



Financial services 2.0

How social computing and P2P activity are changing financial research and lending

August 2006



Do not dismiss the power of consumers in the internet. To some, social computing and P2P (peer-to-peer) activity appear to be just more irrelevant remnants of the dot com era. This view ignores the sheer volume of information, opinion and services transmitted directly between ordinary consumers over the internet. Each day, for instance, volunteers create close to 10,000 articles for the online encyclopaedia Wikipedia. [see chart 1](#)

Blogs propagate information and opinion. Close to 40% of US internet users read blogs, user-written online diaries on a variety of topics. This illustrates how easy it is for consumers to follow the experiences of many other users (accurately presented or not) before taking decisions. [see chart 2](#)

Social computing can augment to commercial success. Some of the best-performing internet firms rely on user-created content to enrich their services. Customers love to share their views on products they own. Amazon, an internet retailer, publishes such comments to inform undecided shoppers. Other ventures take the idea even further. [see chart 3](#)

Consumers use online information and opinion before taking financial decisions. The majority of European consumers shop around before buying financial products. This increases the importance of information sources such as the internet, which reveals conveniently where prices are cheaper and services better. [see chart 4](#)

Information exchanged directly enjoys a high level of trust. Consumers trust the advice of friends – this may also include online acquaintances – and family members more than advice from any other source. [see chart 5](#)

P2P lending is the oldest form of credit. But prior to the internet this was restricted to people who knew each other well enough to be confident that the loan would be repaid. Zopa in Britain and Prosper in the US are new internet ventures that are trying to broaden that circle by bringing lenders and borrowers together online. [see charts 6 and 7](#)

Peer pressure makes up for the lack of personal commitment that would ensure repayment or, at least, shame if not. Prosper encourages borrowers to join groups of individuals. If all repay on time, the group reputation goes up making loans cheaper – or otherwise it goes down. Hence, the group pressures for timely capital service. Also, lenders typically allocate only small amounts to each borrower and thereby diversify their risk. [see chart 8](#)

Some like to lend money to “real people”. It is not clear whether P2P lending over the internet can ever be more than a niche product given the services and economies of scale of traditional banks. But P2P lending also comes with an anti-establishment twist: Prosper allows borrowers to explain why they need the money and lenders may decide whether this is a worthy cause in their view. And social intentions can be an important driver – as growing investments in socially responsible assets suggest. [see chart 9](#)

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Users create content

New articles per day in Wikipedia

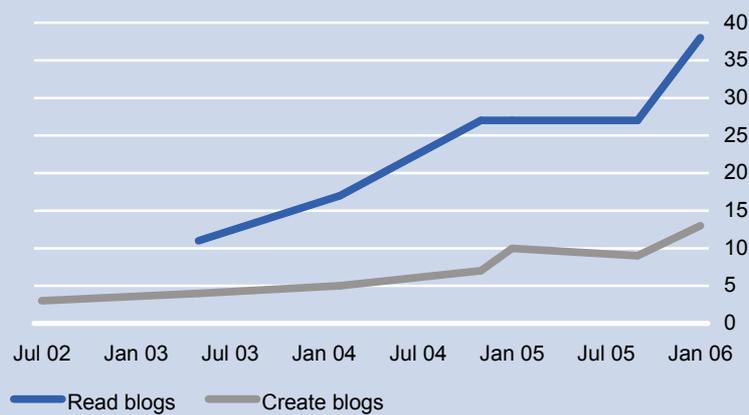


Source: Wikipedia **1**

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Blogs propagate information and opinion

% of US internet users who create or read blogs



Source: Pew Internet and American Life Project, 2006 **2**

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How business uses social computing

Examples	Method	Business value*
Amazon, Ciao DooYoo	Customers read and write product reviews and give recommendations	Advertisements, sales, brand loyalty
Amazon Mechanical Turk	Marketplace for routine jobs, people are better at than machines (e.g. picture recognition)	10% commission
Flickr, YouTube	Users share photos, videos and other content	Advertisement, premium services
Google Answers	Users pay other users for answering their questions	50 ¢ listing fee 25% commission
MySpace, OpenBC	Online communities to create and manage personal and business networks	Advertisements, premium services

