Cambridge Centre for Alternative Finance

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2017 THE AMERICAS ALTERNATIVE FINANCE INDUSTRY REPORT

Hitting Stride

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FinTech is an important and evolving field where Chicago Booth and the University of Chicago see both incredible opportunity and huge challenges in the coming years. While Chicago Booth and the University of Chicago have been leaders in Finance for decades, we believe that continued thought leadership, focused programming, and entrepreneurial support will be necessary in the coming years to help our students, alumni, and larger communities to realize the potential for innovation inherent in this wave of technology and restructuring.

The 2017 Americas Alternative Finance Industry Survey is one result of our expanded thought leadership in FinTech. Alternative finance is a critical component of FinTech, more generally, and given the rapid pace of change that it is undergoing, we are pleased to continue our partnership with the Cambridge Centre on Alternative Finance on the current year's report.

In terms of entrepreneurial support, the Polsky Center and Chicago Booth continue to see very high demand from potential FinTech startup teams. For the first time during 2016-17, the Polsky Center with support from its FinTech Advisory Council, has been able to add focused programming to reach potential FinTech entrepreneurs, incubate new teams, and work towards serving the specific needs of FinTech entrepreneurs. Approaching this new vertical utilizing the many existing strengths amongst our alumni community, take 2007 New Venture Challenge Winner, Braintree, as but one example, we look forward to deepening out FinTech entrepreneurial impact in the coming years.

More broadly, Chicago continues to deepen its place as a center for FinTech excellence, and we continue to support these efforts. Through leadership of partners like the CME Group, Chicago is already a major hub for global Finance, and we must continue to come together as a city around these topics.

Raghavendra Rau
Sir Evelyn de Rothschild Professor of Finance

Director of Research, Cambridge Centre for Alternative Finance

Cambridge Centre for Alternative Finance
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This report continues our annual research collaboration between the Cambridge Centre for Alternative Finance and the University of Chicago Booth School of Business, in analysing online alternative finance activity across the Americas.

Over the last few years, the Cambridge Centre for Alternative Finance has released benchmarking reports for every region in the world, including the UK, Europe, Africa, and the Asia Pacific regions. The Americas report is an integral part of this effort and allows us to chart the development of this rapidly-evolving industry across the globe.

The research team collected data from more than 273 country-specific online platforms in the Americas, taking the total number of platforms which participated in our studies to more than 1,400 around the world. The United States is one of the world's most advanced markets for technology-enabled online alternative finance channels and instruments. Continued innovation, coupled with growing demand from consumers, businesses and institutional investors, led to a sustained increase in the total US volume to $34.5 billion in 2016, a 22% increase from the previous year. Our subtitle for the *2017 Americas Alternative Finance Industry Report – Hitting a Stride* – attests to outcomes produced by this innovation. However, when compared to previous years, the yearly growth rate of the US alternative finance market has slowed considerably. While it may be premature to attribute this to a maturity of the market, the decreasing rate of growth calls for continuing research effort in future years.

Our ongoing partnership with the University of Chicago augurs favourably for the continued documentation of trends in the alternative finance space in coming years.

David M. Wong
Senior Director,
Innovation &
Acceleration Lab
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CME Group

It is easy to get excited about innovations and change. However, there are some things that continue to hold firm. In markets, the ultimate arbiter of success has consistently been trust. The core pillars of trust in successful markets have historically been:

- Liquidity
- Transparency
- Efficiency
- Safety, fairness, and reliability

Fueled by advances in technology and shifts in generational values, peer-to-peer (P2P) market platforms have rapidly grown from "cute new kids" to "admired pop stars," with some leaping to "feared disruptors." Clearly the P2P evolution goes far beyond financial markets to transportation, lodging, electricity, gigs, etc. In doing so, P2P and other alternative markets are earning trust and business by leaning on new pillars, including:

- Simplicity in user interface and experience
- Accessibility
- Agility
- Purpose and soul

Although the traditional pillars of trust persist, we are clearly seeing a shift in the trust equation, especially when it comes to trusting peers. An interesting angle on this in the *2017 Edleman Trust Barometer* shows that people now view peers as having an equal level of credibility as experts. Whether P2P markets reach or exceed the size of the incumbent market platforms (a la Uber and Airbnb), or not, they are driving rapid innovation and new dimensions of competition across industries.

CME Group welcomes the important findings in this report and is confident that they will fuel our continued innovation to improve access to capital, mitigate risk, enhance livelihoods and advance the global economy.

Juan Antonio Ketterer
Division Chief, Capital Markets and Finance
The Inter-American Development Bank

FinTech platforms are besetting the way the financial industry offers products and services to consumers all around the world. These new business models, based on convergent technological developments are challenging the incumbents in the industry while generating new ways to create, deliver and capture value from consumers. Latin America and the Caribbean (LAC) are part of this transformation, and the FinTech industry has been growing strong across the region with more than 700 young enterprises and platforms currently delivering financial solutions. More than 25% of these ventures are alternative finance platforms, which are a response to the gaps and asymmetries that persist in the region for credit allocation, mainly to Micro, Small and Medium-sized Enterprises (MSMEs).

This second edition of *The Americas Alternative Finance Industry Report* confirms that the alternative finance market is growing strong in LAC, tripling the size estimated for 2015. The study shows how alternative finance is increasing in an uttermost relevant niche: business lending, accounting for 63% of the total origination volume for 2016. These and other useful data and analysis from this study bring out the relevance of these entrants to the financial system in the region and the magnitude of their disruption, attending to previously unbanked and underbanked economic agents.

Furthermore, a sign of the importance of this growth is the interest of regional policymakers and regulators on FinTech, and particularly on alternative finance. These public-sector actors are taking actions towards understanding the business models and the associated risks and are preparing proper responses to regulate it prudently and/or to promote the industry. The Inter-American Development Bank has supported Argentina, Chile, Mexico, Peru and Paraguay governments as they clear the path to create appropriate regulations, based on the awareness created by last year's study and an extensive dialogue with the industry.

The IDB supports this initiative with the intention to offer a deeper understanding of the industry in the region, complementing other studies also sponsored or created by the Bank, while offering policy makers and regulators first-hand information to regulate the industry without suppressing innovation.

RESEARCH PARTNERS AND PARTICIPATING PLATFORMS

We would like to acknowledge the generous support received from the following research partners

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EXECUTIVE SUMMARY

2016 will likely be remembered as a major transition year for the online alternative finance industry in the Americas. Entries of new platforms have slowed and many smaller platforms have exited. Competition, both internal and external, has increased with the easing of macroeconomic conditions in many developed countries across thae Americas. High profile incidents within certain segments of the market led to calls for a greater level of transparency within the industry with many platforms changing their operational practices and capital structures. Developments in regulation opened up both opportunities and challenges.

Against this backdrop, the 2017 Americas Alternative Finance Industry Report finds the industry "hit a stride" showing continued, steady growth in most segments of the market. An array of crowdfunding, marketplace/peer-to-peer (P2P) lending and other online alternative finance platforms have emerged that use technological innovations to change the way people, businesses and institutions access and invest money. Furthermore, businesses are turning to online alternative sources of funding at increasingly high numbers.

The 2017 Americas Alternative Finance Industry Report was produced jointly by the Polsky Center for Entrepreneurship and Innovation and Booth School of Business at the University of Chicago, and the Cambridge Centre for Alternative Finance at the University of Cambridge Judge Business School. Financial support was received from the CME Group Foundation and the Inter-American Development Bank. The 2017 Report expands on the inaugural 2016 report to chronicle and shed light on this diverse and dynamic industry. It is a part of a global suite of regional studies carried out by the Cambridge Centre for Alternative Finance at the University of Cambridge Judge Business School and its academic research partners.

Highlights of the 2017 Americas Alternative Finance Industry Report

Market Size and Growth

• The alternative finance market continued to grow across the United States (US), Canada and Latin America and the Caribbean (LAC) in 2016 to a total market volume of $35.2 billion. The 23% increase from last year was driven by growth across all regions and most market segments of the Americas.

• The US continues to be one of the world's top markets for advanced, technology-enabled, online alternative finance channels and instruments. The 2016 US market volume of $34.5 billion marked a 22% year-on-year increase from 2015.

• Rapid organic growth led LAC alternative finance markets to grow by 209% to $342.1 million in 2016. LAC, collectively as a regional market, surpassed Canada's national market in 2016, led by high volume markets in Mexico, Chile and Brazil.

•Canada's alternative finance market grew to $334.5 million, a 62% year-on-year increase from 2015.

Prevailing Online Alternative Finance Models

• Looking at the US, Marketplace/P2P Consumer Lending continued to account for the largest share of market volume with $21 billion recorded in the US in 2016 (up 17%). Balance Sheet Business Lending became the second largest model in the US in 2016 with $6 billion originated, surpassing Balance Sheet Consumer Lending which had $3 billion.

• For LAC, Marketplace/P2P Business Lending remained the largest alternative finance market segment with $188.5 million registered in 2016, an increasing of 239% over 2015.

• In Canada, Donation-based Crowdfunding remained the top alternative finance model with $105.9 million, but Balance Sheet Business Lending rose at a rate of 282% to $103.3 million in 2016.

Businesses Tapping Alternative Finance

• An estimated 218,188 businesses raised funds across the Americas from online alternative finance channels in 2016, led by the US (143,344), but with business users increasingly common in LAC (67,499).

• A total of $9.2 billion in alternative business funding was raised in 2016, which is distributed largely to the US ($8.8 billion) and to a lesser extent to LAC ($233.8 million), and Canada ($169.7 million) .

• The emerging RegCF-enabled platforms are a key component of Equity-based Crowdfunding in the US. However, with many not emerging until late 2016, Equity-based

Crowdfunding remained flat year-on-year and reached $569.5 million. Revenue-Sharing/Profit-Sharing Crowdfunding, also enabled by recent changes, emerged with $28.5 million in total funding to businesses.

- Over two-thirds (71%) of LAC online alternative business finance came from Chile ($97.1 million) and Mexico ($69.5 million). Chile led in debt-based finance ($92.9 million) and non-investment-based business finance ($2.8 million). Mexico led in equity-based business finance ($4.9 million).

Market Dynamics

- In 2016, approximately $19 billion, or 55% of the total US alternative finance volume, was provided by institutional investors, up in real terms from 2015 from $17.3 billion but down in relative contribution from 66%.
- The number of newly incorporated platforms continued to decrease in 2016.
- In LAC, 52% of surveyed platforms reported that they have introduced "significant new product or service" in 2016. In the US, 44% of surveyed platforms reported introduction of significant new products or services in 2016.

Regulation

- In the Americas, equity-based platforms are divided between those who view the existing regulations as excessive and too strict (36%) and those who regard current regulations as adequate and appropriate (36%).
- Most platforms on both the equity side (59%) and debt side (36%) seem to agree that the proposed national regulations of their respective jurisdictions are adequate and appropriate.
- State-level regulations in the US were perceived differently by debt-based and equity-based platforms. Fifty-one percent of debt-based platforms and 55% of equity-based platforms found existing state regulations to be adequate. However, accounts of excessive regulation rise from 18% in debt-based platforms to 41% in equity platforms at the state level.

Risks

- Self-reported risk perceptions of the alternative finance industry are surprisingly similar across markets in the Americas, with the largest reported risk being cyber-security breach. Seventy-six percent of platform operators believe there is medium to very high risk of cyber-security breach.
- The "collapse of one or more well-known platforms due to malpractice" ranked second highest in perceived risks to platforms, likely reflecting some of the repercussions of high-profile incidents within the industry in the last 12 months. Sixty-nine percent of platforms viewed this as a medium to very high risk.
- "Fraud' and "notable increase in default or business failure" were both regarded by 64% of surveyed platforms to be medium to very-high risk.

Looking at the market trends illustrated in this industry report, we see a fledgling industry that is growing up fast, and experiencing both pleasures and pains associated with adultescence. We hope this report will provide value to the industry and market data to inform evidence-based policymaking and regulations.

METHODOLOGY

The 2017 Americas Alternative Finance Industry Report covers the online alternative finance markets across the United States (US), Canada, and Latin America and the Caribbean (LAC). LAC includes Anguilla, Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Guam, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Uruguay, Venezuela and Virgin Islands. The 2016 Americas Alternative Finance Industry Report – Breaking New Ground was the first academic-driven, large-scale benchmarking study on online alternative finance markets for the region. This study is based primarily upon the 2017 Americas Alternative Finance Industry Survey, which served as the primary data collection-tool to inform the analysis of this report.

In the 2017 Americas Alternative Finance Industry Survey aggregate information about the fundraisers, funders, and platforms were collected primarily utilizing a standard online survey instrument.[1] In order to ensure continuity, a series of compulsory questions relating to total transaction volume, number of funders or fundraisers, etc., remained constant from the previous year, to allow for longitudinal analysis. Platforms were also presented with a series of 'optional' questions, which probed key research themes teased out in the previous year's research.

FinTech is a movement that has emerged as new technologies (usually Internet-enabled or large-scale computing) have been applied to the traditional Finance.

Over the course of four months, a research team based in Chicago and Cambridge invited qualified platforms across the Americas to respond to the survey. Qualified platforms included platforms headquartered 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 the project by identifying online alternative finance platforms within the region and promoting the survey.

The survey was hosted on a dedicated site accessible only to the principal investigators in Chicago and 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 complement to the survey. We then verified this data by matching it against platforms' self-published figures. Whenever necessary, the research team validated responses by reaching out directly to platforms for clarification or to acquire detailed data breakdowns in various geographies.

The 2017 Americas Alternative Finance Industry Survey and accompanying outreach materials, were translated and distributed in English, Spanish, and Portuguese. The research team communicated directly with surveyed online alternative finance platforms beginning in mid-January 2017 through April 2017, explaining the study's objectives, providing a copy of last year's report (http://bit.ly/AltFin16Report) and the questionnaire. Outreach was performed to 940 platforms in total. After breaking apart platforms at the country level and the addition of top-line web scraping information, a total of 273 country-specific platforms were analyzed.

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, data was encrypted and stored for retrieval exclusively for the use of this project and was accessible only to the research team.

[1] Survey instrument available by request.

Taxonomy of Alternative Finance in this study

FinTech is a movement that has emerged as new technologies (usually Internet-enabled or large-scale computing) have been applied to the traditional. This study looks inside one particular segment of FinTech – *online alternative finance.*

Indeed, the term alternative finance does not have a universally agreed upon definition. Investment bankers use alternative finance in the context of alternative investments, such as non-traditional asset classes, alternatives to stocks and bonds, or in reference to shadow banking activities like private placements of corporate debt funded by institutional investors instead of banks. Economists studying developing economies use it to describe the sources of financing and payment channels that emerge to address the needs of individuals and businesses in economies lacking a functioning banking system.

There exists a collective grouping of individual investors, that pool their financial resources to fund businesses, individuals and projects through small investments.

This report analyses a subset of the larger alternative finance market, specifically the *technology-enabled online channels or platforms 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 or 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.

Included

Technology-enabled online platforms (or channels) that act as intermediaries in the demand and supply of funding to individuals and businesses outside of the traditional banking system.

Excluded

Platforms that facilitate payments, cross-border remittances or foreign exchange transactions outside of the banking system.

Platforms which function as an aggregator or as an information-only 'bulletin board,' providing information about traditional or alternative finanace providers.

A key characteristic of the online alternative finance channels we are reviewing is the principle that there exists a collective grouping of individual investors, commonly referred to as a "crowd" or "peers," that pool their financial resources to fund businesses, individuals and projects through small investments. Starting from this base, the online channels we are observing can be broken down by specific types of models to describe how platform-operators function.

This study has adopted a platform-focused model-based taxonomy for online alternative finance that is derived from previous benchmarking studies developed by the Cambridge Centre for Alternative Finance at the University of Cambridge Judge Business School and its research partners[2] over the course of four years. Alternative finance is consistently evolving, and as a result, the working taxonomy has also evolved to include new models or refine definitions of existing model-types. By utilizing a taxonomy that is comparable to other regional studies, researchers will be able to compare and track the online alternative finance landscape at a global scale.

[2] (Zhang, B.Z., Wardrop, B., Rau, R. and Gray, M. 2015) Moving Mainstream: The European Alternative Finance Benchmarking Report (University of Cambridge and EY), http://www.jbs.cam.ac.uk/index.php?id=6481#.VghidvmqpBc

Figure 1: A Taxonomy of Alternative Finance Models

	Alternative Finance Model	Definition
Investment-based Models	Marketplace/P2P Consumer Lending	Individuals or institutional funders provide a loan to a consumer borrower.
	Balance Sheet Consumer Lending	The platform entity provides a loan directly to a consumer borrower.
	Marketplace/P2P Business Lending	Individuals or institutional funders provide a loan to a business borrower.
	Balance Sheet Business Lending	The platform entity provides a loan directly to a business borrower.
	Marketplace/P2P Property Lending	Individuals or institutional funders provide a loan secured against a property to a consumer or business borrower.
	Real Estate Crowdfunding	Individuals or institutional funders provide equity or subordinated-debt financing for real estate.
	Equity-based Crowdfunding	Individuals or institutional funders purchase equity issued by a company.
	Other	We include two additional categories, which are not presented individually due to small sample size. They are Revenue-sharing/Profit-Sharing[3], and Debt-based Securities/Debentures.[4]
Non-investment-based models	Reward-based Crowdfunding	Backers provide funding to individuals, projects or companies in exchange for non-monetary rewards or products.
	Donation-based Crowdfunding	Donors provide funding to individuals, projects or companies based on philanthropic or civic motivations with no expectation of monetary or material return.

[3] Individuals or institutions purchase securities from a company, such as shares or bonds, and share in the profits or royalties of the business.
[4] Individuals or institutional funders purchase debt-based securities, typically a bond or debenture, at a fixed interest rate. Unsecured retail bonds, in the form of mini-bonds, are included in this sample.

Broadly speaking, this taxonomy consists of two over-arching categories: non-investment-based models (Reward-based Crowdfunding and Donation-based Crowdfunding) and investment-based models (such as Equity-based Crowdfunding and Marketplace/P2P Lending models) as illustrated in Table 1. For each of these models, the platform functions as an intermediary between a cohort of funders and a fundraiser, facilitating the transfer of funds between the two. In the case of the non-investment-based models, the flow of finance is a one-way street, where there is no expectation of financial gain for the funder. The two models which encapsulate this category is that of Reward-based Crowdfunding and that of Donation-based Crowdfunding. Often referred to as the 'orthodox' crowdfunding model, these two model-types drive significant volume across the Americas but do not often offer much in the way of innovation in capital formation with respect to the evolution of the alternative finance landscape.

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. Across the Americas, the proliferation of investment-based models has led to varied development, with some models resonating more prominently in some jurisdictions than the others. These investment-based models can be segmented into debt-based or equity-based transactions. Equity-based models can be segmented into either Equity-based Crowdfunding or Real Estate Crowdfunding. As defined in the table above, these two models allow for investors (be it individual[5] or institutional investors) to purchase equity or subordinated debt products from an issuer, typically a business. The security on offer is characterized by its non-readily realizable nature, and therefore is viewed as a long-term investment.

Marketplace/P2P Lending is a general description of financing provided by way of a loan, regardless of whether the lender is an individual or an institutional investor. Platforms can employ different intermediation models. However, for funding loans, some platforms act solely as intermediaries between borrowers and lenders, in a role that is more akin to asset management than banking, with a business model that avoids taking on credit risk related to lending and relies on transaction fees paid by the investors/lenders. These platforms typically screen and analyze the creditworthiness of loan applications, assign credit ratings to loans, and can allocate loan investments to the portfolios of individual and institutional investors on their platform. Peer-to-Peer (P2P) lending is a sub-segment of marketplace lending that is more akin to asset management, and refers to the funding of loans to individual or small businesses by individuals – the "peers." Most lending platforms in the US market promote the term "marketplace lending," instead of P2P. To describe their industry as the participation of "peers" in the lending activity in the US market has not been as common, given the high level of institutional funding in this model.

