

# EXPANDING HORIZONS

THE 3<sup>rd</sup> EUROPEAN ALTERNATIVE FINANCE  
INDUSTRY REPORT

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UNIVERSITY OF  
CAMBRIDGE  
Judge Business School

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# RESEARCH TEAM

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Tania is the Senior Research Manager at the Cambridge Centre for Alternative Finance, Cambridge Judge Business School. She leads the global alternative finance benchmarking initiative at the Centre, spanning Europe, the Americas, Asia-Pacific and Middle East and Africa. She has co-authored ten industry reports with the Centre since 2016, and leads the SME Access to Finance Initiative in Latin America and the Caribbean. Her research interests include small business economics and SME utilization of alternative funding models. Tania holds a master's degree from the London School of Economics and was a Fulbright Scholar in 2009-2010 in Beijing, China.

## Rotem Shneor

Rotem is an associate professor at the University of Agder (UiA) School of Business and Law in Norway, and serves as the academic director of the university's Center of Entrepreneurship. He has been leading the Nordic Crowdfunding Alliance of platforms 2014-2017, as well as serving as an affiliate researcher at the Cambridge University Center for Alternative Finance. His research includes issues related to crowdfunding success, behavior and motivations, internet marketing, and cognitive aspects of entrepreneurship. He has contributed to a number of chapters to research-focused edited books, as well as published in journals such as Entrepreneurship and Regional Development, Cross Cultural Management, Journal of Product & Brand Management, International Journal of Emerging Markets, Journal of e-Business, Global Business and Organizational Excellence, and the Baltic Journal of Management.

## Kieran Garvey

Kieran is the Lead on Regulation & Policy at the Cambridge Centre for Alternative Finance, Cambridge Judge Business School. His research interests include the application of alternative finance with respect to financial inclusion, early stage ventures, regulatory & policy evolution and technology.

## Karsten Wenzlaff

Karsten is an Alternative Finance Researcher at the University of Hamburg at the Chair for Digital Markets. His research interests are Civic Crowdfunding for Public Goods, Corporate Crowdfunding, and Regulatory Competitiveness in Crowdfunding Ecosystems, especially in Central and Eastern Europe through the project Crowdfundport. Karsten has published reports on the European and German Crowdfunding Ecosystems since 2010. He is a member of the European Crowdfunding Stakeholder Forum of the European Commission and founded the German Crowdfunding Network and is Secretary-General of the German Crowdfunding Association. Karsten has an Mphil from the University of Cambridge.

## Nikos Yerolemou

Nikos is a Research Assistant, Cambridge Centre for Alternative Finance focusing on data and analytics before starting his career in commercial real estate at Lloyds Banking Group. He has since moved to Fortwell Capital as a Leveraged Debt & Structured Finance Analyst.

## Rui Hao

Dr. Hao is currently a research associate and data scientist at the Cambridge Center for Alternative Finance, Cambridge Judge Business School. She is specialized in database design, big data analysis and machine learning.

## Bryan Zhang

Bryan is a Co-Founder and Executive Director of the Cambridge Centre for Alternative Finance and a Research Fellow in Finance at the Cambridge Judge Business School. Bryan has led and co-authored many of the most influential industry reports on the alternative finance industry since 2013.

# FOREWORDS

Cambridge  
Centre  
for Alternative  
Finance



**Robert Wardrop**  
Co-Founder and Director  
Cambridge Centre for Alternative Finance

This is our 3rd European alternative finance report since early 2015, investigating the development of crowdfunding, peer-to-peer lending and other alternative finance intermediation across Europe. The theme we selected for this year's report, Expanding Horizons, reflects some important developments we've identified in our analysis of these activities over course of the past year.

First, the number of countries in Europe with meaningful alternative finance activity is growing. This year our research team collected data from platforms based in an additional ten European countries and the data-set included representation from an additional four alternative finance models against the previous report. Second, the business models and products offered by platforms are evolving and expanding at a rapid pace. Platforms across the region are focusing on solving systemic operational and procedural challenges by prioritizing research and development strategies in process streamlining and automation. Finally, with the forthcoming promise of harmonized regulation, a greater diversity of activities and engagement from national and pan-European regulators may alleviate persistent barriers to cross-border growth and investment.

Our horizons are also expanding at the Cambridge Centre for Alternative Finance, enabled by the financial support provided by our growing base of funders and the intellectual contribution of our colleagues at the University of Cambridge. This is the 15th report about alternative finance activity that we have published since the inception of the research centre in January 2015. Over the course of the past three years we have established and led international research networks that have collected and analysed information about alternative finance development in more than 180 countries. Looking ahead, we will build on these accomplishments by launching several new collaborations in the coming year aimed at making our analysis more accessible to a broader community of academic, regulatory, and industry researchers.



**José Manuel González-Páramo**  
Executive Member of the Board, Head of Global  
Economics, Regulation and Public Affairs  
BBVA

Financial services are undergoing a profound transformation that will eventually reshape banking completely. The combination of new consumer behaviours and demands, together with the widespread use of a number of enabling technologies, and a tendency towards greater regulatory openness, are arguably the key drivers of this process. Fintech, understood as a broad phenomenon that introduces more innovation and stimulates the interconnectedness between incumbents, new entrants and public authorities, is here to stay.

