Search

MAY
17
2021

Shifting sands

MICHAEL LLOYD | FEATURES | 4TH WAY, CONSUMER FINANCE, ELFIN MARKET, FCA, GOODBODY, INTRIVA CAPITAL, JOHN CRONIN, KUFLINK, LENDING WORKS, MANSOUR BOUAZIZ, METRO BANK, NEIL FAULKNER, NICK HARDING, RATESETTER, REBUILDINGSOCIETY, TIM WATERMON, ZOPA |

Michael Lloyd explores the growth prospects of the peer-to-peer consumer lending market in an ever-changing world

POPULAR POSTS:

LandlordInvest hires new business development manager

EasyMoney became profitable in 202

European P2P platform raises €312,9

become an...

Atom and Metro accredited to recov

loan...

When faced with danger, the ostrich buries its head in the sand, avoiding its worries and hiding from threats.

We are all guilty of acting like ostriches in times of chaos – and this has been particularly true over the past year. The Covid-19 crisis and subsequent lockdowns have forced many of us to hit the pause button, retreating into our bubbles until the threat of the virus has passed. And of course this has had a big impact on the consumer finance market.

The market has subsequently shrunk, but this will not last forever – consumers will emerge from lockdown and start to spend and borrow again in the growing and shifting consumer lending market.

During Covid, the entire financial ecosystem went into hibernation. Nothing has been normal for well over a year. So what has been happening in the consumer finance market while our heads were in the sand?

Many peer-to-peer platforms took the year as a chance to assess their market position, including P2P consumer lenders. RateSetter was acquired by Metro Bank, Lending Works was purchased by Intriva Capital and Zopa paused its new Innovative Finance ISA account openings due to low demand for personal loans.

There has been a drop in demand as consumers no longer needed loans for holidays, weddings or social gatherings, but instead used their time in lockdown to pay off their debts and save money.

By February 2021, consumer borrowing had fallen by a record 9.9 per cent, as people hibernated indoors with their wallets.

Funding Circle shares rocket on raise
earnings guidance

The House Crowd investors set up ac
group

According to the Bank of England's money and credit statistics, individuals made £1.2bn in net repayments of consumer credit in March of this year, down from £1.8bn since March 2020. This represented the largest drop in borrower activity since records began in 1994.

Within the consumer credit market, the weakness on the month reflected £900m in net repayments on credit cards with £300m in repayments of other forms of consumer credit.

Despite this, P2P consumer lending platforms appear to have fared well.

Elfin Market launched in 2019 to let investors fund lines of credit to individual borrowers with the same flexibility as a credit card but with lower interest rates. It introduced an app in March 2021 and now reports that the platform has been growing steadily.

Chief executive Mansour Bouaziz says the platform granted all requests for payment holidays received prior to the furlough scheme, which led to a slight fall in lender returns at the time. But he adds the situation has since settled down and Elfin Market has been growing.

"Our platform has been growing steadily, roughly 15 per cent growth per month in the number of borrowers and loanbook size over the past year," he says.

“We have tightened our credit acceptance criteria a bit in 2020 as a precaution since we’re unsure how the UK economy will perform once government support schemes end.”

Lending Works resumed new lending at the start of January 2021 with tightened creditworthiness and affordability criteria after pausing its new accounts and loans for the majority of 2020.

At the end of October, the platform announced it was introducing a period of negative interest rates, so that it could pour more money into its provision fund to mitigate anticipated higher credit losses. On 29 January, the platform said that a period of negative interest rates was still required, but their severity will ease from February onwards.

Now chief executive Nick Harding says that the platform is performing in line with what was expected at that time.

Neil Faulkner, managing director of 4th Way, says that early results from Lending Works, which provides substantial data to the P2P analysis firm, shows that the platform appears to be weathering this storm well.

"Many investors have seen their overall returns drop, but still no lenders have made overall losses and 70 per cent are expected to make at least half of the target lending rate overall by the time the loans are fully repaid," he says.

"The other notable P2P consumer lending platform is Zopa, which provides data less regularly and hasn't done so since the pandemic started, but its public, aggregated statistics show that it still seems to be holding up, with overall returns for the majority of investors still positive."

The P2P consumer lending market has also had innovation on its side, with new technologies allowing platforms to react quickly and nimbly to any regulatory and macro-economic changes.

Last month, in a letter to shareholders, Jamie Dimon, chairman and chief executive of American investment bank JP Morgan, predicted that more banking products and other forms of lending will move into the non-bank space. He said this could be partly attributed to banks facing heavier rules and regulations than non-banks.

