



Bank Lending in the Age of Digital Disruption

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*Online seminar by the
Florence School of Banking and Finance*

Digital Disruption and FinTech

Banking Anytime, Anyplace

- Peer-to-Peer Lending (P2P), Crowdfunding, Bots, Unicorns, ICOs
- M-Pesa, Lending Club, TransferWise, Alipay, Marcus, Smartkarma

FinTech: Application of Digital Technology to Finance

« Aim is to inflict death by a thousand cuts. FinTech start-ups are nimble piranhas » (FT, 14 Oct. 2015)

Digital Disruption, *Déjà Vu*

- Telephone banking (1980s)
- Internet (2000)
- Smart phones and FinTechs (2015)
- Artificial Intelligence and Machine-Learning (2017)

? Hype

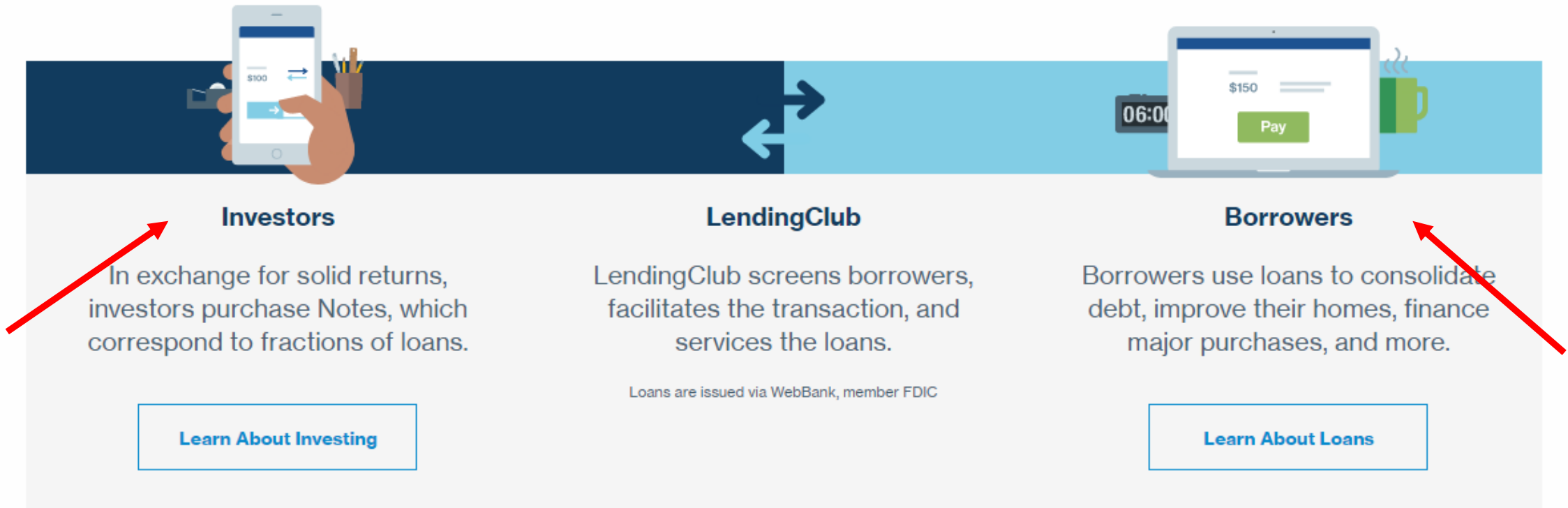
Main Banking Services

Data Processing	Data Analysis	Bank's Balance Sheet
<p>Payment (Alipay, Paytm)</p>	<p>Lending to SME (evaluation of risk, collateral, monitoring of risk, restructuring, recovery)</p>	<p>Short-term Deposits Long-term Loans</p>
<p>Brokerage of shares, bonds, passively managed funds</p>	<p>Corporate Advisory (IPOs, M&A, risk management)</p>	<p>Credit lines (liquidity)</p>
<p>Consumer loan (credit risk is quantifiable)</p>	<p>Asset Management Private banking (advisory on estate planning, actively managed funds, structured products)</p>	



How it works

We're not a bank. Instead, we connect borrowers with investors through our online marketplace.



Investing in consumer credit

Historically, the consumer credit asset class has only been available to banks and large institutions. By investing through LendingClub, investors can work towards diversifying their portfolios and earning solid returns.



