



Crowd Pleaser

With peer-to-peer loans expected to hit \$1 trillion globally over the next decade, the crowdfunding concept is taking the world by storm. Online P2P marketplace, Beehive, is making sure the UAE is there for the ride.

By Hannah
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Established just last year with former Emirates NBD Group CEO, Rick Pudner, as Chairman, online peer-to-peer (P2P) marketplace, Beehive, is already sending profit-making SMEs in the UAE on the road to further growth, and a buzzing crowd of investors to a tidy return.

As with any investment, P2P lending isn't without risk, but its appeal is spreading fast. Here, Beehive's Founder and CEO, Craig Moore, explains the who, what, where and why of a crowdfunding model brimming with potential.

Forbes Middle East: What is peer-to-peer lending and why is it necessary?

Craig Moore: Peer-to-Peer (P2P) lending is one form of crowdfunding—a simple, innovative way of raising money by asking a large number of people for a small amount of money. P2P lending refers to individuals (investors) lending to other individuals or businesses (borrowers) without the use of a conventional intermediary such as a bank. This form of lending uses the Internet as a platform to reach hundreds or even thousands of potential investors (the crowd).

FME: When did this form of lending emerge and what is its track record to date?

CM: P2P is a very successful practice in the UK and USA where Lending Club, the largest player within the industry, has exceeded expectations and raised more than \$865 million in its recent IPO, while On Deck, the second-largest,

recently raised \$200 million. Both have grown rapidly by offering loans/savings products at terms more attractive than those offered by traditional banks. Also, it is important to note that even the state-owned British Business Bank has invested significant funds—over £200 million (\$300.50 million)—on P2P platforms to support further lending to small businesses in the UK.

P2P, also known as 'marketplace lending', is estimated to have originated around \$9 billion of loans globally in 2014, but at expected growth rates, this is projected to reach \$1 trillion in the next 10 years. We feel the timing is right for the UAE to embrace and take advantage of this technology to drive local economic growth.

FME: Peer-to-peer lending removes the bank from the equation, but don't platforms such as Beehive just become the new middleman?

CM: The critical factor is by using technology to drive down costs, Beehive is able to pass on the benefits to both SMEs and investors. Our role is to maintain a direct connection between investor and SME, ensuring the whole process is faster and that both parties optimize their rates. P2P lenders also usually assess the risk profile of the businesses and ensure repayments are made as agreed. Through often simple applications, platforms such as Beehive help businesses have access to faster and flexible credit with a lower rate than conventional banking finance and without charging them for early repayment.



L-R: Rick Pudner, Chairman of Beehive and former Group CEO at Emirates NBD and Craig Moore, Founder and CEO of Beehive.

Image from source

P2P LENDING REFERS TO INDIVIDUALS (INVESTORS) LENDING TO OTHER INDIVIDUALS OR BUSINESSES (BORROWERS) WITHOUT THE USE OF A CONVENTIONAL INTERMEDIARY SUCH AS A BANK

P2P IS AN ALTERNATIVE ASSET CLASS INVESTMENT AND AS SUCH WOULD MAKE UP NO MORE THAN 3-5% OF A DIVERSIFIED PORTFOLIO FOR ANY INVESTOR.

FME: How does P2P differ from other types of crowdfunding?

CM: P2P lending refers to investors lending to businesses, who make regular payments at a fixed interest rate. The interest rate is determined by a 'reverse auction', meaning investors compete to lend. Investors receive monthly repayments and higher rates of return while managing risk by diversifying their investments across many businesses. The Beehive model of unsecured lending means that SMEs can access cash that is not reliant on giving equity stakes in the business or taking out asset-backed finance. It is a much quicker way to raise capital—businesses get funded in less than 14 days on Beehive.

Another model comes in the form of equity-based crowdfunding, by which funders receive interest in the form of equity in the venture they fund or, alternatively, revenue or profit-share arrangements are made. Seedrs and CrowdCube are leading examples of this model in the UK. Other alternatives include reward-based crowdfunding—a model that allows funders to gain a non-financial benefit in return for financial contributions—and donation-based crowdfunding, which provides funders with a way to donate to causes that they want to support, with no expected compensation.

investing, is peer-to-peer lending for me?

CM: P2P is an alternative asset class investment and as such would make up no more than 3-5% of a diversified portfolio for any investor. It can appeal to a range of sophisticated investors, all the way up to institutional investors. As a risk adjusted investment, P2P has performed well in Western markets and many investors enjoy the fact that they are backing local businesses, helping to drive employment and growth. We believe it can form a small part of a balanced investment portfolio for most, but if potential investors are unsure if P2P is right for them, we recommend they speak to an independent financial advisor.

FME: How does Beehive assess the eligibility and credibility of the businesses listed?

