

## **Does Social Lending incorporate Social Technologies? The use of Web 2.0 Technologies in online P2P lending**

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### *Abstract*

*Microcredit interest costs remain higher than those of commercial banks in spite of significant donor funds, largely owing to transaction costs relative to small loan sizes. With the rise of Web 2.0 and online social interactivity, can these transaction costs be reduced through peer to peer lending? Peer to Peer lending and Web 2.0 have two things in common. The first common denominator is that both of them are rather newcomers in their respective fields and growing fast. The second is that they are both based on mutual and social exchanges between people instead of centrally controlled communications and relationships. The main objective of this paper was to investigate whether they are integrated to support a higher level of social interactions and associations for less (transaction) costs. We find that peer to peer lending consists of diverse websites of microcredit (Kiva, Wokai), social investing (MicroPlace) as well as small loans at market rates (Prosper, Zopa, Lending Club), and even lending between friends and family members (Virgin Money). The paper studies the use of web 2.0 technologies (blogs, interactivity between lenders and buyers, peers' reviews and comments, peers communities and chats) in six such peer-to-peer lending sites. It finds that most of the peer-to-peer lenders are in fact intermediaries between the peers (lender and borrowers) and there is little direct contact between the peers. One website used none of the web 2.0 tools. None of the websites used all the web 2.0 tools. The impact on transaction costs is therefore very little. A discussion of difficulties in establishing platforms in this field and directions for future research are provided.*

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### **Introduction**

The last few years have witnessed major changes in information and communication technologies which have created disruptive and radical innovations. New companies such as Facebook, U-tube and Flickr have emerged and caught the attention of the public and financial investors and are valued in millions or billions of dollars. Existing companies such as IBM, Amazon and Google have also taken to these new technologies profitably. These companies have been able to use information technologies to encourage users to create value, providing networks to multiply effects, allowing people to build connections and companies to capitalize on competencies and using new forms of collaborative innovations.

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