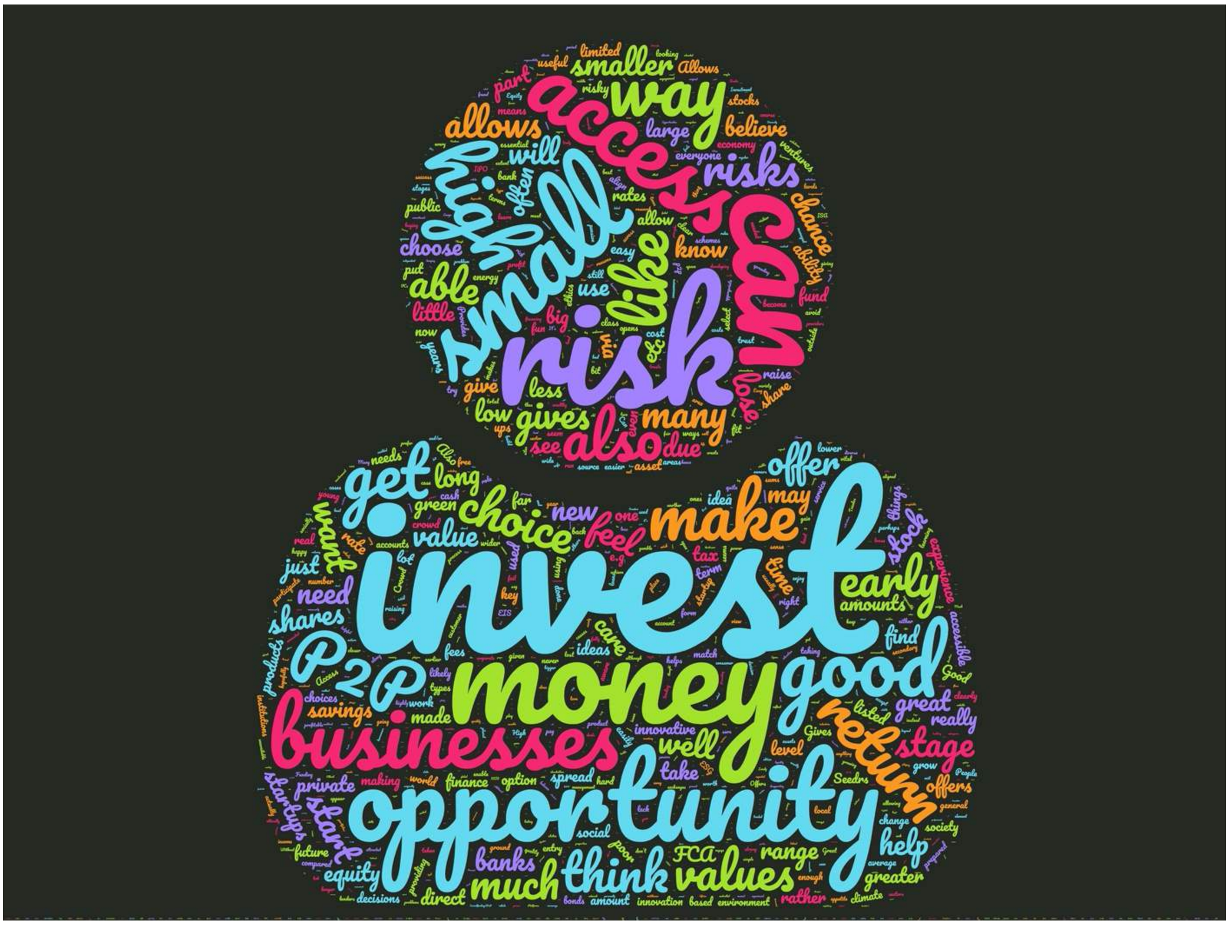
Understanding Attitudes to investment and risk of regulated Crowdfunding and P2P Lending customers.



Findings based on Online Survey carried out online from 16-27th June 2021.
(2512 respondents)

Executive Summary

1. Customers do not have a one-size-fits-all attitude to risk.

2. Customers of crowdfunding and p2p lending platforms demonstrate a good understanding of the benefits and risks of investment. Only 0.7% of respondents believed that investments in crowdfunding and p2p lending itself constituted a low risk investment.

3. There is little overlap between investors in regulated crowdfunding / p2p platforms and unregulated minibonds, leveraged CFDs or Crypto assets.

4. Investors in both Investment-based crowdfunding (IBCF) and P2P lending diversify their investments to spread their risk, both across different projects / businesses and across different platforms.

5. Customers are strongly opposed to the use of mass marketing bans to restrict access of less experienced investors to certain investments

6. From over 1000 verbatim responses – just 12 respondents were supportive of the direction being proposed by the FCA. The majority of respondents voiced concerns that these reforms were unnecessary and failed to address the key problems of the high-risk investment market.

7. Customers support better enforcement and policing against the imposition of additional rules and restrictions on their investment choices.

Aims of this research

The UK Crowdfunding Association commissioned this research as preparation for their response to the FCA Discussion Paper (DP21/1) and Consultation Paper (CP 21/1). Member platforms offering equity, debt security and loan-based investments gathered the responses of more than 2500 customers between 17th-27th June 2021. Respondents also provided more than 1500 freeform comments which have been analysed and coded as part of this research and which both individually and in aggregate provide powerful testimony to the success of the sector as well as practical suggestions for improving the approach to helping customers understand risk, make informed choices about their investments and ultimately to maximise positive customer outcomes.

