PREDICTABLE MODELS OF P2P LENDING MARKET DEVELOPMENT IN ARMENIA

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Key words*:* peer-to-peer “P2P” lending, “P2P” lending platform, model with segregated customer accounts, notarial lending model.

Introduction

Peer-to-peer (P2P) lending represents an innovative approach to credit provision, emerging as a significant player in the financial landscape. Through online platforms, P2P lending directly connects investors with borrowers, effectively circumventing traditional financial intermediaries. This model offers attractive returns for investors while simultaneously providing borrowers with favorable lending conditions, fostering rapid growth and a socially driven lending environment. With reduced overhead costs, P2P platforms can offer competitive interest rates tailored to borrowers' credit ratings, creating a mutually beneficial scenario for both parties. By aligning the interests of lenders and borrowers, these platforms challenge the conventional banking system and redefine the dynamics of credit access.

Methodology

In examining the development of the P2P lending market, it is crucial to acknowledge that this segment is currently in its early stages and remains relatively underdeveloped in Armenia. Nevertheless, international trends suggest that its influence is poised to become significant in the Armenian context. Therefore, the primary objective of this methodology is to proactively forecast and evaluate the potential consequences of P2P lending's growth, as well as its broader implications for the financial industry. By utilizing a comprehensive analytical framework, this study aims to provide insights that can inform stakeholders and policymakers as they navigate the evolving landscape of P2P lending.

Literature review

The literature review for this article draws upon a diverse array of scholarly works by various international researchers. Key contributions include the studies of Gustav Claesson and Marcus Tengvall, who explore the effects of institutional involvement in social lending in their work, "Peer-to-Peer Lending: The Effects of Institutional Involvement in Social Lending." Additionally, George A. Akerlof's seminal paper, "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism" (1970), provides foundational insights into market dynamics.

Further relevant studies include Neslihan Turguttopbas's examination of P2P lending in the U.S. and China, which serves as a guide for emerging markets, and Sasidharan Chandran’s analysis of risks and business models in "P2P Lending: Risks and Business

Models" (2019). Eugenia Omarini A's work, "Peer-to-Peer Lending: Business Model Analysis and the Platform Dilemma," offers a critical perspective on business strategies within the P2P sector. Additionally, Joans Schmidt's investigation into balance sheet lending and its' distinctions from typical P2P lending, published in 2021 contributes to the understanding of financial structures. The studies by ZHAO Yuohong and CHEN Jie, focusing on a trust model based on trust factors and feedback aggregation, along with the research by Xianfu Meng, Yalin Ding, and Yue Gong, which discusses a trust model in structured P2P networks, further enrich the discourse on trust and risk in P2P lending. Collectively, these sources provide a comprehensive foundation for understanding the complexities of P2P lending and its implications for the financial industry.

Scientific novelty

This study introduces a novel perspective on the interaction between the P2P lending industry and traditional banking institutions in Armenia, highlighting several key dimensions that have not been extensively explored in the existing literature.

- *Complementarity over Competition:* Unlike the prevalent view that positions P2P lending as a direct competitor to banks, this research posits that banks are beginning to perceive P2P lending services as complementary offerings. This shift in perspective has significant implications for strategic collaborations between these entities.
- *Impact of Technological Advancements:* The study emphasizes the role of technological innovation in driving the popularity of alternative lending methods, showcasing how P2P platforms leverage convenience and creativity to challenge traditional lending models. This insight contributes to a deeper understanding of market dynamics in the financial sector.
- *Regulatory Implications:* By analyzing the differing regulatory environments governing banks and P2P platforms, this research elucidates the potential for banks to act as transit agents in P2P transactions. This approach allows for the optimization of capital allocation and risk management, which has not been thoroughly addressed in prior studies.
- *Cost-Effectiveness of P2P Models:* The findings underscore the cost advantages of the P2P lending model, particularly its online nature and elimination of traditional overhead expenses. This aspect opens new avenues for financial efficiency that can benefit both banks and P2P platforms.

