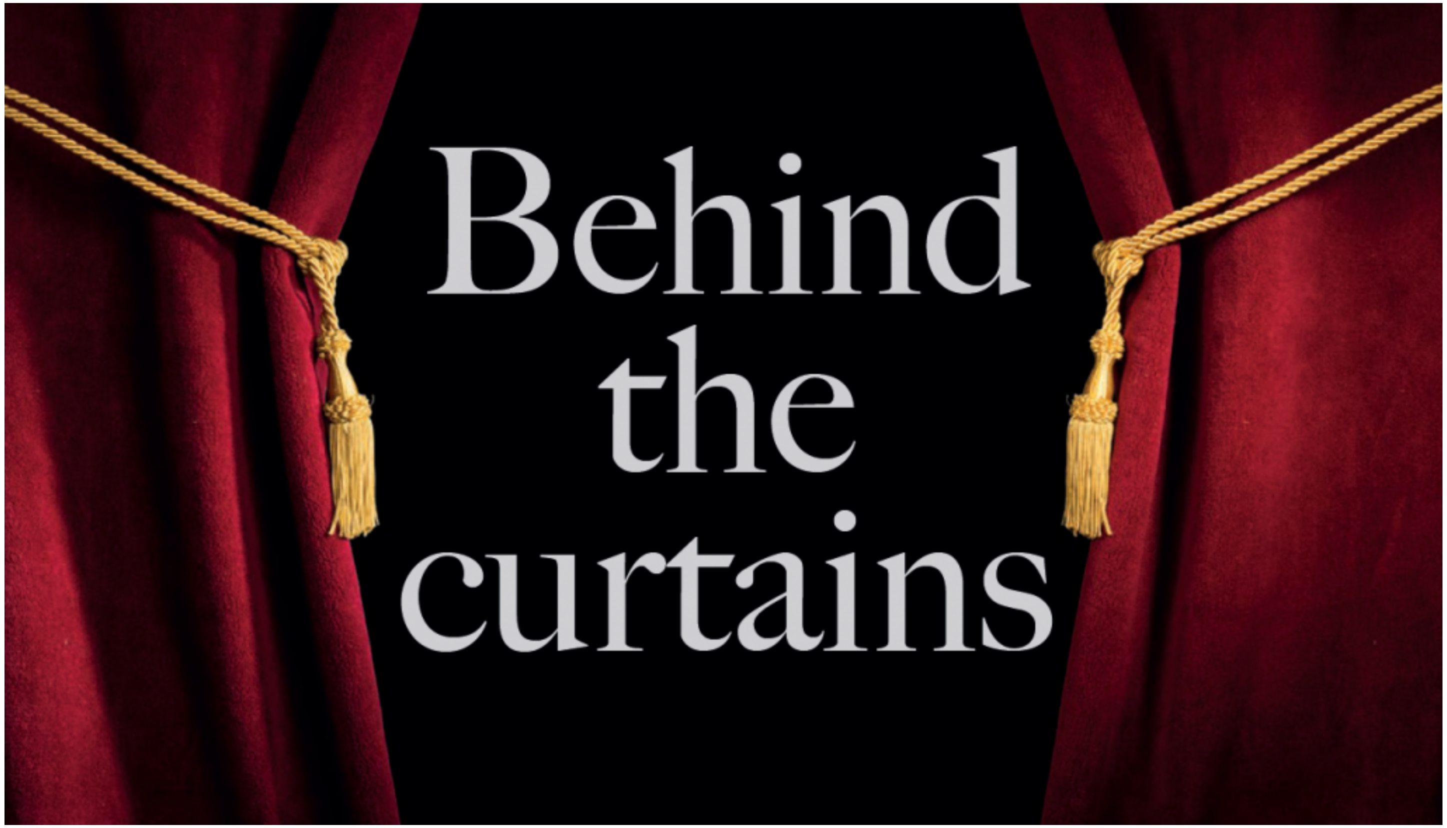

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Behind the curtains: Innovation in P2P

MICHAEL LLOYD | FEATURES | FCA, FUTUREBRICKS, INNOVATION, JUSTUS, KATIPULT, KUFLINK, MONEYBRAIN, PROPLEND, REBUILDINGSOCIETY, SHOJIN PROPERTY PARTNERS |

Platforms have used Covid to go backstage and innovate for compliance purposes. Michael Lloyd reports...

