CULTIVATING GROWTH
The 2nd Asia Pacific Region Alternative Finance Industry Report
September 2017
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FOREWORDS

Cultivating Growth is our latest alternative finance industry report for the Asia-Pacific Region. In 2016, more than US$245bn of funding was channelled through online alternative finance platforms across this vast region, providing credit for consumers, capital for start-ups and SMEs, donations for NGOs and third-sector organisations. Although Mainland China still dominated the market with over US$243bn raised in 2016, many other countries such as Australia, South Korea, Malaysia and Thailand also saw considerable growth in the year. The online alternative finance industry is definitely taking roots and thriving in the world’s most populous region.

As the Asia-Pacific alternative finance market continues to grow, it is perhaps more imperative than ever to explore what kind of growth is desired and needs to be achieved. Online alternative financing channels, instruments and systems, can have great capacity to stimulate economic and regional development, spur innovation and creativity, improve capital market efficiency and access, promote gender equality, and empower financially marginalised and disfranchised populations. However, the growth of the industry in the Asia-Pacific region, as in elsewhere, needs to be properly cultivated.

To have long-term, sustainable and inclusive growth, the online alternative finance industry needs to adhere to best practices and cultivate trust, keep innovating in products and services and provide returns to investors. The market needs to be regulated with appropriate and proportionate regulations that strike a fine balance between protecting consumers and encouraging financial innovation. Growing retail investor participation can happen alongside increasing institutionalisation of funding. Online alternative finance platforms and models can and should serve the needs of both the haves and have-nots.

This study is just a first step to begin our collective reflection on what kind of growth we need and our common endeavour to cultivate it for the good of the Asia-Pacific region and the wider world. We would like to thank our academic and industry research partners for their invaluable contribution in making this report possible. We also would like to express our gratitude to KPMG Australia, CME Group Foundation and HNA Capital for supporting independent academic research in this fascinating field.
The rapid growth of alternative finance in the Asia-Pacific, since this report was first published a year ago, highlights the technological evolution sweeping across the financial sector. But the outstanding growth in demand for Fintech-based alternative finance is only part of this report’s contribution, as our research has also captured the major trends emerging with regulators and entrepreneurs.

Unlike previous industrial revolutions, which were geographically localised and sequential, these technological and social developments are taking place in many countries. Fintech-enabled alternative finance has triggered diverse policy and entrepreneurial responses, which are shaping the future of the financial services sector, sometimes in counter-intuitive ways.

The findings in this report capture a wide variety of responses to Fintech innovations, ranging from sandbox / ‘wait and study’ approaches in Indonesia where regulation has been light to New Zealand, which has been at the forefront of formulating policy.

Underlying this diversity are incumbent supply factors and latent needs specific to each market. For example the strengths and weaknesses of traditional financial infrastructure including; institutions for consumer protection and the availability of funding - especially to the informal sector in developing countries. Equally important are shifting patterns of consumer demand and preferences for alternative forms of finance provided by new technology.

The excess fecundity and competitive struggle evident in these early stages of alternative finance are part of an evolutionary process where each success and failure brings us a step closer to a new financial system.

The many emergent forms of alternative finance will profoundly shape our economies for decades to come. They promise to challenge the regulatory environment; test political will and challenge our ability to embrace change.

The Australian Centre for Financial Studies at Monash University is delighted to have partnered in such a worthwhile report.
The online alternative finance market continues its global ascent, with 2016 witnessing strong growth in a number of Asia-Pacific countries, supplying important sources of funding to consumer and small businesses and providing attractive investment opportunities for investors.

This category of the fintech eco-system continues to attract the most significant levels of activity from fintech start-ups and global investment. As another sign of the sector’s potential, we are seeing greater recognition of the value of strategic partnerships between alternative finance platforms and established financial institutions, as the platforms seek to scale their operations and institutions look to enhance their value to clients.

This second annual comprehensive study of the Asia-Pacific online alternative finance market contributes to the growing body of data supporting the region’s development. The 2017 report reinforces China’s position as the world’s largest online alternative finance market in absolute terms and shows the dispersion in market size, growth and composition, by country in Asia-Pacific, notably Australia which has overtaken Japan as the second largest alternative finance market in the region.

Whilst alternative finance remains a small fraction of overall credit outstanding in the financial system of many countries, it is growing rapidly. In addition, the innovative digitisation of services these platforms offer can lower transaction costs and enhance the convenience for end users. It also increases access to credit and investments for underserved segments of the population and businesses. Notwithstanding these benefits, there are a number of potential vulnerabilities that might impede future growth which need to be identified, understood and prudently managed for the long-term viability of the sector.

KPMG is proud to partner again with the Cambridge Centre for Alternative Finance, the Australian Centre for Financial Studies, Tsinghua University, HNA Capital and the CME Group Foundation on this important initiative and we look forward to engaging with policy-makers, regulators and industry participants in the Asia-Pacific region to discuss the report’s key findings and the implications for the alternative finance sector’s continued development in the future.
In the year 2016, China is still the world's largest online alternative finance market and continues its rapid development. As a participant in the online alternative finance market, HNA Capital is witnessing this "Chinese Momentum" from inside the market. Online alternative finance is able to fulfill more of the financial needs of small enterprises and individuals than ever before, especially for female funders and fundraisers.

On a positive note, with increasing regulatory implementations in the online marketplace, 80 percent of surveyed platforms have revamped their business models and product lines so that the online alternative finance market as a whole could break through industry boundaries and be more integrated with our daily lives.

Moreover, as this report indicates, from nothing to establishing itself as a mature market, online alternative finance is expanding from China to Pan-Asia and to the rest of the world. In the near future, financial innovation will create new opportunities and prosperity, enhance international communication and cooperation, which will provide us a global ecosystem that is more transparent, efficient, equitable and inclusive.

HNA Capital is the international financial subordinate group of HNA Group, and a proud and honored supporter of this important research by the University of Cambridge and its research partners. We are delighted to engage and cooperate with key stakeholders in the Asia-Pacific alternative finance eco-system over the coming months.
ACKNOWLEDGEMENTS

We would like to give our thanks to the many contributors and supporters who have helped to make this collaborative research program possible including; Raghavendra Rau, Robert Wardrop, Jiayu Yao, Davina Lawrence, Frieda Kukulka, Kate Belger, Mint Garvey, Steven Sankaran, Krishna Murthy, Varun Aggarwal, Malavika Raghavan, Munin Pongsapan and Charles Goldsmith.

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This research is only made possible through a collaborative effort and to this end we extend our utmost gratitude to our research partners from organisations in the Asia-Pacific Region and China who disseminated the survey, including: Xiaoping Hu, Huang Wang, Yiming Zhang (Rong 360), Nick Li (Shenzhen Internet Finance Association), Jinjiang Pan, Lendft, Jing Gong (P2P Eye), Jie Zhang (Z-park Crowdfunding Association), Janos Barberis, Ross Buckley, Douglas Arner, Shan Luo, Kate Lin (FinTechBase), Tatsuya Fukano (Japan Crowdfunding Council), Shun Sakurai (Fintech Association of Japan), Claus Lehmann (P2P-Banking), Ravshan Rakhmanov (Centil Law Firm), H2 Ventures, 25 Fifteen, Fishburners, Melbourne Fintechand Stone & Chalk, Korea Crowd Funding Association, the Zhejiang Association of Internet Finance, Fintech Australia, Tyro Fintech Hub, Tank Stream Labs, Singapore Fintech, OJK and Malaysian Securities Commission.

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We would like to acknowledge the generous support and input from our research partners:
We thank the alternative finance platforms defining this industry for their contribution and input to this research:
EXECUTIVE SUMMARY

The 2017 Asia Pacific Alternative Finance Industry Report denoted continued overall growth across most alternative finance models throughout the Asia Pacific region. A variety of online alternative finance platforms have emerged across the Asia Pacific since 2013 that have changed the way people, businesses and institutions access, raise and invest money.

The 2017 Asia Pacific Alternative Finance Industry Report was produced by the Cambridge Centre for Alternative Finance at the University of Cambridge, and the Australian Centre for Financial Studies at the University of Monash Business School in Australia, Tsinghua University in China and Zhejiang University in China. Financial support for the Asia Pacific Alternative Finance Research was generously provided by KPMG Australia, HNA Capital and the CME Group Foundation.

This 2017 Report builds on last year’s Asia Pacific Research, tracking emerging dynamics and developments within this fast changing industry at a macro-regional level, but also on a country-by-country basis.

The findings contained within this report contribute to a wider research program conducted by the Cambridge Centre for Alternative Finance and its academic research partners to track the growth and development of alternative finance at a global level.

Market Size and Growth

- In 2016, the alternative finance market continued to grow across the Asia Pacific in China, Oceania, East Asia, South East Asia, South and Central Asia to a total market volume of US$245.28 billion. This was an annual growth of 136% compared to 2015 when US$103.31 billion was raised from across the region.
- China maintains and strengthens its position as the global alternative finance market leader accounting for 99.2% of the total Asia Pacific alternative finance market and an estimated 85% of the total global market in 2016 with US$243.28 billion raised in mainland China alone.
- Across much of the wider Asia Pacific region, the alternative finance market continues to grow with a total of US$2.004 billion in 2016, up by 79% compared to 2015 with US$1.12 billion.
- Outside of China, Australia was the second largest alternative finance market with US$609.6 million in 2016, followed by Japan in third with US$398.45 million and in fourth South Korea with US$376.31 million, New Zealand in fifth with US$223.25 million, Singapore in sixth with US$163.75 million and India in seventh with US$124.16 million.

Leading Online Alternative Finance Models

- In China, the largest alternative finance model was marketplace/peer-to-peer consumer lending with US$136.54 billion, equating to approximately 56% of the total market in China. In second, was marketplace/peer-to-peer business lending with a total of US$58.18 billion which was around a quarter of the market in China. Balance sheet business lending totalled US$27.48 billion while balance sheet consumer lending amassed US$9.45 billion.
- In the wider Asia Pacific market, outside of China, again marketplace/peer-to-peer consumer lending was the largest alternative finance model with US$484.86 million (24% of the Asia Pacific market outside of China), while balance sheet business lending accounted for around 23% of the total market with US$466.08 million in 2016.
Executive Summary

Business Model & Product Innovation

- In China, around one third of surveyed platforms across all types of alternative finance significantly altered their business model in 2016, while 46% reported a slight alteration of their business model. Around a quarter of platforms did not make any changes to their business model in 2016.
- In terms of product innovation in China, 29% of platforms surveyed across all types of alternative finance stated they had significantly altered their product in 2016 while just over half had made some slight changes in this year. Only 18% of platforms in China had made no change to their products in 2016.

Industry Perceptions of Risk & Regulation

- In China, more than 50% of surveyed platforms across all online lending models perceived both existing and proposed regulatory norms to be adequate and appropriate in 2016.
- In China, 73% peer-to-peer consumer lending platforms perceived cyber-attacks to be the biggest threat to the industry while 76% of peer-to-peer business lending platforms perceived fraud to be the most serious industry risk. 99% of balance sheet consumer & business lending platforms see changes to local regulation in China as the biggest risk.

Institutional Investment

- In China, as in 2015, the alternative finance market had distinctively low levels of institutional participation compared to other markets such as the USA and the UK. Peer-to-peer business lending platforms reported only 5% of their funding coming from institutions in 2016, while peer-to-peer consumer lending had 6% and peer-to-peer real estate lending, 15%. These online lending models are currently driven by individual, retail lenders in China.
- In the wider Asia Pacific region, marketplace/peer-to-peer consumer lending had the highest level of institutional funding at 55% of total funds while invoice trading had 46% and balance sheet business lending had 44%. Equity-based crowdfunding had much less at 15%, while marketplace/peer-to-peer business lending had 7%.

Alternative Business Finance

- In China, alternative finance for businesses continued to grow in 2016, with businesses raising $US93.53 billion in funding - a 107% increase on the $US45.11 billion in 2015.
- China is currently dominated by non-business alternative finance which totalled $US146.8 billion in 2016 led by peer-to-peer consumer lending. However it is likely that a sizable proportion of consumers in China are using personal loans for business purposes.
- In the Asia Pacific, outside of China, a total of $US1.46 billion was raised by businesses which was a 72% increase on the $US0.85 billion raised in 2015 with an estimated 42,592 business entities utilising alternative channels of business finance in 2016.

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Reviewing these market trends, the alternative finance industry is fast taking root across the Asia Pacific region although with quite divergent and distinct characteristics. The question going forward is what type of growth must now be cultivated across the Asia Pacific region over the coming years to realise the benefits offered by the alternative finance industry.
The 2017 Asia Pacific Alternative Finance Market covers online alternative finance activity across Australia, Bangladesh, Cambodia, China, Hong Kong, India, Indonesia, Japan, Kazakhstan, Malaysia, Nepal, New Zealand, South Korea, Taiwan, Thailand, Pakistan, the Philippines, Sri Lanka & Vietnam.

This study is underpinned by the 2017 Asia Pacific Alternative Finance Survey which served as the primary data collection tool to gather data and inform the analysis of this report. The Survey was made available in English, Simplified and Traditional Chinese, Korean, Japanese, Thai, and Indonesian languages. The research team communicated directly with surveyed online alternative finance platforms beginning in February 2017 through to July 2017, explaining the study’s objectives, and providing a copy of the questionnaire and last year’s report. The survey aggregated data collected from a total of 628 platforms across the Asia Pacific, with 463 from within China and 165 platforms from the wider Asia Pacific region. The survey collected self-reported information relating to around 20 different parameters which have been standardised by the CCAF since 2013 to enable the global collection of comparable, longitudinal data points.

Over the course of five months the research team, based in Cambridge, Australia, Taiwan, China, Cambodia, Mongolia, Thailand, India, and Japan, invited suitable platforms to participate in this research. Qualified platforms included organizations with operations within the region, and that operate in at least one model in the list of alternative finance models laid out in the taxonomy of the study.

A large number of industry research partners contributed to making this research possible by identifying and engaging with online alternative finance platforms, as well as providing local market analysis and insights of country-specific trends and developments.

The survey was hosted on a dedicated site accessible only to the principal investigators in Cambridge. In cases where the survey could not obtain primary data (or where there were discrepancies in reported data), the team consulted secondary data (public information, annual reports and press releases) to inform the research. In order to obtain the most up-to-date online alternative finance volumes, the team also used web-scraping methodologies for confirmatory data and as a compliment to the survey.

In China, our research partner’s Wangdaizhijia provided supplemental data for 113 platforms via web-scraping. To verify the data, we emailed each platform to confirm their responses and cross-verified this with secondary data from Wangdaizhijia. We then verified this data by matching it against platforms’ self-reported figures. Whenever necessary, the research team validated responses by reaching out directly to platforms or local research partners for clarification or to acquire detailed data breakdowns in various geographies.

