PRIORITIES OF THE FINANCIAL SECTOR IN ARMENIA DURING THE SANCTION WAR: FOSTERING LENDING AND INVESTMENT THROUGH ONLINE PLATFORMS

Smbat DAVTYAN
Applicant/Lecturer of Post-Graduate studies at ASUE and RAU
"Republic Square" Branch Manager, "HSBC Bank Armenia" CJSC

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Introduction

The article puts forward the statement that during the sanctions war, the P2P lending and investment platforms can be in demand as a matter of priority and lead to a synergistic effect, with its projection on the real sector. This formulation proceeds from the fact that in times of sanctions or crisis, the economy, including segments of the financial market, is encouraged to adopt natural survival approaches that require the involvement of new and related financial mechanisms and, ultimately, services and products. P2P lending and investment platforms can become a viable alternative to investing in shares in the Armenian financial market, especially for small and novice investors. It is indicated that in Armenia the "P2P" lending platform is still only at the initial stage of development. The international practice and format of lending "P2P" platforms are considered. The comparative advantages and vulnerabilities of stock market shares and investments in P2P lending platforms are analyzed in terms of profitability, security, availability, liquidity, and volatility. Separate mechanisms are proposed for the formation of a matrix of "P2P" lending platforms in Armenia. The issue of the competition of newly formed P2P lending platforms with existing financial market institutions is considered.

Methodology

In response to the significant events in Ukraine in 2022, an unprecedented sanctions conflict between the collective West and Russia has evolved. These sanctions predominantly target the financial sector, encompassing various payment and money transfer systems, as well as banking and investment services. To navigate the restrictions imposed by these sanctions, diversification of investments through fintech platforms specializing in peer-to-peer (P2P) lending may offer valuable opportunities.

Literature review

This literature review synthesizes a range of scholarly works from international researchers, focusing on the intersection of culture, economy, and innovative financing models such as peer-to-peer (P2P) lending. Auzan's work, “Sociocultural Economy: How Culture Influences the Economy and the Economy Influences Culture” provides a foundational understanding of the reciprocal relationship between cultural and economic dynamics. He emphasizes that cultural factors shape economic behaviors and institutions, which in turn influence cultural expressions and practices. This framework is vital for analyzing how sociocultural contexts can impact financial initiatives, including P2P lending platforms. Eugenia Omarini's study, Peer-to-Peer Lending: Business Model Analysis and the Platform Dilemma, further develops the conversation around P2P lending by dissecting its business models and operational challenges. Omarini's analysis highlights the intricacies of platform dynamics and the competitive landscape, providing insights into how P2P lending can serve as an alternative financing mechanism, particularly in contexts where traditional banking systems are less accessible. In addition, Armen Minasyan's article discusses the launch of the Khachen investment project in Armenia, illustrating the practical applications of these theoretical insights Together, these contributions offer a multifaceted perspective on how cultural contexts influence economic practices, particularly in the realm of P2P lending. By integrating theoretical frameworks with practical case studies, this review lays the groundwork for understanding the implications of sociocultural factors on the evolution of financial systems.

Scientific novelty

The proposed framework for peer-to-peer (P2P) lending and investment through online platforms aims to identify and leverage the advantages of specific segments of the financial market during periods of sanctions. This approach is expected to establish significant developmental trends for the future, highlighting the potential of innovative financing models to adapt and thrive in challenging economic environments.

Analysis

Peer-to-peer (P2P) platforms have significantly simplified the lending process, making loans more accessible to borrowers. Essentially, each party on a P2P platform can initiate a transaction with equal responsibility. According to the official website of the European Commission, peer-to-peer lending (often referred to as crowdfunding) is a direct alternative to traditional bank loans. Unlike borrowing from a single source, companies can borrow directly from dozens, or sometimes hundreds, of individuals willing to provide loans.

