REPORT 617

Survey of marketplace lending providers: 2017–18

April 2019

About this report

This report provides an overview of marketplace lending platforms structured as managed investment schemes. It is based on the findings from ASIC's survey of 13 marketplace lending providers for the 2017–18 financial year. This is our third survey on this segment of the marketplace lending sector.

By conducting surveys of marketplace lending providers, we have been able to better understand new and existing business models, monitor activity levels and assess risks.

This report explains:

- how we conducted the 2017–18 survey;
- findings from the 2017–18 survey; and
- our next steps.

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Disclaimer

This report does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations Act and other applicable laws apply to you, as it is your responsibility to determine your obligations.

Examples in this report are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

Previous reports on our surveys of marketplace lending

Report number	Report date
REP 559	December 2017
REP 526	June 2017

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Executive summary

1 Marketplace lending generally describes an arrangement through which retail or wholesale investors invest money, which is then lent to borrowers (consumers or businesses).

2 Marketplace lending is a relatively new technology-based finance business (fintech) model in Australia. It can provide an alternative source of finance for consumers or small to medium enterprises (SMEs) from traditional channels. The use of new technologies such as online platforms enables investors and borrowers to be matched more easily, leading to growth in the number of investors and borrowers participating in loans through marketplace lending platforms. In most cases, marketplace lending involves the provision of financial services and/or credit activities that are regulated by ASIC.

3 ASIC encourages the development of fintech business models that can benefit consumers through increased competition and choice in the financial services sector; however, we do not endorse particular service offerings. It is important that users of new financial services understand how a service works and consider if the risks and benefits are appropriate for their circumstances.

4 With the increased adoption of marketplace lending as an alternative source of finance for borrowers and of investment for investors, we considered it worthwhile to engage with marketplace lending providers through surveys of the sector. This has allowed us to better understand new and existing business models, monitor activity levels and assess risks.

5 In May 2018, we commenced our third annual marketplace lending survey. This survey, for the 2017–18 financial year, follows our earlier surveys for the 2015–16 and 2016–17 financial years: see Report 526 *Survey of marketplace lending providers* (REP 526) for the 2015–16 survey and Report 559 *Survey of marketplace lending providers: 2016–17* (REP 559) for the 2016–17 survey. Each survey not only is valuable as a 'snapshot' of the state of that part of the market licensed by ASIC as managed investment schemes, it also contributes to an increasingly valuable time series data. This allows trends and risks to be more readily identified.

6 While we refer to 'marketplace lending providers' for convenience and for consistency with our previous reports, the marketplace lending providers we supervise and surveyed comprise two entities: a trustee and a platform operator. The results of the 2017–18 survey are based on responses from the 10 trustees of 13 marketplace lending platforms that are structured as registered or unregistered managed investment schemes. These 13 platforms are managed by 10 operators appointed by each of the trustees. While there are different marketplace lending models, the survey was focused on

marketplace lending platforms regulated by ASIC as managed investment schemes and did not cover the entire marketplace lending sector in Australia. For example, there are other marketplace lending platforms where wholesale investors only fund loans provided to SMEs and these were not captured by the survey. See Section A for more information about how we conducted the survey.

7 This report highlights key findings from the 2017–18 survey – it is not intended to be a comprehensive report of all responses received.

8 A comparison of the results of this survey and the previous two surveys indicates that the amounts invested in and lent by marketplace lending platforms regulated by ASIC as managed investment schemes continues to grow strongly. The numbers of investors and borrowers have also increased, but their rates of growth have moderated. The rate of loan default has increased moderately since the 2016–17 survey, currently representing 2.9% of the value of total loans. The sector is still characterised by two major marketplace lending platforms; however, their total share of funds under management has reduced over the last year. In 2017–18, there were no new operators that entered the market and only one new platform, started by an existing platform operator.

9 Of the surveyed marketplace lending providers for the 2017–18 financial year:

(a) *borrowings*—the total amount borrowed was $433 million, up from $300 million for the 2016–17 financial year;

(b) *outstanding loans*—the total amount of loans outstanding was $518 million, up from $327 million for the 2016–17 financial year;

(c) *retail investor growth*—the number of retail investors as at 1 July 2018 is 79% higher than as at 1 July 2017, and the total number of retail investors has more than quadrupled since 1 July 2016;

(d) *rate of investor growth*—the rate of growth in new investors is slightly lower compared with the 2016–17 financial year, while the total amount invested increased by $108 million; and

(e) *operator revenue*—loan origination fees reduced from 78% of total fee revenue to 68%. Fees from investors increased from 19% to 35% of total revenue over the 2017–18 financial year, driven largely by a significant increase in revenue from wholesale investors from $1.26 million to $4.78 million.

10 While the survey solicited information on platform lending to consumer borrowers, this report makes no assessment of whether marketplace lending providers met their responsible lending obligations or whether their lending practices conformed with the National Credit Code in Sch 1 to the *National Consumer Credit Protection Act 2009* (National Credit Act).

11 We will continue to engage with and monitor marketplace lending providers that are within ASIC's regulatory remit, and assess the merit of conducting future surveys considering that some indicators suggest that sector growth is moderating. In this context we note the proposed use of new data-gathering powers by the Australian Prudential Regulation Authority (APRA) to survey non-bank lenders, including marketplace lending providers. The APRA surveys may cover similar ground to our surveys. We will consider any potential overlap when assessing the design and ongoing value of our surveys.

A Our survey of marketplace lending providers

Key points

For our 2017–18 survey, we adopted a similar methodology to our first and second marketplace lending surveys.

The respondents in the 2017–18 survey were 10 trustees of 13 marketplace lending platforms (see paragraphs 12–13).The same trustees provided responses to the 2016–17 survey.

Survey participants

12 The information in this report is not a reflection of the entire marketplace lending sector in Australia. Consistent with our earlier surveys (REP 526 and REP 559), this report covers only those marketplace lending platforms that are regulated by ASIC as managed investment schemes, where retail investors and or borrowers may be involved.