BBVA is an active player of the fintech ecosystem and has a tradition of embracing digital innovation through open challenges, partnerships, acquisitions and internal ventures, to name a few of the tools at hand. This approach is essential to the fulfilment of our purpose, which is “to bring the age of opportunity to everyone”.

There is a long tradition of economic and policy research within BBVA, and we selectively support a few partners that contribute to an even better understanding of the changes that surround us. The Cambridge Centre for Alternative Finance (CCAF) has been delivering outstanding analysis on the different manifestations of fintech for several years, and it is therefore a great pleasure to join them in this 3rd Annual European Alternative Finance Industry Benchmarking Report.

The overall size of alternative finance in Europe (excluding the UK) is still modest when compared to banking intermediation, but it is a fast growing industry that might have material impact on expanding access to finance in the not-so-distant future. Fragmentation is another defining characteristic of European alternative finance today, with a large number of players trying to grow in a variety of niche markets. Unsurprisingly, the research by CCAF shows how some companies are already pivoting their business models to adapt to changing regulatory frameworks and to improve their previous value propositions.

The ambition of a more integrated market for digital financial services is highlighted by alternative finance platforms. Cross-border operations would allow these companies to address a much larger market and leverage economies of scale and network effects. As in any financial activity involving risks, regulation is needed to ensure that innovation can flourish without compromising key policy goals such as financial stability, integrity or consumer protection. 2018 will be a milestone in this journey, as the European Commission will announce its action plan on fintech, which will probably address the current fragmentation in the regulation of alternative finance.

We are confident that this study will contribute to the ongoing debate on the evolution of European alternative finance and that it will provide extremely useful empirical evidence to practitioners and policymakers alike.



**Dr. Rotem Shneor**  
Associate Professor School of Business and Law  
University of Agder, Norway

The 3rd Annual European Alternative Finance Report presents the most comprehensive analysis of the status of alternative finance industry in Europe, covering more countries, alternative finance models, as well as industry trends and developments than was available in its predecessors. Much effort has been placed on data quality verifications and clarifications from all platform informants and research partners. Here, we wish to acknowledge their invaluable contributions, without which this report could not have been written.

Overall, the data collected shows that 2016 saw European alternative finance doubling its volumes from 2015, and continuing an impressive growth. When placed into its short historical perspective, an impression emerges of an industry progressing from an introduction stage catering to innovators, into the growth stage catering to a growing number of early adopters. This growth phase is characterized by entry of new platforms and service providers, overall increasing competition, emergence of first cases of consolidation, diversification of products, and investments in process effectiveness and streamlining.

Despite exhibiting continuous healthy growth, Europe still punches below its potential. Challenges remain both in terms of market education, and amendments of regulation. In Europe regulatory challenges are faced with two barriers. First, most countries have relatively mature and well-established regulatory systems. And, second, these vary significantly across countries. In this respect, our study provides initial evidence that more favorable regulation at national level is associated with higher volumes per capita, as well as with higher share of funding reaching businesses. Accordingly, one can expect that if regulatory conditions will continue to improve at both national and international levels, the industry will be able to maintain and enhance its growth.

Nevertheless, one should acknowledge that the story of European alternative finance sector growth, more importantly, is the story of the democratization of access to finance and investment opportunities for people and ventures in Europe. The industry has generated EUR 2 Billion in 2016, implying that the absolute majority of these funds was invested into European ventures; reaching businesses, entrepreneurs, artists, and social activists. All of which aim at creating value to consumers, investors and society via ventures made possible thanks to the support of the crowd. Accordingly, and by extension, more accommodating regulation for the industry also implies greater access to finance for multiple stakeholders in the economy and more opportunities for value creation.

Here, our findings leave much room for optimism for the coming years. Not only are volumes growing strongly, but platforms are investing actively in innovative solutions towards improving performance and customer service. Moreover, evidence suggests that a greater share of platforms engage in cross-border transactions, although, in most cases, these still represent a relatively modest share of overall volumes (thanks to limitations mentioned above).

Finally, we hope this report, and the insights emerging from it, will be of help to all stakeholders interested in the development of alternative finance in Europe. And we look forward to a continued cooperation with all our partners in monitoring industry developments in the future.



**Kim Taylor**  
President Clearing and Post-Trade Services  
CME Group

The world of banking and financial services continues to change swiftly and dramatically, with alternatives to traditional products and services being introduced daily, significantly impacting the way people and institutions use money.

Previously, financial technology could be regarded as applications of traditional financial services upon existing technologies, but today, we are witnessing truly novel inventions with participation from previously untapped markets. Crowdfunding and peer-to-peer lending are just a few examples where new participants are accessing technological innovations to create new marketplaces.

The size and growth of the online alternative finance market, new entrants and partnerships, and the impacts on regulation and tax incentives, have the potential to transform the global economy. But this transformation can be best achieved only with thoughtful analysis and a thorough understanding of the alternative finance landscape.