ONE LOAN



Notes are assets that correspond to fractions of loans, in amounts as low as \$25



MANY NOTES



Diversify your LendingClub portfolio by purchasing Notes that correspond to different loans and borrowers



YOUR NOTES

Peer-to-Peer (P2P) Lending

Lending Club (US), Prosper (US), SoFi (US), Payoff (US), CAN Capital (US)

Zopa (UK), Funding Circle (UK), Prodigy Finance (UK)

Prêt d'Union (F)

Lufax (part of Ping An insurance, China), CreditEase (China), **Ezubao** (China, closed in Dec 2015. 900,000 investors defrauded of USD 7.6 bn)

Lending Club



- Founder: Renaud Laplanche (French, corporate lawyer)
- Date of Creation: 2006
- Date of IPO: 12 December 2014
- Board members:
 - John Mack, former CEO Morgan Stanley
 - Larry Summers, former US Treasury Secretary under Bill Clinton and President of Harvard University

Delivering exceptional value and a superior experience to both borrowers and investors

INVESTORS

Historical returns by Grade A-G of
4.74% to 7.56%²

Invest in loans in increments as low as \$25

Quickly and easily build a portfolio to fit
investment objectives

BORROWERS

Personal loans up to \$35,000; business loans
up to \$100,000¹

Borrowers reduce their rates by an average of 680
basis points, representing a 32% savings⁴