13 We surveyed 10 trustees in respect of 13 platforms. These platforms are managed by 10 operators which are separate entities from the trustees. It does not cover other forms of loan-based funds, such as schemes registered as contributory and pooled mortgage schemes, SME (only) loan platforms funded by wholesale investors or marketplace lending arrangements that do not involve the provision of a financial product or service.

14 While this report considers the marketplace lending platforms regulated by ASIC as managed investment schemes in aggregate, the large variations in the market share of the surveyed platforms mean that changes or trends attributed to the marketplace lending platforms in general (unless expressed as representative of all platforms) may be driven by developments in a small number of larger platforms. Based on the responses from the 2017–18 survey, two marketplace lending providers' platforms represented 78% of sector funds under management. This is down from an 87% share for these two platforms in the 2016–17 survey and an 89% share in the 2015–16 survey.

How we conducted the survey

15 We conducted the 2017–18 survey between May and October 2018 with the same trustees we surveyed in 2016–17. The survey questionnaire considered our analysis of, and feedback received from participants on, the 2016–17 and 2015–16 surveys.

16 In the 2016–17 survey, one of the trustees only provided limited information on two platforms that were then newly established. More extensive information on those two platforms was provided for this survey. A trustee who was surveyed in relation to one platform in the 2016–17 survey is now the trustee of a second platform, and provided an aggregate response for both platforms for the 2017–18 survey period.

17 The 2017–18 survey had three parts, similar to our earlier surveys. The first part of the 2017–18 survey collected information about each platform's business structure and operations. This part included questions of a qualitative nature about the platform operators' business models, such as:

(a) how investors and borrowers are matched, and loans are allocated;
(b) how credit risk and interest rates are determined;
(c) any partnerships, alliances or other arrangements involving equity investment in the business;
(d) fee structures and other sources of revenue;
(e) cyber security and information technology (IT) security arrangements;
(f) conflicts of interest; and
(g) liquidity management.

18 The second part of the survey included questions of a quantitative nature about each platform operator's business, eliciting data in numerical form such as statistics, percentages and dollar amounts. Questions in this part of the survey focused on:

(a) characteristics of the borrowers and investors;
(b) characteristics of the loans made, including interest rates, amounts, term, security and default;
(c) indicators of operational and compliance risk, including complaints, breaches and cyber security threats; and
(d) the amount generated from key sources of revenue.

19 Most of the trustees supplied comprehensive responses to the 2017–18 survey.

20 The third part of the survey allowed the trustees to supply additional comments on aspects of platform business plans or sector trends they believed we should be aware of.

21 The 2017–18 survey was sent to trustees by way of a Notice of Direction under s912C(1) of the *Corporations Act 2001* (Corporations Act).

B Survey findings and observations

Key points

Key findings from the 2017–18 survey relating to investment included:

- the surveyed marketplace lending sector now holds more than half a billion dollars in funds under management;
- The number of retail investors increased to 12,243 as at 30 June 2018, up from 6,851 as at 30 June 2017 and 2,664 as at 30 June 2016; and
- retail investors have invested a total of $83 million in the platforms.

Key findings from the 2017–18 survey relating to borrowing included:

- both the amount borrowed and number of borrowers from marketplace lending operators grew strongly, although the rate of growth has moderated from the 2016–17 survey;
- the percentage of all loans that were in default on 30 June 2018 was 2.9%, up from 2.2% in the 2016–17 survey; and
- loan origination fees contributed 67% of the total revenue of marketplace lending operators, down from around 80% over the past two surveys.

Business models

Changes to 2017–18 survey respondents' business models

22 Noteworthy changes to marketplace lending operators' business models in the 2017–18 survey included:

(a) one operator of a retail platform established a new platform for wholesale investors (an unregistered wholesale managed investment scheme);

(b) one operator established a 'Green Loan' market on its platform with a focus on the renewable energy lending market and the provision of funding for the purchase and/or installation of clean energy products, such as solar panels;

(c) one retail scheme platform was deregistered and the deregistration process for a second retail platform was commenced during the survey period. These platforms had not yet received any investment. The associated operators continue to operate platforms for wholesale investment;

(d) one platform now allows investment in a whole single loan rather than on a fractionalised basis;

(e) three platforms now include loans originated by third parties;

(f) in relation to promotion and distribution:

  (i) one operator now additionally promotes to wholesale investors;

  (ii) one operator now additionally promotes to institutional wholesale investors; and

  (iii) one operator has established new referral arrangements with mortgage and finance brokers relating to the distribution of credit. In most cases, successful referrals result in the payment of a fixed commission to the brokers; and

(g) in relation to late repayment and loan collection:

  (i) one operator now uses an outsourced collection service for loans in default (loans outstanding for more than 90 days). After loans are written off (loans outstanding for more than 180 days), they are assigned to a third party who pays the operator an agreed cents per dollar amount of the total loan value; and

  (ii) seven operators had written-off loans in default but had not assigned them to third parties.

Overview of new business models

23 A summary of the different business model features is outlined in Table 1.

Table 1: Features of business models

Business model feature	Description
Newly established	There was one new wholesale platform launched by an existing operator and no new operator entrants during the 2017–18 survey period.
Legal structure	The platform trustees all held or operated under an Australian financial services (AFS) licence. One was a 'responsible entity for hire' arrangement. Eight of the 13 platforms were registered under Ch 5C (registered managed investment schemes). The remaining five were structured as unregistered schemes that have only wholesale investors.
Separate investment manager	All of the platforms used an operator as their investment manager, separate from their trustee.
External service providers	All of the trustees engaged external service providers for various services, including platform operation, custody, identification checks, credit reporting, marketing, valuation and banking services. In most cases, the service providers appointed were not related parties.
Exposure to loans	On all of the platforms, investors could invest in specific loans on a fractionalised basis. Two platforms also offered investments in a pool of loans. One platform offered funding of whole single loans.