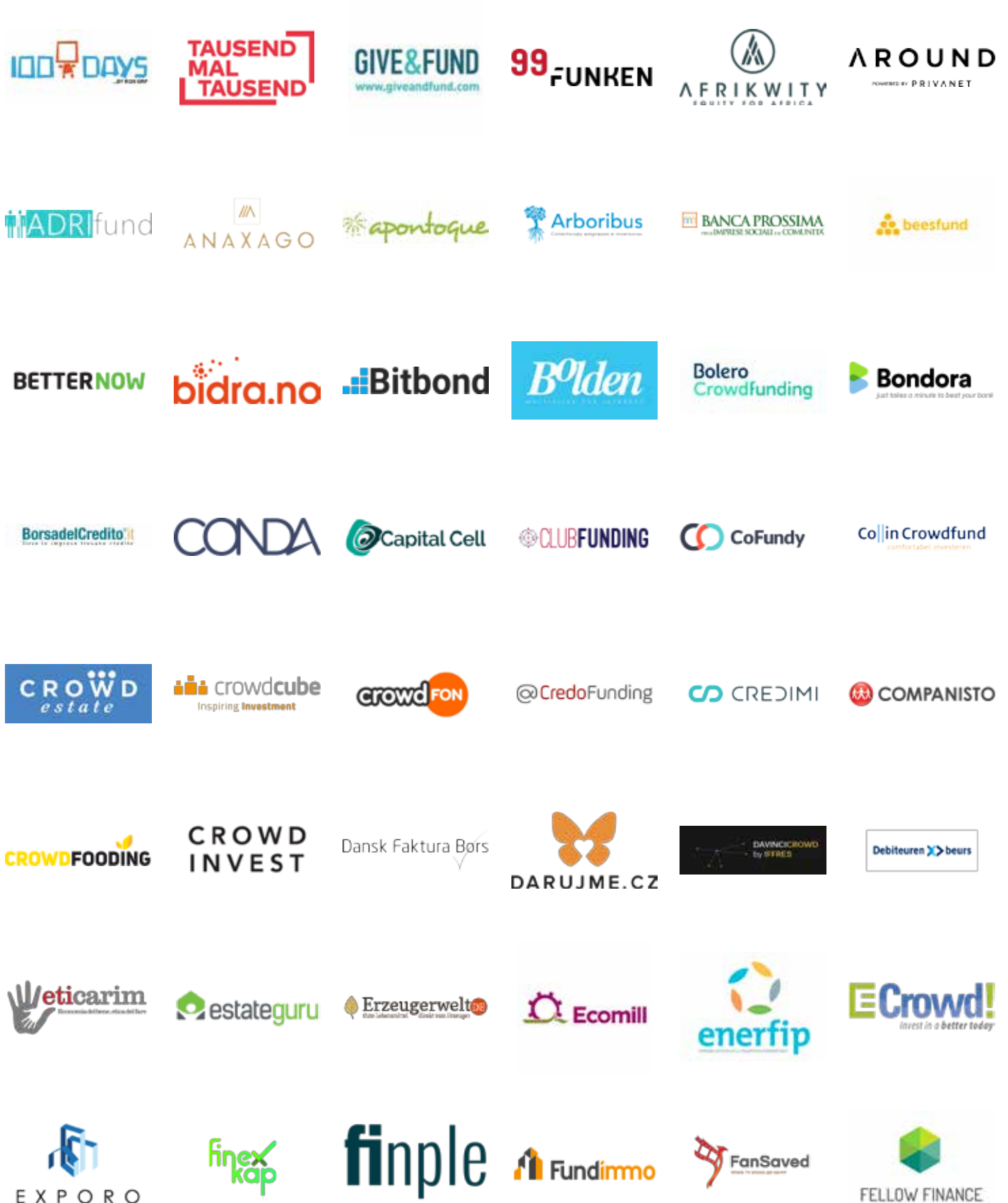
CME Group, as the world's leading and most diverse derivatives marketplace, is proud to support the publication of this series of reports through its Foundation. We believe that it is with informed view of the possible future, we can work to achieve new opportunities and economic prosperity through financial innovation.



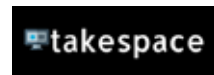
We would like to thank our industry research partners from organisations across Europe who kindly disseminated the survey and provided much appreciated assistance to our study.



We thank the following alternative finance platforms for participating and contributing to this study:











# EXECUTIVE SUMMARY

**This report presents the research findings from the 3rd Annual European Alternative Finance Industry Survey, which systematically records the development of this industry during 2016. This research was carried out by the Cambridge Center for Alternative Finance at the University of Cambridge Judge Business School, with the support of 29 major European industry associations and research partners, in partnership with BBVA.**

## THE KEY CONCLUSIONS OF THE REPORT ARE SUMMARIZED BELOW

This study gathered data from 344 crowdfunding, P2P lending and other alternative finance intermediaries across 45 countries in Europe, out of which 267 platforms are operating outside of the United Kingdom. We estimate that this database captures 90% of the visible alternative finance market.

The study shows that the total European online alternative finance market grew by 41% to reach € 7671m in 2016.

Excluding the United Kingdom, which remains the largest individual market, the European online alternative finance industry grew 101% from € 1019m to € 2063m in 2016. This represents a substantial increase in annual growth from 72% in 2015, and is also above the average annual growth of 85% between 2013 and 2016.