A P2P lending platform does not function as a traditional intermediary like a bank; it does not pool funds to lend in its own name. Instead, it serves as a space where lenders and borrowers engage directly in transactions. Experts assert that P2P lending represents a new asset class for retail investors, distinct from low-yield bank deposits and more diversified than the debt obligations of a single company. Based on the vectors of these global trends, we propose that peer-to-peer (P2P) lending could emerge as a new alternative to equity investment in the Armenian financial market, particularly for small, emerging, or minority investors. It is important to note that P2P platforms in Armenia are still in the process of development, but this process may be stimulated by objective factors. A notable aspect is that, from a strategic perspective, both classes of investments—equities in the stock market and P2P loans—are not interrelated and do not correlate with each other. Consequently, their combination is effective for diversifying an investment portfolio. Specifically, for long-term investments, funds can be allocated to the stock mar-ket – specifically in equities – while simultaneously investing in long-term P2P loans, which will enhance the overall stability of the investor's portfolio. This approach effectively addresses the challenge of diversifying an investment portfolio for novice and small investors, particularly for those proficient in digital technologies. To substantiate this position, it is essential to identify the relative advantages of P2P lending compared to equity investments through the analysis of criteria such as return, security, accessibility, liquiddity, volatility, and others.

It is important to note that these two types of assets belong to completely different classes of investment assets, characterized by significant differences in areas such as the investment matrix, organizational implementation procedures, business motivations, historical trajectories, legislation, and more. Investing in stocks allows one to become a shareholder of a company, holding an equity stake, with the expectation of receiving dividend income as well as potential capital appreciation of the shares on the secondary market. In contrast, investments made for the purpose of P2P lending occur on specialized electronic platforms through the establishment of a loan agreement with the borrower, which is accompanied by certain supportive measures from the platform organizer. Accordingly, the investor-lender on a P2P platform directly becomes the lender (creditor) to the borrower or loan recipient, without an intermediary. The comparison indicates that stocks and P2P loans differ significantly in terms of investor requirements and asset profitability. The returns on stocks (dividends, capital appreciation) are not always predicttable. In the event of a decline in stock prices, the likelihood of recovery is quite uncertain, and selling on the secondary market may result in losses. Shareholders are the last in line for claims and will be compensated only after all creditor claims have been satisfied. In contrast, income from investments on P2P platforms is derived from interest payments on P2P loans, which are generally more predictable. By investing in a loan, the investor becomes the primary lender and creditor to the borrower, as international practice dictates that, in the event of bankruptcy, creditor obligations are settled first. While loans carry a risk of default, the yield on a loan largely depends on the borrower's ability to repay the debt. Debt recovery is more likely if the loan is secured by collateral or guarantees. In international practice, stocks have the potential to offer higher returns, sometimes reaching up to 20% percent, while the average yield on P2P loans is around 11-12 percent per annum. The likelihood of asset recovery and the potential for losses in both cases depend on the risk management tools employed. For equity investments, this involves diversified portfolio investments, whereas, in the case of P2P lending, in addition to diversification, the collateralization of the loan and accurate borrower credit assessment are crucial. One of the advantages of P2P lending platforms is the relatively low interest rates for borrowers, while offering potentially higher returns for investors. P2P lending reduces transaction costs compared to traditional bank lending, resulting in more favorable terms for all parties involved. However, it is essential to agree with E. Omarini's position that price competition in this sector is not the primary lever of market competition. For the effectiveness of P2P lending platforms, the accessibility of credit and the assurance of their stability are far more important.

An important characteristic for comparing assets is volatility or price unpredictability. The stock market is inherently volatile, increasing the chances of both high returns and significant losses. In contrast, P2P lending is not considered a volatile asset class. P2P loans are significantly less volatile than publicly traded stocks, primarily due to external factors. P2P loans are not as heavily influenced by macroeconomic and geopolitical events or other economic impulses. The external factors affecting P2P loans include downturns in financial markets and changes in their regulation. The return on loans depends on the borrower's ability to service the debt (repaying both the principal and interest) and the lender's ability to collect the outstanding debt. The returns from P2P loans are more predictable under normal market conditions.

Key factors for investing in P2P platforms include transparency in reporting, regulation, and protection against fraud and deceptive practices. Unlike the stock market, which has been established for over 200 years with regulatory frameworks built on universally accepted principles, P2P lending is a relatively recent phenomenon, having emerged only in the past 10 to 15 years. Regulation of P2P platforms occurs at the national rather than global level, and there are no universal rules. For instance, in the United Kingdom, P2P lending platforms are regulated by the Financial Conduct Authority (FCA). In the European Union, regulation is based on the European crowdfunding services license and is enforced by local authorities. In Lithuania, oversight is provided by the Central Bank [Omarini A, 2021].

The issue of protective mechanisms should also be considered in terms of the products offered, particularly in the capital markets. Such products include exchange-traded funds (ETFs) and mutual funds, which are designed to achieve investment objectives and include relevant mechanisms to prevent losses. From a security perspective, access to a peer-to-peer (P2P) lending platform or website requires strict control over the borrower's identification data, with an automated verification process that eliminates, for example, the lending to chronically unemployed individuals. P2P platforms do not offer a 100% guarantee on loans. To mitigate the risk of loan defaults, each borrower is automatically assigned a rating that influences the terms of the loan.