In contrast to the Marketplace/P2P Lending described above, balance sheet lenders directly fund the loans originated on their platforms and therefore assume the credit risk associated with these loans. They operate with an intermediation model that is more akin to bank lending, by financing loans with equity and debt on their balance sheet and, like banks, periodically refinancing by securitizing pools of the loans they have funded. Unlike regulated bank lenders, however, these balance sheet lenders do not have access to deposits to facilitate their lending activity.

[5] In the United States, individual investors are categorized as either Accredited or Un-accredited investors. Accredited investors are typically defined as those with a net worth of more than $1 million or who have earned more than $200,000 consistently for the last three years.

MAIN FINDINGS

Online alternative finance, particularly in North America, has entered the mainstream, attracting growing numbers of consumers, entrepreneurial start-ups, established small businesses and institutional investors. Not surprisingly, alternative finance has also drawn the attention of industries, governments and academics who are studying everything from platform formation to appropriate regulatory frameworks, from short-term risks to the long-term impact on regional and global economies.

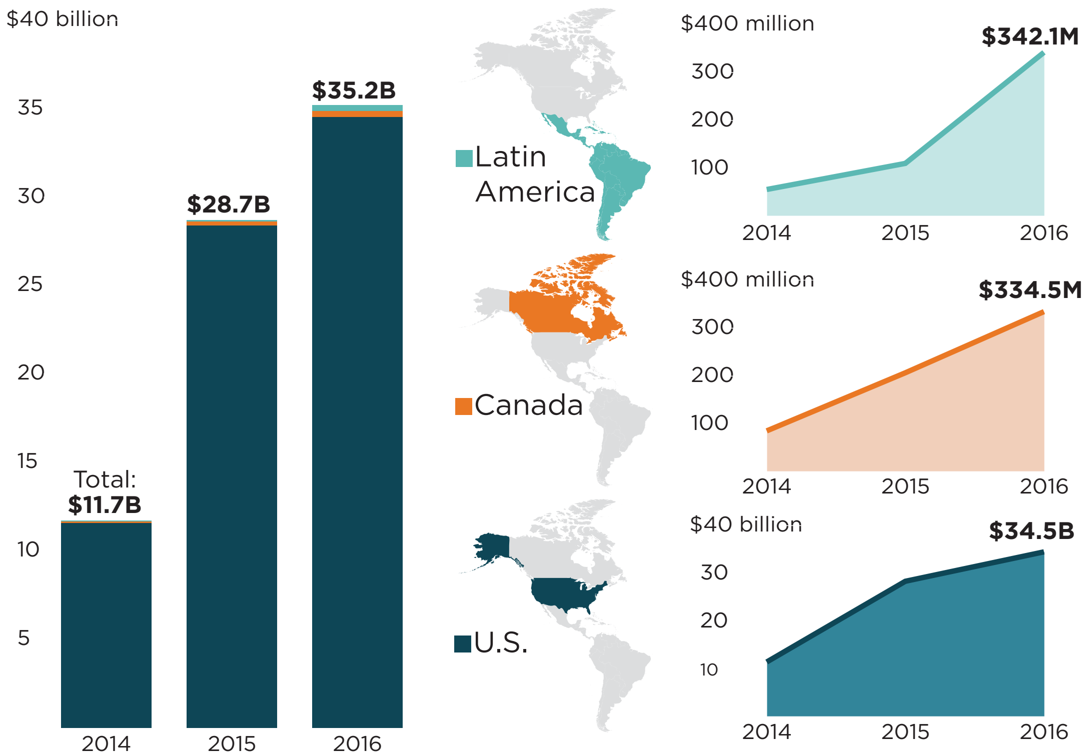
As this new industry evolves, stakeholders have a need for independent, systematic and reliable data on the size, growth and diversity of the various online alternative finance markets around the world. Insights from this research will help inform policy makers, brief regulators, update the media and educate the public.

The 2017 Americas Alternative Finance Industry Report aims to track the growth and development of key alternative finance markets in the Americas, to identify emerging trends and to analyze the market dynamics of specific alternative finance models in the region.

THE SIZE AND GROWTH OF THE ONLINE ALTERNATIVE FINANCE MARKET ACROSS THE AMERICAS

In 2016, the online alternative finance market continued to grow across the Americas. The overall regional market volume increased by 23% from the $28.7 billion in 2015 to $35.2 billion in 2016.[6] Over the last three years (2014-2016), the total online alternative finance transaction volume reached $75.6 billion.

Figure 2: Americas Alternative Finance Total Volume, 2014-2016 ($USD)



United States
The United States (US) is one of the world's most advanced markets for technology-enabled online alternative finance channels and instruments. Continued innovation, coupled with growing demand from consumers, businesses and institutional investors, led to a sustained increase in the total US volume to $34.5 billion.[6] This represented a 22% increase from 2015. Despite this year-on-year increase, when compared to previous years, the yearly growth rate of the US alternative finance market has slowed-down considerably. In contrast, the US experienced triple digit rates of growth in previous years.

The US is responsible for 98% of all online alternative finance activity in the Americas. As a result, this report highlights key findings from the US separately from the rest of the region, wherever possible.

Canada
In Canada's online alternative finance market, transaction volume facilitated by the online alternative finance platforms grew to $334.5 million, a 62% increase from 2015's $207 million. Canada's economy continues to be served by a traditional banking system dominated by five large banks, all of which have a reputation for being relatively cautious lenders. Demand from entrepreneurs, small businesses and underbanked consumers is fueling the growth of alternative finance.[7] Despite being the world's 10th largest economy, the Canadian online alternative finance market is much smaller than the US market based on total alternative finance volume.

Latin America and the Caribbean
The online alternative finance industry in Latin America and the Caribbean (LAC) has expanded rapidly in a relatively short period of time. The industry's growing popularity in LAC can be attributed to limited access to credit for many consumers and small businesses from the incumbent banking system.

From 2015 to 2016, the LAC market experienced a growth of 209%, the largest recorded to-date. In comparison, between 2014 and 2015, the industry in the region grew 97%. The total transaction volume in 2016 was $342.1 million, a significant increase compared to the $110.6 million in 2015 and the $56.2 million in 2014.

In LAC, the alternative finance marketplace is largely focused on small business financing. Of the $342.1 million 2016 total, more than $230 million came from the alternative finance industry sectors dedicated to business finance.

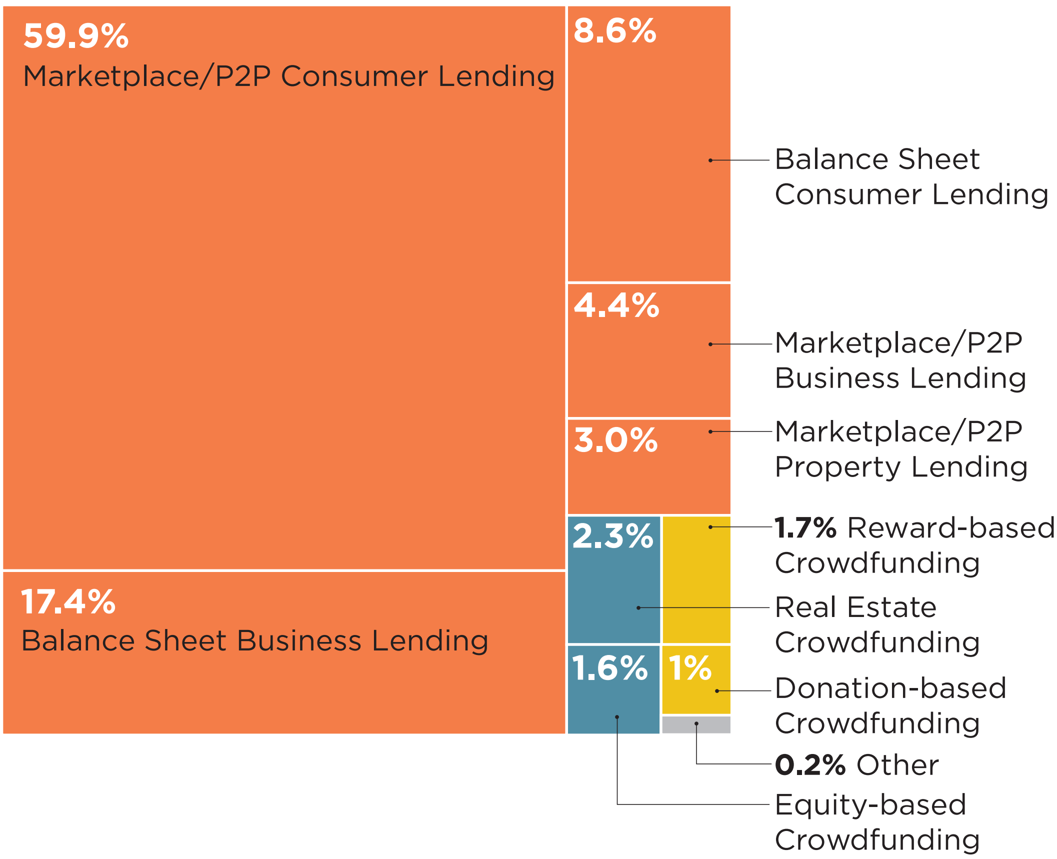
With many new platforms entering the market and better survey response, several countries within LAC had levels of online alternative finance volume this year that were diversified enough to allow detailed country-level analysis – Mexico, Chile, Brazil, Colombia, Argentina and Peru.

[6] The 2015 United States total estimated volume has been adjusted from $36.2 billion (as originally published last year) to $28.4 billion. This revision stems from a re-calculation of the total volume for two models – Marketplace/P2P Consumer Lending and Marketplace/P2P Business Lending. The research team was able to re-verify platform self-reported market volume utilized in the calculation of the 2015 figure and noted an unintentional over-estimation of approximately $7.7 billion. In the 2016 Americas Alternative Finance Industry Survey, platforms estimated 2015 Q4 volumes, as the survey was conducted during the 2015 calendar year. The current year collection was adjusted to occur after the close of the previous calendar year and to incorporate full-year actual results. Additionally, third party verification of reported statistics was increased. As a result, the revised 2015 estimates presented in this report reflect corrected data based on publicly-available, final end-of-year volumes to more accurately capture the United States market.
[7] http://business.financialpost.com/entrepreneur/alternative-lending-bubbles-up-into-canadian-mainstream-and-gains-tration-among-entrepreneurs

THE AMERICAS ONLINE ALTERNATIVE FINANCE MARKET BY MODEL

At the end of 2016, the Americas alternative finance industry continues to be dominated from a volume perspective by Marketplace/P2P Consumer Lending (59.9%); however, the prevalence of this model shouldn't mask the overall diversity and dynamism of the market.

Figure 3: Americas Alternative Finance Market Share by Model, 2016



Market Volumes by Online Alternative Finance Model
The following section details the market volumes attributed to various online alternative finance models in the Americas.

MARKETPLACE/P2P CONSUMER LENDING:
In 2016, Marketplace/P2P Consumer Lending reached $21.1 billion, up 17% from the $18.0 billion in 2015. This model accounted for 59.9% of the total alternative finance market volume in 2016 in the Americas.[8]

BALANCE SHEET CONSUMER LENDING:
In 2016, Balance Sheet Consumer Lending accounted for $3.0 billion, down 2% from the $3.1 billion in 2015. The model accounted for 8.6% of the total market in 2016.

MARKETPLACE/P2P BUSINESS LENDING:
In 2016, Marketplace/P2P Business Lending registered $1.5 billion, down a considerable 42% on a year-to-year basis from the $2.7 billion in 2015. Overall, this model accounted for 4.4% of the total alternative finance volume in 2016 in the Americas.

BALANCE SHEET BUSINESS LENDING:
Balance Sheet Business Lending accounted for $6.1 billion, up 169% compared to $2.3 billion in 2015. Over the past three years, this model grew at an average annual rate of 136%. Overall, it accounted for 17.4% of the market in 2016.

MARKETPLACE/P2P PROPERTY LENDING:
This model was responsible for $1.1 billion in 2016, up 34% from $782.6 million in 2015. Over the three-year period, this model has grown by an annual average of 257%. Marketplace/P2P Real Estate Lending accounted for 3% of the total market in 2016.

EQUITY-BASED CROWDFUNDING:
Equity-based Crowdfunding accounted for $569.5 million in 2016, down 5% from $598.1 million in 2015. It represented 1.6% of the entire Americas market.

REAL ESTATE CROWDFUNDING:
Real Estate Crowdfunding increased by 70% to $821.0 million in 2016 from the $483.8 million in 2015. Over the three-year period, this model saw an average annual growth rate of 160%. It accounted for 2.3% of the total market in 2016.

REWARD-BASED CROWDFUNDING:
Reward-based Crowdfunding declined to $596 million in 2016 from the $658.4 million recorded in 2015. Overall, it accounted for 1.7% of the total volume in 2016.

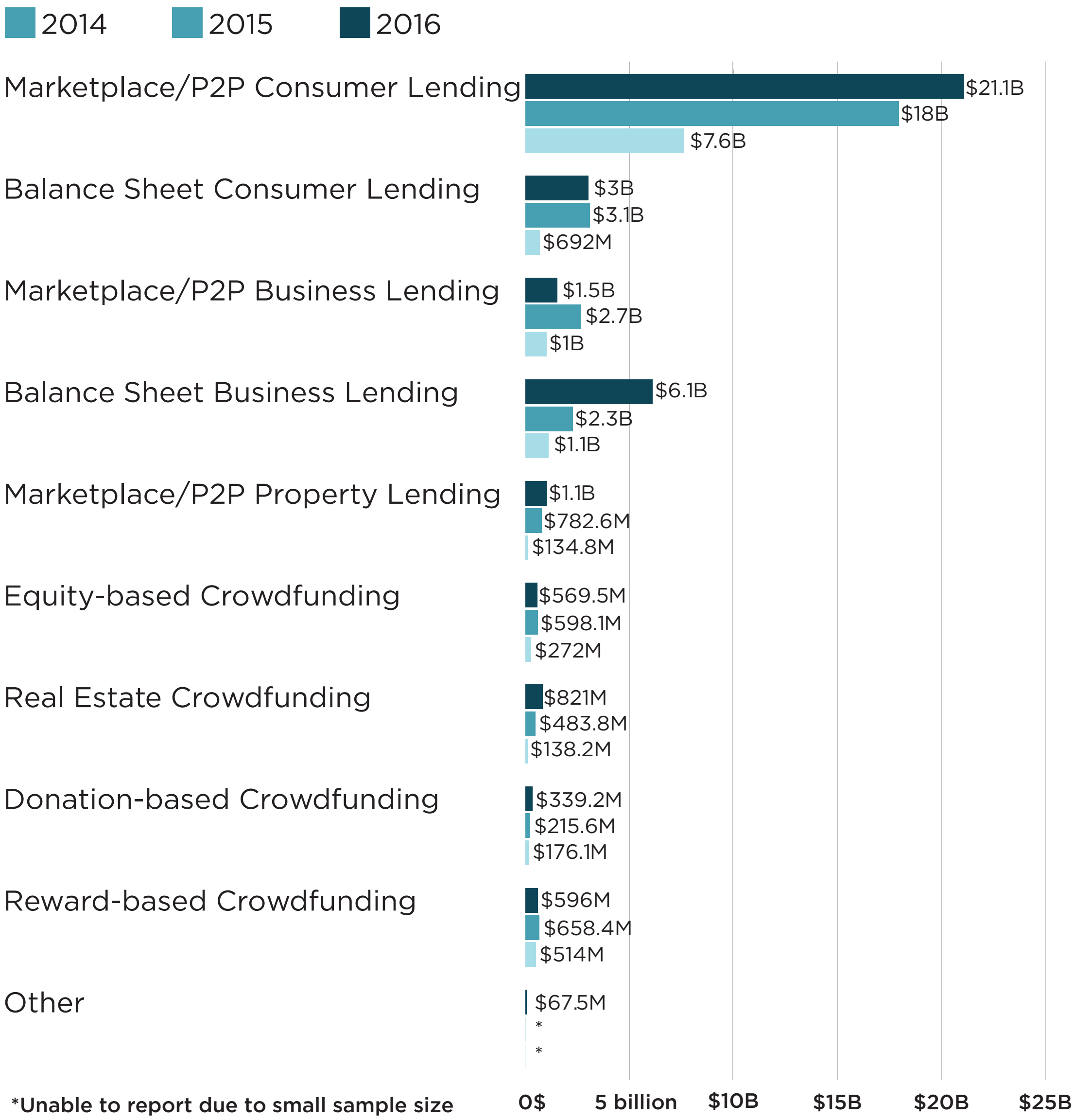
DONATION-BASED CROWDFUNDING:
This model saw a 57% increase to $339.2 million in 2016 from $215.6 million in 2015. Donation-based Crowdfunding has seen an annual growth rate of 40% over the past three years. It represented 1% of the total market.

OTHER: We also recorded a total volume of $67 million dollars raised through other alternative finance models, specifically Revenue-sharing/Profit-sharing Crowdfunding, and Debt-based Securitites/Debentures.

[8] It should be noted, the research team has amended the estimated 2015 total volume for the Marketplace/P2P Consumer Lending model. In the previous year's report, we estimated that Marketplace/P2P Consumer Lending was $25.7 billion. We have now revised this figure to $18 billion. This $7.7 billion reduction stems primarily from a change in our methodology, where the research team no longer collects estimate volume values for the final quarter of the preceding year. As such, the research team was able to re-verify 2015 Q4 figures to more accurately reflect the true size of this model in the United States.

Within the Americas, the overall market grew by 23% in 2016 to $35.2 billion. Marketplace/P2P Consumer Lending continued to be the dominant model, but experienced considerable annual growth rate decline (17%), especially when compared to the triple digit annual growth of 2015 (135%). This model accounted for $21.1 billion of the total Americas volume. Balance Sheet Business Lending emerged as the second highest volume-generating model in the region, with $6.1 billion in 2016, surpassing Balance Sheet Consumer Lending and other forms of business financing region-wide. Marketplace/P2P Business Lending fell almost a billion dollars in the last year, and Real Estate Crowdfunding increased to $821 million. Most other models grew modestly or declined slightly.