Business model feature	Description
Matching of investors and borrowers	Five platforms filtered available loans to the investor according to the investment criteria set by the investor, including such things as preferred investment term, risk grade, and maximum or minimum loan investment. Eleven platforms allowed investors to directly select the particular loan they wished to invest in, from either a subset of, or from all of, the loans available on the platform. The remaining two platforms allocated loans based on loan availability and investor investment criteria.
Investment by the operator or associates	All of the trustees indicated that operators or their associates could invest in loans.
Securitisation and third party origination	Only one operator individually securitised its loans. Three operators acquired loans originated by third parties. (None of these three operators acquired loans in previous survey periods.) One trustee only held loans originated by a separately licensed entity.
Affiliations	Most of the operators did not have any partnerships, alliances or other arrangements with other parties. One trustee and one operator (a related entity of the trustee) were majority owned by a non-bank financial institution.
Fees and other revenue	The operators generated revenue from investors and borrowers. This included investment management fees paid by investors. The key source of fee revenue was from loan origination fees payable by borrowers (68% of revenue, which was down from 78% in the last survey) and by retaining a spread on the interest rate paid by borrowers before distributions were paid to investors. Further information about operators' fees and revenue is outlined in paragraphs 45–52.
Promotion to borrowers and distribution arrangements	The operators used a number of methods to promote their platforms to borrowers. In addition to online (e.g. website and social media) and word-of-mouth promotion, five operators had arrangements with third party introducers, such as finance brokers, to refer borrowers and may have paid a commission for these referrals. The responses suggest a shift from direct marketing to a focus on broadcast and mass-marketing channels.
Promotion to investors and distribution arrangements	The operators used a number of methods to promote their product to investors, including online promotion (e.g. website and social media), word of mouth and engagement with existing investors. One operator engaged a public relations agency. No operator had arrangements with third parties to distribute the marketplace lending product to investors.

Borrowers

Types of borrowers

24 The operators promoted their products to consumers (i.e. individuals) and/or business borrowers.

> Note: When a marketplace lending platform provides consumer loans, the provision of the loans is regulated under the National Credit Act and the National Credit Code in Sch 1 to the National Credit Act. These requirements do not apply to business purpose loans and loans to non-consumers (such as corporate entities).

25 For the 2017–18 financial year:

(a) the total amount of funds borrowed increased to $433 million, up from $300 million in the 2016–17 financial year and from $156 million in the 2015–16 financial year; and

(b) the total number of borrowers reported was 31,421, up from 18,746 in the 2016–17 financial year and 7,448 in the 2015–16 financial year.

26 A breakdown of borrower types is shown in Table 2.

Table 2: Number of borrowers by borrower type

Borrower type	2017–18 financial year	2016–17 financial year	2015–16 financial year
Consumer borrowers	31,079	18,542	7,415
Business borrowers	342	204	33
Total borrowers	**31,421**	**18,746**	**7,448**

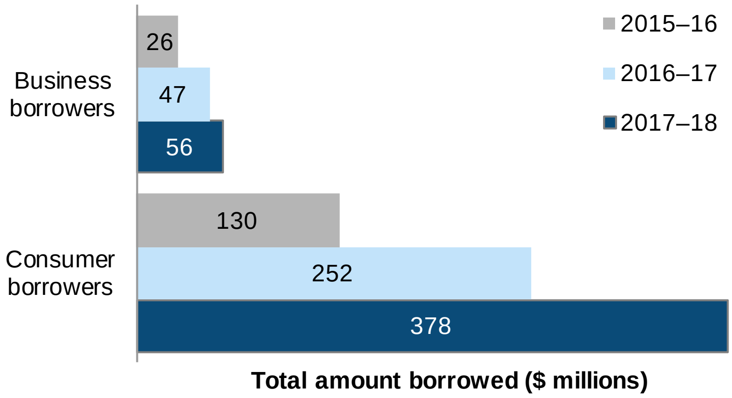
Note: One provider reported three 'other' borrowers – these were corporate trusts borrowing for the purpose of acquiring real estate. In the previous survey we included a third borrower category type for other borrowers; however, for this survey these have been included as business borrowers.

27 In the 2017–18 financial year, marketplace lending providers indicated that 14% of borrowers were aged 30 or under. In the 2016–17 survey, providers were asked the average age of borrowers and, across responses, that average was approximately 40. The proportion of borrower types remained largely consistent with the previous surveys conducted in 2016–17 and 2015–16, with consumer loans representing over 85% of the total borrowed amount and more than 99% of the total number of loans. Overall, while the number of borrowers has increased, the growth rate in the number of new borrowers has moderated.

28 During the 2017–18 financial year 98% of business borrowers were SMEs. Similarly, small businesses borrowed 95% of the total loan amount borrowed by business borrowers.

29 Figure 1 shows the amount borrowed for the 2017–18 financial year by borrower type, compared with the 2016–17 and 2015–16 financial years.

Figure 1: Amount borrowed by borrower type ($ millions)

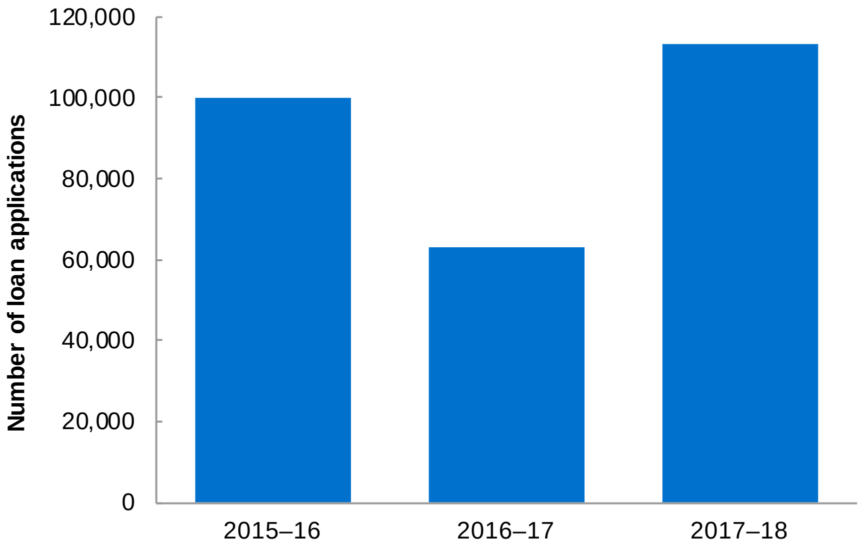


Note: See Table 3 in the appendix for the data shown in this figure (accessible version).