Overall, this research not only enhances the theoretical framework surrounding P2P lending and banking interactions but also provides practical insights that could inform policy and strategic decisions in the Armenian financial landscape.

Analysis

Empirical research clearly indicates that the P2P lending market in Armenia is still in its early stages of development; however, there is noticeable interest, and there are grounds to assert that there is confidence in the future growth of this industry. Consequently, at

this stage, the objective is to raise awareness among both individual and institutional investors regarding this emerging market segment. The Armenian market is at a preliminary phase where P2P platforms should act as intermediaries between equal or peer partners, facilitating the issuance of loans.

The most developed P2P lending markets in the world have emerged in the United States and the United Kingdom, where P2P loans have been referred to as a new and upcoming asset class. P2P lending platforms have experienced significant institutional participation from financial institutions. As a result of these trends, large financial entities have engaged in investments in P2P lending. In these countries, the P2P market segment has rapidly reached a stage where P2P loans are pooled to create a securitization base, enabling investors to trade securities backed by the underlying P2P loans on secondary markets.

It is essential to recognize that the demand for P2P loans in the global market has emerged from various market dynamics. In Western countries, particularly the United States and Europe, the initial demand for P2P lending arose in response to the financial crisis of 2009-2011. During this period, businesses faced significant challenges in securing corporate loans, leading to P2P loans becoming a viable solution for refinancing existing debt obligations. Also, another driving factor behind the growth of P2P lending in different countries and at various times has been the limited availability of credit coupled with elevated interest rates across multiple lending segments. This combination has created a favorable environment for P2P lending to flourish as an alternative financing option.

It is important to anticipate that P2P platforms in Armenia will undergo similar stages of development: first, establishing and expanding their operations, followed by scaling up, and ultimately seeking institutional collaboration with banks, which would signify a transition to the next stage of growth. Given that the P2P market is still in its nascent phase, potential mutually beneficial partnerships between P2P platforms and financial institutions are yet to materialize, highlighting the need to identify factors that could stimulate it. Firstly, for this growth to occur, the P2P market must increase in volume, thereby creating an investment rationale for the allocation of larger resources from commercial banks. In this way, the Armenian P2P market segment could begin collaborating with financial institutions and continue its natural evolution, akin to trends seen in the U.S., U.K., and other countries. However, this growth hinges on the scaling of P2P lending volumes. Moreover, it is essential to consider a second developmental option, wherein banks may also initiate the creation of affiliated P2P lending platforms. Notably, one Armenian bank, through its institutional investor, publicly expressed an intention in 2021.

The financial markets in which P2P lending platforms operate differ significantly from one another, and the lending conditions on these platforms can vary widely. A key factor influencing the development of the Armenian P2P market is the limited access to capital markets compared to the developed and many emerging economies. The fact that P2P

lending operates successfully in the U.S. and Europe does not imply that the same conditions will prevail in Armenia, as these are markedly different financial markets with distinct regulatory and compliance requirements. Nevertheless, the emergence of new players aiming to enter the market with consumer-friendly and accessible P2P lending formats represents a tangible opportunity for alternative sources of financing to meet demand in this segment.

Empirical research indicates that, at present, "peer-to-peer" (P2P) lending in Armenia lacks clear grounds for a surge in demand within any specific lending segment. However, consumer lending may emerge as a more promising area for breakthrough. That said, significant time and effort will be required to develop financial engineering for transactions on Armenian P2P platforms, establish appropriate market practices, and thereby substantiate and standardize small consumer loans to create a meaningful volume of P2P lending. It is also important to consider that the consumer lending market within the banking sector in Armenia has experienced rapid growth, with all major banks and credit institutions implementing strategies to increase their market share. This raises the question of what will drive the demand for P2P lending in Armenia. Key criteria will include the adaptability of P2P models for dissemination through various communication networks, as well as their overall accessibility. Consequently, it is crucial to focus on these areas and monitor their developments. Another significant aspect to consider is that the large sizes of markets in the U.S., U.K., and other developed countries allow for specialization in P2P lending. The Armenian market, however, is not comparable in scale. Thus, at an empirical and expert level, it is reasonable to emphasize the competitiveness of universal-type P2P platforms, as evidenced by the established banking and insurance sectors.

