ArchOver White Paper

Next Gen: Investors and Savers

ArchOver
P2P Business Lending

Contents

Introduction – 3
Section one: Investor profiles – 4
Section two: Saver profiles – 10
Section three: The rise of P2P – 16
Conclusion – 17

ArchOver, 5th Floor, 40 Gracechurch Street, London, EC3V 0BT. Tel: 0203 021 8100
UK limited company registered in England and Wales number 7235487
Data Protection Registrar number CSN4774031
ArchOver is authorised and regulated by the Financial Conduct Authority (FCA) under registration number 723755.
ArchOver is not covered by the Financial Services Compensation Scheme. Your capital is at risk.

Introduction

Angus Dent, CEO, ArchOver

Inasmuch as the UK economy grows ahead of expectation, far too many savers are seeing the value of their hard earned cash decline.

Recent research from the FCA[1] found that just under a third (30%) of UK adults would not be able to cope if their mortgage repayments increased by £50 a month. With the recent 0.25% rate rise, it won't be long before these households feel the squeeze. To add insult to injury, the rate rise is not being passed on to savers, and the changes of interest rates catching up with inflation any time soon are extremely slim.

There's no room to breathe in the current system. UK households can't build a proper financial buffer with their low interest rates, and it's even harder to achieve a decent return on investment.

This report illustrates the response to these challenges has been mixed to say the least. We're told that millennials are stuck in a financial rut, trapped by high property prices and low wage growth. In reality, however, it appears that a larger proportion of millennials are putting their money to work than older generations, getting higher returns on their investments and being bolder with their portfolio options. The rise of a subscription-service mentality means the 'digital native' generation is pushing the boundaries, more willing to make short-term, high-yield investments.

Despite this growing willingness to consider new investment options, the overwhelming reaction to change across all generations thus far has been to bury our heads (and money) in the sand and hope for a sunnier day.

In total, two-thirds (67%) of UK adults see themselves as savers. This is a group that is using savings accounts and pension funds to sit on their cash. It's human nature to be careful in a crisis and they like the security these options provide. Well over half of savers associate the word savings with security. The danger for these savers, though, is that they risk seeing their nest egg dwindle away over time as inflation and low interest rates eat away at their money. They are being led down the primrose path by deceptively 'safe' banking options.

On the other hand, the remaining third (33%) of UK adults see themselves as investors, using riskier avenues like stocks, shares and property to grow their investments. They're bolder than their counterparts, but still more than half associate the increased risk with uncertainty and caution. As a result, the majority will only put their cash in traditional investments that they've used before, or that a friend would recommend to them. The legacy of economic instability from the global financial crisis in 2008, alongside political uncertainty in the form of Brexit and Trump, is making investors wary. Until they can get greater clarity, even the UK's most adventurous investors are playing it cool.

Both of these camps could make a change. There are other ways to balance security and risk in order to maximise returns without putting their capital in too much danger. In a challenging economic environment, savers and investors need to broaden their options and embrace alternative forms of finance.

At the same time, the peer-to-peer (P2P) lending sector has been steadily maturing over the last five years. P2P is leading the charge in alternative financing options for UK adults stuck in a financial rut. Rather than committing their money to the banks and hoping for the best, P2P lets people put their money into investment options they believe in and can trust to grow, helping them to boost their returns at an acceptable level of risk. As investors and savers look to break out of the cycle of low returns, P2P is set to be a key part of the next generation of investment in the UK.

This report shows how the UK population behaves now, but it also points the way forward. The good news is the need for security naturally decreases when individuals and businesses recognise that they are not operating in their normal climate. It is time to educate investors and savers on how new investment options could help them make the most of their money.

About the research

ArchOver commissioned independent research firm, 3Gem, to survey 2000 UK adults and explore attitudes towards risk and investment in the current climate. The research reviewed if the current economic uncertainty, political decisions, interest rates, inflation changes and housing market are driving a new appetite for investment. It explores the various behaviours and attitudes of investors and savers towards the alternative finance market.

[1] Financial Conduct Authority, *Understanding the financial lives of UK adults – findings from the FCA's Financial Lives Survey 2017*, p135 (online, 2017)

Section One: Investor Profiles

2017 has been a year of slow economic growth in the UK as uncertainties around Brexit, higher inflation and the effects of past market failures have squeezed household budgets. At the same time, the FTSE 100 has made strong gains since the start of the year. In May, the FTSE 100 reached an all-time high of 7,500, spelling good news for many investors. After all, 85% of respondents listed the interest rate on offer and how much they would make on their money as the top factor that governs their investment decisions. This, combined with the dissatisfaction savers are experiencing with record-low interest rates, has encouraged many UK adults to begin investing in a bid to seek out higher returns.

A third (33%) of UK adults now consider themselves investors, setting aside £405.68 a month on average. Millennials aged 18 to 34 have grown-up in an era in which economic prospects feel permanently uncertain. Those who invest are intentionally putting money in stock options (73%) and property (70%), vehicles that carry an element of risk but deliver a higher return over a long period of time. Millennials have also entered the workforce at a time of auto-enrolment, meaning that 85% are now investing into pension scheme.

This is also a demographic that has grown-up with an inherent understanding of technology. In line with that, nearly half of Millennials (44%) are embracing online investment platforms like P2P. In sharp contrast, just 16% of Generation X, those aged 35 to 54, are investing using P2P platforms and even fewer (12%) are experimenting with crowdfunding. For Baby Boomers that are aged 55 and over, these figures sink even lower. Only 8% have invested over P2P platforms and even less (4%) have tried crowdfunding. Instead, this generation prefers more traditional options like stocks (64%) and ISAs (64%).