After analysing platforms at the country level and with the addition of top-line web scraping information, a total of 628 country-specific platforms were analysed. The research team anonymized and cleaned the data by deleting all platform-identifying information. For all average data points, the team applied weightings by transaction volume per question in order to produce the most accurate estimates of responding platforms by model; significant outliers were removed to maintain the accuracy and validity of the dataset. At completion, the data was encrypted and stored for retrieval exclusively for the use of this project and was accessible only to the core research team.

The rapid growth in scale of online alternative finance in the Asia Pacific region means that there is no single verifiable, publicly available database that details the volume and permeation of online alternative finance activity. Nevertheless, we are confident that the data collected during this study is the most reliable currently available. With this caveat in mind, we estimate that our survey captured at least two thirds of the visible online alternative finance market covered in the Asia Pacific region.
The taxonomy used to classify the various online alternative finance models has been developed by the Cambridge Centre for Alternative Finance since 2013, and is utilised in order to accurately track growth and development of these various models at a comparable global level. The taxonomy used in this study was first derived from the work the Centre conducted in the United Kingdom in 2013 and has been adopted accordingly to appropriately encapsulate activities occurring in Europe, the Americas and Africa & the Middle East. Alternative finance platforms included are characterised as technology-enabled online channels or models that act as intermediaries in the demand and supply of funding (e.g. capital formation and allocation activities) to individuals and businesses outside of the traditional banking system. We therefore exclude platforms that facilitate; payments, cross-border remittances and foreign exchange transactions outside of the banking system. We also exclude platforms only acting as information bulletin boards, providing information about traditional or alternative finance providers.

By utilizing a standardised taxonomy that is comparable to other regional studies, researchers can compare and track the online alternative finance landscape at a global scale.

This report taxonomy consists of three broad themes, namely: non-investment-based models (reward-based crowdfunding and donation-based crowdfunding), equity-based models (such as equity-based crowdfunding and real estate crowdfunding), and debt-based models (marketplace/peer-to-peer business or consumer lending). For each of these models, the platform functions as an intermediary between a cohort of individuals or institutional funders and a fundraiser, facilitating the transfer of funds between the two. For non-investment-based models, funders do not expect to receive a financial return. Investment-based models, however, rely upon the assumption that the funders can reasonably expect a financial return based upon their investments, as they are purchasing a debt or equity security instrument.

<table>
<thead>
<tr>
<th>Taxonomy</th>
<th>APAC (Ex. China) 2016 (US$ Million)</th>
<th>China 2016 (US$ Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>P2P (Marketplace) Consumer Lending</td>
<td>$484.86m</td>
<td>$136.54b</td>
</tr>
<tr>
<td>Balance Sheet Consumer Lending</td>
<td>$0.37m</td>
<td>$9.45b</td>
</tr>
<tr>
<td>P2P (Marketplace) Business Lending</td>
<td>$333.62m</td>
<td>$58.18b</td>
</tr>
<tr>
<td>Balance Sheet Business Lending</td>
<td>$466.08m</td>
<td>$27.48b</td>
</tr>
<tr>
<td>Invoice Trading</td>
<td>$137.39m</td>
<td>$2.30b</td>
</tr>
<tr>
<td>Equity-based Crowdfunding</td>
<td>$98.56m</td>
<td>$0.46b</td>
</tr>
<tr>
<td>Balance Sheet Property Lending</td>
<td>$2.00m</td>
<td>-</td>
</tr>
<tr>
<td>P2P (Marketplace) Real Estate Lending</td>
<td>$311.77m</td>
<td>$7.04b</td>
</tr>
<tr>
<td>Debentures (Debt-based securities)</td>
<td>$13.00m</td>
<td>$0.25b</td>
</tr>
<tr>
<td>Mini-bonds Offering</td>
<td>$1.41m</td>
<td>-</td>
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<tr>
<td>Revenue-sharing / Profit-sharing Crowdfunding</td>
<td>$6.82m</td>
<td>$0.09b</td>
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<td>Real Estate Crowdfunding</td>
<td>$32.20m</td>
<td>$0.08b</td>
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<tr>
<td>Reward-based crowdfunding</td>
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<td>$2.02b</td>
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<tr>
<td>Donation-based Crowdfunding</td>
<td>$55.13m</td>
<td>$0.11b</td>
</tr>
<tr>
<td>Grand Total</td>
<td>$2004.10 m</td>
<td>$243.28b</td>
</tr>
</tbody>
</table>

Taxonomy | 23
SIZE AND GROWTH OF THE ASIA PACIFIC ALTERNATIVE FINANCE MARKET

China continues to be the world’s largest alternative finance market with a total volume in 2016 of US$243.28 billion. This volume increased 138% between 2015 to 2016—more than doubling over the year. This total volume figure of US$243.28 billion was over 99% of the total volume in the Asia-Pacific region.

China accounts for an estimated 85% of the total global market. This figure is based on the 2016 released figures for the USA and the rest of the Americas, Asia Pacific and the UK combined with an estimation of the total volume for the rest of Europe, Africa & the Middle East based on the 2015 growth trajectory.

As for the wider Asia Pacific region outside of China, this market continued to grow with a 79% increase in market size as compared to 2015, with a total of US$2.004 billion raised across all alternative finance models tracked in this year’s study.

Over the last four years (2013-2016), the total online alternative finance market in the Asia Pacific (outside of China) reached over US$3.5 billion with an average annual growth rate over the period 2013-2016 of 163%.

Although the annual growth rate from 2015-2016 (79%) fell quite sharply from 2014-2015 (312%), 57% of the total capital raised across 2013-2016 was accumulated in 2016.
Figure 2: Total Alternative Finance Market Activity in 2016: China Compared to Wider Asia Pacific

Figure 3: Total Asia Pacific Alternative Finance Volume (ex. China) 2013-2016 ($ US Million)
Asia Pacific Market by Model

Figure 4: Composition of Asia Pacific Alternative Finance Market by Model (2016)

Across the Asia Pacific region excluding China, marketplace/peer-to-peer consumer lending was the largest alternative finance model tracked with a total market share of 24% in 2016. Balance sheet business lending came in close second with 23% of the total market. The third largest constituent of the Asia Pacific market was marketplace/peer-to-peer business lending with 17%, marketplace/peer-to-peer real estate lending came in fourth with 16% and invoice trading, with 7%, came in fifth.

Debt-based alternative finance models accounted for just over 87% of the total market activity in the region in 2016. Equity-based crowdfunding accounted for 5% and real estate crowdfunding for 1.61%. Therefore, equity-based models contributed just over 6.5% to the market outside of China in 2016.

Non-investment based donation- and reward-based crowdfunding accounted for 2.75% and 3.04% respectively.
Alternative Finance Market Volumes by Model in the Asia Pacific

Figure 5: Market Volumes by Model in the Asia Pacific (ex. China) 2013-2016 ($ US Million)

- Peer-to-Peer (Marketplace)
  - Business Lending
    - 2013: $81.97m
    - 2014: $144.9m
    - 2015: $363.34m
    - 2016: $333.62m

- Peer-to-Peer (Marketplace)
  - Consumer Lending
    - 2013: $5.96m
    - 2014: $32.33m
    - 2015: $340.32m
    - 2016: $484.86m

- Balance Sheet
  - Business Lending
    - 2013: $9.90m
    - 2014: $39.59m
    - 2015: $120.62m
    - 2016: $466.08m

- Equity-based Crowdfunding
  - 2013: $15.12m
  - 2014: $57.40m
  - 2015: $203.89m

- Peer-to-Peer (Marketplace)
  - Real Estate Lending
    - 2013: $0.25m
    - 2014: $14.99m
    - 2015: $311.77m

- Invoice Trading
  - 2013: $5.25m
  - 2014: $116.95m

- Reward-based Crowdfunding
  - 2013: $18.93m
  - 2014: $46.64m
  - 2015: $80.83m

- Donation-based Crowdfunding
  - 2013: $6.40m
  - 2014: $12.26m
  - 2015: $25.82m
  - 2016: $55.13m

- Real Estate Crowdfunding
  - 2013: $7.99m
  - 2014: $13.44m
  - 2015: $32.20m

- Debentures (Debt-based Securities)
  - 2013: $13.00m

- Revenue-sharing/Profit-sharing Crowdfunding
  - 2013: $6.82m

- Balance Sheet Property Lending
  - 2013: $2.00m

- Mini-bonds Offering
  - 2013: $1.41m

- Balance Sheet Consumer Lending
  - 2013: $0.37m
Figure 6: Market Volumes by Model in China 2013-2016 ($ US Billion)

- **Peer-to-Peer (Marketplace)**
  - Consumer Lending: $3.85bn, $14.30bn, $52.44bn
  - Business Lending: $1.44bn, $8.04bn, $39.63bn
  - Real Estate Lending: $0.23bn, $1.64bn, $7.04bn
  - Other Models: $0.03bn, $0.28bn, $1.46bn
  - Combined Contribution: $0.03bn, $0.28bn, $2.30bn
- **Balance Sheet**
  - Consumer Lending: $0.14bn, $0.57bn, $27.48bn
  - Real Estate Lending: $0.02bn, $0.12bn, $9.45bn
  - Combined Contribution: $0.03bn, $0.28bn, $1.46bn
  - Invoice Trading: $0.03bn, $0.28bn, $2.30bn
- **Equity-based Crowdfunding**
  - Combined Contribution: $0.03bn, $0.28bn, $2.30bn
- **Reward-based Crowdfunding**
  - Combined Contribution: $0.03bn, $0.28bn, $2.30bn
- **Revenue-sharing/Profit-sharing Crowdfunding**
  - Combined Contribution: $0.04bn, $0.09bn
- **Donation-based Crowdfunding**
  - Combined Contribution: $0.14bn, $0.11bn
- **Real Estate Crowdfunding**
  - Combined Contribution: $0.08bn
- **Debentures (Debt-based Securities)**
  - Combined Contribution: $0.25bn

2016: $3.85bn, $1.44bn, $0.23bn, $0.03bn, $0.04bn, $0.14bn, $0.08bn, $0.25bn
2015: $14.30bn, $8.04bn, $1.64bn, $0.28bn, $0.09bn, $0.11bn, $0.03bn
2014: $52.44bn, $39.63bn, $7.04bn, $1.46bn, $2.30bn, $9.45bn, $2.30bn
2013: $136.54bn, $58.18bn, $27.48bn, $9.45bn, $2.30bn, $9.45bn, $2.30bn
Alternative Finance Market Composition in China

Figure 7: Alternative Finance Market Composition in China 2013-2016 ($ US Billion)
GEOGRAPHY OF ASIA PACIFIC ALTERNATIVE FINANCE

The online alternative finance market continued to expand across most countries in the Asia Pacific region. Outside of China, Australia grew to become the second largest market across the Asia Pacific region with a total of US$609.6 million raised in 2016, contributing 30.42% of the total market. Japan was the third largest market in the Asia Pacific region in 2016 with just under US$400 million raised and around a fifth of the total alternative finance market outside of China. South Korea came in fourth with US$376.31 million and 18.78% of the total market outside of China. New Zealand was the fifth largest market (11.14% outside of China) in the Asia Pacific region with just under a quarter of a billion dollars in 2016. Singapore was the 6th largest market in the Asia Pacific with US$163.75 million and India seventh with US$124.16 million.

Compared to last year, every country surveyed in this year’s report increased their annual market volume with New Zealand as the only exception - experiencing a fall in total market activity due to a slump in peer-to-peer consumer lending. Otherwise and most notably, Australia overtook Japan to become the largest market in the Asia Pacific region outside of China, and South Korea grew substantially from the US$41.18 million raised in 2015. Singapore, India and Indonesia have also made large increases in market activity, which will be reviewed in more detail in the country-specific analyses of this report.

Figure 8: Total Alternative Finance Volume by Country 2016 ($ US Million)
THE DYNAMICS OF THE ASIA PACIFIC ALTERNATIVE FINANCE MARKET

Alternative Business Finance in the Asia Pacific Region

In this report, alternative business funding includes transaction volumes from both investment and non-investment based models, including marketplace/peer-to-peer business lending, balance sheet business lending, equity-based crowdfunding, invoice trading, and revenue-sharing crowdfunding, along with portions of marketplace/peer-to-peer consumer lending, marketplace/peer-to-peer property lending, real estate crowdfunding, and reward-based crowdfunding. While some models explicitly serve only businesses, we are also able to include businesses served by all models as surveyed platforms were given the explicit opportunity on the questionnaire to report business specific fundraisers served by their platform. Platform-specific business finance volumes and fundraisers could then be calculated in order to understand the reach of alternative finance among businesses in the Asia Pacific region. For reward-based crowdfunding platforms whose data, in many cases, was pulled via web-scraping, a standard 35% allocation of financing and fundraisers was attributed to business finance. Debt-based models underpinned the vast majority of business finance.

Business Finance in the Asia Pacific (Ex. China)

The use of online alternative finance by businesses across the Asia Pacific continued to grow over the course of 2016 with a total of US$1.46 billion raised for business purposes. This was a 73% increase on the US$0.85 billion raised in 2015 by businesses in the Asia Pacific region outside of China. An estimated 42,592 business entities raised capital in 2016.

Alternative finance models across the region outside of China disproportionately serve businesses, as finance for non-business use totalled US$0.54 billion in 2016. In 2015, business finance accounted for approximately two thirds of the total market, however by 2016, this had increased to almost three quarters which suggests alternative business finance is emerging as the most predominant use of capital for alternative finance in the Asia Pacific region.
Alternative finance for businesses continued to grow in mainland China in 2016, with businesses raising $US93.53 billion (RMB 1.63 trillion) in funding. This was a 108% increase on the $US45.11 billion raised by businesses in mainland China in 2015. From our survey, China is dominated by non-business alternative finance with $US146.8 billion raised for non-business purposes - a stark difference when compared to the rest of Asia Pacific. Despite these findings, these must be taken with caution as it is likely that our survey results understate the extent of business financing through peer-to-peer loan channels in mainland China, as micro business owners (individuals or family-run businesses) also tend to borrow as individuals through peer-to-peer consumer loan platforms.

The composition of business financing in 2016 was predominately debt-based, with $US92.71 billion, or 99.12% of total reported business funding raised through lending channels. Of these business loans $US57.78 billion was raised for small, medium and micro-enterprises via peer-to-peer business lending platforms.