Figure 4: Americas Alternative Finance Total Volume by Model, 2014-2016 ($USD)

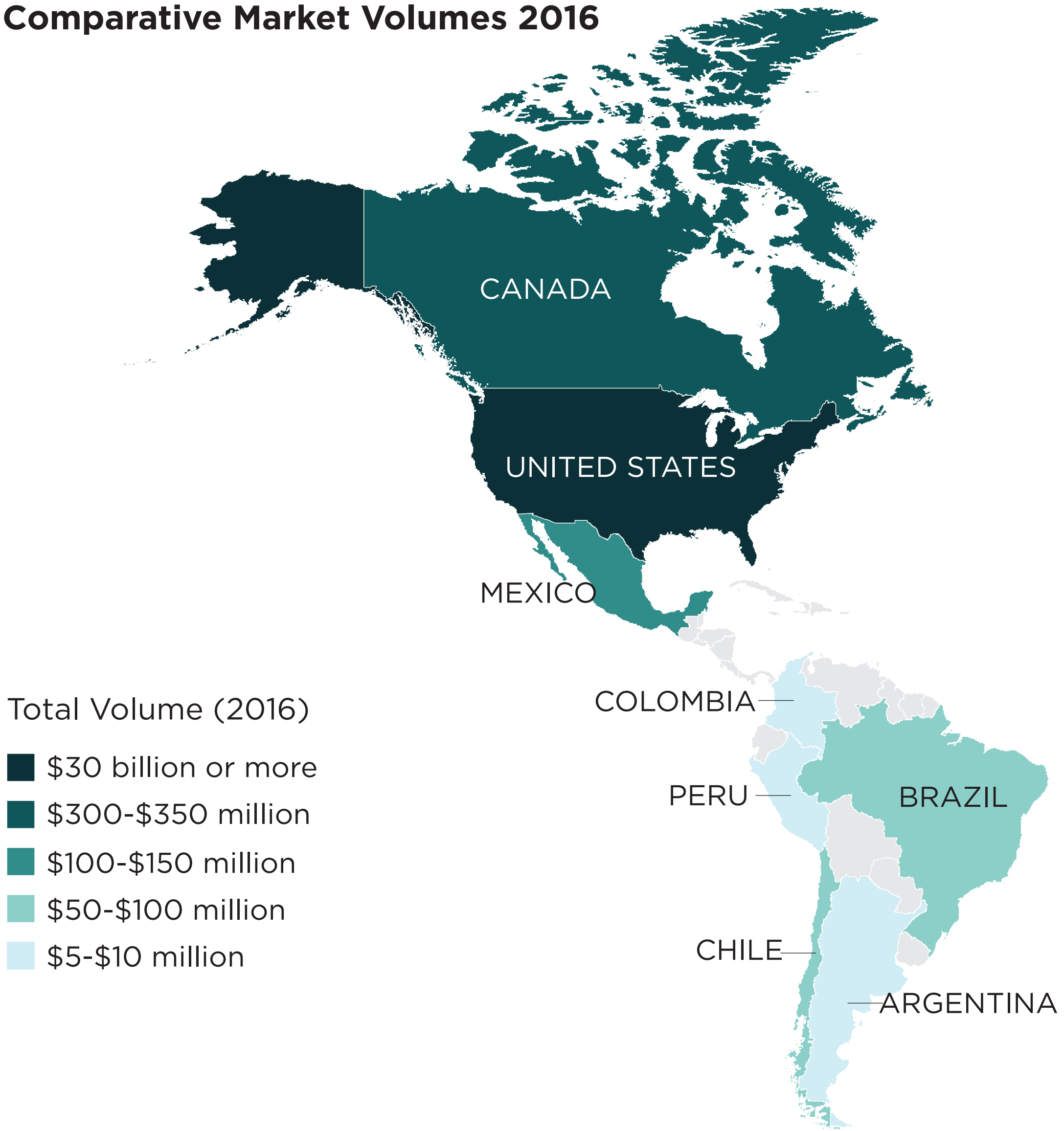


*Unable to report due to small sample size

THE GEOGRAPHY OF ONLINE ALTERNATIVE FINANCE IN THE AMERICAS

While the online alternative finance market continues to expand across the Americas, the United States (US) remains the largest contributor in terms of annual volume, product innovation, model diversity, institutional participation and the number of active alternative finance platforms. In 2016, the US accounted for 98% of total market volume across the Americas. Within Latin American and the Caribbean (LAC), Mexico was responsible for 33% of the total regional volume, Chile for 29%, and Brazil for 19%.

Figure 5: Americas Alternative Finance Comparative Market Volumes 2016

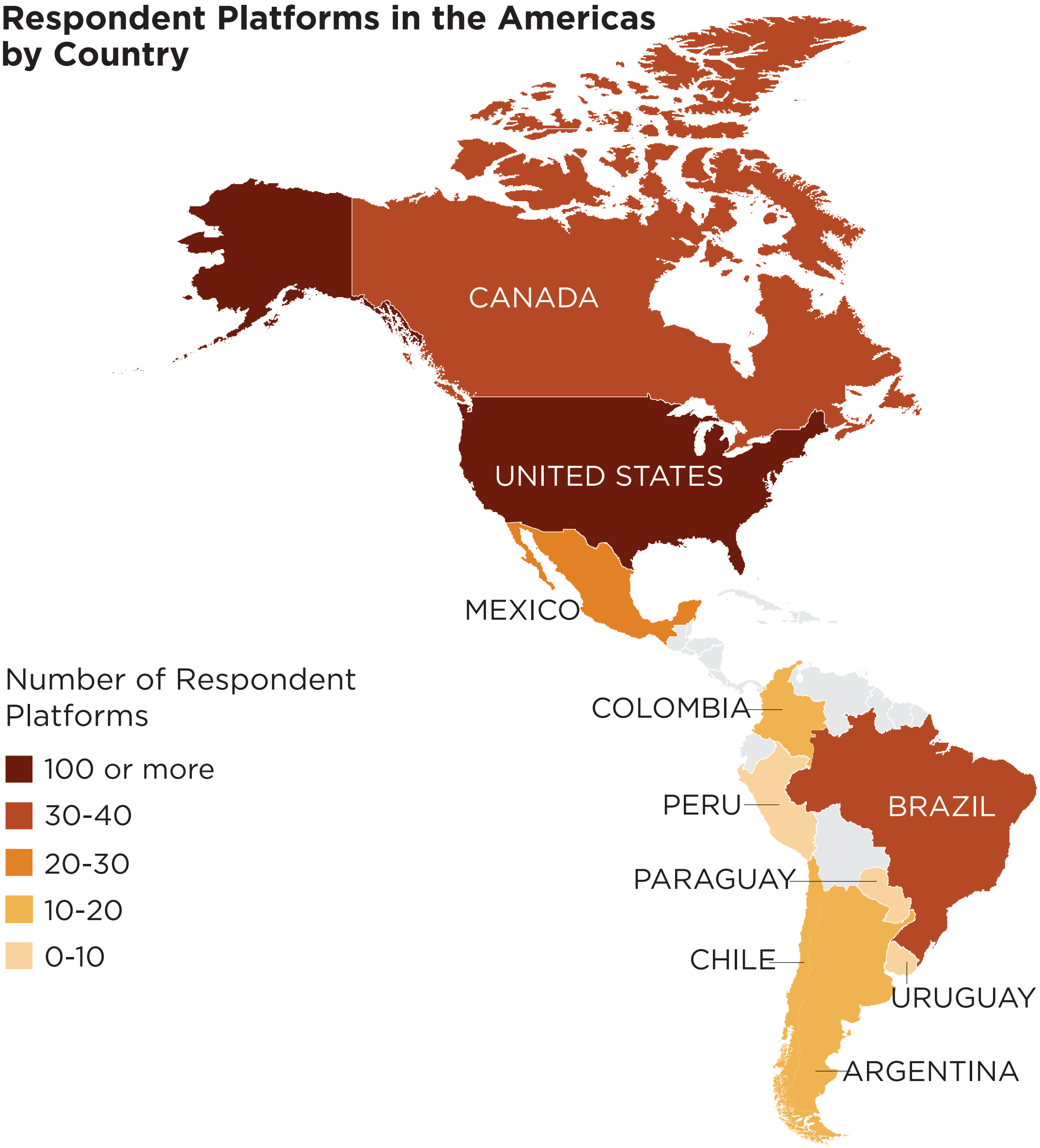


Although a majority of transaction volume occurs in the US, we find that there are significant volumes from Canada ($334.5 million), Mexico ($114.2 million), Chile ($97.8 million), Brazil ($64.4 million) and Argentina ($12.6 million). Compared to last year, all of these countries increased their annual market volumes. Most notably, Mexico surpassed both Chile and Brazil in 2016.

Many factors might also contribute to the success of specific alternative finance markets. These include differential levels of GDP, strong adoption of online/mobile banking, an investment climate that funds and supports technological advancement, a culture of innovation in the financial services sector, pent-up demand from unbanked and underbanked consumers and businesses and a generally supportive political and regulatory environment.

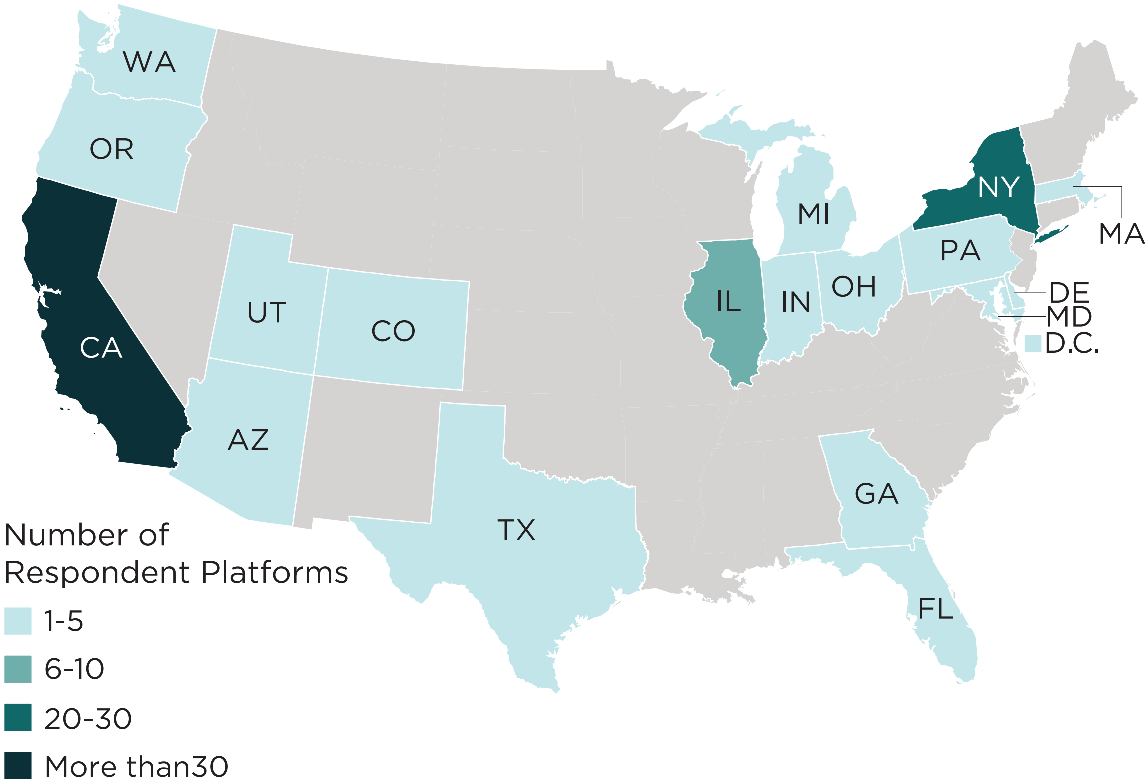
In terms of total respondents to the 2017 Americas Alternative Finance Industry Survey, 46% were from the US, 8% from Canada and 46% from LAC. Within LAC, we had the most representation from Mexico with 30% of respondents in the region and the second most from Brazil with 22%. This was followed by 15% from Colombia.

Figure 6: Geographical Distribution of Respondent Platforms in the Americas by Country



Within the US, platforms tend to concentrate on the East and West coasts of the country. California and New York have the highest concentration of platform headquarters, with the rest of platforms distributed across the country.

Figure 7: Geographical Distribution of Respondent Platforms in the United States



THE DYNAMICS OF THE ALTERNATIVE FINANCE MARKET IN THE AMERICAS

The alternative finance industry continued to evolve at a fast-pace in 2016. In this section, evidence of evolution is presented from direct survey responses, qualitative interviews completed with platforms that ceased operations in the last year, and metadata gleaned from the execution of the 2017 Americas Alternative Finance Industry Survey.

Additionally, as this industry hits its stride and begins to mature, boundaries that were once mostly clear between alternative finance, at least by our existing definitions, and traditional banking, have blurred in the last year. Some platforms have ceased operations and transitioned to being back-end technical intermediaries for the industry or traditional banking operations. And indeed, many large platforms, such as Avant and Enova,[9] have recognized the business opportunities available in leveraging their technical expertise with traditional banks to service back-end loan operations.

Entry of Platforms

The number of platforms that have newly incorporated continued to decrease in 2016, following a peak across the Americas in 2013. Looking at the population of platforms that have completed the Americas Alternative Finance Industry Survey in the last two years, we are able to see that incorporations peaked first in the United States (US) in 2013, but continued to grow in Canada through 2014 and Latin America and Caribbean (LAC) through 2015.

Turning from incorporation to the year in which platforms began trading, we see an overall peak across the Americas in first trading in 2015. The number of newly trading platforms fell by half in 2016 across the region. First trading in the US plateaued and then peaked in 2014 and 2015, while LAC and Canada have steeper peaks in 2015.

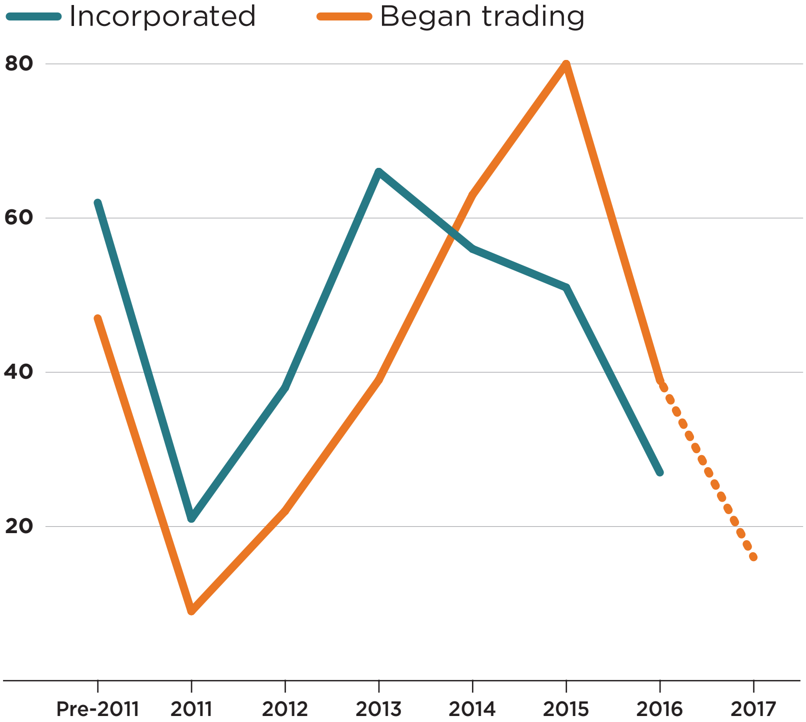
These trends may be indicative of the evolving marketplace conditions and regulatory developments in the Americas during the last few years. Globally, venture capital dollars raised by alternative finance companies peaked in 2015 and retreated significantly in 2016.[10] While the industry continues to grow at a rapid pace by many standards, market consolidation and the ability of incumbents to scale may be limiting opportunities for some new entrants.

Changes to the Core Business or Products

When asked explicitly if they had changed their core business, we found that in the US most responding platforms indicated no significant changes to their model in 2016 (43%), followed by 32% of the platforms saying they slightly altered their business model. When we asked about new products or services, among responding platforms, 44% indicated that they had introduced significantly new products or services. In Canada, 54% of responding businesses had slightly altered their model.

Similarly, for LAC, 38% of the platforms said that they slightly altered their model. For new products and services, LAC came in higher, with 52% of responding platforms having introduced significantly new products or services in the last year and the remaining 39% percent indicating introduction of at least a slightly altered product or service.

Figure 8: Americas Alternative Finance Platforms Year Incorporated vs. Year Trading



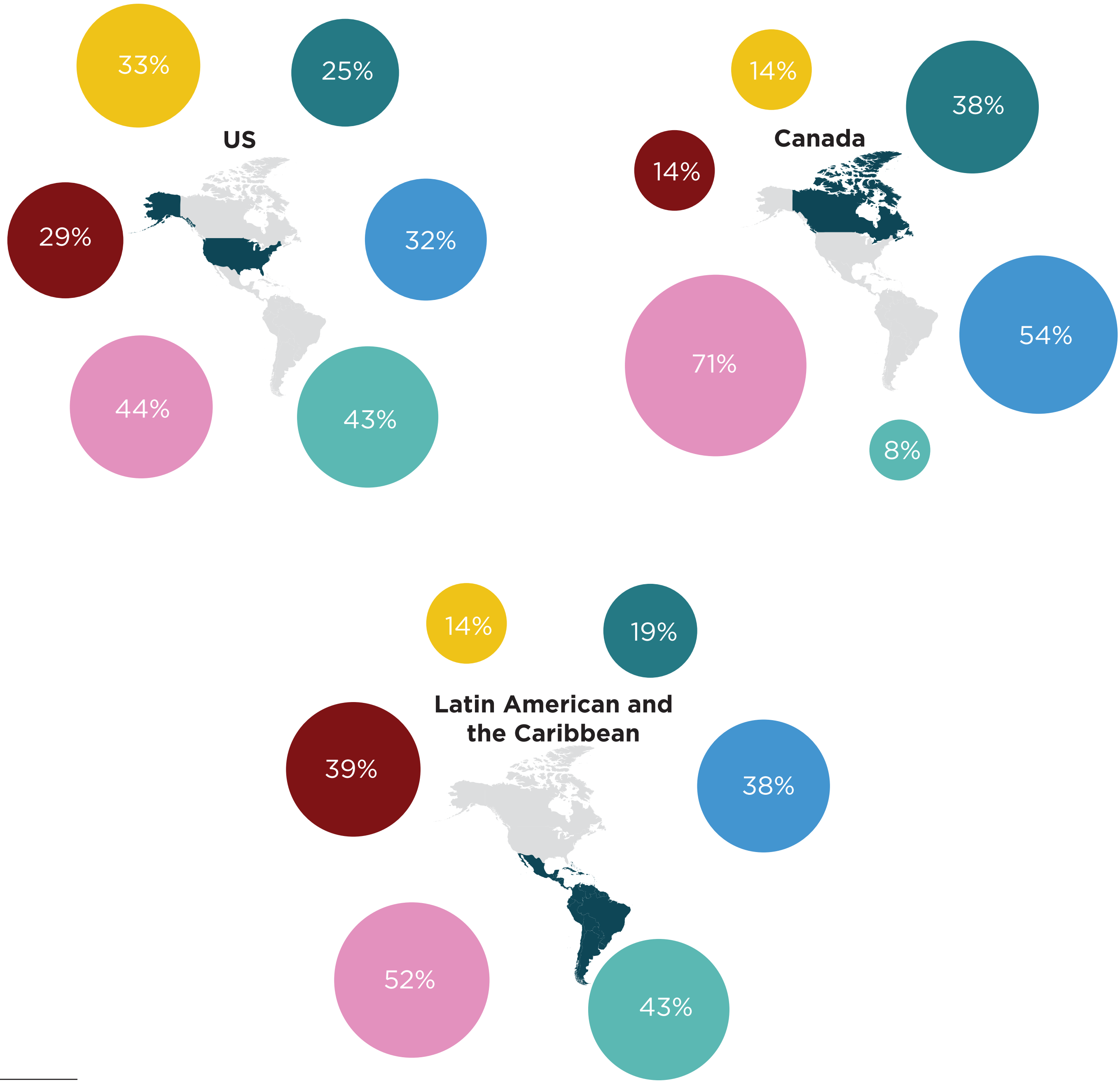
[9] Comments made at New Developments in Consumer Finance: Research & Practice, Evanston, IL, April 27-28, 2017.
[10] https://www.cbinsights.com/blog/alternative-lending-FinTech-funding/

Figure 9: Americas Alternative Finance Platform Changes to Business Model

Responses:
- We significantly altered our business model in 2016.
- We slightly altered our business model in 2016.
- We made no significant changes to our business model in 2016.

Americas Alternative Finance Platform Changes to Products

Responses:
- We introduced significantly new products in 2016.
- We slightly altered products in 2016.
- We made no significant changes to our products in 2016.



Churn in the Industry
In the past couple of years, the alternative finance industry has undergone a lot of change and growth. As of 2017, we have tracked 105 platforms that can be verified explicitly as becoming inactive in the past three years with 79 in the US, 7 in Canada and 18 in LAC. While a formal out-of-business survey was not administered, in an effort to gather additional qualitative information about some of the factors behind platform exit, 80 platforms that had become inactive were contacted to try to ascertain why their platforms had ceased operations.

Within the US, many newer platforms have struggled to pass regulatory hurdles both at federal and state levels while raising capital for growth and expansion. As will be further discussed later in the report, regulatory agencies have tightened their policies and increased the number of requirements for new alternative finance companies entering the market.

Some alternative finance platforms that had exited recently also reported problems competing with the traditional banking system in certain areas. Some competition has been explicit as banks entered once “marginalized” markets. In other cases, the recovery of the broader economy since the Financial Crisis has meant a generalized return of liquidity to certain markets and pushed down some market rates. In the words of one recently closed platform, “Banks had eased their lending practices and provided a more efficient way for a real estate purchaser to access capital than through our platform. Thus, the market opportunity for the platform no longer existed.” Several testimonies from recently closed US platforms also emphasized perceived increases in competition within the alternative finance industry itself.