CM: We go through a very strict process before we accept any business on our platform. Businesses must be profitable, established for two years or more, have no adverse credit history and be a UAE-based company.

Our proprietary credit model and process has been developed to ensure that all applications are rigorously reviewed and only the businesses deemed as creditworthy are listed on our marketplace. Successful applications are given a guide rating of

FME: The size of global peer-to-peer lending was estimated at \$5 billion up until the end of 2013. Are there any figures or statistics available for the Middle East?

CM: There are very limited figures for this region at this point, but with the \$1 trillion forecast globally, we would expect the Middle East to foster and support a sizeable market. The growth of peer-to-peer lending is accelerating rapidly and its expansion into new markets is inevitable as economies, governments and regulators seek smarter solutions to SME financing.

FME: If I am a young professional looking to take my first steps into the world of

either A, B or C (excellent, strong or good) so that investors can make an informed choice as to the return they would like on any particular loan. Beehive is not available for startup or pre-profit businesses, but established businesses that are looking for expansion capital to fuel their growth.

FME: With peer-to-peer lending conducted online, are there risks associated with removing face-to-face interaction? After all, many investment decisions are based on chemistry and relationships.

CM: In the West, so many successful business models have moved online because it is faster, more convenient and cheaper for users to do business. In the UK P2P market, over \$4 billion of loans have been funded this way and much of this relies on credit assessment and risk algorithms.

Beehive requires a face-to-face meeting with the business owner before listing them, in addition to a full credit assessment. It is important that investors understand that risk does exist because even creditworthy businesses can default on their loan obligations—this is why it's also important investors diversify across a number of loans.

FME: What are the costs involved in peer-to-peer lending, and conversely, what kind of returns can investors expect?

CM: By using technology to connect parties, the costs of P2P are very transparent and significantly lower compared to conventional banking financing. The investors are charged a very small fee on the repayments they receive from businesses. There are no 'assets under management fees' or other hidden charges, typical of traditional investment funds or asset management companies.

For businesses, besides the much lower borrowing rates, P2P also simplifies and reduces the processing fees. The fees are charged to businesses only once their finance request has been funded and approved, and the fees get deducted automatically from the total finance amount. No other fees are charged to businesses, not even if they decide to repay their financing early.

What many investors don't realize is that bank unsecured lending rates in the UAE range from about 16% to 24% APR, which means that there is a good chance that investors can lend money at, say, 12% to 14%. It's important to note that because businesses pay a weighted average rate; you can have investor one receiving 9% interest and

investor two receiving 17%, but the business is paying 13% blended.

FME: What are the challenges of introducing and maintaining peer-to-peer lending in the Middle East?

CM: P2P is a new model in this region but the opportunity is significant, as the International Finance Corporation (IFC) estimates the current SME funding gap in the MENA region to be at least \$260 billion. This considerable gap between the supply and demand of capital is driving a critical need for alternative finance solutions to fuel growth in this critically underserved sector of the economy. The challenges will be educating the market as to the benefits and transparency to drive volume adoption, as well as reassuring regulators that P2P companies have the necessary investor protection measures in place.

FME: What kinds of businesses and investors have been involved with Beehive to date?

CM: We have funded a wide spectrum of business sectors, including a manufacturer of disposable plastic, an HR consultant, a coffee supplier, a pet shop, and more. Our investor base includes male and female investors from many different nationalities and across a wide age range. Some investors bid with small amounts and other have bid significant sums of money across the platform.

FME: Can you share any statistics on Beehive's peer-to-peer lending that might inspire entrepreneurs and investors across the region?

CM: We've had a fantastic response so far with more than AED 2.5 million (over \$680,000) in business funding already completed and more in the pipeline. Over 650 investors have registered and we're seeing investor sign-ups on a daily basis, so SMEs interested in registering on Beehive can be confident that investor demand is high.

FME: In your opinion, what is the future of peer-to-peer lending in the Middle East, and how significant could it be to the region's economies?

CM: There is huge potential in this market and a real focus on innovation. With the prospect of Dubai Expo 2020 in addition to other regional initiatives, we feel there's a real spirit of optimism amongst SMEs and bringing investors and businesses together will help foster mutually beneficial partnerships for growth across the UAE community. **B**

OUR PROPRIETARY CREDIT MODEL AND PROCESS HAS BEEN DEVELOPED TO ENSURE THAT ALL APPLICATIONS ARE RIGOROUSLY REVIEWED AND ONLY THE BUSINESSES DEEMED AS CREDITWORTHY ARE LISTED ON OUR MARKETPLACE

Facts

- Video game *Star Citizen* has so far raised over \$72 million through more than 735,000 crowdfunding backers, making it the largest crowdfunded project ever.

- A total of 78,728 projects have been successfully funded on Kickstarter, while 121,836 have failed.

- A total of \$1,534,097,397 has so far been pledged to projects on Kickstarter.

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