Launching a securities lending programme to retail investors:

Accelerating time to revenue

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Introducing securities lending to the retail market can provide a significant, monetisable opportunity. It enables private investors to earn additional income from their existing assets, whilst unlocking a new revenue engine for financial institutions.

This guide takes you beyond the configuration of your programme, diving into the commercial engine that drives client adoption and accelerates time to revenue.

Contents

You've scoped out your securities lending programme. What comes next?

How do you ignite investor excitement and turn sleepy assets into revenue engines?

What's included:

Chapter 1

How to position securities lending

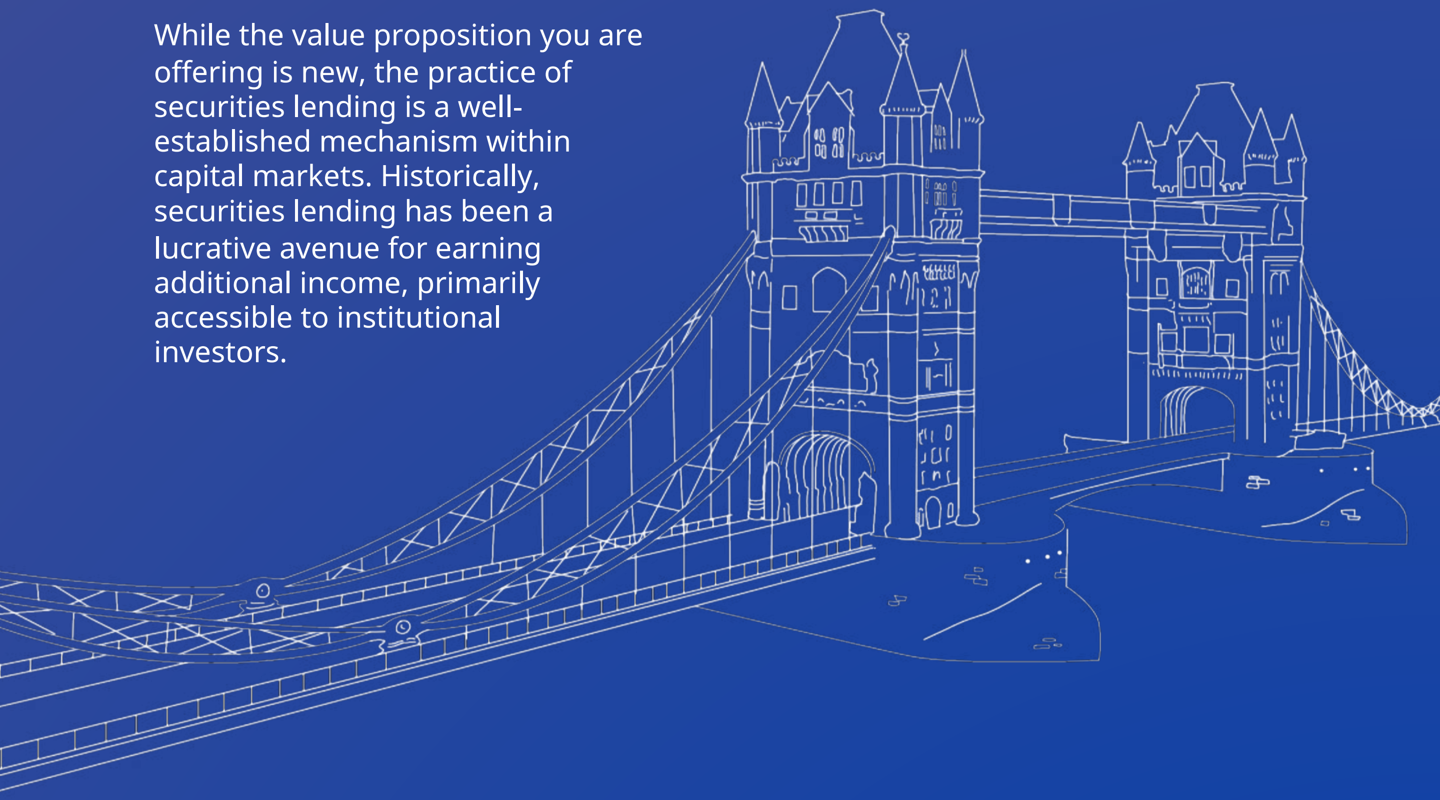
Every investor seeks to maximise returns from their investments. Securities lending is a simple, transparent way to offer them another form of income.

