P2P Lending and Regulation

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P2P Operating Models

Zopa has focused on lending to UK consumers

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Lenders

> 60,000 retail investors

£11k average investment size

8% of their wealth invested in the platform[1]

Target returns of 4.5% - 5.2%

Borrowers

> 400,000 borrowers

£8,000 avg. loan size[1]

3.5 years avg. term[1]

10.9% avg. APR[1]

Cars, home improvement and debt consolidation as most common loan purposes

1. Based on a survey with c. 400 Zopa investors done in August 2018.
2. Originations since 1st January 2019.

We are taking share of prime customers from the mainstream banks

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We are taking customers from the prime players…

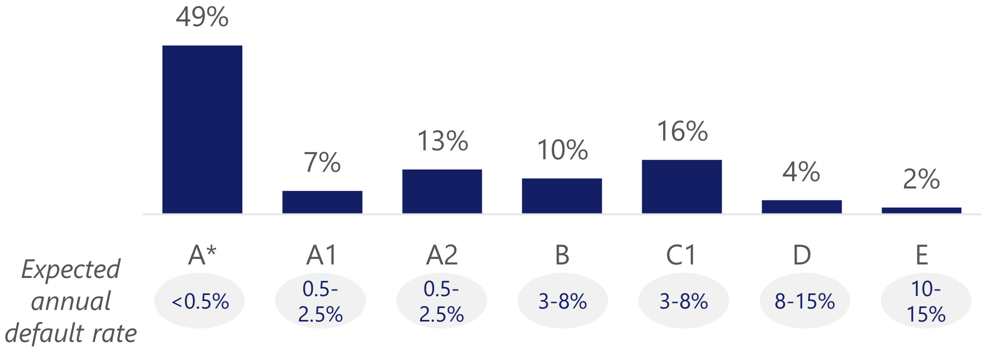
LLOYDS BANK, HSBC, CYBG, TESCO Bank, Santander, Sainsbury's Bank, BARCLAYS, RBS

…not competing with just P2P lenders or any sub-prime specialists

Likely loans.com, amigo loans.co.uk, RateSetter

Our portfolio leans towards lower risk borrowers[1,2]…

Loan portfolio by risk band



…with prime borrower characteristics[1]

Average borrower in 2018[1]

- 39 years old
- Annual income of £40,000
- Over 65% are homeowners
- 38% average debt-to-income
- 3% of through-the-cycle average credit loss

1 – As of FY 2018
2 – By originations

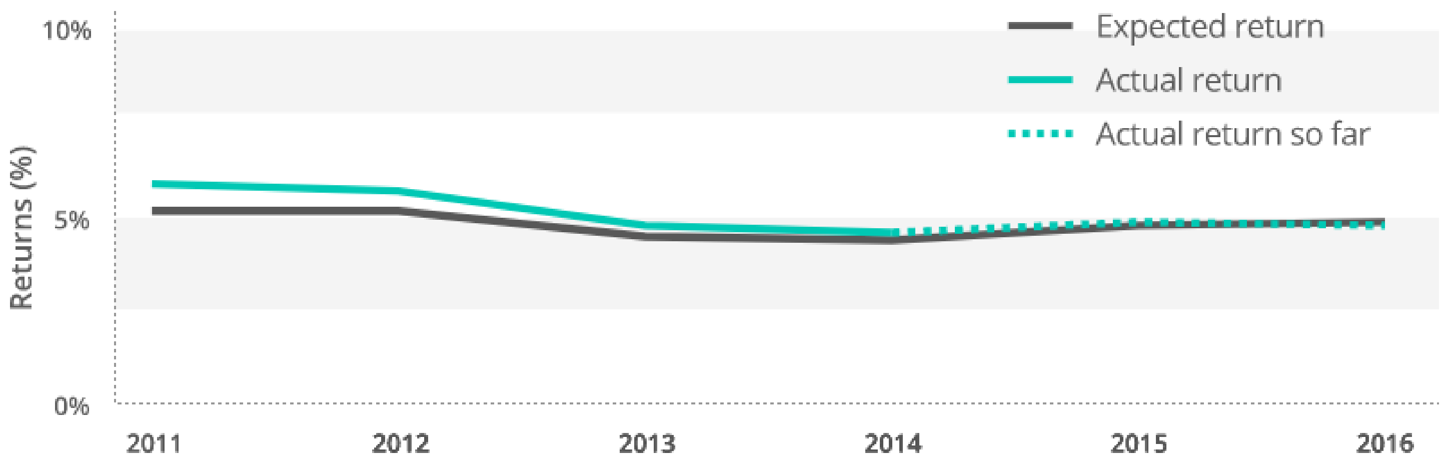
Strong credit risk management

Prime and **super prime** borrowers – the type of people banks would love to lend to