THE USE OF ONLINE ALTERNATIVE FINANCE BY BUSINESSES

The use of online alternative finance by businesses across the Americas continues to grow at a rapid pace. In 2016, 218,188 businesses across the Americas utilized $9.2 billion in total online alternative business financing.

While the largest number of business fundraisers (143,344) were from the United States (US), business customers were increasingly common in Latin America and the Caribbean (LAC) (67,499) and considerably fewer coming from Canada (7,345). Total volumes across the three geographies was also not surprisingly distributed unevenly, with US business funding totaling $8.8 billion, LAC coming in relatively less at $233.8 million, and Canada at $169.7 million.

In this report, alternative business funding includes transactional volumes from both investment and non-investment based models, including Marketplace/P2P Business Lending, Balance Sheet Business Lending, Equity-based Crowdfunding, and Revenue-sharing Crowdfunding, along with portions of the Marketplace/P2P Property Lending,[11] Real Estate Crowdfunding,[12] and Reward-based Crowdfunding.[13] While some models explicitly serve only businesses, we are also able to estimate business served by all models because all platforms were given the explicit opportunity on the questionnaire to report fundraisers served generally, as well as business fundraisers specifically. Through these two questions, platform-specific business finance volumes and fundraisers were calculated in order to understand the reach of alternative finance among businesses in the Americas. 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.[14]

Investment-based models made up the largest share of total business volume, with debt-based models driving the vast majority of finance. Across the Americas, debt-based models accounted for just over $8 billion, while equity-based models accounted for $891.1 million. Debt-based models include lending platforms (such as Marketplace/P2P Business Lending), while Equity-based models include Equity-based Crowdfunding and applicable business volumes from the Real Estate Crowdfunding model.[15]

In the US, debt-based models accounted for $7.7 billion. Balance Sheet Business Lending in 2016 accounted for 78% of debt-based business volume, from $2.2 billion in 2015 up to $6 billion this year. By contrast, Marketplace/P2P Business Lending drove much of the US volume; however, in 2016, this model accounted for just 17%, generating $1.3 billion (a downward shift from 2015's $2.5 billion volume).

The Emergence of Revenue Sharing

2016 was a big year for the emergence of Revenue-Sharing Crowdfunding. In 2015, we captured one platform across the Americas in this model; in 2016, we captured 12 platforms reporting total funding of $28.5 million. Revenue Sharing is a new type of debt business financing that borrows some elements from equity models. Repayment agreements are typically written to adjust repayment terms based on business revenues, allowing greater flexibility for businesses. While the bulk of the platforms in this space were in the US, Canadian platforms reported serving more than 2,000 businesses in the last year, indicating potentially strong seeds being planted for this segment of the industry in the Americas for the future.

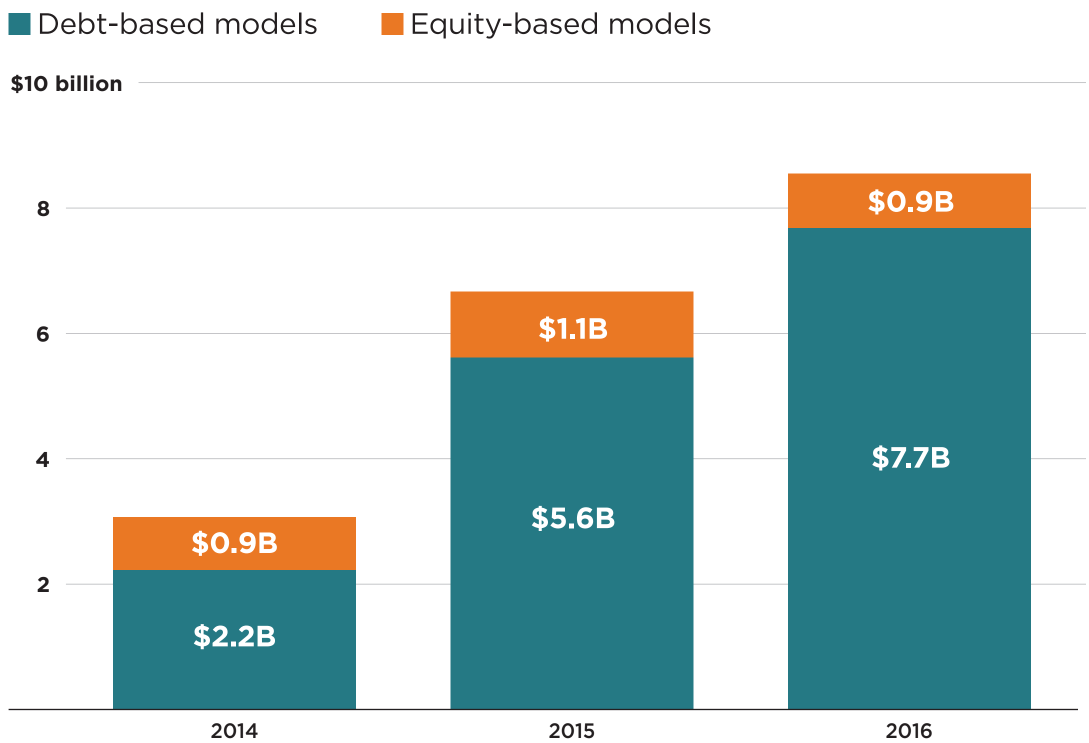
[10] Surveyed platforms provided a breakdown of volumes attributed to businesses.
[11] Ibid
[12] Ibid
[13] This study followed the methodology used in the CCAF UK and Asia-Pacific study, which also attributed 35% of web-scrapped data towards business finance.
[14] It should be noted, this survey allowed real-estate focused platforms to denote their debt-based or equity-based volumes and activity by segmenting them into either Real Estate Crowdfunding or Marketplace/P2P Property Lending.
[15] It should be noted, this survey allowed real-estate focused platforms to denote their debt-based or equity-based volumes and activity by segmenting them into either Real Estate Crowdfunding or Marketplace/P2P Property Lending.

Some of this shift may reflect a change in the participating survey companies, but a majority of the shift appears to reflect the rapid growth in the Balance Sheet Business Lending model from existing organic growth as well as diversification by platforms that have altered their underlying model. Platforms are increasingly hybrid platforms, operating in more than one model. Many Marketplace/P2P lending platforms now utilize a balance-sheet approach to supplement origination not sustained exclusively by the orthodox Marketplace/P2P Lending approach.

In 2016 equity-based models accounted for $867.6 million, down from the $1.1 billion in 2015. Despite an overall decline in growth in this model in the last year, the Equity-based Crowdfunding model accounted for 63% of equity-based business volume. The emerging Regulation Crowdfunding (RegCF)-enabled platforms are a key component of this segment of the industry, but with many not emerging until the last part of 2016, there were not enough deals to cause a bump overall in 2016. The Real Estate Crowdfunding model accounted for 37% of business finance, providing $318.5 million to businesses.[16]

Although US-based alternative finance platforms drove the region's business volumes, from year-to-year basis, the growth rate reflects considerable slowdown. From 2015 to 2016, debt-based models grew 37%, while equity-based models contracted by 18%, both down from 2014-15.

Figure 10: US Alternative Finance provided to Businesses through Investment-based models 2014-2016 ($USD)



[16] This figure makes up 39% of the total United States Real Estate Crowdfunding volume in 2016, as $488 million from this model did not derive from a business fundraiser.

In Canada, 7,345 businesses received $169 million in finance through alternative finance platforms. Approximately 85% of this volume was driven by platforms operating in the deb-based segment (accounting for $144.2 million). In particular, the Balance Sheet Business Lending models contributed $103.3 million to business fundraisers, accounting for approximately 72% of all debt-based finance to Canadian businesses. Interestingly, Marketplace/P2P Business lending platforms only accounted for 16% of the debt-based volume, with the remaining 22% derived from business fundraisers utilizing a consumer lending platform to support their business financing needs. In the case of equity funding, 100% of Canadian equity-based business finance came from Equity-based Crowdfunding, signaling that Real Estate Crowdfunding in Canada is not being utilized by small businesses. Equity-based Crowdfunding accounted for $13.1 million, or 8% of all business finance in Canada.

> Unlike the rest of the region, a considerable proportion of business finance in Canada is derived from the non-investment models.

Unlike the rest of the region, a considerable proportion of business finance in Canada is derived from the non-investment models, accounting for approximately $12.3 million (or 7% of all business funding). Canada's non-investment based models, driven primarily by the Reward-based Crowdfunding, is almost as large as their entire equity-based market, signaling that Canada remains relatively nascent when compared to other developed nations in the state of its business finance ecosystem.

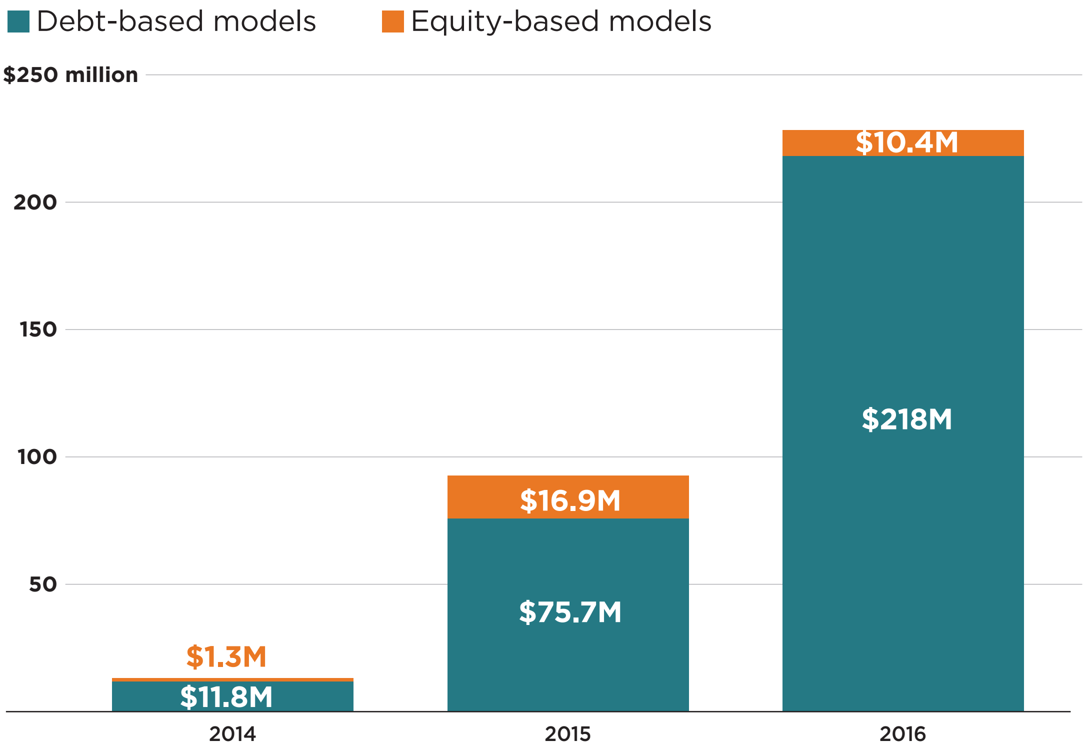
Across LAC, $233.8 million in alternative finance was utilized by 67,499 businesses in 2016, with 98% (or $228.4 million) of business volumes stemming from investment-based models in debt or equity. Debt-based models accounted for $218.4 million in 2016, while equity-based models accounted for $10.4 million. Although accounting for considerably less business volume as compared to the US, online alternative finance geared towards businesses grew considerably on a year-to-year basis, with an average growth of 188% from debt-based business finance from 2015's $75.7 million. Following the regional trend, equity-based finance contracted by 38% in 2016, from $16.9 million in 2015. Nevertheless, investment-based models contributed 147% more finance in 2016 to businesses across LAC.

Over two-thirds (71%) of LAC business finance comes from Chile ($97.1 million) and Mexico ($69.5 million). Chile generated 42% of the region's business volume, leading in non-investment-based business finance ($2.8 million) and debt-based finance ($92.9 million). Mexico led equity-based business finance, generating approximately $4.9 million (or 48% of the segment).

With respect to debt-based business finance, unlike the US and Canada, the Marketplace/P2P Business Lending model accounted for 86% of the volume ($188.5 million), suggesting that LAC platforms still rely heavily on individual investors to support origination. The Balance Sheet Business Lending accounted for only 10% of the debt-based business finance.

The Equity-based Crowdfunding model accounts for 70% of the equity-based business finance in the region, with the remaining 30% derived from the Real Estate Crowdfunding model, primarily from Mexican platforms.

Figure 11: **US Alternative Finance provided to Businesses through Investment-based models 2014-2016 ($USD)**



Key Industries and Sectors Utilizing Alternative finance

Looking in more detail at the businesses utilizing alternative finance in the US, we found that 20% of the platforms responded that their most funded industry was Real Estate & Housing. This was followed by a 12% response rate for Technology, a 10% response rate for Food & Drink, and 7% for Film & Entertainment and Retail & Wholesale.

For Canada, there was a 21% response rate for Technology as the most funded industry. This was followed by a 14% response rate for Community & Social Enterprise, Food & Drink, Internet & E-Commerce, and Real Estate & Housing industries. In LAC, the most funded industry was Technology with a 12% response rate. The second and third most funded industries were Business & Professional Services and Manufacturing & Engineering with a 9% response rate. This was followed by Construction with an 8% response rate.

The top three funded sectors for Balance Sheet Business Lending models includes Retail & Wholesale (33%), Construction (23%) and Internet & E-commerce (16%). Similarly, the Marketplace/P2P Business Lending model's top funded sectors include Construction (31%), Retail & Wholesale (26%) and Business & Professional Services (18%).

Much like the incumbent VC market, the Equity-based Crowdfunding model has a high proportion of funded businesses from the Technology sector (47%) and Internet & E-commerce sector (35%). In third place for this model, businesses from the Finance sector made up 16% of fundraisers.

The Revenue-sharing model tends to finance businesses from the Retail & Wholesale sector (36%), Food & Drink (36%) and Technology (19%). As businesses from this sector tend to be consumer facing, and rely heavily on sales, it is not surprising that business from these sectors gravitate towards this model.

Looking to non-investment-based models, the top three sectors from the Reward-based Crowdfunding model included Art, Music & Design, Technology and Film & Entertainment. This is not all together surprising, as businesses in these sectors are easy for retail investors to understand and relate to.

Figure 12: Americas Alternative Finance Top Funded Industry sectors in 2016

United States	Canada	Latin America & the Caribbean
Real Estate & Housing	Technology	Technology
Technology	Community & Special Enterprise	Business & Professional Services
Food & Drink	Food & Drink	Manufactoring & Engineering
Film & Entertainment	Internet & E-commerce	Construction
Retail & Wholesale	Retail Estate & Housing	Other

MARKET FUNDAMENTALS OF ONLINE ALTERNATIVE FINANCE IN THE AMERICAS

As we look beyond the top-line numbers of the industry and try to gather additional insights into how alternative finance platforms operate, we will examine the following topics: institutionalization, stakeholder arrangements, referral partnerships, auto-bid/auto-selection, female participation and interstate activity within the United States (US) and Latin America and the Caribbean (LAC).

Institutionalization

A hallmark of the US online alternative finance market is the continued dominance of institutional investors in the market. The US market markedly differs from other global alternative finance marketplaces in that institutional investors (such as funds, banks and asset management firms) have always played a significant role in providing finance to borrowers and issuers. Unlike the UK, EU or Asia-Pacific market, where the investor cohort is primarily composed of retail investors (i.e. individuals), US alternative finance models have traditionally relied more heavily on institutional participation, due in large part to regulation which restricts or curtails accredited and non-accredited investor involvement.

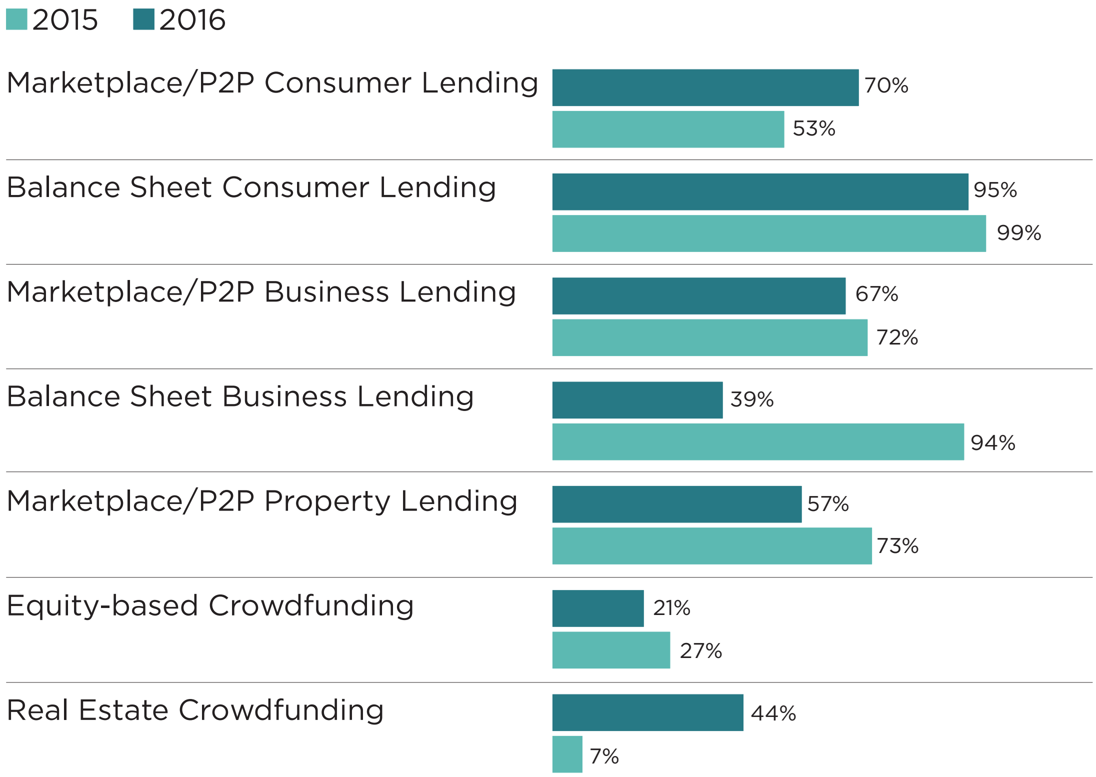
In 2016, approximately $19 billion, or 55% of the total US alternative finance volume, came from institutional investors, up slightly from an estimated $17.3 billion in 2015. Despite an overall increase in terms of dollar value from $17.3 billion last year, it is significant to note that proportionally, institution-led US alternative finance volume has declined slightly, from 66% in 2015 to 55% in 2016.

When analyzing US institutionalization by model, certain models rely heavily on institutional investors, while others have a more diversified investor base. US Balance Sheet Consumer Lending platforms reported 95% of their total volume derived from finance provided by an institutional investor. On the contrary, Balance Sheet Business Lending reported only 39% of their total volume coming from institutions in 2016, a stark difference from 94% in 2015.

US Marketplace/P2P lending models reported significant volumes stemming from institutional participation, with 67% of Marketplace/P2P Business Lending and 57% of Marketplace/P2P Property Lending volumes derived from institutional investors. Yet, when compared to the previous year, the proportion of institutional finance has somewhat lessened for the Marketplace/P2P Property Lending model (previously 73%) and Marketplace/P2P Business Lending model (previously 72%). However, the Marketplace/P2P Consumer Lending model reported 70% of volume derived from institutional investors, up from 53% in the previous year.

US Equity-based Crowdfunding and the Real Estate Crowdfunding both saw relatively smaller involvement from institutional investors, with 21% and 44%, respectively. When compared to the previous year, Equity-based Crowdfunding shifted down marginally, from 27% to 21%, while institutional investor activity in the Real Estate Crowdfunding model swelled from 7% last year.

Figure 13: Americas Alternative Finance Proportion of Institutional Investor Activity by Model



In the US, results suggest greater participation of non-accredited investors in the alternative finance market in 2016. For instance, in Marketplace/P2P Consumer Lending, 75% of volume from investors can be attributed to non-accredited individuals, with the remaining 25% coming from accredited investors.

