4thWay®

An Assessment Of The Accuracy And Completeness Of Guidance On P2P Investing From Major UK Generic Financial Websites

Abstract

Journalistic financial information and opinion is a necessity for millions of people. 4thWay provides that with great expertise on its website which is exclusively about peer-to-peer lending, backed by credit specialists, quantitative risk modellers and other experts.

But this research covering generic money websites shows that those sites still have a lot to learn about peer-to-peer investing (peer-to-peer lending) in order to be able to sift fact from fiction.

We believe a huge catalogue of serious errors and omissions in every category of their current peer-to-peer investing guidance is likely to lead investors to make substantial losses, especially during future downturns.

Which websites we assessed

- The three biggest money comparison sites that cover P2P lending in guides, comparison tables or both: **Moneysupermarket**, **uSwitch** and **Gocompare**
- The most popular financial guidance site: **Moneysavingexpert**
- The government's own money guidance initiative: **Money Advice Service**
- The largest consumer body in the UK: **Which?**

See Appendix 1 for the full list of specific web pages we assessed and how those were chosen.

Research dates

Research conducted on 15th, 16th, 24th and 25th July 2017

Research findings

To follow is a summary of the accuracy of each generic money site in lots of categories, mostly focused on risks.

Appendix 2 contains the substantive quotes from each of the money sites' websites on each of the summary findings below.

Facts and figures	Right or mostly right; complete or mostly complete information	Partly right and partly wrong; some omissions; could be ambiguous	Wrong, mostly wrong; omitted, major omissions
Correctly and clearly classifying as investments/investors, and not as savings/savers, in the website navigation, comparison tables and/or written or video content.	Which? Money	Money Advice Service Moneysavingexpert	Go Compare Moneysupermarket uSwitch
Explaining the full investing costs, including all hidden costs such as frictional costs and the spread; explaining that the higher the total costs, the higher the risks, relative to the type of lending that is on offer.			Go Compare Money Advice Service Moneysavingexpert Moneysupermarket uSwitch Which? Money
Key risk 1, psychological risk, and mitigating factors/techniques are accurately and unambiguously explained. With the rise of behavioural investing, greed, fear and other psychology is often seen as the biggest cause of massive investing losses; e.g. of technique to reduce risk: use investing checklists.			Go Compare Money Advice Service Moneysavingexpert Moneysupermarket uSwitch Which? Money
Key risk 2, concentration risk, and mitigating factors/techniques are accurately and unambiguously explained. The risk of not being diversified enough across both multiple P2P sites and loans, with some details on how much diversification is needed and why; an explanation of how much diversification is offered and that not all sites diversify automatically; to reduce risk, diversify.	Moneysavingexpert		Go Compare Money Advice Service Moneysupermarket uSwitch Which? Money
Key risk 3: risk of losing money due to bad debts, and mitigating factors/techniques are accurately and unambiguously explained. This risk is clearly emphasised, especially the higher potential losses and greater risk of losses during a major recession and/or property crash; with some details correctly identifying measures to reduce those risks.	Which? Money	Money Advice Service Moneysavingexpert	Go Compare Moneysupermarket uSwitch
Key risk 4: risks due to a P2P lending site going out of business, and mitigating factors/techniques are accurately and unambiguously explained. Expected delays to payments explained and that the borrower will still owe the investor, not the defunct platform, so the losses are ring-fenced from the P2P site's own problems; cash (unlent money held by the P2P site) is in segregated accounts protected by the FSCS; the platforms' regulatory wind-down and capital requirements correctly and fully explained in the context of the site closing down; ways to mitigate the risk e.g. diversification.	Moneysavingexpert		Go Compare Money Advice Service Moneysupermarket uSwitch Which? Money

Key risk 5: risk of losing money due to fraud or negligence, and mitigating factors/techniques are accurately and unambiguously explained.			Go Compare Money Advice Service Moneysavingexpert Moneysupermarket uSwitch Which? Money
Risks described as primary over interest rates when assessing platforms. Rates are de-emphasised as a poor measure of the risks for interest-bearing investments; if they suggest using rates as a measure of risks, do they offer direct ways such as measuring the security or bad-debt history, and are their caveats that interest rates can be pushed too low for the risks involved at some P2P platforms (especially during bubbles); if information is provided on the level of interest rates, or on which platforms or groups of platforms offer the best rates, this is substantially correct.		Which? Money	Go Compare Money Advice Service Moneysavingexpert Moneysupermarket uSwitch
Strongly emphasising that risks of sudden large losses are not just higher than savings accounts, but the risks vary dramatically between platforms, with some being high risk.			Go Compare Money Advice Service Moneysavingexpert Moneysupermarket uSwitch Which? Money
Correctly stating that borrowers are not always credit checked. Omitting that they are not always credit checked by at least one top credit-reference agency and that other checks, such as physical inspections of property security from independent surveyors, are not always carried out at every P2P lending platform.			Go Compare Money Advice Service Moneysavingexpert Moneysupermarket uSwitch Which? Money
Emphasis of primary risk controls over secondary risk controls or credit enhancements. Most important factors, such as the key people and underwriting processes, are weighed more heavily than provision funds.			Go Compare Money Advice Service Moneysavingexpert Moneysupermarket uSwitch Which? Money
Correctly defining segregated provision funds that are set aside to cover losses and correctly explaining their pros, cons and limitations of provision funds. Specifically stating that a platform with a provision fund is not necessarily safer or better than one without, that the funds could be overwhelmed by bad debts, with the risks being considerably higher in bad times such as recessions; if mentioning specific platforms' provision funds, explaining the size of the funds in terms of how much actual cover it provides against losses and correctly identifying genuine segregated funds; if grouping platforms, correctly grouping those that have provision funds.	Moneysavingexpert	Money Advice Service Which? Money	Go Compare Moneysupermarket uSwitch

Properly explaining how to exit loans. Including early exit costs, under what circumstances you can leave and that in times of crisis it might be even harder to get all your money back early?			Go Compare Money Advice Service Moneysavingexpert Moneysupermarket uSwitch Which? Money
Explaining taxes correctly. Explaining correctly the Personal Savings Allowance, that both income and capital gains tax could be charged and at least some of the pros and some of the cons of IFISAs.	Moneysavingexpert Which? Money	Go Compare Moneysupermarket	Money Advice Service uSwitch
If they have peer-to-peer in comparison tables (three of them), effort has been made to compare the market. Rather than just comparing the P2P sites that pay them commission; P2P sites that don't provide enough information for an informed person to assess the risks have been excluded.			Go Compare Moneysupermarket

Overall Results

Generic news or comparison site	**Right or mostly right; complete or mostly complete information (2 points)**	**Partly right and partly wrong; some omissions; could be ambiguous (1 point)**	**Total score**
Go Compare	0	1	1/30 | 3.3%
Money Advice Service	0	3	3/28 | 10.7%
Moneysavingexpert	8	2	10/28 | 35.7%
Moneysupermarket	0	1	1/30 | 3.3%
uSwitch	0	0	0/28 | 0%
Which? Money	6	2	8/28 | 28.6%

Appendix 1

Which pages were checked for accuracy and completeness?

Pages used for research were the comparison tables and what we took to be the main guide pages on peer-to-peer lending based on their content and ease of finding them from the home page. We excluded case studies pinned to guide pages (there were not many) as they are appendix-like rather than main guide content.

Links to the source pages at the time of the research are listed below.