Overall, to forecast the stages of development and scenarios for P2P lending, it is advisable to adopt a simplified, step-by-step development process that may elucidate the potential trajectory of the P2P market in Armenia. Currently, the activation of the P2P segment may be influenced by macroeconomic factors such as high inflation, increases in the Central Bank of Armenia's lending rates, and rising demand for credit. However, it is important to note that these trends are of a short-term nature. The primary motivation lies in the entry of new lending players into the market, each with their own risk-return matrix, accessibility, transparency, and niche offerings in risk management.

To foster the development of the P2P lending market, it is essential to recognize that the Armenian P2P lending market can evolve not through competition but through collaboration with banks, as they operate in different risk segments. Initially, P2P platforms must demonstrate the effectiveness of their models and build a sufficiently significant portfolio. This will serve as the foundation for a natural process of interaction between P2P platforms and banks. In the beginning, it would be prudent for both parties to refer clients to one another based on their specific goals and client profiles. In the second stage, we

can expect banks to start investing in P2P platforms. Notably, American commercial banks frequently directed declined borrowers to P2P platforms. The advantage of this approach is that a bank can refer a high-risk borrower to a P2P platform, while the platform can direct borrowers to the bank, ensuring that these individuals have access to more suitable, targeted, and potentially more affordable loans, whether from the bank or the P2P platform. Such partnerships have been successfully implemented in P2P platforms in the United States. The next phase of cooperation or partnership will involve periodic investments by banks in P2P platforms, allowing the bank to become a kind of institutional portfolio investor in the P2P space.

The third, long-term phase will involve P2P platforms, potentially in collaboration with other financial institutions, pooling P2P loans for securitization. While this may seem utopian today, it is worth recalling that Armenian credit organizations have previously had experience with implementing a pilot project for the securitization of credit assets in 2015. Large portfolio investments from banks could indeed enable P2P platforms to offer more loans to their borrowers at lower interest rates. The key question is whether banks in Armenia would be willing to invest in high-risk consumer loans and if they would be more open to investing in business loans. The argument in favor of such partnerships is that they would help banks diversify their risks, especially under the pressures of regulatory oversight. For example, a bank could invest 1 million currency units in a P2P platform, thereby quickly allocating these funds across 100 different borrowers without the labor-intensive and tedious process of assessing each borrower's creditworthiness. This could become a significant trend and a vital source of growth for the P2P market. By shifting away from cumbersome small consumer loans, banks could focus on medium and large clients, particularly in the realm of business financing. This represents a plausible scenario for the development of the P2P lending segment, where the real competetors to P2P platforms may not be banks, but rather credit organizations in Armenia. Compared to these organizations, P2P platforms would likely have a clear advantage in pricing policies and accessibility for clients.

Another potential avenue for scaling P2P platforms in Armenia should be considered. Given the limited capacity of the Armenian lending market and the considerable competetion, Armenian P2P platforms should aim to enter new markets within the Eurasian Economic Union (EAEU), particularly the Russian market. In light of the stringent and unprecedented sanctions imposed on Russia by Western countries, especially in the financial sector, this could be a promising strategy. One option could be to acquire an already established company in Russia, which would circumvent the labor-intensive processes of licensing and registration. This move would also represent an investment in Russian Federation during a time of severe financial isolation, which would likely be welcomed by Russian financial authorities. Another aspect to consider is cross-border transactions for

P2P loans within the EAEU. Although Armenia is a member of the EAEU, there are complexities associated with lending to other countries within the union. The EAEU is working to harmonize financial markets, but it is important to note that the challenges extend beyond the unification and alignment of legal frameworks. Rather, they lie in the informational design of business and consumer practices. For the successful execution of lending agreements, behavioral, social factors are particularly crucial, and these don't appear uniformly across all EAEU states. This issue transcends mere legal harmonization.