Similarly, accredited investors account for only 38% of transactions from Marketplace/P2P Property Lending and 27% of Marketplace/P2P Business Lending.

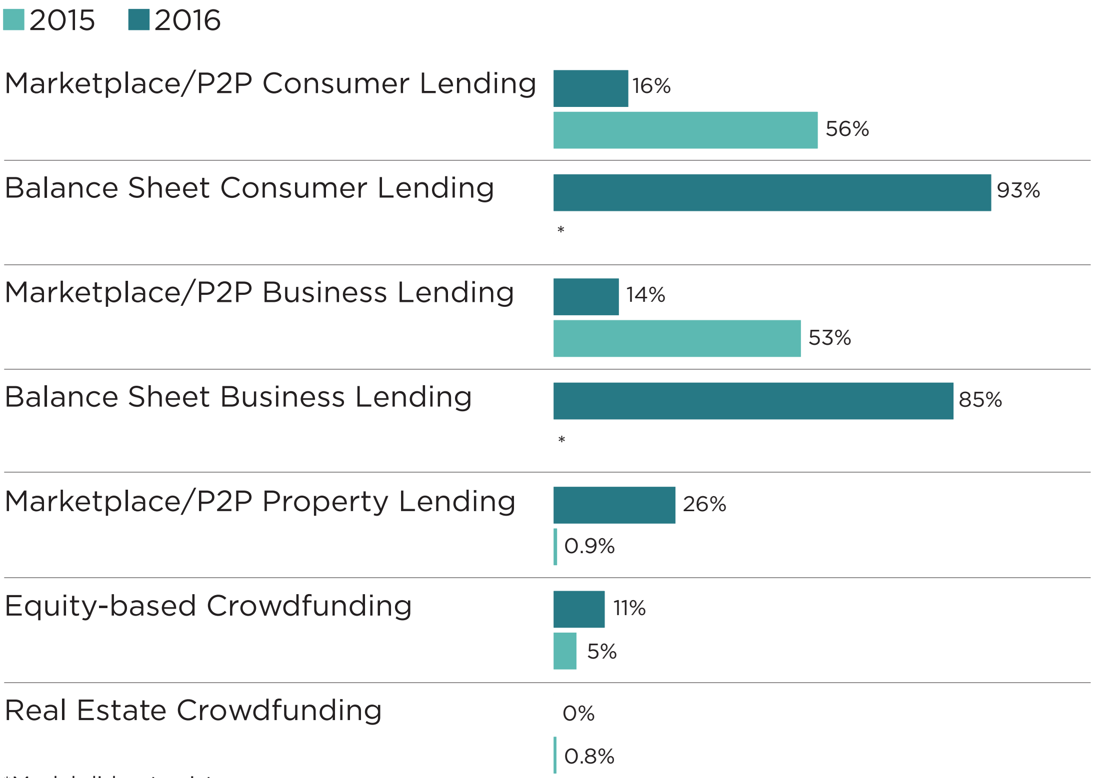
Other US models remain more dominated by accredited investors. Just 6% of Marketplace/P2P Business Lending volumes derive from individuals that are non-accredited. Of the crowdfunding models, 58% of the Real Estate Crowdfunding volume and 71% of the Equity-based Crowdfunding model come from accredited individuals, with only 15% of the Equity-based Crowdfunding model derived from non-accredited individuals. Though 15% might seem unremarkable, this figure will likely increase in the coming year due largely to the ability for platforms to utilize RegCF or Title III of the Jobs Act.

Across Latin America and the Caribbean (LAC), participation from institutions has been on the rise, with approximately 69% ($236 million) of LACs total volume stemming from institutional investors in 2016. This is a significant increase compared to last year's 37% of LAC's total volume.

In particular, two models stand-out in terms of institutional investor participation in LAC: Balance Sheet Business Lending (with 85% of the model's volume derived from institutional investors) and Balance Sheet Consumer Lending (93%). It should be noted, these two models emerged in LAC only in 2016, so there are no comparable data points for 2015.

While volume in LAC is certainly being driven by institutions, individual investors remain the dominant force in many non-balance sheet models. The Marketplace/P2P Business Lending model reported 14% of volume facilitated by institutional investors, Marketplace/P2P Consumer Lending reported 16% and Marketplace/P2P Property Lending reported 26%. Equity-based Crowdfunding registered 11%, though this figure is up from 5% last year.

Figure 14: LAC Alternative Finance Proportion of Institutional Investor Activity by Model



*Model did not exist

Across LAC, the status of individual investors is heavily skewed to the non-accredited. This is not to suggest that these individuals lack financial sophistication, but simply that there are likely fewer regulatory restrictions on the types of individuals that can participate in the alternative finance space. In the case of Marketplace/P2P Consumer Lending (81%), Marketplace/P2P Business Lending (79%), Real Estate Crowdfunding (100%) and Equity-based Crowdfunding (89%), the clear majority of investor participation came from non-accredited investors in LAC. Accredited investor participation is less remarkable, with Marketplace/P2P Consumer Lending registering 13% accredited participation, Marketplace/P2P Business Lending at 26% and Equity-based Crowdfunding at 37%. The only model which had majority accredited participation was Marketplace/P2P Property Lending at 66%.

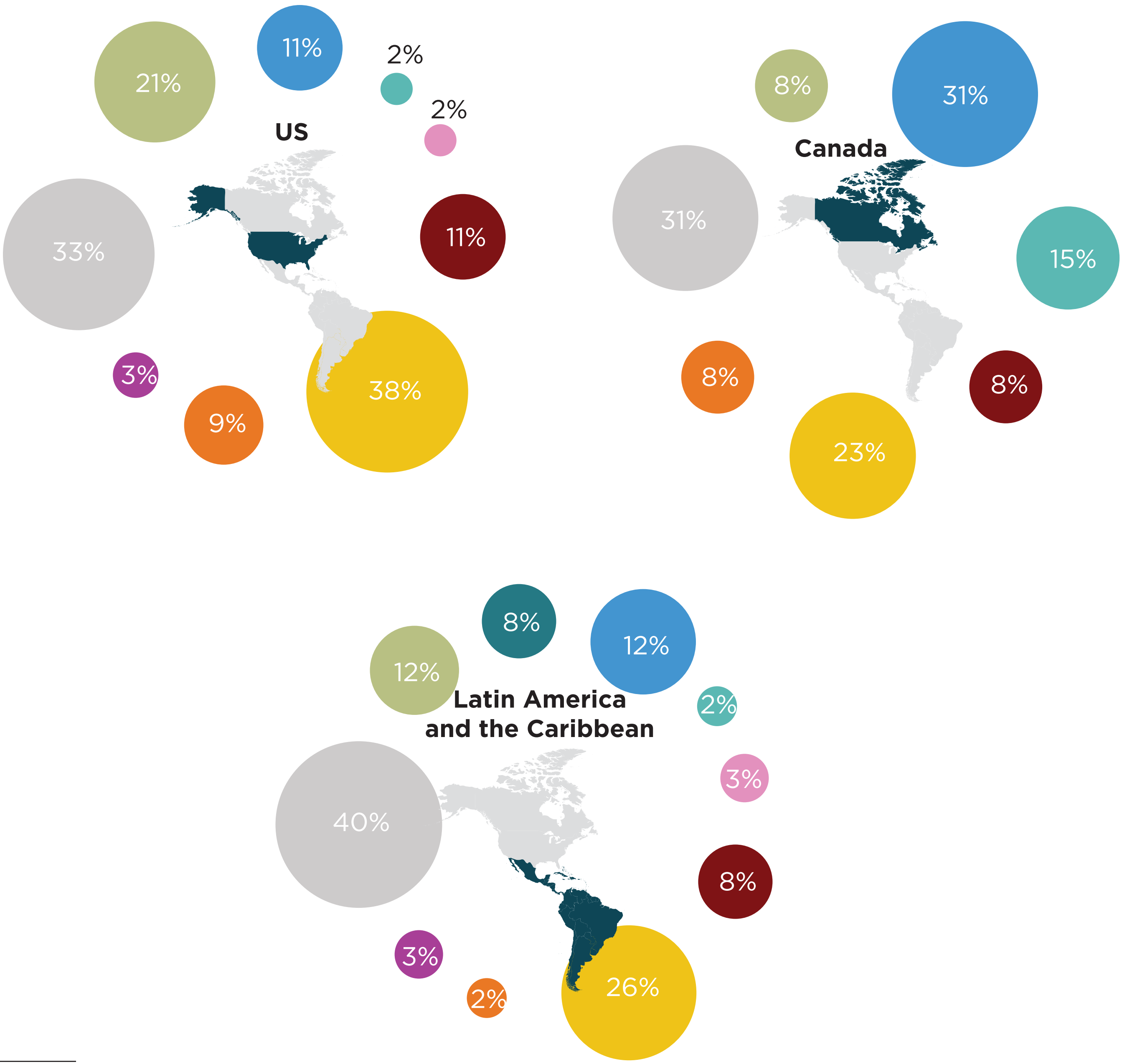
Institution-led US alternative finance volume has declined slightly, from 66% in 2015 to 55% in 2016

Stakeholder Arrangements

Across the Americas, approximately 40% of responding platforms indicated no major dilution in equity stakes by minority or majority outside stakeholder investors. Among those that reported outside stakeholder investors, nearly all the US platforms indicated some involvement from a venture capital firm or angel investor. Indeed, 11% of all responding US platforms indicated a majority shareholder that is a VC or angel investor. Of those platforms, none reported also having majority or minority shareholder agreements with traditional financial institutions. But when examining the larger set of platforms – 38% of the US respondents – that indicated they had a minority shareholder that was a VC or an angel investor, then roughly a quarter also had minority shareholders that were in the traditional finance sector. In Canada, it was most common (31%) to have a majority shareholder that is a VC or a business angel. For LAC, it was most common (27%) to use a minority shareholder that's either a VC or a business angel.

Figure 15: Americas Alternative Finance Platform Stakeholder Structure

Responses:
- A majority shareholder (traditional financial institution)
- A majority shareholder that is a VC or a business angel
- A majority shareholder that is a fund
- A majority shareholder that is a major non-finance corporation
- A minority shareholder that is a traditional financial institution
- A minority shareholder that is either a VC or a business angel
- A minority shareholder that is a fund
- A minotiry shareholder that is a non-finance corporation
- Not applicable
- Other



Referral Partnership Arrangements
Platforms were asked to describe the type of referral partnership arrangements they had with external businesses or organizations to help drive deal flow and, ultimately, origination. To ensure robust sector development, growth is contingent upon sufficient and high-quality fundraisers (i.e. businesses and individuals). The issue of deal flow and origination is not simply attracting potential fundraisers, but doing so in a targeted manner to ensure low conversion costs and efficiency. By promoting a structure that uses a variety of channels to acquire fundraisers, a platform can build a highly diversified source of deal flow, attracting high-quality individuals, businesses and projects to their platform.

When assessing the region at a macro-level, it was most common for platforms to not utilize a referral partnership of any kind in 2016; however, referral partnerships through a broker were sighted in the US (16%), Canada (25%), and LAC (10%). In LAC, 10% of respondents also reported E-Commerce Credit referrals.

Yet, when reviewing specific models, the emergence of referral arrangements exists with more frequency. For instance, 20% of marketplace/P2P Consumer Lending platforms have arrangements with e-commerce platforms to bolster deal flow. Similarly, student-focused partnerships and finance brokers are utilized by 15% of these platforms. Correspondingly, 10% of Balance Sheet Consumer Lending platforms utilized a student-credit arrangement, while 15% made use of referrals from Financial Advisers.

With respect to the business-focused models, Marketplace/P2P Business Lending platforms made use of referral mechanisms to bolster deal flow from brokers (22%) and financial advisors (19%), and to a lesser extent, e-commerce credit partnerships (11%) to support origination. Interestingly, platforms operating in the Balance Sheet Business Lending space rely heavily on broker referral partnerships (52%). Instances of platform partnerships with e-commerce hubs was approximately 22%. Finally, 71% of platforms operating within the Revenue-Sharing/Profit-Sharing Crowdfunding model had a referral arrangement with a financial advisor.

Auto-Bid Selection
While the early alternative finance models predominantly relied upon investors to self-select their investments, automated selection has become common place in how institutional and individual investors participate in crowdfunding and marketplace/P2P lending platforms.

Auto-bid selection moves away from manual or self-selection (e.g. choosing a loan to lend to on a marketplace/P2P lending platform) towards automated tools which allocate investor funds automatically to available loans or deals based on investment or lending preferences. While the investors specify their risk appetite, desired deal structure, and investment preferences, they no longer personally review individual investment decisions.

Since Marketplace/P2P Consumer Lending first appeared in the US (and globally) it has been based upon auto-bid selection and its strong-hold as a volume-driving model exemplifies the effectiveness of auto-bid functionality. 99% of all Marketplace/P2P Consumer Lending was fulfilled in 2016 through auto-bid processes. Fundamentally, this model standardized auto-bid investment to allow the platform to auto diversify a lender’s portfolio across available loans, while also improving market efficiencies by assuring faster loan consideration and fulfilment.

Unlike Marketplace/P2P Consumer Lending, other lending models developed without auto-bid selection, emphasizing manual selection – where an individual or institutional investor select each and every investment opportunity they wish to participate in. In this case, the investor must score the available deals on a platform, and either bid auction-style to participate in the loan, or commit funds to a fixed deal and wait until the loan is fulfilled by other peers for the funds to be drawn down.

In 2016, Marketplace/P2P Business Lending registered a 30% usage of auto-bid functions across the region, while Marketplace/P2P Property Lending platforms recorded only 8% of auto-bid usage. This figure is not all-together surprising as the Marketplace/P2P Property Lending model is heavily utilized by institutional investors. Auto-bid functions tend to be utilized most by accredited and non-accredited individuals, as they are often time-poor and may lack the selection expertise inherent in institutional investors.

Outside of the lending space, Equity-based Crowdfunding has also seen an increase in the use of auto-selection functionality. Across the Americas, 39% of platforms noted that investors used auto-selection when expanding their portfolio on the platform. Akin to the lending platforms, the use of auto-bidding changes the relationship between the investor and the platform from passive to active, acting more like a fund or portfolio manager than simply a matching site.

By moving towards auto-bid selection, both investor and borrower have greater certainty that a deal will be completed quicker. From a platform's perspective, this is highly desirable, as origination can occur at a faster pace. However, heavier reliance on auto-bid selection also poses new challenges to platforms. As the platform is responsible for selecting and matching investors to appropriate deals, the importance of due-diligence, underwriting, credit-risk scoring and management is paramount. A platform must ensure that their own underwriting and credit analytics are sufficiently robust to ensure that the investor is safeguarded against unnecessary or unreasonable risk.

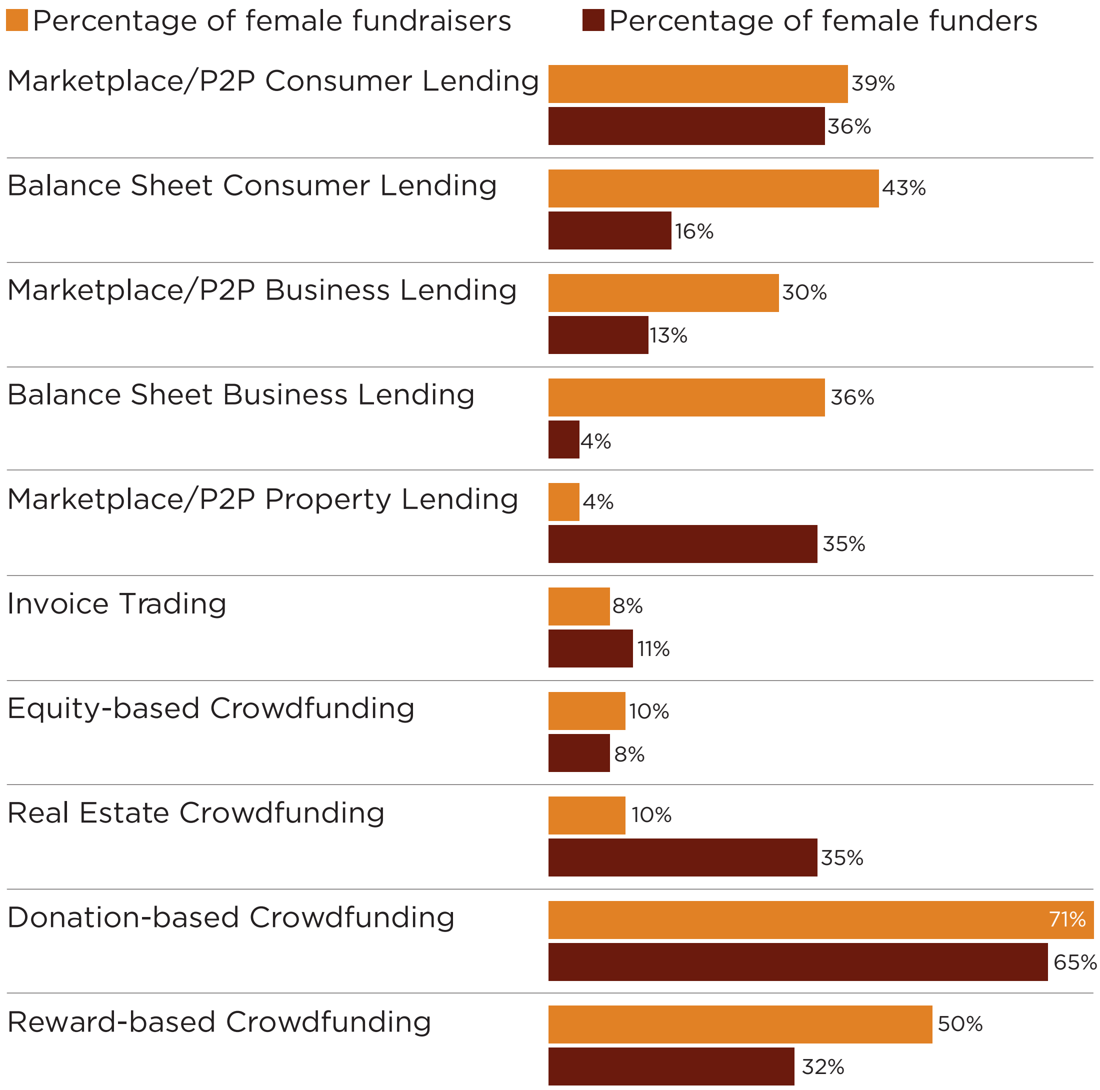
Female Market Participation within Models and Geographies

Financial inclusion has become an important topic when discussing the stakeholders in alternative finance. Across the Americas, the demographics of both funders and fundraisers indicates that women are utilizing alternative finance channels, albeit at a lesser proportion than their male counterparts.

In non-investment-based models, women make up the majority of fundraisers (71%) in Donation-based Crowdfunding, and account for 50% of Reward-based Crowdfunding. Women also provide significant funding through these models, noting 32% female funders in Reward-based Crowdfunding and 65% female funders from the Donation-based Crowdfunding. Among investment-based models, we note a significant amount of female participation from several models. In particular, women make up 35% of investors for both Real Estate Crowdfunding and Marketplace/P2P Property Lending, and make up 36% of Marketplace/P2P Consumer lenders.