- France, Germany and the Netherlands remain the top three national markets for online alternative finance by market volume in Europe, excluding the United Kingdom. The French market reached € 443.98m followed by Germany (€ 321.84m), the Netherlands (€ 194.19m), Finland (€ 142.23m), Spain (€ 130.90m), Italy (€ 127.06m) and Georgia (€ 102.58m), which experienced a boom in 2016. The Nordic countries collectively generated €322.6m, placing them as the second largest regional market in mainland Europe, followed by the Benelux countries (€ 245.8m), the Baltic states (€136.1m), Iberia (€ 135.3m), Eastern Europe (€ 70.8m), Central Europe (€ 51.1m), South Eastern Europe (€ 9.8m), and European members of the Commonwealth of Independent States (€ 5.8m). The United Kingdom maintains its position as the main alternative finance market, albeit with a declining market share from 81% in 2015 to 73% in 2016.
- For a second year in a row, Estonia ranked first for alternative finance volume per capita with €62.68, followed by Monaco (€50.78) and Georgia (€27.58). On a per capita basis France and Germany place twelfth and fourteenth, which contrasts to their positions when analyzed in terms of absolute volume generated. Considerable shifts in overall rankings indicate that even countries with smaller online alternative finance volumes may have greater penetration and usage of these models. In almost every instance, high total volume does not necessarily reflect a strong correlation with per capita distribution rankings.
- P2P Consumer Lending accounts for the largest market segment of Alternative Finance in Europe (excluding UK) for a 3<sup>rd</sup> year in a row. This model accounted for 34% of all volume, and grew by 90% from €366m in 2015 to €697m in 2016. P2P Business Lending (17% of market share), Invoice Trading (12%), Equity-based Crowdfunding (11%) and Reward-based Crowdfunding (9%) rounded out the top-five performing models across the region.
- Institutionalization grew considerably from 2015 to 2016, with 45% of P2P consumer lending and 29% of P2P business lending funded by institutions such as pension funds, mutual funds, asset management firms and banks. 13% of the investment in equity-based crowdfunding was also funded by institutional investors such as venture capital firms, angels, family offices or funds.
- Online alternative finance for businesses continued to grow, providing €1126m to 14,521 businesses across the region. Debt models (including P2P Business Lending, Invoice Trading, etc.) accounted for 67% of all business finance, while equity models (Equity-based Crowdfunding, etc.) accounted for 27%. France (€218m), the Netherlands (€182m), Spain (€100m), Germany (€97m) and Italy (€88m) drove business-based alternative finance volumes, supporting their SME market through a variety of models.
- Perceptions of regulation adequacy is associated with higher volumes per capita and higher share of business funding. Based on analysis of 17 countries, for which data was sufficient, we find a trend line suggesting that the greater the share of platforms indicating that existing regulatory framework is adequate in their countries of operation, the more likely these countries to exhibit higher levels of alternative finance per capita, as well as a larger share of business funding out of total alternative finance volumes in the same country.
- Most alternative finance platforms across models are operating internationally, although cross-border transaction flows still represent only a modest share of platforms' volumes. In 2016, 77% of platforms reported some level of cross-border inflows in support of local campaigns, and 44% reported outflows of local users' support for campaigns abroad. This represents a growth of 43% in the share platforms reporting cross-border inflows, and 83% growth in share of those reporting cross-border outflows. Despite a larger share of platforms overall reporting cross-border transactions, most still indicate relatively modest levels of such activities; 61% of platforms reporting cross-border inflows as representing up to 10% of their volumes, and 50% of platforms reporting cross-border outflows as representing up to 10% of their volumes.
- In alternative finance models associated with larger volumes, a greater share of platforms report significant changes to product offerings and business models, and in alternative finance models associated with lower volumes, lower shares of platforms report such changes. Most changes are reported in the context of P2P consumer lending and P2P property lending, where 59% and 45% of these platforms respectively report introducing significantly new products during 2016. Additionally, 27% and 36% respectively report introducing



significant changes to their business models during 2016. By contrast, the smallest shares of platforms reporting introducing significantly new products in 2016, are associated with invoice trading (11%), reward (23%) and donation crowdfunding (23%) platforms. Similarly, relatively small shares of these platforms also report significant changes to their business models, with 22%, 14% and 13% respectively.

- Most innovation focused on improving operational efficiency through process streamlining and automation, as well as releasing bottlenecks associated with payment processing and customer verification. Investments in process streamlining and automation are particularly common in invoice trading (89%), P2P consumer lending (86%), and Equity-based Crowdfunding (73%). These investments were coupled with efforts to reduce two significant bottlenecks, namely payment processing and customer verification. Payment processing is reported as an area of focus by 64% of reward crowdfunding platforms, 50% of P2P consumer lending platforms, and 49% of P2P business lending platforms. Customer verification is reported as an area of focus by 45% of P2P consumer lending platforms, 44% of P2P business lending platforms and 33% of Equity-based Crowdfunding platforms. Investments in customer service remain a second priority, where platforms mostly invest in community management, CRM systems and social media promotional tools for platform users.

- Two types of risks are of greatest concern for European alternative finance platforms across models – potential collapse of one or more well-known platforms due to malpractice, and fraud involving one or more high-profile campaigns/deals/loans. These concerns resonate within a burgeoning industry seeking public legitimacy and which remains under close regulatory scrutiny. First, the risk of a well-known platform collapsing due to malpractice is most prominently mentioned by 62% of real-estate crowdfunding platforms, 55% of invoice trading platforms, and 54% of consumer lending platforms. Second, the risk of fraud in a high-profile campaign was mostly mentioned by 89% of invoice trading platforms, 56% of real-estate crowdfunding, and 36% of P2P property lending platforms. Both concerns were also mentioned by about a third of equity crowdfunding and other crowdlending platforms.

