social futures observatory

Internet Based Social Lending:

Past, Present and Future

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All of the following figures are based on the responses to two quantitative studies; one of Zopa members and one of people using more mainstream financial services.

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Executive Summary

The re-emergence of a form of financial exchange called ‘Social Lending’ has, we feel precipitated the need to understand how types of financial relationships formed through Social Lending might differ from more mainstream financial services. This report responds to this need on several levels. It aims to understand the antecedents of Social Lending through drawing parallels with friendly societies and how several online Social Lending schemes have re-emerged within the context of various contemporary social trends. It then focuses on a case study of Zopa, a UK based online Social Lending scheme established in March 2005. The use of the case study is important to this work in as much as Zopa and it’s services provides “solidity and form” to the term Social Lending, a term often difficult for respondents to clearly articulate in rational rather than emotional terms. Therefore when reading this work we strongly urge the reader to consider all but the most specific comments relating to Zopa as indicative of internet based Social Lending trends (and indeed to a great extent more general Social Lending trends), behaviours and opportunities more generally.

Our findings suggest that Social Lending schemes are in the process of constructing new ways of using and interacting with financial services. Importantly, we contend that the re-emergence of Social Lending as a significant development within the financial sector is a direct response to social trends and a demand for new forms of relationship. Because Social Lending schemes embrace the social trends that are definitional of our age they are likely to become increasingly important in the future. Such newly emerging types of financial relationships may seriously rival more traditional mainstream financial services and prompt a need to re-examine the model of traditional banking. In essence this paper argues that notions of the individual within community, transparency and broader ethicality are fundamental to Social Lending schemes. Where these are present all the “actors” in the relationship are able to act in “good faith”, where not, as is generally perceived to be the case by respondents in this research to more traditional financial services, a merely transactional relationship is developed that a significant number of people will ultimately find unsatisfying.

Summary of Key Findings

The authenticity and transparency of the exchange: Social Lending schemes represent a more authentic and transparent financial service guided by the experience of lending and borrowing directly from people. The more personalised and emotionally investing form of financial relationship creates the perception that the exchange is experientially real and fundamentally more genuine than experiences in mainstream financial services. 54% of Zopa lenders and 85% of Zopa borrowers described Zopa as 'exceptionally transparent' whilst 73% of people who completed our survey on general banking felt that mainstream financial services should be more transparent about the organisations they invest in. We believe this transparency leads members to regard Social Lending schemes to be acting in 'good faith' with care for the individual and with a philosophy that sets a relationship beyond the merely transactional. In turn the lack of transparency in mainstream financial services leads to perceptions of 'bad faith'.

Financial return and saving: It is apparent that people using Social Lending schemes are exceptionally financially sophisticated and their motivation for using Social Lending relies on the financial advantage that the schemes offer. The largest proportion of Zopa members - 50% - explained that the most important motivation for using Social Lending was financial.

The integration of finance and ethicality: Social Lending schemes are founded on a series of social and ethical principles associated with economic fairness, altruistic motivations for lending, a greater level of transparency and a higher degree of direct involvement. Whilst the financial motivations for using Social Lending schemes are considerable, it is the ethical and social principles that underpin the attractiveness of the Social Lending model. By making financial return dependent on ethicality, Social Lending schemes instate a differential type of financial service based on principles of altruism and philanthropy. If a borrower defaults it negatively affects the lenders' expected return, which our research suggests results in feeling of obligation and duty to repay. In contrast mainstream financial services are structurally dependant on bad debt because it enables them to make a profit by charging additional interest. In this sense mainstream banks tend to be perceived cynically because their financial model is permeated by the need to put people into debt. Indeed, ethical and philanthropic motivations were less easily related to mainstream financial services despite the considerable number of ethical policies and projects that they operate. 31% of the Zopa members and 24% of general bankers who responded to our surveys would most associate 'ethical banking' with Zopa and mainstream banks respectively. Similarly, from a comprehensive list of ethical policies and projects offered in mainstream banking, 29% of people responding to our survey on general banking claimed to be unaware of any ethical banking policies. Significantly, it is the integration of finance and ethicality that both differentiates Social Lending from mainstream financial services and makes people more aware of and more willing towards the ethical standing of Social Lending schemes.

We believe that the convergence of finance and ethicality within the Social Lending model is so significant that it is instructive to mainstream banks. By drawing attention to the lack of transparency within mainstream banking, Social Lending schemes have highlighted a problematic that is likely to lead to an in-depth examination of mainstream banking services. Here, the legacy of unethical investments and a lack of perceived transparency may ultimately prove a hurdle too problematic to overcome owing to the impossibility of integrating finance and ethicality within mainstream banking.

Philanthropy: The increase in the number of exceptionally wealthy individuals over the last decade; combined with an increasing governmental emphasis on personal social responsibility has encouraged a greater impetus for philanthropic giving. This has been become an indispensable feature of mainstream financial services' corporate social responsibility policies. However, our report contends that mainstream financial services operate a form of strategic philanthropy whereby benevolent giving is very much motivated by strategic organisational gains. In contrast Social Lending schemes have a different relationship to philanthropy whereby the strategic gains are deferred to individual lenders. Furthermore, Social Lending is more reflective of the current governmental concern with personal social responsibility because the more direct and involved form of philanthropy values members as socially responsible individuals.

Twenty-first century communities: Social Lending initiatives are founded on a horizontal structure of power relations which differs from the hierarchical structure of power in mainstream financial services, which tend to be based on notions of authority. It is the horizontal structure of Social Lending schemes which legitimates and enables connectivity between members, thereby providing a foundation and utility for community formation and social interaction. Whilst Social Lending schemes draw parallels with more traditional notions of community in friendly societies, they are also reinventing the notion of community through online forms, which draw parallels with online community websites such as MySpace and concomitant notions of communities of interest. Faced with a heightened sense of individualism and the need for control and autonomy, current Social Lending schemes can be understood as specifically 21st century communities of financial interest based on an intersection of individualism and community and a system of opting-in or voluntary participation in the community. This ambiguity was reflected in our survey of Zopa clients where 28% most associated 'community' with Zopa whilst 31% most associated individualism with Zopa. Similarly, 40% of people felt that Zopa had enabled 'minimal' social interaction and community development compared with 36% who thought Zopa reflected 'significant' social interaction and community development. Importantly, this sense of community is quite unique in comparison with more mainstream financial services, which, unlike Social Lending schemes do not provide the tools for social interaction and community formation.

Anti-corporatism: Negative attitudes towards mainstream financial services were prevalent amongst members of Social Lending schemes and members of mainstream financial services. In our survey of general bankers, 76% 'strongly agreed' that high street banks were greedy, 81% felt they were self-interested and 49% felt mainstream banks did not have the customers' best interests at heart.

Members of Zopa tended to be more cynical than general bankers about the ethical motivations of mainstream banks. Of a selection of ethical, social and philanthropic factors that could be associated with mainstream banks, Zopa members consistently ranked banks more negatively than respondents to our survey of general bankers. 56% of Zopa members and 10% of respondents to the survey on general banking felt that high street banks were most associated with being impersonal. Largely conditioned by the perception that Social Lending schemes are more honest, caring and transparent, it is significant that members of Zopa were willing to attribute meanings and values to Zopa that the organisation does not really reflect. Most notably 4% of Zopa members associated Zopa with environmental concerns, whilst only 2% of Zopa members felt that environmental concerns could be related to mainstream banking.

Members of Social Lending schemes were also more likely to regard Social Lending favourably than general bankers were towards mainstream banks. 77% of Zopa borrowers and 15% of respondents to the general banking survey felt that the interest they paid through their respective organisations accurately reflected their perception of their credit risk. On average 64% of people completing the survey on general banking felt that they had received charges from their principle bank which they felt were unfair or unreasonable.

It is also significant that only 8% of Zopa members stated that they were motivated to use Zopa principally because they did not want to use mainstream financial services. Indeed, our research suggests that people were not driven to use Zopa by anti-corporatism as much as they were attracted to using Zopa for many of the reasons that they dislike banks. These factors include the comparative financial fairness of Zopa and its underlying transparency and social and ethical premises that are not perceived to be endemic in mainstream financial services.

The risk inherent in the process of peer to peer lending: Paradoxically the higher degree of perceived transparency and authenticity created by the experience of lending and borrowing directly from people also increases the perceived risk of using Social Lending schemes. Our research suggests that the facelessness of banks actually mitigates perceived risk in comparison with the deeper investments involved in more personalised forms of lending amongst Zopa members. Significantly, this means that the risk associated with using Social Lending is related to the process of the exchange rather than the risks of using the organisation. In fact only 8% of people felt the risk of Zopa going bankrupt was 'significant'. Whilst the risk of Zopa losing its competitive edge was higher at 31%, it was comparative with 31% of respondents to the survey on general banking who felt the risk of their principle mainstream bank losing its competitive edge was 'significant'.

Risk and playfulness: We would suggest that the type of person attracted to Social Lending is someone who is able to juxtapose rationalised and sophisticated financial knowledge with the desire for sensation satisfaction created by the experience of risk-taking. The attractiveness of Social Lending depends very much on the extent to which members are able to be actively involved in experimentation and to feel as if they are playing a game.

The Internet as an enabling technology: Members of online Social Lending schemes are amongst the most competent Internet users and demonstrate an enveloping desire to deal with their finances online. Consequently, the online basis of the Social Lending schemes explored in this report is understood as an enabling technology providing new tools facilitating the completion of online financial transactions.

The Social Lending market: Currently, Social Lending schemes tend to attract a particular type of person who is very competent using the Internet and who is financially savvy and stimulated by risk-taking. The Social Lending typology is best characterised as a 'minipreneur'; the 'switched on' and 'better informed' consumer who, through a desire for control, uniqueness, autonomy and choice is driven by the need for empowerment and authoring of the self. Whilst Social Lending schemes do not currently play an important role in the portfolios of investors or independent financial advisors, we would expect that Social Lending will continue to increase in importance in the future. However, this importance is likely to remain restricted by the recognised necessity of mainstream financial services. Indeed 78% of respondents to our survey of general bankers felt that banks were necessary. Current accounts provide us with a platform to be economically active, not least because they provide the means to establish our credit rating. In their current forms, Social Lending schemes offer a financial exchange but they do not rival the range of products and services offered by mainstream financial services. For this reason; combined with the type of person that Social Lending appeals to, we would contend that the likely future market of Social Lending will be 'niche mass', which will, nevertheless, increasingly fulfil an established role within investors' and independent financial advisors' portfolios.

Introduction

> ‘Peer-to-peer lending is a means by which borrowers and lenders may transact business without traditional intermediaries, such as banks. The process may include other intermediaries who package and resell the loans – examples include Prosper and Zopa – but the loans are ultimately sold to individuals or pools of individuals. An enabling technology for peer-to-peer lending has been the Internet, which connects borrowers with lenders, for example through an auction-like process in which the lender willing to provide the lowest interest rate “wins” the borrowers’ loan’ (Wikipedia, 2006a).

Social Lending and a more general interest in philanthropy have in recent years seen a remarkable growth in interest. In this document we have set out to explore one specific manifestation of the phenomena, namely Social Lending linked to Internet and web technologies. It is certainly true that the linkage of these two is more than an accident and indeed is more than the financial, technological and/or social entrepreneurialism of enlightened individuals. Our investigation clearly demonstrates that to those involved in such sites as lenders, borrowers or indeed creators, a relationship is developed that fulfils and engages the individual on several different, often complex levels. A ‘richness’ of interaction is available that contrasts markedly with mass financial service banking. Our exploration is far from exhaustive but does we believe point to several key characteristics that working together have put such forms of Social Lending firmly ‘on the map’ and suggest their continuing future significance.

Our explorations introduced us to several sites, often with very differing notions of social role and execution of service. However we have been able to draw out several larger concepts that appear to form useful explanatory tools to explore our more general theme. Additionally we have been aided by being able to engage in a more detailed case study of the UK based Zopa site. It quickly became obvious that whilst at a limited level it is possible to study sites such as Zopa in isolation, they exist as part of a broader financial services banking community. It is difficult to understand the position of Social Lending and the organisations that facilitate this without at least some passing contrast with what can be termed as more ‘mainstream’ financial service banking. Although again one must be careful about the use of such terms as ‘mainstream’ as our explorations indicate even if such Social Lending forms as Zopa can not be fully regarded as mainstream they are nonetheless rising and set to rise much further in terms of significance and broader population recognition. For these reasons part of our work locates Social Lending, and particularly the form as expressed through Zopa against broader attitudes to financial service banking.

We have chosen to take four questions as the starting point for our explorations:

Do Social Lending sites fulfil a public and private need?

What does this need look like?

Where does the need come from?

Does Internet based Social Lending have a future?

To the first of our questions we can respond with a clear affirmative. In short there is a genuine need; we are not here dealing with a technology looking for a market. This need is, however complex and extends from more basic and obvious drivers such as financial return or valuation through significant concerns about the individual within community to ethical issues and anti-corporatism.

The second of our questions is answered by talking directly (in interviews and by survey studies) to users of such services. A clear picture emerges of opportunities being taken, opportunities that financially empower whilst allowing customers to link to broader value laden issues almost on a self help basis. Fulfilment through sites such as Zopa has as much to do with the existence of option and choice as it does with actualising choice. However this choice is very different from more mainstream banking concepts of choice, say between differing products or services, rather it is choice relating to level of engagement and personal commitment. In other words it is the apparent transparency of individual relationships and the high value placed on this transparency that lies at the heart of these sites.

The third question is explored through an examination of some broad social and cultural themes that whilst on a macro scale are re-shaping social behaviours and attitudes generally, when applied to Social Lending via the Internet clearly locate its growth as genuinely emergent through social need. We believe the key to understanding Social Lending is an appreciation of emergent notions of the individual within community, the relationship between the physical and virtual (here we believe that Social Lending, by in part returning to its historical origins, can play an increasing and major social role in the future), issues of empowerment and control, the authoring of the self, growth of entrepreneurialism and attitudes towards playfulness, risk and exchange. There are of course several other trends one could explore, however we believe that those we have examined both account for and emerge most powerfully from the evidence.

Our final question explores the future for such structures. Quite simply the answer is yes and one of becoming increasingly influential. Internet based Social Lending is not a replacement for mass banking services. However it is set to become increasingly influential to a significant minority, minorities of groups and individuals. Whilst recognising the importance of financial risk and return and retaining this as core, future opportunities lie in an ever increasing alliance between values and financial action. In other words financial transactions moved beyond the mere transactional, towards relationship and a genuine emotional value based upon transparency. Of the sites we examined many currently are ‘communities’ based on finance. However it is likely the future will see, whilst retaining the financial core, ever closer links to broader interest groups, often more physically located or connected. If this does occur then Internet based Social Lending will have revisited its past to energise the future.

Our work is divided into three broad sections. The first helps to trace more traditional notions of Social Lending and to define the term. The second examines several broad socio/cultural themes underpinning the re-awakening of interest and activity in Social Lending. The third is a case study of Zopa.

The work combines extensive desk research with new specially commissioned empirical research, combining qualitative interviews and two separate independent studies one amongst Zopa users exploring their attitudes towards Zopa and more mainstream banking, the second survey amongst a general sample of mainstream banking customers.

Chapter One

The Historical Origins of Social Lending

Early Friendly Societies

> 'Whereas it has been an Ancient Custom in this Kingdom for Divers Artists to Meet together and unite themselves into Society (But more especially for those who follow any Art or Mystery) to promote Amity and true Christian Charity…' (*Rules of the Second Mechanics Society*, Plymouth, 1794 as cited in Gorsky, 1998).

Friendly societies originated in Britain in the 1630s and 1640s. They were an evolution of the centuries old communal organisations of gilds and although they were similar to freemasonry societies, members of friendly societies were more likely to be wage earners or artisans rather than merchants or professionals. By the early 1700s friendly societies became better established and there were increasing trends towards institutionalisation at a local level through rules and charters and at a national level through the Friendly Societies Act of 1793, which aimed to grant various privileges in return for registration (Gorsky, 1998). During the nineteenth century, friendly societies experienced exponential growth in membership and an increasing trend towards affiliated societies with multiple lodges. Membership in 1793 surged from 600,000 to 4 million in 1874 becoming the most well attended voluntary associations after churches (Beito, 2000).

Friendly societies membership was overwhelmingly working-class and although friendly societies did have various functions, the vast majority aimed to insure against sickness and death (Eden, 1994). As the *London Gazette* stated in 1742:

> 'There are in this city and suburbs another sort of societies, both of men and women (which are very numerous) denominated box-clubs, for the relief and mutual support of the poorest sort of artisans during sickness or other incapacity' (as cited in James, 2001).

Similarly, one of the three rules of a friendly society holding meetings in a Derbyshire village pub recorded in 1736 the purpose of the society as follows:

> 'And to every one that shall belong unto it after they have been in it one whole year, if sickness should come on them they shall have given unto them three shillings a week so long as it shall continue on them, and if their sickness be judged to be incurable they shall have two shillings a week while they live, and at their death shall have twenty shillings for to bury them if so required, and every member or at least those that are bidden shall convey their brother's corpse to the grave, & upon neglect of not coming, notice being given them, they shall forfeit sixpence to the box without good & just reasons be given to the Master and Wardens and they approve thereof' (as cited in James, 2001).

Consequently, friendly societies had two main purposes – that of mutual support and financial assistance. The inseparability of these criteria is summarised by the mission statement of the *Fraternal Aid Society* to provide; 'for mutual moral and material assistance' (as cited in James, 2001).

However, friendly societies tended to have a specifically welfare oriented approach to mutual support and financial assistance. Funeral insurance intended to decrease the number of pauper funerals, which have been classified as 'the ultimate social disgrace' (E.P. Thompson, [1963], 1991). These societies tended to consider applications for aid on a case-by-case basis. The

Scots Charitable Society, for example, provided individualised funds for such diverse purposes as ship passage, prison bail and old-age pensions. Cash allocations were classified as ‘charity’ and ‘relief’ rather than ‘benefits’. Although there is a multiplicity of factors contributing to the emergence of different friendly societies, there is a surprising agreement on the general ideology promoting their emergence. A section of the Charter from the *Friendly Society of Free and Accepted Masons*, which was established in 1737, explains the founding ideology as follows:

> ‘We whose names are hereunto subscribed, do unanimously agree to erect and establish a Beneficial Society of FREE and ACCEPTED MASONS for the mutual benefit and Support of each other, as well in respect to do Our utmost to promote the Interest and Advantage of the Members in their respective Trades, as to Provide for and Support those under such Misfortunes, and Sickness, which they may be visited or afflicted with from the HANDS of ALMIGHTY GOD (as cited in James, 2001).

The idea that power and productivity could be increased through collectivism was particularly important at this time. It descended from political and social trends exemplified in Thomas Hobbes’ *Leviathan*. Hobbes argued that society should be based on the idea of social contract because pursuing individual interests would result in ‘the war of all against all (Hobbes, [1651] 1996). As the cover of *Leviathan* shows, every person was thought to constitute a part of the King’s own body whose collective action would supersede the sum of its parts (Hobbes, [1651] 1996).

Such notions of collectivism underpinned the ‘brotherly’ rhetoric endemic in many of the historical sources on friendly societies. In 1858, Spry explained that friendly societies were established for ‘literary men… to meet periodically to eat beefsteaks, tripe, etc, and enjoy one another's company, and call their officers by high sounding titles, and style themselves Brothers’ (as cited in James, 2001). Similarly, after a visit to Britain in the 1880s the Austrian Professor Baernreither stated that friendly societies ‘are also increasing the cohesion of the working class, and welding together elements...into a social power, by creating a union based on brotherly support.’ (as cited in James, 2001). Biologically unrelated individuals thus used kinship to construct the solidarity thought necessary to achieve successful collective action (Beito, 2000).

Friendly Societies in the Nineteenth Century

The rapid growth of friendly societies during the nineteenth century was a result of changes in British working life. The Industrial Revolution had produced mass mobility as people moved from rural agrarian employment to urban industrial employment. The number of specifically ethnic friendly societies, such as the *French Huguenot* clubs in London and *Orange Lodges* in Liverpool attests to the fact that friendly societies provided more than just financial assistance. Especially at a time when male workers would migrate without their families, friendly societies provided a sense of belonging through a ‘kinship’ structure of support.

Nevertheless, during the nineteenth century, individualism and notions of self-help became increasingly important. These developments were informed largely by trends towards individualism inaugurated during the Protestant Reformation and especially during the French Revolution where the Rights of Man declared that each person was master of his self. Tracts on ‘self-help’ especially those popularised by Samuel Smiles became increasingly important as guides to living a proper life of moral worth. Successive Liberal governments promoting values of thrift and self-help and the increasing trend towards voluntarism – founded on individual responsibility for well-being – further cemented the concept that the individual was responsible for his own well-being.

Increasing urbanisation also meant that migrant workers no longer received the poor relief that supplemented the rural wage. This, coupled with the increase in a more disposable income provided by industrial jobs meant that there was a greater need to purchase insurance through friendly societies. In 1869 an anonymous commentator described the need;

> 'To provide for a rainy-day, to set aside some tithing from the harvest time of health and strength to meet the requirements of an hour when both may fail, is the duty of every man who values the glorious privilege of being independent. More especially it is the duty of every working man (as cited in James, 2001).

Furthermore, industrial jobs and commensurate trends of self-help encouraged people to become more concerned about health issues. This tended to supplement Georgian consumerism and also encouraged the demand for sickness insurance owing to the growth of a health culture based on the commercialisation of medicine, the growing importance of doctors and the rise in hospitals and dispensaries.

Although notions of mutuality and community are maintained in the rhetoric and underlying structure of friendly societies, there is also evidence of trends towards an incorporation of the themes of individualism and self-help. Whilst middle class definitions of respectability were based on individualism and self-help, friendly societies aimed to achieve moral worth through proffering an alternative definition founded on collective self-help and independence from external control (Cordery, 1995).

During the nineteenth century there was a series of conflicts between the working-class members of friendly societies and elite patrons and government officials. The basis of the conflict was whether working-class members were able to govern themselves. A Writ of the *Amicable Society* in 1736 provides evidence for a long history of self-government where members were elected from the whole membership;

> '1st. This Society is to be governed by one Master, two Wardens, & 6 Councell, which are to be chosen out of the whole body' (as cited in James, 2001).

Nevertheless, in an 1823 pamphlet entitled *A Few Observations on Friendly Societies*, Bercher claimed that friendly societies were incapable of self-government owing to 'habits of idleness and intoxication' (as cited in Cordery, 1995) largely because friendly societies' meetings were held in public houses. Whilst pubs had long been centres of commercial activity, they became progressively more offensive to a middle-class populous placing increasing emphasis on values of sobriety, self-help and thrift.

Holding meetings in public houses had a practical purpose – so that the landlord could provide security for the societies' funds and a place to meet free of charge if the landlord was also a member. Meeting in public houses was also socially important because it provided an appropriate setting for the societies' communal activities. Often, club nights, annual feasts and festivals were more important than the financial concerns of friendly societies (Cordery, 1995).

Nevertheless, it was through the adaptation of middle-class values that friendly societies fought for independence. Through adopting values of individualism and self-help and transforming them into values of collective self-help and independence from external control, working-class members gained access to social power. Indeed, members were fined if they blasphemed, encouraged game-playing during meetings or failed to attend members' funerals (Beito, 2000). The Committee of 1825 explained that members 'do not like to see the management in hands other than their own; and they have an undefined apprehension of an invasion of their funds by the government' (as cited in Cordery, 1995). The anonymous author of *A New and Compleat Survey of London* wrote in 1742 that:

> 'Tho' these societies consist of the meanest and rudest of the citizens, yet by their admirable regulations and constitutions (of their own making) they are kept in best order and decorum...Those of these societies which are of long standing and have amassed a considerable sum of money for a fund, oblige every member at his admission into the club, to pay five shillings entrance money and in some ten shillings' (as cited in James, 2001)

Whilst public house meetings continued to be a bone of contention, by 1850 it was widely accepted that friendly societies had gained sufficient respectability to be capable of self-government. The overall importance and strength of friendly societies was noted in 1889 by the Austrian professor Baernreither who commented that 'the influence exercised by the Friendly Societies, as voluntary fraternities, cannot possibly be overestimated' (as cited in James, 2001). Consequently, by the end of the nineteenth century friendly societies had succeeded in securing legal governmental protection without direct external control such that the British reformer and power-broker W.E. Gladstone recorded in the 1870s that;

> 'Friendly Societies have become so important and telling a feature in the Constitution of British society in its broadest and most fundamental part that any account of our nation and of the people, to whom we rejoice to belong, would deserve no attention as a really comprehensive account of it if it was wanting in a good and full description of such Societies' (as cited in James, 2001).

In summary friendly societies were a product of early modern ideas about the efficacy of collective action and the sacrifice of individual concerns for the good of the community. Whilst nineteenth century society tended towards a individualistic society based on revolutionary notions that the individual is master of his self, friendly societies retained their belief in the importance of collective self-help and mutual support whilst incorporating the newly emerging possibilities of self-empowerment, and social advancement. Whilst the purpose of friendly societies was welfare oriented **-** to make provision for the most basic biological needs during sickness, friendly societies also provided a support network based on kinship structures for migrating industrial workers.

As the following sections will explore, friendly societies thus evidence trends similar to those involved in Social Lending. Most notably, the concept of community and collective advantage. Social Lending schemes are akin to friendly societies in that peer to peer lending has arisen following trends towards individualism, juxtaposed with a new desire for community.

Chapter Two

The Move Towards Social Lending: Contemporary Social Trends

Introduction

As we head into the twenty-first century we are faced with a plethora of emerging social trends that directly and indirectly signals a changing relationship to finance and financial institutions. The development of and increasing integration of the Internet into our personal and public lives entails new directives of self-education, giving us the opportunity to not only become more aware of financial services and products but also to compare these services at the click of a button. As an enabling technology, the Internet allows us to communicate instantaneously across vast distances without the need for physical co-presence whilst also empowering people to take more control of their lives and their finances, most notably through entrepreneurialism and a heightened sense of individualism. An increasingly globalised world also means that we are becoming more aware of and concerned with human rights, world poverty and environmental issues. In our desire to be more philanthropic and ethical, we are increasingly calling banks to account for third world debt and a greater equitability on an international scale. Finally, disillusionment with the government means that we attribute a greater importance to communities to improve the lives of its residents. Consequently, the purpose of the following sections is to provide an in-depth study of the contemporary trends involved in Social Lending, which, by drawing on the differences between Social Lending and mainstream financial services aims to explicate why Social Lending has re-emerged in relation to emerging social trends.

The report considers several Social Lending organisations including Zopa, Prosper, CircleLending, Vancity and Life*Spin. Whilst all Social Lending initiatives used in this report are based on the idea of lending and borrowing directly from people, there are important internal differentiations. Consequently, we will briefly summarise the key differences between the different Social Lending schemes. Zopa was launched in March 2005 in the UK and it is based entirely online. Lenders are able to choose the risk level and both lenders and borrowers are able to specify the rate of return or the interest rate they are willing to pay. Zopa appears to offer a more commercial model of Social Lending in comparison with some of the other schemes. Similarly, Prosper, a US Social Lending schemes established in February 2006 is exclusively based on the Internet. Members are invited to join a particular group based on shared interest, such as women entrepreneurs or the graduates group. Similar to Zopa members can choose the rate of return and the rate of interest but there is more of a group responsibility and obligation to repay loans since the groups' reputation depends on timely repayments. CircleLending was launched in September 2001 and it has more of a kinship model of lending since it relies very much on lending and borrowing between family and friends. Vancity was established in 1945 in Canada and has the longest history of all Social Lending schemes considered in this report. Vancity is more akin to a Co-operative since it is owned by members. However, it is included within our definition of Social Lending because it adopted a peer to peer model when it bought the Calvert Foundation Loan fund portfolio. Vancity provides loans between $1000 and $5000 to small borrowing groups (Hofheimer, 2006). Life*Spin was formed in 1989 in London, Ontario and it is specifically aimed towards low income individuals. Life*Spin stands for 'Low Income Family Empowerment * Sole-support Parents Information Network' (Life*Spin, 2006). Its peer to peer lending model is oriented towards empowering people through entrepreneurialism. Members make loan applications by submitting business plans. Other members then decide consensually whether to accept the loan application. As such, Life*Spin is more welfare and socially orientated in comparison with the other Social Lending examples.

The report also draws on two quantitative studies; a survey of Zopa members and a survey of people using more mainstream financial services, each with 500 responses. We also conducted

20 qualitative interviews; 5 with Zopa borrowers, 5 with Zopa lenders and 10 with people using mainstream financial services. To respect the anonymity of interviewees, all names used in this report are pseudonyms.

Through comparing several Social Lending schemes with mainstream banking, this report suggests that, whilst the re-emergence of Social Lending in not inevitable, it is the result of changing notions of how some people relate to finance and financial services.

Interfacing Individualism and Community

> ‘The small group tends to restore, structurally, the symbolic power. Step by step, one can see a mystical network being built, carefully yet solidly connected, leading one to speak of a cultural resurgence in social life. This is the lesson taught by these eras of the masses—eras based mainly on the concatenation of groups with splintered but exacting intentionalities’ (Maffesoli, 1996).

Similar to friendly societies, Social Lending schemes – to a greater or lesser degree - are unified in their attempt to build their foundations on principles of community. This section will explore why this particular trend has emerged through interfacing concerns of community with those of the individual.

The legacies of modern revolutions mean that human beings are guaranteed various human rights, freedoms and liberties. The transformation from a repressive type of authoritarian governance that demanded obedience and subjugation was replaced with a governmental system based on productive technologies of power. Liberal governance, with its emphasis on the autonomy of the subject aims to make subjects obedient not through force but through a diffused form of control that produces conformity. Micropolitical technologies of power are operative on the subject, which aim to implant and normalise correct action within the psychology of the subject. Liberal governance is thus a productive form of power producing conformity and correct behaviour through the subject’s very own self (Foucault, 1998 & 1991) The reconfiguring of the subject in advanced liberal democracies allowed governments to ‘conceive of these actors in new ways as subjects of responsibility, autonomy and choice, and seek to act upon them through shaping and utilising their freedom’ (Rose, 1996). Subjects are made to believe that all aspects of life are the outcome of choice from a number of options and that the individual is responsible for managing his/her life and its attendant risks and ultimate destiny.

The problem for liberal governance – that it ‘governs without governing society’ (Jarrett, 2006) – is that it is difficult to intervene at the level of mass society. This problem is overcome not only by decentralising control through institutional regimes of discipline but also through the ‘responsibilisation’ of citizens. Rose argues that ‘community’ is a key site for such responsibilisation technologies to be effected (Rose, 1996). Empirically, we might think of how Neighbourhood Watch schemes make ordinary citizens the eyes and safe-guarders of the law. Similarly, we might think of the ways in which debates on terrorism often call upon the ‘Muslim Community’ to provide information on Islamic terrorist activities and motivations.

Communities are significant because in the absence of authoritarian forms of control dictating what we should believe in and how we should conduct our lives; communities are one of our primary means of socialisation. We need communities to construct and affirm who we are and what we believe in. Furthermore, communities are often more successful that the State in resolving problems because they are more locally situated and more aware of the problems they face and how best to address them; especially since the State is handicapped by the impossibility of direct intervention (Bowles & Gintis, 2002).

Whilst communities are typically self-governed bodies organised by general consensus on particular concerns, ideologies or purposes, through the responsibilisation of citizens, communities tend to act in various socially sanctioned ways where the impetus to apply the law and correct action resides within the individual. Whilst communities are an indirect product of the State's responsibilisation of citizens, they nevertheless inspire us to think that the community is outside the State's jurisdiction. So long as the 'community' continues to act in authorised and normative ways, then self-government and the level of freedom that this entails is actually sanctioned and encouraged by Liberal Democratic governments.

