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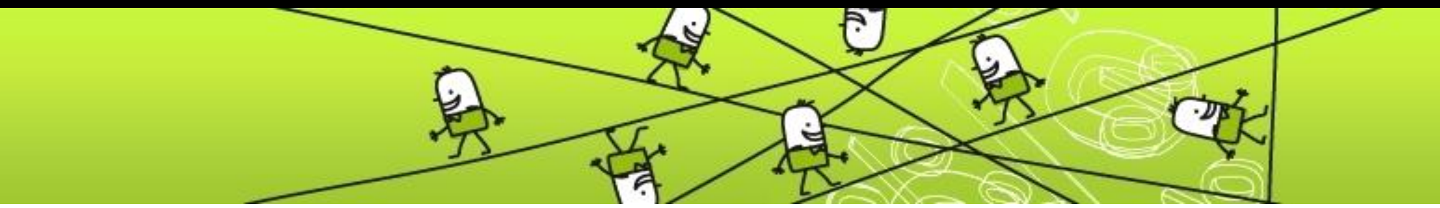

Peer-to-peer lending

What do Wealth Advisers think?

A UK-wide survey

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Speed Read

Peer-to-peer lending will be regulated by the FCA in April 2014. This will make the sector highly attractive to Wealth Advisers and their clients.

Our UK wide survey of **active Wealth Advisers found that:**

- 50% expect to be more involved in Cash Management in the future

Because traditional cash products pay sub-inflation levels of return, could peer-to-peer lending become a mainstream alternative?

Our survey demonstrates that peer-to-peer lending is likely to be an **important part of every Adviser's toolbox:**

- 89% Advisers already know about peer-to-peer lending
- 63% Advisers expect clients to show an interest in peer-to-peer lending
- 52% Advisers would recommend peer-to-peer lending as an alternative to mainstream cash products

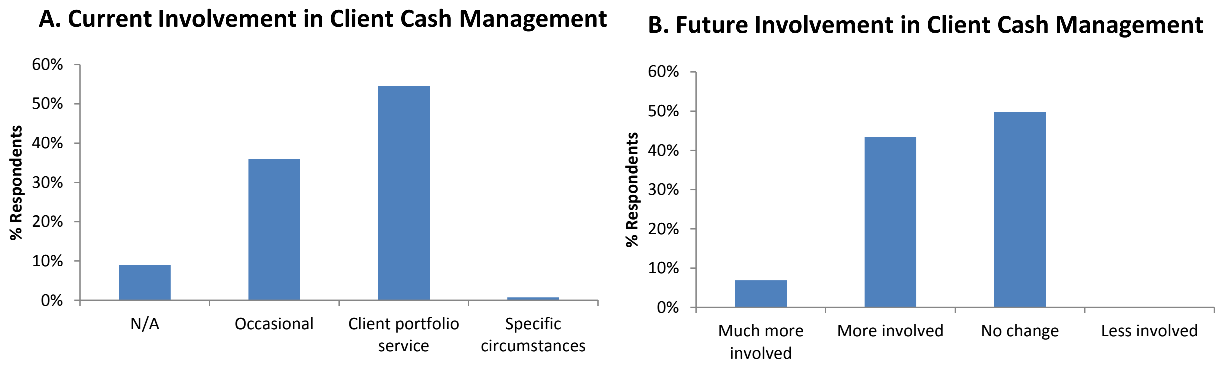
Wealth Advisers and the future of peer-to-peer lending: voice of the industry

Peer-to-peer lending is a relatively new phenomenon, borne out of the desire to give customers a fair deal. UK consumers are turning to the sector to beat inflation and make a decent return on their cash. The sector will be regulated by the FCA in April 2014. This is expected to be a turning point: Wealth Advisers will be able to recommend peer-to-peer products with confidence. This survey shows that Wealth Advisers are priming themselves to add peer-to-peer lending to their toolbox.