The research aims to provide a deeper understanding of attitudes to risk and investing. It also aims to demonstrate how the regulatory framework which governs our sector has performed relative to other "high risk investments" and to challenge an approach to analysis which fails to make a clear distinction between these very different investment types. We believe that treating the current list of high-risk investments as an homogenous category unfairly links regulated investments with unregulated investments which are largely outside of the Financial Conduct Authority's (FCA's) perimeter.

As an industry we have always been pro-regulation to maintain consistent standards for the sector and to ensure the need for financial innovation is balanced with the need for customer protection. We believe that the social sciences (including branches of economics, sociology and anthropology) have a role to play in ensuring the UK has an effective and world leading regulatory regime for retail investment.

We also believe that the voices and opinions of our customers should take centre stage and inform our response to proposals in both the discussion paper and current consultations.

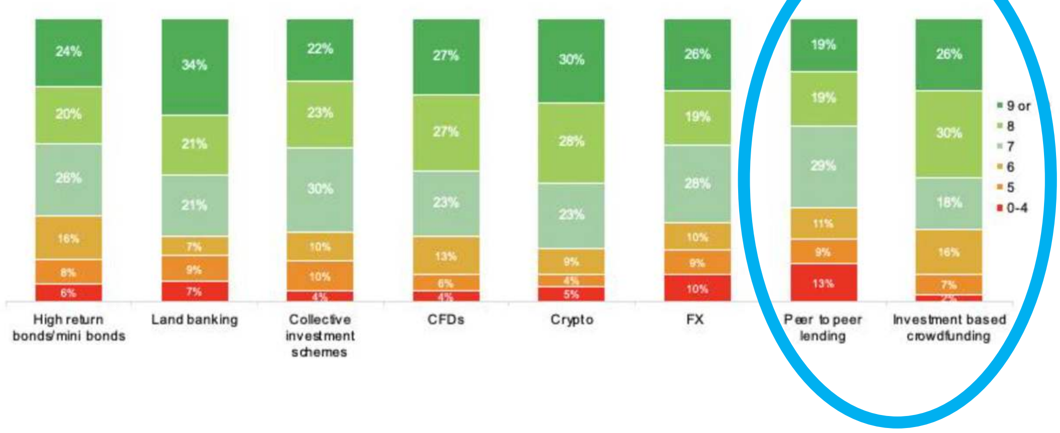
Main findings

1. Customers do not have a one-size-fits-all attitude to risk

Customers responding to the survey demonstrated a similar overall appetite to risk as that found from the survey commissioned by the FCA from Britain Thinks. Addressing the findings of this survey is important because it has been inferred that a significant proportion of customers of regulated firms are making investments which are either inappropriate or unsuitable for their needs. This finding would obviously be concerning for any sector of the financial services industry, however, members of the UKCFA, many of whom have decades of research experience understanding customer attitudes to money felt that it gave a potentially misleading impression of the problem.

It was noted that in the appendix of the Britain Thinks report a breakdown of customer responses revealed a more nuanced picture, with Investment-based crowdfunding, the sector which has had the requirements for categorisation and appropriateness since 2014, showing a very different profile of customers' risk appetite. P2P lending, which was required to carry out these measures in 2019 following a two year long planned review of the sector, has yet to see the full benefit of these measures.

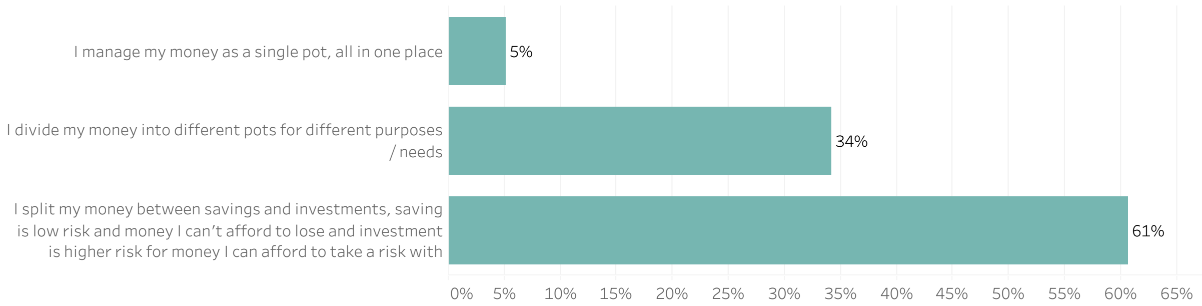
Percentages of self-directed investors' self-defined risk level by the high-risk, high return type they hold



The response from customers of IBCF and P2P platforms was consistent with the audience responses from the Britain Thinks research, with the modal, average, and median scores for appetite to risk being 7.