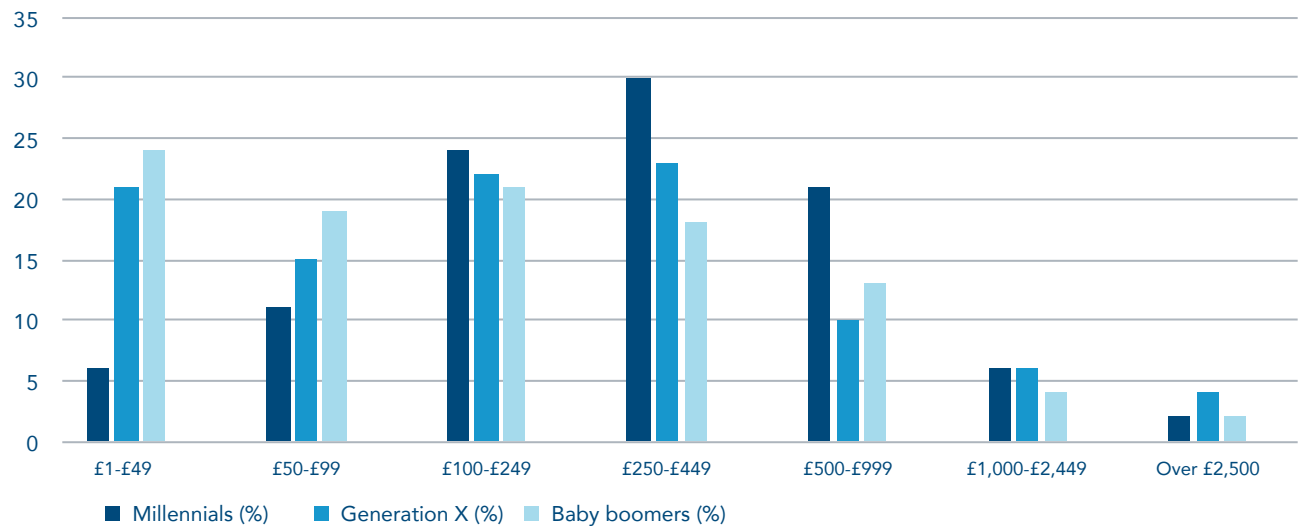
> *You want to nudge people into socially desirable behavior, do not, by any means, let them know that their current actions are better than the social norm.*
>
> **– Richard H. Thaler**, Nudge: Improving Decisions About Health, Wealth, and Happiness

Overall, Millennials claim to be investing more than either Generation X or Baby Boomers. In total, 30% of Millennials are investing between £250-£499 per month. This drops to 23% for those aged 35 to 54 and 18% for those aged over 55. More than one in five (21%) Millennials are also investing between £500-£999 each month. In comparison, just one in 10 (10%) Baby Boomers and one in seven (13%) of Generation X say the same.

Exhibit 1: Average Monthly Investments by Age

Question: How much do you invest per month?

Contrary to popular belief, Millennials (aged 18–34) are saving larger amounts each month than Generation X and Baby Boomers.



The majority of UK investors (72%) are cautious about the current macro-economic environment. They want to ensure they have savings set aside and aren't going to lose their money. Over half (53%) associate investments and the word 'risk' with uncertainty and caution. As a result, nearly six in 10 (58%) prefer to only invest in traditional and proven investments that have benefited them in the past in the belief that it reduces their risk exposure. Nearly three quarters (74%) are also reassured if there is a process in place that allows them to recover some of their investments.

On the other hand, some investors are more adventurous. Nearly four in 10 (38%) associate investments with opportunity and 20% with excitement. In the face of uncertainty, this is a group that is excited by the chance to beat the pessimistic conditions of the market by successfully seeking out those investments that deliver a high return. In the same way, many investors (66%) are looking for businesses in well-performing sectors with a strong story to tell that could benefit from industry consolidation or potential M&A activity.

On the whole, investors are mostly indifferent about the effects of political uncertainty or risk of another recession.

Exactly half take a longer-term view when faced with a difficult financial decision and trust someone else to manage the effects of any change.

However, with regulators pushing the consumer credit market for better governance and increased lending prudence, half (49%) of investors would be concerned or panic if a particular market collapsed and restricted their access to finance. Similarly, 45% would be concerned and start changing their investment options if they lost some of their investment capital, impacting their ability to meet personal goals.

The outlook in the UK is tentatively confident - there's a ready base of investors out there keen to overcome the post-referendum malaise and make their money work for them.

The careful investor

Today's investors have plenty of reasons to be cautious. The aftermath of the 2008 crisis, Brexit, Trump, European elections, the uncertain Chinese economy, rising interest rates and inflation, are all fuelling ambiguity. In times of change, investors crave security. It becomes even more important for them to assess their capacity for risk and understand what would make them panic.

For example, nearly half (49%) of investors would panic or be concerned if they lost their job and had money locked in a fixed-term investment, while 45% would be worried and start changing their investment options if they lost some of their investment capital and it impacted their ability to meet personal goals.

Investors who are more risk-averse are more likely to work with a financial adviser who can help them understand the relationship between risk and reward. Currently, just under a third (31%) of UK investors rely on a financial adviser or wealth manager for advice. Slightly more (36%) use a broker or financial adviser to manage any investments they're making, with 41% reassured that financial professionals understand their risk level and invest accordingly.