Balance sheet business lending platforms reported a further $US28.29 billion of business lending. Non debt-based alternative finance captured by our survey was less than one percent of total business financing, with the survey results showing equity-based crowdfunding platforms raising $US0.460 billion for SMEs.
Top Funded Industry Sectors by Model in the Asia Pacific (Outside of China)

<table>
<thead>
<tr>
<th>Model</th>
<th>Top Funded Industry Sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peer-to-Peer (Marketplace)</td>
<td>- Business &amp; Professional Services</td>
</tr>
<tr>
<td>Consumer Lending</td>
<td>- Retail &amp; Wholesale</td>
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<tr>
<td></td>
<td>- Real Estate &amp; Housing</td>
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<tr>
<td>Peer-to-Peer (Marketplace)</td>
<td>- Business &amp; Professional Services</td>
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<tr>
<td>Business Lending</td>
<td>- Retail &amp; Wholesale</td>
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<td></td>
<td>- Construction</td>
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<tr>
<td>Equity-based Crowdfunding</td>
<td>- Technology</td>
</tr>
<tr>
<td></td>
<td>- Leisure &amp; Hospitality</td>
</tr>
<tr>
<td></td>
<td>- Other</td>
</tr>
<tr>
<td>Reward-based Crowdfunding</td>
<td>- Arts, Music &amp; Design</td>
</tr>
<tr>
<td></td>
<td>- Product Design</td>
</tr>
<tr>
<td></td>
<td>- Film &amp; Entertainment</td>
</tr>
<tr>
<td>Donation-based Crowdfunding</td>
<td>- Health &amp; Social Work</td>
</tr>
<tr>
<td></td>
<td>- Charity &amp; Philanthropy</td>
</tr>
<tr>
<td></td>
<td>- Education &amp; Research</td>
</tr>
</tbody>
</table>

Platforms were asked to indicate their top-three most-funded sectors via their respective platforms. Weighting was applied to each sector dependant on its rank position and the platform weight, in order to most accurately determine which sectors were most funded by model type.

For marketplace/peer-to-peer consumer lending, business and professional services was the most funded industry sector followed by retail & wholesale, and real estate & housing. This finding corresponds with the previously noted applicable proportion of business-based volume, as these rankings suggest that individual borrowers are using their personal loans for a business or property.

For marketplace/peer-to-peer business lending, again business and professional services was the top industry served, followed by retail and wholesale. Construction came in as the third-most funded industry sector for this model.

For equity-based crowdfunding, technology was the highest funded industry, followed by leisure and hospitality. For rewards-based crowdfunding, art, music & design came out as the top-funded industry while product design came in second. Film and entertainment was the third most funded sector in 2016 for this model.

Finally, donation-based crowdfunding’s most funded industry was health and social work with charity and philanthropy in second place. The third most funded industry sector for donation-based crowdfunding was education and research.
Top Funded Industry Sectors by Model in China

The most common industry background of P2P (marketplace) consumer lending was for retail & wholesale trade sectors, followed by manufacturing & engineering, finance and business & professional services. While we do not have separate figures on individual loan purpose for borrowers via consumer lending platforms, based on commonly reported loan purposes we can assume a substantial proportion of these loans are used to support micro-business purposes.

Manufacturing and engineering, retail and wholesale, real estate and architecture were reported as the most common industry sectors financed by P2P (marketplace) business lending platforms.

Manufacturing and engineering, followed by primary industries, transport and utilities, and retail and wholesale were reported as the most common industry sectors financed by balance sheet business lending platforms.

For invoice trading platforms, top-funded sectors in order of magnitude were high-tech industries, manufacturing and engineering, architecture, real estate and primary industries.

Reward-based crowdfunding platforms reported their most common funded sectors as film, television and entertainment; art, music and design; high tech industries; business and professional services; and environmental greening and clean tech.

Balance sheet consumer lending platforms reported that they are financing borrowers from the following industry sectors (in order), primary industries, internet and electricity service providers, real estate, leisure and tourism, and architecture.
Moving beyond the headline numbers, this section reviews a number of more specific data points, notably; the level of institutionalisation, stakeholder arrangements, female participation, and funding inflow and outflow levels in the Asia Pacific.

**Institutional Funding in the Asia Pacific (Ex. China)**

In the Asia Pacific region, most of the funding provided was via individuals and not institutions. However, the relative proportion of funds coming from institutions differs across each alternative finance model. Marketplace/peer-to-peer consumer lending had the highest proportion of institutional funding with 55% of total funds being attributed to institutional investors as opposed to individual funders. Invoice trading had approximately 46%, while balance sheet business lending had 44% of funding coming from institutional investors.

The other alternative finance models reviewed for this question had much lower levels of institutional participation. For example, equity-based crowdfunding had around 15% of funds coming from institutions, while marketplace/peer-to-peer business lending had 7%. Real estate crowdfunding had just over 5% of funds from institutions and marketplace/peer-to-peer real estate lending had over 3%. Both donation and reward based crowdfunding had near to no funding coming from institutions with just about all funds coming from individual funders.

*Figure 12: Proportion of Institutional Investment by Model in the Asia Pacific (Ex. China) 2016*
Institutional Funding in China

Most funding in mainland China is from individuals rather than institutions. This is especially the case with peer-to-peer (marketplace) financing models in China, which continue to be dominated by individual funders rather than institutions.

In this respect, the peer-to-peer (marketplace) lending in mainland China remains dominated by retail investors, quite unlike the marketplace lending sector in the United States⁶, which has become dominated by institutional funding to the extent is normally referred to as marketplace lending there.

Peer-to-peer business lending platforms in China reported that 5% of their funding was from institutions in 2016, while peer-to-peer (marketplace) consumer lending platforms reported that 6% of funding was from institutions. Peer-to-peer (marketplace) real estate platforms reported a slightly higher value of 15% of their funding from institutions.

In contrast to peer-to-peer lending, the highest level of institutional funding in China was via balance sheet business lenders, which reported 80% of their funding from institutions in 2016. Balance sheet consumer lending platforms also reported quite high levels of institutional funding at 43% of total funding.

Figure 13: Proportion of Institutional Funding by Model in China in 2016

- **Balance Sheet Business Lending**: 80%
- **Balance Sheet Consumer Lending**: 43%
- **Peer-to-Peer (Marketplace) Real Estate Lending**: 15%
- **Peer-to-Peer (Marketplace) Consumer Lending**: 6%
- **Peer-to-Peer (Marketplace) Business Lending**: 5%
Stakeholder Arrangements in the Asia Pacific (Ex. China)

In the Asia Pacific region, the ownership structures of various alternative finance models differ quite markedly in terms of those platforms owned by angels or venture capital firms, traditional financial organisations, or non-financial firms such as ecommerce businesses.

Looking first at alternative finance platforms in terms of angel or VCs, balance sheet business lending had the highest proportion of angel or VC ownership with 80% of surveyed platforms reporting angel or VC ownership of a minority or majority share in their business. Following this was marketplace/peer-to-peer business and consumer lending. For both of these types of organizations, around 13% had a majority stake owned by a VC or angel, while over 50% stated a minority stake in their business was owned by a VC or angel.

For equity-based crowdfunding, just over 50% stated that a VC or angel owned either a minority or a majority stake in their firm. For donation and reward-based crowdfunding, the proportion of angel or VC ownership was much lower than the other models reviewed with only a third of donation-based crowdfunding survey respondents reporting having a minority stake owned by a VC or angel while just over a fifth of surveyed reward-based crowdfunding firms stated that an angel or VC owned either a majority or minority stake in their business.

Figure 14: Platform Ownership by Angel or VC Investors in the Asia Pacific (Ex. China) 2016
Looking now at platform ownership by non-finance corporations such as ecommerce firms, again balance sheet business lending had the highest proportion of surveyed platforms with majority or minority ownership from these types of businesses. 40% of balance sheet business lenders stated that their business was owned to some degree by a major non-financial firm.

Just under a third of marketplace/peer-to-peer real estate lending platforms had a minority or majority stake owned by major non-financial firms. Interestingly, around 13% of both reward and donation-based crowdfunding platforms had minority stakeholders who were major non-financial firms such as ecommerce platforms. For both marketplace/peer-to-peer consumer lending and invoice trading, these platforms reported no institutional ownership by major non-financial firms.

Figure 15: Platform Ownership by Non-Financial Companies in the Asia Pacific (Ex. China) 2016

- **Balance Sheet Business Lending**: 30% majority, 10% minority
- **Peer-to-Peer (Marketplace) Real Estate Lending**: 13% majority, 17% minority
- **Equity-based Crowdfunding**: 3% majority, 16% minority
- **Reward-based Crowdfunding**: 13% minority
- **Donation-based Crowdfunding**: 13% minority
- **Peer-to-Peer (Marketplace) Business Lending**: 6% minority
- **Peer-to-Peer (Marketplace) Consumer Lending**: 13% minority
- **Invoice Trading**: No institutional ownership

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The platform has a majority shareholder that is a major non-finance corporation
A minority shareholder that is a major non-finance corporation
Platform ownership by traditional financial institutions such as banks is highest amongst marketplace/peer-to-peer real estate lending platforms wherein 37% of surveyed platforms reported some level of ownership by banks. For balance sheet business lenders, 20% reported that a minority stake in their business was owned by a traditional financial institution. For invoice trading, 14% of surveyed platforms reported that a major traditional financial institution owned a majority stake. For equity-based crowdfunding, less than 10% of surveyed platforms reported any ownership by major financial institutions, while 6% of marketplace/peer-to-peer business lenders stated that a traditional financial institution held a majority stake in their business.
Financial inclusion has become an important topic when discussing the stakeholders in alternative finance. With respect to the various alternative finance models and the proportion of funders and fundraisers that are women, there is an apparent trend emerging globally that is also seen in the Asia Pacific region. Donation-based crowdfunding typically has the highest proportion of both fundraisers that are women.

In 2016, in terms of fundraisers, platforms reported that 69% of fundraisers were women for donation-based crowdfunding and 46% of funders. Equity-based crowdfunding had the lowest level of female participation with 8% of fundraisers and 6% of funders being women for this model in the Asia Pacific region in 2016.
Figure 18: Proportion of Female and Male Funders in the Asia-Pacific Region (ex.China) 2016

- Invoice Trading: 98% Male, 2% Female
- Equity-based Crowdfunding: 94% Male, 6% Female
- Donation-based Crowdfunding: 90% Male, 10% Female
- Peer-to-Peer (Marketplace) Real Estate Lending: 81% Male, 19% Female
- Peer-to-Peer (Marketplace) Business Lending: 76% Male, 24% Female
- Peer-to-Peer (Marketplace) Consumer Lending: 73% Male, 27% Female
- Reward-based Crowdfunding: 63% Male, 37% Female
- Debentures (Debt-based Securities): 54% Male, 46% Female

- Percentage Female Funders (Weighted by Funds)
- Percentage Male Funders (Weighted by Funds)
Female Market Participation by Model in China

In China, female participation in funding remains relatively high. Women were reported to have the highest share of funders by balance sheet business lending platforms at 62% of funders while balance sheet consumer lending platforms reported that 53% of their funders were women. Peer-to-peer (marketplace) business lending reported that 42% of their funders were women. Peer-to-peer (marketplace) real estate lending reported that 40% of their funders were women, and peer-to-peer (marketplace) reported that 38% of their funders were women.

Figure 19: Proportion of Female Funders in China in 2016
Looking now at fundraisers in China, women accounted for a slightly lower proportion of total fundraisers according to the platforms which responded to our survey. Women accounted for 39% of fundraisers on balance sheet business lending platforms and 36% of fundraisers on balance consumer lending platforms. Women made up 32% of fundraisers on peer-to-peer (marketplace) consumer lending borrowers, 30% of fundraisers on peer-to-peer (marketplace) business lending platforms, and 24% of fundraisers on peer-to-peer (marketplace) real estate lending platforms.

**Figure 20: Proportion of Female Fundraisers in China in 2016**

- **Balance Sheet Business Lending**: 39%
- **Balance Sheet Consumer Lending**: 36%
- **Peer-to-Peer (Marketplace) Consumer Lending**: 32%
- **Peer-to-Peer (Marketplace) Business Lending**: 30%
- **Peer-to-Peer (Marketplace) Real Estate Lending**: 24%
Cross Border Transactions in the Asia Pacific (Outside of China)

Surveyed platforms were asked for the proportion of funds that went to entities based outside the platforms’ headquartered country. This figure gives an indication of the total funds that were raised from funders within a given country in the Asia Pacific which then went to another country. Equity-based crowdfunding had the highest proportion of funding flowing out to other countries with 50% of funds going to businesses located in another country.

Real estate crowdfunding followed in second with 35% of funds going to property developments based in other countries. For marketplace/peer-to-peer business lending and debt-based securities, around 10% of funds flowed out to other countries. For the other models, including reward-based crowdfunding, invoice trading, marketplace/peer-to-peer consumer lending, donation-based crowdfunding balance sheet business lending, less than 5% of funds raised in a given country flowed out to other countries.

Figure 21: Funding Outflow by Model (APAC ex. China) 2016
Turning now to funds flowing into countries from funders based outside the country where surveyed platforms base their headquarters. Balance sheet business lenders attracted the largest volume of funding from funders abroad with 44% of funds coming from outside nations. For both equity-based crowdfunding and donation-based crowdfunding, 26% of funds were sourced from funders based outside the country of headquarters.

For marketplace/peer-to-peer business lending, 16% of funds came in from other countries, 11% for real estate crowdfunding and 10% for marketplace/peer-to-peer consumer lending. Debt-based securities, reward-based crowdfunding, peer-to-peer property lending and invoice trading all had less than 10% of funds flowing in from other countries.

Figure 22: Funding Inflow by Model in the Asia Pacific (Ex. China) 2016
THE REGULATORY LANDSCAPE ACROSS ASIA PACIFIC

Industry Perceptions of Existing and Proposed Alternative Finance Regulation (ex. China)

Figure 23: Industry Perceptions of Existing Alternative Finance Regulations in Asia-Pacific in 2016

- **New Zealand**: 75% Regulation is adequate and appropriate, 13% Regulation is inadequate and too relaxed, 13% Regulation excessive and too strict
- **Malaysia**: 67% Regulation is adequate and appropriate, 33% Regulation excessive and too strict
- **Australia**: 65% Regulation is adequate and appropriate, 9% Regulation is inadequate and too relaxed, 9% Regulation excessive and too strict
- **Singapore**: 58% Regulation is adequate and appropriate, 8% Regulation is inadequate and too relaxed, 8% Regulation excessive and too strict, 25% Alternative finance not currently legalized
- **India**: 20% Regulation is adequate and appropriate, 60% Regulation excessive and too strict, 20% No specific regulation and needed
- **Thailand**: 20% Regulation is adequate and appropriate, 80% Regulation excessive and too strict
- **Japan**: 69% Regulation is adequate and appropriate, 31% Regulation is inadequate and too relaxed
The surveyed alternative finance platforms were asked to give their perceptions of the existing regulation within their respective countries. Of all the responses recorded, Japanese platforms had the most divergent views on alternative finance regulation with 64% of surveyed platforms stating that regulation was inadequate or too relaxed, and a further 27% stating that their alternative finance activity was not actually legal in their country.

In Thailand, 80% of surveyed platforms stated that there was no specific regulation for their alternative finance activity and that it was not needed. 20%, however, stated that regulation was adequate and appropriate.

In India, 22% of surveyed platforms stated that there is no existing regulation but that they were needed, while a further 33% of surveyed platforms said regulation was adequate and appropriate and a further 22% said it was not needed.

