UK peer-to-peer lenders told to check harms risks, liquidity and consumer fairness

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By Abhishek Kumar

Peer-to-peer lending platforms have been warned by the UK financial industry regulator to watch for harms to consumers and markets and ensure that they act to mitigate any they find. The Financial Conduct Authority also said they should expect enforcers to increasingly use data to identify problem firms. Lenders should also identify "absolute minimum levels" of liquid and capital resources which, if breached, would lead to a winding-down.

Peer-to-peer lending platforms have been warned by the UK financial industry regulator to watch for harms to consumers and markets and ensure that they act to mitigate any they find. The Financial Conduct Authority also said they should expect enforcers to use data more directly to identify problem firms.

Lenders should identify "absolute minimum levels of liquid and capital resources which, if breached, will lead to the company's winding-down," the FCA added in a letter today to board members of regulated companies.

The regulator said it would engage with lending platforms to ensure they have embedded the rules under its "framework for strengthening financial rules for high-risk investments and firms approving financial promotions," also known as PS22/10.

"We will increasingly use data, already provided through regulatory returns, but now supplemented by direct information requests and intelligence, to assist in identifying outlier firms that pose a heightened risk of harm, whether deliberately or not, and engage with them to mitigate any harm or potential harm," the FCA said.

Companies will need to assess the adequacy of liquidity resources needed to facilitate an orderly wind-down and maintain sufficient liquidity reserves for that, as well as review the suitability of their wind-down plans, the FCA said, including by assessing the triggers that could prompt a wind-down.

The regulator said it would call for a capital injection in cases where it feels levels of capital or liquidity resources may be inadequate.

Companies have also been asked to complete a "self-certification attestation" to clarify accountability and ensure that they act on the regulator's advice. "We use attestations as a supervisory tool to ensure that regulated firms, and senior individuals within them, are clearly accountable for taking the actions we require," the FCA said.

The FCA also referred to the UK's new Consumer Duty on firms to act in the customers' best interests, saying it expects a full implementation by companies to ensure consumers' needs are prioritized and good outcomes delivered.

"Firms must review their communication systems, including complaints procedures and remove any unreasonable barriers, to make sure they align with expectations under the Consumer Duty," the regulator said. It said it would use the Consumer Duty to intervene assertively to prevent any harm from occurring and also use other formal tools wherever needed to address consumer grievances.

It gave the example of a need to ensure investors are given correct and complete information so they fully understand all aspects of the investment and are making informed decisions. This includes the inherent illiquidity, risk of capital loss and lack of protection under the UK's Financial Services Compensation Scheme.

"We expect firms to do due diligence on the borrower, purpose of loan and any security and have assessed it as an appropriate investment for retail investors," the FCA said.

The regulator also called upon companies to put in place appropriate risk management frameworks and ensure due diligence for the loan products they provide before marketing them to investors.

On the price and value of products and services offered by peer-to-peer lenders, the regulator said companies need to be clear about any change in platform fees, charges and priority over recoveries.

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