Gocompare
https://money.gocompare.com/savings?gcclickid=c61d1253-e71f-4bdc-b396-1abd57086fe2#/?page=2&_isEasyAccess=true&_isFixedBonds=true&_isPeerToPeer=true&_isCashIsas=true
http://www.gocompare.com/money/peer-to-peer-lending/
http://www.gocompare.com/money/crowdfunding/

Money Advice Service
https://www.moneyadviceservice.org.uk/en/articles/peer-to-peer-lending--what-you-need-to-know#understanding-the-risks
https://www.moneyadviceservice.org.uk/en/articles/peer-to-peer-loans (for borrowers so not relevant)

Money Saving Expert
http://www.moneysavingexpert.com/savings/peer-to-peer-lending

Moneysupermarket
https://www.moneysupermarket.com/savings/peer-to-peer/
https://www.moneysupermarket.com/money-made-easy/pros-and-cons-of-peer-to-peer-lending/
https://www.moneysupermarket.com/savings/peer-to-peer-lending/savings-guide/

Which?
https://www.which.co.uk/money/investing/types-of-investment/guides/peer-to-peer-investing/peer-to-peer-lending-explained
https://www.which.co.uk/money/investing/types-of-investment/guides/peer-to-peer-investing/innovative-finance-isas-explained

uSwitch
https://www.uswitch.com/loans/guides/peer-to-peer-lending-uk/

Appendix 2

Here are the substantive words and comments used in videos and guide pages, and the classifications used in comparison tables.

Gocompare

What they say

Correctly and clearly classifying as investments/investors*, and not as savings/savers, in the website navigation, comparison tables and/or written or video content.*

P2P comparison tables, “Money > Savings”, in savings account comparison table.

The classification in savings account comparison table completely undermines good work it does elsewhere, where it sometimes describes P2P as an investment:

“You may lose some or all of your investments and you should only invest what you can afford to lose.”

In a general crowdfunding page as opposed to a P2P lending page:

“It's simple to try and anyone with some money to invest can have a go - although it's not without its risks.”

“Don't be lulled into a false sense of security, though - loan-based crowdfunding is an investment, not savings, so you won't have the Financial Services Compensation Scheme to fall back on if something goes wrong.”

Elsewhere, Gocompare reverts to calling it savings again:

“Compare peer-to-peer lending rates and terms for ...savings”; less "traditional" savings; not “regular” savings products.

“Peer-to-peer lending - also known as peer-to-peer saving”.

Gocompare guide “Savings accounts for children” includes peer-to-peer lending.

“Much like a savings account, P2P lenders receive repayments on the sum they've invested.”

But it contradicts itself again:
“Peer-to-peer sites allow you to lend ('invest') money, perhaps for as little as one month or as long as five years.”

Explaining the full investing costs**, including all hidden costs such as frictional costs and the spread; explaining that the higher the total costs, the higher the risks, relative to the type of lending that is on offer.* Mentions just the fees not the spread or other hidden investment costs (which are typically far more than double any fees): ***"There are fees involved in lending through P2P websites - it's how they make their money, after all - but they're usually calculated as a percentage of the interest savers earn and borrowers pay."
***Key risk 1, psychological risk, and mitigating factors/techniques are accurately and unambiguously explained**. With the rise of behavioural investing, greed, fear and other psychology is often seen as the biggest cause of massive investing losses; e.g. of technique to reduce risk: use investing checklists.* Not mentioned at all.
Key risk 2, concentration risk, and mitigating factors/techniques are accurately and unambiguously explained**. The risk of not being diversified enough across both multiple P2P sites and loans, with some details on how much diversification is needed and why; an explanation of how much diversification is offered and that not all sites diversify automatically; to reduce risk, diversify.* Fair coverage of spreading risk across multiple loans: ***"It's...worth thinking about spreading your cash amongst multiple borrowers to help counteract risk." ***"To help mitigate risk, investors are usually encouraged to invest smaller amounts in many borrowers, rather than putting all their money in one place."*** However, that good work is greatly impeded because Gocompare doesn't mention spreading risk across multiple P2P sites at all.
Key risk 3: risk of losing money due to bad debts, and mitigating factors/techniques are accurately and unambiguously explained**. This risk is clearly emphasised, especially the higher potential losses and greater risk of losses during a major recession and/or property crash; with some details correctly identifying measures to reduce those risks.* Capital is not described as "at risk" but just ***"potentially at risk". ***"While they take extensive measures to vet clients it's always possible a borrower may default on their loan to you, so P2P companies usually have financial buffers to absorb these losses."*** No, not all of them take extensive measures to assess borrowers and most do not have financial buffers (provision funds or anything else) to absorb losses. No emphasis of higher risks in a crash and measures to reduce the risks are not covered.

***Key risk 4: risks due to a P2P lending site going out of business, and mitigating factors/techniques are accurately and unambiguously explained**. Expected delays to payments explained and that the borrower will still owe the investor, not the defunct platform, so the losses are ring-fenced from the P2P site's own problems; cash (unlent money held by the P2P site) is in segregated accounts protected by the FSCS; the platforms' regulatory wind-down and capital requirements correctly and fully explained in the context of the site closing down; ways to mitigate the risk e.g. diversification.*

"While they take extensive measures to vet clients it's always possible a borrower may default on their loan to you, so P2P companies usually have financial buffers to absorb these losses.

"By April 2017 they will be required to have at least £50,000 of capital in reserve for such an eventuality."

Above, Gocompare has misunderstood what the minimum £50,000 capital requirement is for. It is not to pay for loans that go bad but to help aid a smooth wind down if the P2P lending platform fails.

"Peer-to-peer operators are also required to have insurance to pay for a third-party collection agency."

That statement is not correct. P2P lending sites have to ensure that contingency measures are in place but that might not involve insurance; for example, they could hold sufficient funds in a separate (segregated) bank account or use a larger, profitable parent company as a guarantor.

Gocompare does explain that you might experience delays to getting your loan payments if the platform goes bust: ***"You should bear in mind that this could prove to be a lengthy and convoluted process, though."***

No information on potential delays to repayments, that borrowers still directly owe investors, that cash (not loans) held in the P2P platforms segregated account is covered by FSCS, the wind down plans, or ways to mitigate the risk of a platform going bust.

***Key risk 5: risk of losing money due to fraud or negligence, and mitigating factors/techniques are accurately and unambiguously explained**.*

This risk is not mentioned at all.

***Risks described as primary over interest rates when assessing platforms**. Rates are de-emphasised as a poor measure of the risks for interest-bearing investments; if they suggest using rates as a measure of risks, do they offer direct ways such as measuring the security or bad-debt history, and are their caveats that interest rates can be pushed too low for the risks involved at some P2P platforms (especially during bubbles); if information is provided on the level of interest rates, or on which platforms or groups of platforms offer the best rates, this is substantially correct.*

"For savers, the higher the risk, the better the likely rate of return".

If risks are too high the rate of return is lower. The rate of return is not always correlated to the risks. This is even more common during bubbles. No attempt is made to de-emphasise rates as a measure of risk and look at primary factors.

Strongly emphasising that risks of sudden large losses are not just higher than savings accounts, but the risks vary dramatically between platforms, with some being high risk*.*

Aside from its comments correlating interest rates to risks, the above was not covered.

Correctly stating that borrowers are not always credit checked. *Omitting that they are not always credit checked by at least one top credit-reference agency and that other checks, such as physical inspections of property security from independent surveyors, are not always carried out at every P2P lending platform.*

“Those in receipt of the money - individuals and businesses - are likely to have to undergo stringent checks before being accepted for a loan.”

This is an assumption, although it has done better than most to not state that all P2P platforms do stringent checks. However, Gocompare contradicts itself there:

"While they take extensive measures to vet clients it's always possible a borrower may default on their loan to you, so P2P companies usually have financial buffers to absorb these losses."

A dangerously inaccurate or incomplete statement in that not all P2P lending platforms either take extensive or effective measures to vet borrowers.

No mention of other checks at all.

Emphasis of primary risk controls over secondary risk controls or credit enhancements. *Most important factors, such as the key people and underwriting processes, are weighed more heavily than provision funds.*

Primary risk controls are barely mentioned, with just vague information like this:

“Crowdlending companies need to protect their investors in order to build trust and confidence in their service, so unless applicants for loans are thought to have a good credit rating they may well be turned down.”