The standard service of P2P platforms includes fees for platform services, which are charged to both borrowers and lenders. The platform enables the assessment of borrowers' creditworthiness and provides convenient services for managing issued loans and collecting overdue debts. In international practice, specialized platforms offering P2P services typically charge a fee of 2-5% of the loan amount from the borrower and up to 1% for services from the lender. In all types of investments, especially among novice investors, the factor of behavioral economics is often at play, meaning the psychological tendency to trust the instruments of the stock market or P2P lending platforms. In practice, beginners are frequently swayed by emotions: emotional decisions can overshadow rational ones, leading to losses. Classic examples in stock market investing include emotional surges in attractiveness, the fear of missing out on high prices (FOMO/ Fear of missing out), frequent panic selling, and impulsive trading—selling at low prices. In the case of P2P lending, one manifestation of behavioral factors is the risk of investing in hopeless loans or fraudulent schemes while on the other hand, the tediousness of a uniform or routine process can be off-putting. In any case, the best way to balance an investor's behavioral approach is to understand that once money is invested, it is, in a sense, beyond their control. The most effective way to make rational investment decisions is to evaluate the risks associated with the investments.

For a novice investor, it is essential to develop an investment strategy that involves analyzing forecasted timelines and investment prices, as well as ongoing monitoring. To address this, operators in the stock market often utilize a "daily sales" system for financial instruments (such as stocks, currencies, futures, etc.). All positions created by traders are closed within the same trading day. At the end of the contract, the parties exchange the difference between the opening and closing prices of a specific financial instrument, governed by a "Contract for Difference" (CFD). The investor can either profit or incur a loss, depending on the chosen asset and the direction of its price movement. P2P lending platforms for novice investor-lenders require some effort to master, including an understanding of the methods used on these platforms. This directly influences the expected returns. From an investor's perspective, choosing a P2P lending platform takes more time compared to exchange-traded funds (ETFs) but less time than investing in individual stocks. P2P lending platforms necessitate that novice investors regularly monitor their portfolios on the chosen platform, track overdue and unreliable loans, identify such loans early, and adjust their strategies accordingly; otherwise, losses will be inevitable. P2P platforms should offer tools that enable beginners and small investors to automate their investment strategies to reduce the time and effort involved.

To identify the comparative advantages of investment instruments, assessing the level of liquidity is crucial. The liquidity of investments in the stock market, particularly in equities, varies significantly depending on the instruments and structures used. For example, exchange-traded funds (ETFs) typically have a relatively high liquidity ratio, unlike investments in specific or individual stocks. The liquidity of P2P lending platforms depends on the types of loans and the terms offered by each platform. Some platforms provide instant cash flow to investors, while others facilitate liquidity through the secondary market, making it unpredictable. In the case of high-yield loans on P2P platforms, funds invested by investors may be locked for months before they become accessible. Long-term assets in both classes pose challenges regarding liquidity, particularly when there is a need to alter or adjust the investment strategy. If short-term investments are preferred, the balance shifts toward P2P lending. P2P loans offer predictable returns, as the volatility of this asset class is significantly lower than that of equities.

An important component of investment decisions is the diversification of assets within the same class. Diversification of equities through stock exchanges employs well-known instruments, such as exchange-traded funds (ETFs), mutual funds, and others, or one can implement a personal investment diversification strategy. To diversify a P2P lending portfolio, an investor-lender can invest in: (a) secured loans; (b) specific types of loans; (c) loans across different industries; and (d) portfolios of top-performing lending platforms across various countries. In all cases, a high level of risk management is prioritized over expected returns. Under the tax regime, investments in stocks are subject to taxation on profits and dividends. Generally, losses from capital investments can be deducted from the taxable base. In the case of P2P lending, profits and individual income are subject to taxation, while losses from P2P loans typically reduce the taxable base.

An important behavioral factor, especially for small investors and beginners, is the accessibility of investment platforms. Investors on P2P lending platforms are required to register and navigate the system fairly easily. After completing anti-money laundering procedures and funding their own accounts, investors can begin investing. Typically, this process takes up to two days. Most platforms are automated to facilitate investment management. Another important issue is investment support. Typically, expectations for support in the stock market, especially concerning equities, are essentially limited. In contrast, most P2P lending platforms have effective support structures that provide access to information, including credit histories, financial statements, relevant statistics, and borrower credit ratings. P2P platforms offer more educational resources and practices for novice investors compared to traditional brokerage firms.

