

“The time without mandatory risk and compliance management in the non-bank lending sector is likely to be over soon”



Lack of high-quality risk and compliance management may have dramatic effects on the ecosystem. Zorana Bejtovic, chairwoman of our committee of eponymous name as well as Head of Risk with creditshelf, talks about the need for professional structures, the regulatory dawn for BNPL and embedded finance as well as latest developments at EU level.

VdK: Why should marketplace lenders engage with the area of risk and compliance management?

Zorana Bejtovic: Professional risk and compliance management is crucial for the economic success and credibility of any organisation active in lending. This is equally in the interest of borrowers, investors and platforms. Building a risk and compliance culture, and structures around it, provide the organization with the right tools to identify, assess and mitigate any negative developments at an early stage and therefore prevent the damage. As a young industry that gains more and more importance as an appealing alternative to banking products, we are all devoted to work together on further professionalizing our structures every day.

VdK: Many companies still see proprietary risk management as a burden rather than a strategic success factor. What can you tell us to counter this?

Zorana Bejtovic: First of all, I cannot deny that professional risk and compliance management costs resources and money. It's the opinion of many that one would be able to bring new products to market much faster, without a professionalized approach to these topics. However, two years of pandemic and the current crisis in Ukraine have shown the importance of having proprietary risk management in place. Successful platforms such as the four founders of the association, auxmoney, INVESDOR, Funding Circle and creditshelf, already have a professional approach to risk and compliance management. This allows us to not only better recognize and assess the risks when making strategic decisions, but also helps to increase customer satisfaction in the long term. In 2021, the members of the

Address

Association of German Lending Platforms
Joachimsthaler Str. 30
10719 Berlin
AG Charlottenburg, VR 37585 B
Tax ID: 27/620/63392

Contact

✉: info@kreditplattformen.de
☎: +49/ (0) 30.94.85.46.60
🌐: www.kreditplattformen.de

Board

Philipp Kriependorf
Jens Siebert
Marco Hinz
Dr. Tim Thabe
Claus Tumbrägel

Managing Director

Constantin Fabricius

association have arranged [EUR 11.4 billion loans for companies](#) only. This speaks for the importance of lending platforms and certainly for the importance of implementation of professional risk and compliance management.

VdK: What are currently the biggest challenges for marketplace lenders?

Zorana Bejtovic: Of course, Russia's war against Ukraine is currently playing an important role for all of us, both on the borrower and investor sides. Many companies are pressured by rising energy prices and inflation, as well as the supply chain bottlenecks. In addition, we should not forget the pressures of the pandemic, the trade wars between the U.S. and China and increased cyber risks. This is accompanied by issues arising from climate change. All of these factors threaten value chains and supply chains with impacts on company, community and consumer behaviour. Marketplace lenders must ask themselves what these developments mean for the liquidity and capitalization of each particular customer group they serve and formulate tailored responses.

VdK: How much uncertainty - or risk - can one afford as a marketplace lender?

Zorana Bejtovic: Of course, all marketplace lenders must decide this based on their individual situation. Naturally, the appetite for risk varies. Many different factors play a role in the individual business strategy. After all, this is quite comparable to the situation banks are in. At any rate, the question was and is central to the rationale of the four founding members of the Association of German Lending Platforms: How big of a risk appetite fits the needs and wishes of my investors and how can we mitigate these risks? In my view, a marketplace that cannot or will not provide a satisfactory answer to this question will not be successful in the long run. The positive development of a receivable therefore must be in the best interest of all parties involved. However, I have been asking myself for quite some time: How can this issue be successfully addressed without a well-functioning risk and compliance management system? In fact, there are business models in the market that have implemented no system or only a weak one.

VdK: Can you perhaps give some examples?

Zorana Bejtovic: In the area of consumer finance, I'm thinking of Buy Now Pay Later. These providers are, after all, moving very deliberately beyond the high requirements of the consumer credit directive. This all seems to be within the boundaries of the current law, of course. However, it is unfortunate to note that the deficits in risk assessment also have the potential to backfire on the whole ecosystem. We therefore believe that the path taken by the European Commission to include BNPL within the consumer credit directive is the right one. This will certainly ensure more quality in the market.

We also need to take a closer look at the whole issue of embedded finance in corporate finance. As with the topic of BNPL, one must clearly see the debt risks for companies. A [recent study by Accenture](#) also points this out. Embedded finance sounds very alluring for

Address

Association of German Lending Platforms
Joachimsthaler Str. 30
10719 Berlin
AG Charlottenburg, VR 37585 B
Tax ID: 27/620/63392

Contact

✉: info@kreditplattformen.de
☎: +49/ (0) 30.94.85.46.60
🌐: www.kreditplattformen.de

Board

Philipp Kriependorf
Jens Siebert
Marco Hinz
Dr. Tim Thabe
Claus Tumbrägel

Managing Director

Constantin Fabricius

a company at first. As a provider, however, you should have a proprietary control of the risks if you want to be a serious alternative to the banks.