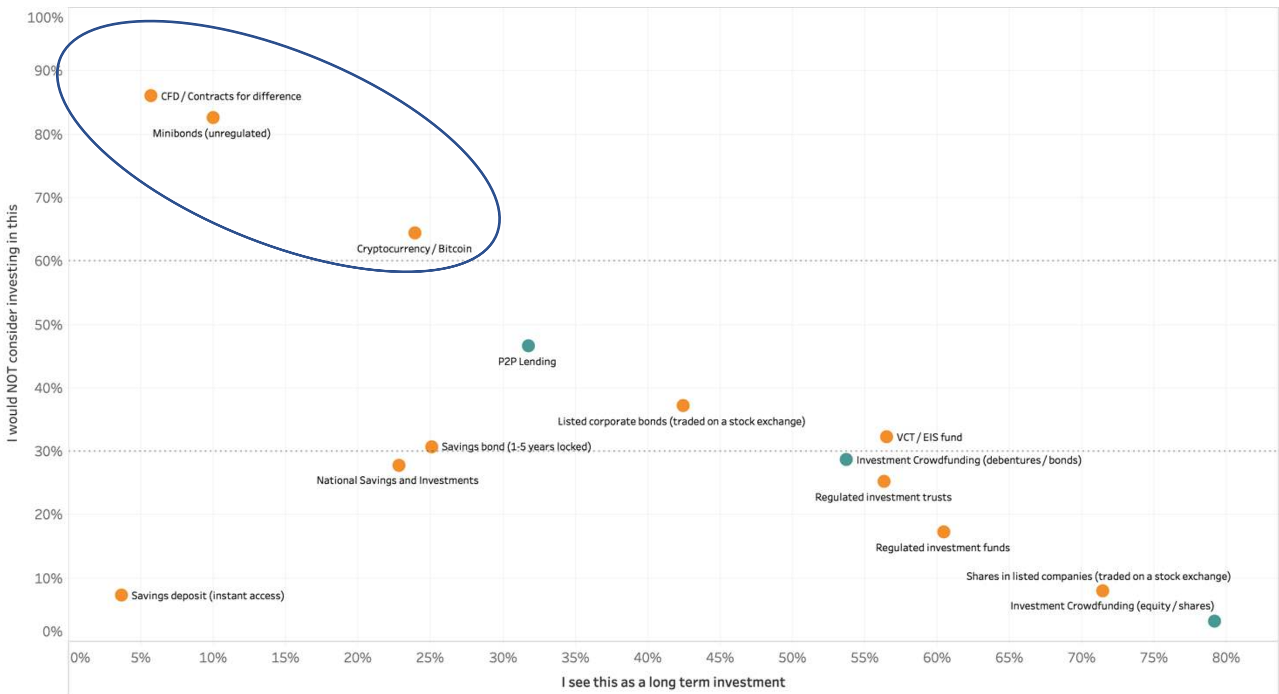
However, when asked about the risk level of IBCF and P2P lending, just 0.7% of respondents ascribed the investment to be 'low risk'. The difference between these two responses can be explained by analysis of the following questions.

Firstly, customers do not assign their money with a single risk, purpose or even value. This principle is well established data from numerous social and anthropological studies.



An overwhelming majority of respondents, (95%) either divide their money into different pots for different purposes or differentiate between their savings (low risk) and their investments (high risk). Just 5% of respondents claim to manage their money as a single pot. When respondents were asked to define the financial goals, which could be applied to a range of savings and investments, they demonstrated a very clear understanding of the relative suitability of investment types for both short- and long-term financial goals.

Most importantly, a very high percentage (80%) would not even consider an investment in unregulated mini-bonds and CFD/Contracts for difference (which are considered to be in the same category of high-risk investment to IBCF and P2P) and >60% would not consider investing in crypto assets. This argues for a separate approach to understand any issues with understanding risk within the regulated crowdfunding and p2p sectors.



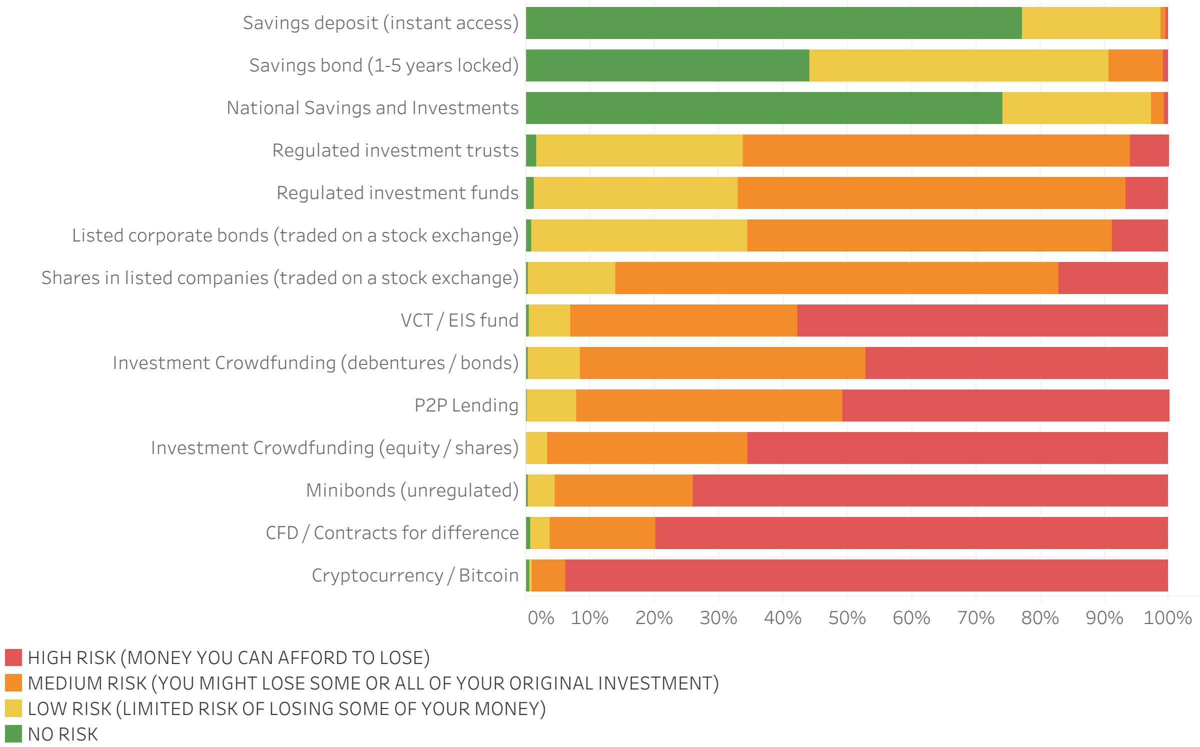
This view of investments is reflected in the broad range of products held by investors, ranging from savings through to funds and of course, IBCF and P2P lending.

