FINTECH DISRUPTORS

Open sesame

An open-banking approach to property finance at LendInvest is tackling the inefficiencies of traditional mortgage lenders, writes Rory Palmer

In the first part of this series of fintech – financial technology – disruptors tackling traditional areas of finance, asset management platform LendInvest has taken an open-banking approach to property lending.

The business was founded back in 2008, but the real growth came in 2014 after its technology platform was built.

Chief executive officer Rod Lockhart says the founders saw an opportunity after the great financial crisis when others were running the other way.

"Initially, we recognised the opportunity to build a platform to cater for investment into the loans we were originating," he says. "Quickly, though, we saw the opportunity to focus the technology on building a platform to make it easier from the borrower perspective."

According to Lockhart, holding it all together is a proprietary technology platform that makes it simpler to borrow or invest in the loans it originates.

On the borrowing side, LendInvest provides landlords and property companies with a variety of loans, serving landlords and developers as opposed to homeowners.

However, the future aspiration is to be able to help owners more directly.

The business also has investors from all over the world, especially big firms that want exposure to this relatively specialist area of the market.

JP Morgan is one such example, and LendInvest originates and manages a portfolio of buy-to-let loans on its behalf, given the investment bank does not have a mortgage lending arm in the UK.

"Investors will invest with us because we're giving them access to loans that otherwise they wouldn't have access to directly," he says.

Similarly, despite being two of the largest mortgage lenders in England, HSBC and Barclays do not provide the type of loan they invest in through LendInvest.

Shedding the legacy

The business was conceived to tackle large-scale inefficiencies in this space.

Lockhart says: "The property finance market is large, but it's one that's dominated by traditional lenders, characterised by manual processes and poor customer experience.

"We're attacking the market using technology, unincumbered

by the issues that plague these traditional lenders."

Indeed, he says starting with a blank sheet of paper meant a platform could be built using the latest technology, without having to incorporate legacy systems.

"As an example, open-banking technology in the lending service allows us to verify the income of our borrowers, without needing bank statements flying backwards and forwards."

By removing the friction, the certification and verification can be a much simpler process.

Friction affliction

The company has invested £50m to date in building its technology platform and assets under management is up by 32% in the year to September.

"There's momentum in the business and that's been the trajectory for the past five years as we've grown in the property finance space," says Lockhart.

"Moving forward, there's more for us to do in terms of chipping away at this process that's full of friction to create a better process for our brokers and borrowers."

He adds that the next step will be moving into homeowner mortgages, although this will initially be very specialist mortgages, the ones currently unavailable at traditional lenders.

"These are self-employed or contract workers, where their income is hard to verify," he says. "However, we believe this will be a bigger cohort of people moving forward due to the pandemic."

Given that the current process involves much back and forth to ascertain income, according to Lockhart, open banking offers the solution to tackling that kind of friction. ■

Rory Palmer is editor of What Investment.

We're attacking the market using technology, unincumbered by the issues that plague traditional lenders
Rod Lockhart, CEO, LendInvest

IPOs for all

Including retail investors at IPO is the aim for fintech company PrimaryBid

PrimaryBid gives individuals access to one-off public company fundraisings and initial public offerings (IPOs) on the same terms as institutional investors.

Mike Coombes, head of external affairs at PrimaryBid, outlines how the company uses its platform to help investors access fundraisings and IPOs, but equally, to help companies make their deals available to retail investors.

"A company has to decide to include retail in its deal, so our job is to demonstrate how easy and rewarding it can be with our technology," says Coombes.

Once a deal is on the platform, the participation mechanics for investors are straightforward. Individuals can place an application via the PrimaryBid app for free, or via their wealth manager or online platform.

"We aggregate all applications, whether made directly or indirectly, and provide details to the investment bank co-ordinating a fundraising," he adds.

PrimaryBid has achieved its goal of retail inclusion for accelerated share offerings that take place overnight (ABBs) and have done almost 100 in 12 months.

However, companies occasionally choose not to include retail investors, which acts as a stark reminder for Coombes.

One recent example was ITM Power's £250m fundraising in October. It was done at a 15% discount to market price, as well as diluting existing shareholders by 11%, representing value that was instantly captured by institutional investors and directors of the company.

In IPOs, the statistics around retail inclusion are much worse, particularly at the larger end: 14 of the 15 largest IPOs this year have excluded retail, including Oxford Nanopore most recently.

"Technology has flattened the investment landscape in the past few years. But while costs have come down and information is more readily available to all, the primary markets have remained institutional, with little technological innovation.

"The idea was that tech could be used to aggregate retail investor interest, treating it as a meaningful, accessible pool of capital."

In 2020, a large number of companies launched highly dilutive capital raises at significant discounts. Institutions providing this capital were then able to benefit further from "a relief rally" in shares. "We believe this is fundamentally unfair to individuals," Coombes adds.

"Companies coming to market would do well to recognise that an IPO is more than a capital raising exercise; it's an opportunity to begin public life with the public invested in your success."

Diverse benefits

Retail ownership of the UK market is around 15%, and much higher in many stocks, and Coombes says there is significant cash held in ISAs ready to be invested.

"Companies that can effectively access retail investors, beginning at IPO, benefit from a diversity of capital sources, greater liquidity, and better governance to boot."

So why have companies shunned retail involvement at IPO?

"Management may fear engaging with retail investors will be a burden when they could more easily engage a handful of institutions able to provide the necessary capital," says Coombes.

"It is surely better to understand the needs and behaviours of retail shareholders and investors, and thereby access this valuable source of capital in coherent fashion."

There is also a misperception of the average retail investor that