FinTech: combining the best of both worlds

Samir Desai, CEO and co-founder
Introduction to Funding Circle

>$2.5 Billion in SME loans

+50,000 Investors globally

20,000 business borrowers

5 Operating countries
   UK, US, Spain, Germany, Netherlands

>$1.5bn loans outstanding

Supporting creation of 40,000 new jobs in UK

and contributing £2.7billion boost to UK economy
It has been a challenging first half of the year but we are now entering a golden age for our industry.
Mega Trend 1  Banks pulling back from SME lending

UK net lending to SMEs declined by a fifth between 2011 and 2016

Source:
1. Bank of England, Cebr analysis
2. ECB Statistical Warehouse
Financial crisis was catalysed by maturity transformation and thin capital buffers

Tier 1 Ratio (Tier 1 Capital/Risk-weighted Assets)

Source: http: International Monetary Fund
Banks borrow short and lend long - lending platforms perfectly match assets and liabilities

Source: Funding Circle analysis
Banks now trade at less than book value and groups that can exit banking, like GE, are heading for the door...

“...the bulk of the $500 billion behemoth would be sold or spun off over the next 2 years, as the company concluded the benefits aren’t worth bearing the regulatory burdens and investor discontent.”

Highly unlikely we will see lending platforms become banks

Source: Bloomberg, STOXX® Europe 600 Banks
In mid corporate lending 14% of lending flow is now done by private lending funds - if it can happen there...

Source: Bank of England
**Mega Trend 2:** investors increasingly need yield and are unable to generate it from traditional investment products

Real interest rates are negative - where are you going to get the yield you need?

Source: Bloomberg, Real Interest rate calculation (Central Bank rate - Consumer Price inflation)
There is only one asset class in the world where you can get high returns and low volatility.

Major fixed income asset class annual returns vs. volatility

Source: Morningstar, Orchard, Sofi
**Mega Trend 3:** internet marketplaces are disrupting enormous industries with capital light business models
Capital light platform models have high returns on equity and are more efficient intermediaries.

Return on equity Rightmove vs. European bank average (2015)

Rightmove (Return on Common Equity) | European Banks (Return on Common Equity)
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2410% | 8%

Source: Bloomberg; Funding Circle analysis
To take advantage of these trends, platforms must be good at the ‘fin’ and the ‘tech’

**“Fin”**

1. Diversified funding base
2. Best-in-class credit and collections
3. Strong regulatory, enterprise risk and compliance expertise

**“Tech”**

1. Industry-leading platform
2. Advanced data & customer analytics
3. Unique brand positioning & customer acquisition
**Tech:** Technology platforms drive automation, efficiency and a great user experience

Investment in industry-leading technology for investors, borrowers and internal operations

- Funding Circle investor mobile app
- Prosper Daily
- Zopa car loans
- Sofi wealth management product
- Lending Club get a quote
Tech: Advanced data aggregation & analytics drive powerful network effects and efficiencies

- More loans/data
- Better models & underwriting processes
- Better marketing & acquisition costs
- Higher acceptance rates
**Tech:** Strong, differentiated brand drives unique customer proposition

Many customers simply want to interact and be served by brands that are not a bank
Fin: A deep and diversified base of investors

Platforms are opening up new pools of capital to borrowers

- Retail
- Platform fund vehicles
- Institutions and securitisations
- Governments
Retail investors are sticky and increase investment over time.
Governments have a big part to play and provide counter-cyclical funding.
FCIF is outperforming other debt investment trusts since Brexit

Source: Numis Research
Securitisation is an important part of the pie

“Well-functioning securitisation markets also enable non-bank financial institutions to raise funding for their real economy lending, thereby providing an alternative to bank lending.”

Bank of England & European Central Bank
‘The case for a better functioning securitisation market in the European Union’, 2014

Bringing credibility to asset class
**Fin:** Strong and stable credit performance vs. expectations

Latest bad debt estimate / bad debt estimate at time of origination

- **2012:** 0%
- **2013:** 45%
- **2014:** 90%
- **2015:** 135%

Source: Funding Circle analysis
Fin: Delivering strong returns, even in a stressed environment

Source: Funding Circle stress tests and analysis
**Fin:** Strong regulatory, enterprise risk and compliance expertise
Lending platforms do not pose systemic risk

- No maturity transformation → No risk of a bank run
- No deposits → Capital at risk
- Do not hold inventory → Lower capital requirements
At the end of the day, it is all about the customers

Borrower net promoter score

Platforms

Banks

Cumulative returns between 2011 and 2015

Source: Funding Circle analysis
There are actually not that many platforms of scale ... this is a network effect game

Platforms that have originated >£1 billion hold less than 5% of loans
“It's hard to beat a player that never quits”  Babe Ruth
“The future doesn’t belong to the fainthearted it belongs to the brave” Ronald Reagan
THANK YOU FOR LISTENING