	UKCFA Member Survey	OnePoll (benchmark – Jan 2021)
Bank or Building Society savings account	58%	58%
Instant access cash ISA	20%	35%
Fixed rate / notice cash ISA	15%	15%
Stocks and shares ISA	60%	20%
Innovative Finance ISA	29%	5%
Any other sort of ISA (e.g. Lifetime, Help to buy)	14%	11%
Individual company stocks and shares (not within an ISA)	49%	16%
Investment Funds and Trusts	37%	12%
Income funds	9%	7%
National Savings and Investments (NS&I) bonds	30%	23%
Private pension / SIPP	37%	26%
Pension through your employer	40%	44%
None of the above	1%	10%
Equity crowdfunding (investing in unlisted shares)	71%	N/A
Debt based crowdfunding (investing in bonds or debentures)	30%	N/A
Peer-to-peer investments	33%	6%

This table shows the percentage of respondents hold specific investment products benchmarked against an online survey of a representative sample of 2000 UK Adults carried out in January 2021 for Abundance Investment.

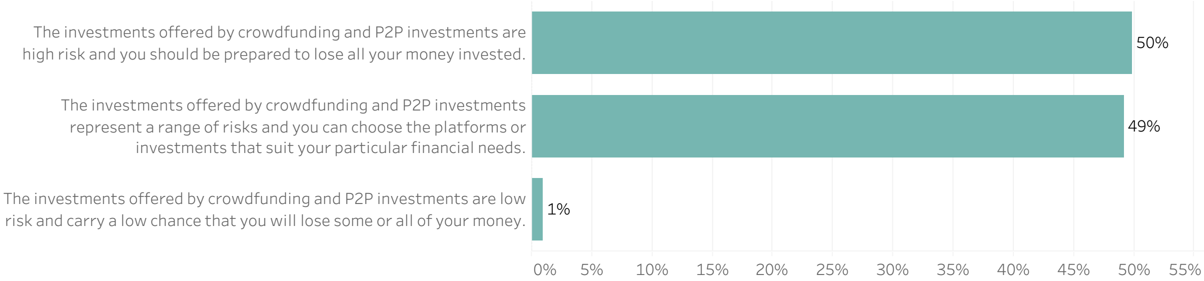
It clearly shows that customers of IBCF and P2P platforms are more likely than the population as a whole to hold a range of investment products, with differing risk and return profiles.

When asked to ascribe a risk level to individual investment types, the response from customers clearly demonstrates both a clear and nuanced understanding of risk. This undermines the argument that such customers are unable to make informed decisions and potentially choosing products which are inappropriate for their risk appetite.



We do not believe that generalised conclusions should therefore be applied when trying to understand the customer outcomes of specific investment products. The UKCFA would strong argue that the systems and controls which regulate the sector have proven remarkably effective and while there are always improvements based on the findings of the research (particularly customer responses about the importance of risk warnings in supporting informed choice) the perceptions of the sector relative to other financial products would seem to be both accurate and appropriate.

When assessing the risk crowdfunding and p2p lending specifically, respondents were again very clear in their perceptions reflecting an understanding of both the overall risk level (50% perceived it as high risk and should be prepared to lose all of your money), 49% that it represented a range of risks, acknowledging the differing levels of risk across different investment products, platforms and asset classes. Only 0.7% of respondents believed that the sector represented a low-risk investment.



In conclusion, customers should not be treated as having a 'one size fits all' attitude to risk and applying the insights of the social sciences can provide valuable insight into the realities of the effectiveness of existing rules and understand the surface level responses of respondents to generalised questions about appetite to risk.