In Singapore, 58% of surveyed platforms stated that regulation was adequate and appropriate while a quarter said there was no regulation and it was not needed. 8% of platforms in Singapore, however, stated that there was no regulation and that it was needed.

Turning now to proposed regulations, 71% of surveyed platforms in New Zealand, 58% of platforms in Singapore, 57% in Malaysia and 53% in Australia all saw proposed regulations favorably; as being adequate and appropriate. In Singapore, Malaysia, India, and Thailand, a high proportion of surveyed platforms saw there to be no proposed regulations and that they were not needed.

Japan remained an outlier, with almost two thirds of surveyed platforms stating that the regulations proposed were inadequate and too relaxed.
Industry Perceptions of Regulation in China

In mainland China, we surveyed platforms on their perceptions of existing and proposed regulations at the national and local provincial levels. Industry perceptions of local provincial level regulations were more favourable than industry perceptions of the adequacy of national regulations—and the most likely reason for this is that national regulations ultimately determined the regulatory requirements for platforms. Industry perceptions of existing national regulation in China was quite mixed overall, however there was more support from industry for proposed national regulations across most financing models. This reflects the developing regulatory environment in China for alternative finance, with some mooted draft regulations, such as for equity-based crowdfunding, yet to be finalised.

For peer-to-peer consumer lending platforms, perceptions of existing and proposed national regulation remained equally mixed. Notably, 56% of P2P consumer lending platforms reported that existing regulation is adequate and appropriate, 5% reported that regulation is inadequate and too relaxed, while 18% reported that there was no specific regulation but it was needed. Similar perceptions of existing regulations were reported across peer-to-peer financing models. Given that the main regulatory requirements for online financing platforms were put in place before mid-2016, mixed industry perceptions suggest that existing regulations are yet to be effectively enforced.

Figure 25: Industry Perceptions of Existing National Regulations in China in 2016

- **Peer-to-Peer (Marketplace) Real Estate Lending**: 52% agree the regulations are adequate, 15% believe they are too much and strict, 15% think they are inadequate and too lenient, and 11% do not have specific regulations.
- **Peer-to-Peer (Marketplace) Business Lending**: 54% agree, 22% believe they are too much, 13% think they are inadequate, and 6% need specific regulations.
- **Peer-to-Peer (Marketplace) Consumer Lending**: 56% agree, 18% believe they are inadequate, 18% think they are appropriate, and 15% need specific regulations.
- **Balance Sheet Business Lending**: 64% agree, 18% believe they are inadequate, 18% think they are too much, and 14% need specific regulations.
- **Balance Sheet Consumer Lending**: 71% agree, 14% believe they are inadequate, 14% think they are too much, and 14% need specific regulations.

- The existing regulatory norms are adequate and appropriate
- The existing regulatory standards are too much and too strict
- The existing regulatory norms are inadequate and too lenient
- There are no specific regulatory measures, we need to develop the relevant norms
- Internet finance (including all loans and P2P loans) in China is not yet legal
Figure 26: Industry Perceptions of Proposed National Regulations in China in 2016

- **Balance Sheet Business Lending**
  - 64%: The existing regulatory norms are adequate and appropriate
  - 18%: The existing regulatory standards are too much and too strict
  - 18%: There are no specific regulatory measures, we need to develop the relevant norms

- **Peer-to-Peer (Marketplace) Consumer Lending**
  - 60%: The existing regulatory norms are adequate and appropriate
  - 14%: The existing regulatory standards are too much and too strict
  - 20%: There are no specific regulatory measures, we need to develop the relevant norms

- **Balance Sheet Consumer Lending**
  - 57%: The existing regulatory norms are adequate and appropriate
  - 29%: The existing regulatory standards are too much and too strict
  - 14%: There are no specific regulatory measures, we need to develop the relevant norms

- **Peer-to-Peer (Marketplace) Business Lending**
  - 56%: The existing regulatory norms are adequate and appropriate
  - 18%: The existing regulatory standards are too much and too strict
  - 6%: The existing regulatory norms are inadequate and too lenient
  - 15%: There are no specific regulatory measures, we need to develop the relevant norms
  - 6%: Internet finance (including all loans and P2P loans) in China is not yet legal

- **Peer-to-Peer (Marketplace) Real Estate Lending**
  - 55%: The existing regulatory norms are adequate and appropriate
  - 14%: The existing regulatory standards are too much and too strict
  - 17%: The existing regulatory norms are inadequate and too lenient
  - 10%: Internet finance (including all loans and P2P loans) in China is not yet legal
Industry Perceptions of Risk to the Industry in China

This is the first year in which the Chinese alternative finance industry was surveyed for its perceptions of key risks to the sector in China. The data below refers to the proportion of surveyed platforms that view each risk as medium, high or very high risk.

Amongst peer-to-peer consumer lending platforms, the highest perceived risks was for cyber-attacks (73%), followed by fraud (68%) and negative changes to national regulation (65%), rising loan failure rates (65%), platform collapses (62%) and crowding out of retail investors (55%).

Figure 27: Industry Perceptions of Risks - Peer-to-Peer (Marketplace) Consumer Lending in China in 2016
Among peer-to-peer business lending platforms, the biggest perceived risks were fraud (76%), rising loan failure rates (72%), cyber-attacks (73%), changes to national regulations (69%), changes to local regulation (70%), platform collapses (66%), and crowding out of retail investors (56%).

Amongst balance sheet consumer and balance sheet business lenders, the biggest perceived risk to the industry was changes to local regulation with 99% of surveyed platforms stating this to be a very high, high or medium level risk. Following this was changes to national regulation (84%), cyber security risks (77%), fraud (74%), business failure rates (73%), platform collapse (68%) and crowding out of retail investors at 33%.
This year’s survey included a question relating to business model and product innovation amongst alternative finance platforms in China. In terms of business model innovation, just less than a third of surveyed platforms across all types of alternative finance stated they had significantly altered their business model in the past year, while 46% of platforms reported slightly altering their business models. Just over a quarter of surveyed platforms stated they had not changed their business model.

In terms of innovation in the products alternative finance platforms offer in China, again 29% of surveyed platforms across all types of alternative finance stated they had significantly altered their product offering while over half (53%) had slightly altered their products in the past year. Only 18% of surveyed platforms in China had made no change to their products in the past year.
REGIONAL AND COUNTRY-SPECIFIC TRENDS

Looking at the market data across 2013-2016, it is clear that there was year-on-year growth every year, for every region over this period. Oceania was the largest regional market in both 2015 and 2016 mostly because of Australia, although East Asia gained ground over the course of 2016 to be almost at the same level of total market activity in this year - led by Japan and South Korea. Oceania grew by 25% in the period 2015-2016, while East Asia grew by 96% in the same period. As for South East Asia, this region grew by 363% over 2015-2016 from US$47 million in 2015 to US$216 million in 2016 led mostly by growth in Singapore. South and Central Asia, led by India, grew by a substantial 211% during 2015-16 to US$124 million.

Turning our attention to more sub-regional and country-specific data, it is clear than both Oceania (slightly ahead) and East Asia are the regional market leaders outside of China both with 42% and 41% respectively of the total US$2.004 billion raised across the Asia Pacific region (ex. China) in 2016. South East Asia is the next largest region by total market volume with 10.8% of the total raised by all different types of alternative finance in 2016 while South & Central Asia collectively account for 6.2% of the total market activity for 2016.

Figure 32: Total Alternative Finance Activity by Region 2016 (APAC Ex. China)
Regional and Country-specific trends

Figure 33: Total Alternative Finance Activity by Region 2013-2016 ($US Million)
CHINA

The total volume of China’s alternative finance more than doubled from US$102.2 billion in 2015 to US$243.28 billion in 2016. Although the growth rate of China’s alternative finance volume slowed to 138% from 2015 to 2016, from 321% in the period 2014-15 and 337% during 2013-14, the total volume is now growing from a much larger base size. China’s alternative financing volume equated to over 99% of the total Asia-Pacific alternative finance market’s size in 2016 and is estimated to equate to around 85% of the total global market.

It should be noted that the category of alternative finance volume captured in this survey is a subset of the larger category of internet finance in China. Internet finance includes traditional banks and finance institutions moving online, as well as online wealth management funds, such as Alipay’s Yue’E’Bao online money market fund. The alternative finance market activity captured in this survey is only a subset of this wider online finance landscape in China. To ensure comparability with the data collected in other regions internationally, we currently exclude online wealth management in China from our survey.

Despite a number of widely reported issues with the peer-to-peer/marketplace lending industry in China, the industry has continued to rise rapidly. The effect of both regulatory changes and differences in the capacities of platforms has resulted in a large number of platforms ceasing operations tending towards industry consolidation around platforms with more sophisticated management, credit risk management capacities and institutional backing or partnerships. These remaining permitted platforms have been able to scale the volume of financing, predominately lending, among a smaller number of total platforms.

The regulatory changes in China over the past year, which are outlined below, have accelerated the process of industry consolidation by raising the operating requirements on platforms. Equity-based investment via crowdfunding models, however, remains illegal and this severely restricts the development of equity-based models limiting online equity-based platforms to online private placement without permitting general retail investors to participate.

Figure 34: Market Composition of Alternative Finance Market by Model in China in 2016
Alternative Finance Regulatory Context in China

The regulatory landscape for alternative finance in mainland China experienced rapid and significant changes since this survey was last performed in 2015. The alternative finance landscape continues to be met with both encouragement and caution from inside and outside of China.

China has so far not made an explicit decision regarding whether to regulate alternative finance separately, or as part of the existing regulatory framework. However, three relevant Articles in the Criminal Law relate to fundraising and therefore impact different online alternative finance activity; Article 176 on attracting public deposits, Article 192 on fraudulent fundraising, and Article 179 on issuing shares, or company or enterprise debt securities without permission.

The PRC’s regulatory materials covering alternative finance activities range from articles in the General Principles of the Civil Law and Contract Law, to regulations and rules specific to the financial services industry, to specialist regulations relevant to alternative finance transactions issued by industry regulators or different local governments. Regulations for small sized loans are also relevant for alternative finance, especially for P2P lenders.

A specific update to regulations in 2016 was the Administrative Measures for the Online Payment Business of Non-bank Payment Institutions from the People’s Bank which was promulgated on 28 December 2015, and took effect on 1 July 2016. The impact of this regulatory document is that third party platforms are required to be licenced, and there is a narrow scope of permitted activities. In general, activities that are traditionally performed by banks will continue to be provided by banks under banking regulations and activities that are traditionally securities transactions will continue to be regulated by securities regulations.

On a related note, the Interim Measures for the Administration of the Business Activities of Online Lending Information Intermediary Institutions was promulgated by the Banking Regulator, the Ministry of Industry and Information Technology, the Ministry of Public Security, and the Cyberspace Administration.

This interim measure limits the scope of activities for online lending information intermediaries, including prohibiting them from direct lending as platforms. In addition, the borrowing balance of an individual must be no more than CNY 200,000 (~$30,000) from an online lending platform and no more than an aggregate amount of CNY 1 million (~$150,000) across all licensed platforms. The borrowing balance of a company (legal person) is no more than CNY 1 million and an aggregate amount of CNY 5 million (~$750,000), respectively. Furthermore, an online lending platform is required to hold any funds received from borrowers or lenders in a segregated account of qualified banks.

The more recent Information Transparency Guidelines for Network Borrowing Information Agencies’ Activities specified information that P2P lenders are required to disclose within the first five working days of every month in relation to transactions they have brokered in the previous month. The information that must be reported includes; information about the agency itself, licensing details, details of fund reserves, and risk management details, details about loans issued, on-time repayment ratio, bad debt ratio, fees, number of loans outstanding for more than 90 days, details about lenders and borrowers, evaluation of credit risks of the borrowers, the proportion of loans outstanding by the ten largest borrowers, and borrower and related party outstanding debt.

The most significant changes in the regulations for peer-to-peer lending platforms were issued on 22 February 2017 and 23 August 2017 by the People’s Bank and the Banking Regulatory Authority, respectively. The Administrative Guidance on the Network-Based Lending Depository Businesses regulates banks when they act a depository for P2P lenders, and regulates the relationships between the P2P lending platform, the depository bank, the lender and the borrower.

The impact of the new regulatory approach will likely be seen over the course of 2017. Already over 2016, it was clear that many alternative finance platforms ceased operations and the industry’s growth rate was tempered markedly over 2015-2016 (138%) as compared to 2014-2015 (321%).
The East Asia region, for the purpose of this study, comprises Japan, South Korea, Taiwan, Mongolia, and the semi-autonomous region of Hong Kong. China, given its significant differences in alternative finance, has been examined separately.

Total market activity in East Asia for 2016 equated to over US$831 million which was an increase of 96% over 2015 when around US$424 million was raised. While the growth rate has slowed in 2015-2016 to 96% from 211% in 2014-2015, East Asia remains one of leading alternative finance markets globally.

When considering East Asia on a model-by-model basis, marketplace/peer-to-peer real estate lending is the largest model type with a total of US$268.27 million raised in 2016. The second largest alternative finance model was balance sheet business lending with US$202.6 million in 2016.

Following closely behind is marketplace/peer-to-peer business lending with US$201.77 million in 2016 which fell from the US$324.82 million raised in 2015. This is likely due to the emergence of balance sheet business lending, whereby a number of major platforms migrated over to this type of alternative finance activity over the course of 2016.

Marketplace/peer-to-peer consumer lending totalled US$113.22 million in 2016 which was a sizable increase on the US$32 million from 2015. Taken together these various loan-based alternative finance models account for almost 95% of market activity across East Asia in 2016.

Reward-based crowdfunding totalled around US$23.95 million for 2016. Small levels of market activity were recorded for other models such as real estate crowdfunding with US$13.3 million, revenue/profit sharing crowdfunding with US$6.79 million and equity-based crowdfunding, balance sheet consumer lending and donation-based crowdfunding all with less than US$1 million in 2016.
Figure 36: East Asia Total Market Volume by Model 2013-2016 ($US Million)

Peer-to-Peer (Marketplace) Real Estate Lending: $268.27m
Peer-to-Peer (Marketplace) Business Lending: $202.60m
Peer-to-Peer (Marketplace) Consumer Lending: $113.22m
Reward-based Crowdfunding: $17.46m
Real Estate Crowdfunding: $13.00m
Revenue-sharing/Profit-sharing Crowdfunding: $6.79m
Equity-based Crowdfunding: $5.85m
Balance Sheet Consumer Lending: $1.88m
Donation-based Crowdfunding: $0.73m
Japan

Japan was the third largest alternative finance market across the Asia Pacific region in 2016 behind China and Australia. In 2016, a total just shy of US$400 million was raised – predominantly via balance sheet business lending and marketplace/peer-to-peer consumer lending. The annual growth rate between 2015 and 2016 was around 13.5% which was a substantial slowdown from the growth rate of 206% in 2014-15.