In the case of Social Lending, the 'community' rhetoric is invariably very strong. Whilst Social Lending schemes are reminiscent of the collectivism inscribed in the ideology of friendly societies, they also reflect liberal democratic trends towards the responsibilisation of subjects. Jarrett argues that the efficacy of schemes such as eBay resides in their endeavour to produce the autonomous subject whilst simultaneously inspiring sanctioned behaviour through instilling the values of the community within the mindset of members (Jarrett, 2006). Social Lending schemes demonstrate a parallel trend, which emphasise not so much the 'rules' of the community that members must abide by but the 'values' that the community is based on. The U.S. peer to peer lending scheme Prosper directly underpins its community values through appealing to members' 'responsibility'. The website explains that 'responsible people tend to stick together…When you join a responsible group with a good payment history you get a good reputation by association' (Prosper, 2006). Here Prosper does not appeal to 'brotherly' values based on kinship but on the inherent 'responsibility' of its members. Neither does it command members to be responsible but rather aims to inspire correct behaviour through suggesting that members are responsible. By implicitly acknowledging that it cannot force members to act in certain ways – because membership is voluntary - Prosper enables members to be autonomous whilst nevertheless normalising correct behaviour by appealing to members to produce responsible action from within the self. In fact, Prosper claims that 'belonging to a good group puts some pressure on you, too. If you stop making your loan payments, you'll not only tarnish your own reputation, but the group's as well' (Prosper, 2006).

Through the interfacing of individualism and community, this notion of collectivism contrasts with the type of relationship formed through banks. Here the relationship is based on the individual with the institution. An interviewee speaking about her relationship with the bank explains that:

> *"…me and the bank's relationship isn't very, you know, me Rita and the bank, it's like account number blah, blah, blah and the bank, it's not personal or anything like that. Other customers I'm just the same as them really, but there's no solidarity or relationship between us" (Rita).*

In the absence of any sense of connectivity with other people using high street banks, interviewees tended to perceive their relationship with high street banks as one based on authority and rigidly defined consumer and institutional roles that establish a set of unequal power relationships. Another interviewee stated that:

> *"High Street banks have this sort of mentality of almost siege mentality where, you know, they're on this side of the counter and you're on that side of the counter" (Mickey)*

Consequently, high street banks depend on structures of authority which situate customers in a position of subjugation. The lack of connectedness between other members of the bank forecloses the possibility of community formation. In contrast, Social Lending schemes are based on a horizontal power structure, which, although implicated in a set of power relations enable the formation of ties between members. Importantly, Social Lending schemes interface the individual with the community. Here, the individual is an autonomous, freely acting subject, who nevertheless is encouraged to develop feeling of obligations towards the community. To some extent, then, like friendly societies, Social Lending schemes make individual gain dependant on community participation. The main differences between friendly societies and Social Lending schemes appear to be the ways in which friendly societies were dependant on physical location; uniting family, friends, neighbours and colleagues because of shared geography rather than shared interest. Furthermore, as we shall explore in the next section, Social Lending schemes tend to enable a greater level of individual autonomy in comparison with the tighter knit communities of friendly societies.

The Influence of Social Capital

Whilst it is evident that notions of community are important in Social Lending schemes, they are premised on the interfacing of the individual with collectivism. Currently, the majority of Social Lending schemes – especially the more commercially based schemes, such as *Vancity, Prosper* and *Zopa* – aim to make peer to peer lending attractive on two distinct fronts. On the one hand, they emphasise individual gains in terms of financial return and access to credit. On the other hand, they emphasise how the community benefits through the socially rewarding nature of peer to peer lending. Zopa states that 'they can give you better rates of return than an investment at a bank, plus you've helped someone like you' (Zopa, 2006).

Consequently, Social Lending schemes are a balancing act, which seek to simultaneously serve the individual and the community. Whilst Social Lending schemes emphasise 'mutuality' and 'peer' relations based on equality, it is important to understand how communities are formed through a set of power relations, which are inherently unequal and where individuals are likely to act in their own interests.

Theoretically, Social Lending schemes are founded on the concept of social capital. This concept, which has been particularly important in the U.S. in understanding micro-enterprise schemes, demonstrates how economic acquisition is based on social networks and relationships (Servon, 1998). Social capital is particularly important in understanding Social Lending because it relates economics to the social elements and the power relations that constitute the structure of communities (DeFilippis, 2001).

Importantly, social capital is not an innate quality of particular individuals but is embedded in people's social interactions (DeFilippis, 2001).

> 'Social capital refers to connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise from them. In that sense social capital is closely related to what some have called 'civic virtue' (Putman, 2000).

> '[Social capital] is not confrontational encounters based on vested interests, but rather "features of social life – networks, norms and trust – that enable participants to come together to pursue shared objectives" (Putman, 2000).

Whilst social capital encourages altruism, trust and mutuality it would be incorrect to assume that everyone is equal and that power relations within communities are inconsequential. According to the theory of the responsibilisation of citizens, community members tend to produce and reinforce norms and values central to the communities' operation. When a member fails to cooperate, it is in the communities' interests to punish the non-co-operator – a behaviour called 'strong reciprocity' (Bowles & Gintis, 2002). Furthermore, 'to have any value as a term, social capital must retain a connection to economic capital and it must therefore be premised on the ability of certain people to realise it at the expense of others' (DeFilippis, 2001). In fact, some academics argue that 'associational activity is not correlated with economic performance…promoting horizontal associations through encouraging the formation of and participation in groups may be counterproductive' (Knack & Keefer, 1997)

Consequently, ‘peer to peer’ lending schemes are imbued with power relations and differentiated gain. It appears that Social Lending is successful when self-interest serves the ends of the community:

> ‘While we need to create social networks to allow individuals to realise capital, those networks must ensure that the groups of people involved retain some control over the capital. Only in doing this can individual gains and interests be assumed to be synonymous with group gains and interests’ (DeFilippis, 2001).

Overall, by making individual gains dependant on the community, Social Lending schemes utilise the contemporary desire for community, whilst serving the needs of the autonomous individual. Trends towards the responsibilisation of citizens means that the individual must be inspired to believe that their participation in the Social Lending community is socially beneficial yet also serves their own interests. However, the concept of social capital is an academic ideology, which is to a large extent divorced from the everyday reality of ordinary people. The problems to overcome, then, appear to be the extent to which people can connect financial matters with community formation.

Virtual and Physical Communities

> ‘Through the development of new technologies, we are, indeed, more open to experiences of de-realization and de-localization. But we continue to have physical and localised existences. We must consider our state of suspension between these conditions’ (Robins, 1995).

The problematic of connecting community formation with financial matters is only one dimension in the difficulty that the ideology of community – which is an ambiguous concept making it difficult to define – presents to online Social Lending schemes. The literature on community in physical and virtual environments is divided into two camps. The cyber-optimists champion the Internet for revolutionising the way we communicate, enabling ubiquitous connectivity across racial, class, gender, religious and geographical divides. In particular, these academics argue that virtual environments support the formation of genuine personal relationships and communities beyond the confines of physical locality (Rheingold, 1993; Sproull & Kiesler, 1991; Moores, 1999; Bassett & Wilbert, 1998; Dodge & Kitchin, 2001; Kollock & Smith, 1999; Stone, 1991).

In contrast, the cyber-pessimists criticise the Internet for atomising relationships, disabling meaningful interaction and making communication a simulacrum divorced from reality. They argue that online relationships can only ever be exceptionally shallow, impersonal and frequently hostile (Ritzer, 2001; Slouka, 1995; Lehtonen & Maenpaa, 1997; Robins & Webster, 1999, Halton, 2000; Berry, 1993; Heim, 1992).

It is significant that the debate between cyber-optimists and cyber-pessimists focuses largely on the formation of personal relationships in physical and virtual communities. Communities are essentially fictitious constructs. In both physical and virtual communities, the claim to belong to a community is a highly interpretative act since we rarely know all the other individuals thought to constitute the community. Further, our claim to belonging rests on individualised understandings of the community’s purpose and ideologies, resulting in divergences in how we articulate belonging. All communities are in this sense ‘imagined’; not because they do not exist but because we form alliances with unknown individuals on the basis of assumptions and through a transference of our beliefs and values onto other members of the community (Anderson, 1991). Nevertheless, it is the close and very personal ties to a small number of individuals within the group that defines community as a concept (Wellman, 2001).

Whilst physical communities are defined spatially through references to place, virtual communities have a more complex relationship to space. Virtual environments are in a sense a non-space yet also a space in their own right. Virtual communities enable the separation of space and place and are thus social in nature and based on shared interests in a shared space rather than shared place (Moores, 1999). Whilst cyber-pessimists conclude that virtual interaction is an insufficient substitute for face to face interaction, they tend to ignore how virtual environments require new and different forms of interaction owing to the different tools available:

> 'CMC [Computer Mediated Communication] gives us a tool with which to use space for communication. CMC, of course, is not just a tool; it is at once technology, medium and engine of social relations…CMC not only structures social relations, it is the space within which the relations occur and the tool individuals use to enter that space' (Jones, 1998).

Virtual communication tends to be asynchronous, giving people more control of the content and timing of their disclosures (Walther, 1995). Thus, whilst communication is instantaneous it is also highly 'authored' and consciously thought out (Hulme, 2006). There is also evidence that people have developed specialised forms of virtual communication, such as personal idioms, avatars and emoticons, which permit them to enhance the text based message and to express themselves more efficiently and reinforce relational identities (Bell & Healey, 1992). Similarly, Dodge and Kitchin argue that virtual communication is;

> '…reconfiguring space-time relations, radically restructuring the materiality and spatiality of space and the relationship between people and place…the conceptual space they support, cyberspace, is extending social interaction' (2001).

Furthermore, largely as a result of the disembodiment afforded by Internet communication, some scholars have argued that the Internet enables people to be less inhibited (Parks & Floyd, 1996). Whilst the Internet enables new forms of communication which supplement and extend existing forms of communication, virtual environments are not able to replace the level of emotional engagement present in physically located face to face relationships:

> 'On the Internet…people would put words like "grin" or "smile" or "hug" in parentheses in a note. It's a code meaning cyberhugs, cybersmiles, cyberkisses. But at bottom, that cyberkiss is not the same thing as a real kiss. At bottom, that cyberhug is not going to do the same thing. There is a big difference' (Slouka, as cited in Barlow 1995)

Indeed, the small bandwidth of Internet communication cannot support strong personal ties (Jones, 1995);

> 'electronic communication is an instantaneous and illusory contact that creates a sense of intimacy without the emotional investment that leads to close friendships' (Stoll 1995).

Furthermore, physical spaces are important to community development. They provide a concrete space which literally embodies a sense of past and future where face to face meetings provide a real and tangible sense of personal and community identity (Casey, 1997; Orum & Chen, 2002).

Consequently, neither the cyber-optimists nor the cyber-pessimists are completely right in their analyses. The Internet is a community facilitator – it enables community members to have constant contact beyond the limits of geographical space but it cannot provide the deeper level of emotional engagement that face to face encounters provide. In other words, the Internet augments physical communities whilst not being able to replace them (Anderson & Tracey, 2001; Howard et al., 2001; Katz et al., 2001; Wellman, 2001). The Social Lending schemes that provide a cross-over between virtual and physical interaction are likely to have the most developed sense of community where personal relationships are able to surface (Wellman, 2001). Indeed, Vancity states that its purpose is to:

> 'Strive to set a high standard for investing by providing investment choices that are environmentally friendly and socially responsible and ethical. By this, we mean investing in companies, funds and projects that have socially acceptable practices and that reflect our Statement of Values and Commitments. A large portion of our investments directly benefit the communities we live in' (Vancity, 2006).

Whilst Vancity does offer personal loans, it aims to encourage people to use these loans for community beneficial purposes, such as eco-friendly cars and energy efficient houses. In contrast, the online Prosper community exists solely on-line without a physical counterpart. For this reason, the Prosper community is overwhelmingly referred to as a series of 'groups' (Prosper, 2006). This is significant because a 'group' is defined as an 'aggregation' of individuals who may have 'common characteristics'. In contrast, 'community' refers to 'collectivism' where a 'shared identity' and a 'unity of will' define 'belonging' (Wikipedia, 2006b). Thus, whilst a 'group' defines a sum of people constituting a unit, a 'community' defines a sense of collectivism based on reciprocity, mutual benefit and intimacy. A community is thus dependant on close inter-personal ties whereas a group is not.

Furthermore, Prosper has a much sharper focus on the personal rather than community benefits of the exchange. The loan listings are almost entirely for private uses, such as home improvements, loan consolidation, refinancing credit cards and private purchases. The lack of a physical counterpart to the Prosper community is thus indicative of the lack of community development in online groups, whereby the purely virtual communication cannot support the personal ties necessary to community formation.

Aspects of Control: Financial Exchange

The development and increasing integration of the Internet into our lives has produced a greater desire for control. Social Lending organisations offer two main forms of control to members – control of flexibility and control of purpose. Control of flexibility is a criteria of nearly all Social Lending schemes, including Circe Lending, Life*Spin and Prosper. Membership in these schemes enable both the borrower to specify the interest rate that he/she is willing to pay and the lender is able to stipulate the rate of return he/she would like to attain. This differs from mainstream banks where the interest rate is set at a particular percentage and is non-negotiable.

Some Social Lending schemes also give lenders the ability to control the purpose of the loan. For example, Life*Spin members are invited to present their business plan and prove its feasibility to the other members, who then decide consensually whether to accept or reject the loan application (Life*Spin, 2006). In this way, the members have complete control over how lent funds will be used. Similarly, Vancity offers members the option of investing in specific projects that 'improve the social and environmental well-being of local communities', such as the Canadian Eco-lumber Cooperative, which supports eco-friendly tree-logging and the Atira Women's Resource Centre, which offers shelter to victims of domestic violence (Vancity, 2006). However, Zopa appears to offer lenders less control over the purpose of the loan. An interviewee explained how;

> *"But at the moment as a lender I don't feel that we get a huge amount of control, obviously we have control about how much we lend and about what rate we want to lend it at, which, obviously that's an unusual thing being able to choose your rate, you know, pretty much on a day-to-day basis. But we don't have so much control*

except in the broad strokes of which market you lend into, we don't have control over what purposes we're lending for. Unlike somewhere like Kiva for instance where you can say okay I want to lend to this person for this purpose" (Raphael).

Mainstream financial services do offer some investment initiatives giving people control over the purpose of their investments. For example, Triodos bank, which was originally founded in Belgium with branches in the UK and Netherlands, will only provide finance to businesses it considers to be socially, culturally or environmentally friendly. John Hilary who has a savings account with Triodos explains that:

> 'I wanted to take advantage of tax-free savings, and an ISA with Triodos meant those savings would be supporting some of the most worthwhile projects around' (as cited in Triodos, 2006).

Similarly, Charity Bank, a government initiative founded in 2002 offers people a range of personal savings and current accounts, which are 'socially responsible' and designed to make provision for registered charities. People can choose how much of the interest on their accounts they donate and they are able to choose which charities benefit from their use of Charity Bank (Charity Bank, 2006).

Overall, it appears that both mainstream financial institutions and some Social Lending schemes give people more control over the purpose of their loans and savings, yet only Social Lending schemes give members control over flexibility. An interviewee explained how Zopa offers customers a large amount of control because;

> *"You can make a variety of different offers and each offer can be restricted to say one market or a number of markets, and you can still specify the rate of interest you want to achieve, so yes it gives a lot of control in that respect" (Florence).*

In our survey of Zopa clients, 81% of lenders felt that Zopa offered them 'significant' control, whereas only 4% felt that mainstream financial services offered 'significant' control. Similarly, whilst 70% of borrowers felt that Zopa offered 'significant' control, only 1% thought that mainstream financial services offered 'significant' control. The control over flexibility is, however, partial. For example whilst Zopa enables lenders to set the rate of return they would like to receive, borrowers do not have any control over the interest they pay. Whilst Prosper and CircleLending allow the borrower to stipulate the rate of interest they are willing to pay, this is set within limits. For CircleLending, borrowers cannot set an interest rate lower than the minimum interest rate required by the federal government. For Prosper, borrowers are obliged to set the interest rate in reference to the likely availability of lenders willing to receive a particular rate of return. Thus, the balance of control gravitates towards lenders in the majority of Social Lending schemes.

Furthermore, whilst members of Social Lending schemes feel that they have more control, the sense of control seemingly offered is largely illusory. It is an illusion created by the different disciplinary technologies forming the basis of Social Lending schemes and mainstream financial institutions. Mainstream financial services tend to use objectifying techniques, which oblige the individual to accept the level of interest they will pay or receive, and demand that he/she meets the repayments.

> *"If I overdraw well I know that I'm going to pay some sort of penalty for overdrawing, but it's all made clear to you" (Rachel).*

In fact, when interviewees were asked how much control they thought they had in comparison with the banking institution, there was almost total agreement that:

"Only so much in that they're dictating the interest rate to you and you have no control over it, that sort of dictated side of things. But on the other side you have the ultimate control because you decide whether your money's going to invest with them or whether you're just going to take it all out" (Mickey).

The interviewee here depicts his relationship with the bank as one where the bank's rules are operative on him; he is dictated to and has no control over these rules. The 'ultimate control' of taking his custom elsewhere is a very real and important option but it is essentially defeatist.

In contrast, Social Lending schemes utilise subjectification techniques to inculcate lenders to loan money on the basis of good will. Prosper invites lenders to exact a 'fair return' because they are 'helping' their 'group members get access to better rates' (Prosper, 2006). Similarly, borrowers are compelled to make repayments because belonging to a 'good group' means that 'you could get even lower rates because of your groups' reputation' and 'as you repay your loan on time, your group's reputation improves' (Prosper, 2006). Here, disciplinary subjectification technologies operate on the individual psyche inspiring him/her to act benevolently in setting the interest rate or to make timely repayments because of a sense of duty to both lenders and the group's future reputation.

> 'The making of subjectivity…is not a metaphor; construction requires tools, and technology, in innumerable local ways, provide the tools that aid in constantly reconstructing notions of identity that are always and already marked by radical interventions' (Green, 1999).

The 'radical interventions' inspiring members to construct themselves as benevolent and dutiful, then, is actually an instruction in subject formation. Whilst these instructions are important in helping to make Social Lending intelligible by defining how the scheme operates, the rules give only the illusion of control rather than control *per se.* Whilst members of mainstream banks tend to argue that they have ultimate control because they can decide to take their custom elsewhere, their argument is based on a defeatist assessment of control. In contrast, Social Lending schemes operate different technologies of power that do not necessarily offer more control than mainstream banks but they do offer members a greater level of autonomy and manoeuvrability, which seems to create a believable, although illusory, sense of control.

Aspects of Control: Self-Authoring and Empowerment

> 'And the world's a stage,
> And all the men and women merely players:
> They have their exits and their entrances;
> And one man in his time plays many parts'
> (Shakespeare, *As You Like It,* c.1559).

Despite the apparent lack of members' control over the financial exchange, Social Lending does appear to offer a form of social control, which is very much dependent on the Internet. Cyberspace provides more than an access point to information; it is also a context and a medium for social interaction (Douglass, 1997). The opportunities for communication are not only vast but also enable people to construct personally meaningful identities (Turkle, 1995; Stone, 1995; MacKinnon, 1995). These 'selves' are fragmented and multiple, allowing people to have a 'distributed presence' as they construct different selves in different 'windows' at the same time (Turkle, 1999; Poster, 1990). Turkle argues that in virtual environments:

> 'Authorship is not only displaced from a solitary voice, it is exploded. The self is not only decentred but multiplied without limit. There is an unparalleled opportunity to

> play with one's identity and to "try out" new ones. MUDs are a new environment for the construction and reconstruction of self' (Turkle, 1997).

Whilst it must be noted that Post-modern commentators, such as Turkle, Stone and MacKinnon tend to be overly optimistic about the freedom for identity construction in cyberspace, technology is becoming increasingly important in creating new possibilities for personal identity construction (Okabe, 2004). Nevertheless, our perception of our 'selves' in cyberspace remains firmly anchored in social norms and values in the 'real' world (Mark, 1999; Nakamura, 1999). Internet sites such as MySpace and Flickr and webblogs give ordinary people the capacity of self-presentation, often in ways that parallel their activities in physical environments. Flickr explains that it offers 'The best way to store, search, sort and share your photos' (Flickr, 2006). Similarly, MySpace demonstrates the intersection of virtual and physical environments by defining itself as a space to; 'Find old friends and meet new friends as you network, share photos, create blogs, and more' (MySpace, 2006). The focus that these sites have on self-presentation reflects;

> 'Our affluent tendency towards 'disconnectedness', 'self-expression', and 'lifestyle'…'the postmodern state is one that sets value above all on the individual' (Cooper as cited in Ankersen).

Radio 1 claimed that 73% of people have MySpace in their Internet history at work. The importance of this statistic is not so much its accuracy but MySpace's currency in popular media and the emphasis it places on the individual. Not only does it enable people to present an idealised image of the self through photos but it also offers copious space to write 'about me'. People can construct their 'self' as they wish. Indeed, the very name 'MySpace' signals ownership, giving people editorial rights over the presentation of self. Thus, sites such as Flickr and MySpace offer a new kind of everyday storytelling controlled by the individual presenter (Okabe, 2004).

Some Social Lending schemes, most notably Prosper and Zopa reflect the trend towards consumer cyber control of self-presentation owing to the provision of blogs, discussion boards and sections to present pictures and comments on what borrowers want the loan for. Prosper's layout is more akin to MySpace giving members a personal space to post photos, specify the loan amount requested, the interest rate and give a description of what they want the loan for. For example, member 'eightyseven' explains that she is

> 'a single mother of one. My son is 17 years old. I am currently pursuing my MBA/ACC from the University of Phoenix. I have been employed with my current employer since February 2002. I have a steady employment history and an excellent repayment history for over three years straight' (as cited in Prosper, 2006).

As this description shows, the site tends to have a dual purpose – to describe the self and to emphasise individual creditworthiness. Importantly, when borrowers have a bad credit rating, they have the opportunity to provide an excuse. Member 'HeirLoomCafe' explains that

> 'A note regarding my "C" rating - about 6 years ago I lived in Scotland. While I was there my mother was supposed to open my bills, pay them, and let me know how much I owed so that I could send her a check every month. Unfortunately, she didn't open my mail for a number of months, and as a result my credit was trashed. I have been back in the US for 5 years and have been working all that time to get my credit back in shape. I can repay whatever loan I receive' (as cited in Prosper, 2006).

It may be that prospective lenders prefer to opt for the borrower who states 'you won't find a safer Prosper borrower' (Prosper, 2006), but the opportunities for self-presentation to counter poor credit history allows the customer to have a direct role in their narrative production, which inaugurates a much richer means to asses risk than the numeric methods using in mainstream financial services. Indeed, a report in the Guardian shows how some leading high street banks

(Lloyds TSB and HSBC) have devised scoring systems placing customers in 'risk bands' depending on whether they have exceeded their overdraft limit or had insufficient funds to process cheques and direct debits. Whilst these scoring systems are for 'internal use only', they are visible to cashiers and a spokesman at Lloyds TSB states that 'it does assist us in our decision making' (Guardian, 2006), to determine suitability for borrowing. Significantly, customers cannot challenge their risk banding and thus do not have the opportunity of control of self-presentation.

The Zopa webblog also signifies trends of self-authorship. In the section 'Zopa loves…our members', several borrowers have created sites displaying photos of how the loan is being used. For example, the 'Patrick family' shows the progressive development of their barn conversion.

However, the most important aspect for self-presentation on the Prosper and Zopa websites is the provision of feedback and interactive possibilities. The presentation of self is anchored in the process of 'storytelling', which is an inherently interactional activity. Indeed, the purpose of blogging is that it;

> 'Provides the possibility for people to develop a personal identity that they are able to project in a social space (the bloggosphere) and to enter into interaction with their audience' (Nabeth, 2005).

In fact, the self emerges only through interaction and communication is inherently co-constructed (Waskul & Douglass, 1997; Whitley, 1997; Zimmerman, 1991; Goffman, 1959).

> 'The specific situations of discourse are frameworks that cast the context from which interpretations and shareable meanings are generated…participants cooperate tacitly in setting up a discourse context in which their dialogue is mutually meaningful, and actively manage and co-construct the orderliness of this dialogue in process' (Wynn & Katz, 1997).

Hence, we are brought into being relationally, depending on others equally to affirm, support and contest our conception of ourselves (Butler, 2004). Paul Reynolds, the BBC World Affairs Correspondent argues that blogs are very important in this sense; not because he believes the information is accurate but because he thinks that blogs can 'test your own judgement':

> '[Blogs] exist to agitate, to question, to swap information, to provide leads and opinions…they just offer you a perspective you might not have thought about. You can use them to test your own judgement' (Reynolds, 2006)

Various cyber-tools, such as emoticons, avatars, text and images offer people mechanisms for communicating 'contextual' and 'emotional' cues to other participants, which 'validate them as experientially real in a social context' (Waskul & Douglass, 1996).

Consequently, the significance of Zopa and Prosper's dedication to members' self-presentation is that they provide a space for social interaction. The self is not a unitary entity but 'being', whereby individuals invent themselves as they go along through interacting with others. Thus, whilst Social Lending organisations tend to give consumers less control over the financial exchange, they do empower members socially. Not only do Social Lending schemes provide tools for self-presentation and enable people to participate in interactive constructions of self, they also help members to participate in the construction of their own creditworthiness. This suggests that Social Lending schemes have provided the means for members to develop a deeper understanding of notions of risk, which may empower borrowers by increasing their likelihood and control over getting a loan. As the next section suggests, we might, then, describe the Internet as an 'enabling technology'.

Enabling Technologies: The Internet

Given that we are exploring only those Social Lending schemes that have all or some of their operations online, it is perhaps not surprising that Social Lending schemes tend to attract competent Internet users. In our survey of Zopa clients, 88% of lenders and 83% of borrowers stated that they dealt with the vast majority of their banking online. Indeed, every interviewee in our research who is a member of a Social Lending scheme described their Internet usage as 'competent' and 'frequent':

> ***"****Yes I'm a competent and far too frequent user of the Internet, I mean I'm on there every day and just using it all the time…if ever I want to find anything out then I just go straight on the Internet" (Sayyid)*

Interviewees noted the importance and infiltration of the Internet into their everyday activities. One interviewee even described her use of the search engine Google as a replacement thinking faculty:

> "*Like I say I just use it [The Internet] for everything…it's really bad, one of my kids will ask me a question, I'll type it into Google before I even think about it, you know, that's just my instant reaction to everything. So yes absolutely, I don't think there's anything I've not done on-line, if I buy a car it will be on-line, if I, you know, whatever" (Jaheda)*

Whilst the interviewees using mainstream banks did reveal extensive use of the Internet, it was far less consuming, particularly in regard to their financial activities:

> *"I don't bank on-line no, I just do it through the bank, it's all hard copies through the bank really…I don't even get my bank balance or anything on-line" (Rachel).*

> *"I haven't transferred money because it's not very apparent how to do it on-line… but I'll check my balance and check the progress of my loan. I've never really progressed from there, but it's useful and I prefer to do that than running out to a cash machine or something like that" (Rita).*

Furthermore, when asked what type of market Social Lending schemes appeal to, a significant number of interviewees, who use peer to peer lending identified the market as 'Internet savvy early adopters' because Social Lending is;

> *"a bit 'new media' at the moment, trendy for techie-types. I'm not sure it has necessarily broken the daytime-TV watching loan borrowers yet" (Max).*

A further respondent explained that Social Lending appealed to *"those who are fully comfortable on the Internet and with Internet banking" (Cindy).* Thus Social Lending is likely to attract people who are competent Internet users and who like to deal with their finances online. The Social Lending market is in this sense more restricted because, whilst the Internet is an enabling technology and it is becoming more important to members of mainstream banks, they also make provision for telephone and face to face services making Internet competence an option rather than a condition of use. Thus, as the next section further explores, it seems that online Social Lending schemes are more niche and attract people with specific characteristics.

A Market of Minipreneurs

Furthering Social Lending schemes' appeal to Internet early-adopters, another major market characterisation of Social Lending was that it attracted entrepreneurial individuals:

> *"People who think outside the box, who are entrepreneurial by nature, pioneers, and people who are willing to take a step outside their comfort zone" (Nancy).*
>
> *"…entrepreneurs, people who want to try a new way of doing things" (Zubaid).*
>
> *"…people who prize individualism" (Sam).*

The association of entrepreneurialism with Social Lending is significant given the online organisation *Trendwatching,* which describes the emergence of 'minipreneurialism' as a major new global consumer trend. Following on from previous descriptions of consumers, including yuppies (young urban or upwardly-mobile professionals) and dinks (double income, no kids), 'micropreneurs' are people with small and micro-businesses, freelancers, web-driven entrepreneurs, free agents, cottage businesses, seniorpreneurs, co-creators, solopreneurs, eBay traders, advertising-sponsored bloggers and so on. Whilst it is difficult to predict the number of people who could be defined as minipreneurs, *Trendwatching* suggests that the likely future importance of minipreneurialism can be gleaned from the number of people who are engaging in individual online money-making initiatives. *Trendwatching* states that over 50,000 people in the UK draw a large proportion of their income from selling goods online. In fact, the Centre for Economics and Business Research (CEBR) suggests that on average every UK household increases its yearly income by £3,000 through Internet trading (Trendwatching, 2005).

Trendwatching states that the peer to peer lending organisation called Zopa is one of the organisations driving the minipreneurial trend with 'consumers turning into bankers' (Shoebridge, 2005). *Trendwatching* suggests that the Internet plays a huge role in the re-emergence of entrepreneurialism with a 'chic veneer':

> 'There's an explosion of hip, admired ventures - online and offline - around the world…It is being accelerated by the tech revolution and the truly exceptional entrepreneurs with vision and skills that started it. [They are] a far cry from the old boys' networks of the past' (Trendwatching, 2005).

Typically, the minipreneur's position is driven by self-empowerment and a desire to be in control of his/her destiny. Situated within the context of a decreasing appeal of mass markets, products and services and an increasingly diversified consumerism where people are seeking the unusual, personalised and quirky:

> 'At the core of all consumer trends is the new consumer, who creates his or her own playground, own comfort zone, own universe. It's the empowered and better informed and switched on consumer combined into something profound, something we've dubbed "Master of the Youniverse" (Trendwatching, 2006).

It is significant that *Trendwatching* refers to Zopa in their study of minipreneurialism. Social Lending schemes, such as Zopa and Prosper demand that their members are independent 'switched on' and 'better informed' since they do not offer any organisational assistance for setting up and developing businesses. Prosper appears to have a greater number of borrowers seeking loans for entrepreneurial ends. It has the 'Business Owners Cooperative' group and the 'Women Entrepreneurs' group requesting loans to set up small business such as clothing boutiques, coffee shops, renewal energy industries and online yoga equipment sales (Prosper, 2006). Zopa also has a number of entrepreneurial borrowers requesting loans for various purposes including helping a friend set up a locksmith business, self-publishing a novel and to purchase photographic equipment for a freelance photographer (Zopa, 2006).

Our research suggests that members of Social Lending organisations are indeed very ‘switched on’ and ‘better informed’ since they tend to educate themselves in financial matters rather than seeking the support of financial advisors and intermediaries. One interviewee commented:

> *“If ever I have a choice of doing something on-line or doing it over the phone, or worse still face-to-face I’ll always choose to do it on-line. Because you know I’m very familiar with the Internet, I can do it at my own pace, in my own time and I really, really hate financial consultants. I mean any time I’ve ever had to deal with, you know, an Independent Financial Advisor, you know, a) they’ve turned out to not be independent and b) they’re just a complete pain” (Jaheda).*

Whilst interviewees first heard about Social Lending schemes from a variety of sources – newspapers, magazines and online – all interviewees claimed that:

> *“I looked at other organisations to compare rates and, you know, the background” (Wallace).*

More generally, 40% of Net users begin their research for financial decisions at search engines such as Google and Yahoo (Ensor, 2006). Customer opinion is now thought to be more important in influencing consumer decisions than institutions. With blogs frequently appearing in the top three search results – often above the official website of the financial service they are speaking about – it is noteworthy that in an e-survey run by the BBC, 18% said that they trusted blogs most for news information, 19% said they trusted newspapers most and 33% felt news websites gave the most trustworthy information (Hermida, 2006).

Furthermore, there are now many Internet sites aimed at empowering individuals to take control of their finances. For example, *Bankrate* provides ‘comprehensive’, ‘objective’ and ‘free’ information enabling people to assess their credit rating, manage debt, budget and compare rates. The site provides online budget planners and gives advice on how to consolidate debt and possible opportunities to gain credit even when people have poor credit ratings (Bankrate, 2006). *The American Association of Individual Investors* (AAII) provides more detailed investment information and advice. It is a non-profit organisation but charges fees for membership. According to James Cloonan, the founder of AAII, the purpose is to;

> ‘assist individuals in becoming effective managers of their own assets through programs of education, information and research’ (AAII, 2006).