Loan applications

30 Marketplace lending providers reported receiving 113,102 loan applications in the 2017–18 financial year, up from approximately 63,000 in the 2016–17 financial year and 100,000 in the 2015–16 financial year: see Figure 2.

Figure 2: Number of loan applications received by marketplace lending providers



Note: See paragraph 30 for the data shown in this figure (accessible version).

31 Of the applications received over the 2017–18 financial year, 41,366 (or approximately 37% of all applications) were declined. This decline rate was down from approximately 70% in the 2016–17 survey and 53% in the 2015–16 survey. The decline rate included both direct and indirect applications and varied widely by marketplace lending provider. Most

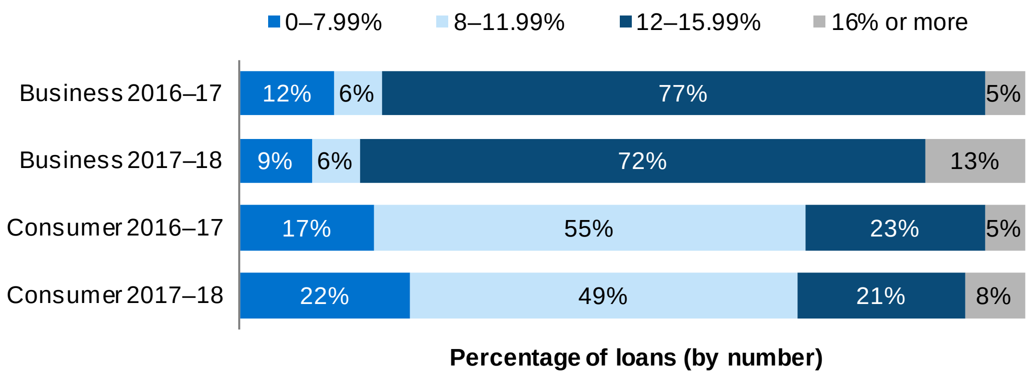
providers showed a decline rate of more than 40%. Most loans were approved and financed in less than one day.

Interest rates

32 The average interest rate charged for loans entered into during the 2017–18 financial year was 11.5%, up from 10.5% in the 2016–17 financial year. The average interest rate on each dollar borrowed during 2017–18 was 11.6%, down from 13% for 2016–17. This suggests that lower interest rates are being provided by operators for larger loans.

33 Interest rates charged during 2017–18 are broadly consistent with both the 2015–16 and 2016–17 surveys where the majority of loans were provided at interest rates between 5 and 16%. Figure 3 shows the distribution of loans by interest rate and type of borrower.

Figure 3: Distribution of loans by interest rate and borrower type (by number of loans)



Note: See Table 4 in the appendix for the data shown in this figure (accessible version).

Late repayment and default rates

34 The average default rate for the 2017–18 financial year, weighted by dollar amount, was 2.9%, representing an increase of 0.7 percentage points on the 2016–17 financial year. This is a similar increase to the increase of 1.56% between the 2015–16 and 2016–17 financial years.

35 Current default rates of greater than 0% were reported by eight marketplace lending providers for both the 2017–18 and 2016–17 financial years. For the 2017–18 financial year, 99% of the loans in default were consumer loans. As at 30 June 2018, these default rates varied across providers from 0 to 7% for consumer loans compared to 0 to 3.4% in the 2016–17 financial year. In the 2017–18 survey, most providers had fewer than 1% of loans in default.

36 For the 2017–18 survey, the average expected default rate estimated across all platforms was 2.4%, with responses of up to 3.8%. In the 2016–17

survey, the expected default rate for the 2017–18 financial year also averaged 2.4% across all operators, with responses of up to 6%.

37 The 2.9% current default rate for the 2017–18 financial year exceeds the average expected default rate of 2.4% that was estimated by marketplace lending providers in the 2016–17 survey.

38 Figure 4 shows the distribution of loans in arrears by the number of days in arrears. Of all outstanding loans as at 30 June 2018:

(a) 6.8% of loan value was in arrears, up from 6.2% as at 30 June 2017; and

(b) 2.9% of loan value was in default (more than 90 days in arrears), up from 2.3% as at 30 June 2017.

39 The slight increase in loans in arrears and default—a trend also observed between our 2015–16 and 2016–17 surveys—may be due to a variety of factors, including:

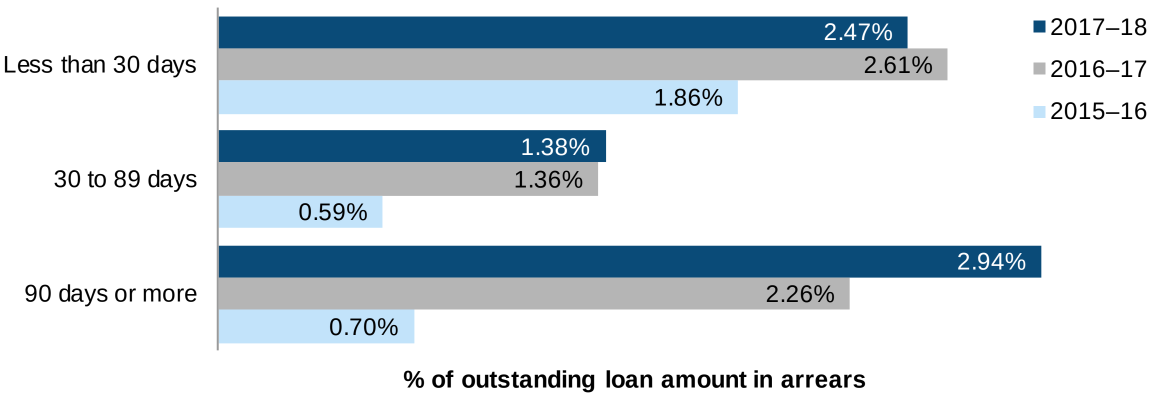
(a) the greater number of total borrowers;

(b) the increased risk appetite of marketplace lending operators;

(c) increasing competition in the market; and

(d) longer operating histories, with accumulating defaulted loans being carried across survey periods.