Overall what appears to be a very relaxed attitude to the risk of poor underwriting that could leave Gocompare users the false impression that all P2P lending sites do thorough and competent checks:

"Those in receipt of the money - individuals and businesses - are likely to have to undergo stringent checks before being accepted for a loan."

"While they take extensive measures to vet clients it's always possible a borrower may default on their loan to you, so P2P companies usually have financial buffers to absorb these losses."

Correctly defining segregated provision funds that are set aside to cover losses and correctly explaining their pros, cons and limitations of provision funds*. Specifically stating that a platform with a provision fund is not necessarily safer or better than one without, that the funds could be overwhelmed by bad debts, with the risks being considerably higher in bad times such as recessions; if mentioning specific platforms' provision funds, explaining the size of the funds in terms of how much actual cover it provides against losses and correctly identifying genuine segregated funds; if grouping platforms, correctly grouping those that have provision funds.*

"Reputable peer-to-peer companies do have their own protection schemes in place, though."

The reader might incorrectly understand this to mean that those without provision funds are disreputable or risky. They might also incorrectly understand this to mean that those with provision funds are reputable and that they are always safer.

"P2P companies should have their own protection schemes in place".

This is not true. They should have the people and processes to assess loans and to set sensible minimum interest rates. Provision funds are a secondary defence against losses and not a prerequisite.

"P2P companies usually have financial buffers to absorb these losses."

No, P2P lending companies do not usually use their own money to absorb losses and most of them do not have provision funds.

Properly explaining how to exit loans*. Including early exit fees as well as adjustments to compensate new lenders when rates have moved against them; under what circumstances you can leave; and that in times of crisis it might be even harder to get all your money back early?*

No mention is made of the fact that you might not be able to withdraw your money when you want to.

Under Assetz Capital's entry: ***"There is no notice required to withdraw money."***

Under LendingCrowd's entry: ***"Notice Required. There is no notice required to withdraw money. Early Access.***

Under Zopa's entry: ***"There needs to be other lenders available to buy your loans. It's a speedy but not immediate service, as it isn't like an instant access bank account."***

This appears to be Zopa's own text, which Gocompare has not sufficiently checked for accuracy. It should state that historically it's a speedy service, but in the future, especially during panics and crashes, it might take a long time to sell your loans.

Gocompare explains the fees for exiting but it does not explain that you might get less back to compensate new lenders if typical interest rates are higher today than you are earning:

"Some P2P companies will allow you to exit your arrangement if they're able to sell your contract to another investor, while others will charge a fee for access to your capital before the term ends."

Gocompare doesn't explain that some do both of those things.

Explaining taxes correctly*. Explaining correctly the Personal Savings Allowance, that both income and capital gains tax could be charged and at least some of the pros and some of the cons of IFISAs.*

No mention of the Personal Savings Allowance, which could lead to unnecessarily higher costs for

some investors when they open sometimes costlier IFISAs for no reason or without all the facts. No explanation of capital gains tax or inheritance tax. IFISAs are explained well.
If they have peer-to-peer in comparison tables (three of them), effort has been made to compare the market*. Rather than just comparing the P2P sites that pay them commission; P2P sites that don't provide enough information for an informed person to assess the risks have been excluded.* Appears to just display those that pay commission. Includes at least one platform (Quidcycle) that provides negligible information to assess the risks.

Money Advice Service

What they say
Correctly and clearly classifying as investments/investors**, and not as savings/savers, in the website navigation, comparison tables and/or written or video content.* Did not seek to classify P2P lending as anything, be it savings or investments. However, it did say: ***"P2P lending can be much riskier than a savings account."
Explaining the full investing costs**, including all hidden costs such as frictional costs and the spread; explaining that the higher the total costs, the higher the risks, relative to the type of lending that is on offer.* Mentions just the fees not the spread or other hidden investment costs (which can be far higher than any fees): ***"You might have to pay a fee to lend money (i.e. 1% of the loan)."
***Key risk 1, psychological risk, and mitigating factors/techniques are accurately and unambiguously explained**. With the rise of behavioural investing, greed, fear and other psychology is often seen as the biggest cause of massive investing losses; e.g. of technique to reduce risk: use investing checklists.* Not mentioned at all.
Key risk 2, concentration risk, and mitigating factors/techniques are accurately and unambiguously explained**. The risk of not being diversified enough across both multiple P2P sites and loans, with some details on how much diversification is needed and why; an explanation of how much diversification is offered and that not all sites diversify automatically; to reduce risk, diversify.* Doesn't mention spreading risk across multiple P2P sites at all. In fact, it says find just "one" that you feel comfortable with: ***"If you want to lend money, you should first compare P2P lenders and find one you feel comfortable with." Money Advice Service does not suggest spreading your money across lots of borrowers, stating only that, at some platforms: ***"Money you lend out is automatically divided between lots of borrowers."***
Key risk 3: risk of losing money due to bad debts, and mitigating factors/techniques are accurately and unambiguously explained**. This risk is clearly emphasised, especially the higher potential losses and greater risk of losses during a major recession and/or property crash; with some details correctly identifying measures to reduce those risks.* ***"The person or business you lend money to might not be able to pay it back (called 'defaulting'). ***"The higher the default rate on a P2P website, the higher the number of people or businesses that are unable to repay their loans."***

No mention of how to reduce these risks or that the risks can rise and fall at a specific platform or during financial crises.

Key risk 4: risks due to a P2P lending site going out of business, and mitigating factors/techniques are accurately and unambiguously explained*. Expected delays to payments explained and that the borrower will still owe the investor, not the defunct platform, so the losses are ring-fenced from the P2P site's own problems; cash (unlent money held by the P2P site) is in segregated accounts protected by the FSCS; the platforms' regulatory wind-down and capital requirements correctly and fully explained in the context of the site closing down; ways to mitigate the risk e.g. diversification.*

"You could lose money if the P2P company itself goes out of business (several have).

"However, if they are regulated by the Financial Conduct Authority (as all P2P lenders operating in the UK must be), they must keep lenders' money in ring-fenced accounts separate from their own."

Ambiguous, since readers might believe that loans are in ring-fenced accounts. No information on potential delays to repayments, that borrowers still directly owe investors, that cash (not loans) held in the P2P platforms' segregated account is covered by FSCS, the wind down plans and capital requirements, or ways to mitigate the risk of a platform going bust.

Key risk 5: risk of losing money due to fraud or negligence, and mitigating factors/techniques are accurately and unambiguously explained*.*

Not mentioned at all.

Risks described as primary over interest rates when assessing platforms*. Rates are de-emphasised as a poor measure of the risks for interest-bearing investments; if they suggest using rates as a measure of risks, do they offer direct ways such as measuring the security or bad-debt history, and are their caveats that interest rates can be pushed too low for the risks involved at some P2P platforms (especially during bubbles); if information is provided on the level of interest rates, or on which platforms or groups of platforms offer the best rates, this is substantially correct.*

"Generally speaking, the higher the interest rate someone will pay, the more risky they are likely to be."

Here, they fail to talk down the reliability of interest rates, which is a weak, secondary and often wrong measure of risk. It's not true at specific platforms, and it's not true in interest-bearing investments during bubbles and crashes.

Money Advice Service offers no better alternative ways to assess the risks.

Strongly emphasising that risks of sudden large losses are not just higher than savings accounts, but the risks vary dramatically between platforms, with some being high risk*.*

Aside from its comments correlating interest rates to risks, the above was not covered.

Correctly stating that borrowers are not always credit checked. *Omitting that they are not always credit checked by at least one top credit-reference agency and that other checks, such as physical inspections of*

property security from independent surveyors, are not always carried out at every P2P lending platform.

