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The true disruption of banking is only just starting

Banking will undergo a revolution such as that seen on high street travel, betting and book-selling

Door **Wendy Grobben** -

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The Telegraph: 'Phone banking is only the start of a lending revolution'

We are becoming used to doing more of our banking online or on mobiles – in fact it has probably been some time since many of us actually set foot in a high street bank branch. This might lead you to conclude that the internet has shaken up or disrupted the banking sector.

But actually banking hasn't even begun to be disrupted in the same way that the likes of Expedia, Betfair and Amazon have transformed the face of high street travel, betting and book-selling respectively. That is changing with the growth of peer-to-peer or market-place lending platforms which connect borrowers and savers.

The opportunity for growth in these platforms is phenomenal. The Liberum AltFi Volume Index, which tracks peer-to-peer lending, puts cumulative lending in the UK at £4.3bn. Not bad for a sector that is only celebrating its 10th anniversary this year. But when you compare this to the total amount of lending in the UK economy, it is clear the industry is only getting started.

I believe there are three waves of disruption spurring the growth of peer-to-peer lending.
The first was the internet. Previously consumers needed a middleman in the form of a high street shop to facilitate commerce, but the internet revolution allowed eBay and Amazon to connect buyers and sellers directly. Similarly, Betfair connected people who wanted to gamble directly with each other, bypassing the expensive cost of a high-street bookmaker. But unlike other sectors, the internet alone hasn't been enough to disrupt the traditional retail banking model.

The second disruptive wave was regulation. The refrain is often that regulation stifles financial services. In fact a robust regulatory framework has been extremely positive for the peer-to-peer industry.

One of the main regulatory issues is that banks are leveraged institutions, which means they lend out far more than they take in deposits. Of course this delivers higher returns in the good times but, as the financial crisis showed, it exacerbates losses as well. Peer to peer isn't leveraged in this way – platforms are matching borrowers and lenders pound for pound. So at its heart it carries less systemic risk than the traditional banking sector.

It was, however, with the final disruptive wave that peer-to-peer lending really began to flourish. And that was in many ways the simplest one – the

availability of traditional data about borrowers. We've always shared large amounts of data on ourselves with banks, and they would share it only among themselves or with credit agencies such as Experian.

That has now changed completely. There are many new bits of data available about each of us today that banks have not embraced, and the traditional data they do have is no longer proprietorial, allowing new platforms and lenders to make better lending decisions than the incumbents.

Cost plays a huge part too. Banks and credit card companies have high costs that they need to cover – RBS has over 100,000 employees whose wages it needs to pay and the way they try to reduce those costs is to offer consumers a one-size-fits-all product.

Consider this: when I graduated from university I took out a credit card with an APR of 19.9pc – at this point I had not starting working and had a lot of debt sitting behind me. Today I actually still have that same credit card in my wallet and it still charges me 19.9pc APR if I keep a credit balance.

According to the bank, my credit risk profile hasn't changed in two decades of employment; that can't be right. We wouldn't expect all drivers to pay the same car insurance premium – there is a risk-based approach to pricing whereby a new young driver pays more than an experienced driver. There are very few businesses that survive if they don't adapt their products to the changing needs of their consumers.

On a peer-to-peer platform, different borrowers, whether that is an individual or an SME, will pay a different rate of interest. And lenders can choose how much risk to take on. As an investor in the peer-to-peer sector through our listed company P2P Global Investments plc, the amount of data we can access is incredible – we can see hundreds of data points on each prospective borrower.

For example, we have found that people who seek to borrow money on a Sunday (when banks are closed) can be a statistically better credit risk than

those who borrow on any other day. Why should that be? Our belief is that it points towards someone being in full-time professional employment and who is organised and responsible to arrange their finances at the weekend, rather than doing it from their work computer during normal office hours.

The combination of these disruptive waves should have banks worried and I believe they are. One of the most vocal responses has been to claim that lenders on a peer-to-peer platform don’t understand what they are doing. I disagree. If you go on the website of Zopa, Funding Circle or Ratesetter, they explain very clearly what they are offering.

And what should worry banks even more is the proliferation of businesses looking to eat into their margins in other areas. Anyone considering transferring money abroad should look at World First or Transferwise before they go to their bank.

That is why it is clear to me that we are just at the start of the high street banking revolution. Amazon, eBay and Expedia are today about 20 years old, Betfair a little younger, and all have changed the face of the markets they serve beyond all recognition. In another 10 years’ time I believe peer-to-peer lending will become the accepted way for people or businesses to borrow money.