Clearly targeted towards empowering members through education, the organisation claims to benefit members with lower risk and investment returns consistently higher than that of the stock market as a whole (AAII, 2006). Similarly, *MoneySavingExpert* offers a wealth of information on managing money and money saving tips across a variety of financial products (MoneySavingExpert, 2006). Several interviewees explained how their decision to apply for a loan through Zopa was directly influenced by *MoneySavingExpert*:

> *“Well the main reason I came to the site was through the MoneySavingExpert site”’ (Harold).*
>
> *“If I hadn’t been referred to it through the Money Saving Expert site I don't think I would have thought twice about it. I would have looked at it and probably thought, hmm, what's that, you know, anyone can host a web page. But because there's a link to it from another site and sort of reading it, it was looking through it and sort of you know, I looked through some of the quotes on it and I think I tried to find some other information on it from other*

sites, you know, just to check it out sort of thing. I like to get some background knowledge on stuff"' (Ashley).

Comparative websites, especially *moneysupermarket* were also very popular amongst interviewees using Social Lending schemes. The website allows people to find, compare and apply for thousands of financial services and products, including over 550 loans (moneysupermarket, 2006).

"I went into some comparison websites and some loan comparison websites, such as Moneysupermarket and another one, I can't remember which one now, and basically put in the loan amount I wanted and the date and so on. And then it brought up a whole load of lenders and their rates, and Zopa came up as the number one with the lowest rate. So then I went into their website and just read about them and decided to apply" (Sayyid).

In fact our survey of Zopa clients showed that substantially more people used financial websites and search and comparative sites more than once a week in comparison with other types of Internet sites. Figure 1 shows the percentage of people visiting different websites more than once a week.

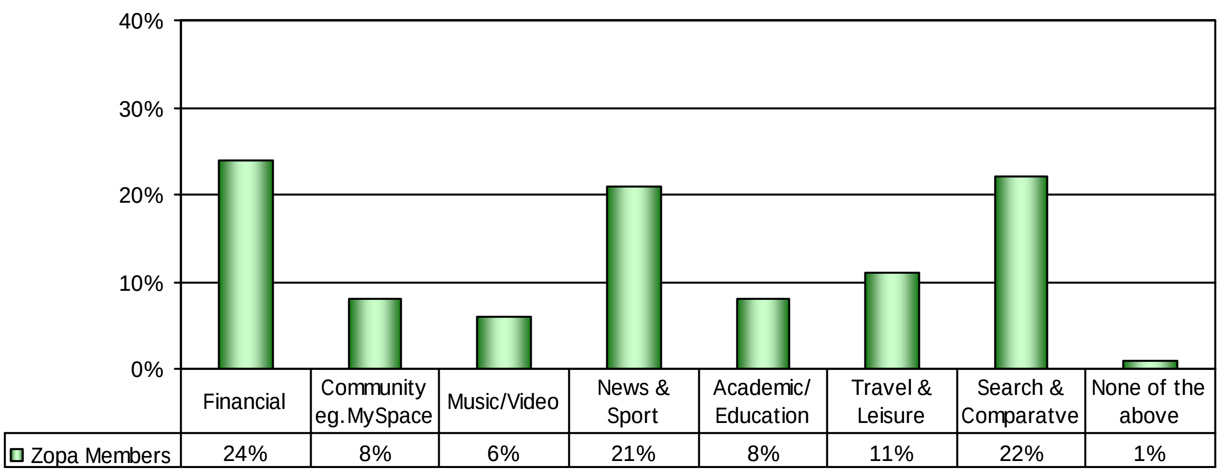


Figure 1: Percentage of Zopa members visiting websites more than once a week.

The desire for self-education and the degree of pro-activity demonstrated by the Social Lending interviewees is notable. They epitomise the minipreneurial spirit of independence, getting the best deal and the desire for the personalised and unusual. They are attracted to Social Lending schemes such as Zopa and Prosper not only because their independent research suggests they are financially competitive but also because they feel capable of making this decision and actioning the decision by applying for a loan online.

Although some mainstream financial services, such as Egg enable people to submit applications for business loans online, others such as Cahoot allow people to submit loan applications but they are subject to assessment by an account manager (Egg, 2006; Cahoot, 2006). Cahoot is thus more akin to the majority of mainstream financial services and some Social Lending schemes such as Vancity, Life*Spin and CircleLending, which promote entrepreneurialism but do not fit into the trend of minipreneurialism as effectively as Zopa and Prosper since there is a greater degree of institutional control over how members set up their businesses. In other words, mainstream financial services, Vancity, Life*Spin and CircleLending necessitate the role of an intermediary in loan applications for businesses. Correspondingly, consumers are not 'turning into bankers' through self-education and the desire to be in control of destiny in the minipreneurial spirit.

Significantly, the role that the intermediary plays generally takes place in physical branches through face to face communication. This is a huge barrier to the development of purely online business related borrowing. Waite and Harrison (2005) argue that the virtualisation of financial products gives rise to a process of disintermediation in favour of info-mediation. However, the replacement of the intermediary with information is an insufficient substitute because it does not support the consumer at the critical stage of decision-making (Wright, 2006). This critical stage occurs, not at the stage of information acquisition and research but at the;

> 'transition between a psychic state in which the individual is holding in contemplation a number of distinct action-schemes each of which is open to him, to a psychic state in which he has mentally committed himself to one of these schemes' (Shackle as cited in Krausz, 2004).

Consequently, purely virtual Social Lending organisations, such as Zopa and Prosper attract minipreneurs that feel confident making the transition from self-education to decision. These 'minipreneurs' differ from entrepreneurs using mainstream financial services and the Social Lending schemes that rely on intermediation where consumers are either unwilling or unable to make the transition from information to action. Thus, the Internet is an enabling and empowering technology for a specific type of consumer – the minipreneur – who is typically 'switched on', 'better informed', self-educated and independent.

Risk and Playfulness

As the previous section demonstrates, people using Social Lending schemes are likely to be amongst the more 'switched on' and 'better informed' consumers who have a greater knowledge of financial products and markets through self-education and comparison. When asked what sort of market Social Lending schemes appeal to a significant trend showed the importance of financial knowledge:

> *"Financially aware individuals who are more sophisticated than the average - financially speaking - and who are completely at ease with the Internet"' (Maurice).*
>
> *"People who have some understanding of the market place" (Simon).*
>
> *"Financially knowledgeable people, able to calculate risk/return levels and compare them with other investment vehicles" (Lara).*
>
> *"People with regular income and a degree of financial, mathematical and Internet sophistication" (Nick)*
>
> *"Intelligent, aware and financially savvy people" (Myoko).*

Using the 'Stimulating-Instrumental Risk Inventory', Zaleskiewicz (2001) connects instrumental risk preference to investment decisions. He characterises the Instrumental risk-taker as someone who endeavours to obtain a future profit by;

> 'controlling the environment to avoid the possibility of engaging in an activity whose outcomes depend mainly on chance. Consistently, an instrumental decision maker

> deliberates more the kinds of possible consequences, analyses the probabilities and concentrates on negative outcomes. Therefore, instrumental risk-taking is assumed to be more achievement oriented, based on a more complex way of information processing and the use of cognitive clues' (Zaleskiewicz, 2001).

For the Instrumental risk-taker, telic dominance reflects the person's desire to reach a predetermined goal (Apter, 1992), which is based on a rationalised assessment of the possible benefits and disadvantages. A lender explained that;

> *"Well the main risk is simply people defaulting on the loans, now I understand that if the default is a fraud then we're covered by that...If it's just a borrower defaulting in the normal way of business by, usually by paying back part of the loan and then not paying back any more then we're stuck with the loss. Now because it's spread out over a number of different people each individual loss should be quite small, the more you allow to be lent to an individual borrower then of course the greater the loss can be, but it does seem that at the moment, most people, even if they've got say £100.00 available, that will often only be lent out maybe £20.00, £30.00 because there's a mixture of interest rates that are being used. So to achieve a rate of say 6% they'll take, if somebody's daft enough to offer their money at 2% they'll take some of that and then they'll take some at 5%, some at 7%, some at even 15% perhaps, so it averages out. So that 's an average of that, so that gives people a bit of a chance to go for a higher interest, although of course the lending would be that much slower"*" (Florence).

> *"Credit worthiness tends to go in cycles and at the moment personal debts are running at record high levels, yes I think there is a risk that people are overstretching themselves, although Zopa so far have probably been selecting the most credit worthy people. There is always the risk of the unknown that they might have made some mistakes, or perhaps underestimated the potential bad debt going forward. So although I'm probably expecting to get somewhere around 7% maybe even slightly above 7% on the money that I'm lending at the moment, it could also turn out to be 5%, 4%, you know, it may be less than I'm actually getting in an almost risk free savings account right now" (Mortimer).*

As these examples show, whilst lenders appear financially 'savvy' – they know the potential risks and advantages – their decision to take the risk is not based on an overall 'mathematical' calculation of likely success but is actually inconclusive. More than the impossibility of calculating chance, these lenders also suggest that emotions play an important role in risk-taking. Significantly;

> 'intuitive feelings are still the predominant method by which human beings evaluate risk' (Slovic, *et al*. 2004).

The 'Stimulating-Instrumental Risk Inventory' also shows how risk-taking is:

> 'a response to a strong need of immediate sensations and excitement. The impulsive choices characteristic for stimulating risk takers are associated with activities driven by positive feelings of which people are usually unaware….It is assumed that stimulating risk takers unconsciously experience the physiological arousal connected with risky behaviour as pleasant and this experience motivates them to seek this state further' (Zaleskiewicz (2001).

Although Zaleskiewicz argues that stimulating risk-taking behaviour occurs during recreational, gambling, ethical and health risks and that Instrumental risk-taking is related to investment risks and economic decisions, many other empirical studies have found that affect and emotions have a central role in motivating all types of risk-taking behaviour (Barrett & Salovey, 2002; Forgas, 2000; Le Doux, 1996; Epstein, 1994; Zukerman, 1994; Zukerman & Kuhlman, 2000).

Stimulating risk-taking is driven by personality traits; such as sensation-seeking and impulsivity. Here, the person has a particular disposition, which makes him/her seek 'varied', 'novel', 'complex' and 'intense sensations and experiences'. Significantly, the willingness to take risks is driven primarily by the desire for the experience (Zukerman & Kuhlman, 2000). Although the desire towards sensation-seeking is increased through iteration – whereby the individual becomes more favourable towards risk-taking following previous pleasurable experiences - (Slovic *et al.* 2004), high sensation-seekers are likely to have less anxiety at the thought of risk-taking from the outset (Zukerman & Kuhlman, 2000).

In fact, our survey of Zopa clients showed that Zopa lenders associated a higher level of risk with Zopa than they did with mainstream financial services. Whilst 59% of lenders felt there was more risk involved with using Zopa, only 35% thought there was less risk in comparison with mainstream financial services. Nevertheless, speaking about his desire to loan to markets with a higher level of risk, a Zopa interviewee reported that:

> *"On balance I'm happy to take the additional risk in return for the higher, well the actual emotional, interest in doing it and the additional financial interest if you like that, you know, I've been getting so far at any rate" (Mortimer).*

The notion of playfulness also characterised interviewees understanding of Social Lending:

> *"[Social Lending] appeals to people that enjoy playing the stock market or long term investors and not ordinary people" (Alex).*
>
> *"So I guess, to some extent I suppose it's almost combining gambling into the lending mix…on-line gambling!" (Raphael).*
>
> *"[Social Lending appeals to those] who invest elsewhere and just fancied trying Zopa as well to see what it'd do" (Tanya).*
>
> *"[Social Lending appeals to] the more adventurous side of the population!" (Trina).*
>
> *"I think it's, it seems to me that it's quite, well fun but serious at the same time, you know, they're very serious about it being a serious financial proposition for both borrowers and lenders" (Mortimer).*

Overall, people currently using Social Lending schemes perceive that it appeals to rational, financially savvy actors who have a particular willingness to take risks and who feel compelled towards sensation satisfaction owing to their disposition for pleasure-seeking.

> 'We cannot assume that an intelligent person can understand the meaning of and properly act upon even the simplest of numbers such as amounts of money or numbers of lives at risk, not to mention more esoteric measures or statistics pertaining to risk, unless these numbers are infused with affect' (Slovic *et al*. 2004).

In this way, people engaged in Social Lending are akin to theatrical actors, where there is a need to reconcile tropic activity – an involuntary affect driven response to a given stimulus – with a self-controlling financially savvy self;

> '…there is high arousal of both ergotropic and trophotropic systems while some of the center – the "normal I" – is held back as an observing-controlling self. Performance training is the development of a number of communicative skills *plus* learning how to arouse the two extremes of brain activity without canceling out the

> center ‘‘I” self; the theatrical performer never wholly loses self-control...Strong theatrical performances are thus dangerous – on the edges – and yet playful; they are examples of psychophysical “deep play” (Schecher, 2003).

Evidently, people using Social Lending schemes perceive themselves to be playing a kind of game, which is simultaneously calculating and strategic and motivated by a deeper urge to create a pleasurable and playful experience. People will adopt screen names such as ‘PoohBah’, ‘kittyhello’, ‘SwissCheese’ ‘1020990’ (Zopa, 2006), ‘futurestar’, VirtuousPearl37’, ‘1greathusband’, ‘singlemother2006’ (Prosper, 2006). Screen names are explanative and aim to convey an idealised sense of personhood that is specific to subject construction in virtual environments. They enact the individual as a specific player in the online game with the aim of making interaction with the interface a playful experience (Jenkins, 2005).

> ‘Entertaining media and the desire to become involved, absorbed and immersed have shown how much adult media users are looking for distraction or for alternative, if only temporary, realities to take them away into a dreamlike world’ (Vorderer, 2001).

Previous research for a project called *Home Access*, conducted by the *for Centre for the Study of Media, Technology and Culture* (CSMTC) suggests that the notion of playfulness is becoming a major trend within banking services, largely conditioned by Internet technologies that give people more scope to interact with their bank accounts. Speaking about looking at her bank account, an interviewee described how;

> *“Yeah, like even if you’ve looked at it in the day or something, I’ll just look at it again, for no reason at all. And just, I don’t know why, it’s just something to tap away at and do” (Carmen).*

The efficacy of the game resides in how compelling it is. Whilst individuals using Social Lending schemes evidence a desire for a playful experience – through the projection of themselves through screen names - online Social Lending schemes do not make provision for the development of screen names into players. In other words, screen names do not appear to have any relation to the activities involved in the exchange. To make the experience more compelling, Social Lending schemes would need to facilitate the possibility for individuals to develop a narrative throughout the exchange process that builds to a climax in the form of a game (Shyba & Parker, 2005). The aim is to;

> ‘…help them ascend through a journey of subtextual desires that give their character motivational believability within a set of authorial preconditions’ (Shyba & Parker, 2005).

This gaming strategy is important for the pleasure seeking risk-taker who is concerned with sensation satisfaction and who requires the experience to be compelling to make its repetition worthwhile and desirable. However, the ‘game’ must also appeal to the rational calculating agent who wants an investment that is going to provide a return at a comparatively good rate to make his/her risk worthwhile.

Micro and Macro-Level Trust

> ‘Banking is fundamentally a business of trust. If we don’t have our customers’ trust, we won’t have their business’ (Kendric, 2004).

Trust plays an important role in customer satisfaction and loyalty (Urban *et al,* 2000; Keen, 1999).Trust is a multifaceted concept; referring simultaneously to trust based on intention, belief, or disposition and it occurs on various different scales including trust between individuals, trust within groups and trust in institutions (Suh & Han, 2003).

Trust in mainstream banking occurs at an institutional level primarily because of the nationalization and internationalisation of banking, which has resulted in de-personalisation and the effacement of personal accountability. As an interviewee explained, drawing on her antecedent experience, trust is very dependant on a personalised service. Following an error that the bank made, Sarah explained:

> *"They'd sent me a new Connect card and for some reason it didn't register in their computer, so one of my standing orders didn't go out. So I got a letter, so I rang them and straightaway they paid me the interest on that payment and wrote to whoever it was and said it wasn't Mrs Ascot's fault, it was an error on our part…So I thought well at least if you've been with somebody for a few years they do sort of hold their hand up and say right well I'm sorry. So I thought that was quite good really…I just rang, got straight through to a personal banker and she said we'll sort it. I gave her my mobile number and within an hour she'd got back to me, told me what she was going to do and when I got home it was all in writing, and I thought oh that's really good, you know, it took all the hassle out of it" (Sarah).*

Sarah's perception of this experience as an unusual event in current day banking and her references towards the necessity of being with a particular local branch for a few years shows the widespread perception that banks are becoming increasingly depersonalised.
Another interviewee supports this statement about the depersonalisation of banking services:

> *"To be honest my relationship with my bank - which I've been with since I was 17 or 18 so more than 22 years now, I should change but I haven't out of apathy I suppose - is generally my relationship is a hole in the wall, that's the only time I see my bank and I get a statement each month. That is my relationship with my core provider as it were" (Ruby).*

The lack of accountability of individual bank representatives was also a problem for the development of trust amongst mainstream banking interviewees:

> *"'I don't think I would say I would trust who I'm dealing with, but I think trust and caution I think" (Ruby).*

Similarly, another interviewee uses 'them' to refer to banks, suggesting that the extent of her trust in mainstream banks is at the level of the institution.

> "*I don't distrust them I'm not one of these who has to hide my money under my mattress, but no I guess I trust them to an extent, but I don't particularly like them or have any strong feelings about them either way" (Rita*).

As Benjamin Ensor identifies, trust at an institutional level is very much dependant on brand:

> 'Current trends have led to a paradox for financial services companies. The transparency of the Net undermines brands. On the other hand, it makes brands more important because…consumers are looking for brands they can trust' (Ensor, 2006)

This paradoxical situation was reflected in the comments made by interviewees. They were cynical and critical of brands, yet they were also likely to use brand status to inform their decisions regarding financial services. When asked about what his perception of trust was founded on, an interviewee explained;

> *"Probably the brand, the name, I just see it as a functional thing, that I'm not expecting, it lives up to my expectations that it does the functions I expect it to do, but no more. So it just holds the money, deals with the direct debits, but doesn't go much more above that" (Zubin).*

> *"I would go on the brand first of all" (Mary).*

> *"Well British Gas for example were providing insurance weren't they, I don't know if they still do, but I mean British Gas Insurance, you know I can't, I'm one of those people who thinks I'd rather trust a bank or an insurance company to provide that kind of thing, because if British Gas can't provide the gas on time how are they going to provide a financial service, which is a silly thing to say, because it's still a reputable business or whatever, but it's just perception" (Ruby).*

Consequently, the overall perception amongst interviewees was that the 'one to one' personalised service traditionally offered by banks is being replaced by different structures of trust that operate at a macro-level. Here, trusting perceptions occur at the level of the institution and trust is based largely on brand, previous experiences and general reputation.

In a survey of Zopa members, 58% of people 'strongly agreed' that Zopa's role was to provide the legal foundation for the marketplace. 52% 'strongly agreed' that Zopa's role was 'manager' of the marketplace whilst a further 50% 'strongly agreed' that Zopa played a lesser role in the overall relationship in comparison with other members. These statistics suggest that trust at the macro-level is also very significant for Social Lending. Similar to mainstream banks, members of Social Lending schemes also feel the need to develop trusting relations between themselves and the organisation and that institution-based trust in some Social Lending schemes may be more important than trust between members.

Nevertheless, Social Lending schemes are premised on the development of a different type of trust, which currently relies less on brand status and more on providing a link between macro and micro-level trust. This structure aims to harness trust in the institution as well as trust between individuals or within groups of members. Here the development of trust has a much greater emphasis on individual actors. Life*Spin states that one of the aims of members should be to 'create a network of supportive business peers' (Life*Spin, 2006). Prosper depicts itself as a facilitator of the development of trust between members:

> 'People that lend tend to have more confidence in borrowers that belong to trusted groups…Our job is to make sure everything is safe, fair and easy' (Prosper, 2006).

Similarly, CircleLending portrays itself as an 'intermediary', helping to establish economic relationships between family and friends, which 'formalizes those handshake loans between family and friends' (National Public Radio as cited in CircleLending, 2006).

The type of trust in Social Lending schemes is, then, reliant on the institutional provision of facilities for the development of trust between members. Trust is then likely to increase with repeated delivery. Florence explains that she has only invested a small amount with Zopa to 'see how it goes':

> *"And then they gave the free £30.00 handout to start people of, so I thought oh well might as well have a go with it and I put that in and added a bit more, and I haven't put very much money in it now but I'm just trying it to see how it goes really'" (Florence).*

In fact, Anthony argues that trusting relationships cannot develop in mainstream banks because trust in an inherently social and interactional concept that does not extend to judgments based solely on financial creditworthiness:

> ‘Judgments of personal reliability and trustworthiness are indeed judgments, based in the personal knowledge and evaluation of another’s integrity. Gathering personal information of this kind and making judgements about it requires that actors invest a great deal of time developing a relationship with others, rather than merely exchanging the limited financial information required for a formal lending contract’ (Anthony, 1999).

Significantly, trust amongst strangers can develop through institutional mechanisms such as feedback features (Pavlou & Gefen, 2004). Feedback features are an important part of online marketplaces such as e-Bay and Amazon, which rely on personalised interactions. However, unlike mainstream banks where the traditional personalised service rested on ‘one to one’ interactions, feedback features provide ‘one to many’ interactions (Pavlou & Gefen, 2004). In this way feedback mechanisms enable the formation of ‘generalised trust’ between strangers (Rothstein & Stolle, 2002). Importantly, trust is inherently reciprocal and based on responding to how others players act (McCabe *et al*, 2002). These feedback mechanisms operate through indirect reciprocity, where trust is transferred between people in the system (Mohtashemi & Mui, 2003). Research suggests that people routinely rely on these sorts of trust structures to make decisions and gain information more effectively (Mohtashemi & Mui, 2003).

However, feedback features are relatively underdeveloped in most Social Lending schemes. Vancity, Life*Spin and CircleLending websites do not provide members with the opportunity to contact other members – at least not through the website. Zopa provides borrowers with the opportunity to tell their lenders what they are using the loan for but this cannot be used to select borrowers on the basis of trust since borrowers are assigned rather than chosen (Zopa, 2006). Prosper is the only Social Lending scheme used in our study that appears to offer Internet feedback features. Prosper provides information showing what percentage of a borrower’s total loan has been fulfilled and the time remaining to place bids. Set alongside the borrower’s description of his/her creditworthiness, this is a useful feedback mechanism because it enables prospective lenders to see how other people have responded to the borrower’s request for a loan. Most importantly, lenders can compare a variety of borrowers and see how lenders have responded to their request for a loan. This feedback mechanism is based on a ‘one to many’ structure where trust is inferred in a transitive manner.

Overall, Social Lending schemes currently seem underdeveloped in their provision of feedback possibilities. Nevertheless, the structure of peer to peer lending relies on the triangulation between the organisation, lenders and borrowers. In other words, the organisation has a utility function to provide the means for social interaction between group members. This is significant given that institutional trust underwrites and is underwritten by interpersonal trust (Durkheim, 1964). Through the integration of micro-level socially based trust with macro-level institutional trust, Social Lending schemes may offer greater potential in comparison with mainstream banks to re-invent forms of personalised trust based not on a ‘one to one’ relationship but rather on a ‘one to many’ relationship.

Strategic and Altruistic Philanthropy

The structure of Social Lending; as a triangulation between lenders, borrowers and the organisation is also significant in distinguishing the philanthropic motivations of mainstream banks and Social Lending schemes. As the title of this section suggests, philanthropy can take many different forms. This section suggests that there are important differences between the philanthropic endeavours of mainstream banks and Social Lending schemes. Most notably, philanthropy in Social Lending schemes tends to be equated, less with the organisation and more with the individual lenders involved in the exchange. This section aims to articulate the effects of this difference by taking account of the history of philanthropy and how it relates to current forms of benevolent giving. Philanthropy is defined as a process in which;

> ‘wealth can transcend its own parochial interests and directly be used for the common good’ (Lindblom, as cited in Bach, 2002).

In recent years, philanthropy has re-emerged owing to a new generation of wealthy entrepreneurs who are willing to give away some of their self-made money:

> ‘A new generation of wealthy entrepreneurs is stepping forward; and like their American counterparts, they want to make a big difference with their giving’ (Financial Times, 2006).

Donald Brydon, Chairman of Axa Investment Managers and Chairman of EveryChild, a UK based international child charity argues that the new enthusiasm for philanthropy has resulted from a massive increase in exceptionally wealthy individuals. Whereas there were 423 billionaires in 1996, today there are 691 (Brydon, 2006).

Philanthropy originated in the nineteenth century following the birth of socialism and the new desire for greater social, political, religious and economic equality (Ealy, 2005). Philanthropy was very closely associated with a new social order that needed to be rationalised and created (Ealy, 2005). As a result, differing from traditional Catholic charitable offerings, from the outset, philanthropy had a much greater level of intervention in the lives and conduct of those the philanthropic funds intended to help.

Philanthropy has very specific ideological origins linked to Protestant ethics and it is closely associated with capitalism. Weber argues that the ‘spirit of capitalism’ is the concept that the acquisition of money is a fundamental duty of every person. Earning more and more money is not merely a means to purchase other goods as in traditional subsistence societies. Rather, the accumulation of wealth is an end in itself. The ‘spirit of modern capitalism’ is thus associated with Protestant ethics. Most notably, that every person has a duty to prosper because it is a sign of virtue and proficiency. The accumulation of wealth was then a sign of the individual’s status amongst God’s elect and an indication that the prosperous individual would attain salvation (Weber, 1958).

The fortunes of some and misfortunes of others was a direct sign of the individual’s state of grace. As a result, increasing the productivity of the ‘common weal’ and eradicating poverty would enhance God’s glory. Unlike Catholicism where good works could earn salvation, Protestants believed that God had already decreed who was elected and who was damned. His Will could not be changed. The heightened asceticism of Puritanism rejected the Catholic practice of charitable giving motivated by pity because it amounted to a questioning of God’s Will (Weber, 1958). Richard Baxter, probably the best known Puritan in history warned that giving charity out of pity was;

> ‘an irrational act of love…[It is] not fit for a rational creature to love any one farther than reason will allow us…It very often taketh up men’s minds so as to hinder their love of God’ (Baxter as cited in Hewa, 1997).

What was required was a greater level of rationalisation, whereby benevolence was premised on reason rather than emotion. The impetus to make philanthropic donations was thus borne out of altruistic and dutiful doctrines embedded in Protestantism (Hewa, 1997). The Puritan belief that the fundamental reason for existence was for the glorification of God was particularly important because it shaped the understanding that ‘public service is God’s greatest service’ (Baxter as cited in Hewa, 1997). According to this rhetoric, wealthy individuals were not permitted to spend any of their accumulated wealth on anything other than the service of God. Instead, it was their duty to diffuse their wealth for the good of many and for the glorification of God:

> ‘As the Puritan work ethic provided a decisive rationale to work diligently in one’s calling to maximise the acquisition of profit as the means of enhancing the glory of God, the outcome was an enormous growth of wealth….[and] the sense of responsibility felt by the self-made millionaires, who meticulously administered their wealth for the “common weal” during life’ (Hewa, 1997).

Hence, giving charitable aid to the individual was replaced with organised philanthropy, which sought to ameliorate the root cause of poverty and idleness targeted at the wider community (Weber, 1963). Philanthropy thus became a means for intervening directly in the lives of the poor and it had a specific social agenda, closely allied with Capitalist and Protestant ideology to increase productivity and thus eradicate poverty.

The origins of philanthropy are significant given current day definitions of philanthropy as ‘the effort or inclination to increase the well-being of humankind, as by charitable aid or donations’ (Free Dictionary, 2006). Philanthropy is not merely giving money to those who are poor. Rather there is a specific onus that benevolent donations are used to increase well-being and that this should occur on a large scale. In this sense, philanthropy authorises the donor to have a degree of control over what and how the donation is used.

This trend of intervention is clearly present in philanthropic donations offered by mainstream banks, micro-enterprise schemes and Social Lending initiatives. More often than not – especially in mainstream banks and micro-enterprise schemes – intervention is a conditioning factor of philanthropy. However, the type of philanthropy differs between the three types of organisations. Brammer explains that;

> ‘It is the link between philanthropic activities and the financial success of the organisation that is the ultimate acid test for whether philanthropy is strategic or not, and strategic philanthropy can be seen to lie at one end of the continuum, with altruistic philanthropy occupying the opposing pole’ (Brammer *et al*., 2006).

Consequently, we will explore below how mainstream banks implement ‘strategic’ philanthropy whereas micro-enterprise schemes focus on ‘altruistic’ philanthropy. Members of Social Lending schemes tend to offer ‘strategic’ philanthropy, yet there is less evidence of a concerted effort to intervene in how the money is used.

Corporate philanthropy is predominantly defined as ‘strategic’. This means that organisations desire some form of return for their good works. The type of return varies greatly but it is most often connected with improving consumer perceptions and expectations of the organisation (Saiia et al. 2003; Young & Burlingame, 1996) and as a response to the prevailing tax situation (Arulampalam & Stoneman, 1995). Indeed, the government has developed a range of tax relief incentives specifically to encourage companies to make charitable donations (HM Treasury, 2006; HM Revenue & Customs, 2006). Gordon Brown explains that;

> ‘The Government is determined to do more to build, strengthen and extend the links between the public, private and voluntary sectors’ (Brown, 2003).

The *Ethical Investment Research Service* (EIRIS) suggests that corporate social responsibility has advanced significantly over the last decade; particularly in the financial sector (EIRIS, 2003). The EIRIS lists financial services who have contributed donations to charity and the community as a percentage of the company’s pre-tax profits. Northern Rock ranks highest at 5%, followed by the Co-operative Bank at 2.2% and LloydsTSB at 1.1% (EIRIS, 2003). However, the report argues that the incentive to give charitable donations is strategic:

> ‘When a company gives donations (in money and in kind) to a charity or to benefit the community, this can often bring tangible rewards to the business in terms of improved reputation and a better profile – as well as benefiting the good cause it is supporting’ (EIRIS, 2003).

The importance of ‘reputation’ and a ‘better profile’ cannot be overstated. More importantly, research suggests that a banks’ reputation is becoming increasingly dependant on their moral and ethical activities. Scott McAusland, Media and Communications Manager at EIRIS describes how

> ‘The increase [in ethical investments] has gone hand-in-hand with the interest in ethical consumerism in general. People are better informed about the impacts that their spending and investments can have, both positive and negative and are using this information to invest in accordance with their conscience’ (McAusland as cited in EIRIS, 2006).

Charitable donations are only one element in the now vast number of policies aiming to attract the ‘conscience’ led consumer. The FORGE group, which comprises major financial services companies including Abbey National, Barclays, LloydsTSB and Royal Bank of Scotland produced a report in 2002 giving guidance on corporate social responsibility. It addresses various issues including human rights, financial inclusion and labour standards (EIRIS, 2003).

Amongst its various policies and initiatives, Barclay’s website explains that it was particularly interested in beginning a relationship with a client in the international forestry sector. The website hints that Barclays was motivated by this scheme because it is ‘obviously a very sensitive sector’ and that ‘given the nature of the business we went ahead with a full review of the company’s environmental and social management systems and policies’ (Barclays, 2006). However, the website also states that ‘our reputational risk committee also considered the matter’, but ultimately ‘we decided not to go ahead’ because ‘we felt we needed more proof that this was a long-term commitment’ (Barclays, 2006). Hence, the website implies that, whilst the forestry initiative was a globally significant one, it would not provide the desired reputational returns if it proves to be unsustainable in the longer term. This suggests that Barclay’s decision not to go ahead with the project was a result of strategic philanthropy.

In 2006 HSBC developed a corporate socially responsible project called ‘Living Business’ in Hong Kong. This initiative offers a top prize award of HK$80,000 and a series of other monetary and certification prizes. The awards are a recognition of ‘socially responsible SME's who have made an outstanding contribution to the environment and community in Hong Kong to sustain long-term business success’ (HSBC, 2006a). HSBC explains that the purpose of the ‘Living Business’ awards is so that SME’s in Hong Kong ‘become more competitive and productive by implementing socially and environmentally responsible business practices’ (HSBC, 2006b). However, this initiative is best characterised as ‘strategic’ philanthropy given HSBC’s declaration of how the scheme will benefit itself along with its recipients:

> ‘[It] creates opportunities for us to do business while reinforcing our commitment to the communities in which we operate’ (HSBC, 2006b).