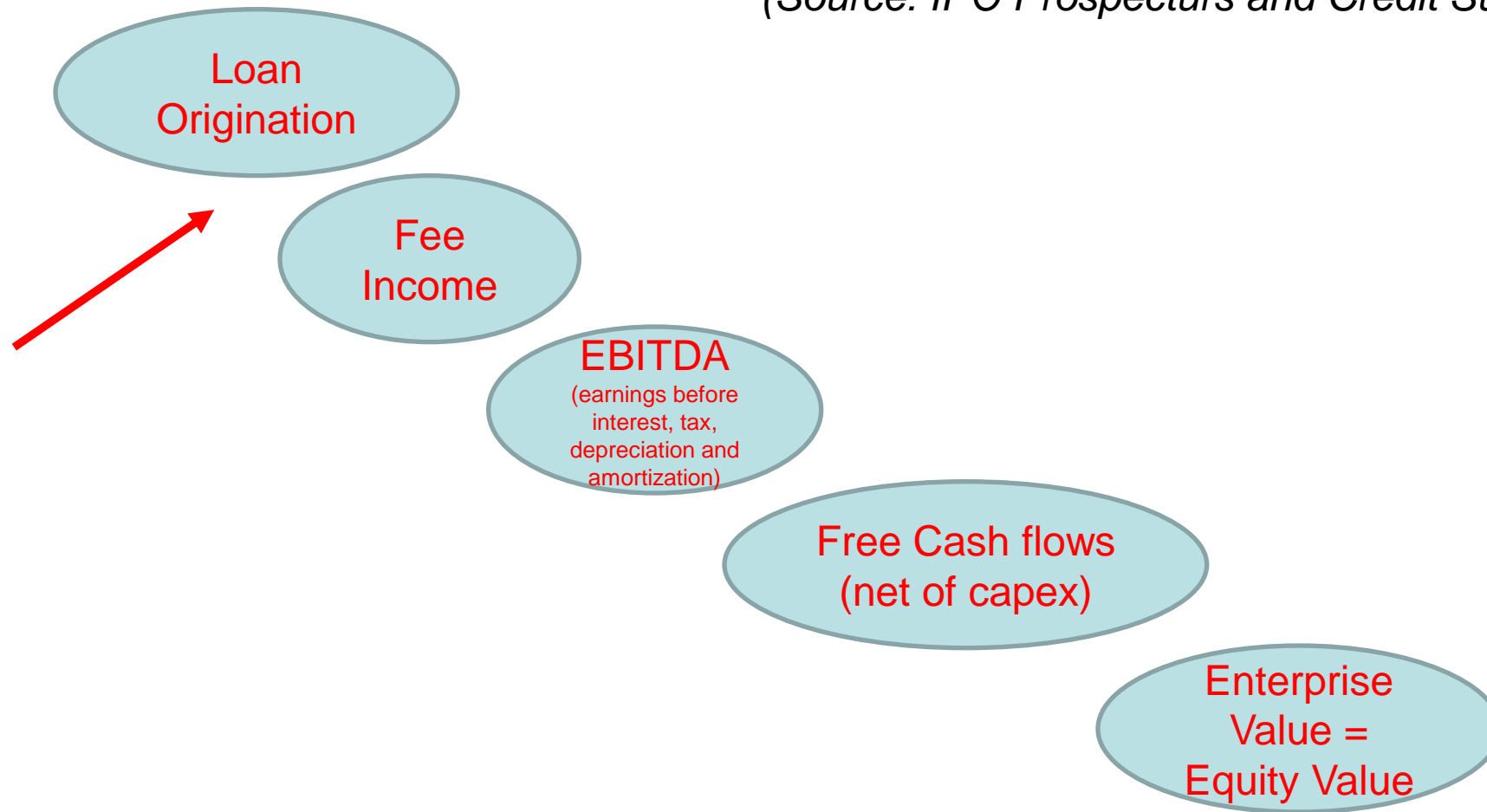
Net Promoter Score in the 70s

A+ from Better Business Bureau

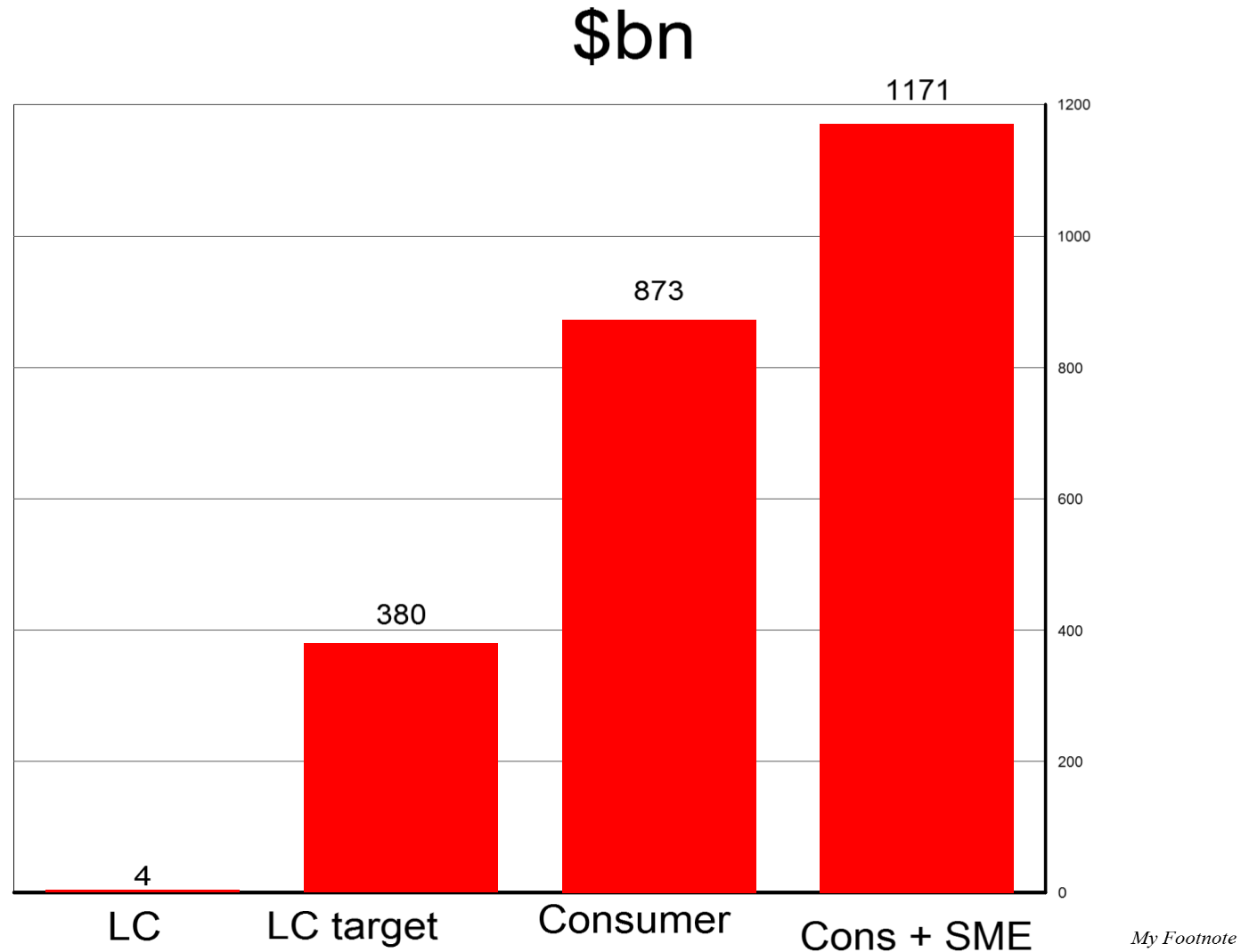


