TISAtalk **1st July 2014**

TOO COOL FOR CATS

The concept of 'peer to peer' lending as an asset class is still gaining momentum in financial services circles. TISA has been involved in a project together with the Treasury since the start of this year.

Now self-invested personal pensions (SIPP) savers can invest in peer-to-peer lending following recent investment rule changes announced on 17 June 2014

A recent development is the new partnership between ThinCats, a peer to peer platform, and pension provider and financial portal SIPPClub – this follows the loosening of regulatory rules which required pension providers to hold higher levels of capital against non-traditional investments. In this year's budget, the government removed these restrictions and also extended the ability to invest in peer-to-peer lending platforms to Individual Savings Accounts (ISAs).

The ThinCats platform allows holders of SIPPs or small self-administered schemes (SSAS) to provide loans from their pension funds directly to a company seeking a loan through the platform. In these instances, borrowers are usually small and medium-sized businesses. The holder of the SIPP or SSAS can choose the business that they want to lend to, how much they want to lend and the target rate of interest. Lenders can expect to receive average returns of about 9%, taking into account the risk of borrowers failing to repay money as agreed. However, lenders are expected to 'actively manage' their own investments in order to maximise returns and minimise risk. It is also the responsibility of the lender to ensure that they do not make loans to a 'connected party', as making this type of loan from a pension fund comes with a tax penalty.

This arrangement is the first of its type and others are bound to follow. However, advisers and providers should fully understand that recommendation of any peer to peer or 'crowdfunding' schemes need to meet the regulators suitability and appropriateness requirements, with appropriate outcomes for customers. The risk element in these schemes would indicate that consumers should seek full regulated advice to ensure the pros and cons are fully considered and weighed up as appropriate.

Under the arrangement mentioned above with SIPPClub, investors will not be covered by the Financial Services Compensation Scheme (FSCS) if the platform fails - a clear case of *caveat emptor.*

Peter Smith, Head of Distribution Engagement