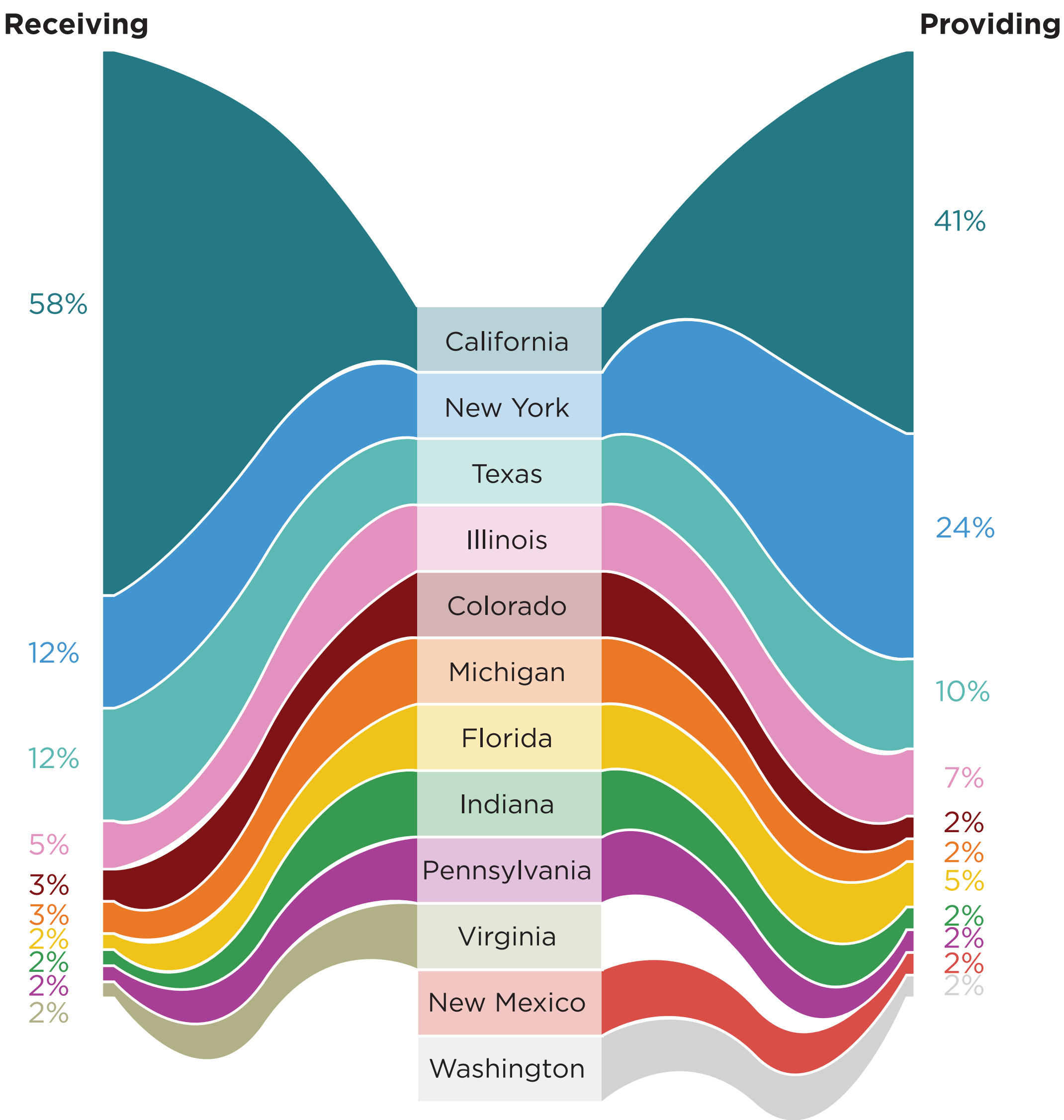
With respect to fundraising, female borrowers seem to be most active in Balance Sheet Consumer Lending, Marketplace/P2P Consumer Lending, Balance Sheet Business Lending, and Marketplace/P2P Business Lending accounting for 43%, 39%, 36%, and 30% of borrowers, respectively. Equity-based Crowdfunding remains male dominated in terms of both funders and fundraisers.

Figure 16: Americas Alternative Finance Female Funders and Fundraisers by Model, 2016



Interstate Activity within the United States
In 2016, three states accounted for the majority of alternative finance activity in the US – California, New York and Texas. These three states led in both provision of and receiving of finance, though to varying degrees. Fifty-eight percent of platforms noted that funds were received by fundraisers in California, followed by fundraisers located in both New York (12%) and Texas (12%). With respect to the provision of funds, California was responsible for providing 40% of funding, followed by 24% from New York and 10% from Texas. The high prevalence of funds being received and provided from these states coincides with the states exhibiting high concentration of platform headquarters. For instance, California, had more than 35 platform headquarters (this does not include platforms that have operations in California), and approximately 30 headquarters were in New York. Given regulatory constraints around platform and issuer registrations, and where said registered entities may solicit investment, this is not surprising.

Figure 17: **US Alternative Finance States Providing and Receiving Fund, 2016**



COUNTRY-SPECIFIC MODEL TRENDS

United States

Over the course of 2016, growth of alternative finance models in the United States (US) has varied sizeably, with some models growing considerably and others contracting.

The Marketplace/P2P Consumer Lending model remains the prevailing online alternative finance model in the US, accounting for 61% of the US market. In 2016, this model generated $21.1 billion, growing by 17% from the past year. Given the continued growth of this model, it is notable that the growth did not come in 2016 to all US consumer markets, with Balance Sheet Consumer Lending decreasing year-on-year (4%) to $2.9 billion. Interestingly, one-third of Balance Sheet Consumer Lending platforms also operated within Marketplace/P2P Lending. So, while this particular model segment decreased, over-all consumer lending finance in the US has grown. The 2016 average loan size[17] for the Marketplace/P2P Consumer Lending in the US was approximately $28,000 compared to $19,000 for Balance Sheet Consumer Lending.

The US model with the fastest year-on-year growth rate was Balance Sheet Business Lending, growing at a remarkable 167% from $2.3 billion in 2015 to $6 billion in 2016. Growth was driven primarily by growth from firms continually observed by the research team but also by new survey responders. Interestingly, while the Balance Sheet model exhibited triple-digit growth, Marketplace/P2P Business Lending experienced the most significant year-on-year contraction, decreasing by 49% from $2.6 billion in 2015 to $1.3 billion in 2016.[18]

Turning to real estate and property, most US platform operate both lending-based and equity-based activities. 50% of platforms from the Marketplace/P2P Property Lending model also participating in the Real Estate Crowdfunding model. Both of these models grew in 2016,[19] with Marketplace/P2P Property Lending growing by 33% from $782 million to just over $1 billion in 2016. Real Estate Crowdfunding grew at a more rapid pace (72%) from $468 million in 2015 to $807 million in 2016.

Given the considerable size of Marketplace/P2P Property Lending in the US, it should be noted that the role a platform's balance sheet plays in origination. Though our taxonomy does not include a unique "Balance Sheet Property Lending" model,[20] that does not mean that Marketplace/P2P Property Lending platforms don't rely heavily on their balance sheets. Indeed, 67% of participating platforms indicated proportions of their activity was balance sheet-based. Additionally, platforms from the Marketplace/P2P Property Lending space readily made use of referral partnerships to drive deal flow. In this instance, platforms primarily partnered with a traditional finance broker (50%) and/or a mortgage specialist (60%).

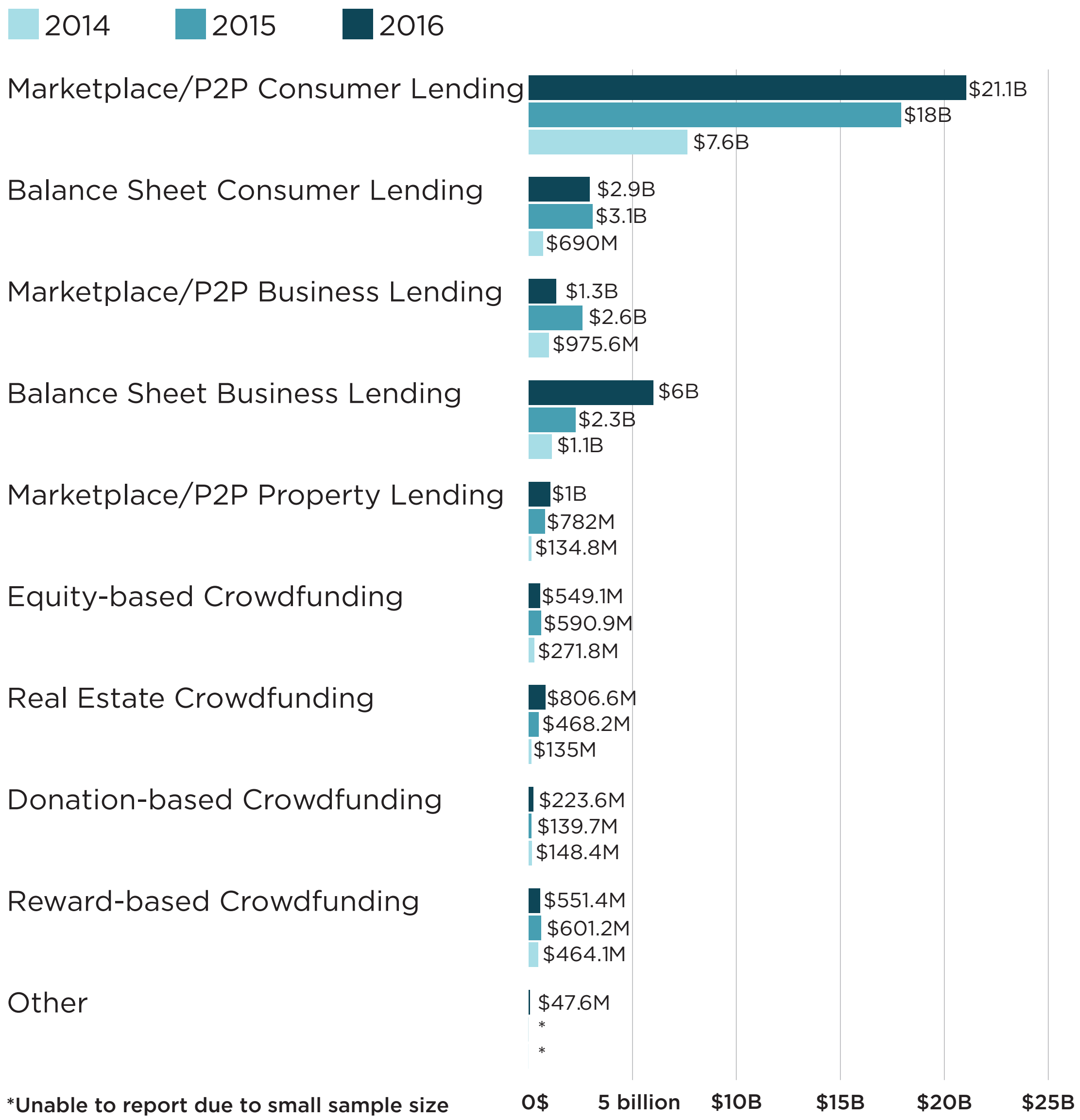
Equity-based Crowdfunding saw a slight decline in the US during 2016, down 7% against the previous year. This decline is likely related to continued regulatory un-

[17] Unweighted Average
[18] Due to a small sample size, we were unable to breakout Invoice Trading as a unique category in 2016. As such, volumes from this model have been included in the 2016 Marketplace/P2P Business Lending model. Invoice Trading platforms operating experienced a 5% growth from 2015 to 2016 with respect to their volume.
[19] Interestingly, only 16% of Real Estate Crowdfunding platforms also operated in the Marketplace/P2P space.
[20] The responses captured by unique platforms was not sufficiently robust to present as a unique model type.

certainty. Nevertheless, this model delivered $549 million to approximately 637 businesses across the US. There were 36 reported successful exits in the previous year from businesses that had raised finance via this model.

Non-investment-based models in the US – Donation-based and Reward-based Crowdfunding – had mixed growth in 2016. Donation-based Crowdfunding grew by 60%, generating $224 million in 2016. The top two sectors to receive funds derived from this model include Education & Research (45% of model volume) and Charity & Philanthropy (41%). Reward-based Crowdfunding declined 8% in 2016 to $551 million. The average Reward-based Crowdfunding deal in the US is approximately $25,000, with 180 individuals participating per deal where individual funders tend to commit $136 per successful deal. While the denomination per funder is relatively small, a significant 'crowd' continues to be drawn by this model.

Figure 18: US Alternative Finance Market Volume by Model, 2014-2016 ($USD)



*Unable to report due to small sample size

Canada

Canada's performance, though at a smaller scale, mirrors many of the market dynamics that characterize the US with respect to levels of institutionalization and funder sophistication. Yet, despite many similarities at a model level, Canada's alternative finance market is markedly different in that it is driven in large part by non-investment-based models. The Canadian alternative finance market grew by 62%, from $207 million in 2015, to $334.5 million in 2016.

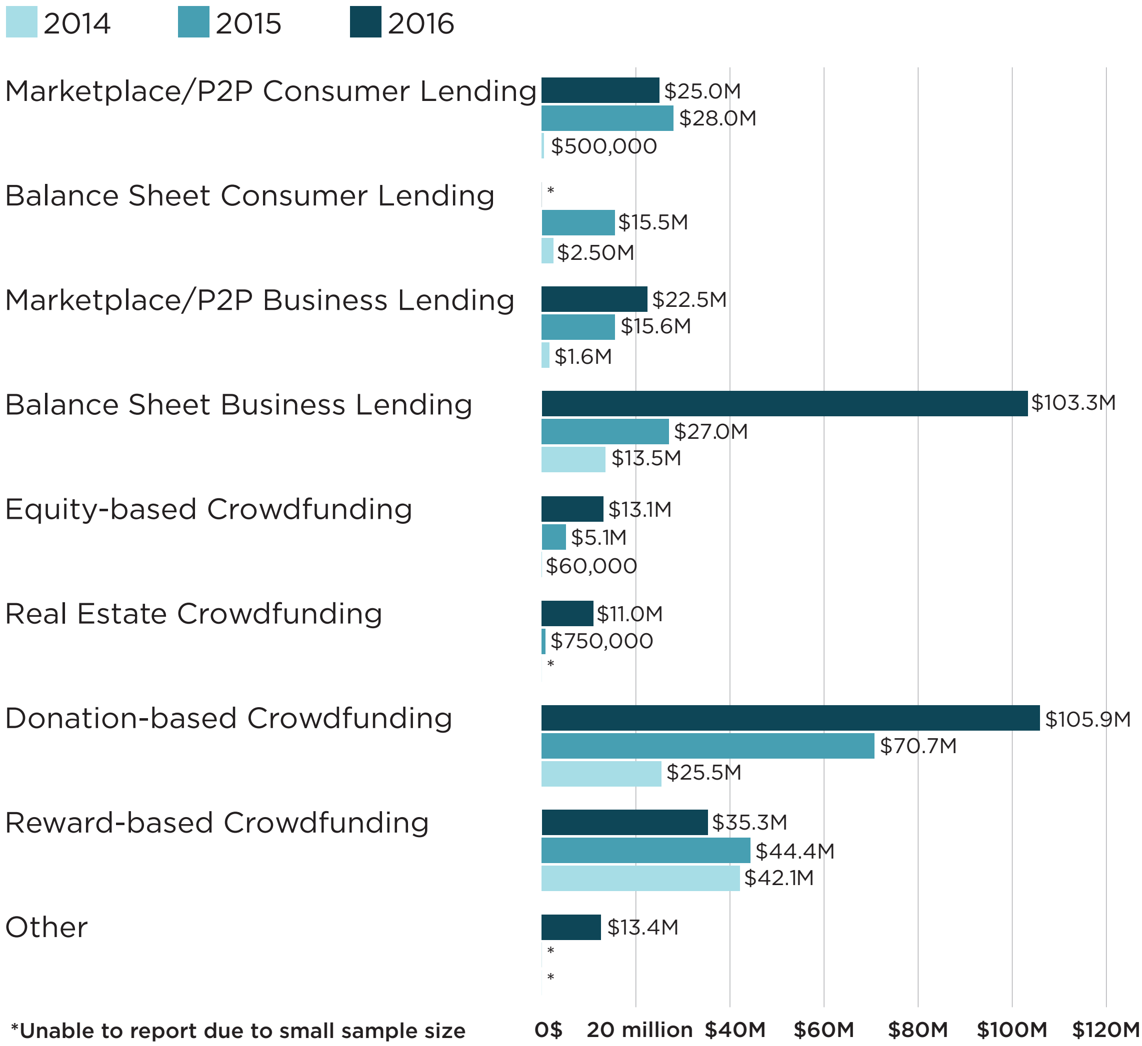
Donation-based Crowdfunding made up the largest proportion of Canadian alternative finance, accounting for 32% of the market. This model grew to $105.9 million in 2016. Reward-based Crowdfunding accounted for $35.3 million in 2016, and made up 11% of Canada's overall volume. This model is the third largest in Canada, despite contracting by 20% in 2016 (from $44.4 million in 2015).

Balance Sheet Business Lending is the second largest model in Canada, accounting for 31% of Canada's alternative finance volume and growing at a triple digit rate of 282% to $103.3 million. Much like the US, business lending is driven by the balance sheet model, with Marketplace/P2P Business Lending generating a smaller overall volume in comparison. Marketplace/P2P Business Lending in Canada grew by a 45%, from $15.6 million in 2015, to $22.5 million in 2016.

The Marketplace/P2P Consumer Lending contracted in 2016, down 11% to $25 million. While no exclusively Balance Sheet Consumer Lending models in Canada were captured in 2016, there is balance-sheet activity occurring, with 65% of Marketplace/P2P Consumer Lending platforms utilizing their own native balance sheet. This model is also heavily institutional, with 72% of volume driven by institutional investors in Canada.

Equity-based Crowdfunding in Canada saw rapid growth in 2016, increasing 157% to $13.1 million in 2016. Finally, the fastest growing model in Canada in 2016 was Real Estate Crowdfunding, with $11 million in activity, a 1,367% increase. Due to insufficient sample size, we are unable to report volumes attributed to Marketplace/P2P Property Lending.

Figure 19: Canada Alternative Finance Market Volume by Model, 2014-2016 ($USD)

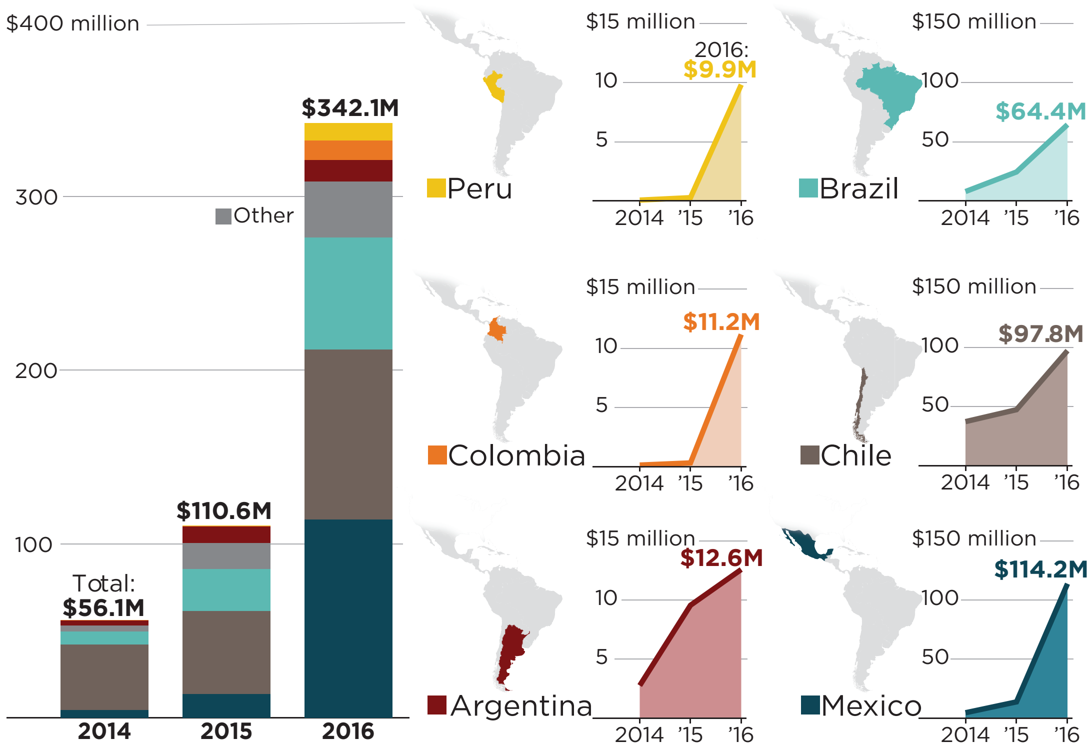


*Unable to report due to small sample size

Latin America and the Caribbean

In 2016, total alternative finance grew substantially in Latin America and the Caribbean (LAC). Platform responses were received from Anguilla, Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba Dominica, Dominican Republic, Ecuador, El Salvador, Guam, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Uruguay, Venezuela and the US Virgin Islands.