In addition to consumer lending, another avenue for increasing P2P lending volumes in Armenia could be the entry of P2P platforms into the business lending market, which, under certain conditions, may reveal significant potential for P2P financing. It is important to consider specific indicators that suggest P2P lending in Armenia may also deepen into the business credit segment in the future. Firstly, it is crucial to recognize that financial institutions may now show interest in this high-risk market segment, which they previously overlooked. Notably, parallels can be drawn from Sweden, where platforms like "Savelend" and major banks such as "Swedbank" do not perceive the P2P market as a loss of clients for commercial banks [Claesson & Tengvall, 2015, 47]. This is particularly relevant in a context where the Swedish credit market provides excellent access to financing from both commercial banks and "ALMI Företagspartner AB" (Almi)[1]. Lastly, ALMI is a unique government credit institution in Sweden that covers approximately 50% of all businesses seeking financing from commercial banks that are denied funding. In contrast, Armenia lacks a developed capital market and does not have an institution comparable to Sweden's ALMI. This is not comparable to the performance of Armenia's state organization, the "Armenian Development and Investment Corporation," which has a credit and leasing portfolio totaling only AMD 12 billion[2]. In this context, commercial banks that are not interested in financing high-risk borrowers – who are precisely the target of P2P companies – are unlikely to view P2P lending platforms as competitors. A key factor here is that they operate at different levels of risk. The initial challenge for the P2P market is to demonstrate its effectiveness, thereby convincing financial institutions that there are opportunities for investment and collaboration within the P2P lending sector. These potential portfolio investments from banks could be facilitated through P2P business loans.

Thus, a potentially effective segment for P2P platforms to focus their efforts on would be consumer and/or business P2P loans. While the latter may seem attractive, it could also

[1] ALMI Företagspartner AB (Almi) provides consulting services and financing in the form of loans and equity capital at all stages of entrepreneurship, from concept to business success. Almi's services are designed to complement the private market in meeting the financing and consulting needs of companies. https://www.government.se/government-agencies/almi-foretagspartner-ab-almi/

[2] https://dica.am/wp-content/uploads/2021/07/DICA-FS_2020_ARM.pdf

entail entering high-risk segments, specifically targeting entities that have been denied financing from commercial banks. By comparing the emergence of the P2P lending market in Armenia with global trends, we conclude that while market factors for increasing demand for P2P loans do exist, they are not as robust as in developed economies. Nonetheless, they have specific elements that can facilitate development. Armenian P2P platforms should seek alternative segments to achieve greater lending volumes. Among the specific factors affecting the Armenian financial market, we must emphasize the insufficient access to capital markets, high interest rates in the lending market, and the absence of a government entity similar to Sweden's ALMI.

In the Armenian P2P market, one of the significant issues is the assessment of borrowers' creditworthiness and their eligibility for lending on the platform. The fundamental solution revolves around two options: simplifying the verification process for borrowers, thereby increasing lending volume, or intensifying the evaluation of borrowers to maintain the reputation of the P2P platform. P2P platforms have strong incentives to streamline the borrower selection process, which would allow them to attract more high-risk borrowers, but this could also lead to adverse selection in the market. As more high-risk borrowers are accepted, the proportion of low-quality loans in the market will rise resulting in what is known as the "lemons problem." [Akerlof, 1970].

Overall, this phenomenon is inherent in financial markets and arises from the impact of asymmetric information on the value of investments between the parties involved in a transaction. A lower quality of borrower verification and assessment will lead investors to either fund substandard or non-standard borrowers or to lose confidence in the risk evaluations provided by P2P platforms. This will result in greater diligence among investors when selecting loans for financing, potentially leading to discriminatory situations between investors and borrowers. One of the key issues in the development of P2P platforms in Armenia is the selection of loan distribution models among investors. It is important to consider the lessons learned from international practices in effectively establishing P2P lending in the Armenian market.