This is not mentioned or touched upon.

Emphasis of primary risk controls over secondary risk controls or credit enhancements. *Most important factors, such as the key people and underwriting processes, are weighed more heavily than provision funds.*

Primary risk controls are not mentioned at all.

Correctly defining segregated provision funds that are set aside to cover losses and correctly explaining their pros, cons and limitations of provision funds*. Specifically stating that a platform with a provision fund is not necessarily safer or better than one without, that the funds could be overwhelmed by bad debts, with the risks being considerably higher in bad times such as recessions; if mentioning specific platforms' provision funds, explaining the size of the funds in terms of how much actual cover it provides against losses and correctly identifying genuine segregated funds; if grouping platforms, correctly grouping those that have provision funds.*

"A number of P2P websites have contingency or provision funds, which are designed to pay out if a borrower defaults on their loan.

"These provision funds vary widely from one site to another, so make sure you know what's covered if you're thinking of becoming a lender."

That's limited guidance, but better than most. No other comments are provided on provision funds.

Properly explaining how to exit loans*. Including early exit costs, under what circumstances you can leave and that in times of crisis it might be even harder to get all your money back early?*

Money Advice Service doesn't mention that you can exit, or the costs of exiting any limitations or issues you might have in selling your loans to get your money back.

Explaining taxes correctly*. Explaining correctly the Personal Savings Allowance, that both income and capital gains tax could be charged and at least some of the pros and some of the cons of IFISAs.*

Money Advice Service states you have to pay taxes on all your interest earned unless through an IFISA. Reality is that most people would not have to pay any income tax on the interest earned due to the Personal Savings Allowance.

If they have peer-to-peer in comparison tables (three of them), effort has been made to compare the market*. Rather than just comparing the P2P sites that pay them commission; P2P sites that don't provide enough information for an informed person to assess the risks have been excluded.*

Money Advice Service does not have comparison tables.

Moneysavingexpert

What they say
Correctly and clearly classifying as investments/investors*, and not as savings/savers, in the website navigation, comparison tables and/or written or video content.* Mostly classifies as savings, but sometimes as an investment: ***"Peer-to-peer savings firms..."*** ***"It's important you understand the risks of this hybrid form of saving and investing before parting with your cash."*** ***"peer-to-peer investments"*** "***Ratesetter up to 3.9%: Like normal savings"*** ***"For more ways to save..."*** ***"These websites are industrial-scale online financial matchmakers; money-cupids matching individual borrowers or companies with savers willing to put money aside for longer, hunting for a good return."*** ***"As the banking middle-man is cut out, borrowers often get slightly lower rates, while savers get far improved headline rates, with the sites themselves profiting via a fee."*** ***"Peer-to-peer looks like saving, tastes like saving, but as there's no savings safety guarantee, it smells like an investment."*** Contrasts P2P lending with "normal savings". ***"The new 'innovative finance ISA' will allow peer-to-peer savers to lend out up to the annual allowance within an ISA wrapper, so interest on that portion of savings will be tax-free..."***
Explaining the full investing costs*, including all hidden costs such as frictional costs and the spread; explaining that the higher the total costs, the higher the risks, relative to the type of lending that is on offer.* Mentions just the fees not the spread or other hidden investment costs (which are typically double, triple or quadruple any fees, or even more): ***"The sites themselves profiting via a fee."*** On specific platforms, Moneysavingexpert leaves the impression lending is completely free, when the reality is, based on long-established investor

methods of evaluating costs, no P2P lending site is free. E.g. about RateSetter, it writes*:* ***"Fee: £0"*** and doesn't explain costs of several percentage points of returns are hidden in the spread.
Key risk 1, psychological risk, and mitigating factors/techniques are accurately and unambiguously explained*. With the rise of behavioural investing, greed, fear and other psychology is often seen as the biggest cause of massive investing losses; e.g. of technique to reduce risk: use investing checklists.* Not mentioned at all.
Key risk 2, concentration risk, and mitigating factors/techniques are accurately and unambiguously explained*. The risk of not being diversified enough across both multiple P2P sites and loans, with some details on how much diversification is needed and why; an explanation of how much diversification is offered and that not all sites diversify automatically; to reduce risk, diversify.* ***"All the risks involved in peer-to-peer lending mean it's sensible to spread your money around different savings and providers, so you're less exposed to any unpredictable shocks."*** Monesavingexpert doesn't state generally for itself in clear terms to spread across lots of loans, or why, but it does mention how specific P2P lending sites enable or encourage this, e.g. on Zopa ***"Spread the risk: If you've less time, or no clue how to decide, its Autobid system simply spreads your money over a wide range of borrowers."***
Key risk 3: risk of losing money due to bad debts, and mitigating factors/techniques are accurately and unambiguously explained*. This risk is clearly emphasised, especially the higher potential losses and greater risk of losses during a major recession and/or property crash; with some details correctly identifying measures to reduce those risks.* Mentions the risks: ***"While for many, it's worked well, returns (and indeed your capital) aren't guaranteed. The primary risk is, of course, not being repaid.*** ***"Each peer-to-peer site has its own way to mitigate this risk, most work well, so that's a crucial factor to consider when choosing a site."*** However, there is no warning of the huge variation in bad debts at different P2P lending sites or of the larger risks in a major recession. ***"If it appeals to you, you're debt-free, willing to up the risk and put money away for a longer term, then the best way is to start by dipping your toe in the water. Put a small amount of cash in until you're used to it, remembering that each site works slightly differently."*** Dipping your toe in is precisely the guidance that investors should abhor. Trying something for a bit to see if anything goes wrong is a horrible way to find out if you should invest more. This is shocking financial guidance.

***Key risk 4: risks due to a P2P lending site going out of business, and mitigating factors/techniques are accurately and unambiguously explained**. Expected delays to payments explained and that the borrower will still owe the investor, not the defunct platform, so the losses are ring-fenced from the P2P site's own problems; cash (unlent money held by the P2P site) is in segregated accounts protected by the FSCS; the platforms' regulatory wind-down and capital requirements correctly and fully explained in the context of the site closing down; ways to mitigate the risk e.g. diversification.*

Moneysavingexpert is the best on this specific risk:

"By April 2017 firms will have to have at least £50,000 worth of capital (or more for bigger firms), in reserves to act as a buffer to ensure they can withstand financial shocks or difficulty.

"There's no savings safety guarantee. With normal UK savings, the Financial Services Compensation Scheme promises it'd pay the first £85,000 per person, per financial institution if the institution goes kaput. Peer-to-peer lenders don't have this, even now they're regulated.

"If a peer-to-peer site goes bust, who'd collect the loans? Technically the loans are between you and the recipient, so if the peer-to-peer site goes bust, you'll still be owed. All trade body members are required to have insurance to pay for a third party collection agency, though if it did happen, things aren't likely to run anywhere near as smoothly.

"The unknown unknowns. There have been no big horror stories or glaring problems so far in the UK. Yet there have been a few in other countries and as this is a new, innovative industry, factor in the unknown unknowns, which could potentially blight your cash in an unpredictable way."

***Key risk 5: risk of losing money due to fraud or negligence, and mitigating factors/techniques are accurately and unambiguously explained**.*

Not mentioned at all.

***Risks described as primary over interest rates when assessing platforms**. Rates are de-emphasised as a poor measure of the risks for interest-bearing investments; if they suggest using rates as a measure of risks, do they offer direct ways such as measuring the security or bad-debt history, and are their caveats that interest rates can be pushed too low for the risks involved at some P2P platforms (especially during bubbles); if information is provided on the level of interest rates, or on which platforms or groups of platforms offer the best rates, this is substantially correct.*

"However, there's currently a clear top three that...give the best returns."

