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Below the surface

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Look beyond the claims of great returns and ask to see the nuts and bolts, says Kuflink chief executive Narinder Khattoare...

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Peer-to-peer lending platforms work tirelessly to look like the swan gliding effortlessly on a lake, while down in the engine room, there is ceaseless activity of rarely mentioned departments all making a huge contribution to that success.

For example, the collections process. One of the unsung heroes of any lending operation, it is the most crucial part of the business. One of the truisms for P2P lenders is that whilst it is easy to lend money, the true test is making sure the money lent is recovered at the end of the term so it can be recirculated and used for the benefit of other borrowers.

At Kuflink, we have put a lot of resource into our collections process. We allow 30 days after maturity for borrowers to catch up, failing that the loan goes into default and passes onto our recovery team who then will endeavour to get the funds owed back to investors in the shortest possible time. Collections' protocol differs from lender to lender – many adopt a more relaxed regime but, in our experience, the longer a case is allowed to drift, the harder it becomes to recover. We feel that our process works best, as it still allows time for the borrower to repay but also means we can act swiftly if needs be. We have to be aware at all times of the pressures that can be caused by sudden house price falls, pandemics or recessions, which can massively impact a business when it comes to property-based lending.

While we are enthusiastic adopters of new technology to improve performance, employing staff with experience and the ability to train up suitable recruits is still the key to a successful business, and particularly in lending. The underwriting phase is where every lender has the opportunity to limit future exposure to poor prospects and as in collections, lenders need to have experienced staff who have worked through recessions and downturns and know how to assess risk.

Just because a prospective client wants a particular sum, it is important to establish whether a lower figure will work. A lower loan-to-value (LTV) means that lenders are not over-offering and because the borrower is putting more of their own funds into a project, there is less risk for the lender while the borrower has a greater incentive to complete a project on time to safeguard their investment.

Many of our peers chase business by offering lower rates and higher LTVs. With the right security and borrower that can be fine, but that is where default problems can multiply. Also, let’s not forget that P2P platforms with too much institutional money can become too aggressive and end up with loans in default as they are under pressure to lend the monies out, otherwise they end up paying non-utilisation fees.

Investing via a P2P platform can offer investors solid returns. However, the only question to ask is, ‘How many individual investors like me have lost any capital?’

At Kuflink, not one investor has yet lost a penny of capital invested, since we launched in 2016.

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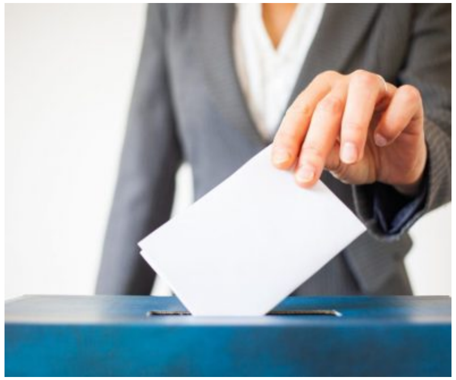

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