Looking at the market activity in Japan by each model, in 2016, balance sheet business lending emerged as the leading model in Japan with over US$200 million raised. In second place was marketplace/peer-to-peer business lending with US$164.78 million. For this model, the total amount raised fell quite sharply from 2015, and this can largely be attributed to platforms shifting to balance sheet business lending from the marketplace/peer-to-peer business lending approach. The other alternative finance market activity tracked in Japan was very small by way of comparison. Real estate crowdfunding raised a total of $13.19 million while profit/revenue sharing crowdfunding raised $6.76 million both in 2016.
Figure 38: Total Alternative Finance Market Volume by Model in Japan 2013-2016 ($US Million)
**Japan’s Alternative Finance Regulatory Environment**

**Marketplace/Peer-to-Peer Lending**

The common scheme for companies performing marketplace/peer-to-peer lending (often referred to as “social lending”) in Japan requires registration both as a Money Lender under the Money Lending Business Act (to lend money) and as a Type II Financial Instruments Business Operator under the FIEA (to solicit investment from investors in the form of a collective investment scheme). Currently, there is no bespoke regulation for this type of activity as the new rules introduced in the 2015 FIEA amendment do not apply when over half of the investment is used for a money lending business.

Although there are no written rules or guidance in this area, the authorities regulating Money Lenders are giving guidance to the social lending companies not to disclose the information of the borrowers to the investors, probably to prevent evasion of the Money Lending Business Act. However, this practice may become subject to review.

**Equity-based Crowdfunding**

Prior to May 2015, it was practically impossible to conduct equity-based crowdfunding as: (a) only companies registered as Type I Financial Instruments Business Operators under the Financial Instruments and Exchange Act (“FIEA”) could solicit investment in other companies’ shares and (b) the Japan Securities Dealers Association, a self-regulatory organization for Type I Financial Instruments Business Operators, generally banned solicitation of investment in unlisted shares.

In 2015, these rules were amended to make it possible for Type I Financial Instruments Business Operators to solicit investment in unlisted shares provided that the total offering amount is less than JPY 100 million (~US$915,000) and the investment amount of each investor is JPY 500,000 (~US$4,500) or less. Furthermore, the regulatory burden on companies soliciting solely this type of investment (i.e. equity-crowdfunding platforms) was relaxed as it became possible for them to register as a “Type I Small-Amount E-soliciting Business Operator,” which is regulated more lightly than a Type I Financial Instruments Business Operator.

Despite the legal amendments, equity-based crowdfunding has been near to non-existent in Japan. In October 2016, Japan Cloud Capital, Inc. became the first (and so far only) company to register as a Type I Small-Amount E-soliciting Business Operator. Whether equity-based crowdfunding can become a viable business in Japan remains to be seen. As such, there was no equity-based crowdfunding activity recorded in Japan in 2016.
South Korea was one of the fastest growing markets in the Asia Pacific region over the course of 2016, totaling over US$376 million up from US$40.43 million in 2015. In South Korea, marketplace/peer-to-peer real estate totaled US$267.22 million while marketplace/peer-to-peer consumer lending raised a total of US$65.72 million in 2016 up from US$29.48 million in 2015. Marketplace/peer-to-peer business lending grew dramatically to US$34.9 million in 2016 - up from US$1.32 million in 2015. Meanwhile, reward-based crowdfunding continued to grow in 2016 from US$1.81 million in 2015 to US$7.56 million in 2016.
Figure 40: Total Market Volumes by Model in South Korea 2013-2016 ($US Million)

- **Peer-to-Peer (Marketplace)**
  - Real Estate Lending: $267.22m
  - 2016: $7.50m
  - 2015: $0.83m
  - 2014: $1.22m
  - 2013: $29.48m

- **Peer-to-Peer Consumer Lending**
  - 2015: $0.83m
  - 2014: $1.22m
  - 2013: $29.48m

- **Peer-to-Peer (Marketplace)**
  - Business Lending
  - 2015: $1.32m
  - 2014: $34.90m

- **Reward-based Crowdfunding**
  - 2015: $0.36m
  - 2014: $0.51m
  - 2013: $1.81m
  - 2016: $7.56m

- **Equity-based Crowdfunding**
  - 2015: $0.85m
  - 2014: $0.58m
  - 2013: $0.24m
  - 2016: $0.73m

- **Real Estate Crowdfunding**
  - 2015: $0.11m

- **Revenue-sharing/Profit-sharing Crowdfunding**
  - 2015: $0.04m

- **Donation-based Crowdfunding**
  - 2015: $0.01m
  - 2014: $0.08m
  - 2013: $0.03m
South Korea’s Alternative Finance Regulatory Environment

In 2016, the Korean Financial Services Commission signed cooperation agreements with both the Monetary Authority of Singapore and the UK’s Financial Conduct Authority to collaboratively work on various FinTech initiatives and to share knowledge on emerging innovations, trends and regulatory issues. Furthermore, the Korean P2P Financial Association was formally founded in mid-2016 with 22 founding members representing the fast-growing peer-to-peer lending industry. The Korean P2P Finance Association has sought to play a role in preparing and influencing the lending guidelines of the Korean financial authorities though close communication and self-management of the industry.

Equity-based Crowdfunding

The Amendments to the Financial Investment Services and Capital Markets Act (the Capital Markets Act) passed in the South Korean Parliament in July 2015 and went into effect on January 25th, 2016, laying the framework for investment-based crowdfunding in South Korea. As of November 14th 2016, there were 14 platforms registered with the FSC with eight dedicated equity-crowdfunding platforms.

In terms of stipulations for investors, the FSCMA prescribes an investment limit for ordinary investors of approximately US$1,800 per business and not to exceed around US$4,500 per year. Higher net worth ‘income-accredited investors’ with an annual taxable income of more than 100 million won (~US$90,000) can invest up to around US$9,000 per company and about US$18,000 per year while professional investors have no caps in place. In addition to these restrictions, the crowdfunded securities must be deposited at the Korean Securities Deposit and are subject to a one-year lock up but may be freely transferred after this one year period and there are also no tax return or exemptions benefits given to crowdfunding investors.

As for rules relating to issuing companies, they must have been operating for less than 7 years to be permitted to issue securities via equity-crowdfunding platforms. However, companies with a ‘venture firm license’ or technology and cultural focused SMES can use crowdfunding regardless of how many years they have been operating. Issuing companies can raise up to around US$620,000 per year and firms raising above 500 million won (~US$450,000) must receive a financial audit. Listing firms must raise at least 80% of their target amount in order to successfully raise capital and once issued.

Peer-to-Peer Lending in South Korea

In 2016, while no specific regulations were created by the FSC for peer-to-peer lending in South Korea, firms are instead subject to the Act on the Registration of Credit Businesses within the Credit Business Act. This Credit Act requires firms to register with the FSC as a credit business even though many of the peer-to-peer lending firms represented by the Korean P2P Finance Association do not perceive themselves as primarily credit businesses.

The Korean Financial Commission proposed to set a limit of 10 million won just under US$9,000 per P2P company per year for ordinary individual investors, and limit the investment amount to one investor to one borrower at 5 million won (around US$4,500). The regulators said this approach was taken to protect investors. According to the Korean P2P Finance Association, investors who put in more than 10 million won (~$9,000) make up more than 60% of total investment and are the main customer base for many peer-to-peer lending businesses – particularly for real estate peer-to-peer lending which accounts for the vast bulk of national market activity. It remains to be seen what these regulatory developments will have over the course of 2017 on the sector in South Korea.
Taiwan

Figure 41: Taiwan Total Alternative Finance Market Size 2013-2016 ($US Million)

Taiwan accrued a total of US$51.7 million in 2016 with a year-on-year growth rate of 280%. Across the period 2013-2016 the average annual growth rate for the alternative finance industry in Taiwan was close to 200%. Peer-to-peer business lending was by far the leading alternative finance model with US$42.5 million raised in 2016.

Equity-based crowdfunding raised a total of US$7.11 million in 2016 while marketplace/peer-to-peer real estate lending raised US$2.09 million. Reward-based crowdfunding was not tracked in this year’s survey, however, there was likely a substantial amount of unrecorded market activity. Donation-based crowdfunding remained negligible in the Taiwanese alternative finance market in 2016.
Figure 42: Total Market Volume by Model in Taiwan 2013-2016 ($US Million)

- Peer-to-Peer Business Lending: $42.50m
- Peer-to-Peer Real Estate Lending: $2.09m
- Reward-based Crowdfunding: $2.20m, $4.66m, $13.52m
- Equity-based Crowdfunding: $7.11m
- Donation-based Crowdfunding: $0.07m, $0.09m
Equity-based Crowdfunding

Taiwan’s government created the Go Incubation Board for Startup and Acceleration (“GISA Board”) in January 2014, run by the GreTai Securities Market (or Taipei Exchange), to play a role similar to a crowdfunding platform and to help small business and startups raise capital. At first glance, it may be viewed as a mechanism for small startups to seek funds much more easily. In reality, up to mid-February 2017, 79 companies have successfully registered on the GISA Board, raising approximately 235 million TWD (around $US7.7 million). Only at the end of April 2015 were private crowdfunding platforms authorized in Taiwan.

Since the Security and Exchange Act (“SEA”) in Taiwan sets very high entry standards for securities brokers, it was difficult for equity-based crowdfunding platforms to operate in Taiwan. Nonetheless, the FSC granted an exemption for private equity-based crowdfunding platforms without amending the SEA as it did to the GISA Board in 2014. Whether the policy change in equity-based crowdfunding in Taiwan prove effective remains as yet to be seen.

For example, even though three of six private platforms have been issued equity-based crowdfunding licenses and commenced operations in 2015, only 2 startups appear to have successfully raised 12 million TWD (around US$393,000) on the licensed platforms in operation by February 2017.

Simply put, the regulations governing the public GISA Board (the GISA Regulations) and private platforms (the Private Portal Regulations) in Taiwan were based on the JOBS Act but adapted to local conditions. Taiwan’s equity-based crowdfunding regulations placed much more emphasis on investor protection than on capital formation.

Peer-to-Peer/Marketplace Lending

Unlike equity-based crowdfunding, the Taiwanese FSC has not introduced concrete regulatory plans towards peer-to-peer lending (“P2P lending”). Current equity-based crowdfunding regulations do not govern peer-to-peer lending platforms either. The FSC had evaluated regulatory approaches to the sector in May 2016, such as enacting a specified act or amending the EPI Act to govern this sector. However, officials finally decided that no statutes would be enacted or amended since peer-to-peer lending was characterized as pure private lending while highly encouraging banks and peer-to-peer platforms to collaborate with each other, with a view to strength internal controls of those platforms and hence lower operational risks.

When it comes to industry association development, FINTECH.ORG.TW, the largest financial technology (“FinTech”) industry association in Taiwan, was just established in February 2017.

This reflected that self-regulation in the FinTech field is still in the initial stages. In the meantime, the FSC incorporated versions of establishing FinTech regulatory sandbox proposed by several cross-party Taiwanese legislators and announced an integrated draft of “the Act of FinTech Innovation Experiments” in February 2017. The FSC hoped the draft Act would be passed by the legislature in May 2017 to stimulate FinTech developments in Taiwan.
Regulatory Developments in Mongolia

Equity-based Crowdfunding

Equity crowdfunding is not recognized in Mongolia. Shares are allowed to be traded only on the stock exchange. In Mongolia, it is not prohibited to raise a fund for commercial purposes. People with similar interests are free to gather, using any method, may it be online or by gathering in public places. However, these investments should not be traded in exchange for shares or any other instruments that are allowed to be traded only in the stock exchange, nor can they operate as a legal entity without proper registration.

According to Article 12.7 of the Law on Securities, the securities market trading will be deemed successful, if the company sells its shares to more than 50 investors or if the company gathers the required amount of fund for its operation. Also, it is free for non-professional investors to buy any number of shares, without any limitations on the amount they invest, and the company is free to sell their shares to any number of investors. In other words, Mongolia does not have strict policies to form listed companies.

Marketplace/Peer-to-Peer Lending

Online crowdfunding and marketplace/ peer-to-peer lending is a new concept in Mongolia and there are only three platforms providing these services since late 2016. There are no specific regulations regarding peer-to-peer lending in Mongolia as of yet. To operate lending activities, the legal entity needs to obtain a special permit license (Art. 15.3.4 of the Law on Licensing “depository and loan activities by an entity except banks”) from the Financial Regulatory Commission of Mongolia.

Oceania emerged as the second largest alternative finance market behind China. In 2016, a total of US$832.85 million was raised growing by a steady 25% compared with US$665.38 million in 2015.

This region comprises New Zealand and Australia as well as the pacific islands where very little market activity was recorded.

Most of the market activity in this region was dominated by marketplace/peer-to-peer consumer lending where US$321.19 million was raised in 2016 which was a slight increase on the US$294.87 million raised in 2015. The next largest alternative finance model was balance sheet business lending which totaled US$217.99 million in 2016 which was quite a sizable increase of 81% over 2015. The third largest market in Oceania was invoice trading with US$129.91 million raised in 2016. Marketplace/peer-to-peer lending accrued US$43.2 million in 2016.
Figure 44: Total Market Volume by Model in Oceania 2014-2016 ($US Million)
In 2016, Australia emerged as the largest alternative finance market in the Asia-Pacific, excluding China, by quite some distance with a total of US$609.6 million in 2016. This was an increase of 53% over the total of just under US$400 million raised in 2015.

Online alternative finance has continued to grow rapidly in Australia. This growth has been substantial when compared with the low base of US$26.69 million reported in 2013. In 2016, the largest market volume of alternative lending was through balance sheet business lending, accounting for over US$217 million, up from US$120 million in 2015.

The second largest segment was marketplace/peer-to-peer consumer lending, which has grown to over US$158 million, substantially up from the US$62 million reported in 2015. The third largest segment was invoice trading at just under US$130 million, up from US$105 million the year before. This was followed by peer-to-peer property lending, which reported US$36 million, and peer-to-peer business lending with US$6.93 million.
Figure 46: Total Market Volume by Model in Australia 2013-2016 ($US Million)

- **Balance Sheet Business Lending**: $9.90m, $39.59m, $120.62m, $217.34m
- **Peer-to-Peer (Marketplace) Consumer Lending**: $2.14m, $15.84m, $62.38m, $158.23m
- **Invoice Trading**: $105.05m, $129.91m
- **Peer-to-Peer (Marketplace) Real Estate Lending**: $36.00m
- **Reward-based Crowdfunding**: $4.06m, $20.81m, $28.25m
- **Real Estate Crowdfunding**: $0.45m, $7.64m, $13.00m
- **Equity-based Crowdfunding**: $7.90m, $23.20m, $56.00m
- **Donation-based Crowdfunding**: $2.69m, $4.38m, $10.00m
- **Peer-to-Peer (Marketplace) Business Lending**: $7.05m, $6.93m
- **Balance Sheet Consumer Lending**: $0.20m

Legend:
- **Red** = 2016
- **Blue** = 2015
- **Orange** = 2014
- **Green** = 2013
The alternative finance market in Australia has been slower to take off than in some other jurisdictions. The general economic resilience of the economy through the global financial crisis, and the strength of the regulatory system meant relatively little disruption in financial markets and few flow through impacts on the real economy. For the business sector, the withdrawal of international wholesale funding from the banking sector and the retreat of a number of European and US banks meant less access to credit, especially for higher risk SMEs. With a strong retail banking infrastructure and distribution systems, however, there was little impact on the consumer sector and with 99% of Australians having a bank account, there is little concern for issues of financial inclusion¹⁴. With the downturn in financial markets, there were some substantial consumer losses¹⁵, leading to a strengthening in consumer protection around financial services¹⁶. Consequently, the political will to support new digital finance models did not emerge in Australia for some time.