Engaging in securities lending is not an investment decision, but rather an additional way to earn income on assets, like collecting rent on owned properties.

Similar to payments received through dividends and coupons, securities lending represents a **third pillar of income generation**, offering investors an additional avenue to enhance their returns.

Rent

While the value proposition you are offering is new, the practice of securities lending is a well-established mechanism within capital markets. Historically, securities lending has been a lucrative avenue for earning additional income, primarily accessible to institutional investors.



Many private investors have not had access to this opportunity, meaning they remain unaware of its income potential. By making securities lending accessible to your clients, you bridge the knowledge gap and build trust. The latter is a crucial aspect to any new investment-related offering.

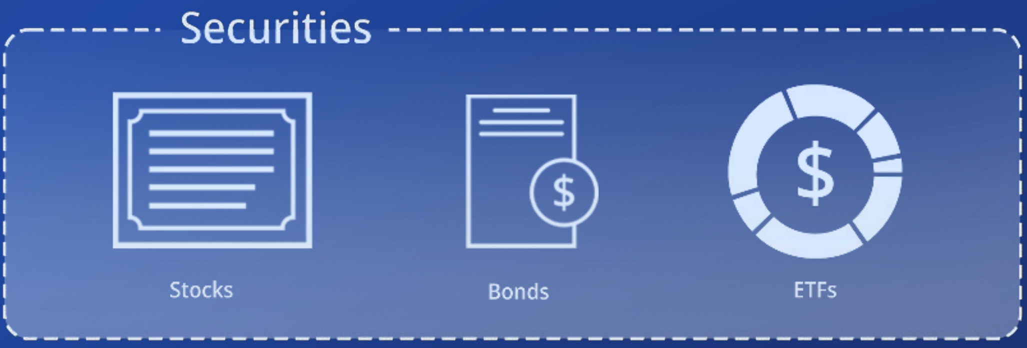
In your messaging strategy it is important to underscore that, although the concept may seem new to them, investors have been successfully generating revenue from renting out their stocks for decades. This reinforces the credibility of the practice and the potential for generating extra income, encouraging your clients to explore this avenue with confidence.

Incorporating this perspective into your messaging strategy emphasises both the novelty of the opportunity for individual investors and its established success in the broader investment community. See more on this later.

Terminology

To drive widespread adoption of securities lending, it is important to highlight its benefits clearly and concisely.

The term "securities lending" itself is steeped in capital markets jargon, which may not resonate with the average retail investor. Unlike the institutional market participants who are familiar with this terminology, clients seldom say that they invest in “securities”. Instead, they are more familiar with terms like stocks, bonds, and ETFs. Adopting language that is relevant to your target market is therefore essential for effective communication.



Consider referring to securities lending as:

“stock lending” | “share lending” | "yield enhancement"

Alternatively, frame the practice as **"renting stocks"** as a means of earning additional income.

These simplified terms make the concept more accessible and understandable to a broader audience, facilitating greater engagement and adoption.

Securities lending is best understood when framed in everyday terms.

Let's break it down.

The “Why”

The key is to offer it from an opportunity perspective. Very few investors are willing to turn down the opportunity to make hundreds - sometimes thousands - of dollars in passive income when all they need to do is simply opt into the programme.

Securities lending can be likened to the concept of renting out real estate – but without any of the hassle. Just as homeowners can earn additional income by renting out their properties, investors have the opportunity to generate extra revenue from stocks, bonds and ETFs already within their portfolios. This approach to income leverages assets they already own, begging the question:

Why not take advantage of this opportunity?

From a retail investor's perspective, the narrative is straightforward yet compelling; transform idle assets into passive income streams. However, some investors express reservations, particularly concerning who wants to borrow their securities and why. The answer often involves facilitating short selling, a concept that raises questions and concerns among those new to securities lending.

Acknowledging the complexity of short selling and its implications is important – you can offer educational links to comprehensive resources for those who are interested. This approach maintains the introductory focus on the advantages of securities lending, whilst ensuring transparency and providing a pathway for readers to explore these concepts in greater depth, at their own pace.

