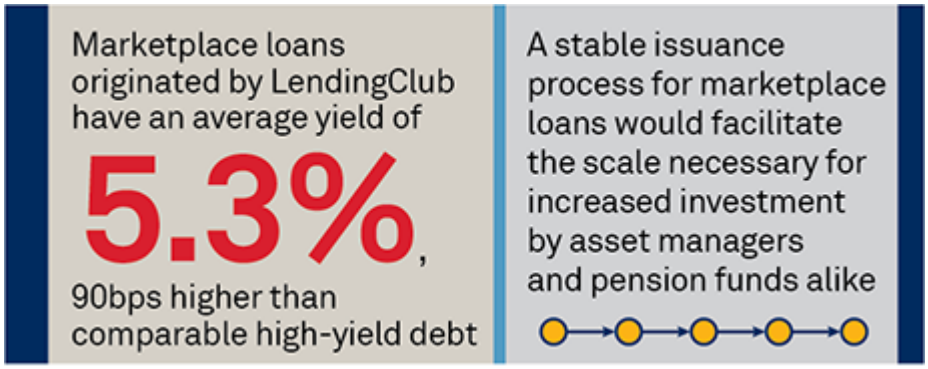
Crisil
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The Next Phase of Marketplace Lending

Transparency and Trading

March 30, 2021

Executive Summary:



The personal loan market proved remarkably resilient over the past year, despite early concerns that the COVID-19 crisis would create a spike in defaults. Government intervention and the prioritization of loan payments by consumers kept defaults lower than expected, leaving the market on solid footing heading into what will hopefully be a global markets recovery in 2021.

The coming months will also bring continued innovation in one of the most interesting segments of the personal loan market—marketplace lending. With fintech firms now at the heart of nearly 40% of personal loans, their impact on the asset segment is growing and increasingly drawing in institutional investors who, in the past, have seen the market as too small or lacking in transparency.

A virtuous cycle is now in the making to rectify those issues, however, as a focus on data has drawn in both greater issuance and allowed for the creation of a transparent secondary market for trading these loans after issuance. The ability for investors to trade loans after their initial purchase, with the comfort that the price paid reflects its true value, will result in more demand for new issuance as market transparency grows. LendingClub, for one, is driving such ideas forward, which we expect will attract not only long-term investors but institutional market makers always seeking a new market in which to apply their quantitative trading skills.

Key Findings

Low interest rates globally are driving investors to look for higher-yielding assets, while market volatility has increased demand for investments that are uncorrelated to traditional stocks and bonds. Marketplace loans provide answers to both of those problems, and if the technology innovations and market conditions continue on their current path, this is a market with a lot of room to run.

Methodology:

Greenwich Associates spoke with more than a dozen institutional investors, banks and market makers between November 2020 and January 2021 to understand their views of marketplace lending, current participation in the market and appetite for increased participation going forward. Conversations included data availability, views on market transparency, requirements for making markets, and roadblocks to investing in the asset class in a meaningful way.

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