Impetus for the development of a FinTech sector arrived following the 2014 Financial System Inquiry (FSI), which made a number of recommendations directed at increasing innovation in the financial sector. These recommendations achieved much greater political support when Prime Minister Malcolm Turnbull assumed office with a strong innovation agenda in September 2015.

With a highly concentrated banking sector, where the four major banks hold around 80% of retail deposits and supply over 80% of mortgage and business loans¹⁷, greater emphasis is being placed on encouraging competition through supporting digital financial service providers. These include various alternative finance providers, as well as payments systems innovators and RegTech applications.

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**Australia’s Alternative Finance Regulatory Environment**

Alternative finance transactions are generally regulated within the framework of the Corporations Act 2001. In terms of P2P lending, the Australian Securities and Investments Commission (ASIC) advise investors that P2P lending platforms are managed investment schemes. Platforms therefore need an Australian Financial Services License (AFSL)¹⁸.

The significant change to the regulatory scene for alternative finance in Australia followed the “Crowd-sourced Funding” amendment to the Corporations Act. The Corporations Amendment (Crowd-sourced Funding) Bill 2016 discussed in our 2016 report which finally passed both houses on 22 March 2017, and received royal assent (became operative) on 28 March 2017. This amendment will allow unlisted public companies to raise funds on licensed crowdfunding platforms. The industry expects that further amendments relating to proprietary companies will be tabled in parliament later in 2017 and the impact of these changes to emerge over the course of 2017.

The Australian Securities and Investment Corporation (ASIC) is the regulatory body responsible for overseeing the licensing and conduct of FinTech firms. To make it quicker and easier for such businesses to navigate the regulatory system, ASIC established its Innovation Hub in early 2015, and appointed a Digital Finance Advisory Committee to enhance collaboration with the FinTech sector and advise on regulatory issues.

Any alternative lender seeking a financial license to operate in the Australian retail financial market is obligated to seek approval through ASIC, or alternatively, can operate under an existing license via a third party. ASIC’s remit is to promote investor and financial consumer trust and confidence, ensure fair orderly and transparent and efficient markets, and provide efficient and accessible registration¹⁹. This body has no explicit mandate to directly promote competition, although this was a recommendation of the FSI Inquiry accepted by the Government in its response. Consumer protection remains a paramount concern.
Marketplace/Peer-to-Peer Lending

There is no specifically tailored regulatory regime for marketplace lending. Licensing requirements will depend on the financial products and services on offer, and the types of investors and borrowers involved. Marketplace lenders who have retail investors and/or lend to consumers are more tightly regulated, whereas platforms that engage wholesale investors and lend for business purposes are regulated less tightly.

A marketplace lender wishing to engage with retail investors will generally require an Australian Financial Services License (AFSL) under the Corporations Act 2001 (the Act). As an AFSL licensee, a marketplace lender will need to comply with ongoing compliance obligations under the Act. The Act also imposes disclosure obligations to ensure that retail investors have access to sufficient information to make an informed decision about whether or not to invest.

If the product is structured as a managed investment scheme and it is offered to retail investors, the operator (i.e. responsible entity) is also required to register the scheme with ASIC. The responsible entity of a registered scheme must be a public company that holds an AFSL authorizing the operation of the scheme. If the managed investment scheme is offered to wholesale investors only it will not need to be registered, but its operator will still need to hold an AFSL.

A marketplace lender wishing to lend to consumers will also generally need an Australian credit license to comply with requirements in the National Consumer Credit Protection Act 2009 and the National Credit Code.

Marketplace lenders that lend to business from wholesale funding sources that do not involve the operation of a managed investment scheme or other financial products, are not required to hold either an AFSL or a credit license. Many balance sheet lenders fall into this category.

Regardless of the business model adopted, the provision of financial services under the Act are also subject to consumer protection provisions in the Australian Securities and Investments Commission Act 2001 (ASIC Act), including prohibitions on misleading or deceptive representations and use of harassment and coercion. Small business contracts are also subject to unfair contracts provisions in the ASIC Act.

Equity-based Crowdfunding

At present crowdfunding platforms in Australia are regulated as managed investment schemes, as outlined above. However, legislation has been introduced into the parliament specifically for crowd-sourced equity funding (CSEF) for public companies, expected to take effect in late September 2017. Subsequently, the federal government has also released draft legislation to extend crowd-sourced equity funding (CSEF) to proprietary companies with the 2017-18 Budget.

Under this legislation, proprietary companies will be able to have an unlimited number of CSEF shareholders. Shareholders will be protected by governance and reporting obligations which include: a minimum of two directors; financial reporting in accordance with accounting standards; audit requirements; restrictions on related party transactions; and minimum shareholder rights to participate in exit events.
New Zealand, the fifth largest alternative finance market in the Asia Pacific region, raised a total of US$223.25 million in 2016, which was down 17% as compared to 2015. This was largely due to the fall in marketplace/peer-to-peer consumer lending activity in the course of 2015-2016 which fell by 33% from US$244.97 million in 2015 to US$162.92 million in 2016.

Looking at the breakdown of each individual alternative finance model in New Zealand, marketplace/peer-to-peer consumer lending is by far the bulk of market activity. The second largest alternative finance model was donation-based crowdfunding for which US$16.8 million was raised in 2016 – an increase of around 100% over the previous year. Equity-based crowdfunding was the third largest model in New Zealand with US$13.85 million across 2016 - up from US$11.86 million in 2015.
Figure 48: Total Market Volume by Model in New Zealand 2013-2016 ($US Million)

Peer-to-Peer (Marketplace) Consumer Lending:
- 2016: $0.42m
- 2015: $13.56m
- 2014: $162.92m
- 2013: $244.97m

Donation-based Crowdfunding:
- 2016: $1.75m
- 2015: $5.02m
- 2014: $8.41m
- 2013: $16.80m

Equity-based Crowdfunding:
- 2016: $1.35m
- 2015: $11.86m
- 2014: $13.85m

Debentures (Debt-based Securities):
- 2016: $12.00m

Peer-to-Peer (Marketplace) Business Lending:
- 2016: $7.50m

Peer-to-Peer (Marketplace) Real Estate Lending
- 2016: $7.20m

Reward-based Crowdfunding:
- 2016: $0.83m
- 2015: $2.07m
- 2014: $2.53m
- 2013: $2.29m

Balance Sheet Business Lending
- 2016: $0.65m
New Zealand’s Alternative Finance Regulatory Environment

In 2016, New Zealand had the second largest alternative finance market volume across the Asia-Pacific on a per capita basis. Due to the government’s willingness to adopt innovative and liberal crowdfunding and peer-to-peer lending regulations at a very early stage compared with the rest of the region, New Zealand has been a pioneer of alternative finance in the Asia-Pacific.

The catalyst for this leadership in “FinTech” was the Financial Markets Conduct Act 2013 (FMCA). Under this Act the Financial Markets Authority (FMA) was authorised to license any individual or organisation wishing to act as a provider of “crowdfunding” or “person-to-person lending”, subject to meeting specific criteria. The FMCA aims to promote flexibility and innovation in New Zealand’s financial services sector consistent with the government’s Business Growth Agenda, and is recognised as a “comprehensive, coherent and flexible system of financial regulation”.

From April 2014, New-Zealand based organisations were able to issue share capital or invest in equity-based crowdfunding platforms, or crowdsource debt via peer-to-peer lending platforms, without needing to comply with the rigorous and costly disclosure requirements of the Securities Act, 1978.

Marketplace/ Peer-to-Peer Lending

P2P lenders are granted a “market services license” by the FMA, given they meet the criteria outlined in FMCA. In addition, current or proposed directors and managers of lending platforms must prove themselves to be “fit and proper” for their positions, in accordance with a set of eligibility criteria laid out in Regulation 187 of the Financial Markets Conduct Regulations (Regulation 2014). Regulation 187 stipulates that the provider of the lending service has fair, orderly and transparent systems and procedures for providing this service. This includes a system that has to be devised by the provider, to adequately assess the creditworthiness of a borrower and the risk of an investor not being repaid in full. Providers are also to implement a “fair dealing policy”, which excludes an issuer of debt securities from using the service, if information provided by this borrower is false or fraudulent. Currently, New Zealand’s seven licensed P2P-lending platforms adhere to the criteria outlined in Regulation 187, which gives them registration with the Financial Service Providers (Registration and Dispute Resolution) Act 2008. Access to such a dispute resolution service assists with trust in the system.

The FMA license allows P2P-lending platforms to offer debt securities, without the need to supply a product disclosure statement (PDS). The license allows borrowers to rely on an exemption in the FMCA 2013 (Section 39, Clause 6, Schedule 1), which eradicates their need for a PDS, contrasting starkly with the previous onerous disclosure requirements of the Securities Act 1978, which required a prospectus and/or investment statement. Despite certain residual legal obligations for both borrower and P2P lending service provider, this amendment in legislation removed a barrier for P2P lending platforms, instead enforcing simpler compliance obligations.

In addition to these simple and relaxed disclosure requirements there is a cap on the amount that can be borrowed via P2P-lending platforms. Platforms must ensure that adequate systems and procedures are in place to monitor the restrictions that limit borrowings by individuals, small businesses, community groups and charities to no more than $2million, and the number of investors to 20, in any 12-month period.
In addition to criteria and standards outlined in the FMCA and accompanying Regulations 2014 and Fair Dealing Obligations, licensed P2P lenders must ensure that they: have written client agreements with lenders; give disclosure statements to retail lenders; complete and submit an annual regulatory return; notify the FMA of a new directorial or managerial appointment or changes to governance; monitor their own compliance and meet reporting obligations.

The P2P lender must only provide the class of market services to which the license relates and for which each licensee is authorized, must display legitimate confidence in any provider to which a process or system of the P2P-lending service has been outsourced, and must maintain relevant records pertaining to market service, including the ongoing provision of performance-related information to the FMA (including the service’s Net Tangible Assets value).

Although much of the remaining legislative measures concerning crowdfunding are very similar to those of P2P lending, some are slightly modified and more tailored to the former rather than the latter. Section 396 stipulates that managers and directors of a crowdfunding service adhere to eligibility criteria in regulation 186. Much like regulation 187, this demands that the service providers adequately deal with the risk of fraud or lack of “good character” (rather than lack of creditworthiness) by an issuer using the service, with the implementation of a “fair dealing policy” to exclude this issuer if required.

New Zealand’s legislation for crowdfunding was established relatively early on. The government’s open-ended and flexible financial market laws, eventually effective in April 2014, ensure that more than just sophisticated or wholesale investors were allowed to invest through an equity-crowdfunding platform. Currently, there are eight crowdfunding platforms that hold a license from the FMA. Furthermore, courtesy of Section 12 of the FMCA, the most a company can seek to raise via equity-crowdfunding is also $2 million, from no more than 20 investors, in any 12-month period.

Equity-based Crowdfunding

Much like P2P lending, equity-based crowdfunding services are also licensed by the FMA and must comply with Section 396 of the FMCA. The same exemption from product disclosure statements, prospectus etc. apply under Section 39 to issuers of financial products via a crowdfunding service. Whilst this has aided the growth and development of New Zealand’s crowdfunding market, it has made investing in these companies relatively risky and speculative, considering issuers in this facility are often new or developing ventures. For this reason, as at 1 December 2014, two additional regulations have been added for crowdfunding. These are Regulations 196 and 197, require licensees to prominently display on their website a specific warning statement, highlighting the risks involved in speculative investment and the potential to lose one’s entire investment. Further, licensees must receive confirmation from investors of the fact that they have seen and adequately understood this warning.
Survey responses in South-East Asia were received from platforms operating in Singapore, Indonesia, Malaysia, Cambodia, Thailand, Vietnam and the Philippines and in 2016 this region experienced significant growth. In the three-year period 2013-2015, a total market volume of US$83.99 million was raised, with an average year-on-year growth rate of 109%. In 2016, the total market volume was US$215.94 million, equating to a huge growth of 363% from the previous year, in which only US$46.65 million was raised.

The market data recorded was led predominantly by Singapore with material contributions from Indonesia, Malaysia, Thailand and Cambodia. In Vietnam, there were a number of platforms who submitted survey responses but with data from 2017 onwards only. We therefore expect more market activity in Vietnam in 2017 – particularly for loan-based models. For Laos and Myanmar, two of the least developed economies in South East Asia, there was little to no market activity recorded aside from a few reward-based crowdfunding campaigns funded by platforms based outside of these countries. In the Philippines a number of equity and reward-based crowdfunding platforms had actually ceased operations over the course of 2016 leaving a small amount of reward-based crowdfunding activity in the country.

The majority of South East Asia’s recorded market activity was generated by peer-to-peer (marketplace) business lending, with a total of US$115.01 million. This accounted for more than half of total market share in 2016 and was substantially higher than the US$9.54 million reported in 2015. The second largest segment was equity-based crowdfunding, at US$56.24 million, up on the relatively insignificant US$7.53 million from 2015. The substantial growth in both of these sectors can almost wholly be attributed to increased activity in Singapore. However, with Singapore, it became clear that a number of platforms headquartered in Singapore had substantial levels of market activity in terms of where funding was flowing to – notably to Indonesia, Malaysia and Cambodia. Donation-based crowdfunding proved to be the third largest sector, reporting US$13.16 million in 2016, compared to US$5.47 million the year before.
Figure 50: Total Market Volume by Model in South East Asia 2013-2016 ($US Million)

<table>
<thead>
<tr>
<th>Model</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peer-to-Peer (Marketplace) Business Lending</td>
<td>$1.41m</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity-based Crowdfunding</td>
<td>$0.50m</td>
<td>$1.12m</td>
<td>$9.54m</td>
<td>$115.01m</td>
</tr>
<tr>
<td>Donation-based Crowdfunding</td>
<td>$3.67m</td>
<td>$7.53m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Peer-to-Peer (Marketplace) Consumer Lending</td>
<td>$7.93m</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invoice Trading</td>
<td>$5.25m</td>
<td>$7.48m</td>
<td>$11.90m</td>
<td></td>
</tr>
<tr>
<td>Real Estate Crowdfunding</td>
<td>$7.99m</td>
<td>$12.62m</td>
<td>$10.19m</td>
<td>$5.90m</td>
</tr>
<tr>
<td>Reward-based Crowdfunding</td>
<td>$0.56m</td>
<td>$1.12m</td>
<td>$2.01m</td>
<td>$5.47m</td>
</tr>
<tr>
<td>Balance Sheet Property Lending</td>
<td>$2.00m</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mini-bonds Offering (Debt-based Securities)</td>
<td>$1.00m</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Peer-to-Peer (Marketplace) Real Estate Lending</td>
<td>$0.30m</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance Sheet Consumer Lending</td>
<td>$0.02m</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue-sharing/Profit-sharing Crowdfunding</td>
<td>$0.02m</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2016 saw Singapore retain its title as the market leader in South-East Asia, accounting for more than three-quarters of the online alternative finance market volume. In 2016, the US$163.75 million in online alternative finance transactions was more than double the US$70.28 million registered in the nation throughout the entire three-year period of 2013-2015. Compared to the average year-on-year growth rate of 125% between 2013 and 2015, Singapore experienced an astounding 312% increase in 2016.