The "What"

Securities lending is the practice of temporarily transferring your stocks, bonds, or ETFs to a borrower who uses them for their own purposes and returns them to you later. In exchange for this privilege, the borrower pays you a fee, essentially a rental payment for using your assets.

Collateral plays a crucial role in this transaction, serving as a safety net in the unlikely event that the borrower fails to return the loaned stock or bond. The borrower provides something of value—cash or other securities that exceed the value of the loaned security—which is held until the borrowed securities are safely returned.

In the same way that renting out physical assets like cars or homes involves insurance, stock lending involves over-insuring (collateralising) your securities against the risk of borrower default, offering an additional layer of protection.

This measure offers peace of mind to the lender, securing the transaction and ensuring that the borrower has a vested interest in returning the lent assets on loan, as agreed.

The “How”

The practice of securities lending is designed to fit seamlessly into the client experience, with minimal effort. It is a simple opt-in, opt-out mechanism that provides investors with the flexibility to decide whether to make their securities available for lending or not. This simplicity is at the core of the process, ensuring that it's not something investors need to actively manage on a day-to-day basis.

Opt-out

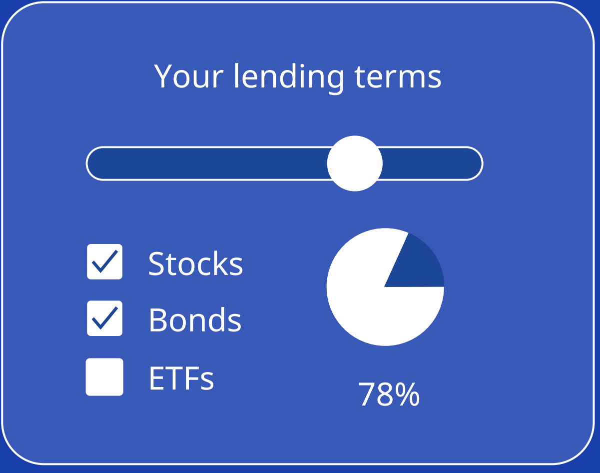
Opt-in

A simple opt-in, opt-out mechanism

By opting in, investors allow their securities to be lent out, with the financial institution (powered by Sharegain) managing every aspect of the process—from finding borrowers and managing the loans to ensuring securities are returned. For retail investors, this means once they have decided to participate, their involvement is largely hands-off.

The Sharegain platform offers a distinctive capability for investors, advisors, and RIAs to selectively choose which securities to lend, aligning with their strategic needs. This precise control, powered by our advanced API layer, allows for customised lending options—ranging from fully-automated simple solutions to highly-personalized smart choices.

These capabilities not only make securities lending simple and accessible to a wider range of end investors but also drive wider adoption.



Chapter 2

Marketing and communications strategy

Securities lending is not as widely recognised as other services and value-propositions in banking and investing.

Given its novelty to most of your clients and internal team, rolling out a new securities lending programme requires a thoughtful marketing strategy.

The goal is to create a compelling message that not only educates, but also sparks investor curiosity, dispels misconceptions, inspires action and instils confidence in the potential of securities lending.

Mastering the narrative

Here are a few examples of how firms can present securities lending to retail investors:

About Share Lending

Earn daily interest on your shares.

We lend shares from your portfolio to borrowers and receive interest in exchange. We split all interest equally with you. Share lending is fully automatic and is unlikely to cause delays when selling. You still get paid dividends in full.

About Stock Lending

Stock Lending gives you the opportunity to earn extra income on stocks you already own.

After you enable Stock Lending, if we borrow your stock, you're paid monthly for the loan. If your stocks are on loan, you can still sell them at any time and realise gains or losses as you would otherwise.

Stock Yield Enhancement Programme

Earn extra income by lending fully-paid shares of stock.

Rent out your securities. Earn income.

Our Fully-Paid Lending Programme lets you earn incremental income on securities that you already own just by renting them out.

Examples of marketing communications provided above are shown for illustrative purposes only. Securities lending is a regulated activity. It is your responsibility to ensure that your marketing communications comply with all relevant legal and regulatory requirements in your country of business.