The UK economy is recovering from the aftermath of the credit crunch. While economic fundamentals are strengthening, consumers are still struggling to find ways to generate inflation-beating returns on their cash. The situation is worsening. HSBC, for example, announced in July 2013 that customers reinvesting their cash in the same savings products from the previous year would face a £1 billion fall in income owing to falling savings rates. A survey by Blackrock in October 2013 found that 68% of consumers hold their investments in cash, with 78% intending to increase or retain their cash allocation . The importance of cash to consumers is becoming more important but the returns are shrinking. Peer-to-peer lending can substantially beat the returns of mainstream cash products and is becoming a highly attractive alternative in an increasingly difficult market.

CLIENT CASH MANAGEMENT TO TAKE CENTRE STAGE IN THE FUTURE. Of the Wealth Advisers surveyed, the vast majority were involved in supporting their clients with cash (Figure 1A). However, 50% stated that they expect to be more involved in advising clients on managing their cash in the future (Figure 1B). This clearly reflects the growing demand for Cash Management services from UK consumers.

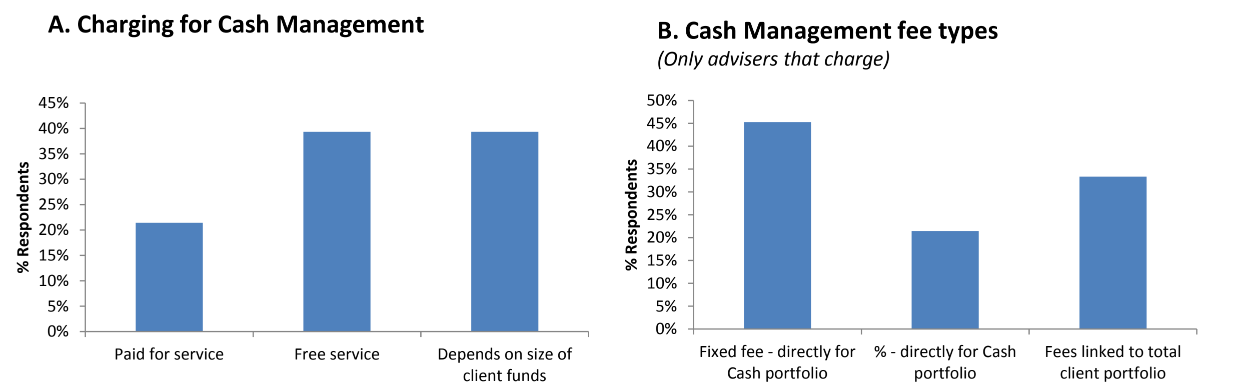
Figure 1. Wealth Advisers' current and future involvement in client Cash Management



The Cash Management advice market is going to heat up. Wealth Advisers need to differentiate themselves to 1) win the war for new clients and 2) increase the depth of their relationships with existing clients. Better, newer Cash and Cash-like products can make the difference.

MIXED APPROACH TO PRICING CLIENT CASH MANAGEMENT SERVICES. Today, 60% of Wealth Advisers charge for Cash Management services (Figure 2A). This reflects the fine balance of giving clients a value-add service while also recognising that below-inflation returns do not offer good value. As such, only 21% of advisers who charge for Cash Management link their fees to the cash portfolio itself (Figure 2B). Most (45%) charge a flat fee, reflecting the transactional nature of arranging Cash products, whereas 33% set their fees for Cash Management as part of the overall portfolio advisory and management service.

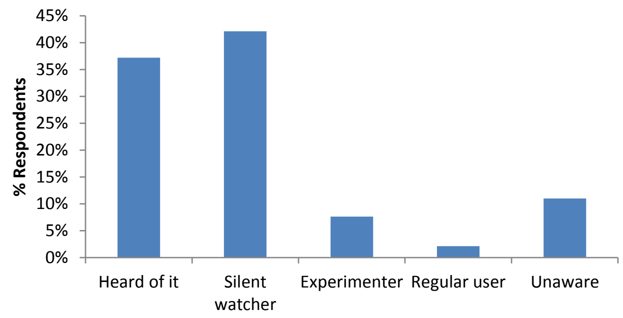
Figure 2. Fees for advising on Cash Management



Should the returns for Cash products exceed the levels available today and also beat inflation, the benefits for both Wealth Advisers and their clients would be higher. As such, Wealth Advisers would be likely to change the way they charge for Cash Management. There would also be good grounds to revisit the fee levels that Wealth Advisers charge their clients – at both the product- and portfolio-level.