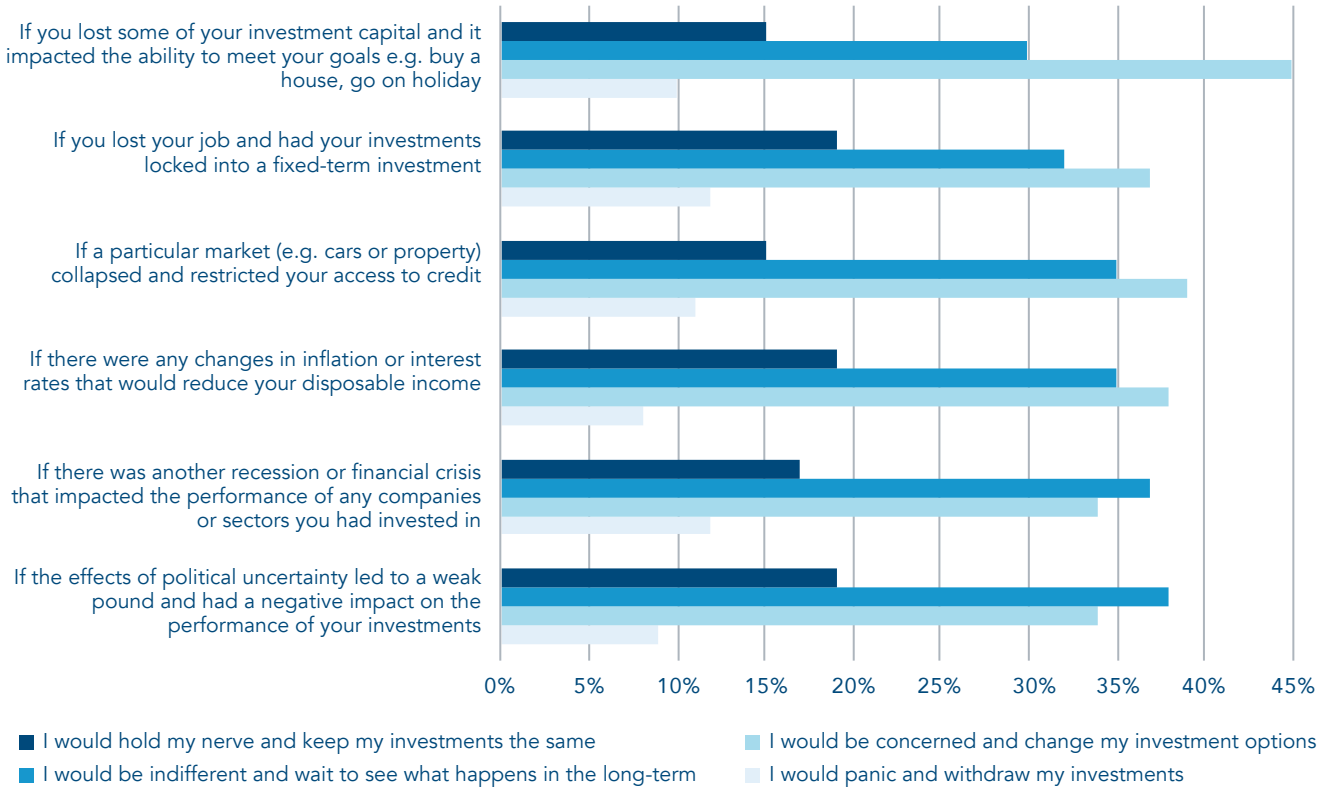
Investors take reassurance in knowing there is someone to talk to if they have any concerns (68%) and find it comforting to know they will be contacted if there is a significant risk to their investments (71%). The cautious attitude of investors is also reflected in how they react when faced with a tough financial situation.

68% of investors are reassured knowing they have someone to talk to about their concerns

Exhibit 2: Factors that weaken investor confidence

Question: When thinking of the following, how would you react?

Nearly half of investors would panic or be concerned if they lost their job and had money locked in a fixed-term investment.



When confronted with a difficult decision, 44% would prefer to work with someone that has the expertise and knowledge to vet different options and explain the best and worst case scenarios.

Even so, the inclination to use a broker or financial adviser decreases with age. Overall, 56% of Millennials rely on a broker that can understand how complex financial products work and offer a range of tailored solutions to reflect their individual circumstances and appetite for risk. As investors become more experienced and confident, the use of financial advisers tends to decrease. In total, 39% of Generation X and 36% of Baby Boomers use brokers to guide their attitude to risk and investments.

There are also signs that, despite the fluctuating market, today's investors have demonstrated an insatiable appetite for options that pay a high level of interest. For example, P2P platforms that offer in the region of 7-8% return per annum over the medium- to long-term have grown in popularity. The total invested over these platforms is expected to jump by 20% in 2017[2]. Nevertheless, any reward needs to be carefully balanced with the level of risk, and cautious investors are confused by the number of options available. Four in 10 (41%) UK investors claim that there are a lot of investment options, which makes it hard to decide where to invest money. This group also admits they don't always understand the levels of risk involved in different investment vehicles, highlighting the need for greater transparency and education within the financial sector.

[2] Thorpe, David, 'P2P lending on course for 20 per cent jump', in *FT Adviser* (online, 2017)

The sceptical investor

10 years on from the financial crisis, confidence in the financial services industry remains low. Over a third (36%) of UK investors have a deep distrust of the financial sector and are unsure about who to trust with their money or where to invest. After mis-selling scandals, rate-rigging controversies and a global recession, UK investors remain wary. Reflecting this lack of confidence, a fifth of investors (20%) associate the words 'investment' and 'risk' with discomfort.

This discomfort is clear in the way that UK investors use public information provided by the government and other official bodies. Only a quarter of Millennials (24%) and a fifth (19%) of Baby Boomers will use public information to understand investments. For Generation X, this drops to 17%. This is a group that has experienced prolonged unemployment, record high interest rates and the collapse of UK industry. For Generation X, the social contract with society has fundamentally changed. They won't be able to rely on generous pension schemes and will have to care for ageing parents for even longer. The danger is that, without trust in the system, these investors are more prone to being spooked during times of turbulence and quickly move their money out of investments they deem to be risky.

Efforts to make the financial system more resilient and transparent, however, are a step in the right direction. UK investors crave reassurance from independent bodies and regulators that prioritise their interests. For 79%, it's seen as important that the platform or service they are making investments through is fully regulated because of the assurances it provides. In fact, 31% of investors admit they would have more confidence using P2P platforms now that the FCA has approved certain platforms.

Sceptical investors have good reason to be cautious but to eliminate a feeling of wariness in a difficult environment, it's all the more important to undertake due diligence. Investors need to select platforms that are regulated and integrate policies and procedures that safeguard investments as much as possible.

The DIY investor

Technology has permeated every aspect of our lives and puts access to financial advice at people's fingertips. This has given rise to a new breed of investors, who are using available information to select their own investments and take full responsibility for choosing the most suitable options.

The rise of digital natives and the easy availability of online information has led to the emergence of investors that trust technology and automated services to guide their investment decisions and actions. Over a third (37%) would hand over trust to technology when they need direction. Four in 10 (40%) are also embracing online investment management platforms such as Nutmeg, or mobile apps like Acorns and SigFig, to manage and monitor their own investments. These platforms come at a lower cost than financial advisers and allow people to start investing with as little as £100. They also charge fees as low as 0.25%, opening up specialised guidance to new audiences. However, there is a danger that investors are underestimating the risks involved. In fact, the Treasury has recently expressed concerns over the number of people who do not fully understand the potential dangers of investing.