Key messaging

There are four key messages we have seen that resonate well with the retail investor community:

Focus on the opportunity

Keep it simple and focus on the value of the opportunity. The main value proposition of securities lending is that it allows investors to generate passive income. By simply opting in, they can earn additional returns, effectively and safely enhancing their investment performance without taking on extra market risk.

Trust and transparency

Highlighting the long history and regulation of securities lending can help build trust with investors. The knowledge that it is a fully legitimate and regulated activity can alleviate concerns and demonstrate credibility. Transparency into the other side of the market is also a great motivator. Investors can gain insights into the lending market, uncovering new investment opportunities.

Levelling the playing field

Positioning securities lending as a means of levelling the playing field in investing can resonate with investors, especially those seeking opportunities typically reserved for institutional investors.

Myth busting and misconceptions

Myth busting and addressing common concerns around who borrows and why, voting rights, and the revenue opportunity is key in building investor confidence.

Read more about addressing misconceptions here.

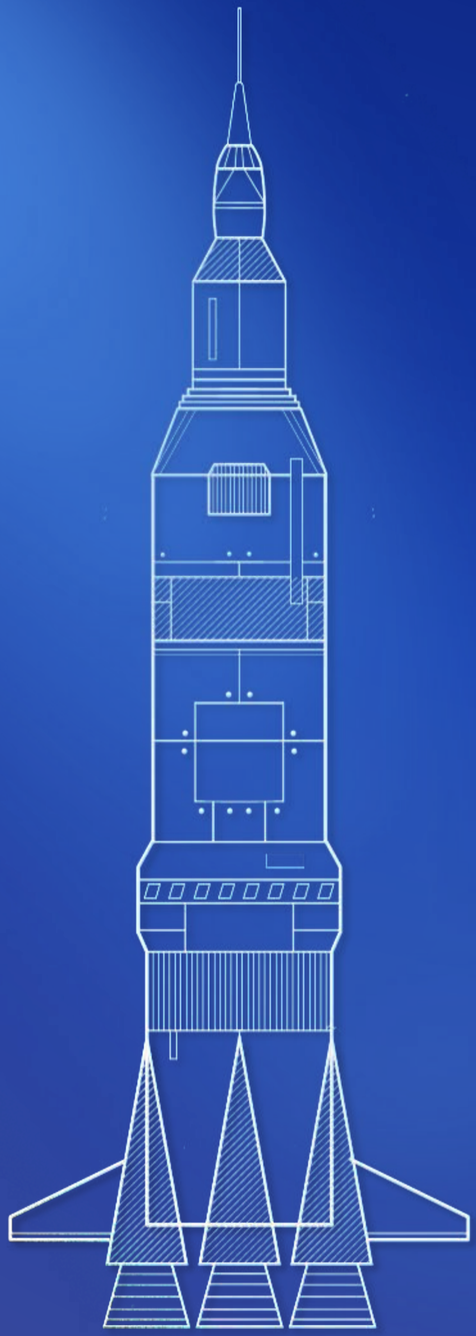
Chapter 3

Launching your securities lending programme

In the pre-launch phase, a strategic approach to internal communication is key. This effort ensures that your employees are well-versed in the nuances of securities lending, creating an environment of informed advocacy from within.

As you transition to the official launch, the emphasis shifts to educating a wider audience. This phase involves leveraging media outlets, engaging with influencers and directly communicating with your clients to highlight the benefits and opportunities that securities lending presents.

Internal alignment



When launching a securities lending programme, the importance of in-house advocacy cannot be overstated. To ensure the programme's success, it's essential that both client-facing teams and internal stakeholders are not only well-informed but also enthusiastic supporters.

You can achieve this by conducting sales workshops and educational sessions to arm your team with a comprehensive understanding of the programme's unique selling point, advantages, and operational details such as onboarding, fees and regulation.

Additionally, focusing on effective communication training, tailored messaging and handling objections through role-playing exercises will equip them to advocate for the programme effectively.

Make a formal announcement to your clients, highlighting the key benefits and features of your programme.

Use multiple channels such as press releases, social media posts, blogs and newsletters to reach a wide audience.