Moneysavingexpert incorrectly assumes the biggest three P2P lending platforms pay the best interest rates after losses, whereas they have become increasingly uncompetitive.

There is no strong assertion made that investors should focus on keeping risks down over the interest rates. However, the balance of text between what it says on rates and risks is not bad.

There is no information on interest rates not always being correlated to the risks or that they can

be pushed too low even at better platforms during bubbles.
Strongly emphasising that risks of sudden large losses are not just higher than savings accounts, but the risks vary dramatically between platforms, with some being high risk*.* This was not covered.
Correctly stating that borrowers are not always credit checked. *Omitting that they are not always credit checked by at least one top credit-reference agency and that other checks, such as physical inspections of property security from independent surveyors, are not always carried out at every P2P lending platform.* Fails this test: ***"Lending isn't willy-nilly though; borrowers are cherry-picked by credit checks and rated according to risk".*** This is not a good assumption as it is not always true. (At 4thWay, we're not even confident that some P2P lending platforms are better than 'willy-nilly'.)
Emphasis of primary risk controls over secondary risk controls or credit enhancements. *Most important factors, such as the key people and underwriting processes, are weighed more heavily than provision funds.* Primary risk controls are not mentioned at all, aside from the brief mention of credit-checking procedure.
Correctly defining segregated provision funds that are set aside to cover losses and correctly explaining their pros, cons and limitations of provision funds*. Specifically stating that a platform with a provision fund is not necessarily safer or better than one without, that the funds could be overwhelmed by bad debts, with the risks being considerably higher in bad times such as recessions; if mentioning specific platforms' provision funds, explaining the size of the funds in terms of how much actual cover it provides against losses and correctly identifying genuine segregated funds; if grouping platforms, correctly grouping those that have provision funds.* Moneysavingexpert doesn't describe provision funds in its guide, although under individual P2P lending sites it outlines them in more detail than most. It correctly identifies genuine provision funds. Moneysavingexpert does not specifically state that platforms with provision funds are not necessarily safer. Overall, Moneysavingexpert is the best on this specific factor, primarily for not overstating the importance of these funds.
Properly explaining how to exit loans*. Including early exit costs, under what circumstances you can leave and that in times of crisis it might be even harder to get all your money back early?* There is no general section explaining the risk that sometimes money might be tied in for longer than you hoped if you want to exit early. On RateSetter: ***"How quickly can you withdraw money? Its Sell-Out function allows you to exit***

contracts immediately." This might not always be the case, especially during a crisis or panic. On Zopa: ***"If you want to access a lump sum that's still being lent, you can sell on your outstanding loans for a 1% fee. It takes three to five days to get the cash."*** This might not always be the case, especially during a crisis or panic. There is no mention of the costs involved in compensating new lenders when leaving.
Explaining taxes correctly*. Explaining correctly the Personal Savings Allowance, that both income and capital gains tax could be charged and at least some of the pros and some of the cons of IFISAs.* Covers just about everything except CGT and inheritance tax: ***"You're covered by the new Personal Savings Allowance*** ***"In the past for every £100 interest earned, basic-rate taxpayers lost £20 in tax, higher rate £40. Yet now the personal savings allowance (PSA) means every basic-rate taxpayer can earn £1,000 interest without paying tax on it (higher rate £500).*** ***"The interest you earn is from peer-to peer lending is covered by this although it's worth remembering you do have just one personal savings allowance per tax year. Any interest you earn that exceeds the allowance will be subject to tax.*** ***"Additionally, the new 'innovative finance ISA' will allow peer-to-peer savers to lend out up to the annual allowance within an ISA wrapper, so interest on that portion of savings will be tax-free. These were due to launch on 6 April 2016 but so far only a handful of firms have been awarded approval to offer these and none of the big three lenders that we feature below."***
If they have peer-to-peer in comparison tables (three of them), effort has been made to compare the market*. Rather than just comparing the P2P sites that pay them commission; P2P sites that don't provide enough information for an informed person to assess the risks have been excluded.* No comparison tables

Moneysupermarket

What they say
Correctly and clearly classifying as investments/investors*, and not as savings/savers, in the website navigation, comparison tables and/or written or video content.* Main P2P page (comparison page): Money > Savings https://www.moneysupermarket.com/savings/ Moneysupermarket uses the term "invest" in one of its guide page, but this is unfortunately offset in its comparison pages, where it classifies P2P lending as savings in its savings comparison tables, and by the second page: ***"Peer-to-peer websites work by pairing up savers who want a better return on their cash, directly with people (or small businesses), who are looking to borrow at competitive rates."*** ***"Peer-to-peer lenders have lent out an incredible £600 million of savers' money since 2005.*** ***"For most savers, the big draw of peer-to-peer lending is the fact that returns are highly likely to beat those available on the high street."*** ***"Save via a peer-to-peer lender".***
Explaining the full investing costs*, including all hidden costs such as frictional costs and the spread; explaining that the higher the total costs, the higher the risks, relative to the type of lending that is on offer.* Mentions just the fees not the spread or other hidden investment costs (which are typically 2-4 times as much as any declared fees): ***"Are there any charges? Peer-to-peer lenders are for-profit businesses that aim to make money. As a saver, you will therefore pay an annual servicing fee of about 1%, though this is generally taken into account in the advertised interest rates."*** ***"If you lend £2,000 through Zopa, for example, the sum will be split between at least 200 borrowers. It is for this service and the sourcing of borrowers in the first place, that you will be charged a fee. The fees are usually factored into the interest rate you are offered, but always check so you know exactly what you are getting into.*** From its comparison tables: ***"No lender fees".*** This gives mistaken impression that lending is free.

Key risk 1, psychological risk, and mitigating factors/techniques are accurately and unambiguously explained*. With the rise of behavioural investing, greed, fear and other psychology is often seen as the biggest cause of massive investing losses; e.g. of technique to reduce risk: use investing checklists.*

Not mentioned at all.

Key risk 2, concentration risk, and mitigating factors/techniques are accurately and unambiguously explained*. The risk of not being diversified enough across both multiple P2P sites and loans, with some details on how much diversification is needed and why; an explanation of how much diversification is offered and that not all sites diversify automatically; to reduce risk, diversify.*

There is no mention of the need to spread money across multiple P2P lending platforms.

"Peer-to-peer loan companies reduce the risk by spreading your investment over many borrowers, meaning that your rate of return should only be slightly affected should one of the borrowers default on his or her loan."

Could easily be interpreted to mean that *all* P2P lending platforms spread your money over many borrowers, but most do not.

It does at another point make this clearer, albeit many paragraphs later:

"However, peer-to-peer operators have their own means of mitigating this extra risk, for example some share out your money among lots of different borrowers while other have a kind of insurance fund that savers collectively contribute towards, and which pays out should your loan be defaulted on."

Key risk 3: risk of losing money due to bad debts, and mitigating factors/techniques are accurately and unambiguously explained*. This risk is clearly emphasised, especially the higher potential losses and greater risk of losses during a major recession and/or property crash; with some details correctly identifying measures to reduce those risks.*

Moneysupermarket barely touches on the risk of bad debts at all. The explanatory video for example, including the tone of the narrator - was incredibly relaxed about the risks:

"Unlike a traditional savings account, peer-to-peer websites are not covered by the Financial Services Compensation Scheme. However, peer-to-peer lenders have their own various protection schemes in place, designed to compensate you in the event that a borrower, or borrowers, default on their payments."

Key risk 4: risks due to a P2P lending site going out of business, and mitigating factors/techniques are accurately and unambiguously explained*. Expected delays to payments explained and that the borrower will still owe the investor, not the defunct platform, so the losses are ring-fenced from the P2P site's own problems; cash (unlent money held by the P2P site) is in segregated accounts protected by the FSCS; the platforms' regulatory wind-down and capital requirements correctly and fully explained in the context of the site closing down; ways to mitigate the risk e.g. diversification.*

"Even though the peer-to-peer sector is regulated by the Financial Conduct Authority, your cash will not be protected under the Financial Services Compensation Scheme (FSCS), which would safeguard the first £75,000 (as of January 2016) of your funds if they were held in a bank or building society and it went bust."