- While overall perceptions of regulation adequacy remain divided, greatest discontent is recorded with respect to laws governing equity-based crowdfunding. Almost half of equity-based crowdfunding platforms deem existing regulation as either excessive (43%) or lacking and needed (5%). For debt models, 45% of relevant P2P Property lending platforms assessed regulation as lacking and needed, and 18% considered what exists as excessive. In terms of P2P business

lending, 29% consider existing regulation as excessive, and 16% consider it lacking and needed. In the case of P2P consumer lending, 27% view existing regulation as excessive and 12% as lacking and needed.

Last year's report was entitled 'Sustaining Momentum', serving as much as a descriptor of the status quo as a hope for long-term resilience and sustainability of this industry. In our concluding remarks, we commented that if platforms placed emphasis on innovation and transparency, the continued growth of the industry would naturally follow. Findings for 2016 provide evidence that alternative finance in Europe has certainly sustained momentum. As such, this report is titled 'Expanding Horizons' to reflect the positive developments in European alternative finance in 2016, and sets a stage for further and future development of the industry. This study was the first to capture market data from 45 European countries, expand inter-European regional analyses, and included 4 additional models against the previous year. It is also the first to account for issues related to industry innovation, R&D priorities and internationalization trends.

While consolidation exists within certain jurisdictions, new platforms continue to emerge while others disappear. Surviving platform operators continue to innovate and expand, bringing new products and channels to their local and foreign markets. Overall prospects for further domestic and international growth remain substantial. Business funding derived from alternative finance continues to grow considerably, providing potential solutions to SMEs still facing challenges with accessing finance, and especially at early stages.

Looking forward, adjustments and developments to existing and potential regulatory regimes at a local and pan-European level will hopefully pave the way for sustained growth within the sector. These changes have the potential to support a higher volume of cross-border transactions, as well as facilitating investments into innovation efforts that focus on process efficiencies and improved customer service features.

# INTRODUCTION

## RESEARCH RATIONALE & OBJECTIVES

Entitled 'Expanding Horizons' this is the third comprehensive European alternative finance benchmarking report examining the growth and development of the European Alternative Finance market at both regional and country levels. This report also examines platform operability in more detail than previously, seeking to identify how business models are evolving to achieve continued success within their country's financial framework.

# METHODOLOGY

The following section outlines key aspects and considerations relating the methodological choices in the current study, including data sources, data collection procedures, data handling and quality control.

## Data Sources

The primary data reported in the following pages comes from the Alternative Finance Industry Benchmarking survey, distributed annually by the Cambridge Centre for Alternative Finance. This survey captured data from active alternative finance platforms with operations in the region. The platform list was compiled based upon the following sources:

- List of platforms from previous years
- List of platforms provided by research partners
- List of additional platforms based upon desk-top research, to include new platforms not identified in the previous sources

The results of campaigns run independently and outside of European alternative finance platform activities<sup>1</sup> were not included in the results of this study. Additionally, volumes from European-based campaigns run on international platforms<sup>2</sup> (excluding Kickstarter and IndieGoGo) were also not included.

## Data collection

The survey consisted of 20 questions, gathering self-reported aggregate-level data relating to the 2016 calendar year from platforms across Europe. Deviating slightly from previous survey structures, this year's survey consisted of four parts: Fundraisers, Funders, Platform Structure & Strategy, and Risks & Regulations.<sup>3</sup> The more structured nature of the survey allowed platforms to provide more comprehensive, precise and cohesive data. Many of the questions remained the same to ensure longitudinal analysis was possible, relating to total transaction volumes, number of funders and fundraisers among others. Platforms were also presented with a series of non-compulsory questions which built on key research themes identified in last year's report.

The research team sent invitations directly to platforms, targeted social media groups and to research partners for distribution via their own independent networks. Invitations to platforms were in the form of email, direct messages via social media and telephone to platform management. The research partners were instrumental in identifying appropriate alternative finance platforms across the region, promoting the survey and serving as advisors to the core research team throughout the research program. The survey was distributed in English, French, Spanish and German. These initial invitations were followed up utilizing multiple reminders in a variety of forms between June 2017 through September 2017.

The survey was hosted on a dedicated site, with submissions accessible only to the principal investigators of this project. To complement the survey, web-scraping was also used to get the most up-to-date transaction volumes for Europe for a limited number of key platforms. This was carried out using widely available Python web-scraping libraries, devised within the research center. Once the data set was collected, any discrepancies such as misattributed volumes and anomalous figures were cross-checked through direct contact with the platforms. When broken down by country and model-type, the data-set covers 45 countries (including the UK) and 267 European platforms (exclusive of web-scraped platforms or UK-based platforms). Focus was made to ensure the inclusion of all major actors by model and by country. This was achieved with the exception of data from two platforms, one from P2P Lending and the other from the Equity-based Crowdfunding models.

## Quality Control and Data Handling

Sanitation and verification were conducted between September 2017 and November 2017. In cases where the survey could not obtain primary data (or where there were discrepancies in reported data), the research team consulted secondary data sets to inform the research and asked for additional or clarifying data directly from the platform. The data used in the previous European report, 'Sustaining Momentum,' was also verified and updated where appropriate.

The research team anonymized and sanitized data prior to analysis. For all average data points the team applied weightings by transaction volume per respondents and significant outliers were removed. At completion the data was encrypted and stored for retrieval exclusively for the use of this project.