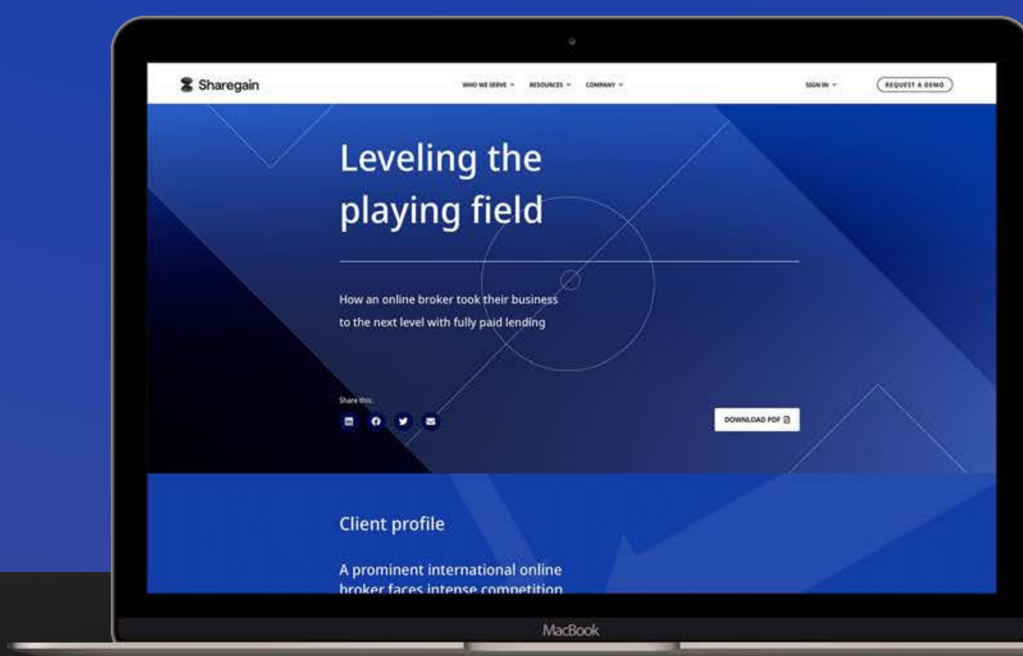
Multichannel presence

Ensure your product is prominently featured across all your marketing channels, including your website, mobile app, social media platforms and other communication streams.

Educational resources

Develop educational eBooks, articles, explainer videos and webinars that explore the concept and benefits of securities lending.