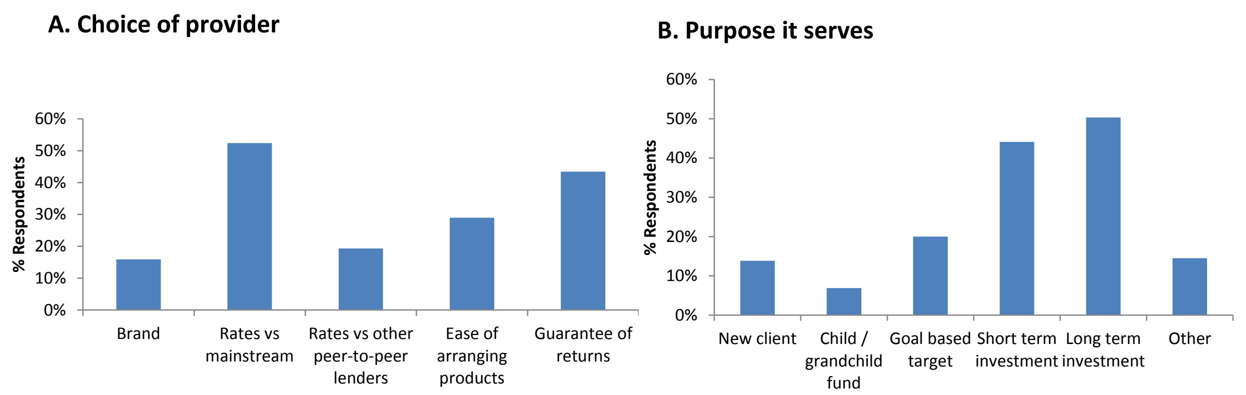
PEER-TO-PEER LENDING IS KNOWN TO THE WEALTH ADVICE COMMUNITY. According to a benchmarking study from NESTA (December 2013), the UK peer-to-peer lending market grew by 125% from 2012 to 2013. It is unsurprising, therefore, to find out that 89% of Wealth Advisers are aware of the sector (Figure 3). Interestingly, 10% of Wealth Advisers were also customers of peer-to-peer lending platforms themselves. This engaged segment are at the leading edge of the market. They are also likely to be the advisers to recommend peer-to-peer lending from the outset and benefit as a result, by differentiating themselves in the market with expert insights into a new, regulated and high value alternative to mainstream Cash products.

Figure 3. Familiarity with peer-to-peer lending



ASSURANCE OF BANK-BEATING RATES IS THE KEY TO SUCCESS FOR PEER-TO-PEER LENDING. Wealth Advisers, being familiar with peer-to-peer lending, recognise returns for their clients as the first order priority (Figure 4A). However, peer-to-peer lending does come with a degree of risk and many platforms have had to pass on losses to their customers*. As such, the second most important criterion to Wealth Advisers, for recommending peer-to-peer lending for their clients, is the guarantee of returns. Wealth Advisers must pay particular attention to each platform's track record with particular focus on the way customers' capital and interest is protected.

Figure 4. Recommending peer-to-peer lending

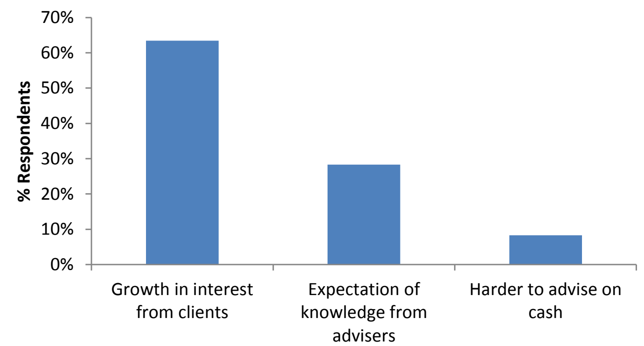


*RateSetter is the only peer-to-peer platform worldwide where every customers has received every penny of capital and interest expected.

