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IFISAs: Poised for growth

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CROWDFUNDING

Peer2Peer Finance News IFISA roundtable, in association with Kuflink

THE EMERGENCE of the Innovative Finance ISA (IFISA) has helped peer-to-peer lenders boost their inflation-beating products with a wrapper that lets investors earn their returns tax-free.

The product's popularity has been growing since its slow start in 2016. It attracted just £36m across 5,000 accounts in the 2016/2017 tax year, which **increased to £290m** across 31,000 accounts in 2017/2018.

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As it approaches its third anniversary, what more can be done to boost the IFISA and should it be more closely associated with a cash or stocks and shares wrapper?

Is **marketing and advertising** the key to raising awareness or does the industry need to **enhance distribution through intermediaries** such as financial advisers?

Peer2Peer Finance News, in association with Kuflink, gathered senior P2P lending executives – Atuksha Poonwassie, director of the UK Crowdfunding Association and founder of Simple Crowdfunding, Narinder Khattoare, chief executive of Kuflink, Mario Lupori, chief investments officer at RateSetter and Iain Niblock, chief executive of Orca – for a roundtable chaired by P2PFN editor-in-chief Suzie Neuwirth to discuss the challenges and opportunities presented by the IFISA.

It's coming up to the IFISA's three-year anniversary. Are you happy with the progress it's made?

Narinder Khattoare: Take-up has been pretty good. What it does need is more exposure in the wider market. You've got people who have got cash in stocks and shares ISAs and are comfortable sticking with the high-street banks because that's a safe haven. They need to come out of their comfort zone.

Iain Niblock: When the IFISA started people were feeling it was a bit of a damp squib. At the time it was just platforms like Crowdstacker, Crowd2Fund and Abundance who had ISAs. It was only really recently that the likes of Zopa and Funding Circle joined and we've not seen a whole year of statistics with the big lenders. They are occupying 80 per cent of the market so we're going to see quite a dramatic growth in the next HMRC figures purely because the big lenders and all major peer-to-peer platforms are now offering IFISAs.

What are the main differences among the ISAs on the market?

Atuksha Poonwassie: There's a huge education piece to be done. There are so many variances, such as the term, the product itself, what an investor's exits are going to be, do they choose it



themselves versus going into some form of auto-lending? We're getting requests from people not understanding things clearly and asking for some standardisation in the market so at least they can compare a little bit better.



Who should take responsibility for this education?

Mario Lupori: A lot of that education comes down to the press. One of the reasons why P2P grew as it did was word of mouth. People tried it, they liked it, they recommended it. The spreading of the news came from the news itself. I would say in the past couple of years, we've lost column inches as a category to other things, crypto being one of them. Also, there has been a lack of confidence in continuing to talk about P2P.

Poonwassie: It's everybody. Platforms, absolutely, because they're presenting products hoping for investment. There should be clearer guidance from government and other sources. There is this perception of the market that P2P may be a bit more risky and actually, that needs to change because they are all investments. All investments carry risk and it's good for people to start understanding this and start putting their money to use because otherwise they're going to end up losing it to inflation.



Are you comfortable with people putting cash ISAs into IFISAs or would you like more money to be coming from stocks and shares?

Poonwassie: It needs to be both. There's a huge opportunity for people who have all this money tied up in cash ISAs to do something different with it and we do see a transfer helping them.

Lupori: The majority of money coming into a RateSetter ISA when transferred is coming from a cash ISA. That is not a surprise. One of the things holding P2P back is it's being held to a standard of cash. People almost don't question risk in equities, as that's a known risk. However, people are concerned about new risks, so they perceive P2P as risky. That has held us back as an industry because we're being held to too high a standard. We have seen a significant increase in the ISA transfers that are coming from stocks and shares ISAs, and that too is not a surprise because there has been a significant deterioration in the performance of equities.

What are customers mainly looking for?

Khattoare: Rate is key, but I've spoken to investors and it's down to the individual to do their due diligence. It's all very well giving a return of eight, nine, 10 per cent, but what does that business stand for?

Lupori: Rate is important, but within a certain bracket it becomes less so, then it's about track record and trust.

Poonwassie: Rate attracts people the first time. After that, it is about access and whether or not they like the product.