Incorrect, your cash held at the P2P lending platforms is protected by the FSCS, your loans are not.

No information on potential delays to repayments, that borrowers still directly owe investors, the wind down plans and capital requirements, or ways to mitigate the risk of a platform going bust.

Key risk 5: risk of losing money due to fraud or negligence, and mitigating factors/techniques are accurately and unambiguously explained.

Not mentioned at all.

Risks described as primary over interest rates when assessing platforms*. Rates are de-emphasised as a poor measure of the risks for interest-bearing investments; if they suggest using rates as a measure of risks, do they offer direct ways such as measuring the security or bad-debt history, and are their caveats that interest rates can be pushed too low for the risks involved at some P2P platforms (especially during bubbles); if information is provided on the level of interest rates, or on which platforms or groups of platforms offer the best rates, this is substantially correct.*

Risks are not emphasised sufficiently over interest rates.

Moneysupermarket's explanatory video on P2P lending states what affects rates. Another page states:

"***If you are happy to take the risk of lending to people with lower credit scores, you'll get a higher interest rate. And if you want the security of lending to people with excellent credit ratings, who are very unlikely to miss a payment, you'll get a lower interest rate."***

This is an assumption that won't necessarily always be true. Risk and reward does not always align.

Moneysupermarket doesn't mention the risk that investors will sometimes, at some platforms, drive rates too low. It offers virtually no alternative to measuring risks other than the interest rates.

From its comparison tables:

"Attractive interest rate of 4.25% per annum gross return".

Moneysupermarket does not explain on what basis it rates the P2P investing interest rate attractive for the risks involved, nor does it declare any expertise to conduct such an assessment.

Strongly emphasising that risks of sudden large losses are not just higher than savings accounts, but the risks vary dramatically between platforms, with some being high risk.

Moneysupermarket's video - and tone of the narrator - was incredibly relaxed about the risks across the industry: ***"Unlike a traditional savings account, peer-to-peer websites are not covered by the Financial Services Compensation Scheme. However, peer-to-peer lenders have their own various protection schemes in place, designed to compensate you in the event that a borrower, or borrowers, default on their payments."***
Correctly stating that borrowers are not always credit checked. *Omitting that they are not always credit checked by at least one top credit-reference agency and that other checks, such as physical inspections of property security from independent surveyors, are not always carried out at every P2P lending platform.* ***"Peer-to-peer lending websites also credit-check borrowers to ensure they can afford to repay your cash."*** This is an assumption that won't necessarily always be true and it makes the mistake of assuming that all borrowers' credit scores are checked. No mention is made that some credit-reference agencies are better than others. No mention of other ways to check borrowers and security.
Emphasis of primary risk controls over secondary risk controls or credit enhancements. *Most important factors, such as the key people and underwriting processes, are weighed more heavily than provision funds.* Primary risk controls are hardly mentioned and where they are they are deficient. E,g. on secured property lending (a primary risk control here being the security): ***"Landbay and Wellesley & Co for example, enable you to lend to residential property investors – meaning you can invest in bricks in mortar without actually buying a house. Your cash will be lent across several properties which are all lived in by tenants."*** But there is no explanation that Wellesley does property development loans. These are a type of loans that are intrinsically riskier than loans on properties that are already built or already earning rent and intrinsically riskier than some forms of unsecured lending. ***"Relendex will allow you to secure £5,000 upwards against commercial property investments."*** Again, no mention that Relendex doe some property development lending.
Correctly defining segregated provision funds that are set aside to cover losses and correctly explaining their pros, cons and limitations of provision funds*. Specifically stating that a platform with a provision fund is not necessarily safer or better than one without, that the funds could be overwhelmed by bad debts, with the risks being considerably higher in bad times such as recessions; if mentioning specific platforms' provision funds, explaining the size of the funds in terms of how much actual cover it provides against losses and correctly identifying genuine segregated funds; if grouping platforms, correctly grouping those that have provision funds.* Moneysupermarket incorrectly identifies weaker protections as independent provision funds. Wellesley has no segregated provision fund but will attempt to cover losses from its own cash, if the cash is available. Yet Moneysupermarket states:

"Wellesley & Co, for example, has a Provision Fund that is held in trust by a vetted independent third party and contains double the funds needed for savers to be reimbursed."

From Moneysupermarket's explanatory video:

"However, peer-to-peer lenders have their own various protection schemes in place, designed to compensate you in the event that a borrower, or borrowers, default on their payments."

Most of them do not have these funds (or other schemes) in place to compensate lenders.

"Recognised peer-to-peer schemes offer their own 'provision funds', built up from borrowers' fees, so that if borrowers default on their loans, lenders won't lose out."

This leaves readers the false impression that all the "recognised" platforms have provision funds, when most don't. In addition, readers might be forgiven for taking this to mean that platforms with provision funds are better, when this won't always be the case, or for taking this to mean that the risks at platforms with these funds is low or non-existent.

"However, peer-to-peer operators have their own means of mitigating this extra risk, for example some share out your money among lots of different borrowers while other have a kind of insurance fund that savers collectively contribute towards, and which pays out should your loan be defaulted on."

Again, this doesn't sufficiently make clear that the provision fund might not pay out if it is overwhelmed with bad debts.

In the comparison tables:

"Automatic inclusion in a separate provision fund to protect investors from income delays or income and/or capital losses on this investment account".

"Losses & late payments are protected by Landbay's Reserve Fund".

In both cases, no mention that the funds might not cover the losses.

***Properly explaining how to exit loans**. Including early exit costs, under what circumstances you can leave and that in times of crisis it might be even harder to get all your money back early?*

"As a general rule, the longer you are prepared to lend your money for, the higher your potential returns will be, but you must be certain you can afford to tie up your cash for a that period of time."

No, for shorter deals you also have to be prepared to tie up your cash for longer because you might not be able to leave early (and, in some cases, you might not even be able to leave at the end of the deal, due to a mismatch between lending terms and borrower terms).
No mention of additional costs of exiting, such as compensating new lenders. No mention of the

fact you might not be able to exit as soon as you want.

In the comparison tables:

“Automatic diversification across multiple buy-to-let mortgages with terms of up to 10 years.”

That the borrowers have deals lasting 10 years long is a negative point disguised as a positive point. Since lenders’ deals are just three years’ long, there is a mismatch that could increase the chances that lenders’ money is tied in for longer than they expected. (This issue has the potential to be serious enough that the FCA is looking into mismatches.)

Explaining taxes correctly*. Explaining correctly the Personal Savings Allowance, that both income and capital gains tax could be charged and at least some of the pros and some of the cons of IFISAs.*

Does relatively well on this one point compared to most other generic money sites, although only by combining patchy information from more than one page:

“Since April 2016, you can hold peer-to-peer loans within an ISA so that returns are tax-free. This type of ISA is called an Innovative Finance ISA and you can invest up to £15,240 into ISAs this tax year - in cash, peer-to-peer loans or stocks and shares, or a combination of all three.”

“If you hold them outside an ISA, you can earn up to £1,000 a year in tax-free interest if you’re a basic rate taxpayer, or £500 if you’re a higher rate taxpayer. Earnings after that will be taxed at your normal rate.”

But it doesn’t state that the interest earned is across all P2P accounts, bank accounts and savings accounts.

No mention of capital gains tax or inheritance tax.