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Peer-to-peer lending platforms are known for their innovation, but it's still surprising how many new and varied developments are underway in the sector during the pandemic.

When Covid closed theatres and postponed gigs, entertainers did not quit, but continued writing, practicing and rehearsing virtually to hone their skills.

It seems the P2P lending sector is no different. Some product launches may have been delayed, but the innovation work backstage continued as platforms used the crisis as a chance to look internally at how to improve.

Products have still been launched, such as Proplend's AutoLend 2 and Kuflink's beta app, and some changes are being introduced for the sole purpose of meeting regulatory requirements.

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As well as taking stock to improve, platforms are perhaps being forced to innovate sooner than they would have due to a range of new compliance requirements and a changing economy, which is increasingly going digital. This has led to a drive to make processes smoother and faster for borrowers, as well as looking further afield to the big flashing lights that are blockchain and cryptoassets.

One P2P lending platform chief executive told *Peer2Peer Finance News* that it has been working on making it easier to onboard new customers, saying that it costs the same to onboard lenders investing £100m as those investing £100.

"That can't be right," the platform owner says. "It's very cumbersome at the moment. Regulatory proportionality has gone out of the window. There should be a risk-based approach to savings and investments."

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To follow Financial Conduct Authority (FCA) regulation, by December 2019 platforms introduced appropriateness tests to quiz potential investors about their knowledge of P2P before investing. These are already in place on platforms' websites, but whenever work is carried out, they need to be carefully maintained.

Folk2Folk is investing in a new technology platform and will integrate its appropriateness test into the application process, embedding it as a seamless step as part of its new end-to-end technology.

When onboarding new customers, platforms must also comply with know your customer (KYC) and anti-money laundering (AML) regulations.

Automation can aid these processes, either through platforms implementing this themselves, or outsourcing to a compliance software provider.

Blend Network partnered with tech firm NorthRow last year to create a secure, compliant and fast client onboarding process to verify both the platform's lenders and borrowers.

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Meanwhile, FutureBricks has automated the majority of its KYC and AML processes itself.

These checks have become even more vital during the pandemic, with fraud ever prevalent during the crisis. For example, in February, a specialist police unit funded by the banking and finance industry announced it had prevented almost £20m of fraud and arrested more than 100 suspected criminals in 2020, including several involved in Covid-19 scams.

“Innovation on the technology front is a driving force at FutureBricks,” says Arya Taware, founder and managing director of the platform.

“The company has automated a large part of its KYC and AML processes, with the technology and database access enabling the company to vet all its lenders instantly, and as part of this, highlight any particular red flags that would require further inspection.”

Taware goes on to say FutureBricks is currently developing automated monthly reports that will offer an “at a glance” snapshot of an account for the client and an automated report creation system based on user base information to produce more detailed regulatory reports and construct more insightful management information on demand.

“This level of efficiency will ensure we remain aligned with FCA requirements and are able to relocate our teams’ efforts towards further developing our service,” Taware adds.

Money&Co has also conducted some recent innovation, driven by regulatory considerations.

The platform has automated its client money reconciliation process, which means that it can be confident that everything balances daily, and it can provide daily reconciliations with ease should someone from the FCA want to see them.

Similarly, software provider Katipult, which provides the technology for Irish P2P platform Property Bridges, including its new auto-invest feature, helps platforms with any audits including those from the FCA.

As well as making the investor experience as slick and frictionless as possible, the firm has rolled out a full loan servicing capability to manage repayments. Its tech allows platforms to easily search and find data on their investors and transactions held on the cloud-based software.

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“That’s one of the big value things that gets overlooked by software purchases by groups,” says Brock Murray, head of global development at Katipult.