Figure 20: LAC Alternative Finance Total Volume, 2014-2016 ($USD)



Activity in LAC grew by 209% last year, from $110.6 million in 2015 to $342.1 million in 2016. Much of this growth was driven by a large increase in business funding, with 57% of the region's volume coming from the Marketplace/P2P Business Lending model ($188.5 million in 2016). This model grew by 239% in 2016. In 2016, we also captured significant activity in Balance Sheet Business Lending ($22.6 million).

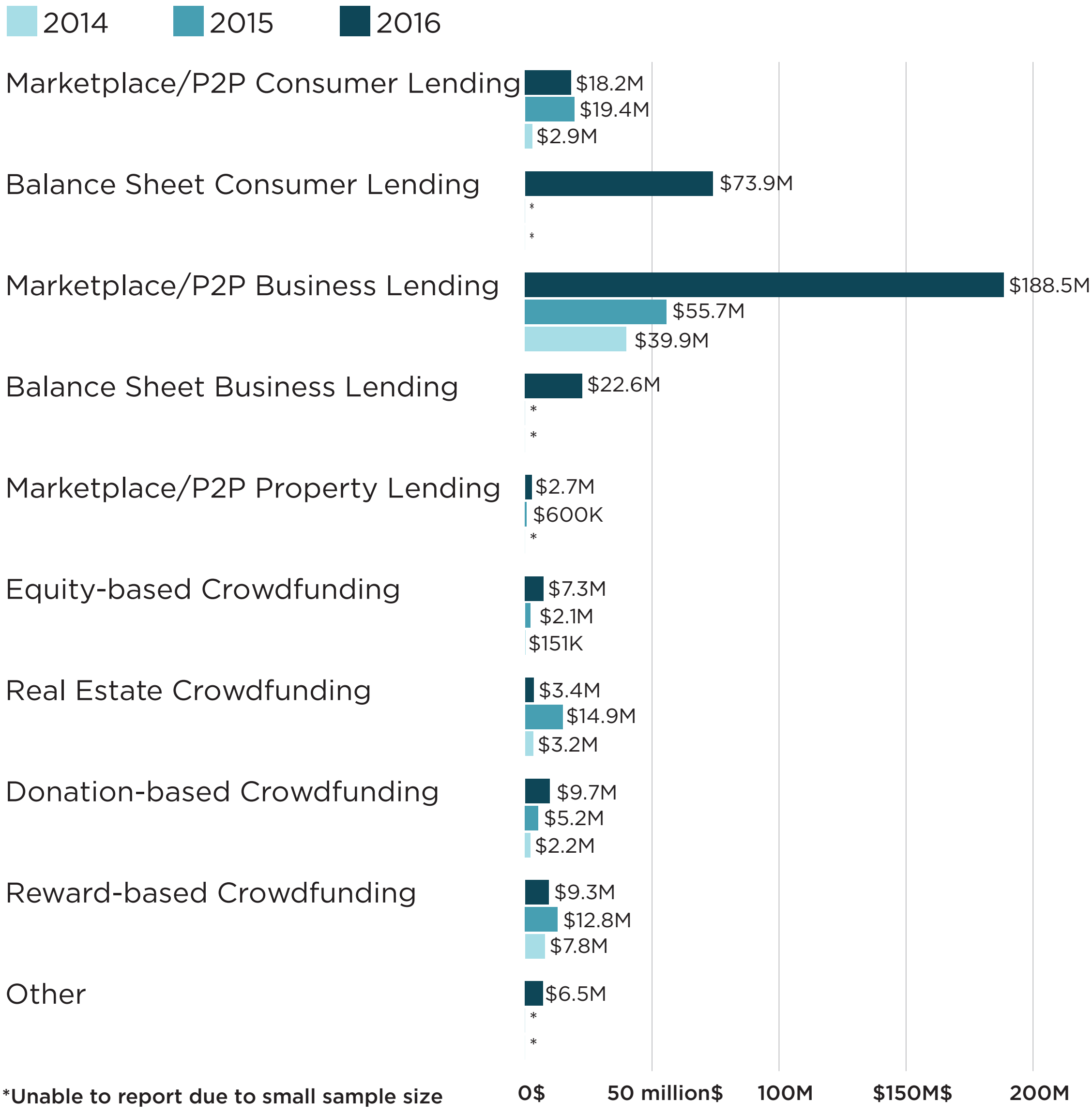
The second largest model across the region was Balance Sheet Consumer Lending, accounting for 22% of regional volume and generating $73.9 million. This is the first year that we can include estimates for this model. Despite the Balance Sheet Consumer Lending's large size, Marketplace/P2P Consumer Lending is somewhat smaller, accounting for only 5% of the region's volume in 2016.

The fastest growing model across LAC is Equity-based Crowdfunding, up 256% to $7.3 million in 2016. While Equity-based Crowdfunding experienced an overall contraction in Canada and the US, this model is thriving across LAC.

Finally, non-investment-based models – Donation-based and Reward-based Crowdfunding –made up a more modest proportion of the region's overall volume, with each accounting for approximately 3% of the region's volume.

Much like the US, Reward-based Crowdfunding contracted in 2016, in this instance by 27% from $12.8 million to $9.3 million. Conversely, Donation-based Crowdfunding grew by 87% to $9.7 million in 2016.

Figure 21: LAC Alternative Finance Total Volume by Model, 2014-2016 ($USD)



*Unable to report due to small sample size

Mexico

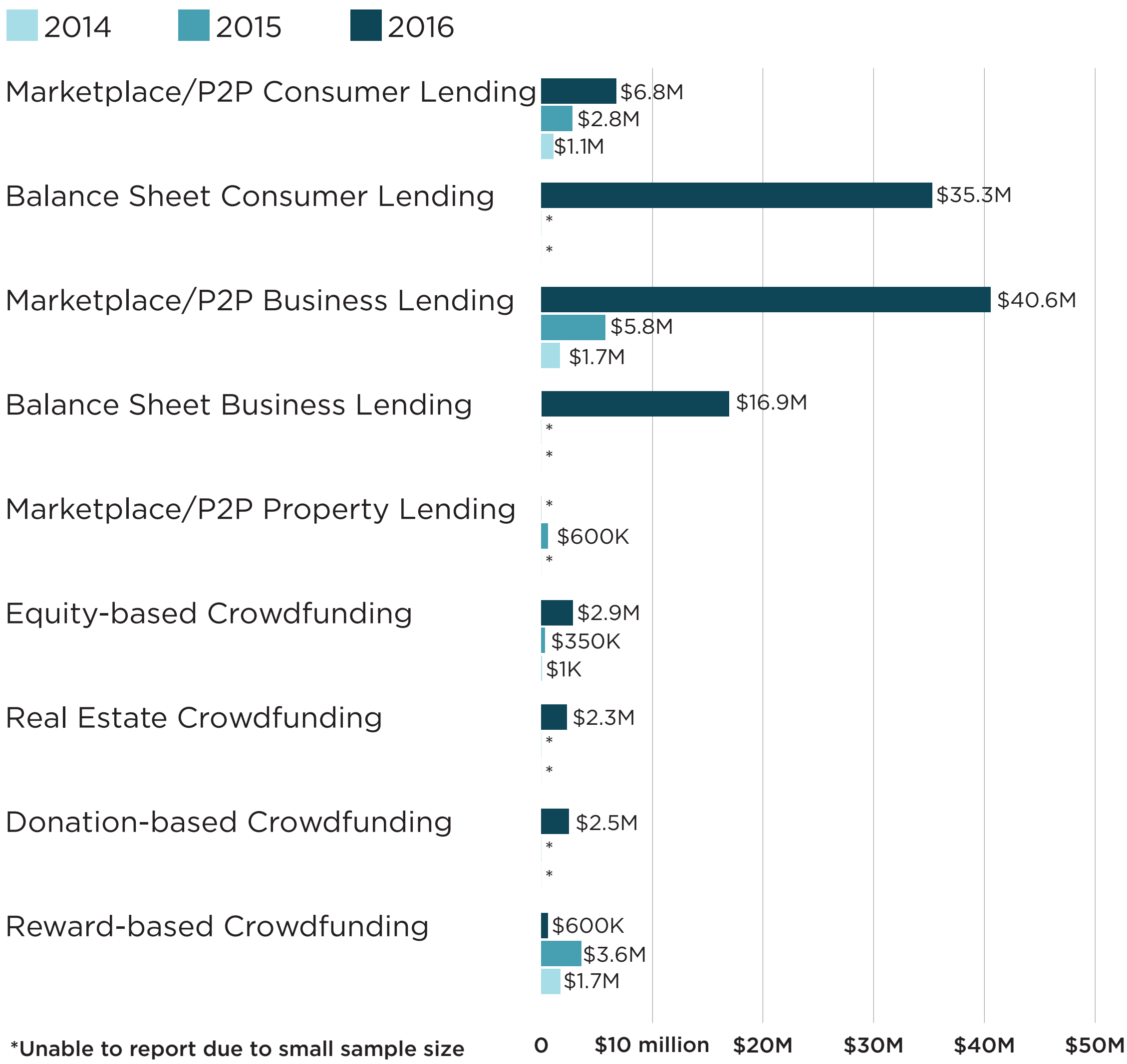
Mexico accounted for the highest total alternative finance market volume in 2016 in LAC ($114.2 million). In last year's benchmark, Mexico was the third most active LAC country, after Chile and Brazil. This year's rapid growth – driven by both year-over-year organic growth, new entrants, and expanded survey response – has positioned Mexico as the leader of the region, with an annual growth rate of 730%.

Mexico's alternative finance volume is driven by business lending activity, with Marketplace/P2P Business Lending making up the largest model in the country. With growth of 601%, this model accounted for $40.6 million in 2016. Balance Sheet Business Lending accounted for $16.9 million. Together, these two business models made up 50% of Mexico's alternative finance volume.

The second largest model in Mexico is that of Balance Sheet Consumer Lending, with a total of $35.3 million raised in 2016, and accounting for 31% of the country's volume. This is the first year that we are able to estimate this model in Mexico. Despite an overall small market share, Marketplace/P2P Consumer Lending grew substantially, from $2.8 million in 2015 to $6.8 million in 2016, a 140% annual growth.

Equity-based Crowdfunding continue to grow rapidly in Mexico, growing by 714% to $2.9 million in 2016. Real Estate Crowdfunding was measured at $2.3 million and Donation-based Crowdfunding at $2.5 million. The only Mexican model to contract in 2016 was Reward-based Crowdfunding, down 84% to $596 thousand.

Figure 22: **Mexico Alternative Finance Market Volume by Model, 2014-2016 ($USD)**



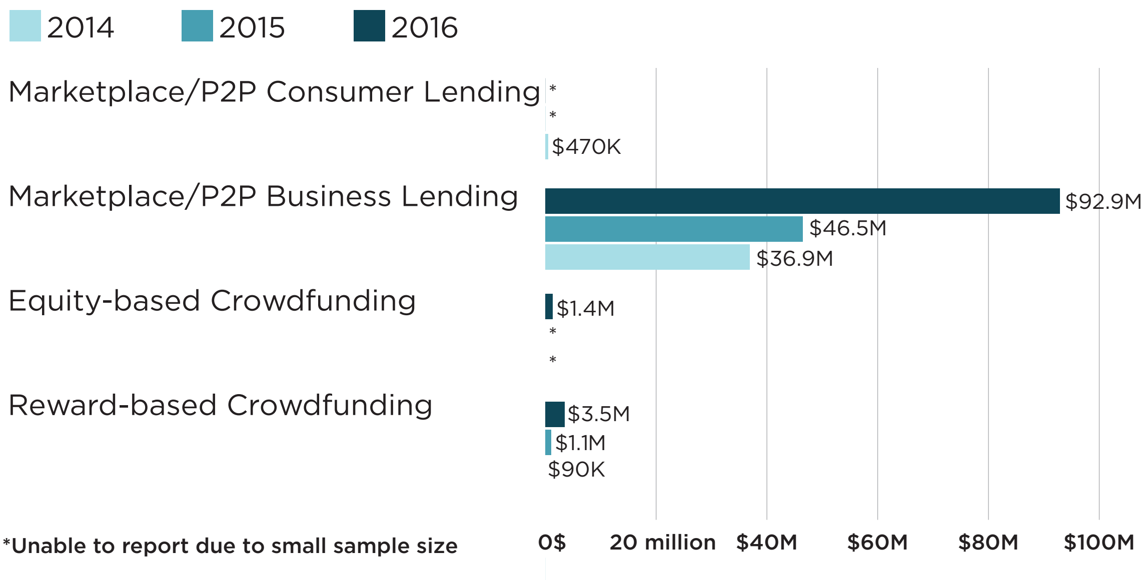
*Unable to report due to small sample size

Chile

Chile represents the second largest alternative finance market in LAC with $97.8 million recorded in total transaction volume in 2016. Despite doubling in size (with a growth rate of 106%), Chile is no longer estimated to be the region's leading market for alternative finance.

Only three model-types were captured in Chile in 2016. The largest sector, accounting for 95% of the Chilean alternative finance market, is Marketplace/P2P Business Lending. This model doubled in 2016, from $46.5 million in 2015 to $92.9 million in 2016. In second place is Reward-based Crowdfunding, with $3.5 million in 2016, up 225% from the previous year. While Reward-based crowdfunding seems to be slowing across the region, it is clear that this model is thriving in Chile. Finally, Equity-based Crowdfunding accounted for $1.4 million in 2016.

Figure 23: Chile Alternative Finance Market Volume by Model, 2014-2016 ($USD)



*Unable to report due to small sample size

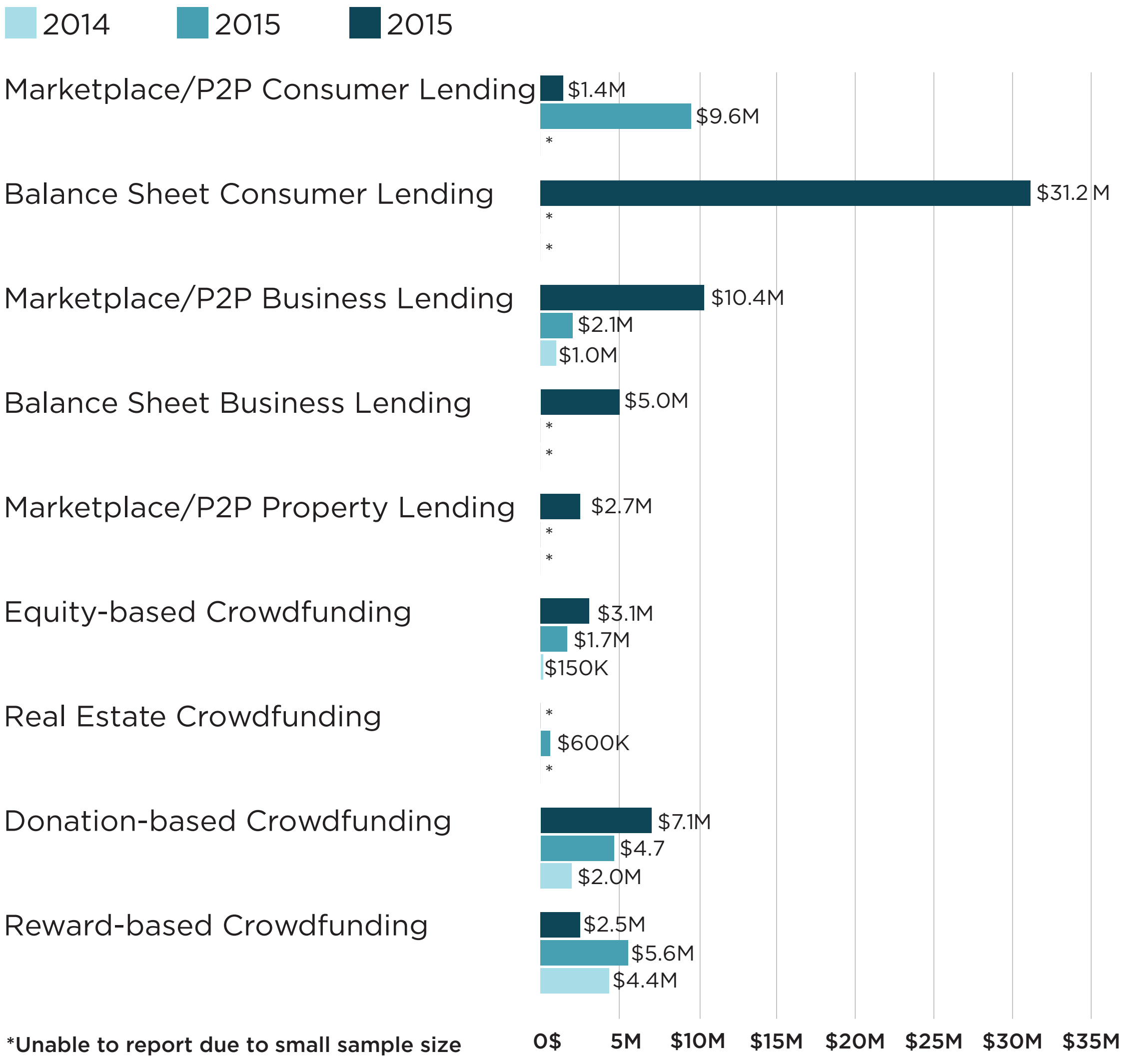
Brazil

In 2016, the Brazilian alternative finance market accounted for $64.4 million in total transaction volume, up by 167%, making it the third largest LAC market. The largest model in Brazil is Balance Sheet Consumer Lending, accounting for 48% of the Brazilian market and representing a total volume of $31.2 million. Marketplace/P2P Consumer Lending saw a significant contraction (down 85%), from $9.6 million in 2015 to $1.4 million in 2016.

The next largest model in Brazil is Marketplace/P2P Business Lending (up 409%), accounting for $10.4 million in 2016. For the first time, we were able to capture platform data from the Balance Sheet Business Lending model in Brazil, which represented a total volume of $5 million.

Donation-based Crowdfunding was the third-largest model in Brazil, accounting for $7.1 million in 2016, up by 51%. Equity-based Crowdfunding also saw significant growth, from $1.7 million in 2015 to $3.1 million in 2016, representing an 82% year-on-year growth rate. Finally, the only model to contract in Brazil was that of Reward-based Crowdfunding, down 55% from $5.6 million in 2015 to $2.5 million in 2016.

Figure 24: Brazil Alternative Finance Market Volume by Model, 2014-2016 ($USD)



*Unable to report due to small sample size

Colombia

Colombia grew substantially in 2016, from $334 thousand in 2015 to $11.2 million in 2016, representing a growth of 3,257%. Previous to 2016, Colombia's market was exclusively dominated by non-investment based models. In 2016, Donation-based Crowdfunding generated $37 thousand and Reward-based Crowdfunding generated $397 thousand. Together, these models accounted for less than 5% of Colombia's alternative finance market.

It has been with the advent of investment-based models that this country has experienced significant growth. Colombia's alternative finance market in 2016 has been driven predominantly by Balance Sheet Consumer Lending (50% of Colombia's total volume) and the Marketplace/P2P Business Lending (42%). In 2016, Balance Sheet Consumer Lending generated $5.6 million, while Marketplace/P2P Business Lending accounted for $4.7 million.

Argentina

Although the Argentinian alternative finance market has been expanding in the last three years, the rate at which it has happened has slowed. Between 2014 and 2015, the market grew 246% from $2.8 million to $9.6 million. In 2016 the total transaction volume increased to $12.6 million, representing a more modest growth rate of 32%.

The largest sector in Argentina (accounting for 76% of the market) is Marketplace/P2P Consumer Lending with $9.5 million in 2016. This model grew by 36% in 2016. Marketplace/P2P Business Lending is the second largest model, having grown by 10% and accounting for $1.3 million in 2016. Finally, Reward-based Crowdfunding accounted for $859 thousand.