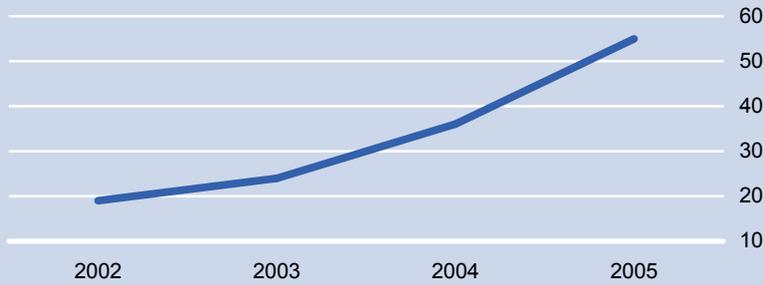
*Does not necessarily apply to each example

Source: DB Research **3**

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Consumers pick and choose

"I always shop around for financial products", % European consumers



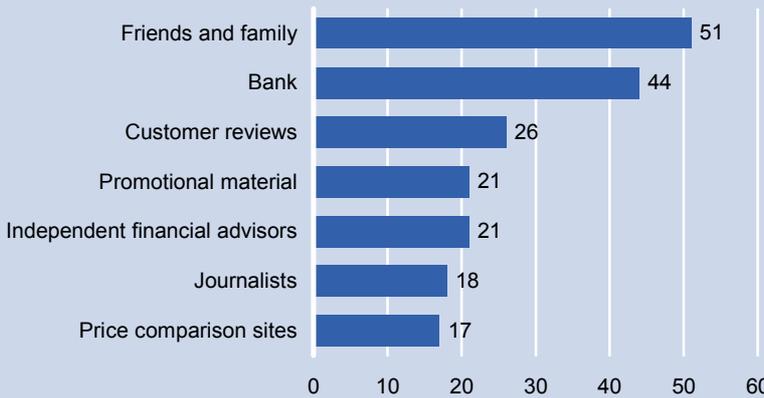
Source: Forrester Research Inc., 2005

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Consumers trust word of mouth

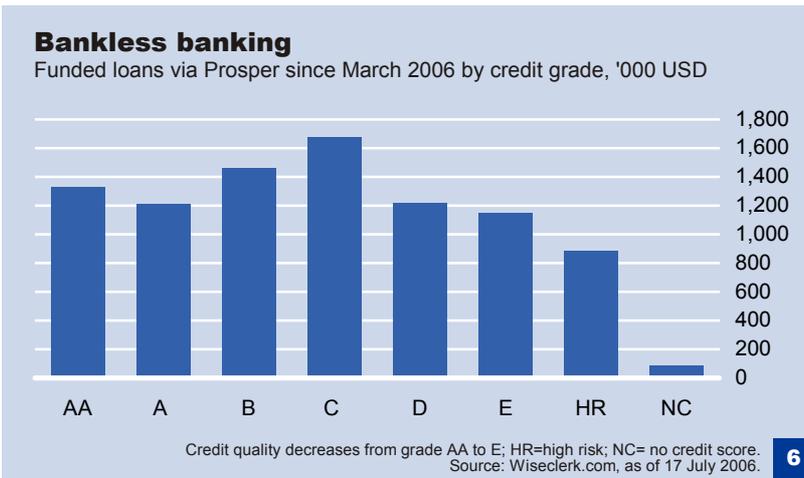
% of European consumers who greatly trust or somewhat trust the following information sources when taking financial decisions, 2006



