

FinTech

Lecture 2. Raising money with FinTech

Luping Yu (俞路平)

Xiamen University

September 30, 2022

Learning outcomes

- ▶ Describe how **peer-to-peer lending** has changed the way in which finance can be accessed
- ▶ Discuss the impact of FinTech lending methods on traditional financial institutions

Overview

1. **Introduction**
2. Zopa and Lending Club: Disrupting the lending industry
3. ThinCats: Provision of P2P loans to small businesses
4. SoFi: Disruption of the student-loan sector
5. Regulations on P2P lending
6. Conclusion

Introduction I

▶ Background

- ▶ 2008 financial crash → constriction of global credit market
- ▶ Financial regulations by governments → harder to gain access to loans

▶ Growth of the peer-to-peer lending industry

- ▶ Technological innovations: online platform connect lenders and borrowers
- ▶ Lenders can be considered "investors"
 - ▶ They are investing in both the creditworthiness of the borrower and the borrower's ability to pay back the principal loan amount
 - ▶ They ask for the promised interest

Introduction II

- ▶ Features of peer-to-peer lending:
 - ▶ Simplified application process
 - ▶ Competitive interest rates
 - ▶ Lower credit requirements
 - ▶ High default rates
- ▶ Nature of peer-to-peer lending:
 - ▶ Allows investors (lenders) to connect personally with borrowers
 - ▶ Investors fund projects that they feel are worthwhile
 - ▶ Investors receive higher rates of return and can build diversified investment portfolios

Introduction III

- ▶ As players in a new/innovative field, P2P firms have faced challenges:
 - ▶ Sourcing funding for the loans offered
 - ▶ Addressing increasing regulatory issues
 - ▶ Scaling their businesses
 - ▶ Managing with high default rates
 - ▶ Diversifying product offerings
- ▶ This lecture explores these challenges and opportunities:
 - ▶ Zopa's and Lending Club's operations in the personal-loan sector
 - ▶ ThinCat's growth strategies in providing peer-to-peer services for SMEs
 - ▶ SoFi's success in disrupting the student-loan sector

Overview

1. Introduction
2. **Zopa and Lending Club: Disrupting the lending industry**
3. ThinCats: Provision of P2P loans to small businesses
4. SoFi: Disruption of the student-loan sector
5. Regulations on P2P lending
6. Conclusion

Traditional P2P lending

- ▶ Traditional P2P lending services: Zopa (UK) and Lending Club (US)
 - ▶ Personal loans to individuals for everyday expenses
 - ▶ Car purchases or household maintenance
 - ▶ Many borrowers also use P2P loan to refinance existing debt burden
 - ▶ Transform "expensive" debt into "cheaper" debt to finance
- ▶ Online platforms: connect borrowers and investors
 - ▶ P2P platforms assess the risk associated with the borrower
 - ▶ Investors could make informed decisions on which applications to fund
- ▶ P2P platforms allow lenders to build portfolios:
 - ▶ Spreading their risk
 - ▶ Improving their investment returns

Zopa's markets

- C market: loan applications considered at high risk of default

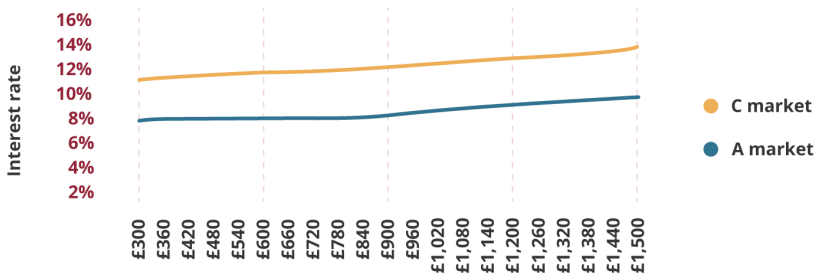


Fig. The supply of funds in two of Zopa's markets (Zopa Company Documents, 2019)

The challenges of P2P lending companies

▶ Video 2-1

- ▶ The functionality of P2P lending companies and the challenges
- ▶ P2P companies face various challenges:
 - ▶ Insufficient funding
 - ▶ Insufficient to service the number of requests from borrowers
 - ▶ High default rates
 - ▶ Affect an investors willingness to fund loans
 - ▶ Fluctuating interest rates
 - ▶ Investors are more willing to place money in banks as they are risk-free compared to peer-to-peer platforms
- ▶ It is important for P2P companies to have diverse sources of funding

Diversifying their offerings I

- ▶ Why Zopa and Lending Club need to diversify their offerings?
 - ▶ Broaden their sources of investor funding
 - ▶ Service consumer needs more effectively
- ▶ How Zopa and Lending Club are diversifying their offerings?
 - ▶ Including institutional investors
 - ▶ Expanding their consumer offerings and offering other types of loans

Diversifying their offerings II

- ▶ Zopa
 - ▶ Apply banking license (savings account and later expand into credit cards)
 - ▶ The move into banking enable Zopa to acquire new customers because of the company's wider financial service offerings
- ▶ Lending Club
 - ▶ Acquire *Radius Bank*
 - ▶ The acquisition means that LendingClub's customers have access to a wide range of product offerings (cheque deposit, bill payments, etc.)
- ▶ Can Lending Club successfully integrate a bank into its FinTech model?
 - ▶ (A) Yes, borrowers will trust Lending Club to deliver
 - ▶ (B) No, the whole point of FinTech P2P is to side-step banks