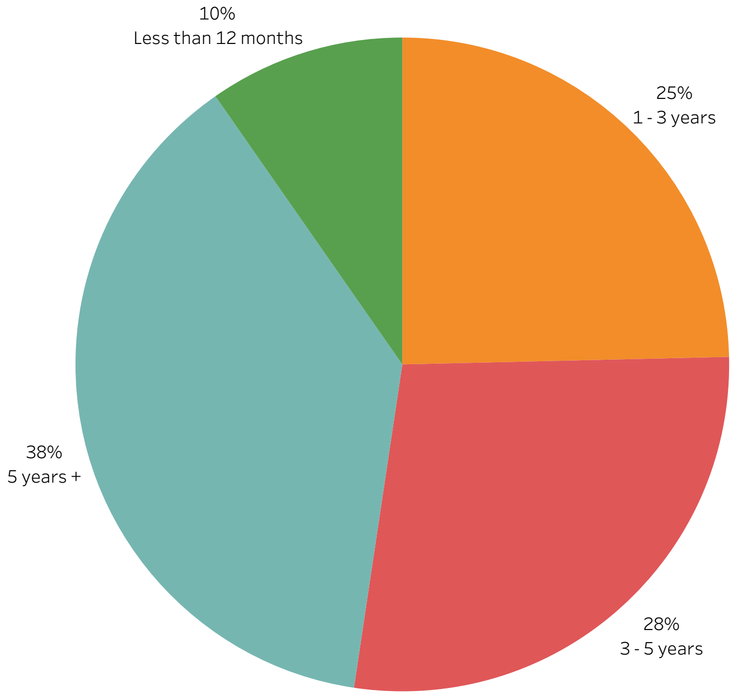
We believe this also demonstrates the importance of differentiating between regulated and unregulated investments when considering the need for rules and guidance for high-risk investments.

2. The Profile and Experience of Customers of Regulated IBCF and P2P Platforms

The UKCFA research also aimed to understand the profile and experience of customers and how they approached the process of investing in regulated IBCF and P2P Platforms. The FCA's own research carried out to inform the discussion paper highlighted that the majority of respondents were driven by "emotional factors", however, we believe that consistent with the findings on attitudes to risk, this conclusion has been skewed by the conflation of very different segments of customers with very exposure to very different experiences of investing.

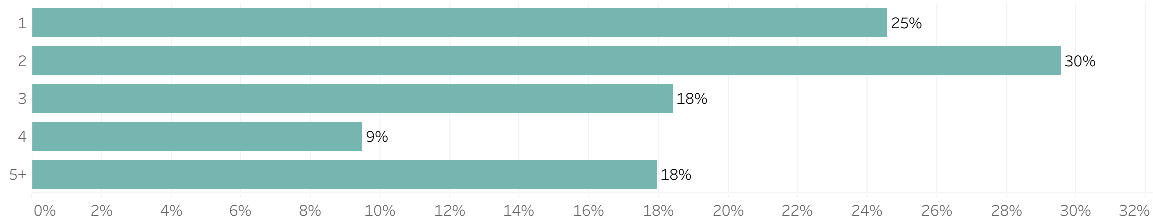
Respondents to the survey represented a range of experience, from < 12 months to 5+ years, of making investments with regulated crowdfunding and p2p lending platforms.

Qu. How long have you been a customer of a crowdfunding or p2p platform?



75% of customers who responded to the survey had experience of 2 or more platforms across the different product types and asset classes offered by the regulated crowdfunding and p2p lending market. This contrasts strongly with the reported behaviour for high-risk investments in general and demonstrates how customers are shopping around to diversify both the type of investments they are making and the risk of those investments.

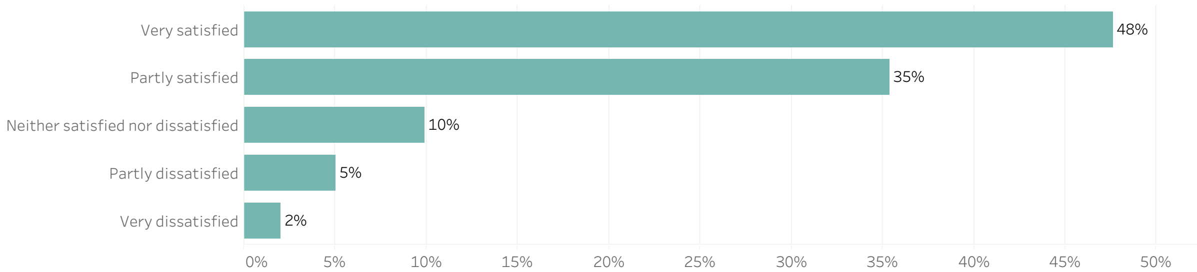
Qu. How many different crowdfunding and p2p platforms have you used?