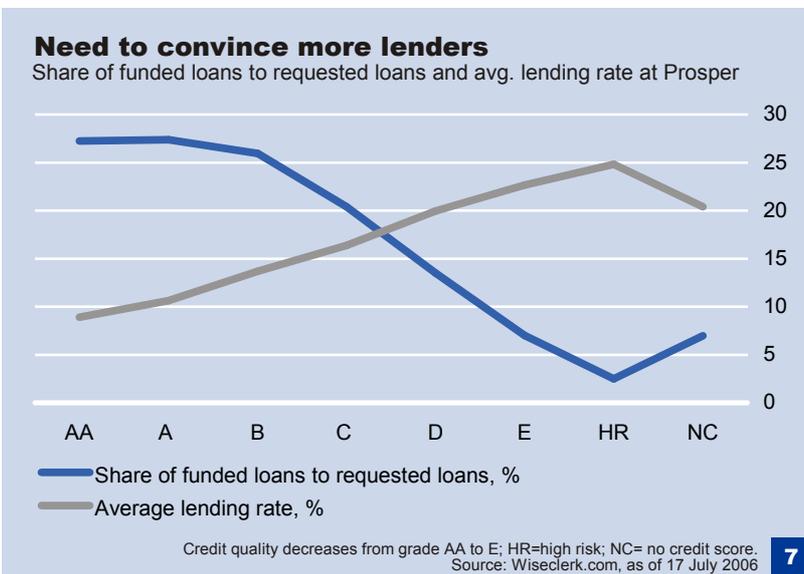
Source: Forrester Research Inc., 2006

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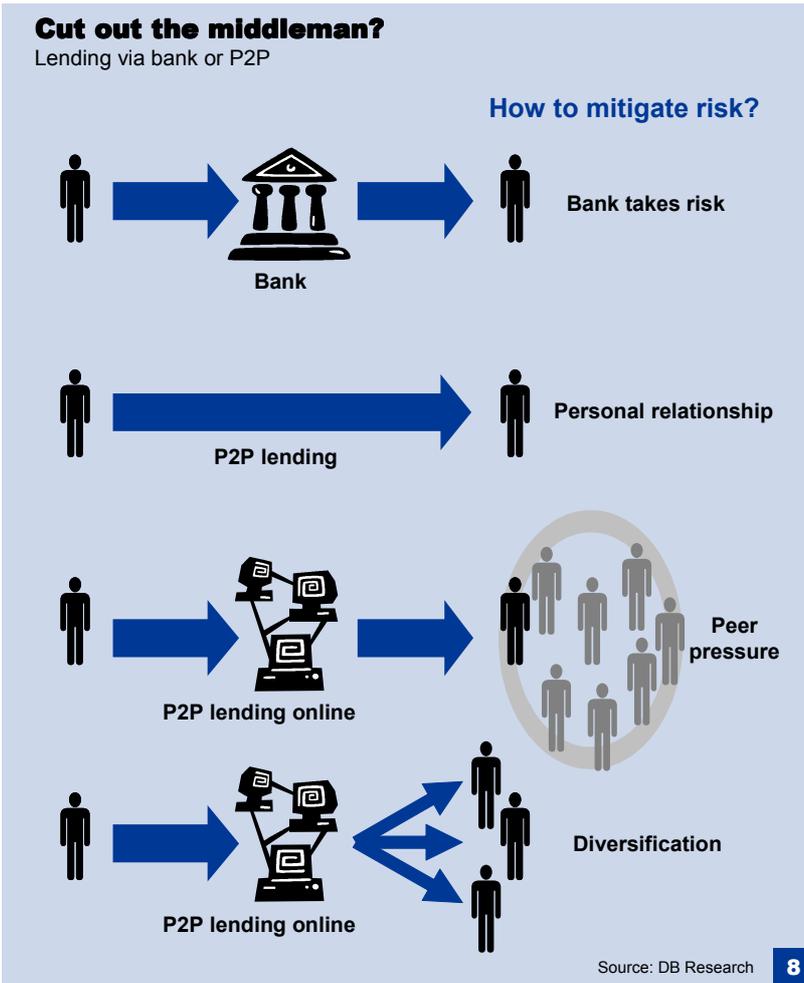
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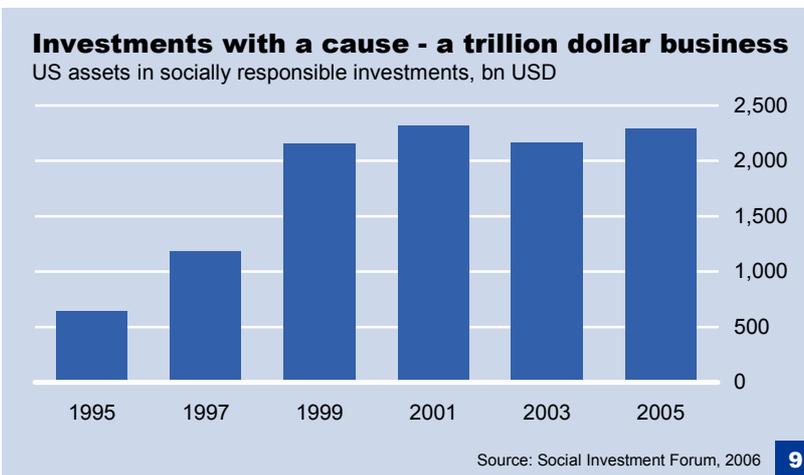
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The somewhat low number of successful loan bids – at present, less than 30% of bids even by high-quality borrowers are funded – suggests that more people need to be convinced to lend money. [back to front page](#)



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