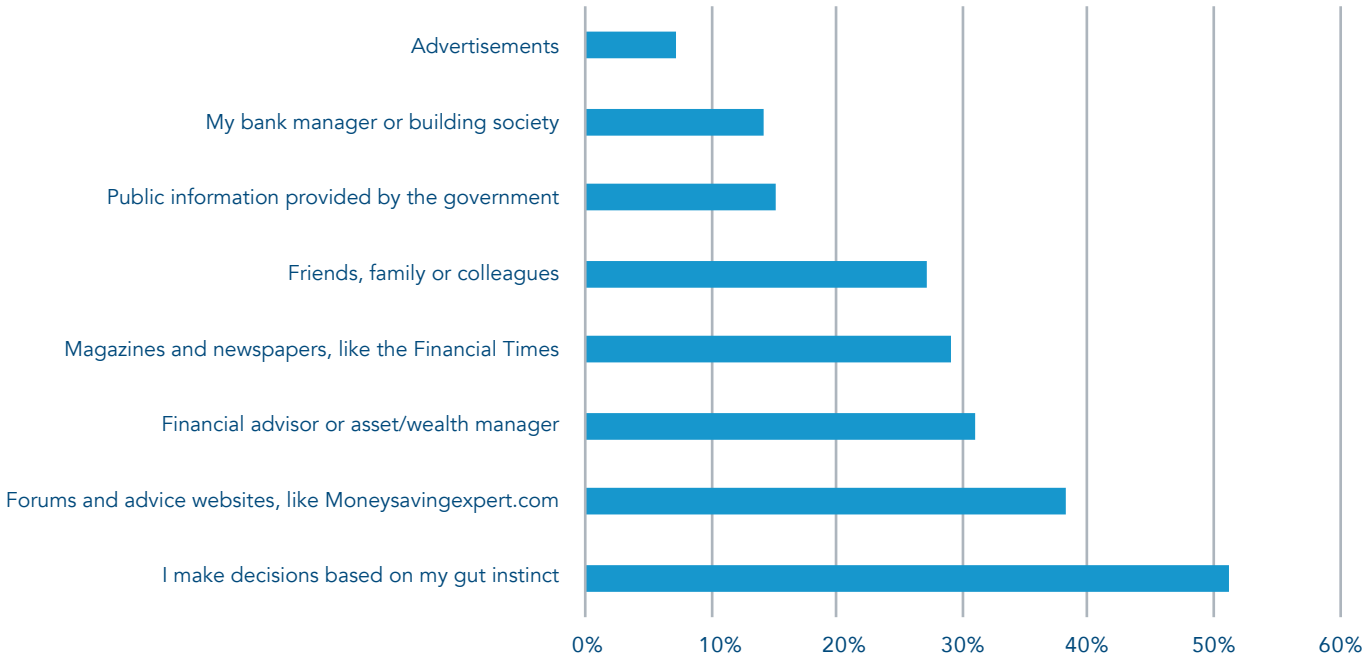
Currently, more than half (51%) of investors make decisions based on gut instinct. This is followed by guidance from forums and advice websites (38%), and magazines and newspapers (29%). Overall, men are most confident in their ability to manage their own investments. Six in 10 men (62%) don't view investing as risky and are assured about their capabilities. In contrast, only four in 10 (40%) women say the same. Men are also more likely to make decisions based on their gut, with 55% admitting they make investment decisions based on their instincts compared to 43% of women

51% of investors make decisions based on their gut instinct, with men more likely to do so than women

Exhibit 3: Sources of Investment Knowledge

Question: Where do you get your investment knowledge from?

51% of investors base their decisions on their gut instinct, demonstrating strong confidence in their own financial knowledge.

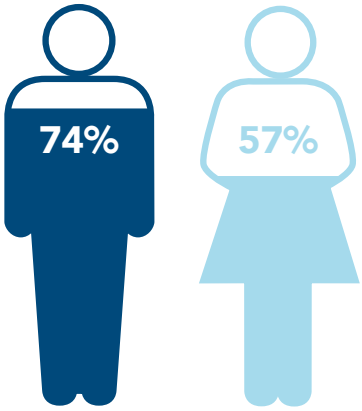


Different confidence levels also affect how men and women would respond when faced with a difficult financial decision. Nearly three quarters (74%) of men would monitor the performance of any investments to take control of when to buy or sell. However, only 57% of women would feel the same. Instead, women are more likely to rely on a family member, friend or colleague for advice, with 42% admitting they would turn to this group when faced with a difficult decision. In comparison, only a third (33%) of men say the same.

Exhibit 4: Differing attitudes towards investing among men and women

Question: When faced with a difficult financial decision, how do you respond?

74% of men would monitor the performance of their investments and have the confidence to take control of when to buy or sell. Only 57% of women feel the same. Similarly, women are more likely to seek financial advice than men, who are more reliant on their gut instinct.



The risk-friendly investor

Nearly four in 10 (38%) investors associate the words 'risk' and 'investment' with 'opportunity', and 20% see it as synonymous with 'excitement'. This is a group that gets a thrill from making investment decisions and accepting a higher level of risk in order to achieve bigger returns. More than three-quarters (76%) of investors claim to be reassured about the risk involved in investing if it is reflected in the interest rates on offer. Investors recognise that, sometimes, they need to take a gamble to achieve their financial goals. Overall, one in seven (16%) would be willing to accept a 50% chance of total loss if it provided them with an opportunity to increase their original investment by a quarter.

Those investors with a higher risk appetite are embracing a move towards new and alternative investment platforms. More than a quarter (28%) put their money into new and alternative investments and recognise that there is a higher level of risk associated with this. Only 5% of investors are using crowdfunding platforms, such as Kickstarter and Crowdcube, to manage their investments. Since launching on the UK's financial services scene at the beginning of the decade, crowdfunding has successfully brought equity investing into the mainstream and grown by almost 300% over the last two years[3].

As an example, Scottish brewery, BrewDog, has become an advert for the crowdfunding world. After raising record-breaking amounts through equity crowdfunding rounds, BrewDog became a household name and a standard sight on supermarket shelves bringing big returns for early-stage investors[4]. However, crowdfunding is more suited to those with a higher appetite for risk. The FCA has previously warned that around 85% of all early-stage businesses fail and less experienced investors are putting their money at risk[5].