Overview

1. Introduction
2. Zopa and Lending Club: Disrupting the lending industry
3. **ThinCats: Provision of P2P loans to small businesses**
4. SoFi: Disruption of the student-loan sector
5. Regulations on P2P lending
6. Conclusion

Potential growth for a company like ThinCats I

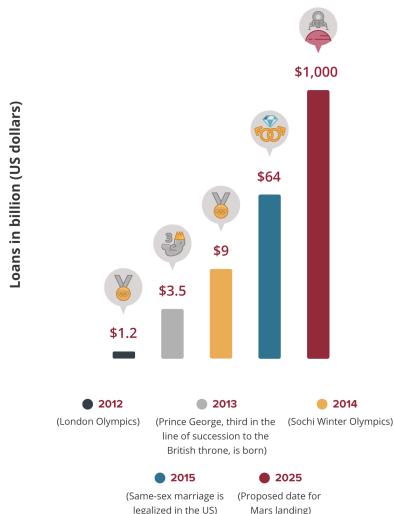


Fig. Expected growth of global peer-to-peer lending (Statista.com, 2019)

Potential growth for a company like ThinCats II

- ▶ ThinCats (UK): P2P loans to small businesses
 - ▶ P2P lending from personal loans → small-business loans



Fig. Comparison of peer-to-peer consumer and business lending (Statista.com, 2020)

Business challenges faced by ThinCats

▶ Video 2-2

- ▶ The path taken by ThinCats since its inception
- ▶ P2P lending companies change how finance can be accessed by a variety of people and companies
- ▶ ThinCats product offerings allow SMEs access to finance that they may not have gained through traditional financial mechanisms

Overview

1. Introduction
2. Zopa and Lending Club: Disrupting the lending industry
3. ThinCats: Provision of P2P loans to small businesses
4. **SoFi: Disruption of the student-loan sector**
5. Regulations on P2P lending
6. Conclusion

Disruption of the student-loan sector

- ▶ Social Finance Inc (SoFi)
 - ▶ Founded by a group of MBA students at Stanford GSB
 - ▶ Apply peer-to-peer lending principles to student loans
- ▶ Factors that led to the growth of this industry:
 - ▶ The increasing number of students attending university
 - ▶ The increasing number of loans offered to students
 - ▶ The increasing number of loans to attend for-profit universities
- ▶ No risk-based analysis given for student loans
 - ▶ Mispricing of loans and inaccurate interest rates being applied

How SoFi is disrupting the student loans sector

- ▶ Interactive Infographic [[link](#)]
 - ▶ The interactive infographic illustrates:
 - ▶ How student loans were traditionally priced
 - ▶ How SoFi sought to disrupt this sector
 - ▶ SoFi supply loans at the correct prices:
 - ▶ By identifying clients based on risk and potential earnings
 - ▶ By partnering with alumni (model of alumni-funded loans)

Challenges faced by SoFi

▶ Video 2-3

- ▶ Interview with Ron Suber: SoFi's major investors
- ▶ Challenges faced by SoFi and future strategies

▶ Success of SoFi

- ▶ Provide loans to potentially high-earning clients
- ▶ Build community with these clients

▶ Future growth strategies [[link](#)]

- ▶ Diversify their product offering (banking license)
 - ▶ Wealth management, life insurance, real-estate financing, healthcare, etc.

Overview

1. Introduction
2. Zopa and Lending Club: Disrupting the lending industry
3. ThinCats: Provision of P2P loans to small businesses
4. SoFi: Disruption of the student-loan sector
5. **Regulations on P2P lending**
6. Conclusion

Regulations affecting the P2P sector

- ▶ Challenge faced by P2P platforms: Changes in regulations
 - ▶ Determine how these platforms are governed
 - ▶ Protect investors
 - ▶ Ensure that platforms are being transparent in their dealings
 - ▶ Ensures that peer-to-peer platforms grow sustainably in the future
- ▶ 2019 FCA regulations:
 - ▶ Clearer governance on credit risk assessment and fair valuation practices
 - ▶ Greater transparency around platform fees, services and charges
 - ▶ New or inexperienced investors are capped at 10% of investable assets
 - ▶ Limit their exposure to risk

Overview

1. Introduction
2. Zopa and Lending Club: Disrupting the lending industry
3. ThinCats: Provision of P2P loans to small businesses
4. SoFi: Disruption of the student-loan sector
5. Regulations on P2P lending
6. **Conclusion**

Conclusion I

- ▶ Need for financing → P2P lending services
 - ▶ **Disintermediation**: alternative to higher-cost traditional financial institutions by offering speedier and cheaper loans via online platforms
- ▶ Evolution of P2P lending
 - ▶ The sector has diversified from traditional P2P services
 - ▶ Include small-business loans and student loans
 - ▶ These companies have faced similar problems in funding their services
 - ▶ They sought to bring in institutional investors
 - ▶ Break away from the peer-to-peer model

Conclusion II

► Discussion:

- Considering these changes, do you believe that peer-to-peer lending models will continue to grow?
- Will these lending companies replace traditional financial institutions in providing credit?
- Should these companies look to diversify their product offerings to banking services as part of their growth strategy?