The consumer credit market is shifting but it is expected to grow once more, after lockdown restrictions ease. And P2P platforms are here to make the most of it.

"Consumer lending has shrunk since the onset of Covid-19 as surplus savings have accumulated, some consumers have used these to repay debt," says John Cronin, an analyst for brokerage Goodbody.

"However, I believe that the consumer lending market, including the P2P lending market, will see a return to growth following the reopening of the economy."

Growth isn't just forecasted for dedicated consumer lending platforms in this space – there may also be an opportunity for investors in property and business lending to diversify into consumer lending.

“Consumer lending has not been the focus of most P2P lending platforms and so I think that more competition and choice in this space would not do P2P investors any harm,” says Faulkner.

“Different downturns impact different forms of lending more than others and I think consumer lending platforms have a strong case for saying they think that the next downturn is likely to impact other types of loans more.

“The appeal is to investors who like to diversify from various forms of business and property lending.”

The consumer finance landscape has been forced to evolve as some companies have closed or switched focus, and consumers want different and easier means of obtaining finance.

One such form is the buy-now-pay-later (BNPL) industry, which has been led by firms such as Klarna and Clearpay.

According to Financial Conduct Authority (FCA) figures from February 2021, the use of BNPL products nearly quadrupled in 2020 and is now at £2.7bn, with five million people using these products since the beginning of the pandemic.

Following recommendations from the Woolard Review into unsecured lending, the FCA will be given new powers to regulate unregulated BNPL firms.

This leaves a gap in the market for P2P platforms to tap into the borrower demographic that these firms target, with better rates and stronger support mechanisms.

The Woolard Review called for more alternatives to high-cost credit to make the credit market more sustainable and the report's author Christopher Woolard backed P2P as an alternative funding source.

When he unveiled the review in February, he told *Peer2Peer Finance News* there is "no reason P2P can't be a source of funding into the prime market".

One such way platforms can tap into the market BNPL is leaving behind is via embedded finance, which involves integrating a financial service or technology with a traditionally non-financial service, product or technology.

BNPL may be a form of embedded finance but there are other ways P2P consumer platforms can partner with mainstream brands.

Zopa's chief commercial officer Tim Waterman has previously said that he is "very excited" about the potential benefits of embedded finance for the lending industry.

Speaking at LendIt Fintech Europe's Lending Innovation Summit earlier this year, he said that embedded finance can give lenders the ability to tap into someone else's brand for distribution.

4th Way's Faulkner says there will be pros and cons for businesses and individuals using embedded finance.

"In P2P consumer lending, the platforms have less to lose than the giant high-street banks and more potential upside," he says.

"Therefore, it's likely to turn out to be a positive in economic terms for lenders as well as for platforms, where it could mean higher volumes and more diversification.

"For individual P2P borrowers, the outcome is less certain. Borrowers might benefit from lower – or at least competitive – interest rates if the industry continues its more socially-minded attitude, but they might also slide easily into borrowing more than they needed to."

Open banking offers another opportunity for platforms to take part in the shifting consumer credit finance market.

Using the data-sharing initiative allows P2P lenders to mitigate against the risk of fraud due to the confirmation of payee. It also helps platforms to offer an improved customer experience with quicker lending decisions and reduced friction in their processes, and improve affordability checks via the visibility of borrowers' latest transactions, rather than relying on older bank statements.

More platforms are adopting open banking, with ArchOver and Rebuildingsociety among the latest to onboard the technology in the past. P2P consumer lender Leap Lending launched to market with its open banking capabilities in January 2020 and Kuflink is currently working on its own implementation.

“I believe there are opportunities for better financial inclusion in the consumer credit space, due to new technologies like open banking,” says Elfin Market’s Bouaziz.

The consumer credit market has undergone many developments over the past few years and was pulled to a halt with Covid.

The market has shrunk but this only means that there is more space to grow, as consumers resume spending, and as the embedded finance and open banking trends become more mainstream.

When the ostrich pulls its head out of the sand, it dusts itself off and races away at an astonishing 70 miles per hour. P2P consumer lending is ready to run.

EstateGuru funded £12m of loans in April

SME uncertainty continues as 30pc fear new lockdown

RELATED POSTS

More lenders turn to higher-yielding real estate investments

Conister appoints new executive director

Rebuildingsociety approved for Kickstarter programme