Peer-to-Peer lending and the P2PFA

Website: www.p2pfa.info
Diagram of structure of P2P platform

Borrowers

Creditworthy borrowers

Investors/Lenders

Platform’s responsibility

Fraud and AML checks
Data analysis
Operating risk
Credit risk
Underwriting
Risk Profile P2P Lending vs Equity Crowdfunding

P2P Lending
Is classed as a ‘lower risk’ category of investment by FCA. Industry default rate for P2PFA member platforms less than 1.5%

Equity Crowdfunding
‘Between 50-70% of early stage investments may completely fail and investors on this basis would lose 100% of any money invested’ – FCA 2013
UK Alternative Finance Market 2014

92% = Peer-to-Peer lending's proportion of online alternate finance market in 2014

Data from: Understanding Alternate Finance, the UK Alternative finance industry report 2014, Nesta
## 2014: 4th Quarter data for P2PFA members

<table>
<thead>
<tr>
<th>Aggregate P2PFA member data</th>
<th>Q3 2014</th>
<th>Q4 2014</th>
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</thead>
<tbody>
<tr>
<td>Cumulative lending</td>
<td>£ 1,824,541,275</td>
<td>£ 2,184,116,938</td>
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<tr>
<td>Stock of loans (Outstanding loan book)</td>
<td>£ 950,319,347</td>
<td>£ 1,146,098,225</td>
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<td>New lending</td>
<td>£ 328,066,478</td>
<td>£ 346,165,202</td>
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<td>Capital repaid</td>
<td>£ 154,562,109</td>
<td>£ 148,131,648</td>
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<td>Net lending flow</td>
<td>£ 173,510,503</td>
<td>£ 198,048,021</td>
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<tr>
<td>o/w lending to individuals</td>
<td>£ 68,165,915</td>
<td>£ 71,183,737</td>
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<tr>
<td>o/w lending to SMEs</td>
<td>£ 105,344,588</td>
<td>£ 126,864,285</td>
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<tr>
<td>Number of current lenders</td>
<td># 106,902</td>
<td># 114,697</td>
</tr>
<tr>
<td>Number of current borrowers</td>
<td># 116,842</td>
<td># 139,749</td>
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</tbody>
</table>
P2PFA Membership

- Zopa
- Funding Circle
- ThinCats.com
- RateSetter
- LendInvest
- LendingWorks
- LANDBAY
- MADISTON
- marketinvoice
- peer2peer FINECE ASSOCIATION
P2PFA Operating Principles

1. Senior management
2. Minimum operating capital requirements
3. Segregation of participants’ funds and auditing of the segregated bank account
4. Appropriate credit and affordability assessment
5. Appropriate anti-money laundering and anti-fraud measures
6. Clear rules governing use of the platform, consistent with these Operating Principles
7. Marketing and customer communications that are clear, fair and not misleading
8. Secure and reliable IT systems
9. Fair complaints handling
10. The orderly administration of contracts in the event a platform ceases to operate
UK Regulation

- P2P lending activities are defined in RAO 36H
- Consumer lending covered by consumer credit regulation
- FCA regulation started 1\textsuperscript{st} April 2014
  - Disclosure based regime (FinProm requirements started Oct 2014)
  - Operating capital requirements (interim min £20K, 2017 min £50K)
  - Reporting requirements (complaints, financial status etc)
  - Client money requirements (April 1\textsuperscript{st} 2014)
  - FCA Higher principals (April 1\textsuperscript{st} 2014)
European Commission

• Currently lack of data of P2P and crowdfunding activities across EU
• Regulation of sector varies and in some countries ambiguity makes firm establishment impossible
• Currently EU has expert group looking at ‘crowdfunding’ and possible need for code of conduct/quality mark
Key points

• The P2P sector is disrupting the traditional oligopolies in retail investment, consumer and businesses lending

• P2P lending largest form of alternate finance and provide vital access to finance for SMEs and consumers

• Sustainable P2P platforms perform thorough due diligence on borrowers to ensure they offer low risk returns to investors