The background is a vibrant blue with a dense field of white and light blue stars of varying sizes and brightness. Some stars have prominent four-pointed diffraction patterns, while others are smaller and more distant. The overall effect is that of a deep space or galaxy scene.

# **THE SIZE & GROWTH OF THE ALTERNATIVE FINANCE MARKET ACROSS EUROPE**

## TOTAL MARKET VOLUME

In 2016 the online alternative finance market continued to grow across Europe. The overall regional market volume increased by 41% annually from €5.431 billion in 2015 to €7.671 billion in 2016. The United Kingdom makes up 73% of all European volume (€5.608 <sup>4</sup> billion).

Though the UK is the volume driver for the region, when we exclude the UK from the data set, the rest of Europe exhibits stronger growth, with total transaction volume increasing by 101% year-on-year.

The European Alternative Finance market exhibits continued growth since data collection started in 2013. This growth has been accelerating in mainland Europe in large part due to fast developing markets in smaller European countries. When the UK is included in volume statistics, the rate of growth decelerates year-on-year. Whilst France, Germany and the Netherlands remain well established markets within Europe, alternative finance markets in the Nordics, the Iberian Peninsula and the Baltics are all exhibiting rapid regional growth.

Figure 1: European Online Alternative Finance Market Volumes 2013-2016 in € (Excluding the UK)

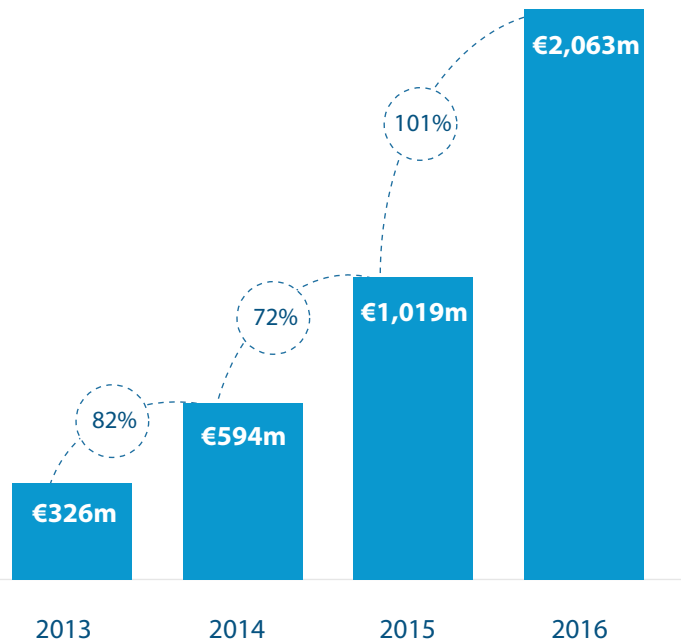


Figure 2: European Online Alternative Finance Market Volumes 2013-2016 in € (Including the UK)

