LONDON & COLONIAL
INNOVATION IN PENSIONS

Press Release

'Peer-to-Peer' Lending and SIPPS

As long as the loan is not made to a connected party, and the banks' lending to small businesses continues to fall short of expectations, more and more innovative financing arrangements, such as 'Peer to Peer' lending and crowdfunding will undoubtedly become more popular.

Online 'Peer to Peer' lenders, such as 'Thin Cats', currently offer secured business loans which I believe are more suitable for the SIPP market rather than unsecured or syndicated loans.

The traditional SIPP market has emerged from small to medium sized business owners using their pension fund as part of their overall company financial planning. A large part of this planning normally utilizes the ability for the SIPP to acquire the business premises from the company itself. The SIPP can obtain a mortgage to assist with the purchase of the property from the company, but more recently this has been more challenging with traditional bank loans more difficult to come by. However, the idea that a SIPP could obtain a loan from an alternative source secured against the property seems to be a logical solution.

Peer-to-peer lending is already a £1bn a year industry and is predicted to grow to £12bn within the next decade. SIPPS historically have been at the forefront of innovation so it is a natural progression for these products to want to embrace new forms and ways to fund traditional SIPP investments.

We have had a number of enquiries about peer-to-peer lending through SIPPS – so the interest is there. But I get the feeling investors need a bit more encouragement before they are prepared to dip more than their toe in the water in any large numbers. The catalyst for increased take-up could well be the welcome development that is the regulation of the peer-to-peer lending industry by the Financial Conduct Authority. Since April peer-to-peer lenders have had to follow a stringent set of regulations, including strict disclosure rules and a 14-day cooling off period, as well as the requirement that all client cash is ring-fenced from the lender's own accounts, to provide additional protection in the event that the organization concerned should collapse.

SIPP investors looking to use peer-to-peer lending should of course follow the age-old rule of not putting all their eggs in one basket, as diversification is the key to spreading risk.

Peer-to-peer lending seems to be an ideal fit for the SIPP market. We have people in the accumulation phase who potentially need to obtain finance to access traditional SIPP investments such as property and we also have others in the decumulation phase who have a hunger for income producing assets. I have long believed there should be a way to bring these two groups together to their mutual benefit.

In fact I believe there is an opportunity for the launch of a specialist SIPP peer-to-peer lending provider. Then you would have money going from one regulated, registered pension scheme to another regulated, registered pension scheme. If you have a loan that is secured against a property, and the entire transaction is taking place within a regulated environment, it is easy to imagine such an arrangement being very attractive to SIPP investors on both sides of the deal.

The next stage along the risk spectrum would be investing in crowdfunding through your SIPP. Crowdfunding is more typically used for start-up businesses, and therefore tends to carry more risk. SIPP investors will usually want to rely on some form of security backing the loan, but for a small part of a portfolio, there is no reason why crowdfunding shouldn't be used, provided the risks are fully understood.

But there is one extra complexity. Crowdfunding tends to be associated with pet projects, trendy start-ups and other emotive ventures that investors go into because they like the idea of the business or what it is trying to achieve, rather than because they have a cast iron conviction that it is going to be a fantastic cash-generator. Direct investors may be prepared to take such an increased risk for potentially better returns, but SIPP funds are held in trust and the SIPP trustee needs to be satisfied that any investment is being entered into for purely commercial reasons.

-ENDS-

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Notes to Editors

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