Valuing Lending Club, 5 Steps

(Source: IPO Prospectus and Credit Suisse)

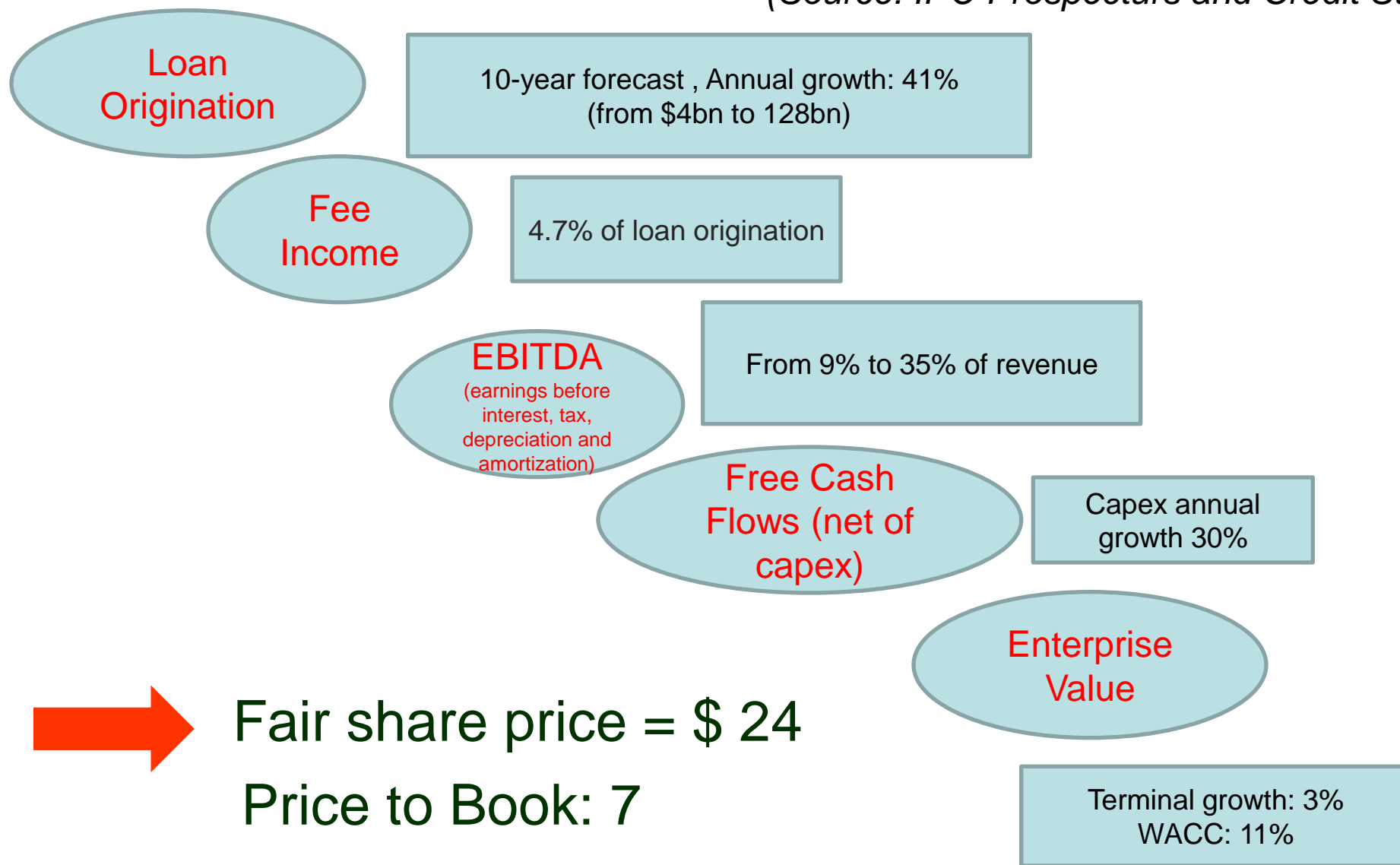


Total Addressable Market (TAM)