Here, HSBC explain the dual benefits of strategic philanthropy. The ‘Living Business’ project will not only open up new channels of business but will also help to build HSBC’s reputation within the communities in which it operates. Furthermore, the Living Business scheme utilises intervention techniques to shape the types of business receiving philanthropic aide. Not only are applicants invited to attend workshops giving advice on developing socially and environmentally responsible businesses but they are also subjected to extensive observation and analysis. Each applicant is judged through a written submission and an onsite observational visit. They are measured according to 4 criteria assessing their ‘commitment to environmental protection, excellence in employee management, achievements in community development and overall management effectiveness’ (HSBC, 2006b).

HSBC’s version of strategic philanthropy thus evidences a high degree of involvement in the SME’s it seeks to fund. HSBC stipulates the basic ideological premises of the business, offers training on how the business should operate and it rewards only those SME's that it feels have met its guidelines.

Similarly, The Royal Bank of Scotland has a community development project. The Youth Enterprise Scheme for young people in Manchester offers a vocational training qualification for 15-16 year olds. They will spend one day a week at the Bank in a work placement capacity working towards an NVQ in business administration. On obtaining the qualification, all pupils are offered an interview for a permanent position in the Bank (RBS, 2006a). Richard Hemsley, the Managing Director of Operations at RBS explains the rationale for this scheme:

> ‘We have developed this project to give local young people a taste of working life and to showcase the kind of jobs available to them in a big financial services company. Manchester has become an increasingly important city for RBS over the past few years. We now have over 5500 staff located here. The RBS Diploma is an ideal way for us to play our part in the local community and the education of young people. We are delighted to invest in a programme that we hope will have tangible benefits to the lives of the pupils taking part’ (as cited in RBS, 2006a).

Clearly, the scheme is philanthropic – it hopes to improve the opportunities of young people in Manchester. It is also significant that - in the historically informed tradition of philanthropy – this scheme is specifically targeted to benefit the ‘lives’ of its recipients. However, the large-scale focus on well-being is also essentially strategic. Hemsley explains that the scheme will ‘showcase’ the job opportunities available at RBS, which is particularly strategic given the importance of RBS in Manchester. The Youth Enterprise scheme is thus intended to benefit RBS through producing a fertile breeding ground of potential recruits.

Overall, high street banks have a range of social and ethical policies ranging from community development projects to global environmental concerns. These projects are clearly philanthropic; aiming to make a real difference to the well-being of communities through direct and explicit interventionary techniques dictating the behaviour of the recipients the philanthropic funds aim to help. However, high street banks demonstrate a particular type of philanthropy based on strategically producing a means to maintain competitiveness and build reputation within an increasingly ethically driven consumerism. In this sense, following Jean Paul Sartre’s notion of ‘good faith’ and ‘bad faith’, mainstream banks are operating a form of ‘bad faith’ which involves appropriating a false notion of the self. By proclaiming to be acting philanthropically, mainstream financial services are willingly assuming a position based on fact, which they know is based on objectively faulty evidence (Sartre, 1992).

In contrast micro-enterprise or micro-finance initiatives tend to operate a form of ‘altruistic’ philanthropy. Micro-enterprise schemes are largely U.S. based schemes but are becoming more important in Britain. They aim to produce the means for lasting economic and social development in disadvantaged areas in the West and especially in developing regions. The World Bank claims that there are over 7000 microfinance institutions serving 16 million poor people in the 3rd world (UNCDF, 2006). Kiva is dedicated to canvassing lenders to make loans for entrepreneurs in various countries including Mexico, Cambodia, Kenya, Ecuador, Uganda and many others (Kiva, 2006a). More specifically, Kiva’s agenda is to enable people to lend to entrepreneurs ‘empowering them to lift themselves out of poverty’ (Kiva, 2006b). Giving access to credit is the single most important part of Kiva. Matthew and Jessica Flannery, the founders of Kiva explain that they observed;

> ‘a great number of successful entrepreneurs who wanted to expand their existing businesses or start new businesses. Many of these entrepreneurs had well-developed, creative plans for doing so. They were working hard and doing everything right; the only thing standing in their way was a lack of available capital’ (Kiva, 2006c).

Given the purpose of Kiva to give people access to capital to rise above poverty, Kiva’s philanthropy can be identified as altruistic, especially because, whilst it is expected that loans will be paid back, lenders do not receive interest on their loans (Kiva, 2006d). Other than the personal satisfaction gained from helping poverty-stricken people, Kiva’s aim is not to provide a strategic benefit for donors but to motivate lenders through altruism.

Similarly, the *Mennonite Economic Development Associates* (MEDA) is a micro-enterprise scheme based in Ontario, Canada, which aims to provide the means for economic development in developing countries. Similar to Kiva, MEDA is premised on philanthropic altruism because it invites members to make ‘donations’ rather than lending for financial gain (MEDA, 2006a).

The website explains how a project in Pakistan to create market opportunities for female embroiderers has;

> ‘improved market access to 7000 embroiderers in Pakistan … but we’re not finished. We’re dreaming up ways to make daily life for these working women even brighter’ (MEDA, 2006b).

Reflecting the interventionary tradition of philanthropic aid, MEDA focuses on improving the well-being of the women it seeks to help. The website claims that MEDA is replacing kerosene lamps with a form of sustainable lighting to ‘increase their quality of life and their livelihood’ (MEDA, 2006b). However, MEDA’s aims are as much economic as they are cultural. Inspired by their Christian zeal and western understanding of freedom and female liberation, MEDA portrays the Pakistani women it seeks to help through tropes of traditionalism and backwardness:

> ‘We talk with women and find the ones who are open and a little more progressive. Not all women are confined to their home. Many are quite liberated and there are often concessions in households, especially when economic opportunity is at stake’ (MEDA, 2006b).

The interventionary nature of MEDA’s philanthropy is clearly evident in the statement that:

> ‘We did not go into the communities and say – if women behave differently or if they are treated differently they will be empowered. We went in and offered them an economic opportunity. The response to this is much different. If people like the idea, cultural norms have a way of bending naturally’ (MEDA, 2006b).

Thus MEDA aims to use economic change as a vehicle for a much larger project of cultural change. Their philanthropic project is altruistic yet it also legitimates a form of intervention based on Christian civilising missionising – a process akin to new forms of colonialism.

Another example of an altruistic form of philanthropy is Grameen Bank, which was founded in Bangladesh in 1976. It is premised on the idea that access to credit is a fundamental human right. 96% of loans are for poor women funding subsistence-entrepreneurial based programmes such as embroidery, weaving, basket making, goat and cow-herding and poultry farming. Grameen Bank aims to advance 3rd world development and is particularly driven towards ending poverty.

However, Grameen Bank was initiated as a rival to conventional banking because of the tendency to reject poorer borrowers characterizing them as ‘not creditworthy’ (Grameen Bank, 2006a). Given that the majority of donations were given by not-for-profit NGOs, Grameen Bank is best characterised as an altruistic philanthropic project.[1]

Similar to MEDA, Grameen Bank is also founded on interventionary philanthropy. All borrowers are obliged to set up a savings account (Grameen Bank, 2006a), which aims to inculcate notions of economic security, management and stability and may also serve as collateral if the loan is not repaid. Furthermore, Grameen Bank has 'Sixteen Decisions' stipulating the type of lifestyle that borrowers must subscribe to. The website does claim that;

> 'We also engage the people who borrow from us in discussions about the social problems that they face in their lives and the kind of solutions they imagine for themselves' (Yunus & Geller, 2006).

Nevertheless, the website does not show that borrowers helped to compile the 'Sixteen Decisions' but instead suggests that Grameen Bank 'encourage them to take these decisions seriously and implement them' (Grameen Bank, 2006a). Similar to MEDA, Grameen Bank stipulates a series of measures which use economic empowerment as a means of cultural change. Here, cultural change relies on cleanliness, sanitation, small family size, education, physical health and exercise and the cessation of the cultural practice of giving dowries. Given that Grameen Bank was established indigenously by Muhammad Yunus, it cannot be characterised as a form of western colonialism. However, it is significant that Yunus, a Professor at the University of Chittagong and Head of the Rural Economics Program, was motivated to establish Grameen Bank as a result of an action research project aiming to design a credit system for the rural poor. Thus, Grameen Bank may not be a product of western colonialism but it is a product of a form of elitism driven by class specific understandings of the issues affecting the rural poor and the best ways that these issues should be addressed.

Social Lending schemes differ both from forms of 'strategic philanthropy' in mainstream banks and 'altruistic philanthropy' in micro-enterprise schemes. Whilst members of Social Lending initiatives tend to be strategic in their investments, they do not always desire the high degree of intervention that philanthropic donors in mainstream banks and micro-enterprise schemes demand. We might suggest, then, that Social Lending schemes enable both 'strategic altruism' and 'strategic philanthropy'.

The interviews with some Zopa lenders demonstrated how lenders were motivated by strategic philanthropy. For example, Mortimer states that;

> *"I had a conversation with one of the Senior Managers at Zopa who mentioned that they were looking at working with, I think it's Notting Hill Housing Trust, and I mean that kind of thing I think would definitely be of interest to me. I mean first of all from a financial point of view I'd be interested in lending money at higher rates to higher risk groups, but I would also, to be honest I'd feel a lot better about lending to people in order for them to avoid having to go to loan sharks or what do they call it, payday lenders, than about people who might be able to borrow at a bank for 7% or 8% but are able to do it on Zopa at 6%. So I think that would be something I would be interested in both from a financial point of view and from a kind of moral point of view as well" (Mortimer).*

Here, Mortimer describes how his desire to lend through Zopa is strategic – he is interested in the financial return. Yet he is also driven by a benevolent desire to loan money so that less creditworthy people can avoid using loan sharks. Moreover, the Notting Hill Housing Trust project, to which he refers, is more than a financial means of gaining access to credit. It also incorporates philanthropic notions of improving the lifestyle and well-being of recipients through aiming to help

[1] Although since 1995 Grameen Bank decided to stop receiving external funds and to run the bank through its accumulated deposits (Grameen Bank, 2006b).

Notting Hill residents in shared ownership or Social HomeBuy initiatives (Press Release, 19 June 2006). Mortimer wants to benefit financially through a philanthropic scheme aiming to improve the economic and social well-being of Notting Hill residents. This suggests that Mortimer's role as a Zopa lender is based on strategic philanthropy.

Similarly, Raphael suggests he would like to have a greater role in deciding how his money is used. Raphael explains that;

> *"…certainly I will be aiming in that sort of direction, you know, people who want to start businesses, people who want to do courses, that kind of thing. I will probably aim in that direction rather than the, I've got myself a whole load of loans and I want to consolidate them sort of borrower… If somebody says yes I want to borrow £5000.00 to buy a new car and then as I said goes off and spends it on loose women and high living. So they [Zopa] don't have any actual way of controlling that. There's some question in my mind as to whether they should, but you know if we had a choice of lending to, let us say somebody who said I want to do a course to improve my prospects versus somebody who said…I want a new car. I mean yes new cars, wonderful things but frankly you can get a car that will work for a few hundred rather than a few thousand. So if you're that hard up you should probably not be looking at spending several thousand pounds on a new car" (Raphael).*

Not only would Raphael like to be able to choose who he lends money to on the grounds of how he/she intends to use the loan, but he also evidences a greater degree of intervention in dictating how poorer people ought to be spending their money. It is these moral arguments that lead Raphael to believe that some requests for loans are less worthwhile than others. Furthermore, Raphael indicates that philanthropy operates on a very small scale because it is targeted at particular individuals.

However, other interviewees suggested that their motivations for using Zopa would be better characterised as 'strategic altruism'. When asked about Zopa's role in establishing community development programs, Florence stated that;

> *"I think that sounds like a good idea, but most lenders will be lending on the principle of a commercial arrangement and wanting a commercial return on their money…but then we don't really need to know the borrowers, it's not as if we're, although we are lending personally to those borrowers we're only effectively providing the money for it. So Zopa are the ones who have to get know them, we have no say in whether we're lending it to them and I don't see why we should have any say in it really…I can see that some people might be interested in doing that, but for the most part, I don't know it's like saying well I'm not going to lend to him because he's got a red car, you might end up with that sort of logic which is silly really" (Florence).*

Similar to Mortimer, Florence's main motivation for using Zopa was strategic. However, she suggests that her decision to lend is based on altruism rather than philanthropy. In other words, she recognises the importance of benevolent lending but she does not feel that lenders should have direct intervention in stipulating who they wish to 'help' and what the loan should be used for. The fact that Social Lending models are based on deferring strategic gains to lenders is significant given Sartre's insights on 'good faith' and 'bad faith'. Whilst mainstream banks are equated with 'bad faith' because they portray themselves to be philanthropic when their motivations are intrinsically self-motivated, Social Lending schemes can be perceived not to be partaking in the strategic gains of lenders. Using notions of benevolence and altruism Social Lending schemes give the impression that their members are motivated to accept personal responsibility as a genuine possibility of human being (Sartre, 1992). It is the authenticity and transparency of the Social Lending model that enables members to perceive it to be based on 'good faith' rather than a 'bad faith' that portrays itself as philanthropic when its motivations are strategic.

Prosper demonstrates similar trends to Zopa in that it enables people to be differently motivated in their reasons for using the exchange. The Prosper website suggests that the purpose of Prosper is strategic because it enables lenders to exact a return. Yet it is also benevolent lending since the return is described as ‘fair’ (Prosper, 2006). In some ways, Prosper invites lenders to have a greater level of intervention in the loan process since it is invites lenders to browse the loan listings to pick which people they would like to loan money to. However, similar to Zopa, the form of strategic philanthropy that Social Lending schemes tend to offer is more individualised and more passive. In other words, lenders can intervene in dictating the lifestyle and well-being of recipients only in so far as they have ability to choose which sorts of people and projects they wish to support. Social lenders do not have the same level of intervention evident in mainstream banking and micro-enterprise schemes because they can not, for example, offer training or establish rules and principles that borrowers must comply with.

This said, our survey of Zopa clients shows that whilst 31% of people thought that ethical banking was very highly associated with Zopa, only 7% of Zopa members thought that ethical banking was greatly related to mainstream financial services. Whilst the percentage of people who though philanthropy was significantly associated with Zopa was much less at 7%; only 2% of Zopa members felt that philanthropy was significantly associated with mainstream banks. This situation is most likely the result of the relative importance that Social Lending schemes and mainstream banks ascribe to philanthropy and ethical banking.

Corporate social responsibility issues on mainstream banking websites are located under a specific heading directing the customer to a different webpage from the home page. In this respect, ethical and socially responsible issues are perceived as an ‘add on’ to the main motivations of the organisation. In fact, in our survey of general banking the largest percentage of people - 37% - thought that financial return was most associated with their principle bank.

In contrast, ethical and philanthropic concerns are integral to Social Lending websites since the exchange itself is ideologically founded on benevolent or altruistic lending. Furthermore, Social Lending websites offer more clarity because members are aware that their money is being lent to individuals for personal loans or community projects. In this way, Social Lending schemes are perceived to be founded on the principles of philanthropy and ethicality. This is perhaps most extensively represented in Vancity’s website. Vancity’s motto; ‘having one hand in the soil and one in the stars’ underlines its dual aim to be ‘rooted’ in community development and enhancement but ‘reaching’ in terms of innovation and financial and social prosperity. Thus the strategic elements of financial return are integrated with the philanthropic and benevolent motivations of members so much so that they become inseparable. Speaking about the redevelopment of a shopping centre in Kelowna, Graham Lee of RG Properties describes how the redevelopment has accrued collective benefits:

> “I was a young developer, just getting started in the business, and the Capri Hotel and Shopping Centre was one of the first major investments for our company. We created a plan to improve the Centre; and it needed a financial institution that *understood and supported what we were doing.* We took the plan to Vancity, and they liked it. *They also appreciated all the things we were doing for the community,* and they gave us the financial backing we needed. At the time, this was Vancity’s largest financing outside of Vancouver. Today, the redevelopment has turned out better than expected – and it’s been a *great success for Vancity, our company and the city of Kelowna*’ (Lee as cited in Vancity, 2004).

Here, the idea of mutual benefit enables members to perceive financial transactions through the lens of ethicality and a much wider collective advantage. Overall, in comparison with mainstream banks, Social Lending schemes tend to operate a more personalised and individualised form of strategic benevolence, which, given the differing levels of intervention, tends to sit between philanthropy and altruism. Social Lending schemes thus offer a greater number of subject positions; enabling people to demand differing levels of participation and intervention. Furthermore, the more passive form of philanthropy that Social Lending schemes operate also means that Social Lending is less likely to be equated with the colonial motivations of some micro-enterprise schemes. More importantly, the strategic benefit of using Social Lending schemes is largely deferred to individual lenders giving the impression that there is not a corporate strategic benefit and that Social Lending schemes are based on 'good faith'. In this way, whilst Social Lending schemes fit the definition of philanthropy less precisely in comparison with mainstream banks, people show a greater willingness to believe that Social Lending schemes are more philanthropic because they appear to be built on the principles of ethicality.

The Disenfranchised

The trend towards ethicality and philanthropy evident in many Social Lending schemes is significant because it is reflective of a much wider concern with equality and social justice at a governmental level. Over the last five years the government has made a concerted effort to address issues of financial exclusion. This is part of a wider strategy aiming to combat social exclusion, which, according to the British Bankers' Association is one of the main priorities of its policy agenda (BBA, 2006). In 2004, the government published its strategy 'Promoting Financial Inclusion'. The report shows how the government aims to address financial exclusion in three main areas; access to banking, access to affordable credit and access to free face to face money advice (HM Treasury, 2004a). The document explains that;

> 'Those excluded from mainstream credit are faced with a lack of low-cost options, a lack of transparency in the credit products they can access, pressure to take on more debt and possibly having to resort to illegal lenders. The Government wants to ensure that those excluded from mainstream credit are able to access affordable loans and is undertaking a reform of the consumer credit market to ensure transparency and fairness' (HM Treasury, 2004b).

The report identifies that the problem for the financially excluded is not only accessing credit at a rate that can be repaid but also a lack of knowledge and awareness about how to manage their finances. The report claims that it will address these issues by reforming the consumer credit market and offering extensive training and free advice on how the financially excluded can manage their income, outgoings and debt.

Recognising the government's attentiveness to financial exclusion many mainstream banks have set up various initiatives for the financially excluded. Whilst these schemes address issues of education and advice on money management, they do not attend to high interest rates for those who have bad credit ratings. For example Barclays website cites Gordon Brown's statement that;

> 'Two million families have no bank account. It costs them more to pay their bills. Credit costs more. It makes it harder for them to get a job' (Barclays, 2006).

Barclays' website suggests that;

> 'This is a challenging target for all concerned, but as a leading UK bank we recognise that we have an important role to play. Bringing 'unbanked' people into the mainstream of financial services is an integral part of responsible banking' (Barclays, 2006).

Accordingly, Barclays has established 'Barclaycard Horizons', which supports 50,000 disadvantaged single parents by giving 'money management, advice, training and help to get back to work' (Barclays, 2006). Barclays also claims to have set up 379,000 Cash Card accounts since the financial inclusion initiative was launched in 2005 (Barclays, 2006).

Barclaycard Horizons has invested £3 million in this project. It provides advice and information in the form of drop-in surgeries to help single parents out of over indebtedness. It also provides funding for essentials at school, such as school uniforms and excursions. Finally, through offering adult education and training, the scheme aims to enable lone parents to return to work.

Thus, Barclaycard Horizons reflects the Government's understanding that financial exclusion is part of a much wider social exclusion. As a result, initiatives must take a holistic approach that address other issues such as education, employment, housing, health services and crime (BBA, 2006). However, Barclaycard Horizons makes provision for financial inclusion only in some areas. Whilst it provides advice on money management and increases the number of people with bank accounts, it does not show that it improves its recipients' prospects for accessing credit at an affordable rate.

Similarly, NatWest has provided a secondee and funding for an accreditation programme for charities unable to access mainstream commercial credit as part of a Charities Aid Foundation initiative. Nevertheless, NatWest has not provided this accreditation programme internally (BBA, 2006).

The Royal Bank of Scotland concludes that;

> 'RBS group is actively engaged in looking for different solutions to the issue of access to affordable credit for those who may not normally be able to access credit through mainstream banking services. We understand that there are people with financial needs that may be better fulfilled by organisations outside the banking sector and we look to support these kinds of initiatives where we can' (RBS, 2006b).

The recognition that mainstream financial services are ultimately unable or unwilling to provide access to affordable credit for the disenfranchised is particularly revealing. Significantly, mainstream banks are structurally dependant on high interest rates because a large proportion of their profit is made from people being unable to meet their repayments on time, which then enables the bank to charge additional interest.

This situation suggests that there is a market for people who may be unable to obtain credit through mainstream banks. Social Lending schemes – to a greater or lesser degree - acknowledge themselves to provide for such a market. More importantly, unlike mainstream banks, Social Lending schemes do not rely on peoples' failure to repay their loans. In fact, if borrowers default, it negatively impacts lenders who lose some of their expected return and cannot make up for this through charging additional interest.

Life*Spin claims explicitly that it is dedicated to investing in people 'who cannot access traditional sources of credit' (Life*Spin, 2006). The website states that on becoming a member, individuals will 'start and improve [their] credit rating' (Life*Spin, 2006). This suggests that gaining access to credit is not dependent on the individual's credit history but, rather on the quality of the business plan that is submitted.

However, Life*Spin is quite unique in its decision not to assess members on their previous credit ratings. Paradoxically, whilst Social Lending schemes tend to appeal to people desiring a more affordable rate of interest, they tend to utilise the same credit scoring systems that are used to assess peoples' credit risk in mainstream banks. Some Social Lending schemes also have additional, more stringent credit checking systems.

Prosper explains that it's purpose is to bring 'people together for the common goal of borrowing at better rates' (Prosper, 2006). Some of the groups are particularly interested in rejecting mainstream financial services because of the high interest rates exacted. For example, the people belonging to 'Utopia' explain that the group;

> 'is a place where individual lenders and borrowers come together to cut corporations out of all financial transactions' (Prosper, 2006).

However, using Prosper means that every borrower is subject to a credit scoring system, which is displayed along with the borrower's information in the loan listings. Borrowers are placed in a credit grade ranging from AA, A, B, C, D, E, High Risk or No Credit. Credit grades are assigned according to the borrower's current debt situation and previous on-time payment history. Significantly, credit grades are based on the score achieved through Experian, which is the principle credit risk assessment method used in many high street banks. Furthermore, lenders are also made aware of the borrower's debt to income ratio, whether they have any property assets and whether the borrowers' bank account has been verified.

The website shows that borrowers rated 'High Risk' are considerably less likely to have their loans funded. Lenders had funded an average of 6% of borrowers' loans who rated 'High Risk' in contrast to 32% of AA borrowers. High Risk borrowers also showed a much higher possibility of failure to receive sufficient bids within the allocated time (Prosper, 2006). Given that the High Risk borrowers are also paying interest up to 29%, Prosper is not enabling the disenfranchised to access more affordable credit than mainstream banks.

Zopa also portrays itself as an initiative that is more amenable to accessing credit in comparison with mainstream banks:

> 'Zopa is for creditworthy people who earn money in new ways, in ways that banks don't always recognise. People who are self employed, people who have peaks and troughs to their income, people who would be invisible to a bank's credit rating system but are seen and validated by Zopa's' (Zopa, 2006).

Similar to Prosper, Zopa also uses mainstream credit rating systems, including Equifax, Call Credit and Experian (Zopa, 2006b). Zopa also states that it uses additional forms of credit checking;

> 'If we can't credit score you using the regular methods, we'll take your attitude to money into account through an online questionnaire. And we'll also bear in mind other relevant information, like your eBay feedback score and the fact you own that charming holiday cottage in Devon' (Zopa, 2006b).

Thus, Zopa suggests that, whilst its credit checking process is more in-depth and more stringent than mainstream banks, it also offers greater potential to access credit. However, unsurprisingly, this is set within limits. Zopa explains that;

> 'If you've got a CCJ, lots of maxed out credit cards, high levels of unsecured debts, or historical debts then Zopa's not for you we're afraid' (Zopa, 2006)

Indeed, the interviews conducted with Zopa lenders and borrowers reflected the difficulties of obtaining a loan through Zopa owing to its stringent credit checking:

> "*But you do see remarks from people who on the face of it appear to be good risks, if what they say is true, and get turned down"(Florence).*

> *"a neighbour of ours was in dire, dire straits you know, a few months ago and she had all sorts of debts and debtors and everything else, and she was at a loss as to how to pay them off. I thought she might be able to get something through Zopa because she was going, she asked me to sign as a guarantor for this loan and you*

looked at it, sort of 42%, you know, to borrow £1000.00 she was going to pay something back like £2500.00 at 42% APR, and you think no I'm not going to sign that, you know, they will come to me for £2500.00. I immediately thought I wonder whether she will be eligible to get anything through Zopa. We didn't eventually go down that route because I thought how on earth are we going to do it, you know, she would be borrowing from the B market or whatever, which she might be able to afford, but her situation was that dire that I thought not even Zopa could help" (Ashley).

"Zopa seem to do a good job of vetting borrowers (at least from the number of complaints from people getting declined, on the forums)" (Raphael).

Consequently, Social Lending schemes are not that much more amenable to giving the financially excluded access to credit in comparison with mainstream banks. Whilst high street banks aim to make various all-inclusive financial, educational and social packages available to the severely disenfranchised, Social Lending schemes seem to be aiming to create a fairer financial deal for members. In our survey of Zopa clients, 79% of borrowers felt that Zopa secured a lower rate of interest than that offered by a high street deposit whilst 77% of respondents felt that the interest rate paid through Zopa more accurately reflected their perception of their own creditworthiness. Only 6% thought not. Although it is important to note that all Zopa borrowers who were interviewed claimed that they would be able to obtain credit through a mainstream bank, ideologically, although not in practice, Social Lending is more empowering for the disenfranchised for various reasons. These include how some Social Lending schemes do not have penalties for early repayment. Others base themselves on the idea that Social Lending is a means to improve credit ratings for people who have poor credit histories. Perhaps most importantly the Social Lending financial model is not reliant on making profit from peoples' failure to repay.

Overall Summary

This chapter has presented an in-depth exploration of several online Social Lending schemes and aimed to compare Social Lending with more mainstream banking. It has articulated some of the social trends most pertinent to understanding the re-emergence of Internet based Social Lending. Peer to peer lending has emerged from a long history of friendly societies through founding their operations on the communal production and circulation of finance. However, as we have explored, current forms of Social Lending are also very firmly situated within the modern era since they embrace several contemporary social trends conditioning our age. The re-emergence of Social Lending, then, can be understood to contribute a new category of financial relationship to mainstream banking. Importantly, these new forms of financial relationship show a greater propensity to engage with several contemporaneous and newly emerging social trends; suggesting that Social Lending schemes proffer types of financial relationships that are more reflective of the needs and desires of this and future generations.

It appears that the most important factor characterising Social Lending and differentiating it from mainstream banking is its horizontal rather than hierarchical structure. Mainstream financial services rely on a structure of hierarchy where the customer is in a relation of subjugation to the organisation, which enables the organisation to imbue itself with a position of authority based on dictating its rules and a presumed superior knowledge. In this regard, it is important that Social Lending schemes are also known as 'peer to peer' lending schemes. Here the structure is horizontal, relying on interactions between equals. It is this horizontal structure that legitimates and enables a series of social phenomena that differentiates Social Lending from mainstream banking. The horizontal structure makes community possible because it legitimates connections between members. It also creates a utility for social interaction and in a more general sense, the horizontal structure is empowering because unlike authoritarian structures, it warrants and provides the tools for a higher degree of control, autonomy, individualism, self-education and self-authoring technologies. Social Lending, then, has a much more social and interactional foundation making financial transactions richer and deeper. This suggests that Social Lending is helping to redefine relationships with financial services based on much greater valuing of the person.

Chapter Three

Social Lending Today - Zopa Case Study

Although some of the data in this section is specific to Zopa most of the more general finding should be taken to be applicable to Social Lending generally. The case study has enable d us to give form and substance to a term that is often difficult for individuals to articulate in a clear manner, the study is therefore particularly illuminating in drawing out attitudes to Social Lending particularly in comparison to more traditional financial service organisations.

History of Zopa

> ‘Zopa offers a smarter, fairer way to do money – and just the kind of refreshing alternative that the UK public deserves after years of ill-treatment by the banks. The ironic thing is that although Zopa is the first online lending and borrowing community, it is in fact no different to what’s been happening in families and communities for centuries all around the world. Zopa has simply successfully harnessed the power of those types of relationships’ (James Alexander, COO at Zopa, as cited in Press Release, 7 July 2006).

Zopa was launched in March 2005 by several people with previous experience in financial services. It is the first person to person lending and borrowing community in the UK (Press Release, 7 July 2006). Zopa has over 85,000 members (Zopa, 2006), and since its launch in March 2005, Zopa has secured for its lenders a gross return of 6.8%, with bad debt at 0.05% (Press Release, 5 July 2006).

Zopa is currently headed by a series of people with vast experience working in the financial services sector; including Richard Duvall, Zopa Chief Executive Officer who led the team who created Egg; James Alexander, Zopa Chief Financial Officer who was the Strategy Director of Egg; Tim Parlett, Zopa Chief Technology Officer who previously developed JP Morgan’s e-commerce strategy and Karen Why, Zopa Risk Director, previously Risk Director of Consumer Risk at Abbey National.

Furthermore, Zopa is backed by Benchmark Capital, the venture capital firm that supported eBay (Zopa, 2006). Zopa is also based on a similar peer-to-peer model of eBay. Writing about peer to peer lending Goundon claims that Social Lending establishes a model of exchange which is not based on financial gain at the expense of others. He claims that;

> ‘The traditional models of “I win if you lose” and vice versa no longer apply to every business’ (Goundon, 2005).

Zopa stands for ‘Zone of Possible Agreement’, which means that lenders and borrowers are matched up when the lenders’ desired rate of return meets borrowers’ desired interest rate. Thus, Zopa markets itself on two axes; financial competitiveness and its social and ethical orientation. It claims both to provide consumers with a socially rewarding investment or loan (Ensor, 2006) and to offer a better financial return in comparison with mainstream banks. Johan Brenner of Benchmark Capital claims that Zopa gives a better financial return by about 30% (Brenner, as cited in Press Release, 25 March 2006).

Zopa would claim that by combining a better interest rate to borrowers and a better return for lenders and a more community based approach, Zopa is essentially reinventing a model of friendly societies claiming to provide a more social and ethical financial service closely allied with mutual gain. By examining the complexity of factors involved in Social Lending, the following sections will explore whether this is the case. It will account for both the historical and contemporary trends involved, which aims to provide a deeper understanding of the Zopa model of Social Lending. The following sections explore some of the factors most pertinent to understanding the Zopa model by considering its position regarding community and individualism, ethicality and philanthropy, risk and trust and finance and anti-corporatism.

The Ambiguous Community

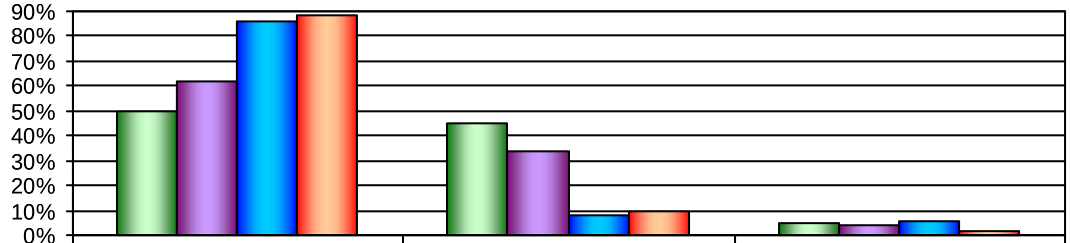
Zopa calls itself the 'person-to-person lending and borrowing community' (Press Release, 19 June 2006). The wording is more significant than it may appear because it suggests that Zopa does not characterise itself wholly as an individualised or a community endeavour, but rather sits somewhere between the two. This suggests that Zopa is different from mainstream banks, whose structure relies on hierarchy and a lack of connectedness between members. Yet it also suggests that Zopa differs from more traditional conceptions of Social Lending because Zopa is based less on close kinship structures of community and more on an interfacing of the individual within modern forms of community, which are typically less rigid and require a lesser degree of conformity to rules.