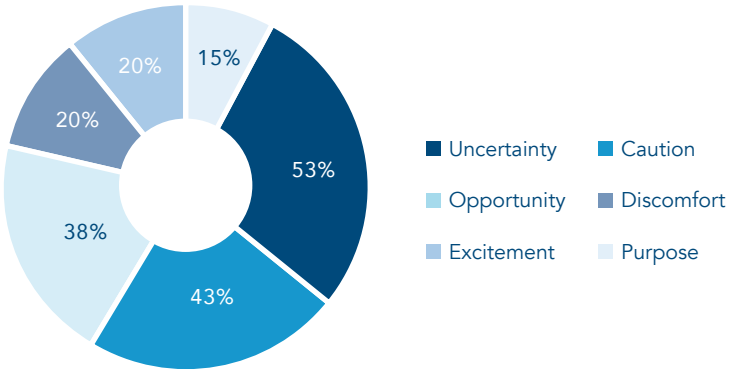
On the other hand, loan-based investments like P2P can offer higher returns, often with greater security.

In total, 6% of UK investors are turning to P2P platforms like ArchOver that offer average returns of 7.5% with stable yields and support for manual lending over user-friendly platforms. This year to date, £3.4 billion[6] has already been invested across P2P lending platforms in the UK. Investors are increasingly viewing such platforms as a way of building a diverse portfolio that spreads their level of risk and increases their chance of returns. P2P has democratised the process of investing 'alternatively', and is on the road to carving out a regular spot in investment portfolios.

Exhibit 5: Investors' attitudes to risk and investment

Question: When thinking about investments and the word 'risk', what do you associate it with? (Select all that apply)

53% of investors associate 'risk' and their investments with 'Uncertainty', while 38% associate it with 'Opportunity'.



[3] Hughes, Kate, 'Crowdfunding: great way of launching a business or minefield for risk?', in *The Independent* (online, 2017)
[4] BrewDog plc., 'BrewDog announces $124 million investment from TSG Consumer Partners' (online, 2017)
[5] Financial Conduct Authority, *Interim feedback to the call for input to the post-implementation review of the FCA's crowdfunding rules*, (online, 2016)
[6] Thorpe, David, 'P2P lending on course for 20 per cent jump', in *FT Adviser* (online, 2017)

Section Two: Saver Profiles

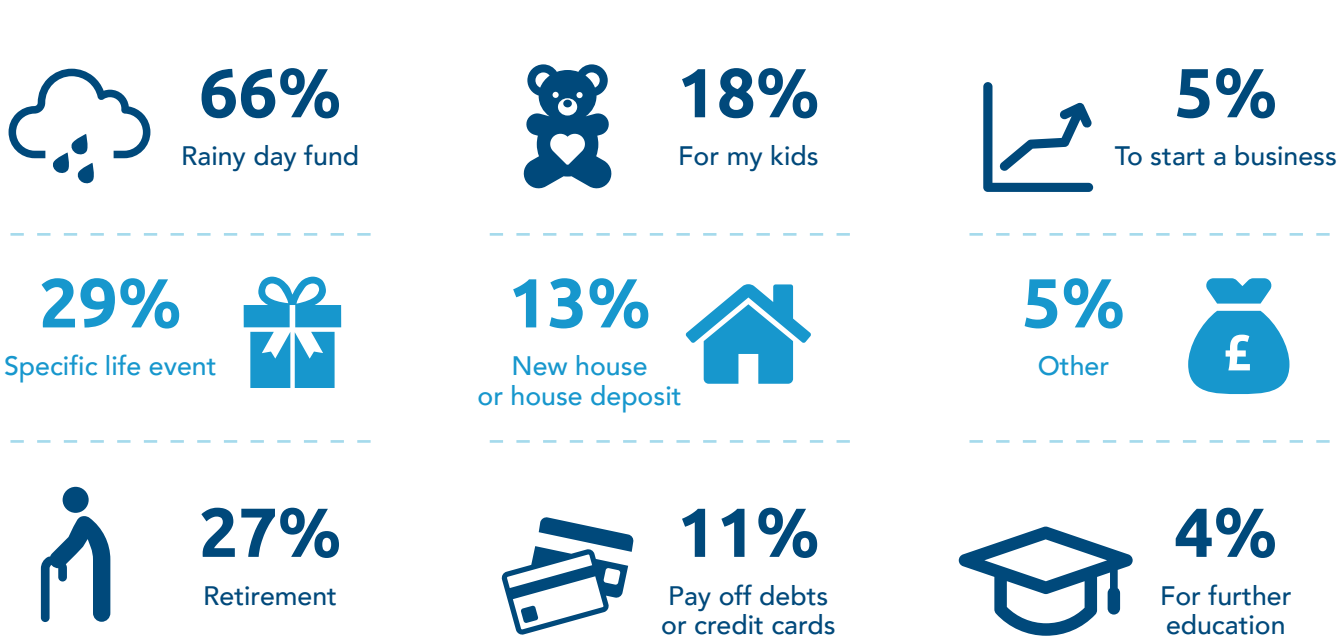
The UK economy is heading deeper into uncertainty. In September 2017, inflation hit 3%, its highest level since 2012, overtaking the rate of wage growth. As a result, people trying to save are feeling the pinch. On average, UK savers are putting aside £191.39 a month using savings accounts (83%), ISAs (43%) and pension funds (33%) but, given the current behaviour of the economy, the value of these savings is dropping.

People associate the word 'savings' with 'security' (57%), 'purpose' (43%) and 'opportunity' (26%). Generally accepted wisdom holds that deposits in a bank, building society or National Savings will hold their value in the long term but the reality is very different. The government has a target of 2% inflation, and anything beyond this means the purchasing power of savers' money is going backwards in real terms.

People are trying to save for a variety of reasons. From the security of having a 'rainy day fund' set aside (66%) to funding a specific goal or life event like buying a new car and going on holiday (29%) or paying for retirement (27%). But in a high-inflation, low-interest economy, these will be unattainable goals if people do not rethink their saving methods.

People have a strong tendency to go along with the status quo. Although seven in 10 (71%) savers claim they are thinking about interest rates and how much they will make on their money, if they inherited a large sum of money, the majority (46%) would simply deposit it into a savings account, and three in 10 people (30%) would put it in an ISA. These are low-return options, and the use of a tax-free ISA wrap does not even come close to bridging the gap when set at less than 1% interest. Others would use their inheritance to buy something instead. In total, 38% would treat themselves and 37% would buy a property, whilst 36% would pay off debts.

Exhibit 6: Why people save their money
Question: What are you saving for? (Select all that apply)
The majority of savers (66%) want the security of a rainy-day fund.



