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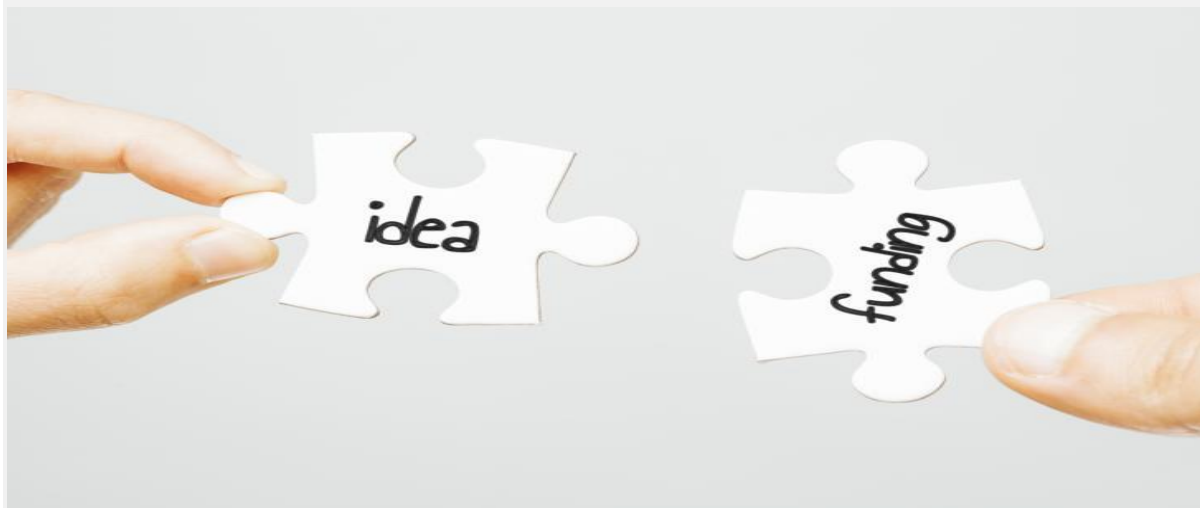
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MOOLAHSENSE: GROWTH OF A PEER-TO-PEER LENDING PLATFORM

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Lawrence Yong started out trying to meet the needs of underserved SMEs, and now even listed companies are using MoolahSense

Eyebrows were raised when Epicentre Holdings Limited, a reseller of Apple products, raised S\$1.5 million on Singapore-based peer-to-peer (P2P) lending platform, MoolahSense. The issuer is a subsidiary of Epicentre Holdings, which is listed on the Singapore Stock Exchange's junior board, Catalyst. The first two tranches of S\$500,000 each were fully subscribed within 26 hours, while a third tranche listed three days later was completely taken up in a week.

Epicentre Holdings would have had little trouble getting a bank loan given the amount involved and its company profile (revenue for FY2015: S\$178 million). But at a nominal interest rate of 13.5 percent, it might be better than what banks could offer. Whereas banks could take up to 90 days to process paperwork and release funds, Epicentre got its money within a month.

“Actually, many of the (borrowers on MoolahSense) are bank-eligible customers,” reveals **Lawrence Yong**, founder and CEO of MoolahSense. “Perhaps the banks couldn’t give them a solution that they were looking for with regard to speed of approval or flexibility of repayment. Also, banks typically do not focus on short-term lending. If they approve your case, they would prefer to give you a three-year or five-year loan so that it justifies their interest margin.

“For us, our longest tenure is 12 months, and some business owners prefer (going through crowdfunding) especially if it’s for transactional or trade-related matters; why lock yourself into a long-term liability?”

P2P = Speed and flexibility

Indeed, Epicentre's three tranches were for the purpose of “Working Capital” as per MoolahSense's website. Even taking into consideration a two to four percent fee on the debt

issue for a successful listing – “If it’s a three month product, we charge a lower fee” – dozens of small and medium enterprises (SMEs) have gone ahead and successfully listed some 45 debt issues in total.

“When we started we only had one product, which was the equal instalment loan for 12 months,” Yong explains the business’s evolution. “Thereafter, after hearing the voice of our customers who desired more flexible short terms solutions, we introduced other repayment methods that span from three months to 12 months.”

The market mechanisms have also been fine tuned. Where MoolahSense auctions used to be conducted on an auction basis where offers with the highest lending rates were eliminated by lower ones once an issue is 100 percent funded, borrowers now have the option to go for “first-come-first-served” auctions which are closed once funding targets are met.

The speed with which the Epicentre listing was completed suggests plenty of demand among investors for fixed income opportunities offered by P2P platforms, but some lenders are ignorant of or choose to overlook the fact that debt default is a possibility.

“In terms of default rates, one needs to be clear on what it means to default on a debt,” Yong explains in a presentation at a recent SMU Institute of Innovation & Entrepreneurship talk. “In the credit business, that means to be 90 days in arrears. With respect to that number, we have zero. Do we have notes that are 60 days late? Also zero. Do we have loans that are late? Yes we do.

“We have a recovery process for investors if there is late payment. If a company is late for 30 days, we’ll call up the company or send them reminders to pay up. If they pay up – with charges to compensate the lender for being late, of course – then everything is fine. If companies cross the 30-day threshold, it could signify financial strain.

He adds, “As such, we’ll need to find out what the issues are and, if need be, activate debt collectors – not the ones that get featured in the press,” referring to illegal loan sharks, sparking laughter amongst the audience. “Or we could institute legal action if required.”

REGULATION NEEDED

Current Singaporean laws do not cover the P2P lending sector, or have loopholes that can be exploited that render platforms free from regulation. That raises the fear of rogue platforms that have plagued the Chinese market, with Ezubao (e租宝) being the latest in a long line of P2P lending scams on the mainland.

“The thing about China is that there was no regulation, and therefore the P2P lending sector grew really quickly and became a multitrillion industry that is part of the shadow banking sector,” Yong says. “The flip side of that is the proliferation of shady operators.”

With regard to Singapore, Yong adds: “We advocate for MAS to implement regulations for the P2P sector for it grow healthily. With regulation, there will be common standards. If it’s not regulated, any rogue operator can come in and give all P2P platforms a bad name. You only need one bad hat to do that.

“If there are regulations, there will be a level playing field, then it helps with investor protection. When investors participate in a regulated activity, at least they know someone is has oversight of what is going on.”

GOING MAINSTREAM

With P2P lending's emergence, banks have moved in for a slice of the pie. Earlier this month, MoolahSense and another P2P lending platform, Funding Societies, inked a cross-referral agreement with Southeast Asia's largest bank, DBS Bank.

Under the deal, DBS would refer smaller businesses that do not qualify for loans to MoolahSense and Funding Societies. The two platforms would refer borrowers who have successfully raised two rounds of debt issues to DBS.

"I think banks are very interested in this space," Yong muses. "With regard to the incumbent banks, we are not competing with their business. Incumbent banks might want to work with us because if we are able to serve the customer they are not serving, then there is synergistic value.

"A lot of SMEs become long-term customers of a bank because they remember the first bank that supported them with a loan to grow the business. If a bank has a customer at the gate but had to turn them away, and this customer goes to another bank and becomes a long-term client, then it's a loss."

In the meantime, Yong appears to be making good on his goal of "meeting the needs of the underserved in the financial system", referring mainly to SMEs. What is next for MoolahSense?

"First, it's to have this business take root in Singapore, and then we expand throughout Southeast Asia. We'll remain focused on SME lending, delivering solutions targeting this business segment.

"There could be different product extensions going forward. Our products now are limited to one-year tenures, but we could extend to longer tenures with collaterals. We could also expand into factoring or invoice discounting."