Valuing Lending Club, 5 Steps

(Source: IPO Prospectus and Credit Suisse)



LC Valuation: Risk Factors

LC Valuation: Risk Factors

- Supply of funds (investors)
- Demand for funds (borrowers)
- Business model

Lending Club Share Price

Dec.2014 – May 2018

Lending Club Share Price

Dec.2014 – May 2018



The Fall

- 9 May 2016: Resignation of CEO Renaud Laplanche (new CEO Scott Sandborn)
- 23 May 2016: Shanda payment Holdings Lt, an investment group (Singapore based) took 14% stake in LC
- 25 April 2018: Federal Trade Commission (FTC) brought an action against LC for not complying with requirements of FTC and Gramm-Leach-Bliley Acts

The Jury is still out!

	2014	2017	CAGR (%)
Net revenue	211,128	574,540	39.6%
Opex	242,632	727,953	44%
EBT	(31,504)	(153,413)	

2017 Opex excl. Litigation costs: 650,703. CAGR: 39%

March 2018 : LC loans = 3% of TAM of \$bn360

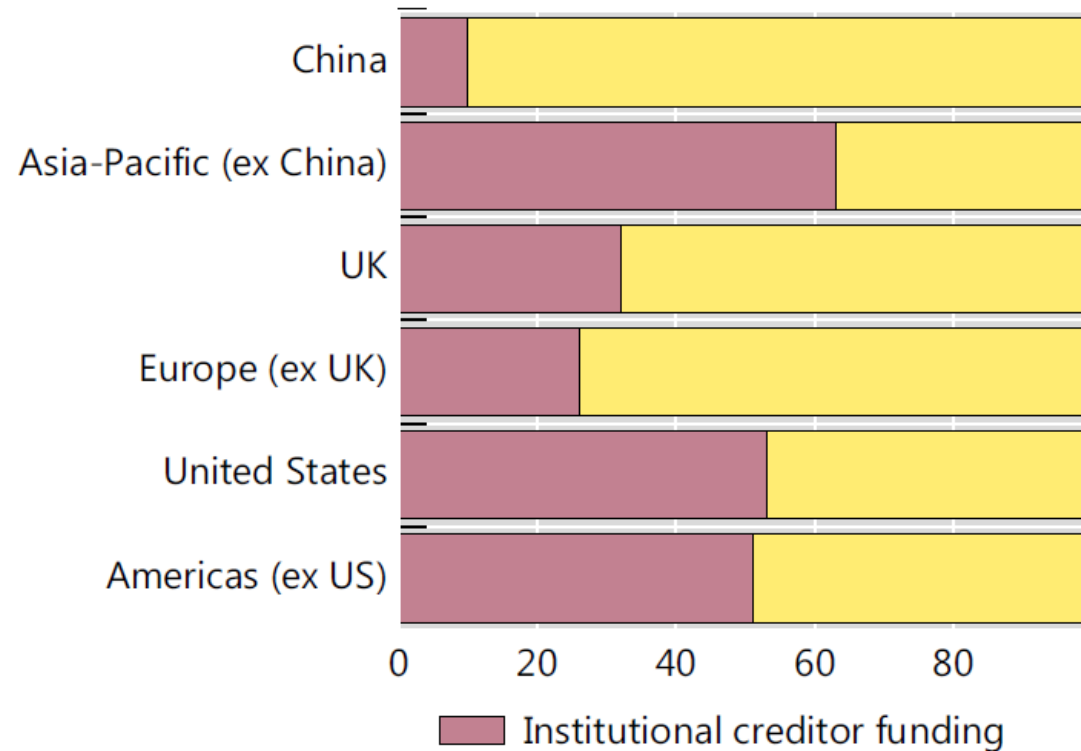
EBITDA: 20% in 2022

Creditor structure of P2P lending

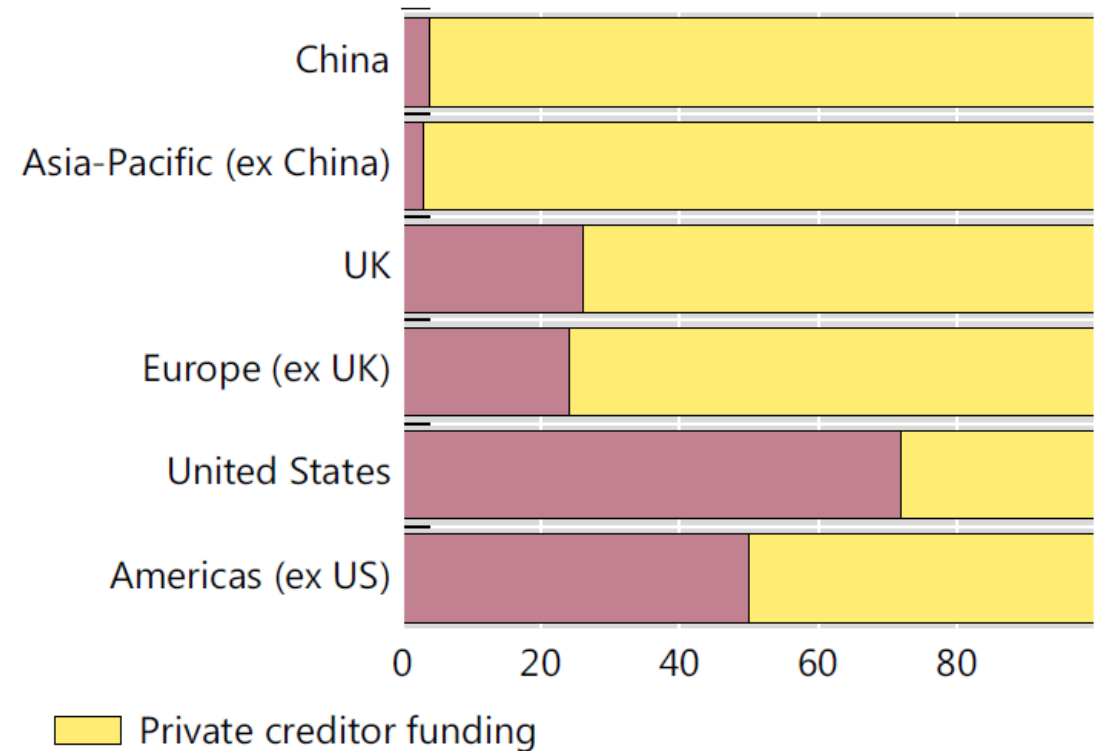
FinTech funding, in per cent

Graph 7

Funding of P2P consumer loans



Funding of P2P business loans



The data for Asia-Pacific and the Americas are for 2013–15, whereas those for Europe (ex UK) are for 2015.

