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Borrower-Generated Content

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ABSTRACT

This article explores online social lending, an innovative venture that represents a reintermediation in financial services. Borrowers and lenders now have access to online financial information services such as Motley Fool, <http://www.fool.com/>, and the opportunity to communicate directly with each other online, sharing user-generated content, in the spirit of Web 2.0. In this environment, new possibilities emerge. Drawing on the literature of community banks, finance, and online banking, we conducted a structural analysis of ZOPA(2007) a newly founded venture in online social lending whereby borrower-lender interactions take place within an open and transparent environment using discussion boards and blogs. ZOPA offers a service as an intermediary but one that differs from the intermediating role played by a traditional bank.

We analyzed the possible attractions and risks of ZOPA's service to customers, from the perspective of social lending and social networking, using public data from ZOPA's website. Our intention is to understand the nature of this reintermediation and explain the development of this process through Giddens' propositions.

Keywords

Structuration Theory, Reintermediation, Social Lending, Web 2.0

INTRODUCTION

Web 2.0 is a definition coined by Dale Dougherty (O'Reilly, 2005) that characterises Web Services as not so much a static and unilateral source of information, but rather as levers of collective intelligence. Web 2.0 generally implies applications such as Wikis, Blogs, Podcasts, and media sharing sites that encourage interaction and sharing between users: in other words user-generated content. The collaborative tools badged as Web 2.0 foster more opportunities to plan and perform new research approaches in the market field. The continuous expansion of Web 2.0 encourages the analysis of constantly changing social and media contexts (Cooke & Buckley, 2008).

Web 2.0 tools have been implemented in a variety of sectors, because they offer opportunities to attract more customers. Different business areas have already embraced Web 2.0 technologies like the travel and tourism sector where customer reviews have been found to be more influential than expert reviews (Constantinides & Fountain, 2008). In the financial services sector, there is evidence of the use of Web 2.0 technologies:

WellsFargo & Company (<http://www.wellsfargo.com>), a diversified financial services company, with branches in North America and other countries, has implemented blogs in their website (<http://blog.wellsfargo.com/>) where customers can write their comments or ask questions about student loans or managing debts. Also WellsFargo has an online virtual world where customers can learn about money management. They can also join a Facebook group and make comments in WellsFargo blogs.

Bank of America has launched the Small Business Online Community (<http://smallbusinessonlinecommunity.bankofamerica.com/index.jspa>) a website where users can share information through the use of blogs and forums, in order to help them to build a successful business. Although the information in these forums and blogs is in the public domain, in order to write a comment it is necessary to create a username and password. This service is not restricted just to the clients of this bank: this aspect confirms the open character the use of Web 2.0 tools.

Web 2.0 technologies have been implemented successfully in online social lending in the case of ZOPA (www.zopa.com) where borrowers and lenders match their requirements online, lenders can decide to which group of borrowers, and at what level of risk they want to assign their money. ZOPA also uses blogs and forums, stimulating the interaction between their members. Recently, the use of Web 2.0 technologies in financing organizations is increasing. However, there have been no studies which explain the interaction between the participants in such Web 2.0 applications.

The purpose of this paper is to explain the way in which ZOPA becomes institutionalized between its members using Structuration Theory (ST) proposed by Giddens(1984); and secondly to understand better the concept of reintermediation of financial services in the field of social lending. This paper is structured as follows. First, we review some of the work existing in the literature about Web 2.0, reintermediation and disintermediation, and depict the work of Giddens (1984) as a framework to use in this paper for analysing the interaction between the elements in the social lending process. Second, we describe the case study of ZOPA, as a social lending venture which has implemented elements of Web 2.0 to expand into new financial markets. Next, we discuss disintermediation, reintermediation and analyse the changes wrought by ZOPA against the backdrop of ST. Finally, we conclude with recommendations for further research on this topic that will verify the sustainability and long term impact of such innovations in financial areas, and give an indication of the implications for policy and regulation.

LITERATURE REVIEW

Web 2.0 & Intermediation

O'Reilly(2005) and Oberhelman(2007) claim that Web 2.0 stimulates the relationship among users, who play a key role in creating, sharing, modifying and contributing with information. Users are no longer seen as passive actors who collect information without evaluating or interpreting it. Of course, they never were. The term Web 2.0 was first publicised at a conference with that name in 2004 <http://www.web2con.com/web2con/>, with the tag line 'The Net is not about technology it's about people.....'.