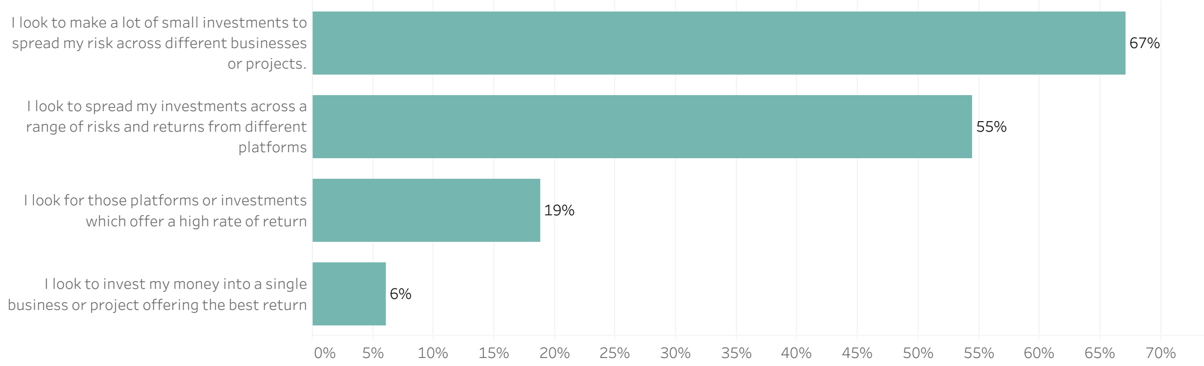
Respondents to the survey were on whole satisfied with their experience of investing, with 83% stating that they were very satisfied or partly satisfied. However, the survey was open to all customers on the participating platforms and we note that 7% of customers were partly or very dissatisfied with their experience. The industry takes the feedback of customers very seriously, positive and negative, but we believe that these levels of satisfaction show how the sector has matured and developed since its inception more than 15 years ago and the benefits of its focus on building positive and lasting relationships with customers. In stark contrast, we would assert, with the reported experience of investing in unregulated minibonds and other forms of high-risk investments.

Customers were encouraged to give direct feedback to both the platforms and the FCA about their experience of investing (and the discussion of increased restrictions and marketing bans). The more than 1500 verbatim statements have been analysed by the UKCFA and a summary of the feedback is provided in section [4].

Qu. How satisfied are you with the experience of using crowdfunding and P2P investments?



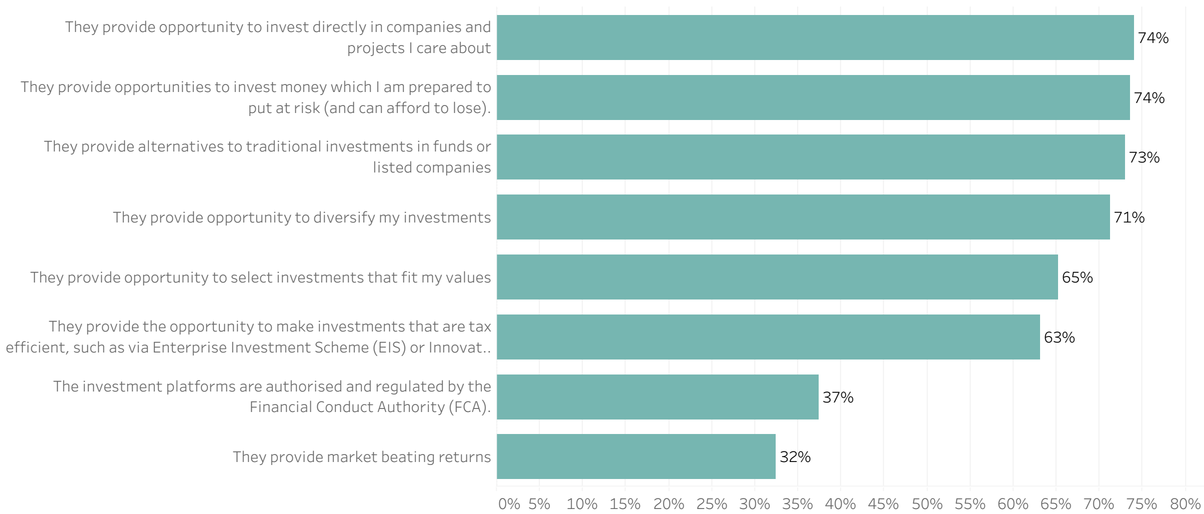
In line with the findings on their approach to managing their money, customers stated motivations were focused on risk and diversification again in contrast to the reported behaviour highlighted in the general findings for high-risk investments, the offer of a high rate of return. 2/3 of respondents sought to diversify their investments across different projects or businesses, and more than half (55%) across different platforms



Digging deeper into the broader motivations for investors revealed an equally balanced set of reasons to invest, which are also reflected in the positive themes from the freeform verbatim responses about the value of the sector and the importance of being able to access alternatives to traditional investment products.

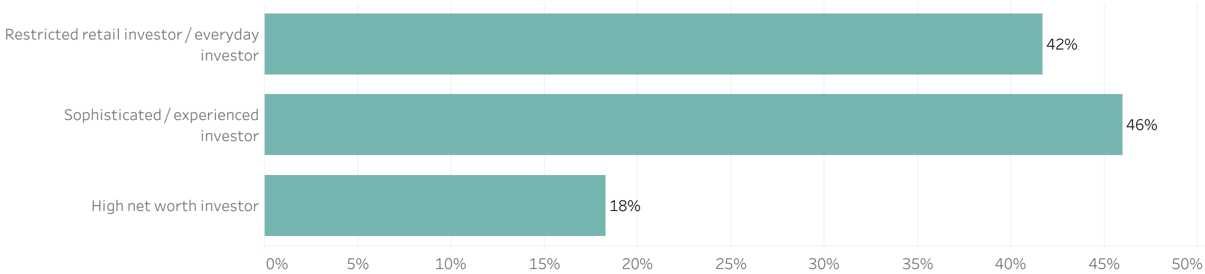
96% of respondents thought that it was *very important / important* "for ordinary investors to have choices for investing their money which offer alternatives to traditional investments such as funds or shares on stock exchanges".