Thus, it can be asserted that assets of both classes possess distinct advantages and vulnerabilities, with investments in them largely depending on the investment strategy of novice, unsophisticated, and minority investors. It is worth to mention that online lending through "P2P" platforms aims to penetrate the financial market in Armenia. However, they have not yet shown significant signs of expansion and the mega-regulator represented by the central bank, has not responded to them. The effective deployment of "P2P" platforms will largely depend on their ability to effectively meet the needs of both investor-lenders and borrowers. The demand for loans on "P2P" platforms will depend on various factors, including the strategic decisions made by banks, their positioning, a trend towards more selective credit processes, the different dynamics between business and retail clients, a reduction in some types of loans, and an increase in demand for specific types of credit. Additionally, fostering a distinct culture of demand for fintech products among beneficiaries will play a crucial role.

An essential factor for enhancing the reputation of "P2P" lending platforms and building customer trust, which will in turn increase the number of lenders and borrowers, is the specialization of these platforms, their selective approach to lending, and effective risk management. Overall, risk management is a key to the success of "P2P" platforms, addressing the issue of information asymmetry between lenders and borrowers. A significant challenge is that this market segment will attract potential borrowers who lack a credit history. In this context, the effectiveness of "P2P" platforms in Armenia will depend on their ability to mitigate and manage credit risks.

As "P2P" lending platforms develop, there will be intense competition between these platforms and existing banks and financial institutions. One of the key advantages of "P2P" platforms is expected to be their flexibility through mobile applications. The products offered by "P2P" platforms will essentially resemble traditional loan types with conventional demand, but will feature a "new packaging" of ideas and innovative solutions, alongside enhanced online accessibility, speed, and cost-effectiveness. The system is novel in terms of scaling civil law relationships between lenders and borrowers on electronic platforms, which introduces new risks associated with these platforms.

The development of "P2P" lending platforms in Armenia may lead to the formation of specialized platforms tailored for specific types of investor-lenders and borrowers, or to multifunctional platforms. Drawing a parallel, it can be observed that specialized platforms have gained prominence in the e-commerce sector in Armenia; however, multifunctional platforms appeared to have greater potential in a market with limited capacity.

"P2P" lending platforms in Armenia will primarily facilitate more accessible working capital financing for businesses and meet the consumer credit needs of individuals. For both groups of borrowers, there will be a demand for loans aimed at restructuring existing debts, including outstanding loans. In the case of business lending, "P2P" investors should focus on educating themselves about the processes involved and monitoring the lending activities.

Conclusion

Lending and investing through "P2P" platforms can be metaphorically likened to the expansive deployment of leverage across the entire financial sector, creating a new financial landscape. In this fintech format, the potential capabilities and tools of the financial sector are significantly enhanced, projecting a virtual reality into practical applications that provide a multiplicative or synergistic effect for both financial service operators and their beneficiaries. Concurrently, potential consequences of these applications will need to be evaluated to avoid endorsing "pseudo-financial" technologies that could introduce new risks due to improper application of proposed approaches and solutions, potentially disrupting the established financial market in Armenia.

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Smbat DAVTYAN

The priorities of the RA financial sector during the sanctions war. the axes of lending and investment activation on online platforms

Key words: peer-to-peer lending, fintech, investment diversification, liquidity, asset volatility

The paper puts forward the claim that during the sanctions war, "P2P" lending and investment platforms can have priority demand and lead to a synergistic effect for the real sector of the economy. In times of sanctions and/or crisis, the entire economy, including financial market segments, require certain coping approaches that emerge in the form of new and related financial mechanisms, bringing forth new products and services.
"P2P" lending and investment platforms can become an effective alternative to investing in shares in the financial market of Armenia, especially for small and novice investors. "P2P" lending platforms in RA are still in their infancy. The international practice of "P2P" lending platforms is presented. The comparative strengths and weaknesses of P2P lending and stock market shares are highlighted, according to their criteria of profitability, security, affordability, liquidity and volatility. Certain mechanisms are proposed for the formation of a matrix of "P2P" lending platforms in the Republic of Armenia. The problem of the competition of the newly created "P2P" lending platforms with the existing institutions of the financial market is considered.