In his landmark definition, O'Reilly defined Web 2.0 in contrast to what had gone before (re-labelled as Web 1.0), the key features of Web 2.0 being user-developed content (text, videos and images on blogs, wikis and media sharing sites), collaboration (in social book-marking and image sharing) and social networking via the Internet (O'Reilly, 2005). A simpler way of describing it is as the read/write web. Authors are not only sharing information but also engaging in a performable process of identity construction as a collaboration between author and audience (Baker, 2001). Whilst re-versioning the Web is somewhat simplistic (e.g. blogs have been around for 10 years (Blood, 2004), there are some real changes taking place. Those developing software and services today are benefiting from lower infrastructure costs (hardware and Internet bandwidth) (Skiba, Tamas, & Robinson, 2006, p. 16), and from the availability of toolkits that allow them to create and integrate innovative offerings quickly and easily. In his original definition, O'Reilly differentiated Web 2.0 from the dotcom phenomenon, whereas a more recent and compact definition of Web 2.0 links back to Tim Berners-Lee's original Web that he says is "is one of the most 'Web 2.0' systems out there" (O'Reilly, 2006). Web 2.0 can be seen as an attempt to conceptualise new possibilities, or alternatively as a device to move on from the dotcom fallout. Our interest is in the potential for Web 2.0 tools to open up new ways of deploying financial transactions.

Intermediaries are agents who add value to the transaction between customer and supplier. Early claims that the Internet would lead to 'disintermediation' or elimination of intermediaries have been called into question, with many of the claimed disintermediations being better understood as reintermediations (French & Leyshon, 2004). In this paper, we use French and Heyshon's definition of reintermediation as "displacing and replacing existing intermediaries within value chains" (French & Leyshon, 2004).

Not only are Internet transactions cheaper (Brynjolfsson & McAfee, 2007), but they tend to be more transparent than those done by traditional financial services. Now sellers and buyers can interact more easily using the tools that the Internet provides due to its clearly and understandable essence (Berthon, Ewing, Pitt, & Naude, 2003). In negotiation theory, the Zone of Possible Agreement (Sebenius, 1992) opens up a space between the most that a buyer is willing to pay, and the least that a seller is willing to accept.

The predicted death of the high street in the wake of late 90s e-commerce, what (Howcroft, 2001) calls 'the myth of innovation', was based, in part, on the perceived threats to industry value chain stakeholders by disintermediation (Internet-enabled direct transactions between consumers and producers) (Wigand & Benjamin, 1995). People's complex use of technologies (Howcroft, 2001) has left space for new network-based intermediaries, 'cybermediaries', to spring up alongside adaptations of existing intermediaries (Sarkar, Butler, & Steinfield, 1995). The dotcom boom/bust can be explained by exaggeration and over-simplification of the impact of the Internet on commerce, particularly in the business-to-consumer area

(Howcroft, 2001). Economic actors (consumers and producers) have always operated in interpersonal networks, influenced by trust and history (Granovetter, 1985). This social embeddedness of economic activity also helps to explain the complexity of implementing innovations such as cybermediaries: they still need to have an identity and to be trusted in order to engage with customers and suppliers.

Thus, new network-based intermediaries can benefit from ease of development of online services, particularly those that utilise user-developed content, communication and collaboration. If they can find a pool of customers for their new services who are willing to abandon, or are not currently served by traditional intermediaries, and who are willing and able to use Web 2.0 technologies, then cybermediaries can make new business. Competitive strategy emphasizes difference, the deliberate choice of a different set of activities to deliver a new value mix (Porter, 1996). Therefore one approach for cybermediaries is to offer activities that appeal to a different market from their competitors. In this, the role of software can be highly significant in the re-constitution of the ‘social landscape of retail financial services’ (French & Leyshon, 2004).