What are the main challenges in marketing the IFISA?

Lupori: One of the challenges is reaching the mainstream. We're not there yet. Creating a category is exceptionally expensive. This is not about brand within an established category, that is an easier thing to do. We are going to continue marketing, however, it will be in targeted spaces and we're looking to increase distribution such as working with independent financial advisers (IFAs) or execution only platforms and discretionary wealth managers. There's a massive



industry of people that are aware of P2P and are increasingly being asked about it.

Khattoare: We've evolved from that marketplace so we deal with IFAs and intermediaries. I think that's a challenge in itself because IFAs don't understand the market. They're very reluctant to refer anybody in, which is why we go direct. We've never even bothered tapping into that IFA market, because we get a great influx coming to us direct.

Lupori: There is evidence that IFAs are interested and we look at those that have decided to focus on working with IFAs such as Octopus Choice. IFAs are just one part of the broader intermediated space. We've been speaking to a number of parties recently that are major platforms whose customers are interested in P2P and from their perspective, they see working with RateSetter as very important for their clients.

Niblock: The IFAs are challenging but we need to crack that market to grow together. There's a key problem around suitability. A lot of IFAs do a risk scoring on the client. If P2P lending's not on the same scoring system, it's immediately off the chart.

Poonwassie: It is a slower burn. It takes much longer to get IFAs on board, to understand. We've spoken to IFAs as well and to help them understand is a huge piece of work.



What are your views on the current regulatory climate for IFISAs and the Financial Conduct Authority's marketing restriction proposals?

Poonwassie: It's a huge challenge to increase the regulations so much so as to exclude certain groups. The beauty of P2P is it allows everyone to get involved and to learn while they're investing to spread their risk. Just because you're a highnet-worth investor, that doesn't mean you know what you're doing. It's a huge assumption to say retail people don't know what they're doing. Everyone still has to learn and go through the information.

Lupori: The regulator should regulate the risk, not the customer. Marketing restrictions are regulating the customer, which we don't think is appropriate.

Niblock: Maybe what they're trying to protect is incorrect. If you think about stocks and shares ISAs, marketing restrictions don't exist. We should be trying to get this product in front of a larger audience because it's actually delivering superior value to users who've got significant sums sitting in cash or they're petrified of looking at their equities going up and down.

Lupori: Regulators are underestimating people's intelligence in terms of their understanding of risk. A lot of money in ISAs is in cash, so people already are saying if there's a risk label attached to it, I'm 90 per cent more likely to put my money in cash and we have a risk label attached to P2P. It's already there.

How much does the name Innovative Finance ISA affect the take-up?

Khattoare: The Innovative Finance component is superfluous and the ISA is the part that's important. We don't tend to refer to the Innovative Finance part of the name very much.

Lupori: You're in a marketplace where people don't understand what P2P lending is and then you're selling an IFISA. You're confusing the life out of everybody and that's a challenge. The industry needs to work on awareness and education. I don't think it's the name or the wrapper that's holding people back. When I think about the amount of money the government has put behind the current account switch



service, yet banks are still having to bribe customers with £200 to switch current accounts. If that's not enough to get someone to switch their current account, you understand the barriers to getting someone to try something completely different with their money with P2P. The best we can do is to improve brand awareness and rely on word of mouth.

What does the future look like for the IFISA and the P2P market?

Khattoare: It's definitely going to grow. The key thing is word of mouth. We've had discussions with various celebrities to get them on board but negative publicity around the likes of Collateral hasn't done anybody any favours. You could be pumping all this money out in marketing, but have you got the right people behind the scenes? We speak to a number of investors who are frustrated with some of the other providers and are moving funds across, because they feel they are being neglected. That's a key thing as well. It's all very well investing money in marketing but you've got to think about your overall organisation and the infrastructure you put in place.

Poonwassie: In terms of where it is in the ISA scale, the IFISA has huge scope to grow. I would love to see more balanced stories on the creativity and opportunity that P2P brings. Sometimes that's lost because it doesn't make good news. If that happens, I think it will fly.

Lupori: I'm hoping that the next figures that are released on IFISAs can be rounded at a digit that ends with billion. If we can do that, that's a figure people can rally around and get excited about.

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