexplored. Finally, no econometric testing was conducted, meaning causal relationships remain tentative.

5.5 Future Research

Further research could explore the long-term systemic risks that are posed by large-scale P2P lending, particularly under stress scenarios, as well as its interactions with the banking cycle. Another possible direction to take research is the integration of P2P with decentralized finance (DeFi) and blockchain-based credit models, which could further reshape intermediation and challenge traditional regulatory frameworks (Berg, Fuster, & Puri, 2022; IMF, 2024).

Appendix

Table A.1: Bank Balance Sheet Shares, 2000–2023 (Percentage of Total Assets)

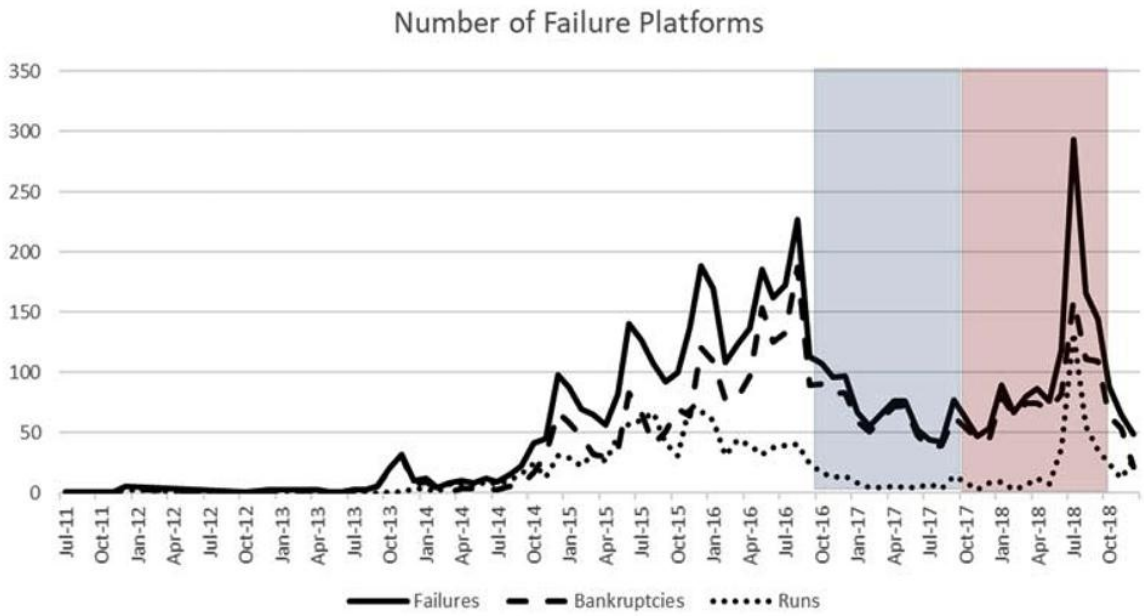
Table 1. Bank Balance Sheet Shares (Percentage of Total Assets)

	(1) Loans (percent)	(2) C&I loans (percent)	(3) Cash & securities (percent)	(4) Cash & securities < 3yrs (percent)	(5) Securities > 3yrs (percent)	(6) Reserves (percent)
Panel A: All banks						
2000	60	17	27	n/a	n/a	0
2005	57	11	28	15	13	0
2010	53	9	30	18	12	5
2015	51	12	36	22	14	10
2020	52	13	35	21	14	7
2023	50	11	38	22	17	8
Panel B: Banks with less than $100 billion of assets (in $ 2023)						
2000	62	14	32	16	15	1
2005	64	11	29	15	14	0
2010	64	11	28	16	12	6
2015	65	12	29	14	15	5
2020	68	13	24	13	12	5
2023	65	12	28	12	15	5
Panel C: Banks with more than $100 billion of assets (in $ 2023)						
2000	61	20	24	n/a	n/a	0
2005	55	11	27	14	12	0
2010	49	9	33	21	12	5
2015	51	13	35	21	14	10
2020	51	14	36	21	15	8
2023	49	12	39	22	16	9

Source: Authors' compilation using data from FFIEC.
Note: The set of banks with over $100 billion of assets in 2023 dollars is not constant over time; it has grown as many banks have grown faster than inflation.

Source: Hanson, S., Ivashina, V., Nicolae, A., Stein, J., & Tarullo, D. (2024). The evolution of banking in the 21st century. Brookings Papers on Economic Activity, Spring, 331–399.

Figure A1: Failures of Chinese P2P lending platforms, 2011–2018.



Source: He, Q., & Li, X. (2021). The failure of Chinese peer-to-peer lending platforms: Finance and politics. Journal of Corporate Finance, 66, 101852.

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