While the value of savings slips away by stealth, savers are being encouraged to believe that they are protected by the Financial Services Compensation Scheme (FSCS). This gives them compensation cover if a bank or building society goes bust, but with the safeguards introduced since the 2008 financial crisis, a collapse is a far less likely scenario. This safety net, then, is largely an illusion. Although it provides a sense of security, the FSCS does not protect savers from inflation, which is the real enemy. Bank and building society depositors may not lose their capital in one hit, but they are watching its value decrease with the passing of each day.

There are clearly barriers preventing savers from keeping their money where it will actually grow. Yet attention is also paid to certain triggers that would cause savers to reconsider where they save their money. Generally, savers tend to err on the side of caution. A fifth (20%) would put more money aside if their pension pot decreased and 13% would save more if the UK slipped back into recession. Only if they lost their job (36%) or if changes in inflation and interest rates reduced their disposable income (35%) would this group save less.

With interest rates at rock-bottom for the foreseeable future and inflation on the rise, consumers should see this as an opportunity to look at alternative options. P2P lending, which is a young, ambitious and nimble market, is a good example of an investing option that can help consumers spread their risk.

Risk is understandably a big factor in many consumers' minds. Savers need to consider whether they are comfortable with taking more risk to achieve higher returns if there are reasonable measures of security available that provide reassurance in the current market.

First, never underestimate the power of inertia. Second, that power can be harnessed.

– Richard H. Thaler,
Nudge: Improving Decisions about Health, Wealth, and Happiness

The DIY saver

The disintermediation revolution that swept through media and publishing has come to financial services. The prevalence of on-demand, digital services in every sector – from food to transport to banking – has led to people being a lot more self-sufficient when it comes to managing their money. With the rise of chatbots, biometric security and artificial intelligence, a technology-based revolution has emerged. One led, incidentally, by a 300-plus-year-old institution, the Bank of England.

The majority of people (63%) now manage their savings using an online bank or savings account, and nearly one in five (19%) have a mobile app on their phone that lets them deposit, monitor and manage their savings.

This behaviour is leading to a new 'do-it-yourself' generation of savers who are taking money matters into their own hands. This has both good and bad consequences. When it comes to making decisions about savings, nearly half (46%) are comfortable making decisions based on gut instinct.

Going with your gut is an approach that divides experts. Richard Thaler, a Nobel Prize winner in economics, has led the field of behavioural economics looking at how human instinct causes us to make unnecessary errors. When faced with a difficult decision, 69% of savers would trust their instincts and take action based on their own expertise and research.

There is a great deal of independent knowledge available for those who prefer a more pragmatic approach to managing their own savings. Just under a quarter (24%) are using forums and advice websites like Money Saving Expert, whilst one in five (20%) use price comparison sites. However, Professor Shabnam Mousavi at the Johns Hopkins Carey Business School believes information overload is as misleading as going on your best hunch. Whether driven by gut instinct or expert advice, DIY Savers could well find themselves at a disadvantage and overlooking options that provide higher returns.

Where music and publishing have led, finance could follow.

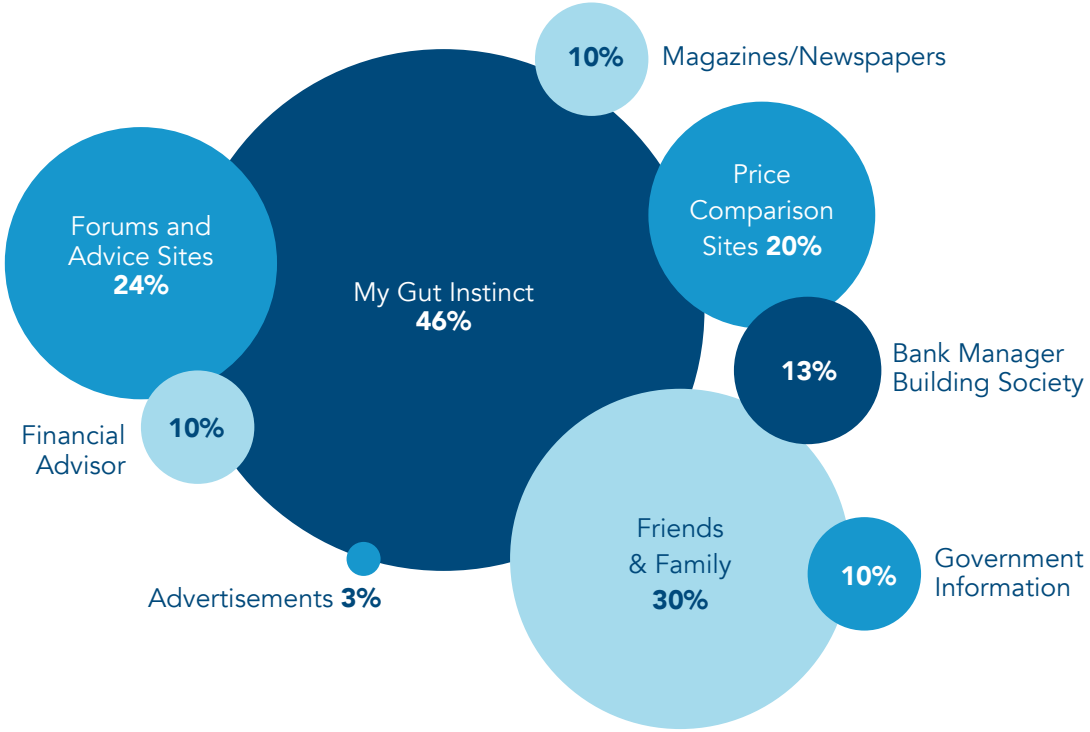
– Andy Haldane,
the Bank of England's chief economist

63% of savers manage their money using an online account

Exhibit 7: Sources of Savings Advice

Question: When making decisions about your savings, where do you get your knowledge or advice about saving from? (Select all that apply)

Comparable to investors' sources of advice, the majority (46%) of savers make their financial decisions based on their gut instinct.



The security-conscious saver

'Financial crisis', 'credit crunch', 'recession', 'austerity' – all are terms that UK savers have been familiar with for nearly a decade. A decade on, a cautious mind-set has had a major impact on savers. Images of long lines outside Northern Rock stick firmly in the mind. When making decisions about where to put their savings, 83% want the ability to easily access their money if, and when, they desire.