Figure 4: Loans in arrears out of total outstanding loans (by value)



Note 1: Loans less than 30 days in arrears for the 2017–18 year were surveyed as two categories: loans in arrears less than 20 days (2.07%) and loans in arrears for 20–29 days (0.4%).

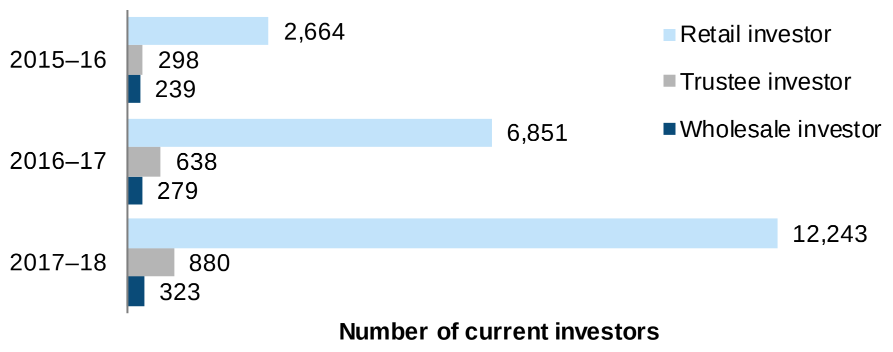
Note 2: See Table 5 in the appendix for the data shown in this figure (accessible version).

Investors

Types of investors

40 The 2017–18 survey results indicated that both retail and wholesale investors continue to invest in marketplace lending platforms. A total of 13,446 investors, consisting of 12,243 retail investors, 323 wholesale investors (excluding trustee investors) and 880 trustee investors, was reported: see Figure 5. The responses to the 2016–17 survey reported 6,851 retail investors (excluding trustees), 279 wholesale investors (excluding trustees), and 638 trustee investors.

Figure 5: Number of investors by type (retail, wholesale and trustee investors)



Note: See Table 6 in the appendix for the data shown in this figure (accessible version).

41 As in previous surveys, investment by wholesale investors accounted for the majority of the investment in the surveyed marketplace lending platforms by dollar amount.

Types of platforms

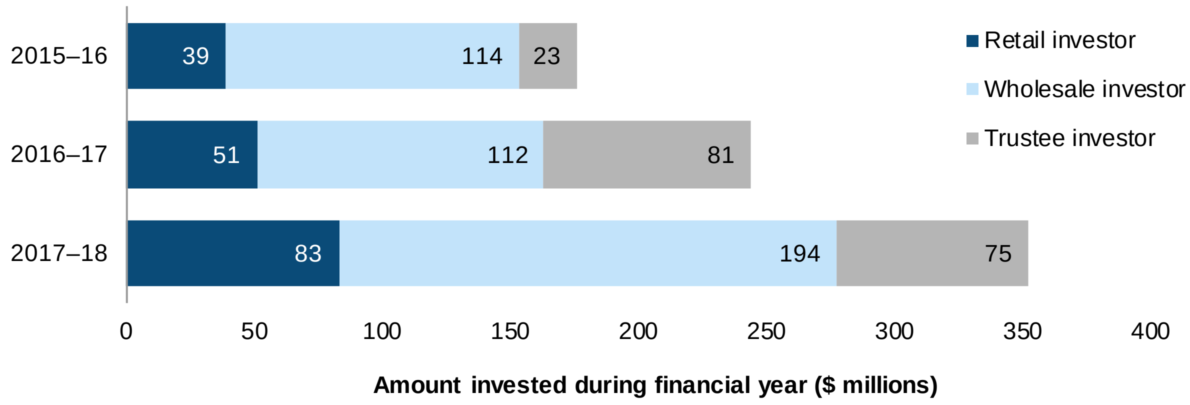
42 Eight of the 13 platforms were structured as registered schemes, with the balance operating as unregistered schemes. Two operators operated separate registered and unregistered schemes as different platforms, one for retail investors and the other for wholesale investors. There was only one platform where wholesale investors invested in a registered scheme platform alongside retail investors.

Amount of funds invested

43 The total amount invested in the platforms over the 2017–18 financial year was $352 million, consisting of $194 million (55.9%) invested by wholesale

investors, $75 million (21.3%) by trustee investors and $83 million (22.8%) by retail investors: see Figure 6.

Figure 6: Amount invested by investor type ($ millions)



Note: See Table 7 in the appendix for the data shown in this figure (accessible version).

44 The total amount invested increased to $352 million in the 2017–18 financial year, up from $244 million in the 2016–17 financial year, representing an increase of $108 million. The amount invested by wholesale investors increased by $82 million, a 73% increase, compared to a $32 million increase in retail investment, a 62% increase. The amount invested by trustee investors was marginally lower than it was in 2016–17.

Fees and other revenue

45 In the 2017–18 financial year, and similar to the previous surveys, operators primarily earned fee revenue from loan origination, and from consumer borrowers. Loan origination fees accounted for approximately 68% of total sector fee revenue. There were some other small ongoing and other fees received from borrowers—otherwise, the remaining revenue was generated through management fees charged to investors (19%).