When it comes to the purpose served by peer-to-peer lending (Figure 4B), Wealth Advisers see the platforms as good candidates for both short- and long-term returns. It is interesting to note that 10% of Wealth Advisers also consider peer-to-peer lending a product to attract new clients. As such, peer-to-peer lending looks set to serve the dual purpose of winning new clients and better serving existing clients.

FCA REGULATION TO DRIVE CLIENT INTEREST IN PEER-TO-PEER LENDING. Peer-to-peer lending will be regulated by the FCA in April 2014. Given the superior returns compared with products from mainstream providers, it is of no surprise that the majority (63%) of Wealth Advisers are expecting a surge in interest from their clients (Figure 5). As such, 28% are actively researching the sector in anticipation of the need to provide expert advice. We also know that 10% are already participating (Figure 3). This, again, points to the fact that there is a growing community of Wealth Advisers who are preparing to recommend peer-to-peer lending products once FCA regulation is in place.

Figure 5. Impact of FCA Regulation in April 2014



CONCLUSION: PEER-TO-PEER LENDING TO BE IN EVERY WEALTH ADVISER'S TOOLBOX. The Wealth Advice community is already engaged in peer-to-peer lending. Some are already customers of the major platforms; others are actively researching the sector to be prepared for the inevitable boom in interest from their clients once FCA regulation is in place in April 2014. Peer-to-peer lending gives customers superior returns compared with similar products from mainstream providers; Wealth Advisers are likely to use peer-to-peer lending to differentiate themselves in a crowded market by offering their clients an innovative, inflation-beating solution for Cash Management.

About the Survey

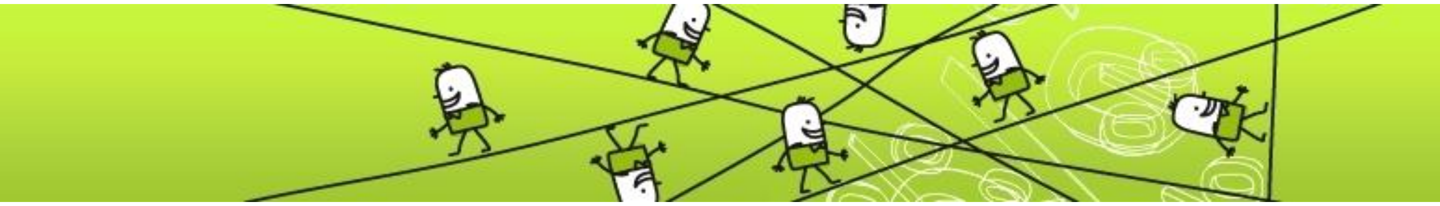
Participants: Active financial advisers
Date: December 2013
Location: UK wide
Number of full responses: 145

About Adviser Home

Adviser Home provides marketing and business development services to financial advisers and, through the Adviser Calendar, helps providers and advisers communicate and work together more effectively. Today we can help with a range of requirements from strategy to client communication, to IT and PI cover. We are keen to help drive the right sort of innovation – new ways of doing things that benefit adviser and client alike so to make sure we are on the right track we need an open dialogue.

About RateSetter

RateSetter is one of the UK's leading peer-to-peer lenders. Set up in 2010, it now attracts over £15 million of money each month from smart savers who seek above inflation returns on their cash. Returns are generous - typically 200 to 500% higher than those from mainstream providers. In addition, RateSetter are the only peer-to-peer lender where every customer has received every penny of capital and interest expected - unlike other providers, where customers have made losses.



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