Rigorous **credit** policies and sophisticated **risk** modelling

Low credit losses

Leading to consistent investor returns



Consistently robust risk performance demonstrates our robust approach to lending

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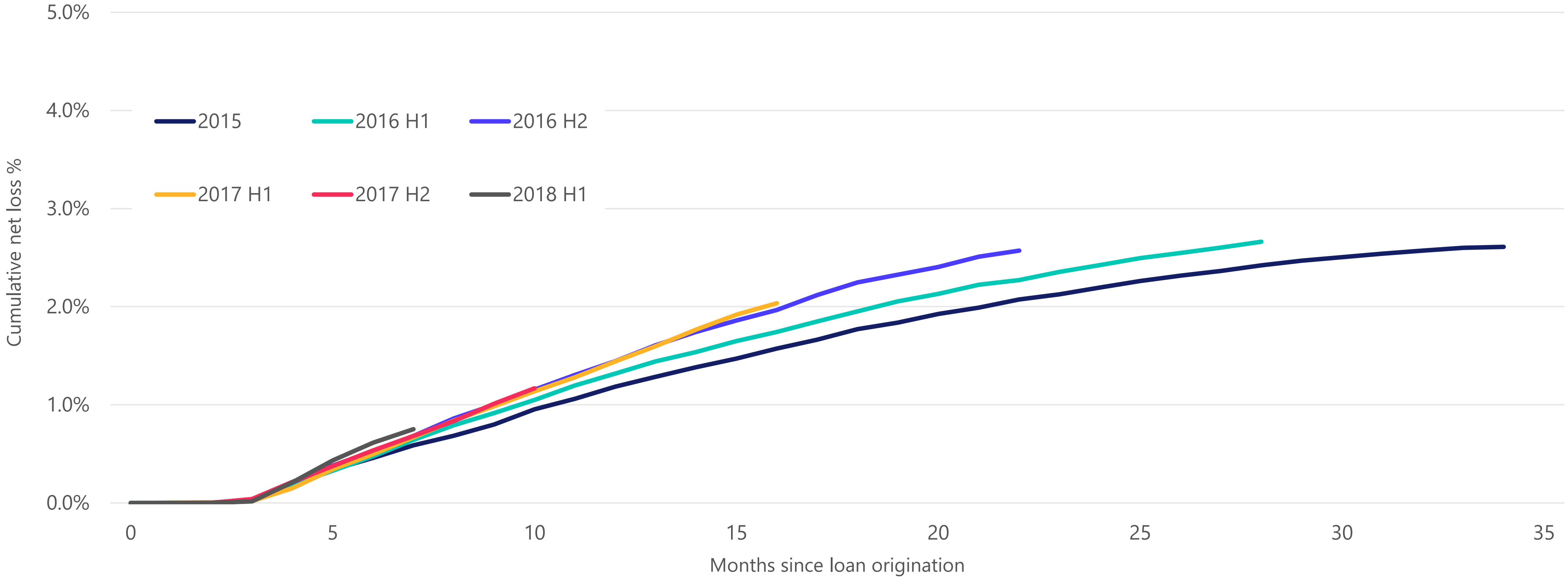
Cumulative net loss curves[1]



Average credit losses since inception of 2.6% with positive lender returns every year including 2008

1 – Net losses as % of loan amount originated by cohort of origination. Reweighted for constant risk market and term mix to show comparable results. A*-C markets only given lower D/E volumes in earlier years.

However, different P2P operating models have evolved over time, with different risk profiles

	Crowdfunding		
	Debt (Loan-based) i.e. P2P Lending		Equity (Investment-based)
Loan type	High Volume, Low Value	Low Volume, High Value	Platforms where investors can invest directly in businesses
	e.g. consumer	e.g. property development	
Model	Diversified (i.e. subset of Discretionary)	Conduit, Pricing, Discretionary	