“It doesn’t have the sizzle but at the end of the day if a client gets an audit, from the regulator or an internal audit, they have the information at their fingertips. They can pull up all transitions at a click of a button, with everything accessed easily on a cloud-based system and standardised workflows are all built from an FCA viewpoint.

“In terms of the methodology of verifying information disclaimers need to see, everything the regulator expects firms to do is inherent in the software, in terms of direct authorisation or working with appointed representatives (ARs) you have software fully standardised.”

To better supervise its ARs, P2P platform and principal Rebuildingsociety has analytics that feed into its risk register and key risk indicators giving live information.

The platform is using some software for its risk register which integrates it with its project management system that prioritises tasks for different staff managers.

“It lists different types of risks and who oversees the different risks and attributes who is responsible for what,” says Daniel Rajkumar, managing director of Rebuildingsociety.

“It references different tasks and says who is responsible and is part of the work we’re doing to improve the risk management framework and AR oversight framework.”

When speaking about innovation, buzzwords such as blockchain and cryptocurrency always seem to crop up.

Platforms have been making inroads into these areas, from more consumers purchasing the cryptocurrency BiPs on JustUs’ sister platform Moneybrain; to the launch of Ablrate’s blockchain-based secondary market ASMX last year. And it seems that more and more P2P lenders are paying attention to this area.

Money&Co is looking at using tokenisation for creating pools of assets that can be invested in by institutional investors, while another platform chief executive believes that everything that can be tokenised will be as blockchain solves the ‘trusted third-party’ problem.

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“Blockchain and crypto aren’t making waves, they’re making a tsunami,” says Lee Birkett, founder of JustUs and Moneybrain.

“It’s the biggest economic revolution for 100 years if not more.”

Katipult’s Murray says that cryptocurrency will allow for decentralised finance and cross-border investing with investors seeking yield in P2P and in cryptoassets.

“Decentralised finance is already happening, that’s P2P lending in the crypto world,” he says.

“You get investors from every country looking to get yield, the whole private debt markets can really learn from private finance.”

FutureBricks’ Taware says blockchain and crypto have potential benefits for property deals but the question rests on whether it can conquer mass adoption whilst still allowing for speedy transactions and meeting potential regulatory requirements.

“It is interesting to consider the technology implications if these challenges were to be met: it could then explore the creation of digital identities in a property deal – that of investor and tenant, the adoption of smart contracts allowing traceability and automated property sales, and the ‘tokenisation of actions’ facilitating rentals with pre-defined code,” she says.

“The advent of technology is yet within the realms of risk management, government involvement and regulatory frameworks.”

Much of the technology that platforms use can be purchased off the shelf, but the next wave of innovation may well be in finding the ways to build trust and engagement within investors.

Jatin Ondhia, founder and chief executive of Shojin Property Partners, believes that platforms should collaborate to produce a centralised place where investors only have to sign in once to access many different platforms, likening it to people preferring to go to a shopping centre than one individual shop in order to access more options.

“This is the direction the individual platforms have to take to bring alternative investments into the mainstream,” he says.

“Collaboration will help to standardise the investment products making them easier to understand and therefore increase engagement with investors. This can only be done through collaboration.”

P2P certainly did not stop innovating during the pandemic, and this innovation looks set to continue with the second act of the play likely to cover the endless potential benefits of blockchain and crypto.

As the saying goes, the show must go on!

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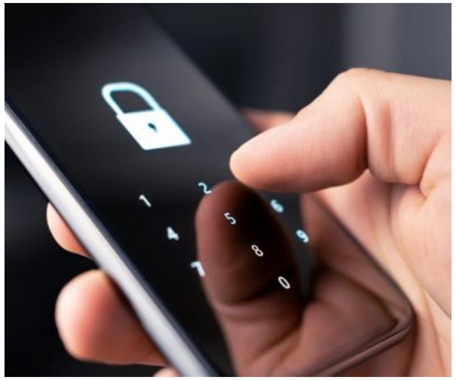

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