Social Lending

Discussions and analyses of Social Lending emerged during the 1970s, although there is a rich history of social finance initiatives, such as the Co-operative Movement. Nadler(1972) argues that the abundant resources of banks could be used to improve the state of societies: that in order to be more competitive banks needed to be more open in order to attract new groups of clients. One such gap in the market can be filled by community currencies and time banks where members trade goods and services without using cash, usually within a neighbourhood (Seyfang, 2004). Another new venture in social lending considers those new groups of clients called “free-formers” people who are self-employed, freelancers, or people who do not have full time employment, numbering approximately 6 million people in the United Kingdom (Kupp & Anderson, 2007). Since this group is not co-located, likely to be ‘tech-savvy’, and wishing to borrow and invest money, online interaction offers an opportunity for the social embedding of lending and borrowing. Although online social lending can be seen as ‘different’, even with traditional lending arrangements, the social network involving bank lenders and borrowers can be used for information gathering to reduce uncertainty for bank as well as borrower (Ferrary, 2003).

Structuration Theory

Collectivities show particular features and habits, visible through the actions and behaviours that their members perform (Cohen, 1989). Giddens (1984) defines structure and human agency as a duality. Human agency or just agency according to Giddens, is the group of events produced by humans and what results from those actions, with both intended and also unintended consequences. These two types of consequences will influence social systems because they have structures (Staber & Sydow, 2002). Structures can be modified by human agents who are also constrained by those structures. This is the basis of the duality of structure and agency.

This duality does not necessarily take place beyond the knowledge of agents. According to Giddens(1984), human actors are able to monitor their activities reflexively. As described in Figure 1, this monitoring of activities is a persistent component in human behaviour and constitutes a cyclic process. An agent may have a motivation for their action and through the discursive analysis of their action, the agent monitors the social and physical features of the context in which they act. As a result of this process, the structure, embedded in its context, is shaped by the actions of the agents who form part of it and who aspire to certain outcomes. However, their actions may also produce unintended consequences that in turn feed back and mould future actions. There also may be conditions for action which are not acknowledged by agent(s). The structures become institutionalized through practices that human agents develop in space and time (Giddens, 1984) using the concepts of signification, legitimation and domination.

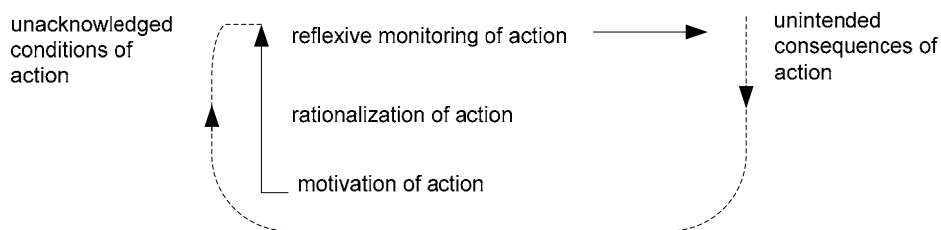


Figure1. Giddens’ (1984, p. 5) Stratification Model of the agent

Signification refers to the understanding of meaning of the structure, e.g. if all the members of one structure have the same signification of the tasks assigned, they will work for the same goal. Legitimation, through the establishment of structures, the ways of performing certain activities, are understood by the members of the structures as the only valid way to perform their activities. It is possible that the agents modify the concept of legitimation but as a result of interaction with the structure. Domination means that the structure has been established by the recursive practices of the agents that confirm it. Those practices are reproduced through schemes of time and space, and they are affirmed and exert power over the agents.

ST has been applied in Information Systems research (Jones & Karsten 2008); Orlikowski(1992) uses ST to explain the interaction between technologies and organizations; Chu & Smithson(2007) describe the organizational change that takes places during the implementation of E-Business, taking a Structural Approach; and Pavlou & Majchrzak(2003) use ST to examine Business to Business E-Commerce. ST has not so far been used to explain the process of online social lending. It is a promising theory to explain the interrelation between borrowers, lenders and the structure of ZOPA, since borrower and lender *agency* seem somehow 'different' from in traditional banking, and are developing in tandem with the evolution of the ZOPA *structure*. Pozzebon(2004) states that the primary source of organizational transformation is the human agents' choice and options.

ZOPA CASE STUDY

Our investigation of ZOPA.com is an analysis of borrower/lender interactions brokered through Zopa Ltd. Our specific research questions were: (1) To what extent can interactions on the online social lending venture of Zopa.com between borrower/lender participants be better understood using the framework of structural theory; and (2) Can these interactions be understood as reintermediation within the financial services sector through the use of Web 2.0 technologies?