PDF

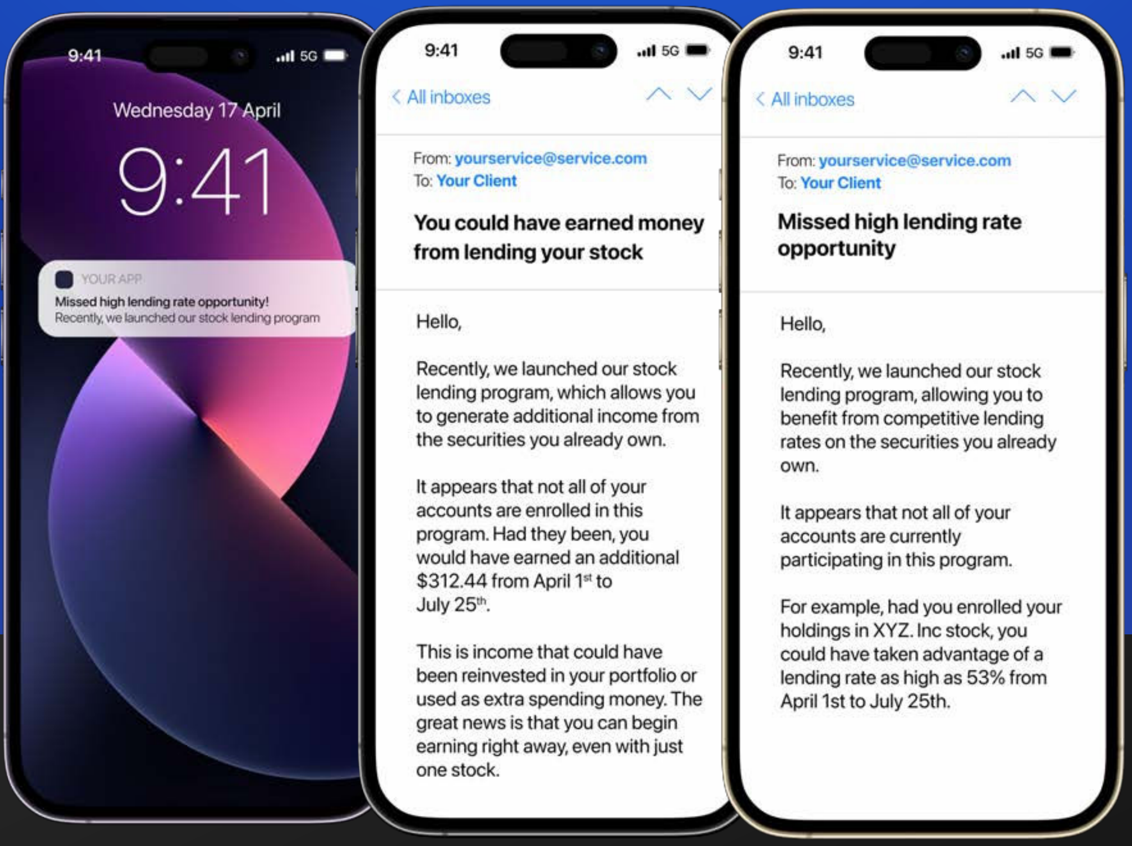


Promoting to clients

Direct and personal communication remains the most effective way to engage investors.

Promote your programme directly to clients through personalised emails or notifications about the current lending rates on specific stocks they hold or showcasing opportunities with ‘hot stocks’*.

Highlight the potential returns and benefits of participating in securities lending, focusing on maximising income from their investment portfolios.



Push notifications

Emails

*A ‘hot stock' is a security that yields higher than average returns, ranging from 1% to over 100% annually.

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Chapter 4

How to identify your target audience for securities lending

Securities lending is a unique opportunity for investors, but it is crucial to understand that its suitability and benefits can vary significantly among different investor profiles.

Pareto

Suitability for investors

Primarily, securities lending transactions are more aligned with the needs and strategies of long-term investors. This distinction arises from the nature of these transactions, which do not typically align with the rapid buying and selling characteristic of day trading.

Investors who are inclined towards holding their investments over extended periods stand to benefit most from securities lending, especially when they hold securities in high demand.

The role of high-demand securities

Securities in high demand, often referred to as "specials" or "deep specials," possess the greatest revenue potential within the securities lending market. These are the securities that borrowers are most eager to acquire, often due to various strategic needs, therefore command higher lending rates.

▶ The opportunity lies in prioritising value over volume. ◀

Why?

On average,
the top 10% of your clients
generate 92% of the revenue.*

* Sharegain research, 2024

The "95/5" rule suggests that most of the revenue from securities lending comes from a small percentage of investors. Understanding this principle helps in targeting the top 5-20% of private investors who are most likely to engage with securities lending offerings.

Read more here:

Case study: The Pareto Principle amplified

Targeting the right audience

There are two primary approaches to targeting potential participants in securities lending:

1 Some financial institutions offer these opportunities to all their clients, which promotes inclusivity, but requires clear communication and management of expectations.

2 A more efficient strategy targets those holding high-demand securities.

Within trading platforms, this segment tends to represent about 10-20% of the client base.*

In contrast, within private banks, this percentage is significantly lower. This highlights the need for a tailored approach, as evidenced by our case studies.

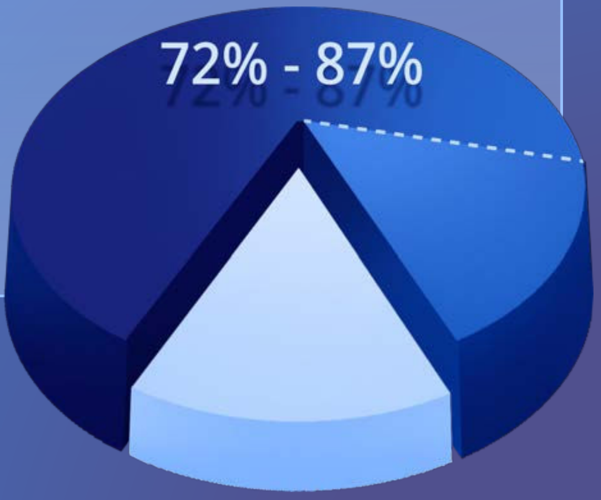
* Sharegain research, 2024

Sharegain's tools and services

Recognising the importance of identifying the right audience, Sharegain offer a suite of tools designed to pinpoint investors holding securities currently in high demand.