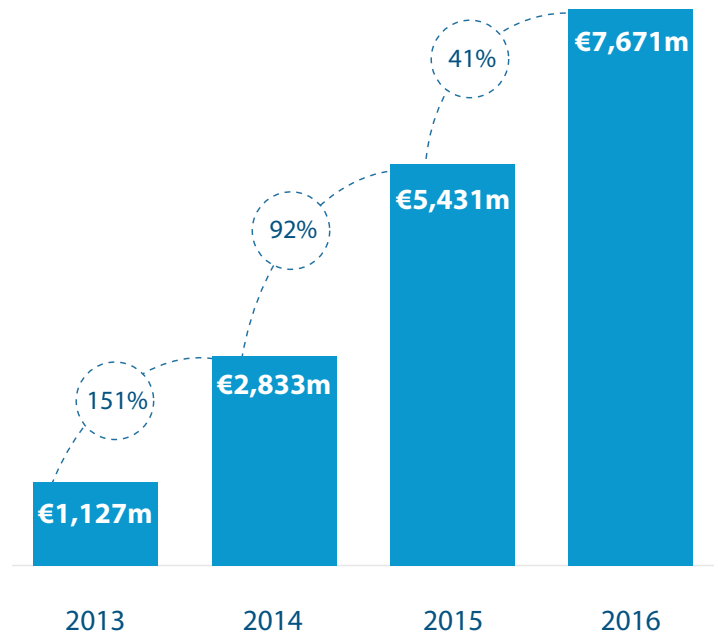
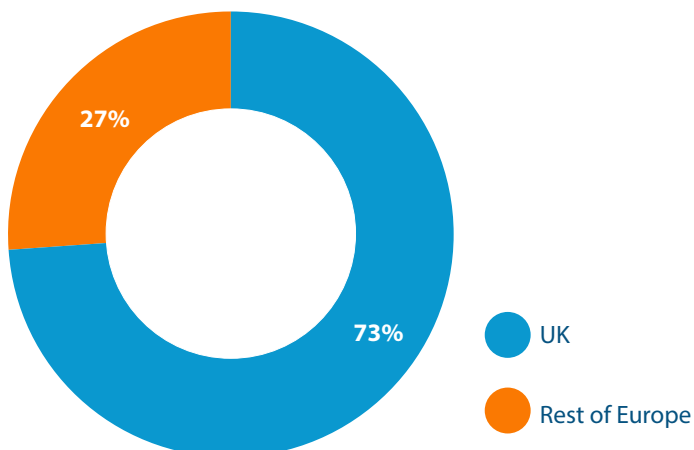
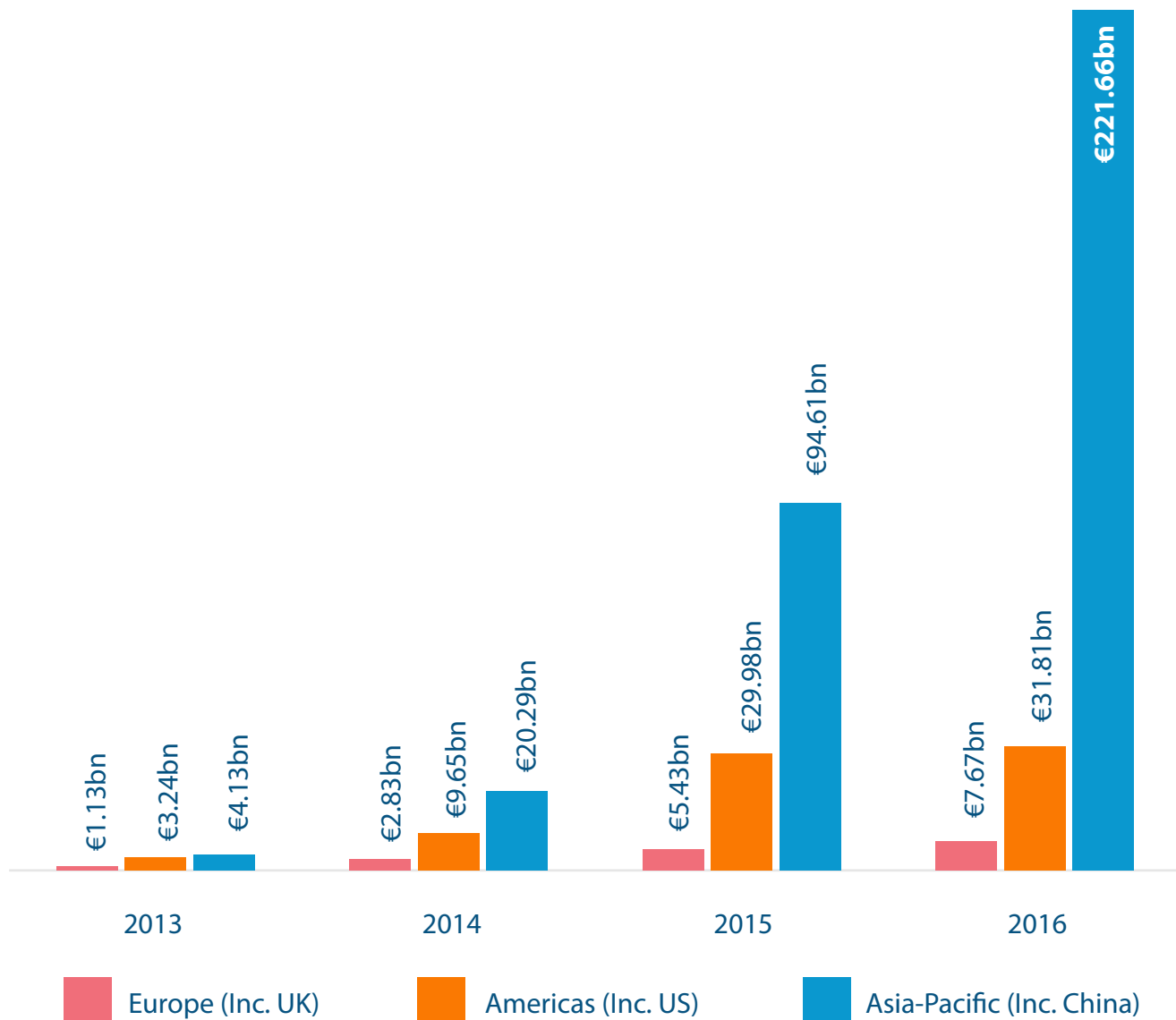


Figure 3: Share of Alternative Finance Market 2016



When including the UK, the annual growth rate has depreciated every year since 2013. The rest of Europe has continued to grow quickly, in large part, due to quickly developing alternative finance markets in smaller countries in the Eurozone. Whilst France, Germany and the Netherlands remain well established markets within Europe, alternative finance markets in the Nordics, the Iberian Peninsula and the Baltics are all good examples of rapid regional growth.

Figure 4: Regional Online Alternative Finance Market Volumes 2013-2015 (€ EUR)



The CCAF, alongside our partners, conducts a global benchmarking research program, tracking alternative finance transaction volumes on both global and regional levels, enabling data collected in Europe to be contextualized globally. Here, the largest region by volume is the Asia-Pacific, which is ahead of the Americas and Europe. In each of the regions one country accounts for a substantial proportion of the volume.

In this context, China accounts for just over 99% of volume within the Asia-Pacific region. Overall, the Asia-Pacific region experienced an annual growth rate of 134%, which was largely driven by the Chinese market; when excluding China, the wider Asia-Pacific grew by 79%.<sup>5</sup>

In the Americas, the United States account for 98% of the volume, and grew by a more modest 22% against the previous year. In contrast, the Latin America and Caribbean online alternative finance industry grew exponentially (209%).<sup>6</sup>

While Europe is the smallest region in comparison to the other two, it is noteworthy that Europe's per-annum growth has been far steadier, growing 85% annually on average between 2013 and 2016. This is especially true when the United Kingdom is excluded from the sample.