We adopted an exploratory Case Study approach (Yin, 2003, pp. 5-6) since we are exploring events over which we, as researchers, have no control, and about which we are asking how? questions. Our data is taken from research of the literature and data available on ZOPA.com. As observers over a 3 month period, we have made a general analysis of the types of data published by borrowers and lenders, using data that is publicly available online. Giddens(1984) states in his proposal of the Theory of Structuration that individuals use their capabilities of discerning and comprehension while they are performing actions in a determined period of time, this process takes part following certain structure and norms (Orlikowski, 1992, p. 404).

ZOPA (2007), Zone of Possible Agreement, use Web 2.0 technologies to create an online market place, where people meet to lend and borrow money, supported by ZOPA direct and third party services. We use Structuration Theory to analyse the ZOPA case study. In ZOPA the relationship between borrowers and lenders is not mediated by a formal banking system. In our analysis, we have used information from ZOPA that is publicly available on the ZOPA website, published in the journalistic and academic literature.

ZOPA started in March 2005 in the United Kingdom, as the first peer-to-peer lending website and has increased its number of members so that by March 2007 it has 140,000 members (Kupp & Anderson, 2007). Offering easier conditions to get a loan than those offered by formal banking institution (Lunn, 2008) has proved attractive to customers. We do not know if this is a substantially *new* market, but the identities displayed on the web site tend to indicate that members are indeed free-formers. ZOPA members have a secure online account for transactions with a username that is usually a pseudonym. Users may or may not choose to engage in discussion forums at Zopa Talk (<http://talk.zopa.com/>) where the login is separate.

In the first lending service offered by ZOPA, now called ZOPA Market, the risk is managed by using the services of Equifax¹ to assess each potential borrower's credit record and verify their creditworthiness, information that is then presented to the lender. A borrower is assigned a credit rating and placed in one of four categories, A*, A, B and C. The category A* includes borrowers with the highest credit scores, and C the lowest. The lender who offers their money in each category knows that only borrowers of this category will get a loan from him/her. The risk is the lowest and for this reason the rate of return for lenders is lowest. For each category, the lenders know the characteristics but not the identities of the borrowers of their money. In order to minimize bad debt, which is the money that is lost from a loan when the borrower is unable to pay, the amount of money given by every lender is shared between at least 50 borrowers. ZOPA uses blogs and discussion boards where their members exchange information about borrowing and lending. Although the lending is peer to peer, and the environment in which lenders make decisions is social (through an active discussion forum), lenders and borrowers are not known to each other.

¹ Equifax is a company selling credit services and products, including credit rating , <http://www.equifax.com>

More recently in November 2007, ZOPA implemented a Web 2.0 service called ZOPA Listings (Beta) (ZOPA, 2008a), where a borrower can request a loan; setting the amount requested, the reason the loan is needed, the rate at which he/she would like to repay this loan (within the range stated by ZOPA) and the term of the loan (12, 36 or 60 months). In this case the ZOPA identities of borrower and lender are known. Borrower loan requests are put up for auction (similar to goods at <http://www.ebay.co.uk>) for a fixed time, listed in reverse order of expiry time. Using ZOPA Listings, lenders can decide to which borrower(s) they will lend their money based on the profile of the borrower which is available online and if the lender is interested he/she makes an offer setting up the rate at which he/she wants the repayment of their portion of the loan. From the loan dashboard, potential lenders can click through to a profile of the loan, and the borrower(s). The ‘Meet the Borrower’ window gives borrower id, length of membership, verification of identity and whether or not banking details have been supplied, along with three scores out of five from (worked out by ZOPA and CallCredit (<http://www.callcredit.co.uk>) – credit score, affordability and stability (ZOPA, 2008a). Borrower profile includes a textual description of the reason for the loan; why the borrowers are a ‘safe pair of hands’; income and outgoings to the level of detail that borrowers wish to disclose. There is also the opportunity for the potential lenders to ask (publicly) questions, answered at the discretion of the borrower. The interactivity occurs within the Zone of Possible Agreement, with lenders effectively ‘bidding’ for a specified amount, usually a small fraction of the loan. If there is a lot of activity, say with a highly scored borrower, the rate bid will start higher but may approach the borrower’s preferred rate. On the other hand, a lower scored borrower may not attract sufficient lenders to complete the loan amount.

