Funding Circle joins its peers in abandoning sector in decline

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Funding Circle has closed its peer-to-peer lending business, making it the last of Britain's big players to leave the once-promising industry.

The online small business lender, one of the pioneers in the peer-to-peer sector, said that it had taken the "tough decision" to permanently close its platform to retail investors.

Funding Circle has been closed to ordinary investors since the onset of the pandemic, but it had signalled that it would consider reopening once its use of emergency taxpayer-backed loan schemes — which do not allow retail participation — had ended.

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FUNDING CIRCLE

However, Lisa Jacobs, 36, chief executive, said that the combination of a shrinking pool of investors, tougher regulation and higher costs was prohibitive. “We couldn’t work out how we could operate a sustainable retail product,” she said.

Funding Circle is the last of the so-called Big Three of the industry to leave the market, which uses online platforms to match retail investors with consumer and small business borrowers. In December Zopa, which invented the model in 2005, said that it would close its peer-to-peer book after concluding that it was no longer “commercially viable”. Ratesetter was acquired by Metro Bank in 2020 and has closed its peer-to-peer business.

The sector, aided by the Treasury and a supportive regulatory environment, led to hundreds of thousands of people lending tens of billions of pounds to consumers and small businesses. However, it has been hit by governance scandals and disorderly platform collapses. The pandemic further damaged retail sentiment, while institutions have grown wary of lending alongside ordinary investors. In the sector’s early years, it was marketed as removing the middlemen from lending, but surviving players look increasingly traditional. Zopa is now a bank.

Jacobs said that tougher regulation in the wake of scandals in which investors have lost tens of millions of pounds meant there was a “higher bar in terms of bringing in new investors”, which would raise costs.

Before the pandemic, retail investors had provided 23 per cent of Funding Circle’s loan capital; the rest was made up of institutions, public and private funds, and government entities. Now retail represents only 5 per cent of loans under management.

Funding Circle made the announcement in its results for 2021, in which it recorded a pre-tax profit of £64.1 million, compared with a loss of £108.1 million in 2020.

Loan originations fell by 16 per cent to £2.3 billion, while operating income dropped by 7 per cent to £206.9 million. Its financial position was boosted by loan performance last year that was better than expected, resulting in a fair value gain of £28.6 million compared with a net loss of £118.3 million last year, as well as a cost-cutting programme.

Jacobs said that she expected to see a short-term dip in demand as the business moved away from government-backed loan schemes to normal commercial lending, but rising interest in online borrowing left the company well placed for a swift return to growth.

Funding Circle’s shares closed up ¾p, or 1.1 per cent, at 73½p.

Ravi Anand, managing director of ThinCats, a lender to mid-sized businesses that shut its peer-to-peer operation in 2019, said he was not surprised by the move. “Peer-to-peer lending was a post-financial crisis reaction which has proven to be inappropriate for scale-lending businesses,” he said.