Our offerings include a revenue analysis tool, API, and a unique dashboard for advisors, enabling them to efficiently search for and identify these high-potential opportunities. This targeted approach helps in maximising the revenue potential for our clients and ensures a strategic allocation of resources.

Our unique ability to deliver real-time data on securities in high demand and their holders enables our clients to effectively leverage this information. As a result, our online broker clients have achieved a 72-87% of their opt-in target (top 10% of clients) in six months.*

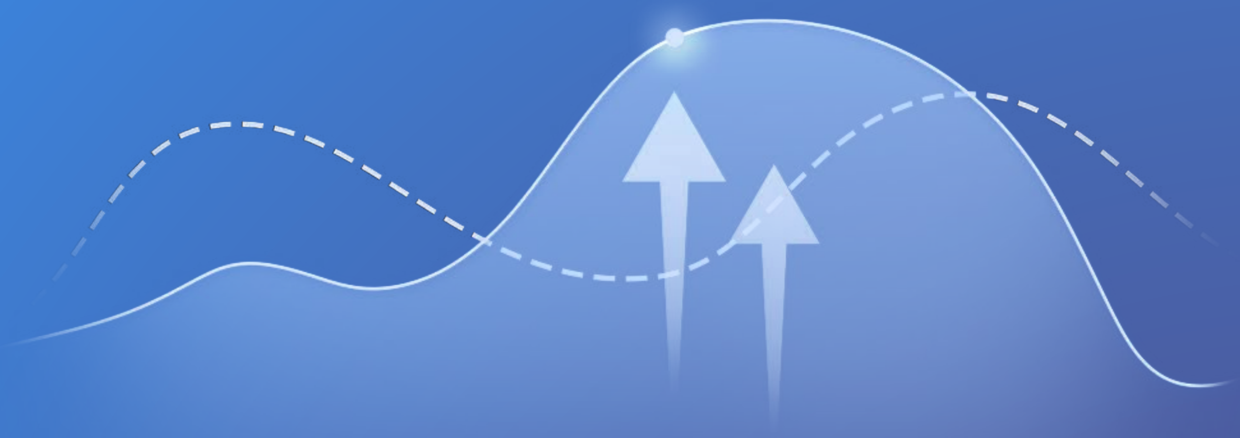


* Sharegain research, 2024

Managing expectations

It is important to manage expectations realistically with clients regarding securities lending. The market for securities lending is demand-driven. Not every security will be in high-demand at all times.

However, when securities do become "special" the opportunity for investors to lend them out can be highly lucrative. This underscores the importance of communication and setting the right expectations with clients, highlighting the potential benefits over time without overselling the immediate returns.



Chapter 5

What are the most effective techniques to drive wide adoption?

Encourage clients to opt in and actively participate in your programme by maximising visibility and consistently placing it front and centre on client platforms and channels. Make the value impossible to ignore.

Sell from an opportunity perspective – show a stock, show a lending rate

One of the most effective techniques to drive wide adoption of securities lending is to highlight specific opportunities from a single stock perspective.

By focusing on individual securities that present significant lending opportunities, institutions can capture the interest of investors who hold these stocks. This approach allows investors to see the tangible benefits and potential returns from lending out specific securities they own.

This stock is in high demand

Current Lending Rate:

XYZ. Inc

53%

XYZ

Success stories: “How stock lending creates added value for customers"

Share success stories detailing how much clients have earned from participating in the securities lending programme.

Highlight specific examples of successful lending transactions and the resulting income generated for clients.

> **“John made $435.6 this month”**
>
> John owns $10K worth of XYZ Inc. He joined his Broker’s securities lending programme. The stock was in high demand with a lending rate of 53%. He lent his stocks for 30 days, earning over $400 in passive income.

In this example, we assume the above data doesn’t change for the duration of the 30-day loan (inc. price). Past performance is not indicative of future performance. How much the client will receive will depend on the revenue sharing arrangements with the Broker.

Overall programme performance

Present data on the overall performance of the securities lending programme, including total revenue generated for clients and the firm.