Increasing risk in underlying asset

Evolution of P2P regulation in the UK

Relative riskiness of P2P lending to end-consumers

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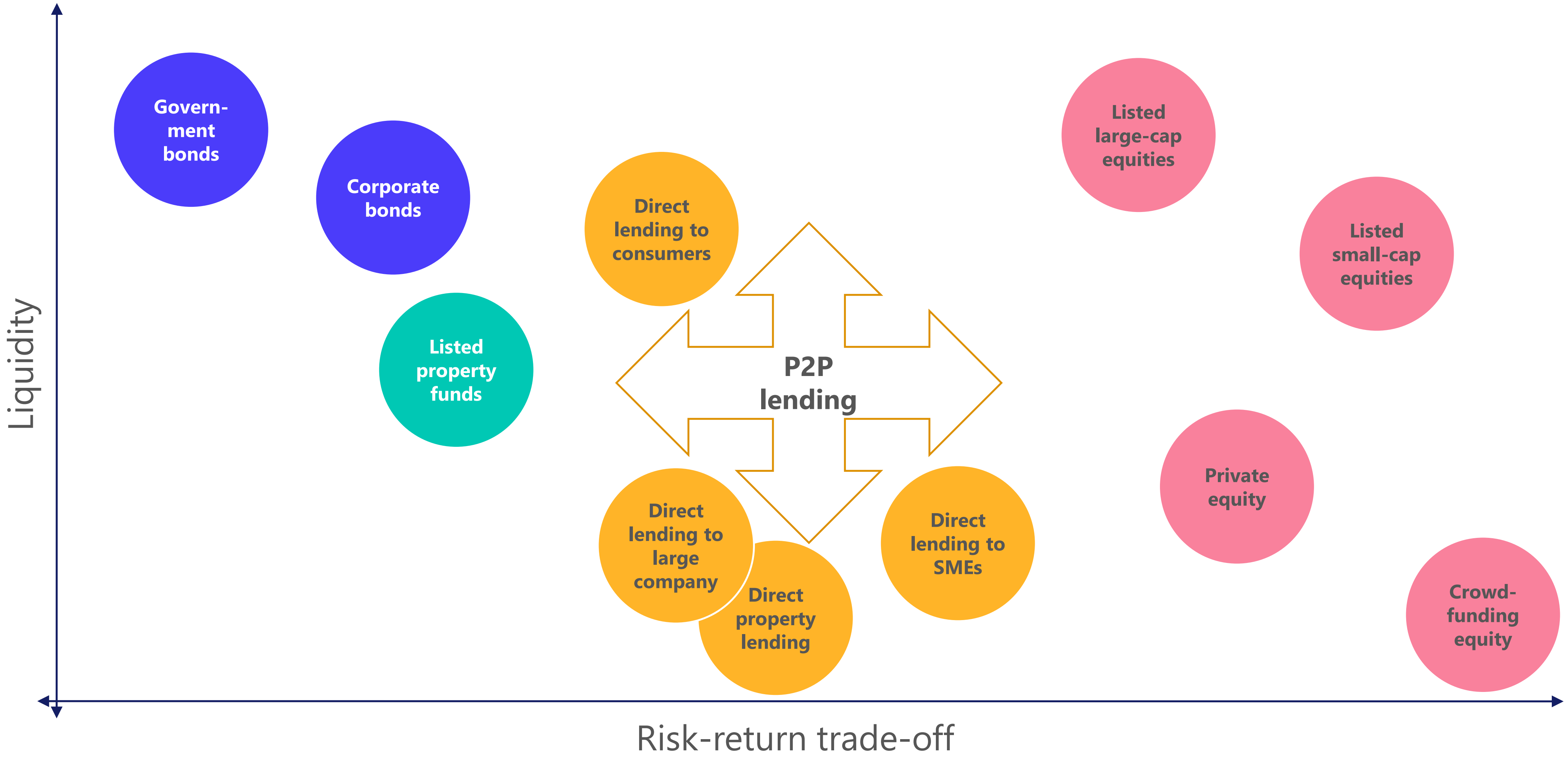

Benefits and risks of P2P lending

Benefits

- Access for all – ‘democratic’
- Lower cost
- Faster, better customer service
- Disintermediation and economic efficiency
- Dynamic benefits from competition and innovation
- Financial stability benefits from risk dispersion
- Transparency

Risks

- Loan defaults and capital loss
- Insolvency of P2P platform
- Liquidity / access to funds
- Fraud
- Operational (incompetence / mistakes)

Timeline of peer-to-peer regulation

- **2005**: Zopa established as World's first P2P platform
- **2011**: P2PFA set-up - self regulation and setting standards for the industry
- **2014**: Legislation defines P2P lending as a new financial services activity
- **2014**: FCA begins to process authorisation applications from firms operating with interim permissions
- **2016**: Over 100 P2P companies submitted applications to the FCA (many subsequently withdrew)
- **2016**: FCA announces post-implementation review of 'crowdfunding' regulation
- **2017**: Zopa is the first major P2P platform to be fully authorised
- **2019**: New FCA rules expected in Summer 2019

The FCA regime introduced in 2014 was designed to tackle the key risks

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Risk associated with P2P	Regulatory mitigation
Loan defaults and capital loss	• Sound debt recovery processes • Honest, clear, effective disclosure • Robust credit risk underwriting • Controls on financial promotions
Insolvency of P2P platform	• Robust independent wind-down plans
Liquidity / access to funds	• Honest disclosure • Development of secondary market for investments
Fraud	• Client money safeguards • Sound systems and controls (KYC / AML)
Operational (incompetence / mistakes)	• Complaint handling systems • Ombudsman

FCA granted existing platforms interim-permissions to continue operating whilst conducting the full authorisation process

The proposed 2019 FCA regime reflects the evolution of the market and operating models

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- **Stronger consumer information disclosures**
  - Actual returns performance vs. expected
  - Default rates
  - Platform fees

- **Better risk management systems and controls, e.g.**
  - Credit risk model management
  - Three lines of defence
  - Senior level responsibility / Approved Persons Regime
  - Stronger wind-down plans

- **Tighter controls to ensure products are suitable for consumers**
  - Appropriateness tests
  - [Marketing restrictions?]

Regulatory learnings

- Engage with innovation and understand the development of new sectors and business models
- Agile responses to a dynamic market with many new entrants
- Regimes built from first principles which are proportionate based on risk to customers, rather than 'cut and paste' from existing regulation
- Considers benefits as well as the risks to consumers

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