IN A CHANGING WORLD

Change and innovation is often a good thing. It will be interesting to see how some of the innovative products in the financial services pipeline marry together. Peer-to-peer lending in particular, whilst still a relatively new concept, looks set for a boost when the new 'innovative financial ISA' goes live.

In its Summer Budget, the Government confirmed it will launch a new version of the ever-popular tax wrapper in April 2016, which will allow for up to £15,240 to be invested in the peer-to-peer (P2P) sector. ISAs continue to be the premier savings vehicle for retail investors. In 2013/4 over 3 million people invested in a Stocks & Shares ISA (and a further 10.5 million people in a Cash ISA!) and the total value nears half a trillion pounds, split roughly half and half between Cash and Stocks & Shares.

The P2P marketplace has already experienced strong growth, almost trebling in size last year to more than £1.3bn. New figures from the sector's trade body, the Peer-2-Peer Finance Association, shows that more than £500m of new consumer and small business loans have been provided by peer-to-peer platforms since April, the fastest rate of growth yet. Cumulative lending by the sector now stands at an impressive £3.15bn.

But when you consider the double whammy of poor interest rates being offered by cash accounts and consumers having greater difficulty in getting personal loans from their banks, then perhaps we shouldn't be surprised by the popularity of this new approach of matching lenders with borrowers.

The P2P concept allows borrowers and lenders to circumvent traditional financial institutions. Here, borrowers can benefit from lower rates of interest, lenders can in turn achieve far higher rates of return than they would receive from traditional high street deposit accounts. Borrowers go through a credit-check process and subsequently receive risk ratings, which in turn lets them know at what sort of rates they can borrow at. Lenders, on the other hand, can opt to lend to higher-risk peers for greater rates of return or instead they can offer loans to more solid bets for more modest yields.

However, there is a serious issue here and that's whether consumers appreciate the potential risks involved and whether they fully understand P2P lending rules. Most importantly, P2P is not covered by the Financial Services Compensation Scheme. Therefore savers could lose capital as well as interest, while also facing restrictions on withdrawing money.

Some might argue that this is a case of *"caveat emptor"* but with the huge popularity of the ISA wrapper there is a danger that consumers will not take heed of the risks or assume they don't exist as 'it's an ISA'. We would like to see all the industry be open and transparent in the way it informs consumers about P2P lending, otherwise we risk damaging the ISA brand. And that is in no one's interests.

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