Number of Credit Platforms, 2106

Low barriers to entry

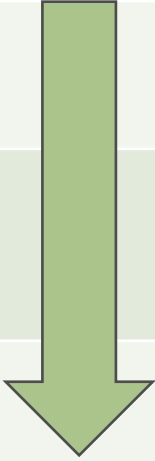
Australia	29
Canada	23
China	356
USA	67
UK	53
France	53

Lending Club Share Price

Dec.2014 – May 2018



Digital Disruption, Lending

Types of Loans	Funding Vehicles
High risk (collateral valuation, risk monitoring ...) 'Information sensitive'	Deposits (safe, liquid) Term deposits and senior bonds <i>(bank keeps skin in the game)</i>
	
	Securitized loans (with different tranches) <i>(bank keeps skin in the game)</i>
Low risk (ex. low Loan-to-Value ratio) 'Information insensitive'	P2P, marketplace funding <i>(brokerage platform has no skin in the game)</i>

A menu of credit-related assets from safe to more risky



Safe and liquid bank deposits

Marcus:
BY GOLDMAN SACHS™



Securitized tranches: Higher credit
and liquidity risk



P2P: Higher credit and liquidity risk

Regulatory Issues

- ➔ Competition to be good has to be fair
- ➔ Classical protection of investors and borrowers
- ➔ P2P and Marketplace Funding is part of *Shadow Banking*. One should monitor carefully the extent of maturity transformation.