For many savers, putting together a nest egg for when retirement rolls around is a chief goal. However, with the base rate at a record low and living costs high, growing your pension pot can be difficult while you are working. What's more, when working people begin to approach retirement, they are often encouraged to switch their investments into lower-risk assets, a process known as 'lifestyling'. This can further decrease the chance of a good pension pot because these lower-risk assets, such as government gilts, often provide very low returns.

As a result of the events of 2008, the financial services industry has been under a spotlight. One in five (20%) savers associate the word 'savings' with 'caution', and just over half want to know if the product or service is regulated by the FCA (58%) or covered by the FSCS (57%). At a time when investors are experiencing low interest rates and banks are tightening the purse-strings, P2P lending offers a unique and much needed service. The FCA is incorporating the most successful elements of P2P lending into its regulations and strategy, which is critical to raising awareness and protecting the long-term success of the industry.

Reflecting this, nearly eight in 10 (79%) agree that they are reassured by knowing that the platform or service they are saving with is fully regulated, while over three quarters (76%) say it is important to know that they will be contacted if there is a significant risk to their savings.

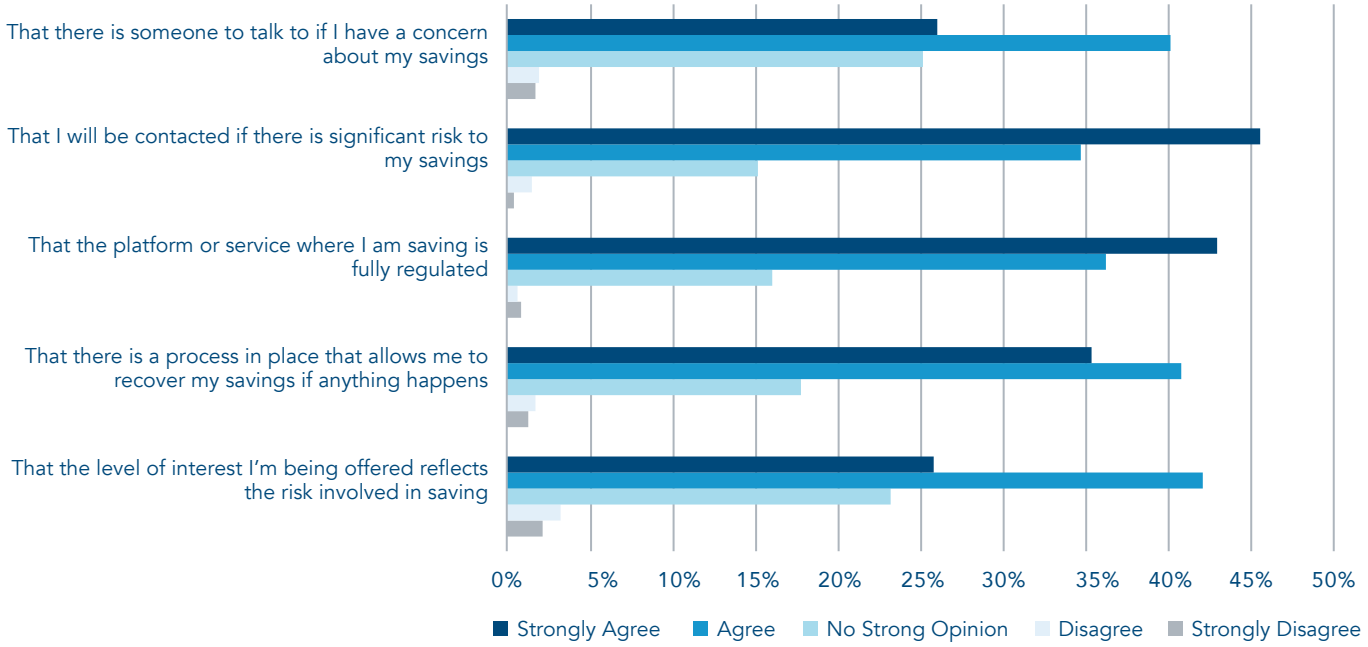
In a brave new economic and financial world, understanding different ways of managing money is key to success for savers. P2P lending can help both individuals and businesses navigate a post-Brexit landscape, with the reassurance that it is a secured and effective method of protecting and growing your money.

20% of savers associate the word 'savings' with 'caution'

Exhibit 8: Factors that reassure savers

Question: Of the following measures, which would reassure you?

79% of savers are reassured by knowing the savings platform or service they use is fully regulated.



The personable saver

It is a common human trait[7] to ask for advice before making decisions – be it for a job, a purchase or a business decision. Whether people take that advice or reject it comes down to the individual. In terms of savings, three in 10 (30%) UK adults make decisions about their savings based on the advice of friends, family or colleagues. This paints a picture of UK savers who are keen to tread familiar paths. A large proportion like the security of making financial decisions based on others' experience, which is likely to lead them to more traditional options like savings accounts.

Even more (50%) will turn to family, friends or colleagues for advice when faced with a difficult financial decision. This is especially true for younger savers. Overall, 71% of 18 to 24 year olds rely on their relatives and peers for advice. This reliance decreases the older people get, down to only 35% for those over 55 years old.

UK savers don't just rely on their nearest and dearest, though. People are more likely to take advice from experts, or work with a professional who could help them understand the best- and worst-case scenarios (46%), and a third (34%) still like to go into a bank branch to deposit money into a savings account. Professional advice is seen as a key part of saving for this group, and they like to shake the hand of their advisers if at all possible. We may be in the midst of a digital banking revolution, but a large proportion of UK savers still value face-to-face interaction and need to look for platforms that offer an element of the human touch.

50% of savers will turn to family, friends or colleagues for advice when faced with a difficult financial decision

[7] Gino, Francesca and Schweitzer, Maurice E., 'Blinded by Anger or Feeling the Love: How Emotions Influence Advice Taking', in *Journal of Applied Psychology*, vol. 93. no.5 (2008)

The enterprising saver

The UK's service-driven economy is reliant on consumer spending and it's apparent that UK savers must take back control of their finances. That means educating them on the value of taking funds out of a low-interest environment.

More must be done to encourage a nation of savers to become a nation of investors. This could be through investing in bonds and stocks, or working with the likes of hedge funds, asset managers and wealth managers. Currently, 9% of savers would consider using a large sum of money to invest in stocks and shares. Yet, the cut in bank rates and rising inflation should be an incentive to move more people towards alternative ways of earning income from their savings.