All transactions on P2P platforms are based on web-based lending technologies, and the business models of different companies vary significantly. However, there are common foundations for all P2P platforms. First, unlike bank deposits, investors on these platforms do not have the guarantees associated with traditional bank deposits, meaning that in the event of borrower default, investors may have no claims on their invested capital (an exception being the trust-based P2P lending model, as discussed below). The interest rate for borrowers can be determined either by the platform itself or through a secondary auction among potential investors. In general, the P2P lending market is typically divided into several distinct groups of business models, among which three are particularly pre-

valent[1]: 1) Traditional Model, 2) Client-Segregated Account Model, 3) Notary Model. The remaining four models are quite specific and include: 4) Guaranteed Return Model, 5) Invoice trading/ factoring, 6) Balance sheet model, 7) Trust Model.

The business of P2P lending began with the traditional or basic model (Traditional Model), known as "full credit" funding, where a single investor finances the entire loan for the borrower. Individual loan agreements are established directly between borrowers and lenders, rather than with the platform. The funds and contractual obligations are kept separate from the platform's own accounts, while the platform operator generates revenue through commissions charged to the parties involved, such as account setup fees, loan issuance fees, and ongoing loan servicing fees. Platforms often facilitate the loan selection process for lenders by providing credit risk assessments, which are typically condensed into a single credit rating or score derived from either an external provider or an internal credit scoring system.

The basic business strategy was subsequently reformatted into a model known as "fractionalized or segregated credit," where the invested capital is divided among numerous loans (fractionalization), allowing the investor to co-own multiple distinct loans. In this model referred to as the "Client-Segregated Account Model," the P2P platform issues pass-through certificates in accordance with the agreement recognizing the investor's right to a specific portion of the loan. In contrast to the "full credit" model, where the investor holds ownership of the entire loan, this approach allows for diversified exposure to multiple loans[2].

The Client-Segregated Account Model represents a low-intervention approach, minimizing the involvement of the P2P platform as an intermediary in facilitating loans between borrowers and investors. Once investors are matched with borrowers through the platform, the investors' funds are transferred to a segregated client account before being disbursed to the borrower. All funds from both borrowers and investors are kept separate from the platform's balance sheet, and by passing through a legally distinct segregated client account, the company bears no claims in the event of platform failure. This means that contractual obligations remain enforceable between borrowers and investors even if the platform defaults.

Thus, the P2P lending business can be significantly more attractive when loans are bundled into a portfolio, allowing for investment and risk distribution rather than being

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[1] FinTech credit Market structure, business models and financial stability implications Report prepared by a Working Group established by the Committee on the Global Financial System (CGFS) and the Financial Stability Board (FSB) Bank for International Settlements and Financial Stability Board 2017, page 10-17, https://www.bis.org/publ/cgfs_fsb1.pdf

[2] Funding Sources - P2P Lending, Loan fractionalization, 17 Mar 2022, https://support.mambu.com/docs/funding-sources-p2p-lending

limited to a single obligation. Acquiring a portfolio of corporate loans, where two out of ten may default, provides a higher level of security compared to the risk associated with a single loan. However, creating a loan portfolio on platforms requires a larger volume of loans.

To automate processes on Armenian P2P lending platforms, these platforms should adopt a first-served model with pre-set interest rates, as this system dominates the global market and has proven effective due to its clarity and transparency, attracting a significantly larger number of participants compared to more complex systems. Historically, P2P lending began with an auction-based distribution method, which allowed for the allocation of loans among investors on the platform. For instance, in a "Vickrey" auction – a type of sealed-bid auction commonly used by online auction companies – the loan was financed by the investor who submitted the lowest bid, but the interest rate paid was actually the second-lowest bid. However, after Lending Club introduced a much simpler method of loan distribution with pre-set rates and entered the market in 2006, it quickly surpassed Prosper within just three years. The latter also decided to transition from the auction-based distribution method to the pre-set rate distribution model.