DISCUSSION

ZOPA states itself that it is not a bank, but rather a reintermediation in borrowing and lending within a peer to peer market place, as compared with loans systems offered by banks and building societies. In ZOPA, borrowers, lenders, ZOPA staff and credit checkers are the human agents who form the financial organization. Compared with traditional banks, lenders make active decisions about the destination of their funds, in the case of ZOPA Listings, bidding within their own market place, with loan rates emerging from interactions between borrower and lenders, rather than being the decision of organisational actors operating within the wider financial markets.

To analyze the ZOPA case study, we will describe how its structure becomes institutionalized through the practice of norms and behavior by the agents (borrowers and lenders) along space and time using the Structuration Theory Framework.

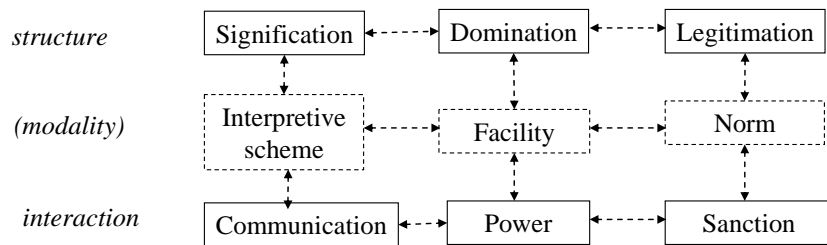


Figure 2. Giddens’ (1984, p.29) The dimensions of the duality of structure

Historic institutions like banks have strong signification, their meaning being well-understood by their customers and employees. Research conducted by Mintel, on behalf of the BBC Watchdog programme, found that a customer is more likely to divorce their spouse than change their bank, indicating similarly strong legitimation (webitpr, 2008). Although aspects of the bank (particular products and services) will develop and change over time, the bank as an institution has become established over many recursions of lending and borrowing, a stable pattern over a very long time, across many societies. Further, the individual relationship between a customer and their bank tends to be stable, offering deeply embedded social relations in which the economic activities of lending and borrowing take place.

At first glance, online social lending would appear to have an uphill struggle to disrupt these stable relations and the dominance of the bank in retaining customers. However, the conservative nature of the norms that pertain and the sanctions that banks employ in making lending decisions can open up a gap in the market. Banks may be more likely to lend money to someone in stable employment but with limited prospects of fast repayment, than they are to a good prospect who happens to be self-employed, or on a short-term contract. This group of borrowers represent a potentially ‘new’ market for online social lending, the aforementioned free-formers. From its inception, ZOPA highlighted the social nature of the service it offered, with the chance to find out more about borrowers who were presented as ‘alternative’ in some ways. In the first instance,

borrowers were not personally identifiable to lenders at the decision point, only their credit category (based on Equifax) is used to inform the decision of the lender on how to spread the loan, maximizing their return on investment. ZOPA lenders are more active, as compared with bank investors, in that they create a finely-grained loan portfolio, deciding on their spread of risk across categories. A thread on the ZOPA forums reveals active lenders actively checking their loan portfolio on a regular, sometimes daily basis (ZOPA, 2008b). Whilst ZOPA, as a service provider, minimizes risk through credit-checking and maximizes information to lender, it is the lender who bears the risk, unlike in traditional banking where it is the bank who bears the risk. ZOPA signify this to their members through clear sign-posting on their web site. When members feel that they have been misled or that lender rates are sliding down, they are free to complain about it on the open forums.

ZOPA listings has moved the lender borrower transactions into a much more active open market place, where it is possible to see how the agency of borrowers and lenders impacts directly on rates within the Zone of Possible Agreement. The communication between borrowers and lenders through a tool such as ZOPA Listings, influences the interpretative schemes through using and modifying them, those interpretative schemes are enclosed in the social structure of ZOPA (see Figure 2) as signification. The signification that a social structure like ZOPA gives to their members is finding the common well being of borrowers and lenders, people in ZOPA are working on social lending principles and they have the possibility to interact more personally through the showing of their profile identities. The members do not show their complete personal information, that is kept internally in the ZOPA system but at least they have the opportunity to choose what would be the conditions of the transactions that they perform.