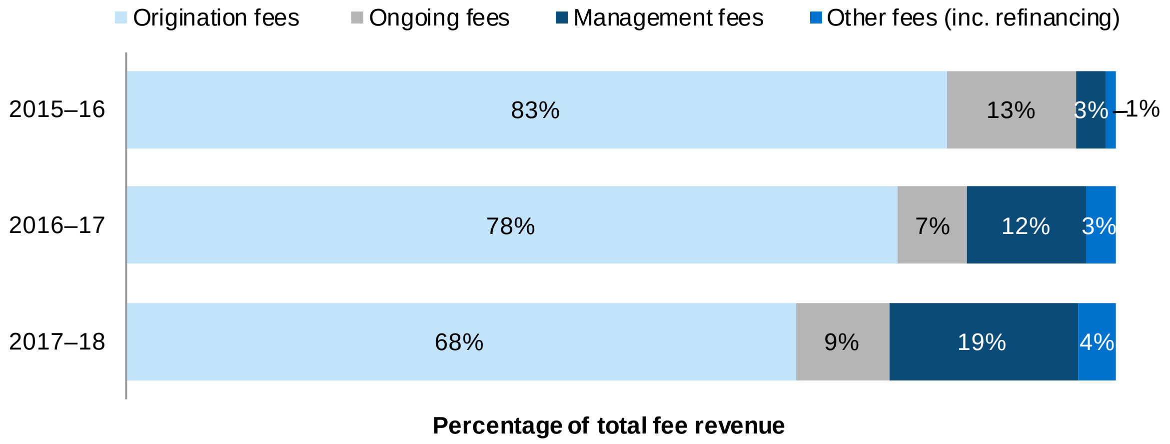
46 In the 2017–18 financial year, operators primarily earned fee revenue from consumer borrowers, making up 90% of borrower-sourced revenue and 59% of all revenue. The fee revenue from borrowers included origination fees ($11,521,119), ongoing fees ($658,910) and other fees ($30,275).

47 The main component of investor fee revenue was investment management fees charged to wholesale investors (which may have been calculated as a percentage of the interest earned on the loans, investors' portfolio balances, or funds under management). Other fees included an exit fee when investors withdrew money from their portfolio balance. The fee revenue from

investors included management fees ($3,724,330), ongoing fees ($1,182,240), origination fees charged to investors ($1,689,950) and other sources ($176,617).

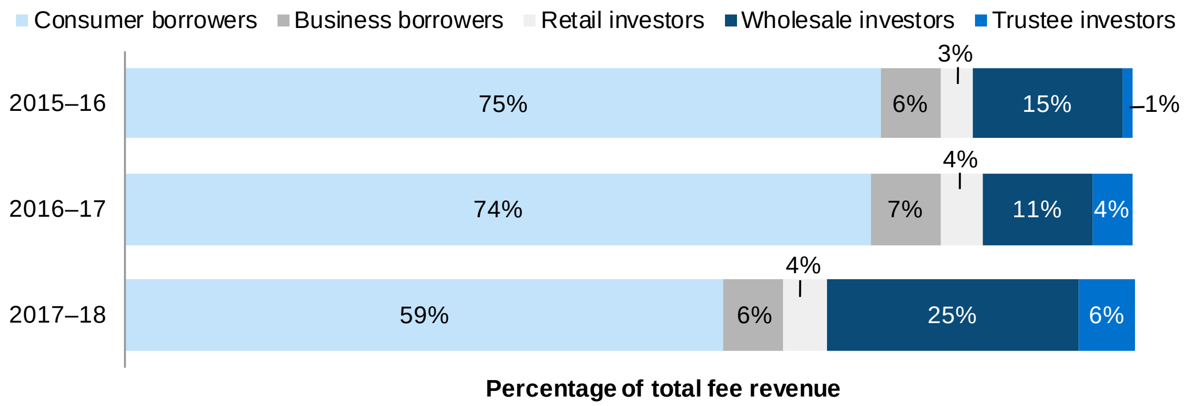
48 Figure 7 shows the sources of revenue by fee type, and Figure 8 shows the distribution of fee revenue by borrower/investor type.

Figure 7: Sources of fee revenue by fee type



Note: See Table 8 in the appendix for the data shown in this figure (accessible version).

Figure 8: Sources of fee revenue by borrower/investor type



Note: See Table 9 in the appendix for the data shown in this figure (accessible version).

49 Of the total sector revenue earned by operators in the 2017–18 financial year, 34.7% was generated from investors, with wholesale investors accounting for 24.5%, followed by trustee investors (5.8%) and retail investors (4.4%). This compares to the 2016–17 survey where wholesale investors accounted for 11.2%, followed by retail investors (3.9%) and trustee investors (3.9%).

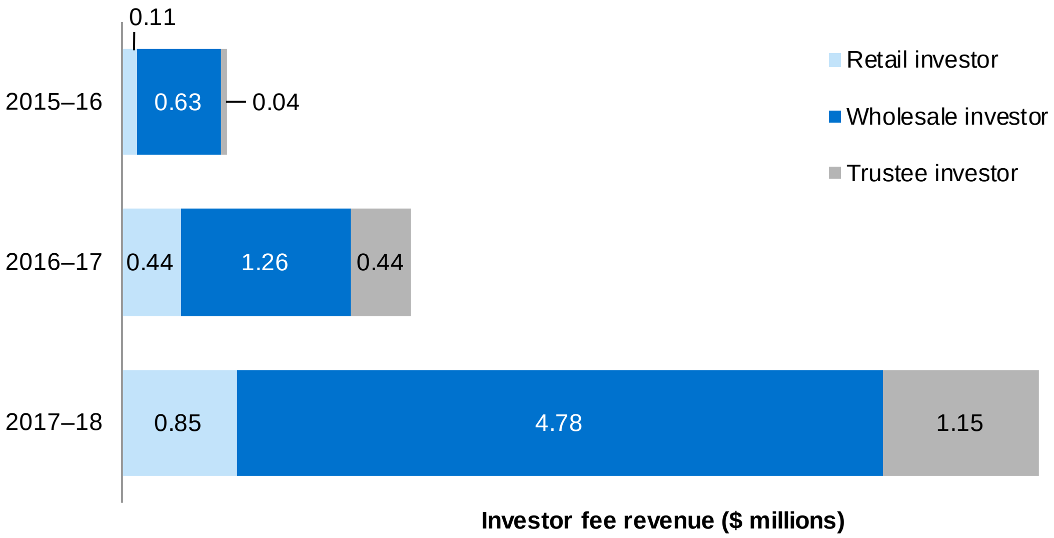
50 Figure 8 shows that a higher percentage of sector fee revenue came from investors compared to the previous surveys. This is mostly due to an increase

in fee revenue from wholesale investors. This is partly explained by the 73% increase in the amount of wholesale investment shown in Figure 6; however, the growth in dollar amount of investor fee revenue from wholesale investors was more significant at 380%: see Figure 9.