In the Notary model, a commercial bank issues a loan and distributes it on the platform, which in turn allocates it among primary investors. The investor can either hold the loan until maturity or sell the bond on the secondary market to both individual and institutional investors. In this model, the P2P platform acts as an intermediary between investors and borrowers, bringing them together. When borrowers access the platform and request a loan, the P2P platform evaluates the risk and assigns an interest rate to the borrower based on their creditworthiness, similar to the Client-Segregated Account model [Omarini, 2018].

When an investor deposits funds into the platform and the necessary amount for issuing a loan is reached, the loan is considered issued. However, instead of the platform issuing the loan, the process is managed by a commercial bank. The bank grants the loan, and a loan note is exchanged between the bank and the borrower, with the P2P platform acting as an intermediary in the transaction. The platform immediately purchases the loan from the commercial bank and receives a loan note (platform note) in return. Since the investors' funds are transferred to the platform, deposit guarantees do not apply to the investors, as the funds are never credited to the bank's accounts. This model is particularly popular in the United States, where platforms like Lending Club and Prosper are expanding their collaborations with commercial banks. The fee structure in this model is similar to that of the Client-Segregated Account model. This model could serve as an accelerator for a surge in P2P lending in Armenia.

The second group features the "guaranteed return" model, in which the platform operator guarantees creditors the repayment of the principal and/or interest on the loans. Typically, a third party acts as the guarantor.

Among the less common models is the "invoice trading model." Businesses utilize accounts receivable financing (or factoring) services to manage cash flow, as this allows them to sell invoices or receivables to a third party, providing immediate liquidity at a corresponding discount. In this context, it is important to differentiate between recourse factoring and non-recourse factoring. In a non-recourse factoring model, the factor not only purchases the business's receivables at a discount in exchange for liquidity but also assumes the risk of default by the end debtor, i.e., the credit risk. Conversely, in the recourse model, the risk of non-payment or default remains with the original creditor. Due to the associated credit risk, intermediaries providing non-recourse factoring may establish a minimum turnover threshold for business acceptance. In these cases, the model may be less suitable for startups, freelancers, and other self-employed individuals.

"FinTech" platforms for invoice trading typically target the startup and small business segment, offering recourse factoring and providing more flexible services than traditional players. These services include: automated invoice processing; shorter turnaround times between invoicing, processing, and liquidity provision; lower minimum turnover thresholds or factoring of individual invoices; and confidentiality in financing for debtors. The ability to quickly obtain small amounts of unsecured funding means that such fintech platforms are more likely to extend credit to startups or small business clients than traditional factoring providers. Meanwhile, there are some platforms that facilitate accounts receivable financing for large multinational corporations. In some cases, receivables may be securitized before they are traded.

In "P2P" lending, there is also the "Balance Sheet Lending" model [Schmidt, 2021]. In balance sheet lending (also known as portfolio lending), the platform organization provides a loan directly to the consumer or business borrower. The loan is recorded on the platform's balance sheet, hence the name. The process of obtaining a loan is straightforward, similar to that of a bank.

The main difference between standard P2P lending and balance sheet lending is that in peer-to-peer lending, the platform does not lend to the borrower. Instead, it connects borrowers with investors who independently enter into loan agreements. In balance sheet lending, the P2P platform effectively assumes the risk and bears direct responsibility for any losses. This model is closer to traditional bank lending and typically requires the platform to hold a license. Loans in balance sheet lending are a liability of the balance sheet lender – the platform. If the borrower fails to repay the loan, the balance sheet lender (the platform) ultimately loses its own funds. This is a key distinction from P2P lending, where the lender is a peer investor financing the loan indirectly provided by the

platform, rather than the platform itself. Thus, the platform earns revenue from both fees and interest payments on the loans. In effect, the platform also takes on credit risk, which impacts its cost structure and funding process. One of the main costs in balance sheet lending is the cost of capital required to provide the loans. Most platforms have external credit lines for which they must pay to extend loans. Since the balance sheet lender assumes the risk of the loan itself, another significant expense is related to covering losses from bad debts. Similar to banks, the difference between the cost of capital and the interest rate charged to borrowers is known as the net interest margin.