VdK: Should the legislator intervene?

Zorana Bejtovic: They already have - most recently with the European Crowdfunding Service Provider Regulation, the ECSPR. Those who fall within its scope must fulfil demanding risk and compliance management requirements. Another example is the Fund Managers Directive, the AIFMD. This directive also includes regulations for an appropriate risk and compliance management system.

The members of the association's committee on risk & compliance management, which I have the privilege of chairing, are currently waiting for the results of the European Banking Authority's investigation into the non-bank lending sector. This is a highly exciting political development with potentially far-reaching consequences. Last year, the European Commission had given a mandate to the European Banking Authority to look at the areas beyond CRR/D, AIFMD and ECSPR that have not yet been covered by any regulation. My understanding is that the time without mandatory risk and compliance management is likely to come to an end. Presumably, this will put a whole range of business models into economic question.

VdK: Let's take a closer look at the ECSPR. What does it change?

Zorana Bejtovic: The ECSPR sets minimum requirements for adequate risk and compliance management for crowdfunding service providers. For example, crowdfunding service providers are supposed to have adequate regulations in place - including regulations regarding the prevention of money laundering, conflicts of interest, credit and default risks, operational risks, and complaint management, to name a few. As a result, this should lead to improved investor protection and transparency.

Only recently, the EBA invited a [consultation on their Draft Technical Regulatory Standards on credit scoring and loan pricing disclosure, credit risk assessment and risk management requirements for crowdfunding service providers](#). Although we have voiced some criticism in our statement, we support the general approach. This applies in particular to the considerations on the inclusion of ESG risks. The reporting requirements should, however, remain manageable and not lead to a boundless increase in costs for European crowdfunding service providers. This is the only way to ensure that this type of funding remains attractive and provides easy and fast access to alternative capital.

VdK: How will these requirements affect the market?

Zorana Bejtovic: If the technical standards set out in the European Banking Authority's final draft are adopted by the European Commission in this way, or at least in a similar way, we would see a demanding standardization of the requirements for risk and compliance management. Since a functioning risk and compliance organization is of central importance

Address

Association of German Lending Platforms
Joachimsthaler Str. 30
10719 Berlin
AG Charlottenburg, VR 37585 B
Tax ID: 27/620/63392

Contact

✉: info@kreditplattformen.de
☎: +49/ (0) 30.94.85.46.60
🌐: www.kreditplattformen.de

Board

Philipp Kriependorf
Jens Siebert
Marco Hinz
Dr. Tim Thabe
Claus Tumbrägel

Managing Director

Constantin Fabricius

to the economic success of marketplace lenders, we would of course welcome such standards. However, not everyone is likely to see it that way. My fear is that some marketplaces will consider adapting their business model so that they do not fall within the scope of the regulation. Of course, you have to be able to afford to build the structures for professional risk and compliance management. However, if one's own business model is already stretched to the limit today, the financial leeway will of course be even tighter tomorrow. It is therefore all the more important that the EU closes the loopholes with targeted regulation of the non-bank lending sector and ensures a level playing field for all market participants, especially those who follow the rules. This also applies in particular to the area of money laundering.

VdK: Let's assume for a moment that things end up the way you want and the EU regulates the entire non-bank lending sector. Do we then actually still need the association's uniform industry standards?

Zorana Bejtovic: Absolutely. They will always play an important role because they reflect the general outlook of our members in regard to the issue. It's about defining a common understanding of quality, integrity, transparency and professionalism in the context of digital investing and financing. And we're not just talking about a generic code that no one really monitors compliance with. These are detailed minimum requirements for very different business models, products and customer groups as well as compliance which must be externally validated. In addition, the standards cover areas that are not covered at all by currently applicable or planned legal acts. This includes, for example, the standard for uniform industry data and figures. With this kind of transparency, we create real added value for our customers, policymakers and the general public.

VdK: Finally, a question for you personally as Head of Risk with creditshelf: What actually makes the job of a risk manager so exciting and varied?

My job is indeed very exciting and every day really does bring a new challenge. On one hand, I have a privilege to get to know our varied SME and ScaleUp customers and understand their operations and challenges. Being able to shape the new, alternative financing solutions for our customers and work hand-in-hand with tech on the further development of our technologies for credit risk assessment is quite amazing. On the other hand, I'm also involved in the entire product cycle, which requires me to look at the marketplace from different perspectives.

This interview was published in Quarterly Briefing 02/2022 on April 28, 2022.

Address

Association of German Lending Platforms
Joachimsthaler Str. 30
10719 Berlin
AG Charlottenburg, VR 37585 B
Tax ID: 27/620/63392

Contact

✉: info@kreditplattformen.de
☎: +49/ (0) 30.94.85.46.60
🌐: www.kreditplattformen.de

Board

Philipp Kriependorf
Jens Siebert
Marco Hinz
Dr. Tim Thabe
Claus Tumbrägel

Managing Director

Constantin Fabricius