In our survey of Zopa clients, out of a selection of 9 factors including 'community', 'financial return', 'impersonal', 'individualism', 'ethical banking', 'environmental concern', 'technological innovation', 'philanthropy' and 'none of the above', members of Zopa were asked to list what they most associated with Zopa. The top five in order of importance were; financial return (50%), technological innovation (41%), ethical banking (31%), individualism (31%) and community (28%). This was compared with our survey of general bankers, who ranked the top five in order of importance as follows: financial return (37%), technological innovation (30%), individualism (25%), ethical banking (24%) and none of the above (22%) (See Figure 5).

General bankers did not list community within their top five factors associated with mainstream banks whereas Zopa members ranked community and individualism almost equally. The ambiguity reflected in the survey on the extent to which Zopa is most closely associated with community or individualism is also shown in the accounts of interviewees:

> *"It's not quite as much of a "developing community" experience as somewhere like Kiva, where you are choosing a specific person to lend to and can make that decision based on wanting to lend into a particular geographical area or to someone working in a particular field. I would say that it is an individual endeavour with some social benefit"' (Raphael).*
>
> *"I mean I suppose it is a social experience because you are borrowing from a community of people rather than one organisation, but the actual process makes it feel like an individual thing, because you're just applying for a loan and you don't know how many people have supplied you the money, or who has supplied you the money" (Sayyid).*
>
> *"It's got a more feel like I said of a Co-operative set up, which in a sense is like self-help that's how the Co-op started wasn't it, you know, communities helping each other, people in the community helping each other, so it gives you that sort of feel for it in a little way. The man next door is putting his money into the pot and I'm able to pull it out as and when, then that's good" (Norton).*
>
> *"More a community than it would be if it was just a bank I would imagine. So yes, not a major community input as it were, but I think there is some sort of community feeling" (Marina)*

Furthermore, when asked to describe how they would characterise their participation in Zopa, the survey of Zopa members showed that people were substantially more likely to state that they use Zopa 'as an individual' or 'as an individual but as part of a community' (see Figure 2).



	As an Individual	As an individual but as part of a Community	As a Community Member
Zopa Female	50%	45%	5%
Zopa Male	62%	34%	4%
General Bankers Female	86%	8%	6%
General Bankers Male	88%	10%	2%

Figure 2: Comparison between how members of Zopa and general bankers perceive their participation in Zopa and mainstream banks respectively.

On the one hand, Figure 2 shows that there is considerably more community feeling amongst Zopa members – and especially female members - than there is for the respondents to our survey on general banking. Yet on the other hand, there is also a greater degree of ambiguity over whether Zopa is a community or an individualised endeavour.

In part the ambiguity of individual and community feeling amongst Zopa members is the result of members' inability or unwillingness to interact with each other. Whilst some interviewees suggested that Zopa had not provided a platform comprehensive enough to encourage and enable interaction, other interviewees showed a lack of desire to interact directly with other lenders and borrowers.

> *"'I've put something on there to tell lenders why you're borrowing the money, and I put that in. But I never thought to go back into the site to look to see what anyone else has put or if there's anything like that, or whether that was made public, or whether it was just sent out to the people who processed it all, or who lent the money" (Ashley).*

> *"But yes I mean I think it was just the idea really of it's just interesting in a way to put your money on there and see it being matched up and actually to read about what people are using it for and, you know, some of the comments that some of the borrowers put up there, a lot of them don't put any comments up but some of them put some kinds of comments up, and you can see what they're doing with it, which is quite interesting I think" (Mortimer).*

Significantly, these comments demonstrate how interaction is not integral to using Zopa. Members are not required to interact with other members but they can do to some extent if they wish. The survey of Zopa clients showed that 54% have never used the Zopa discussion board, whilst 32% read the comments but do not participate actively. Only 11% read and responded to comments and 3% claimed to 'often start new discussions'. In part, this lack of interaction reflects the nature of the exchange, which is based on a system of opting-in. Unlike more traditional Social Lending schemes where individuals formed a closer knit community without the choice of opting-in, participation in the more interactive elements of Zopa are entirely voluntary. In this way, Zopa is able to maintain the integrity of the individual who is able to choose his/her degree of participation. Since borrowers are assigned on a financial rather than social basis – whether there is agreement on the interest rate and rate of return rather than agreement on how the loan will be used – interaction is entirely optional because it does not form the basis of the exchange. Zopa is essentially a community of interest based on finance. Furthermore, several interviewees commented that the majority of loan applications have a personal rather than community benefit;

> *"I do not get the impression that most of the loans made would count as "community development". Unlike loans through Kiva, where the person wanting the loan is usually doing something business-related which may well benefit the community, through Zopa it's more usually something like buying a car, or consolidating existing loans – something which is benefiting the individual to whom the loan is made, but which doesn't really have a wider benefit to the community" (Raphael).*

> *"I think one suggestion that someone made, which is a good one, and I think they do this in America in one of the other peer-to-peer lending companies, is having socially, more socially aware groups borrowing, where they get maybe a preferential rate. So say for example a Housing Trust, or a Charity or someone who was doing something really worthy other than home improvements or buying a new car, would be able to present themselves to the lenders as, you know, we need to borrow this to build a new whatever, hospice, whatever, please will you lend to us. And then the lenders then would have the ability to make the decision that they'd perhaps knock, you know ½% off their rate because it was for something that they believed in. And I think that's where the more kind of socially beneficial thing would come in. At the moment you really don't know if the person who's borrowing from you is a nice person, a nasty person, a crook, whatever, they're just a number to be honest, whatever they say in their description. So I think that's how it could be extended to be more of a community thing, yes" (Jaheda).*

> *"I think if some borrowers are prepared to answer more information, and it's a community project, I might be prepared to loan money for something like that, something worthwhile. But it's, yeah, I mean one of my borrowers borrowed money to buy stocks and shares. If I'd had the choice I wouldn't have lent him that money. To borrow money to buy shares is ridiculous" (Shane).*

The fact that loans tend to be used for personal rather than community beneficial purposes combined with lenders' lack of agency in actually choosing who they lend money to might indicate why 54% of people claimed not to use the Zopa discussion board and therefore implied that they do not participate in Zopa socially or interactively. However, it is also noteworthy that Zopa's interactive elements were rated highly. 44% felt that the Zopa discussion board was 'excellent' and 30% felt the blog was 'excellent'. This suggests that Zopa's interactive elements do serve an important purpose. Indeed, these interactive elements are unique within financial services because mainstream banks rarely offer customers a means to communicate with other members. Significantly, our survey of general bankers suggests that in this sense mainstream banks are not fully meeting the needs of their customers. Whilst 13% of respondents to our survey on general banking felt that their principal bank had significantly enabled social interaction, 38% felt that it was 'very important' that the bank provide a service that enables social interaction and community development. Furthermore 56% of respondents to the survey of general bankers felt that the more social and interactive elements of Social Lending schemes would be 'significant' in their decision to use Social Lending.

Sayyid suggests that the Zopa blog and discussion board are important because it empowers members by giving them the opportunity to give Zopa direct feedback:

> *"I think it's useful to see actual customers, I suppose it's quite unusual, you don't usually see that on company websites where, you know, for example Lloyds TSB, someone else signed up to that for a loan, you know, you don't have customers comments or indeed a forum. It's unheard of to be on a financial website of customers just being allowed to write their own comments about the company. So I*

thought that was innovative and that made me more interested in them really, the fact that they were, you know, they were willing to let their consumers give them direct feedback" (Sayyid).

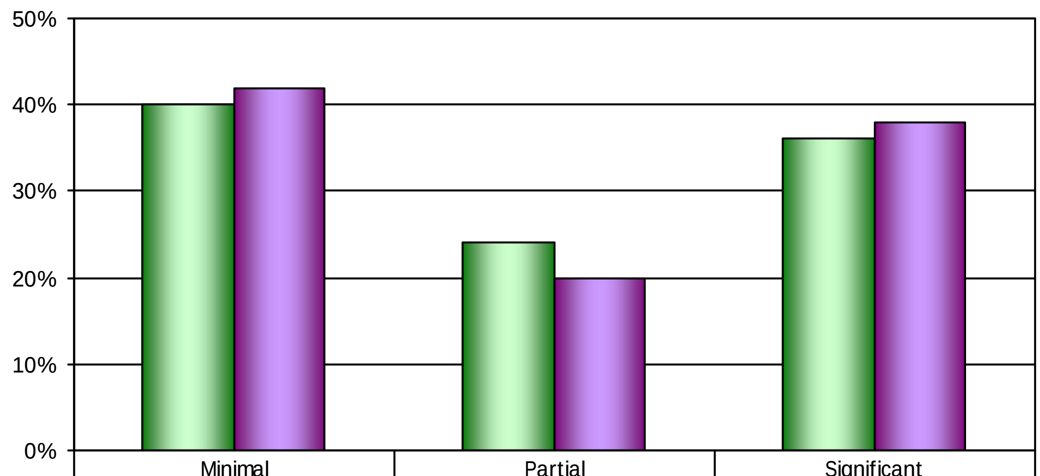
Similarly, Jaheda suggests that the blog and discussion board are educationally empowering;

"…definitely, definitely, like I say I've learnt so much, people are very willing to be patient and explain things very, you know, very specifically and carefully, so you know, it's been a great education and fun and a social experience as well, yes, definitely" (Jaheda).

Importantly, the interactive elements included in Zopa's website are, then, perceived to offer members empowering strategies closely related to self-presentation and an interactive 'education' within a 'social' context. In fact, in our survey of Zopa clients, 74% of people felt that Zopa 'greatly' facilitated self-help and entrepreneurialism. Only 4% of Zopa members felt that mainstream banks 'greatly' enabled self-help and entrepreneurialism.

Consequently, the ambiguity of individual and community feeling amongst Zopa members is one of its most important features because it facilitates a variety of subject positions, which simultaneously serve the desire for community whilst maintaining the integrity of the individual. Some members emphasised the greater level of community feeling in comparison with mainstream banks whilst other members showed a high degree of individualism and an unwillingness to participate interactively. Other members suggested that Zopa empowered them individually within a social context.

Indeed, it is important to acknowledge that interviewees were generally content with the level of community development within Zopa. More particularly, interviewees seemed equally pleased to be able to participate as individuals as those wanting to participate as community members. Figure 3 shows the extent to which members felt that Zopa had enabled social interaction and community development.



	Minimal	Partial	Significant
Enabled	40%	24%	36%
Importance	42%	20%	38%

Figure 3: The extent to which members believe Zopa has enabled social interaction and community development against the importance that members assign to social interaction and community development.

Interestingly, the ambiguity over the extent of individual and community feeling is shown by an almost equal division between those who felt Zopa had enabled ‘minimal’ social interaction and community development and those that felt Zopa had enabled ‘significant’ social interaction and community development. More importantly, when asked about how important social interaction and community development was, the percentages almost exactly mirror peoples’ current perception of the achieved rate of social interaction and community development.

Overall, the ambiguity over whether Zopa is principally an individual or a community endeavour is a significant feature because it allows people to adopt various subject positions without diminishing their overall satisfaction with the exchange. Some members showed an unwillingness to use Zopa interactively whilst others perceived the interactive basis of Zopa to be one of its greatest strengths. Thus, Zopa empowers people in different ways. It appeals to the radically individualised member who uses Zopa purely to exact a high rate of return. Zopa also appeals to the individualised members who perceives Zopa’s social context as an opportunity for self-empowerment. Yet, Zopa also creates a context in which members can participate as community members. This suggests that Zopa is aiding the establishment of a 21st century notion of community that is based principally on shared financial interest. Given the difficulties of policing these communities in more traditional ways through enforced rules, the concepts of voluntarism and choice are essential elements to these newly emerging concepts of community. By founding Zopa’s community on a process of opting-in, Zopa is able to support individualism, whilst developing a community of financial interest. Consequently, the ambiguity over the extent of individual and community feeling is actually a great strength because it offers more flexibility and thus satisfies a greater number of people who desire to participate in Zopa both as individuals and as community members. Given that our survey of general banking showed that the desire for greater social interaction was not currently being met by mainstream financial services, we might suggest that Zopa is more reflective of contemporaneous social trends driving the need and desire for community participation. As we will explore in the next sections, Zopa’s community basis is pivotal to its other ideologies of ethicality, altruism, empowerment and authenticity.

Summary of Key Points

- Considerable ambiguity over individualism and community. 31% most associated individualism with Zopa, whilst 28% thought community was most associated with Zopa. 56% of members describe their participation in Zopa as an individual endeavour whilst 40% feel they operate as individuals but as part of a community.
- Despite the relative under-use of the Zopa discussion board and blog, the ability to interact is an important option. Whilst 54% claimed never to have used the Zopa discussion board, 44% rated the discussion board as ‘excellent’.
- The ambiguity over individualised and community participation is a great strength because, by adopting a specifically 21st century model of community based on a system of opting-in, Zopa is able to give the individual choice and autonomy within a community based on shared interest.
- The incorporation of a 21st century community model is more reflective than mainstream banks of the contemporary deeper urge towards community formation and participation.

Ethicality and Philanthropy

Zopa's homepage includes the statement made by Martin Fagan, the Editor of 'What Investment' magazine that with Zopa there is;

> 'No bank in the middle, no huge overheads, no unethical investments - it's a completely new way of doing things' (Fagan, as cited in Zopa, 2006).

This statement encapsulates Zopa's stance on ethical issues, which Fagan argues has a dual purpose. On the one hand, Zopa offers the customer a fairer financial deal and on the other hand, Zopa ensures that it does not support unethical finance. In this sense, Zopa implicitly claims to differ from mainstream banks on the grounds of a more enveloping ethical standing, which has important financial and social benefits for the customer. Given the results of the survey of Zopa members and the statements made about Zopa during interviews, this statement would appear to be particularly important in that it sums up members' perceptions of Zopa's stance on ethicality. A more in depth reading of Fagan's statement suggests two important issues.

Firstly, the statement implies that Zopa offers a 'completely new way of doing things' in comparison with traditional financial services because it does not have any 'unethical investments'. Consequently, Fagan exploits the persistent stereotypical view stretching back over the previous 3 decades equating mainstream financial services with third world debt, trading with corrupt regimes and governments that contravene human rights. Despite the concerted efforts of mainstream banks to incorporate the ethics of corporate social responsibility into their activities, consumers remain very much guided by the stereotypical assumptions that Fagan presents. In our survey of general banking 51% of people surveyed were very concerned that their principal high street bank was involved in unethical finance, such as investing in companies that trade unethically.

The foremost problem for mainstream banks is a lack of awareness regarding mainstream banks' ethical projects. Despite the fact that nearly all major high street banks have published corporate social responsibility documents and that these can be accessed on their websites along with other ethically and community related projects, 73% of people thought banks should be more transparent about which organisations they are investing in and which companies they support. Further, only 12% of people thought their bank was sufficiently involved in community projects, whilst 64% claimed that they were unaware that their bank had community projects. Figure 4 shows that less than 10% of people surveyed are aware of mainstream bank's endeavours to enable the disadvantaged to gain access to credit, the development of community projects, environmental and entrepreneurial projects. The largest proportion of people - 29% - claimed that they were unaware of any ethical policies.

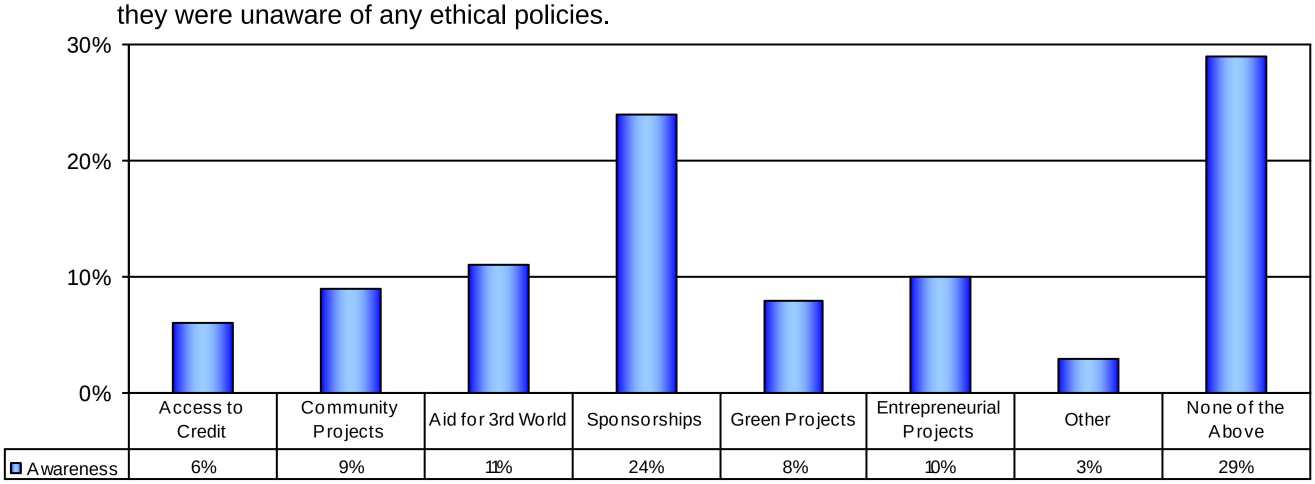
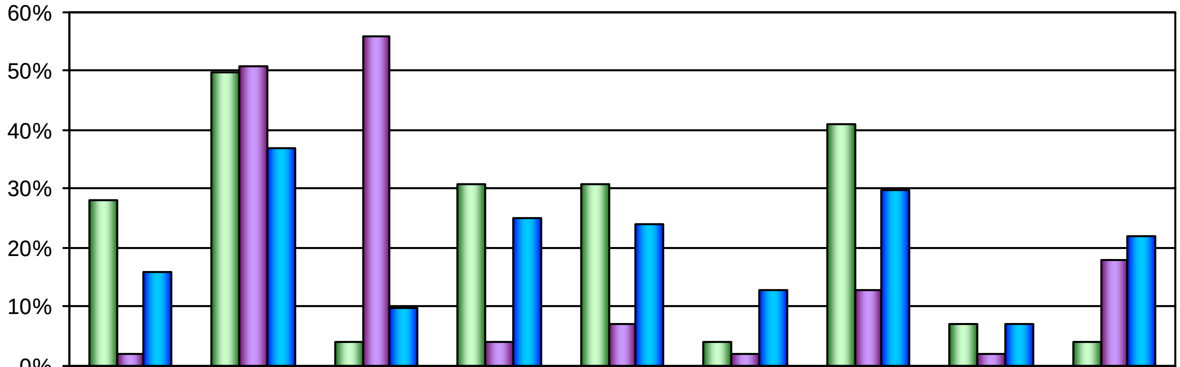


Figure 4: Awareness of mainstream banks' ethical, philanthropic and community projects.

Figure 5 shows that people were much more likely to associate ethical policies with Zopa rather than mainstream financial services.



	Community	Financial Return	Impersonal	Individualism	Ethical Banking	Environmtl Concern	Technological Innovation	Philanthropy	None
Zopa Members	28%	50%	4%	31%	31%	4%	41%	7%	4%
Zopa Perception of General Banks	2%	51%	56%	4%	7%	2%	13%	2%	18%
General Bankers	16%	37%	10%	25%	24%	13%	30%	7%	22%

Figure 5: Factors most associated with Zopa and Mainstream banks.

Perception rather than fact is paramount here. Zopa offers member a greater level of perceived transparency than mainstream financial services. By enabling people to lend money directly to people, Zopa is based on a form of authenticity and it enables a level of direct involvement that tends to be denied in mainstream banking. Just as we believe that the potatoes from the farmers market are more 'real' because they are covered in the mud directly from the farmer's field; without the processes of sanitization and packaging involved in buying from a supermarket, members of Zopa are encouraged to think that their experience is more authentic because they are borrowing and lending 'real' money to 'real' people.

Consequently, despite mainstream banks' considerable and varied ethical policies and projects, Zopa members were more likely to associate Zopa with ethical banking than mainstream banks. In fact, as Figure 5 shows, members of Zopa were particularly cynical about high street banks' ethical and philanthropic endeavours. Zopa members consistently rated mainstream banks much lower than the respondents did in our general banking survey. Furthermore, Figure 5 shows that members of Zopa feel far more positively about Zopa. Whilst only 4% of Zopa members felt that 'none' of the factors related to Zopa, 22% of respondents to the survey on general banking associated mainstream banks with 'none of the above' factors. This cynicism was also reflected in an interviewee's statement that banks' greater ethical concern was simply the 'new spin';

> *"I'm aware that the stuff you read in papers at times or you see on the news but it's not something that I engage in, because it's not something that's in my consciousness, I just, I guess I look at my thing and it hasn't changed I guess with the new spin that's being presented by mainstream banks, it's not manifested in the terms and conditions, it's not manifested in their interactions with their clients, that's my first hand experience, do you know what I mean. So it might be talked about in terms of the change in ethos, but it hasn't really influenced or changed things on the ground as far as I'm concerned" (Wallace).*

"'I can't say that I've really seen that much of it in mainstream financial services, I mean it may just be that I'm fortunate not to be in the position I guess where I have to look for financial services that might be offered to more deprived areas or lower ends of the market or whatever. So it may just be that I've not been exposed to it in that regard…I've read a bit about in the press now and again, but I've not really come across it as a mainstream trend I think so far" (Mortimer).

Although ethical issues were not as closely associated with Zopa as financial return and technological innovation, a greater percentage of people associated ethical banking with Zopa than they did for mainstream financial services. This is significant given that Zopa cannot control how lenders use the return on their investment. Nor does Zopa have much control over how borrowers use their loan. As one interviewee stated;

"It looks to me as a lender as though Zopa provide a short list of options for people to choose from (car, amalgamating existing loans, etc.) but I'm sure there's no way for them to check that the borrowers are telling the truth, and I'd also be willing to bet there's no option for "I intend to spend this money on loose women and high living" (Raphael).

However, interviewees were also more likely to believe that individuals would not have the desire or the means to support large-scale unethical investments in a way that large corporations could:

"Yes there was certainly an element of that, that came into my mind, the fact that I was helping individuals to make money rather than banks. So yes I would say that's definitely something that crossed my mind when deciding to use Zopa, it was just another plus point for them. I'd rather give my money to individuals who need it than banks who don't really need it" (Tina).

"I think it's, it's less possible for an individual to invest their money in a children's sweat market than it is for a larger corporation…So I guess it's, I mean both the individuals and the large financial organisations can do dodgy things, but it's the largest organisations that have the big money to do the nasty things, if you see what I mean. Whereas if you're lending to lots of different individuals the percentage and the actual effect of them using the money in a way I wouldn't like is much reduced. So I guess it's just reducing the possibility and the impact of it happening by using Zopa rather than one institution" (Sayyid).

Thus, the fact that Zopa scored higher than mainstream banks for ethical banking is the result – not so much of the unethical projects that Zopa could potentially be indirectly facilitating – but of the attitude and principles upon which members think Zopa is built. Fagan's statement is again reflective of members' understanding of Zopa, imbuing Zopa with a particular ethical ethos. By explaining that there are 'no huge overheads', Fagan implies that Zopa offers the customer a fairer way of conducting financial transactions on a much smaller scale, which intrinsically values the person. Zopa is, then, situated as the antithesis of mainstream financial services, who, through an anti-corporate rhetoric, we are encouraged to believe are the ones with the 'huge overheads'. The effect of listing the things that Zopa stands for – 'no bank in the middle', 'no huge overheads', 'no unethical investments' is to make these really quite separate issues incommensurate to Zopa's overall ethos. The statement thus has the effect of merging various ethical issues, which in turn are equated not with mainstream banks but with Zopa. Whilst interviewees were sassy enough to recognise that Zopa is a corporate organisation and as much a part of capitalist ideology as high street banks, they also suggested that Zopa had a more likeable regard for their customers. One interviewee explained how, whilst she recognised that Zopa needed to make money just like any other company,

"I think Zopa for the most part are pretty honest about what they tell people, I get that impression" (Florence).

Other interviewees described Zopa as a company that *'really seems to care' (Tina)* and who '*are more transparent than the majority of companies' (Lisa).* Here, Zopa's greater level of perceived transparency is underpinned and amplified by the process of lending and borrowing directly from people. This has the effect of bringing the producer and consumer into direct relation. It is the simplicity of the exchange process combined with the level of direct involvement that is important here in creating the perception of transparency. In fact, 54% of lenders and 85% of borrowers described Zopa as 'exceptionally transparent'. In contrast, 73% of people who completed the survey on general banking felt that mainstream financial services should be more transparent about which organisations they invest in. Another interviewee explained that Zopa could be described as an 'ethical' company because;

> *"….as part of their [Zopa's] promotion they've done organic champagne and organic vegetables and stuff like that, shows they're in that sort of idea, and I like all that myself, you know, that appeals to me. So you know, what's the word for it, ethical, you know, very ethical" (Ashley).*

Similarly, another interviewee spoke of Zopa as an ethical company because of the principles underlying the organisation;

> *"I think probably a number of things, first of all it's innovative, you know, in terms of I guess there was an element of, if it's the right term to use, social altruism, you know, and a form of ethics, it had some principles behind it I guess, rather than the cut and thrust of income generation from larger corporate companies. The innovation and secondarily this issue of the ethics and the principles underpinning the system" (Wallace).*

Significantly, the ethical principles that interviewees associate with Zopa are important because they directly involve the customer. Not only does Zopa offer customers a fairer financial deal, but it also encourages members to be motivated to lend for ethical and altruistic reasons. When asked to describe their motivations for using Zopa, ethical concerns proved to be a significant, albeit complex and internally heterogeneous trend;

> *"I like the idea of cutting out the middle man and I like the fact that it makes borrowing rates better for borrowers" (John).*
>
> *"Banks make huge profits each year and I wanted to cut them out of the lending process and allow borrowers to benefit too. It's just fairer this way' (Rikki).*
>
> *"Many banks invest in unethical companies to obtain the money to pay my interest. By investing with Zopa I know at least some of my money is being used ethically for real people" (Jenny).*
>
> *"I liked the fact that other people could use credit at cost effective rates - an opportunity that would have been useful at times when we were bringing up our family. Maybe lending through Zopa will have made some peoples life just that bit better" (Amos).*
>
> *"I like the idea of a peoples' bank. We can lend and borrow; cutting out the high street bank whose main aim is to make money. Our aim should be to help people in need of money on minimum interest" (Violet).*

These excerpts show firstly that ethicality is perceived to be intrinsic to Zopa; lending at better rates informs the basis of its ideology. Secondly, the excerpts suggest that ethicality is intrinsic to membership. In other words, Zopa's version of ethical banking directly affects the customer by offering a fairer financial deal and it also directly involves the customer as he/she plays a role in constructing notions of ethicality on the basis of how motivations for lending are described as ethical and altruistic.

Thus, Zopa seems to be taking advantage of the current stereotypical image of mainstream financial services, which, bolstered by a general lack of awareness regarding high street banks' ethical projects and policies, suggests that high street banks support various forms of unethical investments associated with trade with corrupt and inhumane regimes and third world debt. However, Zopa's ethical standing is not merely empty anti-corporate rhetoric even if this is the means to construct their moral standpoint. Zopa's form of ethicality differs from mainstream financial institutions because its ethical stance is directly related to the customer. Zopa makes an important argument against banks regarding the removal of intermediaries, which means that Zopa offers a fairer financial product because the customer is not responsible for paying for these large overheads. In contrast, mainstream banks' ethical policies tend to be directed towards external environmental and community projects. Whilst many corporate social responsibility documents include ethical statements against discrimination in the workplace, they do not tend to develop arguments that show how ethical policies directly relate to or benefit the customer. Thus, although Zopa appears to have fewer and also less developed ethical policies and principles than the majority of mainstream banks, by directly involving members in the construction of Zopa's ethicality, members have a greater investment in Zopa's moral standing, which results in a greater willingness towards and awareness of Zopa's ethical position.

Summary of Key Points

- Zopa exploits the widespread perception that there is a lack of transparency regarding the operations of mainstream financial services. 51% of respondents to our survey of general bankers were very concerned that their principal bank was involved in unethical finance and 73% thought banks should be more transparent about which organisations they are investing in.

- There is a general lack of knowledge about mainstream financial services' ethical policies and projects. 64% were unaware that their principal bank had community development projects and only 11% were aware that their bank had philanthropic projects in 3rd world countries.

- Despite the considerable number of ethical projects and policies in mainstream financial services, people were more likely to relate ethical banking to Zopa rather than mainstream banks. 31% most associated ethical banking with Zopa whilst only 24% most associated ethical banking with mainstream financial services.

- Members of Zopa were particularly cynical about mainstream banks. 56% thought mainstream banks were most closely associated with being impersonal, only 2% associated banks with environmental concerns and only 7% equated mainstream banks with ethical banking.

- Overall, ethicality is perceived to be intrinsic to Zopa and Zopa is understood to operate a much fairer financial deal in comparison with mainstream financial services, largely because Zopa members have a much more direct role of personal responsibility in Zopa's ethical standing; enabling them to feel that Zopa is more authentic and transparent than mainstream financial services.

Financial Fairness and Anti-Corporatism

Perhaps the greatest strength of Zopa is that members perceive it to be financially favourable in comparison with mainstream financial services. The financial benefit accrues on two main issues. Firstly, a significant majority of Zopa lenders believe that Zopa offers a better rate of return than high street banks, and a comparative number of Zopa borrowers believe that Zopa offer a better interest rate on loans than mainstream financial services. Secondly, and perhaps more importantly, both lenders and borrowers believe that Zopa offers a fairer financial product to their members. This notion of fairness is important given the results of our survey of general bankers. As Figure 6 shows, the largest proportion of people - 61% - feel that the main aim of their principle bank is to make money for themselves:

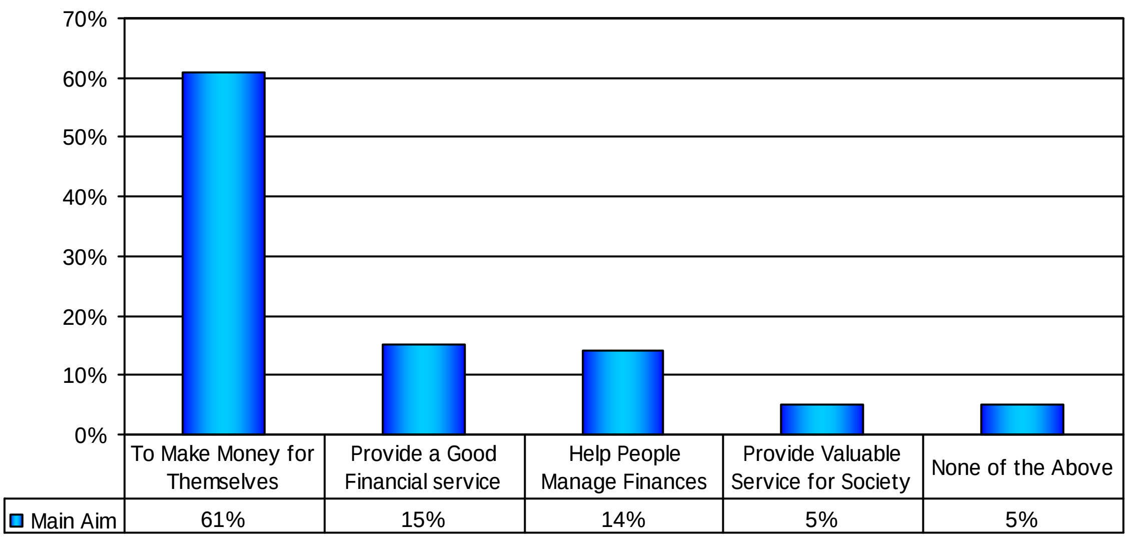
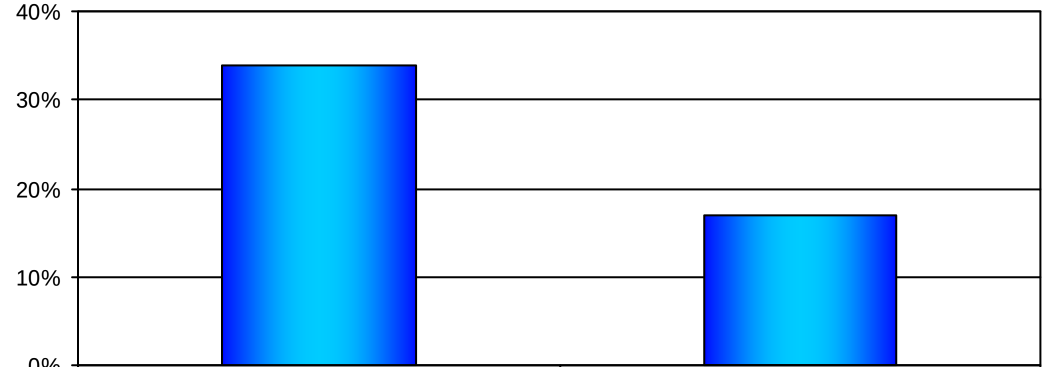


Figure 6: Perceptions of what respondents to our survey on general banking feel is the main aim of their principal bank.