Nearly 83% of the nation’s total volume was dominated by the combined forces of peer-to-peer (marketplace) business lending and equity-based crowdfunding (US$88.43 million and US$47.01 million respectively). Both of these models have also grown significantly since 2015, when peer-to-peer business lending accounted for US$9.43 million, and equity-based crowdfunding raised US$7.47 million.

Although showing relatively low growth by way of comparison, donation-based crowdfunding, invoice-trading, and real-estate crowdfunding accounted for almost all of Singapore’s remaining total market activity in 2016. US$8 million was raised via donation-based crowdfunding, whilst a combined total of US$13.38 million was raised through real-estate crowdfunding and invoice trading, despite both being slightly lower than their totals in 2015.
Figure 52: Total Market Volume by Model in Singapore 2013-2016 ($US Million)

- **Peer-to-Peer (Marketplace) Business Lending**: 2016: $0.12m, 2015: $9.43m, 2014: $47.01m, 2013: $88.43m
- **Equity-based Crowdfunding**: 2016: $3.67m, 2015: $7.47m, 2014: $47.01m, 2013: $88.43m
- **Invoice Trading**: 2016: $5.25m, 2015: $11.90m, 2014: $7.48m
- **Donation-based Crowdfunding**: 2016: $8.00m
- **Real Estate Crowdfunding**: 2016: $7.99m, 2015: $12.62m, 2014: $10.19m, 2013: $5.90m
- **Balance Sheet Property Lending**: 2016: $2.00m
- **Reward-based Crowdfunding**: 2016: $0.20m, 2015: $0.66m, 2014: $0.76m, 2013: $1.92m
- **Mini-bonds Offering**: 2016: $1.41m
- **Peer-to-Peer (Marketplace) Consumer Lending**: 2016: $0.50m
- **Debentures (Debt-based Securities)**: 2016: $0.50m

Legend: **2016** | **2015** | **2014** | **2013**
In 2015, the Monetary Authority of Singapore (MAS) committed 225 million Singapore Dollars (around US$166 million) to support the development of the FinTech industry, particularly, for establishing research and development centres and other infrastructure for FinTech development in Singapore\(^{20,21}\). This reflects the fact that FinTech has been getting increased attention from the Singapore Government in the recent years.

In November 2016, MAS issued Regulatory Sandbox guidelines. It is inevitable that regulatory requirements are challenging for FinTech firms. Accordingly, the Sandbox seeks to provide a suitable environment for FinTech experiments by relaxing specific regulatory requirements. In 2016, the MAS established the Fintech Innovation Lab - “Looking Glass@MAS\(^{25}\)”. This is the project under the commitment of MAS in promoting a culture of innovation in the financial sector. Along with regulatory development, the Fintech Innovation Lab can be considered as a supportive mechanism to allow MAS to experiment FinTech solutions with related stakeholders.

In general, online money lending in Singapore is mainly regulated by the Moneylenders Act 2010 and the Moneylenders Rules 2009. The Moneylenders Act 2010’s main purpose is to develop consumer protection mechanisms to protect borrowers of small of loans\(^{22}\), placing stringent limitations on moneylenders’ business operations. The act requires moneylenders to hold a Moneylenders license with obligations and limitations for the licensee\(^{23}\).

The MAS\(^{24}\), regulates the operation of marketplace / P2P lending via the Securities and Future Act (Cap. 289) (SFA) and the Financial Advisers Act (Cap. 110) (FAA). Particularly, under Section 239(3) of the SFA, invitation to lend money to an entity is regarded as offering debentures under the SFA, accordingly it is required to prepare and register a prospectus with MAS. However, there are exemptions under Section 227A and 227B of the SFA which indicate the prospectus exemptions for small offers and private placements.

Marketplace/peer-to-peer lending platforms involved in offering of debentures or advice on the offering of debentures, are subject to a capital market services (CMS) license requirement under the SFA. The requirements under the FAA will also be applied in case of giving advice to investors with regards to purchasing securities because it shall be considered as financial advisory service in pursuant to the FAA Act.
Indonesia

On a country-by-country basis, Indonesia reported one of the highest rates of market growth of any country in the entire Asia Pacific region. Despite modest year-on-year average growth of 15% in the three years preceding it, 2016 proved to be a watershed year for alternative finance activity, with a total of US$35.35 million raised. Up from US$2.26 million in 2015, Indonesia’s growth from 2015 to 2016 was greater than that of any other nation in the Asia Pacific – a remarkable 1462%.

This massive growth in activity can be largely attributed to a boom in peer-to-peer business lending, which grew from just US$0.11 million in 2015 to US$21.65 million in 2016. Almost non-existent before 2016, peer-to-peer consumer lending was the second largest constituent, with a market share of 18%, equating to US$6.52 million in 2016. In the same year, donation-based crowdfunding and equity-based crowdfunding recorded over US$3 million each, accounting for most of the nation’s remaining online alternative finance activity. In 2016, activity was recorded in a total of nine different types of online alternative finance models, as compared to three the year before. This emergence of six new models in a single year is distinctive to Indonesia, and further highlights the expansion of the nation’s alternative finance market in 2016.
Figure 54: Total Market Volume by Model in Indonesia 2013-2016 ($US Million)

- **Peer-to-Peer (Marketplace) Business Lending**
  - 2016: $0.50m
  - 2015: $1.00m
  - 2014: $0.11m
  - Total: $21.65m

- **Peer-to-Peer (Marketplace) Consumer Lending**
  - 2016: $1.16m
  - 2015: $1.49m
  - 2014: $1.95m
  - Total: $3.29m

- **Donation-based Crowdfunding**
  - 2016: $0.11m
  - 2015: $0.21m
  - 2014: $0.17m
  - Total: $0.49m

- **Equity-based Crowdfunding**
  - 2016: $0.30m
  - 2015: $0.14m
  - 2014: $0.25m
  - Total: $0.69m

- **Peer-to-Peer (Marketplace) Real Estate Lending**
  - 2016: $0.30m

- **Debentures (Debt-based Securities)**
  - 2016: $0.02m
  - 2015: $0.02m

- **Reward-based Crowdfunding**
  - 2016: $0.14m
  - 2015: $0.17m

- **Balance Sheet Consumer Lending**
  - 2016: $0.02m

- **Revenue-sharing/Profit-sharing Crowdfunding**
  - 2016: $0.02m

Colors:
- Red: 2016
- Blue: 2015
- Orange: 2014
- Green: 2013
Indonesia’s Alternative Finance Regulatory Environment

Since the financial services authority’s (OJK) online peer-to-peer lending regulations were passed in the final days of 2016, the industry has flourished. Over 160 startups, of which 40 are peer-to-peer lenders, are registered with OJK (June 2017). Peer-to-peer lending and alternative payments are by far the largest category of online alternative-finance in Indonesia. Given this influx of market activity over 2016 and into 2017, we expect to see a substantial market development of activity in Indonesia for 2017 building on the rapid growth of 2016.

The national regulator OJK is largely responsible for the online alternative finance space, although other ministries have issued regulations of significance. For example, the Ministry of information technology and communication (Kementerian Komunikasi dan Informatika) has requested that companies adopt digital signatures to secure cyber-identity. As the regulatory lead for Fintech, OJK has increased the chances that Fintech will deliver the government’s objectives by striving to create good links between Indonesia’s Fintech community and its banks. OJK’s outgoing Chairman Muliaman Hadad has also been a proponent of Indonesian banks investing in Fintech. In order to optimize relations between incumbent financial service providers and Fintech start-ups, OJK adopted a ‘sandbox approach’ to market regulation.

The identification of credit worthy borrowers is an important road block for peer-to-peer lending. Indonesia has a Debtor Information System known as SID (soon to be known as SLIK: Sistem Layanan Informasi Keuangan) that contains information on credit worthiness of those who borrow from banks who issue the lion’s share of formal debt in terms of value to a limited number of clients. Historically only the banks have access to the SID data. This means that a very large number of small loans in Indonesia are issued with little or no historical data on credit behaviour. The SID system, formerly run by BI, has been transferred to the Financial Services Authority and expectations are rising that this integrated financial information becomes more widely accessible via a credit bureau. Incumbent Fintech companies, started or supported by banks, may enjoy superior access to this data compared to independent Fintech startups for some time to come.

Equity-crowd funding regulations, distinct from Indonesia’s capital markets and IPO laws, are to be announced shortly by OJK in 2017. These regulations promise to reduce risks for FinTech entrepreneurs and investors. However, in this currently underserved segment, SME owners are often unfamiliar with (and distrustful of) equity financing from outside of their immediate social network. Low levels of financial literacy in Indonesia will need to be addressed if the development of equity crowd funding to SMEs is to be successful in Indonesia.
Malaysia’s consistent and steady rate of online alternative market volume growth continued in 2016, with a total of US$8.29 million raised throughout the year. Although this total only accounted for around 4% of total market activity across South-East Asia, it is higher than the US$3.36 million raised in 2015. Additionally, the 142% average year-on-year growth rate across this three-year period highlights the nation’s consistent growth during these last four years.

With regard to total market volume by sector, 2016 saw equity-based crowdfunding dominate Malaysia’s alternative finance landscape with a total volume of US$5.46 million raised under this model. This accounted for around 66% of the nation’s online alternative market volume, significantly up from the insignificant US$0.06 million raised via equity-based crowdfunding in 2015 when equity crowdfunding was being introduced late in that year. In second place was donation-based crowdfunding with a total of US$1.68 million, a noticeable drop from US$3.13 million in 2015, which made it the largest market segment in that year. Peer-to-peer business lending, debentures and reward-based crowdfunding accounted for Malaysia’s smallest proportions of alternative finance activity in 2016, accounting for 9%, 3%, and 2% of total regional market volume respectively.
Figure 56: Total Market Volume by Model in Malaysia 2013-2016 ($US Million)

- **Equity-based Crowdfunding**: $5.46m
- **Donation-based Crowdfunding**: $3.13m
- **Peer-to-Peer Business Lending**: $0.75m
- **Debentures (Debt-based Securities)**: $0.25m
- **Reward-based Crowdfunding**: $0.06m, $0.62m, $0.93m, $1.68m, $0.75m, $0.25m, $0.05m, $0.10m, $0.18m, $0.15m
Malaysia’s Alternative Finance Regulatory Environment

Peer to Peer (P2P) Lending

The Malaysia Securities Commission (SC) introduced the regulatory framework for P2P lending in May 2016, setting out the requirements and obligations for P2P operators in the revised Guidelines on Recognized Markets (Equity Crowdfunding/Peer-to-Peer Financing) (the Guidelines). These Guidelines require peer-to-peer lending operators to be locally incorporated and have a minimum paid-up capital of RM 5 million. Peer-to-peer operators must also undertake a risk assessment of prospective issuers, and are required to monitor and ensure compliance with rules, including ensuring the issuers’ disclosure documents are lodged with the peer-to-peer operators.

There is no limitation on investment for sophisticated investors, but peer-to-peer operators are required to encourage angel retail investors to limit their investment to a maximum of RM50,000 (US$11,700) at any period of time. By the end of 2016, the Malaysian Securities Commission had introduced six registered peer-to-peer lending platforms operators, which were expected to become fully within the calendar year and we therefore expect 2017 to be when peer-to-peer lending activity really kicks off for Malaysia.

Equity-based Crowdfunding

The development of equity-based crowdfunding is outlined in the 11th Malaysia Plan which encourages the use of this method to increase fundraising options for start-up companies or SMEs. As a consequence, Malaysia was one of the first countries to regulate equity-based crowdfunding in Southeast Asia. On the 21st August 2014, the Malaysian Securities Commission issued a Public Consultation paper concerning the proposed regulatory framework for equity-based crowdfunding. The resulting Guidelines on Regulation of Markets under Section 34 of CMSA and the revised Guidelines on Recognized Markets (Equity Crowdfunding/Peer-to-Peer Financing) (the Guidelines) in May 2016 stated that equity crowdfunding platforms must be locally incorporated. Such platforms are required to undertake monitoring of participants, conduct due diligence obligation, and ensure the issuers’ disclosure document is lodged with the equity-based crowdfunding platforms.

In Malaysia, fund-raising cannot exceed RM3 million within any 12 month period, and the maximum amount raised through an equity-based crowdfunding platform over this period is RM5 million (~US$700,000). There is no restriction on the amount of investment for sophisticated investors, but the investment from angel and retail investors, shall not exceed RM500,000 (~US$117,000) and RM50,000 (~US$11,700) within 12 months respectively. In 2016, the Malaysian Securities Commission announced the approval of six equity-based crowdfunding platforms, a significant milestone for the alternative finance industry in Malaysia and 2016 demonstrated an emergent equity-based crowdfunding market.
Thailand

Figure 57: Thailand Total Alternative Finance Market Size 2013-2016 ($US Million)

Thailand experienced 260% growth from US$1 million raised in 2015 to a total of US$3.72 million reported in 2016. This makes Thailand the 4th largest market in South East Asia behind Singapore, Indonesia and Malaysia. However, Thailand only accounted for 1.7% of total market activity within the region.