The main benefits of investing in crowdfunding and p2p lending centre on the broader value of the investments (both in terms of personal values and value to the economy), diversification and alternatives to funds and listed companies. A significant theme of the freeform verbatim feedback was the importance of the democratisation of investment and focus on "the smaller investor" over larger institutions or the implication that only the wealthy / well off should have access to certain types of investments. Less than one third of respondents cited "market beating returns" as a benefit of the sector.



3. Attitudes to Investor Categorisation and Marketing restrictions for Speculative Illiquid Securities

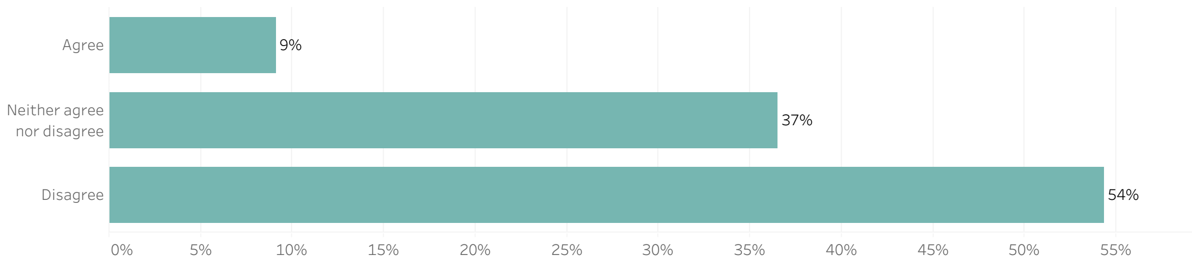
Respondents were asked to provide their investor categorisation which showed that the survey included a balance of those who stated they were restricted (42%) or sophisticated (46%) investors with a minority of High-Net-Worth individuals (18%) - the additional percentage here reflects the fact that not all platforms consider High Net Worth to be a relevant category to define investment experience, i.e. "Wealth is not a skill set" and so some restricted and sophisticated investors indicated they also qualified as High Net Worth.



3a. A majority of Restricted Retail Investors are against the use of blanket bans and restrictions of investor freedom of choice

Those respondents who identified as Restricted retail investors were asked whether they agreed or disagreed with the imposition of the permanent ban on mass marketing of Speculative Illiquid Securities. 54% of respondents from this category were against such a ban and upon being invited to giving general feedback to the FCA, there was a significant number (perhaps more than a third) of the 1500+ verbatim responses, which related to this ban and how it adversely affected the ability of investors to make informed choices and reflected a perceived bias on the part of the regulator towards wealthier or professional investors over the interests and outcomes of 'ordinary investors".

Qu. Do you think it is fair and proper that you are banned from seeing details about certain crowdfunding and P2P investments such as construction of property, or companies who are lending to small businesses?



3b. Sophisticated and High Net Worth Investors showed concern for 'less able' investors

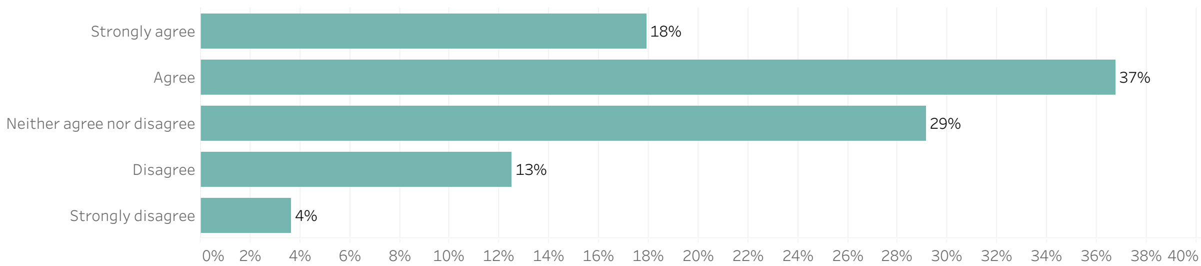
Those respondents who identified as Sophisticated investors gave a more balanced response to the question above, with 37% disagreeing with the ban and 34% in favour. The reasons in the verbatims focused mainly on their concern for the ability of other investors to make good investment decisions, with >90% of sophisticated investors agreeing that being categorised based on their investment experience should qualify them to view all investments in the market.

4. Areas for improvement

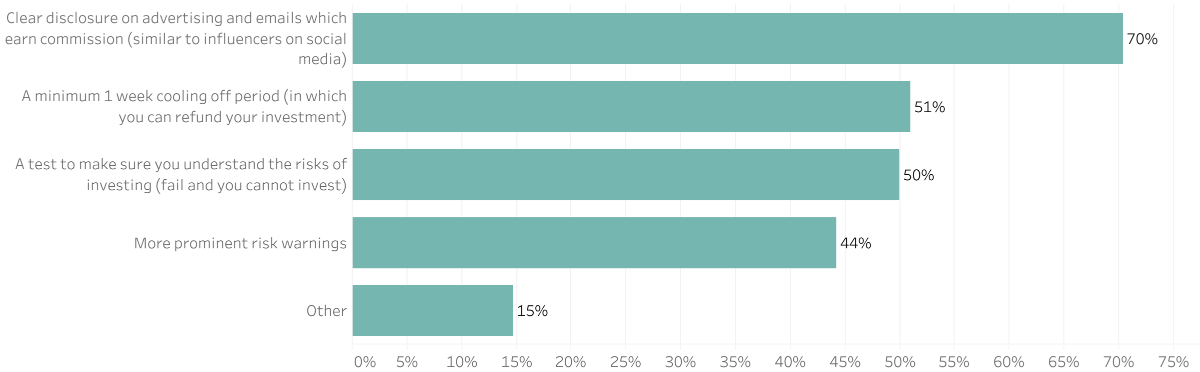
Crowdfunding and P2P lending have always prided themselves on listening to customers and making them part of the process of product development. This reflects the origins of the sector based in 'deep hanging out' research techniques of anthropology and its continued relationship with academic socio-economic research.