51 The revenue received by way of investor fees increased significantly as a share of total revenue as shown by Figure 8. There were, however, significant variances between each platform's fees.

52 Figure 9 shows the distribution of investor fee revenue by investor type.

Figure 9: Investor fee revenue by investor type ($ millions))



Note: See Table 10 in the appendix for the data shown in this figure (accessible version).

Complaints

53 Five marketplace lending providers indicated that they had received complaints in relation to their platforms during the 2017–18 financial year. This was the same as in the 2016–17 survey and 2015–2016 survey.

54 During the 2017–18 financial year:

(a) five providers received borrower complaints, totalling 78 (up from 46 complaints in the 2016–17 financial year and 25 in 2015–16), of which 37 were escalated for resolution through external dispute resolution processes (up from 14 escalated in the 2016–17 financial year and seven in 2015–16); and

(b) two providers received one complaint each from investors. These were not escalated to external dispute resolution processes.

55 Complaints during the 2017–18 financial year generally related to non-approval of credit and hardship applications, and the terms of loan repayments. Other areas of complaint involved loan fees, alleged non-compliance with lending requirements, credit inquiries and receipt of marketing material.

56 We note that complaints have grown along with the number of loan transactions. We would expect that, as platform businesses mature, marketplace lending providers will closely review these complaints with a view to moderating the growth in complaints over time.

Breaches, fraud and cyber security

57 Five marketplace lending providers identified breaches or likely breaches of obligations under the Corporations Act, as well as incidents or suspected incidents of fraud or suspected fraud by loan applicants and cyber security breaches in the 2017–18 survey. This was the same as in the 2016–17 survey.

58 Providers reported:

(a) two breaches or likely breaches of the Corporations Act by loan applicants, compared to 10 breaches or likely breaches during the 2016–17 financial year;

Note: Under s912D, an AFS licensee must notify ASIC of a breach or likely breach of the financial services laws that is significant. We have issued regulatory guidance for AFS licensees about breach reporting obligations: see Regulatory Guide 78 *Breach reporting by AFS licensees* (RG 78).

(b) that there were 545 incidents or suspected incidents of applicant fraud, up from 353 in the 2016–17 financial year and 126 in the 2015–16 financial year; and

(c) only one provider had a cyber security incident—this was the same as in the 2016–17 financial year.

C ASIC's role and next steps

Key points

During the 2017–18 survey period, we continued to engage with potential marketplace lending operators through ASIC's Innovation Hub.

We will continue to engage with and monitor marketplace lending platforms within ASIC's regulatory remit.

When considering whether to conduct future surveys, we will take account of any overlap with the work of APRA, which has recently been given powers to gather data from non-authorised-deposit-taking-institution lenders (non-ADI lenders), including larger marketplace lending platforms.

ASIC's role and activities in relation to marketplace lending

59 Section D of REP 526 details ASIC's role and activities in relation to marketplace lending. In March 2016 we published Information Sheet 213 *Marketplace lending (peer-to-peer lending) products* (INFO 213), which outlines the regulatory requirements for marketplace lending involving the provision of financial products and services.

60 During 2017–18, we assessed no new AFS licence or licence variation applications from marketplace lending providers. We processed two applications to deregister platforms.

61 ASIC's Innovation Hub engaged with five potential operators over the 2017–18 survey period.

62 We received no breach reports under s912D of the Corporations Act relating to marketplace lending platforms for the 2017–18 survey period. The breaches identified in the survey were not deemed significant by the marketplace lending providers.

63 We received several complaints and investigated several issues relating to poor disclosure or potentially misleading statements by marketplace lending providers, which resulted in corrected disclosure.

Further surveys and proposed APRA data-gathering powers

64 We will continue to engage with and regulate marketplace lending platforms that are structured as managed investment schemes and that extend credit to retail borrowers.

65 The three surveys conducted so far have enabled us to monitor growth and development of marketplace lending platforms structured as managed investment schemes, and to identify key trends. The surveys have also assisted us in carrying out ASIC's supervision of these platforms. While there has been significant growth in the surveyed sector since 2015–16, there are some indicators that this growth may be plateauing:

(a) no new operator entrants during the 2017–18 survey period;

(b) moderating growth rates in the numbers of investors and borrowers during the 2017–18 survey period compared to the earlier survey periods; and

(c) a decline in market share of the largest two marketplace lending platforms over the survey periods.

66 On 5 March 2018, the *Treasury Laws Amendment (Banking Measures No. 1) Act 2017*, also known as the 'non-ADI lender rules', broadened the definition of registrable corporations that must report financial information to APRA under the *Financial Sector (Collection of Data) Act 2001*. The non-ADI lender rules also conferred rule-making powers on APRA in respect of non-ADI lenders under the *Banking Act 1959* when APRA considers it necessary to promote financial stability in the financial system.

67 The amendments to the *Financial Sector (Collection of Data) Act 2001* broadened the businesses that are captured by the registration requirements to include non-ADI lenders such as marketplace lending providers to the extent that they meet the threshold of:

(a) $50 million or more in assets in Australia that consist of debts due to the corporation resulting from transactions entered into in the course of the provision of finance by the corporation or, if a greater or lesser amount is prescribed by the regulations, the amount so prescribed; and

(b) the sum of the values of the principal amounts outstanding on loans or other financing exceeds $50 million or, if a greater or lesser amount is prescribed by the regulations, the amount so prescribed.

68 APRA expects to consult on reporting requirements for non-ADI lenders and any overlap between the data ASIC and APRA collect will be considered by ASIC in assessing the design and ongoing value of our surveys. These thresholds would currently capture the three largest marketplace lending providers that we surveyed, which account for approximately 86% of total loans outstanding.