Furthermore, 34% of respondents to our survey of general bankers strongly agreed that the main aim of banks was to put the customer in debt. Only 17% strongly agreed that mainstream financial services put the customers' interests before their own. These perceptions are significant given that mainstream financial services are in a sense structurally dependant on consumer debt. Unlike Zopa, where the failure to repay loans is unconditionally negative since the loss reduces the lenders' expected return, mainstream financial services rely to some extent on making a profit from people's failure to make timely repayments because it enables them to charge additional interest. Here, again, Sartre's notion of 'good faith' and 'bad faith' is important (Sartre, 1992). Mainstream financial services tend to reflect 'bad faith' because their model of financial profit relies on a negative assessment of the person by assuming that he/she will be unable to repay the loan. In contrast Social Lending schemes rely on a positive assessment of the person by having 'good faith' that he/she will repay the loan. Here, the individual is given the opportunity to realise his or her freedom by being given the opportunity to take personal responsibility to repay the loan.

The dissatisfaction with the structure of debt in mainstream financial services was shown in our survey on general banking where 34% of people 'strongly agreed' that banks aimed to put customers' in debt, whilst only 17% felt that banks acted in the customers' best interests:

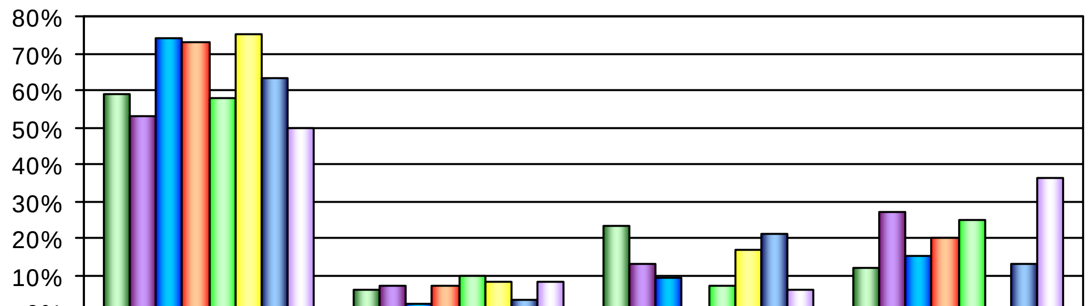


	Banks Aim to Put Customer in Debt	Banks Put Customers Interests First
Strongly Agree	34%	17%

Figure 7: Percentage of respondents to our survey of general banking who strongly agreed with the above factors regarding debt.

The negativity attached to the structure of debt in mainstream financial services is particularly pertinent given the current state of debt in the UK. At the end of August 2006, personal debt in the UK amounted to £1,247 billion. Over the last year the growth rate has increased to 10.4%, which equates to an increase of £105 billion. In the UK the average household debt is approximately £8,575 not including mortgages and £50,494 including mortgages. On average each household pays approximately £3,123 a year in interest on their total debt and the average consumer borrowing through credit cards, motor and retail finance deals, overdrafts and unsecured personal loans is £4,504 per adult (creditaction, 2006).

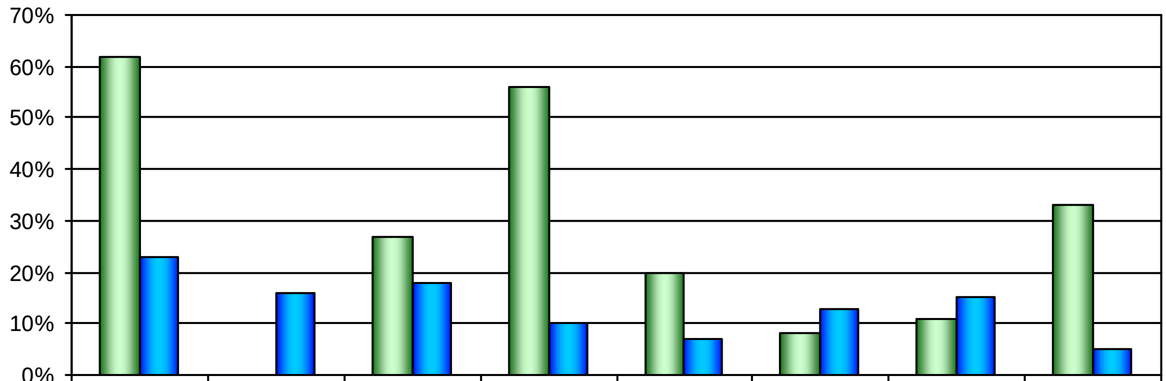
Whilst personal debt is perceived to be an integral and inevitable feature of modern life (Banyard, 2006), Figures 8 and 9 suggest that there is widespread dissatisfaction with the self-interestedness of mainstream financial services. This contrasts substantially with the understanding that Zopa offers members a fairer financial deal. Figure 8 shows that the majority of lenders believe that Zopa offers a better rate of return on their investment than they receive from their main high street bank.



	Yes	No	Equal	Not Sure
Co-operative	59%	6%	23%	12%
HBOS/Bank of Scotland	53%	7%	13%	27%
HSBC	74%	2%	9%	15%
RSB/NatWest	73%	7%	0%	20%
Lloyds TSB	58%	10%	7%	25%
Abbey National	75%	8%	17%	0%
Barclays	63%	3%	21%	13%

Figure 8: Comparison of lenders belonging to various high street banks showing the percentages of people who believed that Zopa offered a better rate of return on their investment.

HSBC, RBS, Bank of Scotland and Abbey National were perceived to offer the least competitive rate of return in comparison with Zopa. Similarly, 79% of borrowers felt that Zopa secured a better rate of interest than mainstream banks, whilst only 6% thought not. The importance of this perception cannot be overstated.

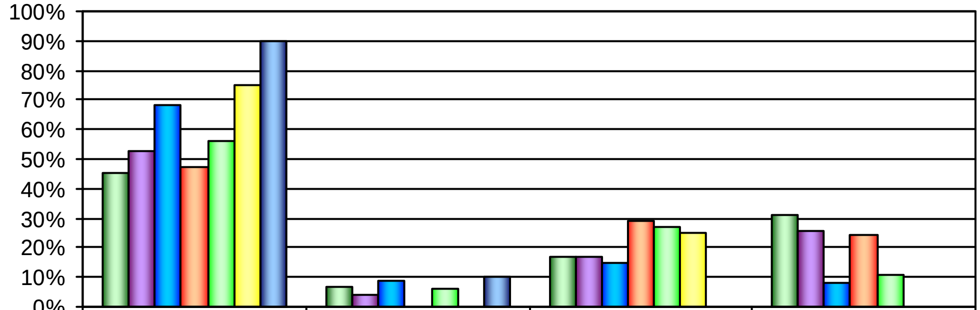


	Financial Gain	Denied Credit	Invest in People	Interest	Internet	Didn't Want to Use Banks	Low Risk	Diversify
Zopa Members	62%	0%	27%	56%	20%	8%	11%	33%
General Bankers	23%	16%	18%	10%	7%	13%	15%	5%

Figure 9: Percentage of people rating the above motivations for using Zopa/Social Lending schemes as most significant.

As Figure 9 shows, for Zopa members the most important motivation for using Zopa is financial, although 27% rated the opportunity to invest in people rather than institutions as significant. It is important to note that Figure 9 shows only the percentage of respondents who rated the various factors as ‘significant’ motivations for using Zopa/Social Lending schemes. This shows that, overall, a lower percentage of respondents to our survey of general bankers felt that the above factors would be significant in motivating them to use Social Lending schemes. Nevertheless, whilst financial gain was significant for the largest percentage of respondents to the survey of general bankers, 18% felt that investing in people rather than institutions would significantly motivate them to use Social Lending schemes. Also, 13% would use Social Lending because they do not want to use mainstream banking investment opportunities. This suggests that, amongst both Zopa members and respondents to our survey on general banking, financial gain is most important alongside other more social and ethical values.

Furthermore, Figure 10 shows that the perceived financial advantage of Zopa increases proportionate to the amount invested.



	Yes	No	Equal	Not Sure
Under £500	45%	7%	17%	31%
£501-£1,000	53%	4%	17%	26%
£1,001-£5,000	68%	9%	15%	8%
£5,001-£10,000	47%	0%	29%	24%
£10,001-£15,000	56%	6%	27%	11%
£15,001-£20,000	75%	0%	25%	0%
£20,001-£25,000	90%	10%	0%	0%

Figure 10: Comparison of amount invested and whether Zopa offers a better rate of return than mainstream financial services.

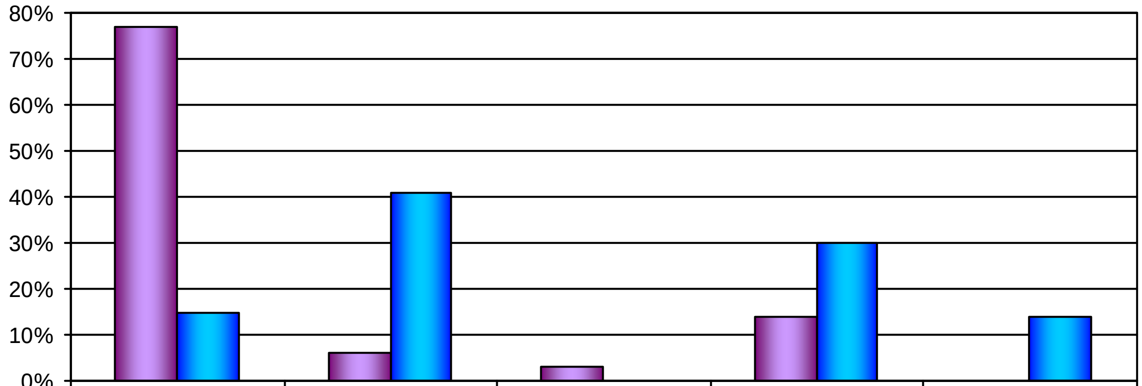
However, Zopa also sells itself on the basis of offering a fairer financial solution to its members.

> ‘People who have spare money give it to a bank. Banks then do whatever they like with it. Some of it they lend to people who need to borrow. Some of it they give to their shareholders. Some of it they gamble on the price of tin, or the dollar going down, or whether there'll be floods in Asia. Banks make lots of money from all this, a fraction of which they give back to their customers…Zopa is for people who are looking for a better rate of return. Zopa's interest rates aren't squeezed by middlemen (the banks) because there are no middlemen - that's the Zopa idea’ (Zopa, 2006).

Similarly, Zopa explains that it offers a fairer solution to borrowers who might be denied credit elsewhere because of their unstable income. Zopa states that one of their reasons for establishing the organisation is because ‘we live in an age when creditworthy people frequently have unpredictable income streams’ (Zopa, 2006). Zopa also suggests that it offers a fairer method of credit checking because;

> ‘We're keen to give credit where credit's due, and that's why our credit scoring system works slightly differently from everyone else's. So if we can't credit score you using the regular methods, we'll take your attitude to money into account through an online questionnaire’ (Zopa, 2006).

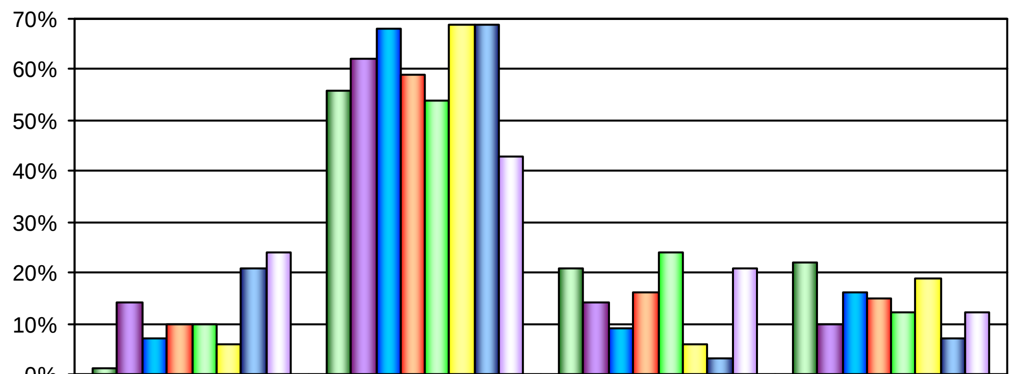
Importantly, these statements are reflected in members’ accounts of the greater fairness offered by Zopa in comparison with mainstream financial services. The financial benefit of using Zopa then, exceeds its purely monetary value and also includes elements of fairness. Figure 11 shows that in comparison with high street banks, 77% of Zopa borrowers feel that Zopa more accurately reflects their perception of their credit risk, whereas only 15% of general bankers felt that the interest charged by their principle bank reflected their perception of their credit risk.



	Yes	No	Equal	Unsure	Not Applicable
Zopa Borrowers	77%	6%	3%	14%	N/A
General Bankers	15%	41%	N/A	30%	14%

Figure 11: Percentage of people who felt that the interest they paid accurately reflected their perception of their credit risk.

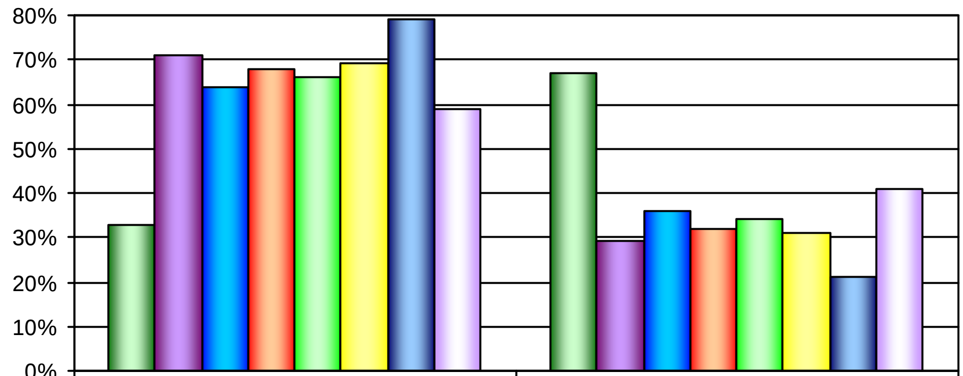
Similarly, overall, only 13% of people responding to our survey on general banking agreed that they thought the interest they paid on their borrowings was fair in relation to the interest they received on their savings, whilst 58% thought not. Figure 12 shows that general bankers felt that HSBC, Abbey National and Barclays offered a particularly poor rate of return in comparison with the interest rate received on savings.



	Yes	No	Unsure	Not Applicable
Co-operative	1%	56%	21%	22%
HBOS/Bank of Scotland	14%	62%	14%	10%
HSBC	7%	68%	9%	16%
RSB/NatWest	10%	59%	16%	15%
Lloyds TSB	10%	54%	24%	12%
Abbey National	6%	69%	6%	19%
Barclays	21%	69%	3%	7%
Other	24%	43%	21%	12%

Figure 12: Comparison of general bankers' perception of the fairness of the interest rate charged on borrowed monies in comparison to the interest rate received on savings and investments.

Between 33% and 79% of respondents to our survey of general bankers also felt that they had received charges which they thought were unfair or unreasonable. Figure 13 shows that Barclay's customers were most likely to believe that they had received unfair charges, whilst Co-operative members were least likely to feel they had received unfair charges.



	Yes	No
Co-operative	33%	67%
HBOS/Bank of Scotland	71%	29%
HSBC	64%	36%
RSB/NatWest	68%	32%
Lloyds TSB	66%	34%
Abbey National	69%	31%
Barclays	79%	21%
Other	59%	41%

Figure 13: Percentage of people completing our survey on general banking who have received charges that they feel are unfair or unreasonable from their principle bank.

Consequently, a significant majority of general bankers gave the impression that they feel their principle bank treats them unfairly and is intrinsically self-interested. Generally speaking, HSBC, Abbey National, RBS and Barclays were perceived to be the most unreasonable, whilst the Co-operative was perceived to be the most reasonable. In contrast, members of Zopa were far more likely to rate Zopa positively. Not only do members feel that Zopa offers them a better financial deal in monetary value but they also think that Zopa treats them more reasonably in assessing their creditworthiness. Thus, whilst the greatest percentage of people were motivated to use Zopa for financial reasons, it is clear that the financial incentives are based on more than monetary gain. Zopa is also financially attractive because of its reliance on 'good faith' through perceived equitability and fairer assessment of individuals' credit worthiness.

Summary of Key Points

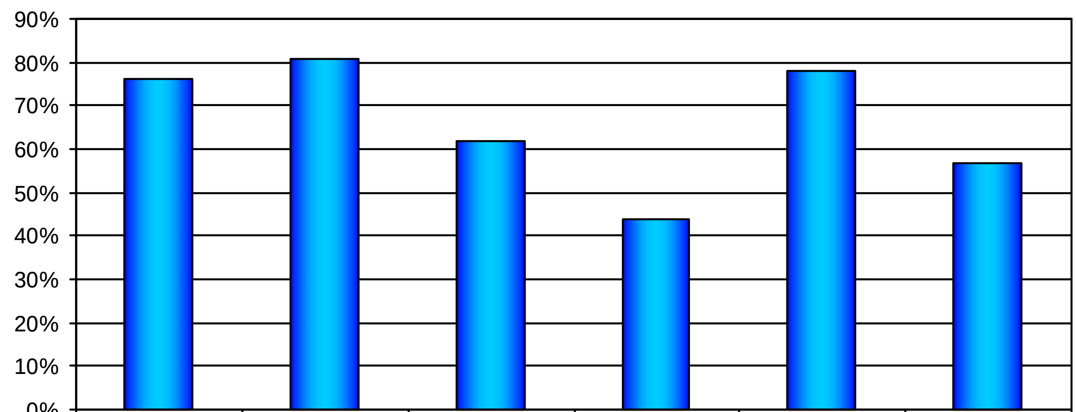
- Zopa is perceived to offer a fairer financial deal in comparison with mainstream financial services. On average, 65% of Zopa lenders believe that Zopa offer a better rate of return on their investment than mainstream banks. Whilst only 15% of respondents to the survey of general bankers felt that the interest they paid through high street banks accurately reflected their perception of their creditworthiness, 77% of Zopa borrowers felt that the interest they paid through Zopa was fair in terms of their creditworthiness.

- Although the financial gain/saving is one of the most important features of Zopa, people are also attracted to using Zopa for more social and altruistic reasons. In describing their most significant motivation for using Zopa, 62% felt that financial gain was the most significant, 56% thought the general interest and innovativeness of Zopa, 33% wanted to use Zopa to diversify their investments and 27% wanted to invest in people rather than institutions.

- Overall, people are motivated to use Zopa because the financial return or saving is based on a greater perceived equitability and fairer assessment of individuals' creditworthiness. This reflects how Social Lending schemes are perceived to be based on principles of 'good faith', which value the individual and give the person personal social responsibility. Mainstream financial services tend to be equated with 'bad faith' which relies on assuming the worst in the customer and making provisions for it.

Risk and Trust: The Zopa Process

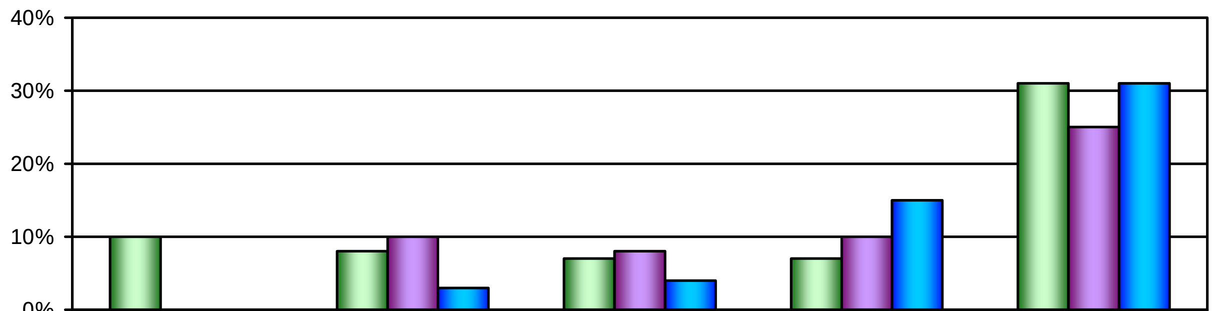
The level of involvement and authenticity created by enabling members to have an explicit role in Zopa's ethicality may not, however be advantageous when we account for other factors in the financial relationship. As we have seen, whilst Zopa's ethical standing is a significant dimension and an important factor motivating people to use Zopa, people have much more complex relationships to financial services, which must take account of more practical considerations, including the level of perceived risk and notions of trust. Paradoxically, whilst 61% of respondents in our survey of general bankers felt that the main aim of their principle bank was to make money for themselves, 63% said they were very satisfied with the overall service they received from their bank. Similarly, whilst 44% felt that banks were very trustworthy, 49% felt that banks did not have their best interests at heart. Indeed, Figure 14 shows how people have a multiplicity of positive and negative feelings towards banks.



	Greedy	Self-Interested	Monopoly	Trustworthy	Necessary	Safest Place to Put Money
General Bankers	76%	81%	62%	44%	78%	57%

Figure 14: Percentage of general bankers who strongly agreed with the above factors

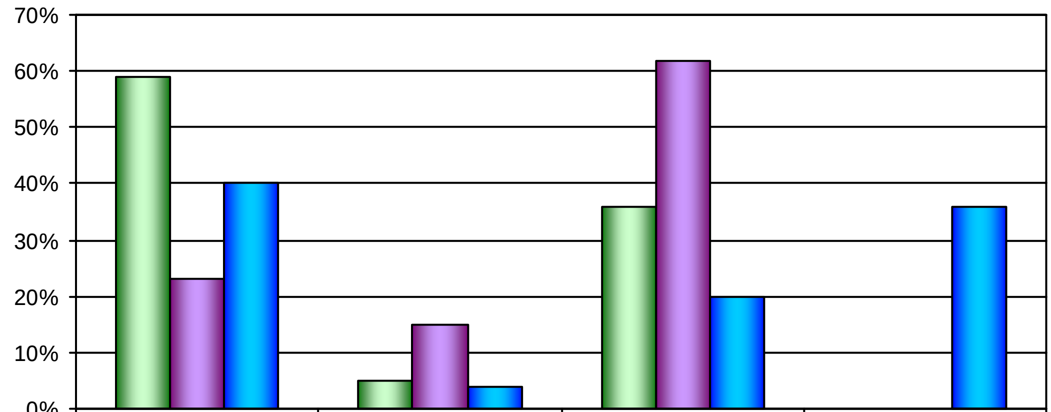
On the one hand, 81% of respondents feel that banks are self-interested and 76% feel they are greedy. On the other hand, 57% of people thought banks were the safest place to keep money. Perhaps most important, 78% strongly agreed that banks are necessary. Indeed, current accounts provide a platform for us to be economically active in many ways. Not only do they enable people to organise a multiplicity of outgoings and incomings but they also form the basis of assessments of peoples' credit rating. Thus, people base their perception of risk, trust and necessity on much more than financial return. Figure 15 suggests that the perception of risk associated with Zopa is not bankruptcy or that Zopa will disappear with the member's money. Significantly, Zopa members also rated the security risk of using Zopa's website as less significant than the respondents to our survey on general banking rated the risk of using mainstream banking websites.



	Investment will not provide a Return	Bankruptcy	Disappear with my Money	Website is not Secure	Lose Competitive Edge
Zopa Lenders	10%	8%	7%	7%	31%
Zopa Borrowers	N/A	10%	8%	10%	25%
General Bankers	N/A	3%	4%	15%	31%

Figure 15: Percentage of people rating the above risks as significant

Importantly, Figure 15 shows that the greatest number of people felt that Zopa losing its competitive interest rate was very significant. However, the same proportion of people responding to our survey of general banking - 31% - rated the risk of mainstream banks losing their competitive interest rate as significant. Overall, people completing the survey for Zopa clients felt that Zopa involved a higher level of risk than the people completing our survey of general bankers rated the risk associated with high street banks. Figure 16 shows that Zopa lenders associated a higher degree of risk with Zopa, whereas Zopa borrowers rated the risk of using Zopa as less than the respondents to the general banking survey did.



	More risk Using Zopa/Social Lending	Less Risk Using Zopa/Social Lending	Same Level of Risk	Not Sure
Zopa Lenders	59%	5%	36%	0%
Zopa Borrowers	23%	15%	62%	0%
General Bankers	40%	4%	20%	36%

Figure 16: Comparison of levels of risk associated with Zopa/Social Lending schemes in comparison with mainstream banks.

Consequently, Zopa involves a different form of risk related to the fact that it is not particularly well-known and that it offers an unorthodox financial service. Indeed, when the people completing the general banking survey were asked whether they thought there was more risk involved in using Social Lending schemes in comparison to mainstream banks, 36% said they were not sufficiently informed about Social Lending to be able to compare risk levels. This lack of awareness is also reflected in the fact that whilst 39% of people completing the survey for general banking claimed to be aware of the term ‘Social Lending’, only 6% said that they would definitely consider using a Social Lending scheme.

Nevertheless, it is significant that the risk associated with Zopa is inherent in the process of using Zopa rather than the organisation itself. Speaking about his loan contract, Sayyid expressed uncertainty about whether his lending contract was with Zopa or with individual lenders;

> *“That’s right, I think they term it as a contract, so basically it’s a bit like a contract between me and the person who’s actually supplied the money. So I may be borrowing off, well certainly be borrowing off more than one person, but I’m not sure if it’s an actual contract between myself Sayyid and John who lives in Glasgow, or whether it’s more of a thing just between myself and Zopa, and Zopa will always ensure that there’s money available” (Sayyid).*

More significantly, when asked whether he would prefer to have the contract with Zopa or with individual lenders, Sayyid commented that;

> *“I think I’d prefer the one with Zopa, where Zopa is the intermediary, so rather than me relying on John in Glasgow to always keep his money there for the term of my loan, you know, if John decides to take his money out then Zopa will make sure that someone fills his place and that another contract is set up” (Sayyid).*

Sayyid perceives that a contract between himself and individual lenders is inherently more risky that a contract with Zopa. Whilst this is important in that it suggests that members have a high level of trust in Zopa, it also suggests that people have a lower risk perception of mainstream banks, specifically because they are not relying on individuals. They are in this sense protected by the facelessness of the bank. Whilst current Zopa lenders show that they are prepared to take the greater perceived risk involved in more personalised forms of lending, it is balanced by the desire to exact a higher rate of return:

> *"The mainstream banks obviously have to try and minimise the risk because their customers and of course their shareholders and what have you don't want them to go out and lose their money. Whereas with Zopa if you say yes I want to lend into the B market or indeed coming shortly, the C market, there is, in B there is a minimal risk but it exists, and in C there is a risk starting to get into the noticeable number of percent that people might default and you might lose your money. But you are, to make up for that you are getting the better interest rate on it when they do pay it back, when, if they do pay it back" (Raphael).*

Raphael shows that risk is understood to relate not to the organisation but to the individual. The risk involved in lending to higher risk individuals is compensated for by the higher return. Thus, the more authentic form of lending that Zopa offers is complex. On the one hand it offers a greater level of transparency and a more authentic financial relationship, yet it is the increased authenticity; the fact that people are lending to 'real' people that increases the perceived risk.

This is shown indirectly by Zopa members' decision to lend money for shorter terms. Zopa has 12 'markets' through which lenders loan their money.[2] The markets are organised into categories A and B. The A market involves less risk because it is comprised of borrowers with a higher credit score than the B market. Members are more likely to receive a higher return from the B market because it involves a higher level of risk. Categories A and B are then each subdivided into 6 loan terms. Thus A6 corresponds to a loan for 6 months, whereas A60 corresponds to a loan for 5 years.

In the survey of members of Zopa, the majority of lenders – 66% opted to loan their money to 'A' markets (the lowest risk group) for between 1 and 3 years (22% at 1 year, 19% at 2 years and 25% at 3 years). The majority of lenders investing in 'B' markets (higher risk) was similar at 63% (22% at 1 year, 18% at 2 years and 23% at 3 years).

Lenders were less likely to lend for longer terms. For the 'A' market, only 7% are lending for 4 years and 5% for 5 years (a further 12% are lending for 6 months, 5% have lent money to people for every term and 5% have not lent in 'A' markets at all). Similarly, for the 'B' market, 6% are lending for 4 years and 5% for 5 years (with 10% lending for 6 months, 8% lending in all markets and 8% lending to none). Borrowers were also more likely to take a shorter term loan than the maximum offered. A loan for 3 years was most likely at 68% of respondents (5% for 6 months, 19% at 1 year, 6% at 2 years, 2% at 5 years).

The increased risk of loaning for longer terms is one factor in lenders' preference for loans between 1 and 3 years. However, Figure 17 shows the importance of various strategies that Zopa have established to mitigate the risk involved. This includes spreading a single lenders' loan across a number of borrowers so that the lender will not lose all of his/her money if the borrower defaults. Zopa also helps to mitigate risk by offering short-term loans up to a maximum of 5 years and small loans of up to a maximum of £25,000[3]. Further, risk mitigation factors include Zopa's accordance with the rules of the Financial Services Authority and the production of legal contracts specifying lenders' and borrowers' rights and obligations. Zopa also aims to mitigate risk by publicising the fact that many people on the team previously worked for Egg.

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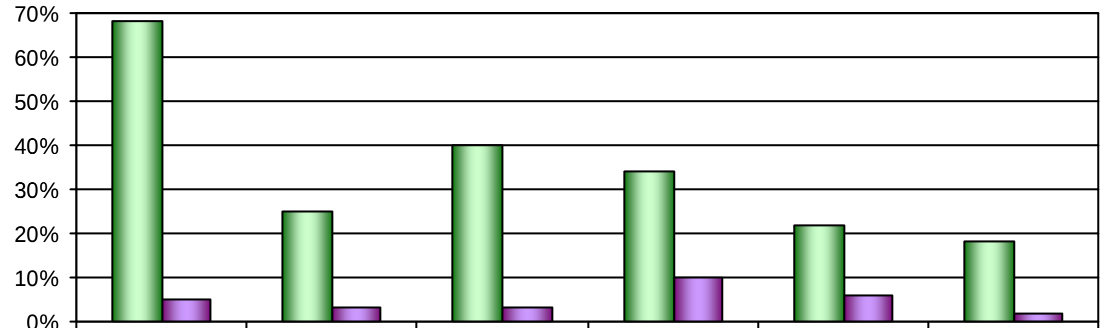
[2] Since our survey of Zopa clients was completed, Zopa have added a further 6 markets. Hence, this paper is based only on the 12 markets that were on offer at the time of the survey.

[3] Since our survey of Zopa clients was completed, Zopa has also ended the maximum loan limit of £25,000.



	Loan is spread	Short-Term loan	Small Loan	Regulated by FSA	Contract	Egg
Zopa Lenders	68%	25%	40%	34%	22%	18%
Zopa Borrowers	5%	3%	3%	10%	6%	2%

Figure 17: Percentage of people rating the above risk mitigation strategies as most important.

Perhaps most revealing is that borrowers did not rank any of Zopa's risk mitigation strategies as particularly valuable. This partly reflects their perception of the risk associated with the borrowing process, which is perceived to be lower overall than the risks involved in using mainstream banks (see Figure 16). Lenders felt that the spreading of the loan over several people was most important in mitigating risk. Only 25% felt that the short-term nature of the loan was the most important risk mitigation strategy. Instead, members of Zopa suggested that the instability associated with the exchange process was the greatest factor in their decision to take out short term and small loans:

> *"I mean there is also the risk of Zopa not being financially viable in the longer term, and again there I know that the lending contracts that I have are with the borrowers directly and they have an agreement with the credit collection agency that would ensure that all of the loans are repaid as if Zopa were still, you know, were still functioning. But then there are, you know, there is still some uncertainty surrounding that I think. And quite a significant part of the interest rate that I'm expecting to receive on the money I've already lent out is money that is from the bonus rates that Zopa has put on some of the markets, So I think probably 80% or 90% of my money has got a 2% Zopa bonus on it, so obviously if they were to become insolvent then my expected rate of interest would go down from 7% to 5% and maybe less" (Mortimer).*

> *"The difficulty is if they advertise too much then the major banks, particularly high street banks are going to look at it and think well what do we do about this and they might well decide to start offering killer rates that effectively wipe Zopa out, because they can't compete. It's an old trick isn't it but supermarkets do it and make sure the little butcher or greengrocer around the corner gets closed down by undercutting its prices, and then they put the prices up to normal again when the competition has gone. So I'm sure if Zopa became too much of a threat that's the sort of thing they would do" (Florence).*

> *"To some respect and also another respect that its success is mainly based on people supplying money to lend out. So in other words if they don't have, if there isn't enough consumer interest in joining Zopa then basically they don't, they just*

won't have the funds to lend out, and if they can't lend then they're not going to survive" (Alice).