Highlight key metrics such as average lending rates, client participation rates and the impact on overall portfolio returns.

Utilising different channels for engagement

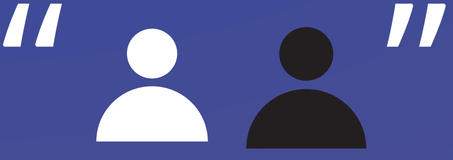
Maximising engagement requires a multi-channel approach, leveraging various platforms to reach and inform potential participants about securities lending.

Direct channels

(Web/app) – messages, notifications, emails.

Human

In conversation with your team (e.g., support/advisors).

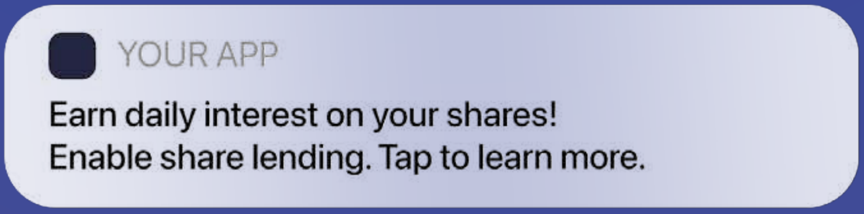


The opt-in process

Make it easy for clients to make their securities available for rent

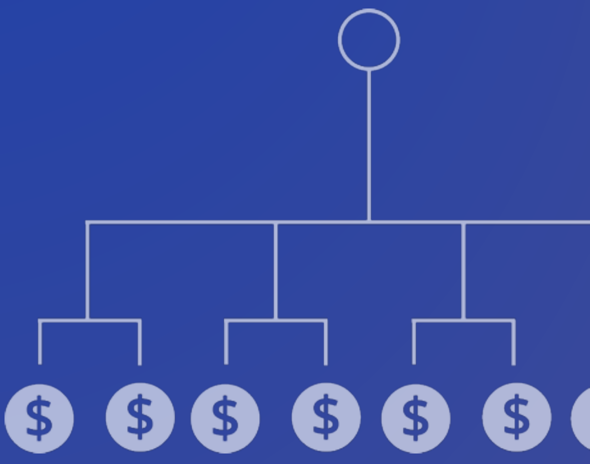
Creating an easy opt-in process for securities lending is essential for encouraging client participation. Simplicity is key, as shown by the popularity of easy opt-in methods where clients could swiftly offer their securities for lending in a few steps.

More complex digital opt-in processes have historically seen lower adoption rates, highlighting the importance of a user-friendly approach. By streamlining the opt-in, institutions can effectively lower barriers to entry, enabling clients to effortlessly join securities lending programmes and tap into potential revenue opportunities.



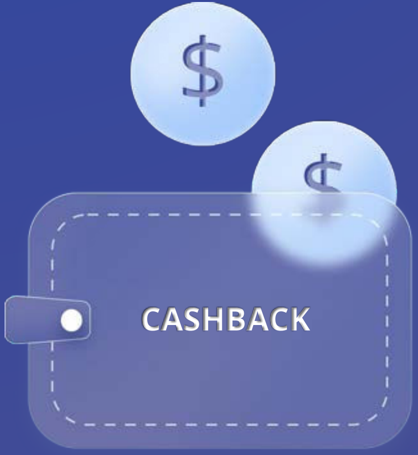
Fee split

Regulators globally expect firms to share revenue from securities lending with their clients fairly. This is considered best practice.



This presents an opportunity to distinguish your services. You have the flexibility to choose how to share. In our experience, achieving a fair revenue split is a strong Unique Selling Proposition (USP) for your offering. Ultimately, the more you share, the stronger the motivation for clients to participate.

Incentives



Incentives can work as useful nudges to motivate behaviour by offering rewards or benefits to your clients. Tailoring incentives to align with individual values and preferences can significantly influence decision-making and encourage positive choices.

Several successful firms have implemented promotional strategies to attract initial and ongoing participation, such as fee-free trading, bonus interest rates, loyalty programmes and cashback rewards.

Create incentive structures that align with investor goals and preferences. Remember to be mindful of regulatory requirements.

Want to find out more?

Contact us

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With securities lending, as with other investment activities, your capital may be at risk.