If they have peer-to-peer in comparison tables (three of them), effort has been made to compare the market*. Rather than just comparing the P2P sites that pay them commission; P2P sites that don’t provide enough information for an informed person to assess the risks have been excluded.*

Shows just commission paying P2P platforms; provides negligible risk information that is sometimes not even correct. E.g. listed under positives instead of negatives:

“Automatic diversification across multiple buy-to-let mortgages with terms of up to 10 years.” (A negative because with this P2P platform, Landbay, lending terms are mismatched at up to three years.)

uSwitch

It should be noted that uSwitch does not compare P2P lending in its comparison tables even though it is a comparison site, so it is understandable if P2P lending is not part of its expertise. That said, if it offers written P2P lending guides - which it does - uSwitch users might still expect that its guidance is mostly accurate and mostly complete.

What they say
Correctly and clearly classifying as investments/investors*, and not as savings/savers, in the website navigation, comparison tables and/or written or video content.* Throughout, uSwitch consistently refers to P2P lending investments as "savings" and P2P investors as "savers": ***"How do peer to peer (loans and) savings actually work?" "peer to peer lending is a new form lending and saving".*** Describes auto-diversified P2P investing opportunities as ***"savings funds"*****.**
Explaining the full investing costs*, including all hidden costs such as frictional costs and the spread; explaining that the higher the total costs, the higher the risks, relative to the type of lending that is on offer.* Mentions just the fees not the spread or other hidden investment costs (which are typically far more than double any fees): ***"The peer-to-peer lending sites need to make money so they can operate, so each also charges a fee." "Just remember to take the fees into account."*** No mention of hidden charges at all. Also, not all P2P lending sites charge a fee. (Indeed, most don't charge a direct fee to lenders any more.)
Key risk 1, psychological risk, and mitigating factors/techniques are accurately and unambiguously explained*. With the rise of behavioural investing, greed, fear and other psychology is often seen as the biggest cause of massive investing losses; e.g. of technique to reduce risk: use investing checklists.* Not mentioned at all.
Key risk 2, concentration risk, and mitigating factors/techniques are accurately and unambiguously explained*. The risk of not being diversified enough across both multiple P2P sites and loans, with some details on how much diversification is needed and why; an explanation of how much diversification is offered and that not all sites diversify automatically; to reduce risk, diversify.* Doesn't mention spreading risk across multiple P2P sites at all. It also doesn't give the guidance to spread the risks. While it refers to specific platforms and states that they will spread the risk (e.g. "Zopa will spread your savings among those it lends to (other members) to spread the risk"), there is no explanation

as to why doing so lowers the risks or how much diversification is required.
Key risk 3: risk of losing money due to bad debts, and mitigating factors/techniques are accurately and unambiguously explained*. This risk is clearly emphasised, especially the higher potential losses and greater risk of losses during a major recession and/or property crash; with some details correctly identifying measures to reduce those risks.* ***"As long as there's enough money in [the provision fund] you're covered, so the only risk is if there are too many bad debts at once." "If one of the sites were inundated with bad debts and its scheme couldn't cover you, then you could lose cash."*** uSwitch doesn't explain the level of risk there, nor does it explain the risks of losses at platforms with no provision fund (the majority of platforms). It doesn't explain that the risks are higher during a major recession or property crash. It offers no techniques to identify the risk of losses from bad debts or how to reduce those risks. It doesn't explain the impact of bad debts on platforms with no provision fund and how to mitigate the risks there.
Key risk 4: risks due to a P2P lending site going out of business, and mitigating factors/techniques are accurately and unambiguously explained*. Expected delays to payments explained and that the borrower will still owe the investor, not the defunct platform, so the losses are ring-fenced from the P2P site's own problems; cash (unlent money held by the P2P site) is in segregated accounts protected by the FSCS; the platforms' regulatory wind-down and capital requirements correctly and fully explained in the context of the site closing down; ways to mitigate the risk e.g. diversification.* ***"There isn't the same protection for your savings in the event of a disaster (like the Financial Services Compensation Scheme for banks), but there are numerous safeguards in place."*** No mention that cash (not loans) held in the P2P platforms segregated account is covered by FSCS. ***"The next thing you need to be aware of is security. Unlike in its early days peer to peer lending sites in the UK are now regulated, but there's no overarching compensation scheme in case they go bust."*** No information on potential delays to repayments if a platform goes bust or that borrowers still directly owe investors. No mention of the wind-down plans and capital requirements, or ways to mitigate the risk of a platform going bust.
Key risk 5: risk of losing money due to fraud or negligence, and mitigating factors/techniques are accurately and unambiguously explained*.* Not mentioned at all.
Risks described as primary over interest rates when assessing platforms*. Rates are de-emphasised as a poor measure of the risks for interest-bearing investments; if they suggest using rates as a measure of risks, do they offer direct ways such as measuring the security or bad-debt history, and are their caveats that interest rates can be pushed too low for the risks involved at some P2P platforms (especially during bubbles); if information is provided on the level of interest rates, or on which platforms or groups of platforms offer the best rates, this is substantially correct.*

Risks are not emphasised over interest rates. One of the most shocking statements we read on any of the sites was this one: ***“For most savers though the ultimate test will simply be the rate offered. Compare p2p lending rates against those offered for long-term savings by the banks and make your choice.”*** uSwitch also stated: ***“Those looking to save money by lending should get a slightly improved rate”*** Incorrect. The interest rates available is considerably higher, not slightly higher, even after bad debts. Savings rates are around 0% to 2.5%. Peer-to-peer lending rates are typically 3.5%-12%.
Strongly emphasising that risks of sudden large losses are not just higher than savings accounts, but the risks vary dramatically between platforms, with some being high risk. ***“Each has their own quirks but they more generally act as a safe place for saving and lending, with some slightly riskier than others.”*** Above, uSwitch is hugely understating the difference in risks between platforms.
Correctly stating that borrowers are not always credit checked. *Omitting that they are not always credit checked by at least one top credit-reference agency and that other checks, such as physical inspections of property security from independent surveyors, are not always carried out at every P2P lending platform.* ***“Those borrowing money are credit-checked.”*** This is not always true. Other necessary checks - or the potential lack of them - are also not mentioned.
Emphasis of primary risk controls over secondary risk controls or credit enhancements. *Most important factors, such as the key people and underwriting processes, are weighed more heavily than provision funds.* Primary risk controls are not mentioned at all, with the brief exception of credit checking, a process in underwriting, which is a risk control.
Correctly defining segregated provision funds that are set aside to cover losses and correctly explaining their pros, cons and limitations of provision funds. *Specifically stating that a platform with a provision fund is not necessarily safer or better than one without, that the funds could be overwhelmed by bad debts, with the risks being considerably higher in bad times such as recessions; if mentioning specific platforms' provision funds, explaining the size of the funds in terms of how much actual cover it provides against losses and correctly identifying genuine segregated funds; if grouping platforms, correctly grouping those that have provision funds.* Says hardly anything at all on this: ***“As discussed above, the big peer-to-peer sites have a separate emergency fund they use to cover bad debts and shortfalls in repayments. However, the smaller lenders don’t have these and they***

do have limits." Incorrect. Many smaller lenders do have provision funds and several of the big ones don't. In addition, one of the big three never had a provision fund. Zopa, another of the three, no longer has a provision fund, so it would be useful if uSwitch dated the page so that readers can see that it might not be up-to-date.
Properly explaining how to exit loans*. Including early exit costs, under what circumstances you can leave and that in times of crisis it might be even harder to get all your money back early?* No information at all. All uSwitch says on exiting is: ***"Due to the way they lend to their members you need to be prepared to put away your money for a long time"***.
Explaining taxes correctly*. Explaining correctly the Personal Savings Allowance, that both income and capital gains tax could be charged and at least some of the pros and some of the cons of IFISAs.* No mention of taxes or IFISAs at all.
If they have peer-to-peer in comparison tables (three of them), effort has been made to compare the market*. Rather than just comparing the P2P sites that pay them commission; P2P sites that don't provide enough information for an informed person to assess the risks have been excluded.* uSwitch does not compare P2P investments in its comparison tables (just P2P loans).