55% of respondents, agreed or strongly agreed with the proposal to use stronger risk warnings to help investor understand the risks of investing. This was amplified in the verbatim comments with a desire to ensure risk warnings were not 'standardised' or too extreme but helped customers understand and if necessary, compare the risks and rewards of different investments for themselves. Again, this runs contrary to the perception that investors seek or expect 'easy options' or are making emotional decisions divorced from perceptions of risk (or with unrealistic "never too good to be true" assessments of the risk involved).

Qu. Do you agree with the FCA that crowdfunding and P2P investments should use stronger risk warnings to help investors understand the risks? (In particular that you could lose some or all of your original investment).



Qu. Please tick any of these ideas which you think it would be a useful for P2P and crowdfunding investment platforms to use to make sure customers understand the risks of investing and don't make rushed decisions.



Not unexpectedly "other ideas" to help customers understand the risks and introduce 'positive frictions' as outlined in the discussion paper, mirrored the direction of the overall feedback from the survey respondents. 1 week cooling off (already applied) and the appropriateness test were deemed positive by more than half of respondents, with 70% wanting to see more transparency in the social media, emails and other online communications are paid for and funded by the finance industry as a whole.

5. Summary of direct feedback – themes from verbatim comments

Respondents provided a wealth and comments and feedback (more than 30,000 words from more than 1500 comments) which have been coded and summarised here to highlight the themes, concerns of investors and constructive suggestions made for the improvement of the sector overall.

As platforms have come to expect, crowdfunding and p2p customers are always willing to share their views on their investment experience and their overall support for the sector was balanced by a desire to improve or maintain standards in terms of risk warnings and disclosure (with individual examples of good practice being praised as much as examples where platforms had not met expected standards).

Against Blanket Restrictions (100 comments)
Treat us as adults, not children (36 comments)

Customer sentiment here focused on the importance of the principle of informed choices rather than limiting the information customers could access to make investment decisions. This was balanced by the view that policing risk warnings and investor information was important to maintain (see later comments on risk warnings and disclosure) but the use of blanket restrictions was rejected as a way forward by most customers who responded.

Maintaining access to Markets (89 comments)
Democratisation and prioritising interests of individual investors (46 comments)

The importance of opening up rather than restricting investment markets and opportunities for ordinary investors was a common theme from many respondents (and was often a supporting reason to be against the use of blanket restrictions). The idea that only an elite of people could participate in, control, and secure the rewards (and fees) of such investments was rejected by many respondents.

Education and Clear Communication (43 comments)
Concern for others (12 comments)

Instead of restrictions on information, respondents raised the issue of education and the responsibilities of the regulator to encourage initiatives which increase investor knowledge and experience in a carefully controlled manner. Allied to this was a concern that not all investors acted with the same awareness and capacity and that such investors should be supported (but not excluded).

Standards for Investment Disclosure (34 comments)
Support for Clearer Risk Warnings (30 comments)
"Suggestion box" (20 comments)

The focus of investors was on providing consistent standards on the requirements for disclosure, effectiveness of risk warnings and indeed, in their suggestion box, many of the things which are already implemented by platforms (following regulatory guidance or following the industry associations own standards and principles in addition) such as restricted investor status, appropriateness tests, etc

In particular customers were keen to see better disclosure on communications by 3rd parties (whether via regulated introducers or not) of commission and fees for that communication.

Freedom to invest in line with values / Green or Ethical Motivations (18 comments)

As many of the leading ethical investment platforms are members of the UKCFA, many respondents voiced concerns that their ability to invest in line with their values would be curtailed by overly onerous restriction on what investment opportunities they were allowed to access (and which are not generally available via traditional investment models and listed markets).

Don't lump these investments together (17 comments)

As illustrated by the quantitative survey data, respondents were keen to highlight the very different risks and rewards available across the whole sector and implored the regulator not to adapt a one size fits all approach to regulation (and the communication of risk warnings for example).

Value of crowdfunding and p2p to wider economy (15 comments)
Praise of individual platforms (15 comments)

More than 70% of investors use crowdfunding and p2p lending because they can see it (and they want their money) makes a difference to businesses and projects in the real economy.

Comments critical of the FCA's approach to the sector (30 comments)

Alongside the tone and direction of comments in relation to the proposals, 30 comments were specifically critical of the focus of the FCA was taking and highlighting the importance of enforcement of existing rules before "throwing the baby out with the bathwater" in the case of high-risk investments and highlighting the very different protections and controls which the regulated sector provides compared to unregulated investments.

Support for the proposals outlined (12 comments)

12 respondents provided feedback in support of the proposals to limit access to high risk investments.