Peru

Peru's market grew to $9.9 million in 2016, a significant jump from 2015's estimated $276 thousand and representing an annual growth of 3,471% – driven by expanded survey response. Much like Colombia, Peru's incredible growth stems from the introduction on investment-based models, in particular Marketplace/P2P Business Lending. In 2016, this model accounted for $9.1 million and accounted for 93% of Peru's total alternative finance volume. Reward-based Crowdfunding contracted by 64%, from $201 thousand in 2015 to $73 thousand in 2016.

THE REGULATORY LANDSCAPE ACROSS THE AMERICAS

In the 2017 Americas Alternative Finance Industry Survey we included questions to inquire about the industry's perception on regulations in the market. For practicality, we divided all platforms into debt-based and equity-based platforms for analysis. Non-investment models (Reward-based and Donation-based Crowdfunding) are excluded from analysis because they fall outside of most regulatory purview.

Platforms across the Americas have a variety of opinions regarding existing national regulations in their respective home countries.

The equity-based segment is clearly divided between platforms who perceive regulation as excessive and too strict (36%), and those who believe regulation is adequate and appropriate (also 36%). These rather opposing views signal a major difference in experience with regulations within the aforementioned segment of the alternative finance industry. Debt-based platforms are similarly divided. While 24% think that regulation is excessive and too strict, 31% believe it is adequate and appropriate. On the other hand, the majority of platforms on both the equity-based (59%) and debt-based segments (36%) seem to agree that the proposed national regulations of their respective home countries are adequate and appropriate, signaling an increasingly optimistic view for the future of the market.

While 51% of debt-based platforms think that the existing state regulations are adequate, only 18% consider them excessive.

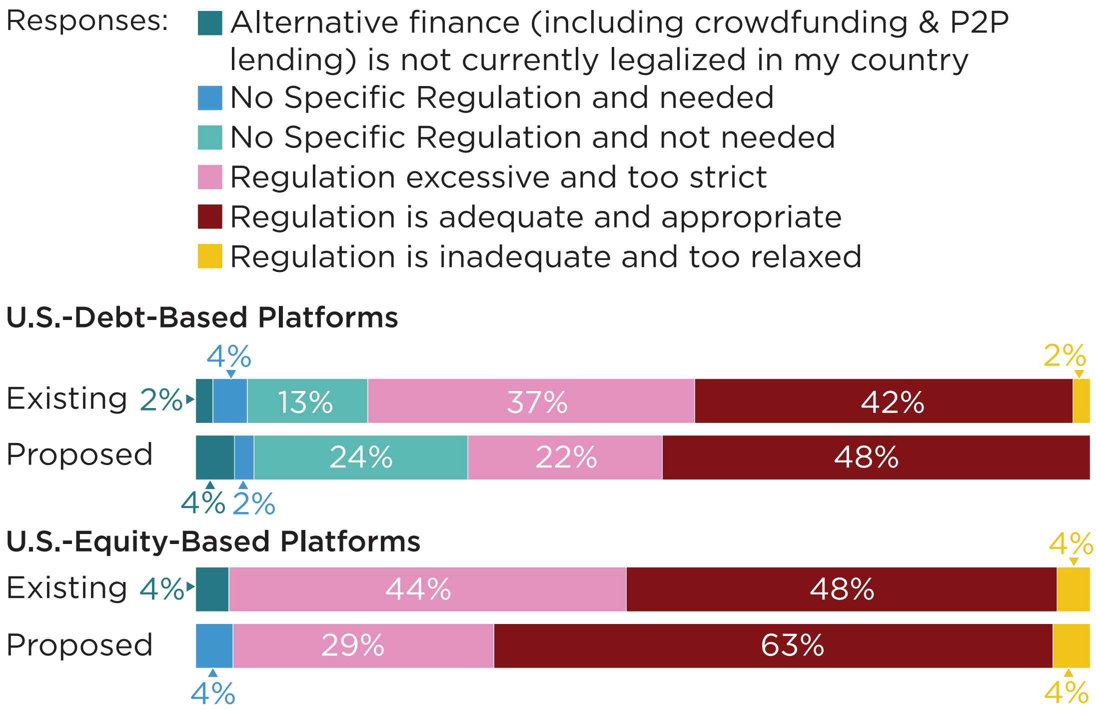
There are small variations in perceptions of regulations from country to country. In the United States (US), the debt-based segment seems to be similarly divided with respect to both existing and proposed national regulations. However, there is a clear consensus with regards to state regulations. While 51% of debt-based platforms think that the existing state regulations are adequate, only 18% consider them excessive. On the other hand, the difference for equity-based platforms is less significant: 41% think regulation is excessive and 55% believe it is adequate. Once again, such polarization signals a major difference in the experiences that platforms have respective to how their activities are supervised.

One Year on in the United States

The US securities crowdfunding market, operating under Regulation Crowdfunding (Reg CF), opened on May 16th, 2016. As of March 31st, 2017, 266 companies have started or concluded securities issues through 26 registered funding portals. The median company is just over 1 year old, has 3 employees, offered a minimum of $50,000 (Reg CF operates under an all or nothing principle), and required that investors invest at least $100. Investors have committed to purchasing $35 million in securities through 39,000 transactions. The median investor invested $300 and is located 900 miles from the company headquarters. 50% of the companies succeeded in raising their minimum. The median successful company raised $200,000 from 350 investors.

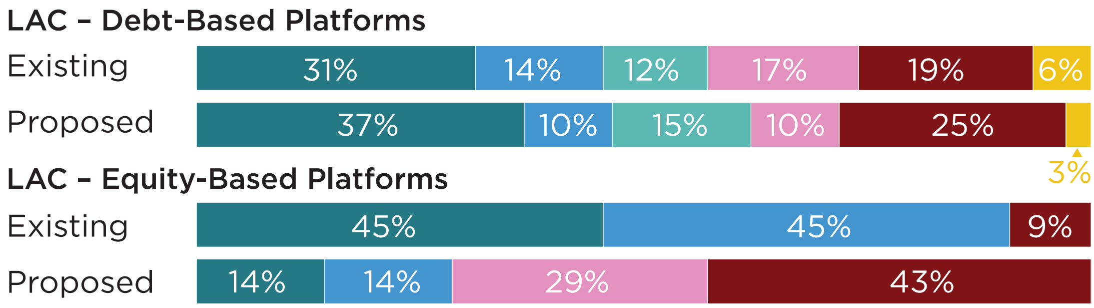
For additional market details and analysis see Abrams, 2017 “Securities Crowdfunding: More than Family, Friends, and Fools?” at https://ssrn.com/abstract=2902217.

Figure 25: Americas Alternative Finance Platform Perceptions Toward Existing and Proposed National Regulation



In Canada, 58% of debt-based platforms perceive existing national regulation as adequate and appropriate to their activities, with only 17% viewing regulation as excessive and too strict. On the contrary, equity-based platforms have a significantly more pejorative view of existing national regulation, with 75% of platforms viewing regulation as excessive and too strict.

In LAC, the ratios of platforms that consider regulations excessive to those who think of them as adequate are also similar. It is also important to note that the industry is largely unregulated in the region, especially the equity-based segment. However, there are differences from country to country. In Mexico, 50% of debt-based platforms consider the existing national regulation to be adequate, while only 17% think of it as excessive. On the other hand, the Mexican equity-based segment does not have any concrete regulations in place. In Brazil, 29% of debt-based platforms answered that although there is no specific regulation in the industry, none is needed, while 24% think the current regulation is inadequate and too relaxed.



Current Regulatory Developments in Latin America

Across LAC, alternative finance platforms are actively working to create more and new spaces within financial regulation and policy to ensure the development of the sector. To generate bargaining power, and public awareness, platforms are creating national and international associations within the context of Fintech or just Alternative Finance.[21]

Intergovernmental organizations, such as the Inter-American Development Bank (IDB), are collaborating with the LAC governments in their Alternative Finance and Fintech-related regulatory efforts to foster the growth of a sound ecosystem. In this sense, the bank issued a Discussion Paper focused in regulation for Alternative Finance, containing nine recommendations to properly regulate the industry in the civil law context for most of the countries within the region.[22] Secondly, using the principles from such document and the experience from Spain and other countries, IDB has been working with the governments from Chile.[23] Mexico, Argentina,[24] Peru and Paraguay[25] in efforts towards the creation of a regulatory framework for Alternative Finance and Fintech in general.

Some countries are moving towards issuance of regulations for one or more of the investment-based online alternative finance models, such as Argentina with their Entrepreneurship Act (Ley del Emprendedor),[26] which regulates equity crowdfunding and creates legal faculties for the National Securities Commission (Comisión Nacional de Valores) to rule and provide oversight on activities. Some others are regulating Fintech in a broader attempt, such is the case of Mexico, where a "Fintech Act" draft is already in place and the authorities[27] are currently reviewing comments from the industry and international entities. Chile, Peru and Paraguay are in the works for Alternative Finance regulations accompanied with regulatory sandbox initiatives.

Many of these efforts have been the result of the fast-growing pace of the Alternative Finance platforms in countries such as Chile and Mexico. In some other cases, governments are open to create a play field for entrants and are creating space using regulatory sandboxes and other regulatory and policy tools.

Governments are aware of the existence of Alternative Finance in the region and they are prudentially regulating the activity as it is growing steadily, as this study has shown.

[21] A variety of industry-driven associations have emerged across LAC. The Mexican Crowdfunding Platforms Association (AFICO - Mexico http://www.afico.org), the Brazilian Equity Crowdfunding Association (EQUITY- http://equity.org.br/) and the Chilean Crowdfunding Association (AFICO-Chile http://afico.cl/), all founded in 2014, were the pioneer associations within the region. The dialogue has been widened through time and the Alternative Finance scene has been amalgamated into the broader concept of Fintech. This created the space for Fintech Associations in Brazil (Fintech Brazil- http://fintechbrazil.com), Mexico (Fintech México https://www.fintechmexico.org), Colombia (Colombia Fintech https://www.colombiafintech.co/), Uruguay (Cámara Uruguaya de Fintech),Peru (Asociación Peruana de Fintech https://cafu.org.uy/), among others.

[22] Diego Herrera: "Alternative Finance (Crowdfunding) Regulation in Latin America and the Caribbean: A Balancing Act", (BID, Washington DC, September, 2016). Available at: http://dx.doi.org/10.18235/0000430.

[23] See: Pulso (January, 2017): "Industria del crowdfunding celebra regulación y hace énfasis en protección del inversionista": http://www.pulso.cl/noticia/empresa---mercado/empresa/2017/01/11-98107-9-industria-del-crowdfunding-celebra-regulacion-y-hace-enfasis-en-proteccion-del.shtml and El Mercurio (August, 2016): "Hacienda pide asesoría para regular el financiamiento colectivo": http://www.elmercurio.com/Inversiones/Noticias/Fondos-Mutuos/2016/08/18/Hacienda-pide-asesoria-para-regular-el-financiamiento-colectivo.aspx.

[24] See: Comisión Nacional de Valores: "La CNV sede de XVIII Jornadas sobre Tecnología: "Ciberseguridad y las actividades FINTECH": http://www.cnv.gob.ar/web/secciones/prensa/comunicados.aspx?id=138&p=1

[25] See: ultimahora.com (January, 2017): "CNV presentaría en marzo proyecto para financiación colectiva": http://www.ultimahora.com/cnv-presentaria-marzo-proyecto-financiacion-colectiva-n1052597.html

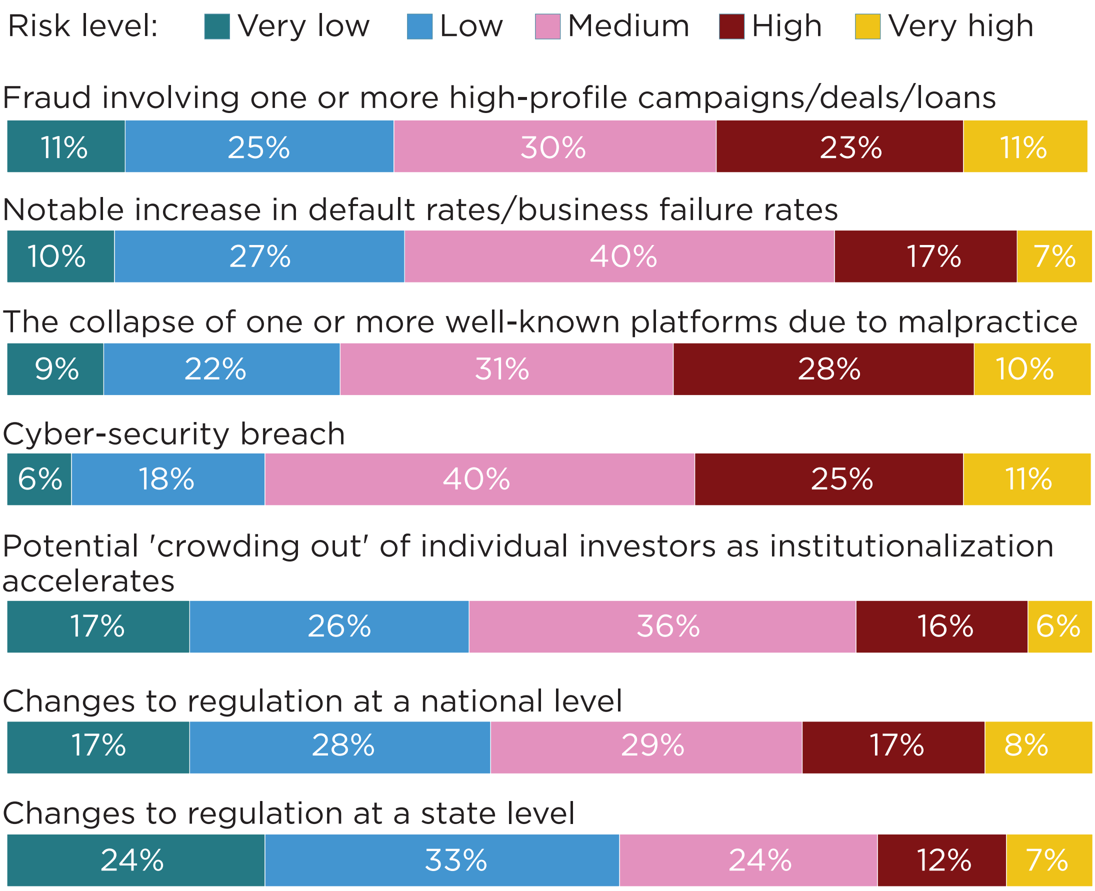
[26] See: Ministerio de Producción: "Ley del Emprendedor": http://www.produccion.gob.ar/quieroemprender/

[27] Finance Secretary and the Banking and Securities Commission (Comisión Nacional Bancaria y de Valores - CNBV)

PERCEPTIONS OF RISK ACROSS THE AMERICAS

In the 2017 Americas Alternative Finance Industry Survey, platforms were asked to rate seven different factors as the perceived risk to a platform's operations. These risk factors included fraud, increase in default rates, collapse of well-known platforms due to malpractice, cyber-security breach, crowding-out of individual investors, changes in national regulation, and changes in state regulation. The goal was to identify how these perceptions varied between segments of the industry, regions and countries.

Figure 26: Americas Alternative Finance Platform Perceptions of Risk



Risk across the Americas
Perceived risk within the alternative finance industry remains relatively high. More than half of all surveyed alternative finance platforms in the Americas associate medium to very high risk with six out of the seven aforementioned factors. More specifically, 76% of platform operators believe there is medium to very high risk in the potential of a cyber-security breach, with 36% of these platforms associating this factor with high to very high risk. This factor is viewed as the highest risk to individual companies. The "collapse of one or more well-known platforms due to malpractice" also ranked high, with 69% of platforms viewing this as a medium to very high risk. Interestingly, a slightly larger proportion (38%) of platforms rated this factor as high to very high risk. For both the "fraud" and "notable increase in default or business failure" factors, 64% of platform operators associated medium to very high risk, though more platforms viewed "fraud" (34%) as a high to very-high risk factor.

76% of platform operators believe there is medium to very high risk in the potential of a cyber-security breach

The "potential of crowding out" is viewed as a medium to very high risk to 57% of platform operators, yet it is notable that only 21% of operators would rank this factor as high or very high risk. Given the large emphasis on institutional investors across the Americas, and especially in the United States US), this perceived risk factor was surprising. Finally, while 55% of all platforms perceive medium to very high risk in changes of national regulations, only 43% see a threat in changes of state policies. These statistics provide a general picture of how alternative finance platforms in the Americas perceive risk surrounding the industry. It is clear that most platforms are aware of the potential threats and particularly concerned about cyber-security breaches, collapse of well-known platforms, increase in default rates, and the possibility of fraud.

Country specific perceptions of risk
The information above captures the risk perceptions of all the survey participants in the Americas. While one might expect significant variations from country to country, in reality, risk perceptions about the alternative finance industry are surprisingly similar across nationalities with only small deviations. For example, while 79% of platforms consider cyber-security breaches to be a source of medium to very high risk in the US and Canada, only 70% of Latin American and the Caribbean platforms associate cyber-security breach with such degree of risk. Similarly, fraud involving high-profile campaigns/loans is perceived as a medium to very high risk by 73% of Brazilian and 67% of Chilean platforms, in contrast with only 44% of Canadian platforms. Moreover, while only 52% of US platforms consider changes in national regulations to be a medium to very high risk, 76% of Mexican platforms perceive it as such, which is logical given that legislation to regulate the industry is currently under review in the Mexican Congress. Apart from these minor differences, the risk perceptions of the surveyed platforms are evenly distributed between countries.

Differences between industry segments
Risk perception varies marginally more between industry segments. While 64% of platforms of all segments believe "fraud" is a medium to very high risk for their business, only 47% of real estate crowdfunding participants agreed. 64% of all platforms consider the potential increase of default rates to be a medium to very high risk. The percentage of respondents that consider the collapse of well-known platforms to be a threat of medium to very high risk varies widely among segments of the industry. Only 50% of Donation-based and 40% of Reward-based Crowdfunding platforms associated such factor with a medium to very high risk, but 88% of Marketplace/P2P Property Lending marked it as a source of medium to very high risk. In general, the majority of platforms across segments think of cyber-security breaches as a medium to very high risk, and as such there is no much variation between segments of the industry.

CONCLUSION

Following a year of considerable flux, in 2016 alternative finance models in the Americas have realised steady and sustainable growth, proving the resilience of online alternative finance across the region. In the case of the United States, whilst compared to the previous year, over-all growth has slowed down noticeably, from triple digit annual growth to a more modest 22% in 2016.

Yet this slower pace may signal steadier acceleration, with incumbent alternative finance platforms achieving higher levels of competence whilst continuing to refine their model. When reviewing market trends and dynamics, we note that platforms in the United States are becoming somewhat more self-sufficient, with less reliance on institutional investor-driven volume and diversifying their underlying funding model to include a greater emphasis on balance-sheet driven origination.

In Latin America and the Caribbean, rapid growth (209%) continued unabatedly. Investment-based models, especially in the debt arena, have grown considerably and make up the lion's share of alternative finance volume. As the region develops, there is markedly less reliance on non-investment-based models, especially with respect to Reward-based Crowdfunding which contracted this past year. Mexico, Chile and Brazil are the market leaders in the region, with Mexico and Chile driving business-focused finance.

Business finance has driven rapid growth across Latin America and the Caribbean. With an influx of new micro, small and medium sized businesses entering the arena, continued research is necessary. Therefore, a companion report focused on business fundraisers in Mexico and Chile, supported by the Inter-American Development Bank, is forthcoming. This report will examine business-focused alternative finance in these two markets, particularly from the fundraisers' perspective.

This report is also the first in a series of regional benchmarking reports published by the Cambridge Centre for Alternative Finance and its partners in 2017. By tracking and analysing the online alternative finance at a global level, it is possible to unpack key market trends and discuss regional divergence with a comparative perspective. We hope that these studies will provide up-to-date and reliable market date to provide useful industry overview and enable evidence-based policymaking and regulations in alternative finance.

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