Which? Money

What they say
Correctly and clearly classifying as investments/investors*, and not as savings/savers, in the website navigation, comparison tables and/or written or video content.* Great, classifying as investing clearly right at the top of the main P2P lending guide page: ***"If you're looking into investing, you may have come across peer-to-peer lending. Here, we explain what it actually is, how it works and if it could be an attractive investing option for you."*** Errors in classification are rare, although it is not 100% consistent: ***"Peer-to-peer lending sites match up savers, who are willing to lend, with borrowers - either individuals or small businesses."***
Explaining the full investing costs*, including all hidden costs such as frictional costs and the spread; explaining that the higher the total costs, the higher the risks, relative to the type of lending that is on offer.* Mentions just the fees not the spread or other hidden investment costs (which are typically far more than double any fees): ***"RateSetter and Zopa show the rates of return you can expect after they've deducted their fee. On Funding Circle, the rates you see usually don't include their 1% annual fee."***
Key risk 1, psychological risk, and mitigating factors/techniques are accurately and unambiguously explained*. With the rise of behavioural investing, greed, fear and other psychology is often seen as the biggest cause of massive investing losses; e.g. of technique to reduce risk: use investing checklists.* Not mentioned at all.
Key risk 2, concentration risk, and mitigating factors/techniques are accurately and unambiguously explained*. The risk of not being diversified enough across both multiple P2P sites and loans, with some details on how much diversification is needed and why; an explanation of how much diversification is offered and that not all sites diversify automatically; to reduce risk, diversify.* Doesn't mention spreading risk across multiple P2P sites at all. It does, however, explain to spread across lots of loans and also why it lowers the risks: ***"Zopa, for example, splits your investment into £10 chunks, to be spread out across multiple loans. This helps spread risk, and means that if one borrower fails to repay, your whole investment doesn't take a hit."***
Key risk 3: risk of losing money due to bad debts, and mitigating factors/techniques are accurately and unambiguously explained*. This risk is clearly emphasised, especially the higher potential losses and greater risk of losses during a major recession and/or property crash; with some details correctly identifying measures to reduce those risks.*

Although Which omits a lot of details, it gets the biggest things right:

"By being connected directly to someone who wants to borrow, the most immediate risk to your capital is if a borrower fails to repay what you have lent them (known as defaulting)."

"Although it's a growing sector, P2P is mostly untested in a credit downturn, when default rates might surpass whatever safeguards the various platforms have in place."

One suggestion is that Which? could look further ahead to note that a P2P platform that survives a credit downturn one time might fail the next if its standards fall (e.g. if management changes); investors need to regularly reassess their platforms of choice.

Key risk 4: risks due to a P2P lending site going out of business, and mitigating factors/techniques are accurately and unambiguously explained*. Expected delays to payments explained and that the borrower will still owe the investor, not the defunct platform, so the losses are ring-fenced from the P2P site's own problems; cash (unlent money held by the P2P site) is in segregated accounts protected by the FSCS; the platforms' regulatory wind-down and capital requirements correctly and fully explained in the context of the site closing down; ways to mitigate the risk e.g. diversification.*

"Peer-to-peer sites aren't covered by the Financial Services Compensation Scheme (FSCS) which guarantees your savings with banks and building societies up to the value of £85,000."

No mention that cash deposits at the platform are protected by the FSCS.

No information on potential delays to repayments, that borrowers still directly owe investors, the wind down plans and capital requirements, or ways to mitigate the risk of a platform going bust.

Key risk 5: risk of losing money due to fraud or negligence, and mitigating factors/techniques are accurately and unambiguously explained*.*

Not mentioned at all.

Risks described as primary over interest rates when assessing platforms*. Rates are de-emphasised as a poor measure of the risks for interest-bearing investments; if they suggest using rates as a measure of risks, do they offer direct ways such as measuring the security or bad-debt history, and are their caveats that interest rates can be pushed too low for the risks involved at some P2P platforms (especially during bubbles); if information is provided on the level of interest rates, or on which platforms or groups of platforms offer the best rates, this is substantially correct.*

Although Which? for the most puts risks above rates, and doesn't confuse them, it does state this:

"Rates can be better than those offered by banks, but high rates come with added risk, most notably the fact you might struggle to get your money back if the borrowers you've lent your money to fail to repay."

Again, too much emphasis on interest rates as a primary measure of risk with no other important details explained. Some platforms offering lower rates are higher risk; risk and reward are not always correlated.

Strongly emphasising that risks of sudden large losses are not just higher than savings accounts, but the risks vary dramatically between platforms, with some being high risk*.*

There is no mention of this at all.

Correctly stating that borrowers are not always credit checked. *Omitting that they are not always credit checked by at least one top credit-reference agency and that other checks, such as physical inspections of property security from independent surveyors, are not always carried out at every P2P lending platform.*

"Borrowers are credit-checked by a credit reference agency."

This is not always correct and it doesn't allow for the difference in quality of agencies, nor does it explain the other ways that borrowers and their security are checked. However, it does mention vaguely that borrowers ***"also have to pass a peer-to-peer site's own credit-worthiness tests".***

Emphasis of primary risk controls over secondary risk controls or credit enhancements. *Most important factors, such as the key people and underwriting processes, are weighed more heavily than provision funds.*

Aside from a fleeting comment on the P2P lending sites using credit-reference agencies, no information on primary risk controls is provided.

Correctly defining segregated provision funds that are set aside to cover losses and correctly explaining their pros, cons and limitations of provision funds*. Specifically stating that a platform with a provision fund is not necessarily safer or better than one without, that the funds could be overwhelmed by bad debts, with the risks being considerably higher in bad times such as recessions; if mentioning specific platforms' provision funds, explaining the size of the funds in terms of how much actual cover it provides against losses and correctly identifying genuine segregated funds; if grouping platforms, correctly grouping those that have provision funds.*

"The risk is likely to be lower if there's a compensation fund."

This is a huge assumption. All the platforms can set up a compensation fund and put a few pounds in it. Not all can set up skilled, technologically advanced underwriting procedures and credit-risk models.

But good explanation that they might not cover losses:

"These compensation funds are not infinite. It's possible that in a crash where lots of borrowers default at the same time, they could run out of money, although it hasn't happened so far."

Properly explaining how to exit loans*. Including early exit costs, under what circumstances you can leave and that in times of crisis it might be even harder to get all your money back early?*

"Some peer-to-peer lending sites will allow you to withdraw funds early if you wish to, although there will be a fee."

No mention of the cost to compensate new lenders buying your loans. Worse, no mention at all that your money could be tied in for far longer than you intended.

Explaining taxes correctly*. Explaining correctly the Personal Savings Allowance, that both income and capital gains tax could be charged and at least some of the pros and some of the cons of IFISAs.*

Great coverage here, except for missing out capital gains tax and inheritance tax. Some quotes of many: ***“Returns on peer-to-peer lending are currently taxable as income. You'll need to tell HMRC how much interest you earn at the end of the tax year.*** ***“However, interest earned on peer-to-peer lending falls under the Personal Savings Allowance. That means basic-rate (20%) taxpayers can earn £1,000 a year in interest tax-free, while higher-rate taxpayers can earn £500 a year without paying any tax.*** ***“A new type of Isa called the 'Innovative Finance Isa' was introduced on 6 April 2016 for peer-to-peer lending. You are able to set up your Isa with an individual platform so that any interest paid by borrowers is tax-free.”***
If they have peer-to-peer in comparison tables (three of them), effort has been made to compare the market*. Rather than just comparing the P2P sites that pay them commission; P2P sites that don’t provide enough information for an informed person to assess the risks have been excluded.* No comparison tables