As was the case during 2014-2015, a vast majority of the growth in 2015-2016 is evident in the activity of Thailand’s reward-based crowdfunding models. As well as experiencing a growth rate of 305% during 2015-2016, the 2016 total of US$2.96 million reported for this sector meant that it accounted for 80% of total volume and the largest proportion of total national alternative finance activity in 2016. Following this model, the previously unreported equity-based crowdfunding was responsible for 15% of national market share, with US$0.57 million raised, and donation-based crowdfunding sustaining a slight reduction from the total of US$0.31 million in 2015, accounting for the remaining 5% at US$0.20 million in 2016.
Figure 58: Total Alternative Finance Market Volume by Model in Thailand 2013-2016 ($US Million)

- **Reward-based Crowdfunding**: $0.09m, $0.16m, $0.73m, $2.69m
- **Equity-based Crowdfunding**: $0.57m
- **Donation-based Crowdfunding**: $0.06m, $0.15m, $0.31m, $0.20m
Thailand’s Alternative Finance Regulatory Environment

Marketplace/Peer-to-Peer Lending

Thailand’s main financial and security regulators, the Bank of Thailand (BOT) and the Office of the SEC, recognize peer-to-peer/marketplace lending in both opportunities and risks. However, the Board of Investment (BOI), the government sector who has promoted foreign and domestic investments, added FinTech as one of the digital services for investment promotion in Thailand. According to the BOI’s announcement in 2014, the FinTech business operators, are eligible to receive a corporate income tax exemption and other investment benefits.

According to the latest Supervision Report of the BOT in 2015, there are three organizations which have been exchanging information regarding Fintech and cyber threats, especially peer-to-peer lending namely; the BOT, SEC; and the Office of Insurance Commission. In 2016, the BOT launched a consultation paper to develop the framework to regulate peer-to-peer lending on September 30 to receive comments from platforms and related stakeholders. Even though this paper is not a legal instrument, it is significant to the peer-to-peer lending industry in Thailand as it indicates the current thinking from regulators in Thailand on (1) requirements of disclosure for peer-to-peer lending platforms, (2) a regulation relating to agreements between lenders and borrowers, and (3) qualifications of peer-to-peer lending platforms as well as investors and borrowers interested to participate in this new market in Thailand.

The main law relating to the operation of the peer-to-peer platforms in Thailand is the Financial Institution Business Act B.E. 2551 (2008). In relation to this Act, there is the problematic issue regarding the Paragraph 1 of Section 9 of the Act enforcing lenders to be a public limited company and granted a license by the Minister of Finance by the advice of the BOT. In light of the exception of this provision, there are regulations to facilitate Nano-finance businesses in Thailand which the BOT declared that the Nano-finance businesses are exempt by the Section 9 of the Act. However, the P2P lending platforms are not freely entitled to operate because three regulations to facilitate the Nano finance businesses could not support unique characteristics of Financial Technology (FinTech).

Equity-based Crowdfunding

The main law which regulates equity-based crowdfunding in Thailand is the Securities and Exchange Act B.E. 2535 (A.D. 1992). With reference to this act, the SEC is the main regulator which is able to launch policy and other related regulations.

Regarding the first reaction towards the equity-based crowdfunding, the first notification came into effect on May 16, 2015 allowing a qualified company to raise funds from the public by offering shares via internet platform structured by a funding portal approved by the SEC, under the following requirements and restrictions:

1. The qualification of crowdfunding portal by Notification no. TorChor. 7/2558 regarding regulations on offer for sale of securities through electronic system or network;

2. The disclosure duties of issuing company by Notification no. KorChor. 3/2558 regarding exemption from filing of registration statement for securities offered through provider of electronic system or network; and

3. The limitation of securities offered by Notification no. TorChor. 8/2558 regarding rules, conditions and procedures for offering for sale of shares by shareholders of limited companies.
Cambodia

A total of slightly over US$4.5 million was raised in Cambodia during 2016. This represented little over 2% of South-East Asia’s total alternative finance market. Nevertheless, this was the first year in which market activity was recorded in this country by this research programme. The vast majority of activity took place within peer-to-peer business lending, which was responsible for more than 90% of the alternative finance market volume in the country, with almost US$4.2 million raised in 2016. Peer-to-peer consumer lending and reward-based crowdfunding comprised the remainder of the activity, with US$0.32 million and US$0.02 million respectively.

Cambodia’s Alternative Finance Regulatory Environment

Peer-to-peer lending does not currently possess any clear legal status in the legal regime of Cambodia. The concept is new to the country, and therefore it currently stands in a grey area of the law. The primary governing law on financial operations in Cambodia is the Law on Banking and Financial Institutions. Although peer-to-peer business models can be considered to operate in the realm of the finance industry, it is not clear whether its operations can be regarded as “banking operations”. From comments received from officers at the National Bank of Cambodia (NBC) and the Ministry of Economy and Finance (MEF) there is currently simply no mechanism to govern such practice, mainly because it is a FinTech entity and its business model is new to the country.

Equity-based Crowdfunding

The Law on the Issuance and Trading of Non-Government Securities is the primary law governing the operations of the security market in Cambodia. The Securities and Exchange Commission of Cambodia (SECC) is the regulator of the Cambodian securities market established under the Law on the Issuance and Trading of Non-Government Securities. The SECC regulates and supervises securities markets for both governmental and non-governmental securities. For equity-based crowdfunding in Cambodia, both the issuing entity and platform will face legal hurdles. The law stipulates the conditions to be met for both operators of securities market and issuing entities.

For equity-based crowdfunding platforms facilitating the issuance and trading of equities, approval from the Director General of the SECC is required in accordance with article 23 of the law. Such approval stems from the fact that equity-based crowdfunding platform that operates as a facility for trading of equities will likely fit into the definition of what an operator of a securities market is. Therefore, such operation will be required to obtain approval from the SECC. The SECC will study and evaluate on the issuance of related licenses based on its criteria set out in related decrees.
Within South & Central Asia, survey responses were received from platforms located in India, Pakistan, Nepal, Bangladesh and Kazakhstan. India once again accounted for the overwhelming majority of this region’s recorded activity in 2016, with almost 99.8% of total market volume. In 2013-2015, a total market volume of US$57.31 million was raised, with an average year-on-year growth rate of 184%. 2016 saw a continuation of noticeable and consistent growth in this region, with a total market volume of US$124.46 million, equating to a noticeable growth of 211% from the previous year, in which only US$40.06 million was raised.

In Bangladesh, one platform provided a survey response there and informed that they had to cease operations due to challenges facing the sector there. In Nepal, there were no recorded domestic-based alternative finance platforms however there was a small amount of reward and donation-based crowdfunding activity recorded there. In Kazakhstan, presently there is no legal framework or regulation for this industry. Consequently, there is no support from the state bodies and/or financial institutions. According to the Kazakh FinTech Association (KFA), there are 14 companies in Kazakhstan providing micro credits - 6 of which are members of KFA. This study gathered responses from 2 platforms based in Kazakhstan that recorded market activity from 2017 onwards.

In terms of alternative finance models, balance sheet business lending was the largest segment across South & Central Asia in terms of market volume totaling US$45.5 million or almost 37% of market share in 2016. The second largest model by total volume was peer-to-peer consumer lending, which reported US$42.52 million in loans or 34% of total volume in 2016, and increased activity from 2013-2015, in which a collective total of US$26.73 million was documented. Both equity- and donation-based crowdfunding accounted for just under 15% each of total market volume last year, with slightly over US$15 million raised for both models. Peer-to-peer business lending and reward-based crowdfunding accounted for the smallest proportions of alternative finance activity in the region last year, accounting for less than 2% each of total regional market volume - US$2.42 million and US$1.66 million respectively.
Figure 60: Total Market Volume by Model in South & Central Asia 2013-2016 ($US Million)

- **Balance Sheet Business Lending**: $45.50m
- **Peer-to-Peer (Marketplace) Consumer Lending**: $42.52m
  - 2013: $321m, 2014: $473m, 2015: $18.79m
- **Equity-based Crowdfunding**: $18.50m
  - 2013: $0.40m, 2014: $6.25m, 2015: $17.22m
- **Donation-based Crowdfunding**: $15.13m
  - 2013: $0.01m
- **Peer-to-Peer (Marketplace) Business Lending**: $1.71m
  - 2013: $0.88m, 2014: $0.75m, 2015: $1.66m
- **Reward-based Crowdfunding**: $4.22m
  - 2013: $0.99m, 2014: $0.39m, 2015: $0.63m
India held the largest proportion of recorded alternative finance activity in South & Central Asia, with a total of over US$124 million raised in 2016. In 2013 and 2014, respective totals of just over US$5 million and US$12 million were raised within the nation, equating to a 137% growth over these two years. Akin to the trends emerging across the Asia-Pacific, growth in the periods of 2014-2015 and 2015-2016 increased substantially by 230% and over 211% respectively, equating to totals of almost US$40 million and around US$124 million in 2015 and 2016 respectively. Therefore, across the four-year period of 2013-2016, there was an average annual growth rate of almost 193% across India.

The majority of activity in India on 2016 was in balance sheet business lending, with over US$45 million raised. Peer-to-peer consumer lending followed in close second, with a market share of 34%, equating to US$42.52 million. Equity-based and donation-based crowdfunding accounted for around 15% of total alternative finance market volume each, with a total amount of US$32.3 million raised. Peer-to-peer business lending and reward-based crowdfunding accounted for only US$2.4 million and US$1.5 million respectively. With the exception of equity-based and reward-based crowdfunding, which both experienced very slight reductions in 2016, each model exceeded the total amounts raised during 2013-2015 in India.
Figure 62: Total Market Volume by Model in India 2013-2016 ($US Million)

- **Balance Sheet Business Lending**: $45.50m
  - 2016: $18.50m
  - 2015: $17.22m
  - 2014: $15.05m
  - 2013: $0.63m
- **Peer-to-Peer (Marketplace)**
  - **Consumer Lending**: $42.52m
    - 2016: $18.79m
    - 2015: $18.50m
    - 2014: $6.25m
    - 2013: $0.40m
- **Equity-based Crowdfunding**: $4.73m
  - 2016: $18.50m
  - 2015: $17.22m
  - 2014: $0.09m
  - 2013: $0.63m
- **Donation-based Crowdfunding**: $0.39m
  - 2016: $0.99m
  - 2015: $2.42m
  - 2014: $0.85m
  - 2013: $0.71m
- **Peer-to-Peer (Marketplace)**
  - **Business Lending**: $0.63m
    - 2016: $0.99m
    - 2015: $2.42m
    - 2014: $0.85m
    - 2013: $0.71m
- **Reward-based Crowdfunding**: $0.85m
  - 2016: $1.64m
  - 2015: $1.45m
  - 2014: $0.71m
  - 2013: $0.39m
India’s Alternative Finance Regulatory Environment

India has made great efforts towards shifting towards a cashless economy demonstrated by the emphasis on the India Digital Stack that includes Aadhar, internet banking, eKYC and digital payments. These quite recent initiatives could provide the necessary pre-conditions for substantial innovation and widespread adoption of FinTech products and services such as the alternative finance models reviewed here while driving competition amongst the incumbent banking sector. Online lending and equity investment could stand to benefit from these changes something that has started to emerge over the course of 2016.

Peer-to-Peer Lending Regulation in India

Peer-to-peer lending began in India in 2012 and there are now a multitude of such online lending platforms. In April 2016, the RBI put out a consultation paper on P2P lending in India proposing these businesses acquire Non-Bank Financial Company (NBFC) status. This consultation gives a flavour of what to expect from the imminently implemented regulation of P2P lending in India which is expected to be issued in Q4 2017.

The consultation outlined requirements for platforms to assume the legal status of a cooperative society or company. Rules prohibit platforms from assuring investors returns and prevents cross-border transactions. The rules would also require peer-to-peer lending platforms to have a minimum of around $315,000 for prudential requirements while also detailing ‘fit and proper’ governance requirements for responsible persons at the platforms and associated promoters. Wind-down strategies must be in place to ensure a smooth transition in the event of business failure and customer data confidentiality must be guaranteed by platforms. Platforms are required to submit regular reports on their financial position, complaints and loan positions to the RBI with additional perhaps being required at a later date. The RBI is currently developing its implementation of P2P lending regulation to formalise the outputs from the ongoing consultation process.

Equity-based Crowdfunding

The Companies Act 2013 tightened fundraising rules for companies. Unless offers are made to a highly restricted circle of investors, they are treated as public offers and therefore required to conduct extensive disclosure and compliance obligations. In 2014, the Securities & Exchange Board of India demonstrated some interest in facilitating the development of equity crowdfunding in India with the issuance of a consultation paper which outlined a strategy for equity crowdfunding market development. Only ‘accredited investors’ were permitted to invest while institutional investors had to own at least 5% of issued shares. The maximum number of individual investors was 200 and only startups less than 2 years old are permitted to participate. Retail investors were restricted to investing between approximately US$320 and $1000. All of these stipulations suggest SEBI pushed towards a quite stringent consumer protection regime.

Since this consultation paper, equity-based crowdfunding has remained in a grey area awaiting further input from SEBI. In this period, a number of platforms emerged offering private placements and walking close to the line of what was perceivably permitted by SEBI. However, in late 2016, a number of equity-based crowdfunding platforms were issued a formal notice by SEBI stating these firms are neither authorized nor recognized under any law governing the securities market thereby contravening the Securities Contract Act and Companies Act. This has created a great deal of uncertainty for the equity crowdfunding industry in India.
7. See id. Article 2.
8. See id. Article 17.
9. See id. Article 17.
10. See id. Article 28.
11. For a detailed policy analysis of the public plus private double-track ECF system in Taiwan, see Tsai, Chang-hsien Tsai, Legal Transplantation or Legal Innovation? Equity Crowdfunding Regulation in Taiwan after Title III of the U.S. JOBS Act, 34 B.U. INTL L.J. 233, 269-74 (2016).
13. Law on Licensing of Mongolia (2001), Article 15 “Art. 15.1 The businesses set forth in this Article shall be conducted under license. … 15.3 In the area of financing other than banking: 15.3.1 non-banking activities; 15.3.2 commerce insurance; 15.3.3 professional participants of insurance; 15.3.4 depository and loan activities by an entity except banks; 15.3.5 activities related to the stock market …”
15. Consumer losses are estimated to have impacted on over 80,000 people and totaling more than $5 billion (or $4 billion after compensation and liquidator recoveries), ASIC 2017 Review of the financial system external dispute resolution framework, May, p. 1.
19. ASIC Strategic Plan 2015-16 to 2018-19, p.2
27. BOI Announcement No. Sor. 1/2559 Re: Additional Amendments of Eligible Activities for Investment Promotion in accordance with the BOI Announcement No. 2/2557, http://www.boi.go.th/upload/content/Announcement_Sor1-2559_90752.pdf


30. Section 9. The commercial banking business, finance business or credit foncier business may be undertaken only by a juristic person in the type of public limited company and upon having obtained a license from the Minister by the advice of the Bank of Thailand. In granting such license, the Minister may prescribe rules as deemed appropriate.

31. There are the following three regulations regarding the Nano finance business:
   (1) Notification of Ministry of Finance regarding type of business in accordance with section 5 of the Declaration of the Revolutionary Council (No. 58);
   (2) Notification of Ministry of Finance regarding the financial institution and applicable interest rate (No.13) 2015; and
   (3) Notification of the Bank of Thailand SorNorChor 1/2015 regarding rule procedures and conditions for operating “Nano-finance” business for non-bank institution.


34. Kazakhstan FinTech Association http://kazfintech.kz/