Importantly, these excerpts are more complex than the quantitative data, suggesting that there is uncertainty regarding Zopa's long-term sustainability and uncertainty relating to the loan process. However, in explaining his concern with the long-term sustainability of the organisation, Mortimer relates the risk of loans not being repaid directly to borrowers. This suggests that, whilst there is some concern about the long-term sustainability of the organisation, the risks involved are more concerned with lending and borrowing directly from people. The uncertainty about the longer-term sustainability of the exchange process therefore suggests that people will not be put off from using Zopa – in comparison with other security issues and risk mitigation factors – but they are more likely to opt for shorter term loans and smaller loan values than the maximum offered:

"I only took out a relatively small loan, if I'd needed a much bigger one then I'm not so sure if I would have used Zopa, I mean this one's almost like a test I suppose" (Sayyid).

Overall, the results of the survey of Zopa members and the survey of general banking show that people generally associate a higher level of risk with Social Lending than they do with high street banks. Although forms of Social Lending have existed since AD 300 in China (Prosper, 2006), Social Lending does not form a part of many peoples' personal experience of financial services. Furthermore, perceptions of risk and relations of trust account for much more than financial return. As we have seen, despite the pervasive perceptions that banks are greedy and self-interested, 78% of people feel that banks are necessary. Zopa is unlikely to be able to compete with either the range of financial products offered by mainstream financial services or the importance of current accounts as a platform enabling people to be economically active and providing the basis of peoples' credit rating.

However, the perceived necessity of banks is, importantly, not conditioned by the perceived insecurity of Zopa. People were less concerned that Zopa would go bankrupt or that it would disappear with their money. Instead, the risks associated with using Zopa are more concerned with individual participants. Lending and borrowing directly from people inspires a greater level of trust and perception of authenticity yet it is precisely because the process feels more 'real'; because it is based on 'real' people and 'real' money that inspires a greater level of risk perception. In this sense, risk mitigation strategies should include ways to mitigate the risk of lending and borrowing for longer-terms.

Summary of Key Points

- People have complex and ambiguous relationships with mainstream financial services that exceeds the prospective financial return. Whilst 44% of respondents to our survey of general banking thought banks were very trustworthy, 49% claimed that they did not have the customers' best interests' at heart.

- Whilst there is widespread anti-corporatism, people also believe that mainstream financial services are essential in modern society. 81% thought banks were self-interested, whilst 78% felt banks were necessary.

- Overall, Zopa members and respondents to the general banking survey associated a higher level of risk with Zopa/Social Lending. This means that people are more likely to take out shorter term investments and loans.

- However, Zopa members associate the risk of using Zopa much less with bankruptcy and more with the process of lending directly to people. Here the authenticity of the exchange creates a greater sense of insecurity because the exchange appears more 'real'.

Overall Summary

Through exploring the quantitative and qualitative evidence gathered this chapter has aimed to articulate the key components of Zopa. In particular, this chapter has noted the importance of financial considerations in motivating people to use Zopa. Yet it is also evident that Zopa offers a model of Social Lending that exceeds financial return. The equation of financial return with a series of social and ethical values underpinned by 'good faith' and related to individualism, community, fairness and altruism appears to be the most important factor differentiating Zopa from mainstream financial services, which tend to rely on 'bad faith'. This is particularly extant given the generally more negative attitude of Zopa members towards mainstream financial services in comparison with the respondents to our survey of general bankers. It seems that the anti-corporatism evident in many statements of Zopa members is conditioned largely by the Zopa model, which enables members to have a more direct, personally responsible and authentic experience of ethical and altruistic lending and borrowing. This level of participation means that members perceive Zopa to offer a greater degree of transparency than mainstream banks and it also aides members' willingness to interpret Zopa as a more ethical, philanthropic and environmentally concerned organisation in comparison with mainstream banks. Indeed, whilst 4% of Zopa members felt that Zopa did not reflect any community and ethical values, 22% of respondents to our survey on general banking felt that mainstream banks did not offer any community and ethical principles.

Furthermore, the more social and interactive basis of Zopa was also an important factor differentiating Zopa from mainstream banks. Whilst only 16% of people surveyed for general banking felt that there was a community feeling within mainstream financial services, 28% of Zopa members identified Zopa with community. Most importantly, the ambiguity of community feeling is a great strength, empowering Zopa members in different ways through a 21st century model of community based on a system of autonomy and opting-in.

Whilst these social and ethical values associated with closer personalised relationships do generate a greater level of perceived risk, it is important that the risk of using Zopa is related more to the process of lending and borrowing directly from people rather than the organisational risk of bankruptcy. Nevertheless, although 59% of lenders and 40% of respondents to our survey of general bankers felt their was more risk involved in using Zopa/Social Lending, it is the integration of financial return with a series of social and ethical values that appears to make the perceived risk of using Zopa worthwhile.

Chapter Four

Zopa Futures

Introduction

The combination of financial attractiveness and a series of value systems based on ethicality, philanthropy, community and individualism is likely to mean that Zopa's future will be very favourable. One of Zopa's greatest strengths is that it not only embraces several emerging social trends but that Zopa is also instrumental in aiding the construction and development of these newly emerging social trends. In this sense, Zopa is using the past of Social Lending to reinvent and reinvigorate the future of financial services. This final section explores Zopa's likely future and it suggests that Zopa offers a unique financial service, which re-defines the nature of relationships with financial services. It also offers some suggestions on the directions Zopa could take in light of future social trends and the findings of this report.

An Ethical Financial Model

The Zopa model is to a large extent based on ethicality. Zopa aims to attract lenders who have a desire to lend money directly to people for altruistic purposes. Furthermore, the Zopa model is premised on the idea that by removing the need for intermediaries it offers a fairer financial deal for borrowers and a better rate of return for lenders. In this sense, it is Zopa's ethical stance that actually makes it financially advantageous since financial gain is dependant on Zopa's ethical principles. This model is advantageous because it increases the belief in Zopa's ethicality through members' greater involvement and participation in altruistic lending. The ability to discern exactly who and what members are supporting is very compelling. It means that Zopa appears to offer a more authentic and transparent form of lending, where members feel more personally responsible because they believe that it is 'my money' that is helping particular known individuals in specified ways.

Zopa, then, differs substantially from mainstream banks where ethical and altruistic donations tend to be made irrespective of individual customers. Members of mainstream banks may feel that they are contributing to particular ethical projects through being a customer of a particular bank but they are not giving money directly on a person to person basis. As we have explored previously, this comparative lack of direct involvement tends to result not only in a lack of awareness of mainstream banking ethical projects but also a greater degree of cynicism towards mainstream banks' motivations for making ethical donations. In contrast Zopa appears to offer a system where individual members can feel that they are personally and directly making a difference.

This notion of personal responsibility is very important and is likely to become more important in the future. As we explored in chapter two, the 'responsibilisation' of citizens is the product of the evolution of Liberal Democratic governance. This diffused form of control produces conformity through recognising the autonomy and responsibility of the individual subject. The government can no longer demand obedience through appeals to juridical precedent but must instead inspire correct and responsible behaviour through respecting citizens' freedom. As the following statement; taken from a discussion paper of the Prime Minister's Strategy Unit shows, 'personal responsibility' forms an important part of discussions on public policy:

'There are strong moral and political arguments for protecting and enhancing personal responsibility. Most of the dominant traditions of social and political thought in the UK value individuals' and communities' ability to take control and act in their own best interests as goods in themselves. Other things being equal, they see it as better for governments to empower citizens as much as possible rather than making decisions on their behalf' (Halpern *et al,* 2004).

This statement shows how Liberal Democratic governments inspire responsibility through perceiving it as the prerogative of individuals and communities. Furthermore, as the *Institute for Public Policy Research* (IPPR) explains, the key sites of personal responsibility include all the pertinent contemporary issues of our times from personal health to recycling (IPPR, 2006). Significantly, personal responsibility is integral to the Zopa model, where lenders are invited to make altruistic investments that will make a difference to the lives of other community members. Again the higher degree of direct involvement is important because it enables lenders to feel *personally* responsible because, although lenders cannot choose specifically who they lend to, it is their own money that is being lent directly to help other people. In contrast members of mainstream banks can only ever feel indirectly responsible. They have a position of ideological support because they can perceive themselves to be supporting various ethical policies just by being members of a particular bank. However, members of mainstream financial services do not get the sense that their money is being used directly to help particular individuals or particular ethical projects. Indeed, in our survey of general banking 52% felt that their principal bank should have a larger concern for altruistic and community development projects and 51% were 'significantly concerned' that their bank supported unethical policies, such as investing in companies that trade unethically.

Nevertheless, our research has shown that members of Zopa are motivated to use Zopa for different reasons. Some members are concerned solely with financial gain and the more altruistic motivations for lending are insignificant;

"most lenders will be lending on the principle of a commercial arrangement and wanting a commercial return on their money. So how that would tie up, how that might fit in with being altruistic I don't know…I'm in it to get a better rate of interest than I can get through a bank or building society, and that's the principle reason for joining Zopa" (Florence).

"[I was motivated to use Zopa because] the return is high for a fixed rate investment and the funds are not locked away for a long period" (Kit).

"I'm not particularly interested in the 'ethics' of Zopa. It's just another investment. I'm satisfied that its low-risk, it's relatively easy (and quite fun) to operate and it currently pays me (very slightly) more than I get from my building society savings account" (Roger).

"It was the cheapest loan I could find and I didn't want to go to my bank - they always have penalties for early repayment" (Juan).

Other members were more motivated by altruistic factors, suggesting that they believe that altruism is intrinsic to using Zopa;

"I thought the idea of people lending and borrowing from one another was a brilliant idea. The profits earned by banks are excessive and I wanted to explore this idea" (Anna).

"I have a long-term distrust of the practices of major banks, and hold most of my personal and business banking with the Co-op because of their ethical stance. I'm also a great believer in the power of ordinary people to use their everyday actions to

make changes in the world - and the world of high street banking needs changing!" (Martinez).

"I like the idea of a peoples' bank we can lend and borrow through cutting out the high street bank whose main aim is to make money. Our aim should be to help people in need of money on minimum interest" (Capri).

However, overall, our research suggests that members of Zopa differ from the type of person who is attracted to micro-enterprise schemes. Whereas micro-enterprise financiers frequently lend money with no return, Zopa members use Zopa precisely because it offers a good rate of return. Here, financial gain is merged with the benefits of altruism:

"The rates of interest looked attractive compared to traditional banks/building societies and the idea of lending directly to individuals generates a certain altruistic feeling and seeing a list of who's borrowed and what for reinforces that feeling" (Corrine).

"I wanted to diversify my funds, get more interest than the bank, and help people at the same time" (Andrew).

"Good return, low risk, relies on trust in people rather than big business" (Mandy).

"Zopa seemed a more people friendly investment" (Amy).

"Financial gain is a priority of investing. I enjoy visiting my Zopa site as its easy and very user friendly and also knowing I'm investing in people not large institutions to make money" (Ria).

"I like the thought of borrowing to like minded people, possibly that will lead to less risk. It is also socially beneficial as the money is more likely to be reinvested rather than taken out as profit" (Roy).

These excerpts suggest that, whilst altruistic factors are important and integral to Zopa, it must be balanced with financial return. Even the most altruistic lenders, who were prepared to offer lower interest rates to loan requests deemed more worthy, still desired a return on their investment;

"If there was something that was, you know, if there was a project to, you know, of an environmental nature for example, a loan to build an environmentally friendly something or other, I would be willing to lend at a reduced rate to that" (Jaheda).

In summary, as one person explained, Zopa's attractiveness is based on its *'feel good factor' (Erin),* enabling people to derive some sense of moral and social worth from making money. By tightening the link between ethicality and financial gain and by emphasising the ways in which financial gain is dependant on ethicality, Zopa can create a unique position for itself closely related to the feel good factor associated with using Zopa. Although ethicality is not likely to rival the significance of financial gain, the importance of ethicality is likely to increase in the future as we become more aware of, and more concerned with third world poverty, global warming and environmental issues, human rights and the internationalisation of democracy. Furthermore, Zopa offers members a form of direct involvement in ethicality, which, situated within the trend of an increasing governmental emphasis on personal responsibility, is likely to make Zopa's ethical standing more believable because it appears more authentic. Whilst Zopa is unlikely to be able to compete with the scale and monetary value of mainstream banks' ethical projects, it does offer members a more direct role in its ethical standing. As the excerpts above suggest, people derive a more direct and authentic sense of moral worth from using Zopa because to some extent lenders can see which individuals they are lending to and what the money is being used for. In this sense, the altruistic act is seen to be dependant on the individual lender. Thus, not only are members of Zopa more likely to feel a greater sense of personal responsibility but they are also more aware of Zopa's ethical standing and more willing to believe in it. In contrast mainstream banks support various ethical projects irrespective of individual customers, which suggests that mainstream bankers are less directly involved in the altruistic act. Other schemes, such as those offered by Charity Bank do enable the individual customer to feel that they have directly aided a charity because the individual has decided to give the interest on their savings directly to a particular charity. However, this does not rival Zopa's uniqueness because altruism for Charity Bank customers comes at the expense of financial gain. Thus, by exploiting people's desire to 'feel good' whilst making money, Zopa offers a unique financial service, which can be further amplified if financial gain is represented to depend on ethicality and altruism.

Summary of Key Points

- The Zopa model is unique because it makes financial gain dependant on ethicality.
- This principle of 'feeling good whilst making money' is likely to give members a greater level of satisfaction and moral worth because it requires a more direct form of involvement reflecting the increasing governmental concern and support for personal responsibility.
- The integration of finance and ethicality/altruism is likely to increase in the future given our increasing concern for third world debt and poverty, human rights and global warming.

The Zopa Community and the Benefits of Physicality

The principle of feeling good whilst making money is very much reliant on lending and borrowing directly from people in the Zopa model. It further substantiates the importance of community because it suggests that the whole system is very much reliant on connectedness to other people within Zopa. Whilst Zopa defines itself as a 'person to person lending and borrowing community' (Press Release, 19 June 2006), the website does not explain exactly why Zopa has decided to define itself as a 'community'. We explored previously how notions of community are ambiguous amongst members of Zopa, with a proportionate number of people equating Zopa with individualism. We have also explored the ways in which it is more difficult to develop online communities owing to the lack of personal and intimate ties in online relationships and the lack of tangible representations of community in virtual space that exist in physical environments.

This said, we have also suggested that the ambiguity of community within Zopa is a great strength because it enables people who are more individualistically-orientated as well as those who are more community-orientated to participate in Zopa. It is this ambiguity that suggests Zopa is in the process of re-inventing a notion of community that is amenable and valuable to people living in the 21st century. More traditional concepts of community involved in friendly societies relied on close-knit kinship structures. Members were simultaneously neighbours, colleagues, 'brothers' and friends and the community was tied to a particular geographical area. This sort of connectivity would be impossible and undesirable to sustain in an age when Internet communication is burgeoning. The birth of this new space, which has different tools of communication, signals a re-definition of community, of which Zopa is very much a part. The 21st century notion of community can be understood through the need to balance the autonomy of the individual with his/her deeper need for socialisation through community participation. Similar to other community websites, such as MySpace, Zopa's system of opting-in is situated within this new understanding of community where individual choice, autonomy and control are significant pre-determinants of peoples' willingness to participate within the community. Unlike traditional communities where individual gain could be sacrificed for the common good, Zopa reflects a 21st century community, which is compelling only because it supports a 'win win' situation. Zopa, can, then be understood to be utilising the age old desire for community and the traditional structure of group production and circulation of finance to re-invigorate forms of lending through 21st century notions of community.

Thus, it would be difficult for Zopa to dispose of its 'community' rhetoric because it would disenfranchise those members who believe that 'community' is essential to Zopa because it forms the ideological underpinnings of online social interaction in the 21st century. However, interviewees also expressed concern about the difficulties of forming communities online and whether a more developed sense of community would be beneficial:

> *"To be honest I wouldn't be too bothered about actually being able to choose borrowers. Yes I know that comparisons are made with Prosper the US Lending Exchange where people actually go on there and look up an individual borrower's details and then bid to lend money to that borrower. You know to be honest I wouldn't be interested really in doing that. I think there are two reasons for me, one is that just from a time point of view, I just like being able to put my money on there to lend and have it all matched up automatically and not having to go through the hassle of setting up all the loans myself and matching them up with borrowers. And secondly I think the way that Zopa has actually been doing the credit scoring and working out the appropriate market that borrowers should be borrowing in and making their estimates of the bad debt from those borrowers, I think it's something that kind of safeguards my interests as well" (Mayer).*

> *"Well at the moment I mean yes I know that having read some of the articles that the Zopa founders and some of the people who work there have put on the website, it seems as though part of the motivation has come from the idea of community lending and, you know, which I know is generally used in quite a lot of third world countries where people who are normally not very credit worthy are able to borrow money, and then there's this kind of pressure from the peer group to actually repay the loans, and so the bad debt on those loans is probably a lot lower than it would be if they just borrowed from a normal credit institution or bank. And it seems to me that that is perhaps one of the ideals behind Zopa but it's not the way that it's developed so far. I mean it seems to me that the company has deliberately taken an approach of selecting the very best, you know, the most credit worthy borrowers in order to keep their bad debt to a minimum, and therefore they haven't really had to have any kind of community type lending circles or whatever you want to call it. But also I'm not sure how practical it is to do that on-line, I mean it's not something I've thought a great deal about but I'm not sure how much peer pressure and community pressure could be brought to bear on someone on-line who, you know, is in danger of missing their, you know, missing their debt repayment"' (Mortimer).*

Paradoxically this suggests that whilst some members of Zopa want to be more involved in knowing who their money is benefiting and what it is being used for, they do not want to be more involved if it demands more of their time and effort. Given the difficulties of supporting the close and personal ties of a community on the Internet, it would benefit Zopa to additionally construct a more secure community foundation through the development of exchange schemes within physically based communities such as the Notting Hill Housing Trust.

The Notting Hill Housing Trust scheme was launched in June 2006 and it aims to offer financially excluded individuals the ability to access loans to purchase property. Given that the scheme is based territorially, it enables the formation of a sense of community identity through personal face to face interactions and through tangible representations of the community's identity. Furthermore, the Housing Trust partnership is dedicated to helping residents gain access to property, which suggests that the residents are to some extent united by a common purpose. In contrast, loans made through the Zopa 'community' tend to be individual, personal and disconnected from any overall uniting ideology within Zopa.

The Notting Hill Housing Trust scheme is, then, important to Zopa lenders because it enables both community-minded members and individualistically-minded members to participate. The more community-minded members are able to have a greater level of involvement in the community because in effect they are controlling the purpose of the loan because they have chosen to invest in a particular project. Furthermore, they can perceive themselves to be helping a specific group of people who are engaged in a community project rather than loaning solely to individuals who tend to use the loan for personal reasons. Whilst these members cannot be community members, they are able to perceive themselves as community facilitators because it is their money that is being used directly to establish the physical community. Given the increasing importance of community and difficulties of establishing online communities, Zopa can strengthen itself through a much more established concept of community because it is helping communities that are based in physical environments.

In addition to the existing form of exchange, developing schemes similar to the Notting Hill Housing Trust would also benefit more individualistically minded members because investing in these schemes does not entail a higher degree of active participation, which demands a greater level of time and effort. Furthermore, individualistically-minded members may also be motivated to support schemes like the Notting Hill Housing Trust if they offer riskier investments, which provide a higher rate of return.

Thus, developing schemes like the Notting Hill Housing Trust partnership in addition to the current exchange system would benefit Zopa by satisfying both individualistically-minded and community-minded members. The importance of the ideology of community in the Zopa model cannot be understated. It is pivotal to many other factors including Zopa's ethical stance, the provision of interactive features, altruism and philanthropy. Furthermore, Zopa's expression of an explicitly 21st century model of community is also conducive to the heightened sense of individualism prevalent amongst Zopa members; preserving the integrity of the individual through a system of opting-in. By developing lending programs involving physical communities, Zopa would develop a more secure footing on which to market its relevance to the ideology of community.

Summary of Key Points

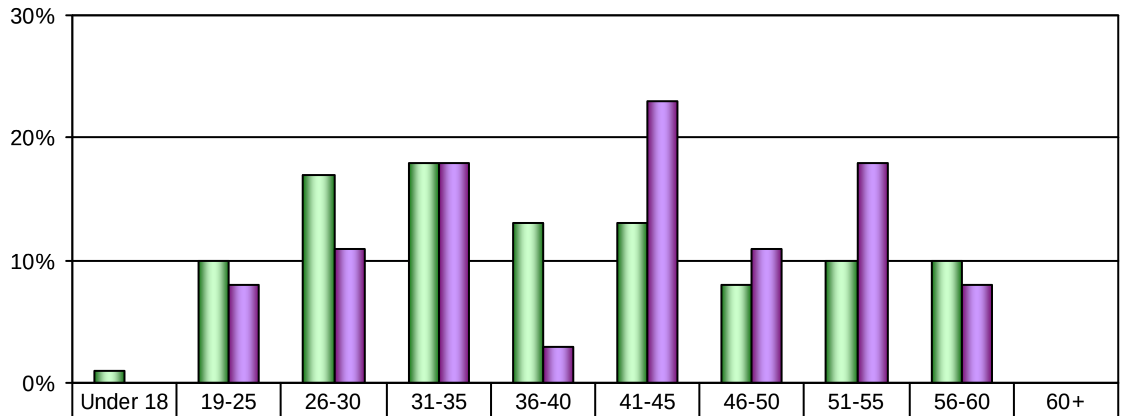
- Zopa's principle of community is essential. Zopa has developed an explicitly 21st century model of community that seeks to balance the needs of the autonomous individual with his/her deeper urge towards socialisation through participation in communities of interest.

- The Zopa model utilises traditional notions of community whilst reinventing them to re-invigorate the future. Unlike traditional forms of community where individual gain might be sacrificed for the common good, the Zopa community is compelling because it is founded on a 'win win' situation.

- Through developing schemes similar to the Notting Hill Housing Trust initiative Zopa could further augment and secure its community foundation through physically based communities without sacrificing the needs of the more individualised Zopa members.

The Future Zopa Market

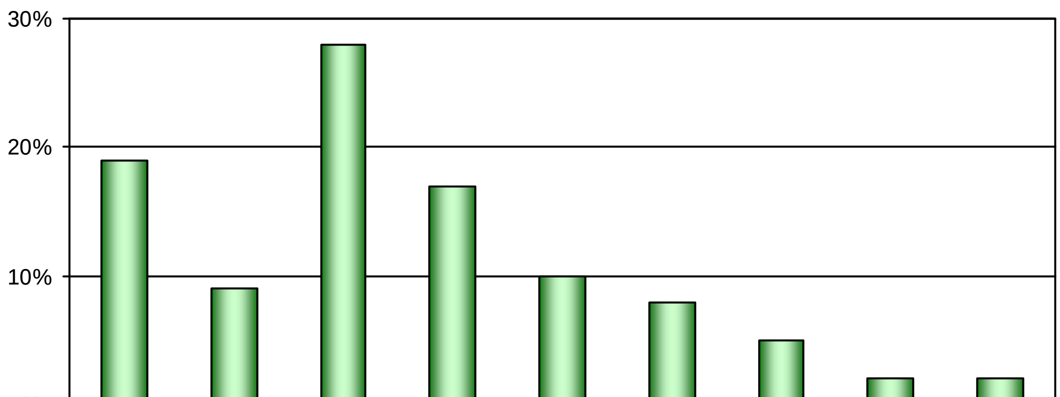
Demographically, Zopa appeals to quite specific groups of people. The majority of members are male. Our survey of Zopa clients shows that 16% of respondents were female and 84% male. Figure 18 shows that the majority of lenders are situated within the younger age bands; with the highest proportion being between 26 and 35. In contrast, borrowers tend to be older, with the highest proportion being aged 41 – 45.



	Under 18	19-25	26-30	31-35	36-40	41-45	46-50	51-55	56-60	60+
Zopa Lenders	1%	10%	17%	18%	13%	13%	8%	10%	10%	0%
Zopa Borrowers	0%	8%	11%	18%	3%	23%	11%	18%	8%	0%

Figure 18: Age comparison of lenders and borrowers

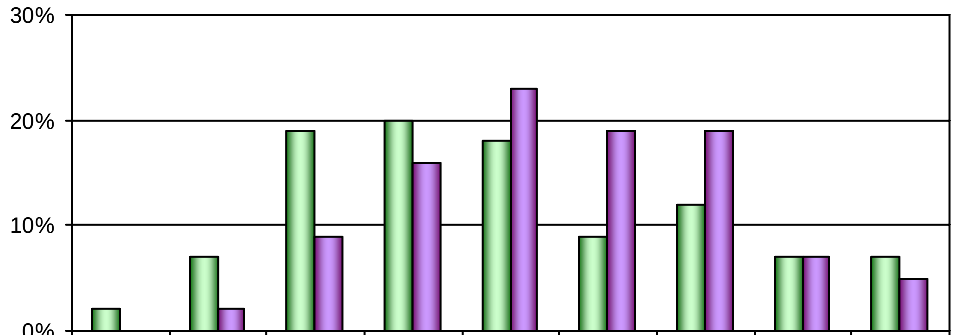
Figure 19 also shows that members are concentrated largely in the Midlands and South of England, although Zopa does have some members in all regions of the UK.



	London	South-West	South-East	Midlands	North-West	North-East	Scotland	Northern Ireland	Wales
Zopa Members	19%	9%	28%	17%	10%	8%	5%	2%	2%

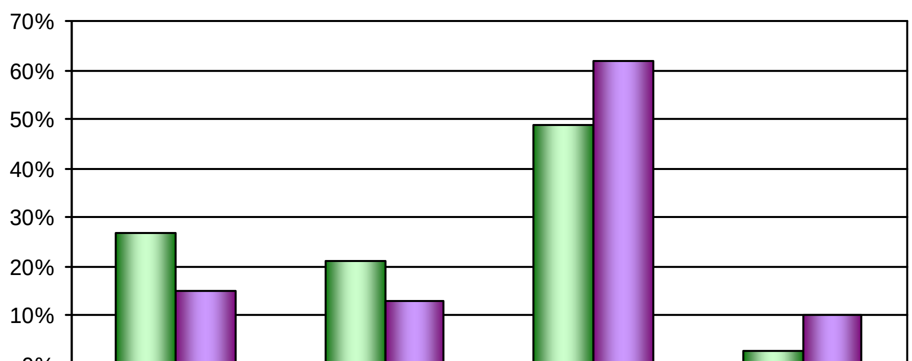
Figure 19: Regions of Zopa members

In terms of income, lenders tend to have lower household incomes than borrowers. However, Figure 21 suggests that the lower household income of lenders is influenced by the higher proportion of lenders who are single. In contrast, borrowers tend to be more established. They are more likely to be older, married and have a higher household earning.



	Under £10,000	£10,001-£20,000	£20,001-£30,000	£30,001-£40,000	£40,001-£50,000	£50,001-£60,000	£60,001-£70,000	£70,001-£80,000	£80,001 +
Zopa Lenders	2%	7%	19%	20%	18%	9%	12%	7%	7%
Zopa Borrowers	0%	2%	9%	16%	23%	19%	19%	7%	5%

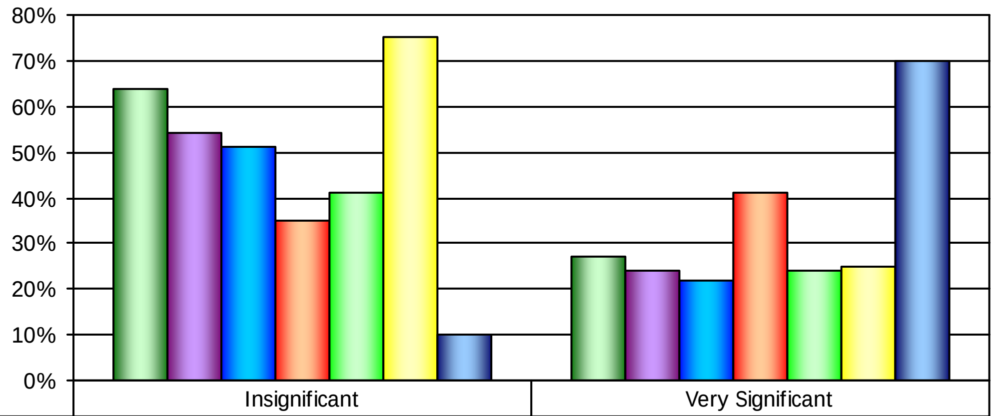
Figure 20: Comparison of lenders' and borrowers' household incomes.



	Single	Living with Partner	Married	Divorced
Zopa Lenders	27%	21%	49%	3%
Zopa Borrowers	15%	13%	62%	10%

Figure 21: Personal status of lenders and borrowers.

Overall, the demographic situation of lenders is important in influencing the role that Zopa plays in lenders' portfolio. Currently, Zopa seems to hold a relatively minor position within lenders' overall investment portfolio. Figure 22 shows that regardless of the amount lent, lenders are slightly more likely to feel that Zopa has an 'insignificant' role in their overall investment portfolio. However, there is also some evidence of polarisation. Lenders feel that Zopa either has an 'insignificant' role or a 'very significant' role in their overall investments.



	Insignificant	Very Significant
Under £500	64%	27%
£501-£1,000	54%	24%
£1,001-£5,000	51%	22%
£5,001-£10,000	35%	41%
£10,001-£15,000	41%	24%
£15,001-£20,000	75%	25%
£20,001-£25,000	10%	70%

Figure 22: Comparison of the importance attributed to Zopa within lenders' entire investment portfolio split by amount lent through Zopa.

However, this should not lead us to believe that Zopa is not important even if it is not rated as the most important investment. Interviewees suggested that Zopa had a pivotal role in extending investment opportunities after other investment opportunities had been used up.

> *"I already have the usual – PEP's, Cash ISA's, Stocks & share ISA's, high interest deposit account. I wanted another vehicle that would allow me to experiment, relatively securely, and increase the return on some of my deposit account cash. I was very taken by the idea of depriving the large financial institutions of some of their obscene profits" (Brook).*

Interviewees also suggested that Zopa played an important role in diversifying their investments. This is significant given lenders' acute awareness of risk and the corresponding desire to spread their investments across a number of different platforms:

> *"Putting all your eggs in one basket is never a good idea, it's like having shares, putting all your investment in one company looks very silly if that company goes tits up" (Florence).*

> *"I decided try lending at Zopa because it offered a novel way to diversify and, to a lesser extent, de-risk my existing portfolio. Accordingly my primary motivation is achieving financial gain, with an a-priori understanding of the degree of risk. I tried Zopa because it was new and exciting; my decision to stay, and lend more, will hinge on my judgement of Zopa's performance compared to other fixed-term low-risk investments" (Burt).*

> *"Zopa is an innovative idea and I wanted to experience it. The opportunity to lend money, to help diversify my investments, was very appealing" (Manuel).*

"It is something different. It is fun, whilst providing diversity to a portfolio of investments" (Simon).

"I wanted to diversify my stock investments to perform more closely with my savings, and I dislike faceless institutions and Zopa offered a reasonable return, though I'm still working out how much benefit I can gain. Zopa sounded interesting and I already take advantage of the mainstream financial services; at least the best buys" (Olga).

"I am always looking to diversify my portfolio. I look for a reasonable rate of return and a relatively safe investment. I do most of my personal finance online and Zopa meets all these criteria" (Helen).

"I liked the idea of being able to interact with lenders in a slightly less "faceless" manner and I also liked the low minimum investment, since I was keen to diversify my existing investments" (Raphael).