It will be interesting to see how ZOPA becomes legitimated over time (or not), with the change in the structure represented by ZOPA Listings only being tried in 'Beta' once the original model of lending and borrowing has achieved signification. It can be argued that signification can happen more quickly in an information- and communication-intensive environment such as a web site with active online forums. On the other hand, ZOPA is just as sensitive to its customers' motivations and rationalisation of their actions as any other open market place. ZOPA list not only their Principles, but also changes to them, so we can see that recently ZOPA has withdrawn repayment protection for borrowers. The short yet interesting history of E-commerce has shown us that the high street did not in fact die but started to trade on the Internet as well as in its usual location. An interesting contextual factor for peer-to-peer lending is the impact of failures on the sub-prime mortgage lending market (BBC, 2008). Banks and Building Societies who invested in overseas sub-prime lending are experiencing problems as institutions whereas in peer-to-peer lending, the risk is spread across many lenders and borrowers. This form of lending may become of interest to High Street banks and other financial institutions.

ZOPA empowers borrowers and lenders, now in the case of lenders they could decide to whom the resources will be allocated, which enacted the exercise of power through the use of facilities and this is reflected in the structure of domination. If a borrower does not have a profile that could be of interest for the group of borrowers he/she will not get the amount requested. The practices of borrowers (in constructing their own 'loan' identities), of lenders (in bidding for loans), and of ZOPA (in configuring the online environment) achieve domination by agents' influence on structures and vice-versa. For example, unless lenders are wishing to lend within a credit category in ZOPA Market, it will not be available. Here also lies one of the principal differences with formal banking, where the decision of where investors' money (like clients' personal savings) will go is not widely known.

In the structure of ZOPA, norms have to be followed in order to preserve its sustainability. Sanctions for not complying with the norms stated to their members could be translated into damage to borrowers' credit history that will affect their legitimization in the financial market for future transactions.

CONCLUSIONS

ZOPA was established as peer-to-peer social lending service, with the facility for lenders and borrowers to construct identities through user profiles and communication in forums. The first loan facility that ZOPA offered allowed lenders to select borrowers by risk category rather than by identity. With the introduction of ZOPA Listings borrowers have a new impetus to construct their own financial identities. Giddens' propositions have helped us to understand how borrowers and lenders in ZOPA are conscious of their interactions, and monitoring them reflexively. Signification within the ZOPA structure has been in a state of flux. What started at a discrete level for lenders, choosing borrowers by categories, is now developing using Web 2.0 tools in transactions based on identity construction and reflexive monitoring of the interactions between ZOPA members. This is in contrast to formal banking where the process of lending- borrowing is for many of their clients a "black-box" (French & Leyshon, 2004). However, it is the lenders who become the more active financial agents, constructing loans portfolios and actively managing them using the information provided by ZOPA and other financial portals. Thus is enacted a relatively open and transparent market online, based on the premise of active users who construct their identities and make fairly complex decisions to maximize their return on their capital. Lenders and borrowers also

subscribe to a shared goal of 'making money human', seeing people doing good and benefiting as a by-product of the loan transaction.

It is tempting to assume that the ZOPA Listings market place with direct peer to peer lending was the 'real' purpose of the service, since it is in this case that a Zone of Possible Agreement is opened up between borrower and lender. Future research could establish this. Based on the limited data available to us, ZOPA appears to be growing and becoming successful, but we have no access to detailed information on its profitability and sustainability, nor to the views of ZOPA members, other than those who are active on the forums. In most virtual communities, the majority of members are readers rather than writers. Our initial analysis suggests that further work should be done to investigate how agency and structure develop over time in online social lending. This work could be extended in three ways: firstly by exploring to what extent the current structure of ZOPA's service matched the original plan of its founders; secondly, by a study of ZOPA's customers intentions and perceptions in relation to their agency; and thirdly by further research on whether the regulation framework existent in the financial sector will facilitate the development and sustainability of this kind of online social lending ventures. Possible data sources are data 'scraped' from the ZOPA web site (since most data posted by participants is publicly available); and interviews with ZOPA staff and founders. Since ZOPA is currently enjoying support from Venture Capital, and is not a publicly listed company, it is not easy to predict its future. It is possible that ZOPA may be an attractive takeover prospect for a high street bank if they prove their service can meet the needs of a currently under-served segment of the financial services market.

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