The launch of the Innovative Finance ISA (IFISA), which allows some crowdfunding and P2P investments to be held in the tax-free account, puts this form of investing firmly in the spotlight. P2P sites lend money to individuals or businesses and can offer rates of 7-8% p.a. on average. At the moment, just 4% of savers are using peer-to-peer lending or crowdfunding.

To maximise returns, savers need to be made aware of the possibilities of building a more varied portfolio that includes alternative forms of investment, like P2P or the IFISA. Since only a small number of UK savers are willing to take a risk with their money in an effort to achieve higher returns, the best platforms are transparent about the level of risk involved and put lender security at the heart of their business models. The platforms that provide security on highly liquid assets by ensuring there are processes in place to help protect client money, will appeal to more enterprising savers with a higher risk appetite.

4% of savers are using P2P lending sites, despite being able to earn 7-8% p.a. on average

Section Three: The Rise of P2P

UK savers and investors are showing a willingness to embrace P2P lending. When thinking about their money, six in 10 (64%) respondents would be willing to lend to family or friends if they gave their word they pay the money back. This rises to 68% for savers and sinks to 54% for investors.

UK savers and investors are also willing to back British businesses. Six in 10 (63%) would be willing to lend to a business. Over a quarter (26%) would lend to a business that could use their assets as security. A quarter (25%) would lend to an established business that has been operating for a few years. 11% would lend to a start-up business.

Exhibit 9: Benefits of an IFISA

What factors would encourage you to put your savings into an IFISA?

62% of savers would put their savings in an IFISA because it offers higher returns than other savings vehicles

However, while the number of investors willing to lend to a business rises to 90%, the number of savers is just 50%. When it comes to P2P, investors are leading the way. Over half (54%) claimed they would put money into the new IFISA if they had the disposable income available, since it offers a higher return on their savings (63%), higher levels of interest payments per year (42%) and they have more confidence in the P2P sector now certain platforms have been approved by the FCA (31%). Yet, more than a third of investors (39%) are still nervous about the risk of losing their money. Over a third (37%) are still concerned that they don't fully understand the sector and just under a third (31%) still don't see P2P as a fully regulated sector.

Ultimately, P2P is still likely to only attract those with less need for security, as continued uncertainty around the maturity of the sector has yet to wash away. In contrast to investors, just over a third (36%) of UK savers would put their savings into an IFISA if they had the disposable income available. Although 61% recognise that they would achieve a higher return on their savings and 42% acknowledge that it would offer higher levels of interest payments per year. However, the majority (57%) are held back by the fact they still don't understand the IFISA and 48% are nervous about the risk of losing their money. Further education and assurance is needed to shake UK savers from their stasis and encourage them to embrace new saving vehicles.

P2P lending may have been seen as an uncertain option for a decade. Yet, investors continue to experience rock-bottom interest rates, and City watchdogs approve new forms of alternative finance, P2P is coming of age as an alternative asset class. Institutional investors are now being attracted to the sector, with high profile fund managers like Neil Woodford and Artemis investing in RateSetter. However, this is only just the beginning. No wonder it is one of the fastest growing markets in the UK.

57% of investors are hesitant about investing in P2P lending using an IFISA because they still don't understand how it works

Section Four: Conclusion

As the country continues to recover from the aftershocks of 2008, people's propensity for risk doesn't have to change but the contents of their portfolios should. The financial crisis has sparked a decade of change and we'll see high-return, high-security P2P options leading the way to higher returns as part of a diverse portfolio.

P2P has already benefited many areas. It has advanced day-to-day business lending, provided new routes to finance, and supported innovation among British businesses.

The list goes on. But the full extent of its potential for savers and investors has not been realised. Not quite yet.

For many, P2P is still seen as a new concept and there has been a desire to cling onto traditional relationships with bank managers, but times are changing. P2P lenders are now established businesses, many of them operating for at least eight or nine years. With new P2P business models in place, savers and investors can have confidence in the security of their funds at a time when rates of interest remain extremely low.

The key is for savers and investors to understand their appetite for risk, and then look for opportunities to work with those P2P platforms that are forward-thinking, transparent and offer a comfortable balance between reward and risk.

About ArchOver

ArchOver is a peer-to-peer business lending service, connecting businesses requiring finance with investors seeking a secure and favourable return. To date, ArchOver has facilitated over £50 million of funding for UK businesses and delivered lender returns of up to 9.0% p.a., with no borrower defaults, no late payments and no losses. All loans are secured with an all-asset charge over the borrower's business registered at Companies House. All borrower revenues flow through controlled bank accounts owned by ArchOver, with the borrower and the value of the security being monitored monthly throughout the loan term.

ArchOver offers a number of secure lending types that help to support UK businesses. Each addresses security in different ways to suit a variety of business models, ensuring lender security is paramount. ArchOver's flagship 'Secured & Insured' model allows lenders to invest in loans secured against a company's Accounts Receivable (AR), where those ARs are insured. To offer further peace of mind to lenders, ArchOver has built a partnership with Coface, a leading provider of credit insurance and credit management services, facilitating global trade for over 60 years. Coface insures the whole AR for late or non-payment. ArchOver's 'Secured & Assigned' model allows lenders to invest in loans that are secured against a company's future contracted revenue, with ArchOver taking assignment of the contracts.

ArchOver is a member of the long-established and highly profitable Hampden Group. Hampden's overall strategy is to acquire, improve and grow a portfolio of profitable business interests so as to deliver a robust base of underlying profitability with the opportunity for significant upside when market conditions permit. Hampden is both an equity investor in ArchOver, as well as an active lender over the platform.

Risk Warning

ArchOver is authorised and regulated by the Financial Conduct Authority under registration number 723755.
ArchOver is not covered by the Financial Services Compensation Scheme. Your capital is at risk.
Past performance is not a guarantee of future returns.

TRUSTPILOT

A very easy way to invest money in the short term to gain a good rate of interest. No fuss and hassle to make investments and all repayments of interest and capital have always been made on time. I have just passed 3 years of investing on this platform and am delighted with the financial return and service from Archover - MD

★★★★★

A company that uses transparency for its investors, efficiency for its actions and politeness and information for its staff. I do recommend this company to friends and have great faith that their investments are looked after - MD

★★★★★

ArchOver Ltd
5th Floor
40 Gracechurch Street
London
EC3V 0BT
archover.com

ArchOver
P2P Business Lending