Thus, Zopa appeals to lenders who have excess stores of capital after other investment opportunities have been used. Zopa is perceived to offer a relatively secure investment that will decrease risk through diversifying investments. Nevertheless, partly because of the less established earnings of lenders, Zopa also appeals to people who want to make small loans because they do not have the financial resources for larger scale investments:

"Since I am retired, I aim to maximise my income. Here I can use small sums usually dormant in say a low/nil interest account, as I want and when I want, to further that aim" (Fletcher).

"I wanted a means of generating income from small sums which could be increased over time. I did not want hassle from banks or government. I also wanted a mechanism that made me feel comfortable. Zopa fits the bill and so far the dealings I have had with Zopa have been quick and courteous. The way a real bank should be. The other benefit is that I can watch my money grow from anywhere" (Strauss).

"As I am on a low income and do not have a lot of money to put into investments I found that the Zopa way of doing business has enabled me to start investing in other people with only a small amount of capital. I can then top this up as and when I can afford to. If I was to use mainstream investment houses I would have to make a larger deposit and pay a fee for making the investment. This is not financially possible for me as this time" (Moira).

"For any lender [Zopa] is a great means to diversify ones portfolio with added benefits of reduced risks and a means to obtain better interest rates especially those with limited capital who may be unable to access traditional hedge and investment funds" (Carlos).

Consequently, Zopa appeals primarily to two types of investor; those who have a substantial store of capital and who have a series of other investments and those who want to begin investing but do not have significant amounts of capital. It is then surprising that, even though Zopa is not the most important investment in lenders' portfolio, Zopa does not appear to play a more significant role with third party financial advisers. Aside from the importance of Zopa as a means to empower people who do not have the capital to use other investment opportunities and its utility as a means to extend and diversify existing investments, members of Zopa also suggest that there are other important dynamics in motivating them to use Zopa.

The excerpts explain how *'I can watch my money grow from anywhere'* and *'I do most of my personal finance online and Zopa meets all these criteria'*. As with other online Social Lending schemes, Zopa is likely to attract people who like using the Internet and who feel reasonably competent using it. The excerpts also show that members of Zopa are motivated by a mild sense of anti-corporatism. They explain how *'I was very taken by the idea of depriving the large financial institutions of some of their obscene profits'* and *'I dislike faceless institutions'*. A general disillusionment with mainstream financial services, grounded on perceptions of their intrinsic greediness and lack of personalisation may partly motivate people to use Zopa.

However, on balance, a much more pervasive motivation for using Zopa was that it was perceived as a pioneering financial service. The excerpts show that members were attracted to Zopa because *'Zopa sounded interesting', 'Zopa is an innovative idea', 'I tried Zopa because it was new and exciting', 'I wanted another vehicle that would allow me to experiment'* and *'Zopa is an innovative idea and I wanted to experience it'.* Indeed, Figure 9 shows that 56% of Zopa clients felt that the fact that Zopa is interesting was their most important motivation for using Zopa. As such, Zopa seems to appeal to early adopters; people who are perhaps bored with their existing investments and who are looking for an investment product that offers something unique and interesting. A degree of financial knowledge and a desire to take risks is essential here. The excerpts show that members are stimulating risk takers. They perceive Zopa as an organisation that will enable them to *'experiment'* and create an *'experience',* as *'another toy to play with' (Florence),* whilst providing a financial return. Indeed, previous research conducted by the *Centre for the Study of Media, Technology and Culture* (CSMTC) for a project called *Home Access* suggests that the ability to 'play' with banking services is becoming a widespread trend facilitated by Internet technologies that enable experimentation and self-service. Speaking about looking at her bank account, an interviewee described how;

> *"Yeah, like even if you've looked at it in the day or something, I'll just look at it again, for no reason at all. And just, I don't know why, it's just something to tap away at and do" (Carmen).*

Another interviewee described how the desire to check his online bank account is driven largely by time pressures and the need to multitask;

> *"I feel like I've got a lot less time than I used to. Like you were saying, you find that it kind of makes things for you to do. Like now I think 'oh God, I've got to remember to check my Yahoo email, whereas before it was just my work email, and now I've got to check my other email. And I think 'oh God, I better check my bank account', whereas I never used to check that, I just used to check it when my statement came through. Every couple of days you're like 'ooh, I'll just check nothing's gone in" (Maude).*

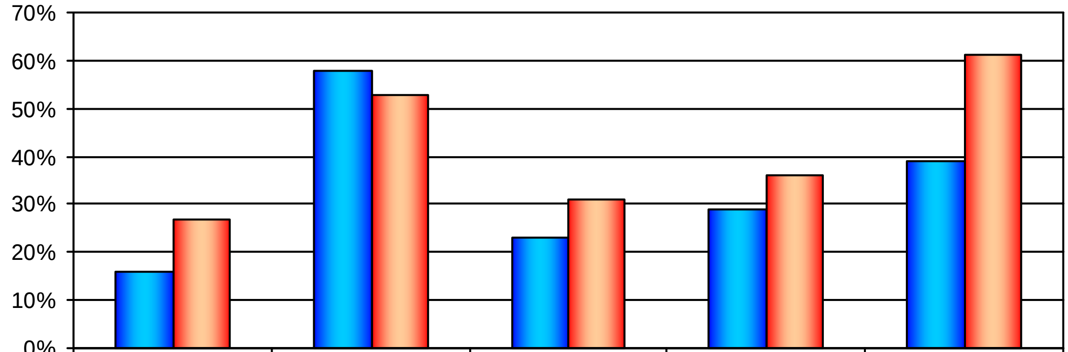
Indeed, one of the main attractions of Zopa is that it enables people to be more active and to have a greater level of perceived control. Florence explains that her other investments do not enable her to be particularly active:

> *"…money that I just have in a savings account, which I just keep there and don't do anything with, or money that I have in ISA's or Unit Trusts or whatever, that again I generally don't do that much with. Whereas with Zopa I do check very regularly on what's happening with my money there and how it's being lent out…Yes you can lend, you can make a variety of different offers and each offer can be restricted to say one market or a number of markets, and you can still specify the rate of interest you want to achieve, so yes it gives a lot of control in that respect" (Florence)*

Jaheda also explains how she likes Zopa because it enables her to feel more in control;

> *"Yes, I am a complete control freak, you know, if I can see what's happening and change it myself and just monitor it I'm happy, you know, in whatever I do, that makes me happy, so yes absolutely" (Jaheda).*

This need for control is particularly important to Zopa members, yet it is also fairly important amongst the respondents to our survey of general banking. 45% of respondents felt that they wanted to have more control when using mainstream financial services, 46% were content with the level of control they currently have and 8% were indifferent.



	Bank has Complete Control over Financial Activities	Bank Facilities Financial Activities	Banks Provides Legal Foundation	Banks' Influence Less Than Customers'	Customer has Complete Control
Interested in Social Lending	16%	58%	23%	29%	39%
Not Interested in Social Lending	27%	53%	31%	36%	61%

Figure 23: Perceptions of the extent of control within mainstream financial services by comparing respondents to our survey of general bankers who were interested in participating in a Social Lending scheme with those who were not interested who 'strongly agreed' with the above statements.

Figure 23 shows that people who are interested in participating in a Social Lending initiative are less likely to feel that the customer has complete control of his/her financial activities within mainstream banks.

This desire for a greater level of control, willingness to experiment and self-empowerment is characteristic of the minipreneur, who is typically 'switched on' and 'better informed' about risk and alternative investment opportunities. Thus, if we can define a Zopa typology, it would be someone who fits into the minipreneurial trend, who is Internet savvy, financially aware, stimulated by risk-taking, has an intrinsic sense of individualism, a need for control and empowerment and a desire for quirky and innovative investment opportunities that enable a greater level of active involvement. Demographically, Zopa borrowers tend to be more mainstream; they are likely to be married, middle-aged and have household incomes between £40,000 and £70,000. The Zopa lender typology is much less established and has a higher proportion of people under the age of 45, who are single, live in the Midlands or South of England and have household incomes of up to £50,000. Consequently, Zopa is right in suggesting that it is inventing a 'new asset class' which is 'completely different from anything else in your portfolio' (Zopa, 2006). Not only does Zopa offer a unique financial product based on ethicality, altruism, networking, interaction and control but it is also empowering a specific, niche market whose minipreneurial needs are not being met by mainstream financial institutions.

Summary of Key Points

- Currently, Zopa tends to hold an 'insignificant' position within lenders' investment portfolios.
- However, Zopa has an important utility to diversify lenders' investments, as an additional investment platform after other investment opportunities have been used up and as a means to begin investing with limited capital.
- Zopa appeals to a particular type of person who is financially and Internet savvy and who desires an investment opportunity that will enable him/her to actively participate, have a heightened sense of control and create a stimulating experience related to the pleasure of risk-taking.
- Demographically, Zopa members are mainly concentrated in the Midlands and South of England. Zopa borrowers are more likely to be married, middle-aged and have a household income between £40,000 and £70,000. Lenders are less established; they tend to be younger, are more likely to be single or living with partners and they are most likely to have household earnings less than £50,000.
- Consequently, Zopa currently appeals to a niche market whose needs are not being met by mainstream financial services. We would expect that Zopa will play a more important role in lenders' investment portfolios in the future if it maintains its financial competitiveness alongside more ambiguous values factors including individualism/community, financial gain/ethicality and rationalised risk calculation/sensation risk-taking.
- The Zopa model of financial gain, which is underpinned by a series of ethical and altruistic values, situates Zopa as a unique financial service within mainstream banking. For this reason Zopa is likely to become a serious rival to mainstream financial services, whose legacies of unethical trading and investing makes high street banks unlikely to be able to compete with the perceived authenticity and intrinsic ethicality of Zopa.

Overall Summary

Zopa has created a unique position within the financial sector that appeals to a particular type of person who demands control and independence. It is because the Zopa model incorporates several contemporaneous and emerging social trends that it is particularly satisfying to this audience. Zopa reflects the trend towards personal responsibility through a model of lending that enables members to feel directly involved in altruism. Given the expected future importance of ethical issues and the ways in which, at a governmental level, individuals are encouraged to feel personally accountable for the well-being of ourselves, communities, nations and wider global issues, it is significant that Zopa makes financial gain dependant on ethicality. Here, Zopa offers members the opportunity to feel good whilst making money, thus satisfying the dual financial and social imperatives of members. Strengthening this position would seriously rival mainstream financial services, which our research has shown are not perceived to offer a financial service that could be described as fair on several different levels.

The social underpinnings of the Zopa model are equally important to Zopa's concept of community. It is significant that Zopa has developed a model of community that reflects the 21st century demands of autonomy, individualism and choice whilst serving the impetus towards community participation as one of our most important means of socialisation. It is essential that Zopa maintains this ambiguity between individualism and community, because, as we have seen, Zopa members are just as much motivated by individualism as they are by participation within community. Zopa could supplement the current virtual Zopa ‘community’ with a more secure community foundation through the development of lending schemes to physical communities. This would enable Zopa to offer members more variegated lending possibilities based on different levels of involvement. Choice is paramount here, enabling members to choose which schemes and communities they lend to would give more community minded members the ability to feel more directly involved in the community. However, Zopa would not want to dispense with the existing exchange, which is attractive because it offers a specifically 21st century model of community which allows rather than demands involvement whilst also maintaining the integrity of the individual. In this case, allowing members to choose who they lend to may be off-putting because it would be perceived to demand more time and effort. Furthermore, choosing who to lend to would change the nature of the exchange by making it more social than financial, which could diminish the perceived financial importance and benefits of the current exchange process. Hence, Zopa’s expected future hinges on its ability to balance various factors and motivations. It needs to simultaneously meet the needs of the individual and the community and it needs to balance the desire for financial return with the desire for a series of other social and ethical values. In this respect, Zopa is extremely difficult to market because by enabling a variety of oxymoronic subject positions, Zopa stands for ambiguity more than any overall unified ideology. Furthermore, the type of person attracted to Zopa is likely to be exceptionally cynical of any direct or cross-selling marketing campaign. The type of person attracted to Zopa is likely to feel a sense of satisfaction from discovery by the self. In this sense, marketing campaigns can only ever be indirect and implicit, thereby enabling the individual to feel that he/she has discovered Zopa independently.

Conclusion

A Niche Mass Market

In this paper we have provided an in-depth exploration of Social Lending by focusing on Social Lending schemes that have some or all of their activities on-line. We have suggested that modern day Social Lending has various ideological antecedents in friendly societies by focusing on a study of aspects of community and individualism. We have also examined some of the main social trends driving the re-emergence of Social Lending through identifying several contemporary online Social Lending schemes, including Vancity, Prosper, Life*Spin and CircleLending. By using Zopa as a case study we have compared and contrasted Social Lending with mainstream banking services and identified their ideological and structural differences. Finally, we have identified the expected future of Zopa.

Social Lending has re-emerged owing to several factors that suggest there is a need for different types of financial services and, in particular, a greater desire for the formation of different types of relationships with financial services. These needs depend to a large extent on financial motivations associated with the desire for greater financial returns and savings. Yet, this is closely related to the desire for a set of values different from those perceived to be available in mainstream financial institutions. Importantly, Social Lending is encouraging an alliance between values and finance, wherein finance moves beyond the transactional towards relationship and genuine emotional value based on transparency and authenticity.

Our research has suggested that Social Lending attracts a particular type of person who demonstrates a need for financial services founded on ‘good faith’, ethicality and a varying desire to participate in communities or networks of individuals where financial exchanges are based on principles of personal social responsibility, philanthropy, altruism and transparency. Furthermore, these individuals tend to be early-adopters with a heightened sense of individualism who are motivated by a desire for innovative financial solutions that give a greater sense of control and empowerment by enabling people to author the self both financially and socially. The emergence of a specific Social Lending typology is the product of a general disillusionment with mainstream financial services, which are no longer perceived to serve their interests and which are understood to be founded on ‘bad faith’. This disillusionment is the result of several emerging social trends informed by both individualism and community. On the one hand, the Internet has increased the sense of individualism by extending the possibilities for self-education, comparison, self-authorship and control. On the other hand, the Social Lending typology demonstrates a particular desire for participation within communities through identification with a value system based on mutuality, altruism, personal social responsibility, ethicality and philanthropy.

Overall, this paper has argued that the concepts of the individual within community, transparency and ethicality are pivotal to Social Lending schemes, providing the ideological underpinnings of the financial exchange. Through developing closer connections with physical communities, Social Lending schemes could further develop and secure their community basis. Whilst Social Lending is likely to continue to appeal to a niche market, our research has suggested that Social Lending schemes have carved out a unique position within the financial sector, which serves the interests of their market better than mainstream financial services do. This market may nevertheless be difficult to augment through traditional marketing campaigns. The type of person who is attracted to Social Lending is not likely to find the organisation compelling if it is marketed through traditional corporate cross-selling techniques. Based on the Zopa study a picture emerges of people drawn to Social Lending through a process of self discovery i.e. comparative web sites etc., direct personal or professional recommendation or a more general community “buzz”. The most appropriate marketing techniques should be implicit and indirect enabling the individual to feel that he/she has discovered the opportunity independently. Nevertheless, we would expect that Social Lending schemes are likely to become an increasingly important element in peoples' investment portfolios predominantly because Social Lending schemes are more engaged with several contemporary social trends that define the needs and desires of this and future generations. It is important to emphasise that those that are enthusiastic about Social Lending are no less financially orientated than the broader population, indeed they are more sophisticated managers of their finance and seek strong returns on investment or to minimise the cost of money. If Social Lending schemes retain financial competitiveness as a core characteristic it is likely they will become increasingly serious rivals to mainstream financial services as people increasingly seek more ethical and value led financial services; enabling them to 'feel good' whilst making money. Whilst Social Lending is unlikely to replace mainstream banking, not least because it does not compete with the range of services they offer, we would expect that it will significantly increase its appeal to a mass but niche market. In so doing Social Lending will offer a genuine choice between value led services and what could be described as more commodity based transactional relationships. This choice could lead to an increasingly plural attitude to finance with individuals perhaps maintaining current account and more mass convenience services with more traditional financial service organisations but increasingly looking to explore the Social Lending model for higher value transactions with more emotional commitment i.e. lending and borrowing, insurance products etc. One implication of this may, over time, be to erode the position of traditional financial service companies in relation to their higher value more sophisticated customers, who are those most likely to find Social Lending of interest. For this and the reasons contained within the argument of this document we would anticipate traditional financial services operators as increasingly looking toward the Social Lending model for inspiration if not as in-house service, as a means to reconnect with increasingly value led customers

Appendix

The empirical research was based on 20 qualitative interviews and 1000 quantitative responses divided into 2 questionnaires. The following tables include only data directly referred to in the body of the research.
These Tables are based on two quantitative surveys; one of Zopa clients and another of people using more mainstream financial services and with no experience of Social Lending internet sites; each with 500 responses.

Context

Overall how happy are you with the service you receive from your principle high street bank?

	Very Unhappy	About What I Expect	Very Happy
General Bankers	19%	18%	63%

How did you first hear about Zopa?

	Online news Article	Newspaper Article	Magazine	Community Website e.g. MySpace	Word of Mouth	Other
Zopa Members	68%	34%	5%	11%	23%	25%

Please specify which of the following A Markets you are lending to

	A6	A12	A24	A36	A48	A60	None of the Above	All of the Above
Zopa Lenders	12%	22%	19%	25%	7%	5%	5%	5%

Please specify which of the following B Markets you are lending to

	B6	B12	B24	B36	B48	B60	None of the Above	All of the Above
Zopa Lenders	10%	22%	18%	23%	6%	5%	8%	8%

How much importance do you attach to lending through Zopa as part of your investment portfolio? (Responses based on Zopa lenders and split by total amount lent through Zopa).

	Insignificant	Moderately Significant	Very Significant
Under £500	64%	9%	27%
£501 - £1,000	54%	22%	24%
£1,001 - £5,000	51%	27%	22%
£5,001 - ££10,000	35%	24%	41%
£10,001 - £15,000	41%	35%	24%
£15,001 - £20,000	75%	25%	25%
£20,001 - £25,000	10%	20%	70%

How much do you agree with each of the following statements regarding Zopa's role in the exchange? (Responses based on those who 'strongly agreed')

	Zopa is a Manager of the Marketplace	Zopa Provides the Legal Foundation of the Exchange	Zopa's Influence is Less Than Other Lenders and Borrowers
Zopa Members	52%	58%	50%

Are you aware of the term 'Social Lending'?

	Yes	No
General bankers	39%	61%

Would you consider either lending or borrowing through a Social Lending scheme?

	Yes, Definitely	Yes, I Would Look into it	Maybe in the Future	Probably Not	No, Never
General Bankers	6%	28%	40%	25%	2%

Internet

What Proportion of your total banking do you do online?

	Very Little	Some	Vast Majority
Zopa Lenders	6%	6%	88%
Zopa Borrowers	15%	2%	83%
General Bankers	18%	4%	78%

Which of the following types of websites do you visit more than once a week?

	Financial	Community e.g. MySpace, Blogs	Music/ Video	News and Sport
Zopa Members	24%	8%	6%	21%
General Bankers	15%	5%	9%	20%

…continued

	Academic/ Education	Travel & Leisure	Search & Comparative	None of the Above
Zopa Members	8%	11%	22%	1%
General Bankers	10%	15%	24%	2%

Motivations for Using Zopa

Which of the following best describes your motivations for using Zopa/what would motivate you to use a Social Lending scheme?

	Financial Gain/Saving	Denied Credit Elsewhere	Rather Invest in People Than Institutions	Zopa Seemed Interesting	Based on the Internet
Zopa Members	62%	0%	27%	56%	20%
General Bankers	23%	16%	18%	10%	7%

…continued

	Someone Recommended Zopa to Me	I Liked the Idea of a Short-Term Loan	I Did Not Want to Use Banks	Low Risk	Diversify my Investments/ Borrowings
Zopa Members	5%	8%	8%	11%	33%
General Bankers	13%	8%	13%	15%	5%

Ethicality

Which of the following factors do you most closely associate with Zopa/Mainstream Banks?

	Financial Return/Saving	Technological Innovation	Ethical Banking	Individualism	Community
Zopa Members	50%	41%	31%	31%	28%
Zopa Members' Perception of Mainstream Banks	51%	13%	7%	4%	2%
General Bankers	37%	30%	24%	25%	16%

…continued

	Impersonal	Philanthropy	Environmental Concern	None of the Above
Zopa Members	4%	7%	4%	4%
Zopa Members' Perception of Mainstream Banks	56%	2%	2%	18%
General Bankers	10%	7%	13%	22%

How transparent do you think Zopa is?

	Very Obscure	About What I Expect	Exceptionally Transparent
Zopa Lenders	27%	19%	54%
Zopa Borrowers	6%	9%	85%

Do you think banks should be more transparent about which organisations they are investing in and which companies they support?

	Yes	No	Indifferent
General Bankers	73%	7%	20%

Do you feel that your principal bank is sufficiently involved in community projects?

	Yes	No	Do Not Know
General Bankers	12%	24%	64%

Do you think that your principle high street bank should have a larger or smaller concern for altruistic and community development projects?

	Larger Concern	Smaller Concern	Indifferent
General Bankers	52%	6%	42%

How concerned are you about what the bank uses your money to support e.g. investing in companies that trade unethically?

	Unconcerned	Concerned	Exceptionally Concerned
General Bankers	23%	26%	51%

Which of the following community development projects are you aware of, which are specifically supported by or financed by high street banks?

	Access to Credit for Socially Disadvantaged Communities	Development of Community Facilities/Projects	Aid for 3rd World Countries	Sponsorships e.g. Football Team	Green Projects	Support for Entrepreneurial Projects	Other	None of the Above
General Bankers	6%	9%	11%	24%	8%	10%	3%	29%

Community and Individualism

Which of the following do you think best characterises how you interact through Zopa/your principal bank?

	As an Individual	As an Individual but as Part of a Community	As a Community Member
Zopa Female	50%	45%	5%
Zopa Male	62%	34%	4%
General Bankers Female	86%	8%	6%
General Bankers Male	88%	10%	2%

To what extent do you think Zopa/your principal high street bank enables social interaction and community participation?

	Minimal	Partial	Significantly
Zopa Members	40%	24%	36%
General Bankers	52%	35%	13%

How important is it that Zopa/your principal high street bank provide a service that enables social interaction and community participation?

	Not Important	Partially Important	Very Important 5-7
Zopa Members	42%	20%	38%
General Bankers	36%	26%	38%

Would you like to feel more of a community when using mainstream financial services?

	Yes	No	Indifferent
General Bankers	18%	23%	59%

How much of a factor would the more social and interactive features be in your decision to use a Social Lending scheme?

	Unimportant	Moderate	Significant
General Bankers	16%	28%	56%

If you were using a Social Lending scheme how important would it be that you could choose who you were lending money to on the basis of how they intend to use the loan?

	Unimportant	Moderate	Significant
General Bankers	14%	18%	68%

If you were using a Social Lending scheme would you like to know about the people you are borrowing from?

	Yes	No	Indifferent
General Bankers	65%	13%	22%

Which of the following best characterises how you use the Zopa discussion board?

	I Read the Comments	I Read and Reply to Comments	I Often Start New Discussions	I Do Not Use the Discussion Board
Zopa Members	32%	11%	3%	54%

Thinking about the Zopa/principal high street banks' website please rate each of the following. (Responses based on those rating each element 'excellent').

	Discussion Board	Blog	Graphics and Design	Navigational Ease	Information Provided	Security and Privacy	Formatting of Your Accounts
Zopa Members	44%	30%	55%	45%	58%	86%	50%
General Bankers	27%	N/A	61%	81%	73%	91%	89%

Perceptions of Mainstream Banks and Anti-Corporatism

Please rate how much you agree with the following statements in regard to your principal high street bank. (Responses are based on those who 'strongly agreed')

	Banks are Greedy	Banks are Self-Interested	Banks hold a Monopoly over Financial Services	Banks aim to put Customers in Debt	Banks do not Keep their Promises
General Bankers	76%	81%	62%	34%	29%

…continued

	Banks are very Trustworthy	Banks Help Customers Through their Financial Expertise	Banks are Necessary	Banks put the Customers' Interests First	Banks are the Safest Place to Keep my Money
General Bankers	44%	40%	78%	17%	57%

In your opinion, what is the main aim of your principle bank?

	To Make Money for Themselves	To Provide a Good Financial Service to Customers	To Help People Manage Their Finances	To Provide a Valuable Service for Society	None of the Above
General Bankers	61%	15%	14%	5%	5%

When you are thinking about undertaking a financial relationship how important are the following factors in informing your decision?

	Rate of Interest	Advice and Information Given	Efficiency and Customer Service	Brand Status	Risk Involved in the Financial Product
General Bankers	67%	33%	52%	10%	41%

…continued

	Security and Privacy	That the Bank has an Ethical Standing	Other	None of the Above
General Bankers	46%	18%	1%	1%

Financial Fairness

Do you think that Zopa secures a lower rate of interest than that offered by a high street deposit?

	Yes	No	Equal	Unsure
Zopa Borrowers	79%	6%	8%	8%

Do you think that Zopa secures a better rate of return than that offered by high street banks? (Responses based on Zopa lenders and split by amount invested)

	Yes	No	Equal	Unsure
Under £500	45%	7%	17%	31%
£501 - £1,000	53%	4%	17%	26%
£1,001 - £5,000	68%	9%	15%	8%
£5,001 - ££10,000	47%	0%	29%	24%
£10,001 - £15,000	56%	6%	27%	11%
£15,001 - £20,000	75%	0%	25%	0%
£20,001 - £25,000	90%	10%	0%	0%

Do you think that the interest you pay accurately reflects your own perception of your credit risk?

	Yes	No	Equal	Unsure	Not Applicable
Zopa Borrowers	77%	6%	3%	14%	N/A
General Bankers	15%	41%	N/A	30%	14%

Do you think the interest you pay on your borrowed monies is fair in relation to the interest you receive on your savings and investments?

	Yes	No	Unsure	Not Applicable
General Bankers	13%	58%	16%	13%

Do you think the interest you pay on your borrowed monies is fair in relation to the interest you receive on your savings and investments? (Responses based on General Bankers and split by Principal Bank)

	Yes	No	Unsure	Not Applicable
Co-Operative Bank	1%	56%	21%	22%
HBOS/Bank of Scotland	14%	62%	14%	10%
HSBC	7%	68%	9%	16%
RBS/NatWest	10%	59%	16%	15%
Lloyds TSB	10%	54%	24%	12%
Abbey National	6%	69%	6%	19%
Barclays	21%	69%	3%	7%
Other	24%	43%	21%	12%

Have you ever received charges from your principal high street bank which you feel were unfair or unreasonable?

	Yes	No
General Bankers	64%	36%

Have you ever received charges from your principal high street bank which you feel were unfair or unreasonable? (Responses based on General Bankers and split by principal bank)

	Yes	No
Co-Operative Bank	33%	67%
HBOS/Bank of Scotland	71%	29%
HSBC	64%	36%
RBS/NatWest	68%	32%
Lloyds TSB	66%	34%
Abbey National	69%	31%
Barclays	79%	21%
Other	59%	41%

Do you think your principal bank treats you fairly or unfairly when it comes to assessing your creditworthiness?

	Unfairly	Moderate	Fairly
General Bankers	21%	26%	53%

Rather than a standard interest rate set by the bank would you prefer the interest you pay to have a greater reflection of your credit risk?

	Yes	No	Unsure	Not Applicable
General Bankers	38%	15%	35%	12%

Do you think your bank should know more or less about your personal circumstances when deciding which loan or investment products would suit you best?

	The Bank Should Know Less	The Bank Should Know About the Same as it Currently Knows	The Bank Should Know More
General Bankers	18%	31%	50%

Do you think your principal bank has your best interests at heart?

	Yes	No	Unsure
General Bankers	22%	49%	30%

Risk

How much risk do you think is involved in each of the following statements? (Responses based on those answering 'significant' risk)

	The Loan Will Not provide a Return/The Lender Will Demand Quicker Repayment	I Will Not Receive my 2% Bonus	The Organisation Will Go Bankrupt
Zopa Lenders	10%	18%	8%
Zopa Borrowers	10%	N/A	10%
Zopa Lenders' Perception of Mainstream Banks	24%	N/A	2%
Zopa Borrowers' Perception of Mainstream Banks	20%	N/A	0%
General Bankers	N/A	N/A	3%

…continued

	The Organisation Will Disappear with my Money	The Website is Not Secure and Private	The Organisation Will Lose its Competitive Edge
Zopa Lenders	7%	7%	31%
Zopa Borrowers	8%	10%	25%
Zopa Lenders' Perception of Mainstream Banks	1%	7%	47%
Zopa Borrowers' Perception of Mainstream Banks	0%	6%	47%
General Bankers	4%	15%	31%

Which of the following factors makes you feel more secure as a Zopa lender?

	The Loan is Spread Across Several Borrowers/Lenders	Short-Term Loan	The Loan is a Relatively Small Amount	Zopa is Regulated by the FSA as a Financial Service Provider
Zopa Lenders	68%	25%	40%	34%
Zopa Borrowers	5%	3%	3%	10%

…continued

	Zopa Offers Repayment Protection Insurance	I Have a Legal Contract Specifying my Rights and Obligations	Zopa was Established by Many of the People Who Launched Egg
Zopa Lenders	12%	22%	18%
Zopa Borrowers	N/A	6%	2%

Do you think there is more or less risk involved in using Zopa/Social Lending schemes in comparison with mainstream financial services?

	More Risk Using Zopa/Social Lending	Less Risk Using Zopa/Social Lending	Same Level of Risk	Not Sure
Zopa Lenders	59%	5%	36%	0%
Zopa Borrowers	23%	15%	62%	0%
General Bankers	40%	4%	20%	36%

Control

How much control over the interest rate do you feel that Zopa offers you?

	Minimal	Partial	Significant
Zopa Lenders	8%	11%	81%
Zopa Borrowers	15%	15%	70%
Zopa Perception of Mainstream Banks	89%	5%	7%

Overall, would you like to have more or less control when using your principal high street bank?

	More Control	Less Control	About the Same amount of Control as I Have Now	Indifferent
General Bankers	45%	0%	46%	8%

How much do you agree with each of the following statements?

	Bank has Complete Control over My Financial Activities	Bank Facilitates My Financial Activities	Bank Provides Legal Foundation for My Financial Activities	Banks' Influence is Less than Customers'	Customer Has Complete Control
General Bankers Interested in Social Lending	16%	58%	23%	29%	39%
General Bankers Not Interested in Social Lending	27%	53%	31%	36%	61%

Empowerment

To what extent do you think Zopa/your principal high street bank facilitates self-help and entrepreneurialism?

	Minimal	Partial	Significant
Zopa Members	12%	14%	74%
Zopa Perception of Mainstream Banks	85%	11%	4%
General Bankers	40%	37%	23%

Demographics and Market

Are you female or male?

	Female	Male
Zopa Members	16%	84%
General Bankers	54%	46%

Which age bracket do you fall into?

	Under 18	19-25	26-30	31-35	36-40	41-45	46-50	51-55	56-60	60+
Zopa Lenders	1%	10%	17%	18%	13%	13%	8%	10%	10%	0%
Zopa Borrowers	0%	8%	11%	18%	3%	23%	11%	18%	8%	0%
General Bankers	0%	6%	9%	16%	14%	13%	15%	17%	10%	0%

Which region do you live in?

	London	South-West	South-East	Midlands	North-West	North-East	Scotland	Northern Ireland	Wales
Zopa Members	19%	9%	28%	17%	10%	8%	5%	2%	2%
General Bankers	8%	9%	24%	20%	10%	12%	10%	3%	4%

What is your annual household income?

	Under £10,000	£10,001-£20,000	£20,001-£30,000	£30,001-£40,000	£40,001-£50,000	£50,001-£60,000	£60,001-£70,000	£70,001-£80,000	£80,001 +
Zopa Lenders	2%	7%	19%	20%	18%	9%	12%	7%	6%
Zopa Borrowers	0%	2%	9%	16%	23%	19%	19%	7%	5%
General Bankers	6%	22%	29%	15%	14%	7%	3%	3%	1%

What is your personal status?

	Single	Living With Partner	Married	Divorced
Zopa Lenders	27%	21%	49%	3%
Zopa Borrowers	15%	13%	62%	10%
General Bankers	20%	17%	54%	9%

To what extent do you feel that Social Lending appeal to a niche market?

	Minimal	Partial	Significant
Zopa Members	10%	13%	77%
General Bankers	16%	28%	56%

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