Appendix: Accessible versions of figures

This appendix is for people with visual or other impairments. It provides the underlying information for the figures presented in this report.

Table 3: Amount borrowed by borrower type ($ millions)

Borrower type	Amount borrowed in 2015–16 ($ millions)	Amount borrowed in 2016–17 ($ millions)	Amount borrowed in 2017–18 ($ millions)
Consumer	130	252	378
Business	26	47	56

Note: This is the data contained in Figure 1.

Table 4: Distribution of loans by interest rate and borrower type (by number of loans)

Borrower type	Interest rate of 0–7.99%	Interest rate of 8–11.99%	Interest rate of 12–15.99%	Interest rate of 16% or more
Business 2016–17	12%	6%	77%	5%
Business 2017–18	9%	6%	72%	13%
Consumer 2016–17	17%	55%	23%	5%
Consumer 2017–18	22%	49%	21%	8%

Note: This is the data contained in Figure 3:.

Table 5: Loans in arrears out of total outstanding loans (by value)

Days in arrears	2015–16	2016–17	2017–18
Less than 30 days	1.86%	2.61%	2.47%
30 days to 89 days	0.59%	1.36%	1.38%
90 days or more	0.70%	2.26%	2.94%

Note: This is the data contained in Figure 4.

Table 6: Number of investors by type (retail, wholesale and trustee investors)

Investor type	2015–16	2016–17	2017–18
Wholesale investor	239	279	323
Trustee investor	298	638	880
Retail investor	2,664	6,851	12,243

Note: This is the data contained in Figure 5.

Table 7: Amount invested by investor type ($ millions)

Investor type	Amount invested in 2015–16 ($ millions)	Amount invested in 2016–17 ($ millions)	Amount invested in 2017–18 ($ millions)
Wholesale investor	114	112	194
Trustee investor	23	81	75
Retail investor	39	51	83

Note: This is the data contained in Figure 6.

Table 8: Sources of fee revenue by fee type

Fee type	2015–16	2016–17	2017–18
Origination fees	83%	78%	68%
Management fees	3%	12%	19%
Ongoing fees	13%	7%	9%
Other fees (inc. refinancing)	1%	3%	4%

Note: This is the data contained in Figure 7.

Table 9: Sources of fee revenue by borrower/investor type

Borrower/investor type	2015–16	2016–17	2017–18
Consumer borrowers	75%	74%	59%
Wholesale investors	15%	11%	25%
Business borrowers	6%	7%	6%
Retail investors	3%	4%	4%
Trustee investors	1%	4%	6%

Note: This is the data contained in Figure 8.

Table 10: Investor fee revenue by investor type ($ millions)

Investor type	Fee revenue in 2015–16 ($ millions)	Fee revenue in 2016–17 ($ millions)	Fee revenue in 2017–18 ($ millions)
Wholesale investor	0.63	1.26	4.78
Trustee investor	0.04	0.44	1.15
Retail investor	0.11	0.44	0.85

Note: This is the data contained in Figure 9.

Key terms

Term	Meaning in this document
ADI	An authorised deposit-taking institution
AFS licence	An Australian financial services licence under s913B of the Corporations Act that authorises a person who carries on a financial services business to provide financial services Note: This is a definition contained in s761A.
AFS licensee	A person who holds an AFS licence under s913B of the Corporations Act
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
associate	Has the meaning given in Div 2 of Pt 1.2 of the Corporations Act
consumer	A natural person or strata corporation. Note: See s5 of the National Credit Act.
Corporations Act	*Corporations Act 2001*, including regulations made for the purposes of that Act
credit licence	An Australian credit licence under s35 of the National Credit Act that authorises a licensee to engage in particular credit activities
current default rate	Total number of loans in default divided by total number of outstanding loans on issue at a point in time
default	A failure by a borrower to make a repayment when it is due on a loan, for a period of 90 days or more
managed investment scheme	Has the meaning given in s9 of the Corporations Act
marketplace lending provider	Comprises two entities: a trustee (the responsible entity of a marketplace lending platform structured as a registered or unregistered scheme) and a marketplace lending platform operator.
National Credit Act	*National Consumer Credit Protection Act 2009*
National Credit Code	National Credit Code at Sch 1 to the National Credit Act
operator	Marketplace lending platform operator appointed by the trustee
registered scheme	A managed investment scheme that is registered under s601EB of the Corporations Act

Term	Meaning in this document
REP 526 (for example)	An ASIC report (in this example numbered 526)
responsible entity	A responsible entity of a registered scheme as defined in s9 of the Corporations Act
retail client	A client as defined in s761G of the Corporations Act and Div 2 of Pt 7.1 of the Corporations Regulations
retail investor	An investor that is a retail client
RG 78 (for example)	An ASIC regulatory guide (in this example numbered 78)
SME	A small to medium enterprise
survey period	2017–18 financial year
trustee	The responsible entity of a marketplace lending platform structured as a registered or unregistered scheme
trustee investor	A party investing through a marketplace lending platform on behalf of trust beneficiaries
wholesale client	A client who is not a retail client as defined in s761G of the Corporations Act and Div 2 of Pt 7.1 of the Corporations Regulations
wholesale investor	An investor that is a wholesale client

Related information

Headnotes

borrower, investor, loan, marketplace lending platform operator, marketplace lending provider, platform, registered scheme, responsible entity, trustee

Regulatory guides

RG 78 *Breach reporting by AFS licensees*

Legislation

Banking Act 1959

Corporations Act, Ch 5C, s912C, 912D

Financial Sector (Collection of Data) Act 2001

National Credit Act, Sch 1 (National Credit Code)

Treasury Laws Amendment (Banking Measures No. 1) Act 2017

Reports

REP 526 *Survey of marketplace lending providers*

REP 559 *Survey of marketplace lending providers: 2016–17*

Information sheets

INFO 213 *Marketplace lending (peer-to-peer lending) products*