There is also a more complex type of client-segregated account model based on a trust fund (Trust Model), where investors purchase shares in a trust structure, with the P2P platform acting as the trustee and managing the fund. Loans are provided through the trust using contributions made by investors. By investing according to the investors' instructions, the trust allows for capital diversification to distribute risk.

The goal of the trust fund is to create a diversified portfolio that appeals to investors who may be less familiar with the concept of peer-to-peer lending, while also being attractive for alternative investments. Since the trust is legally separate from the platform itself, this means that investors are protected from losing their invested capital in the event of the platform's bankruptcy [Meng et al, 2002]. This model may be complex for the emerging P2P lending market in Armenia; however, it should also be considered as a potential option. Among the models of P2P lending discussed above, the client-segregated account model and the so-called notary model are the most preferable for Armenia's nascent market. In practice, two processes are occurring in Armenia: on one hand, independent P2P lending platforms are emerging, and on the other hand, commercial banks are attempting to launch similar projects. An example of the first trend was the decision in November 2021 to create a joint P2P platform, "City of Money," with Russian-Italian investors aimed at developing small and medium-sized enterprises in Armenia. An example of the second trend is the announcement in 2021 by Unibank regarding the prospects of launching P2P lending, which, according to a bank representative, will allow individuals to provide mutual loans to each other using the bank's platform. "We are already taking steps in this direction," the statement noted [Zakaryan, 2021].

Conclusion

It is well known that the financial sector is one of the most heavily regulated industries, which explains why emerging markets, such as the P2P market, cannot be easily established. However, the mega-regulator in the form of the Central Bank of Armenia has not rushed to establish rules for P2P lending players, which also instills a certain optimism for the development of processes in this area.

When considering the impact of the P2P lending industry on banks in Armenia, we can empirically project lessons from global practices onto our reality based on the following observations:

- *Complementary Services:* Banks have started to view P2P lending services as complementary rather than competitive institutions. Banks in the US and the UK have created their own P2P platforms or begun collaborating with existing ones. The goal is to make credit accessible to consumers who do not fit into the traditional lending model or who are not eligible for it. This has involved using social credit scoring in P2P lending, leveraging information from the applicants about their financial behavior and data collected from social sources.
- *Rising Popularity of Alternative Lending:* Alternative lending methods have become increasingly popular due to their convenience, creativity, and technological advancements. P2P lenders have expanded the scope of their services, posing significant competition to traditional lending schemes.
- *Regulatory Requirements:* Banks face regulatory capital requirements and other obligations, whereas P2P platforms essentially do not have such constraints. When a bank collaborates with a P2P platform under a notary lending model, it does not need to allocate much capital, as it acts more like a transit agent for funds, though there remains some risk. Hypothetically, the growth of P2P lending and the easy availability of loans at competitive rates could lead reliable borrowers from the traditional banking sector to migrate to P2P platforms, resulting in banks ultimately lending to less creditworthy borrowers. However, this scenario is quite marginal.
- *Cost-Effective Operations:* The P2P lending model is low-cost, fully operational online, eliminating the need for traditional bank branches and other overhead expenses. To optimize and streamline their operations to reduce costs, banks are adopting best practices from the P2P lending model, transitioning to digital technologies and enhancing customer service through smart data usage and analytics.

The above points suggest a potential for mutually beneficial cooperation between banks and newly established P2P platforms in Armenia.

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Predictable models of P2P lending market development in Armenia

Key words: peer-to-peer "P2P" lending; "P2P" lending platform, model with segregated customer accounts, notarial lending model.

The article observed the predicted models for the development of the P2P lending market in Armenia. A comparative trend in the development of P2P lending platforms in developed countries is given, and those factors in the Republic of Armenia that can stimulate the n "P2P" platforms. Among them, the segregated customer account model and the notary lending model are preferred. All comparable factors point to mutually trusting cooperation between banks and newly created P2P platforms in the Republic of Armenia. The barriers to entry in the financial sector are among the highest compared to other industries, and this is one reason why there are still relatively few competitors, at least in the Armenian market.