## THE GEOGRAPHIC DISTRIBUTION OF PLATFORMS & MARKET VOLUMES

This year's survey captured responses from 45 European countries (excluding the UK), an increase of 11 countries against the previous year. For many of the newly captured countries, platforms operating there were either newly established or were a branch operation of a platform headquartered in another country. While the survey captured platforms from a larger variety of jurisdictions, the research team also noted some decline in repeat platforms against the previous year's survey. While there were a handful of instances where platforms declined to be re-surveyed, in most instances failure to capture repeat data stemmed from platform closure.

This was especially true in already established jurisdictions (i.e. France, Germany) where previously surveyed platforms either had left the marketplace altogether, pivoted into more traditional financial activities or merged with other platforms within their market.

The geographic distribution of participating platforms from Europe<sup>7</sup>, excluding the UK, shows the highest concentration of such platforms in Germany (35), France (33), Spain (32) and Italy (26) and the Netherlands (19). While individually the Nordic Countries (Denmark, Finland, Iceland, Norway and Sweden) had fewer than 10 platforms each, the region recorded 32 participating platforms.

Figure 5: The Geographical Distribution of Surveyed Platforms (2015)

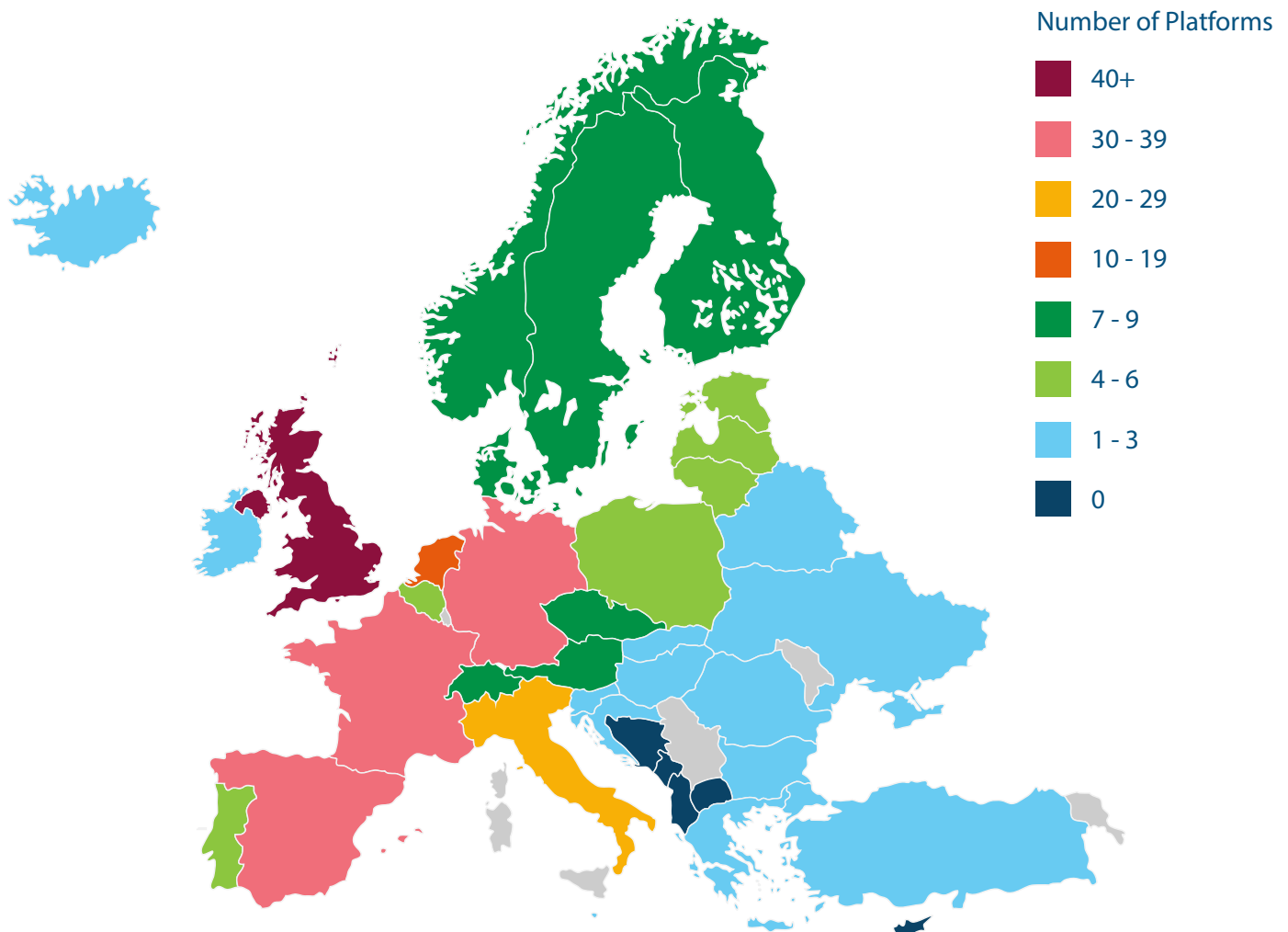
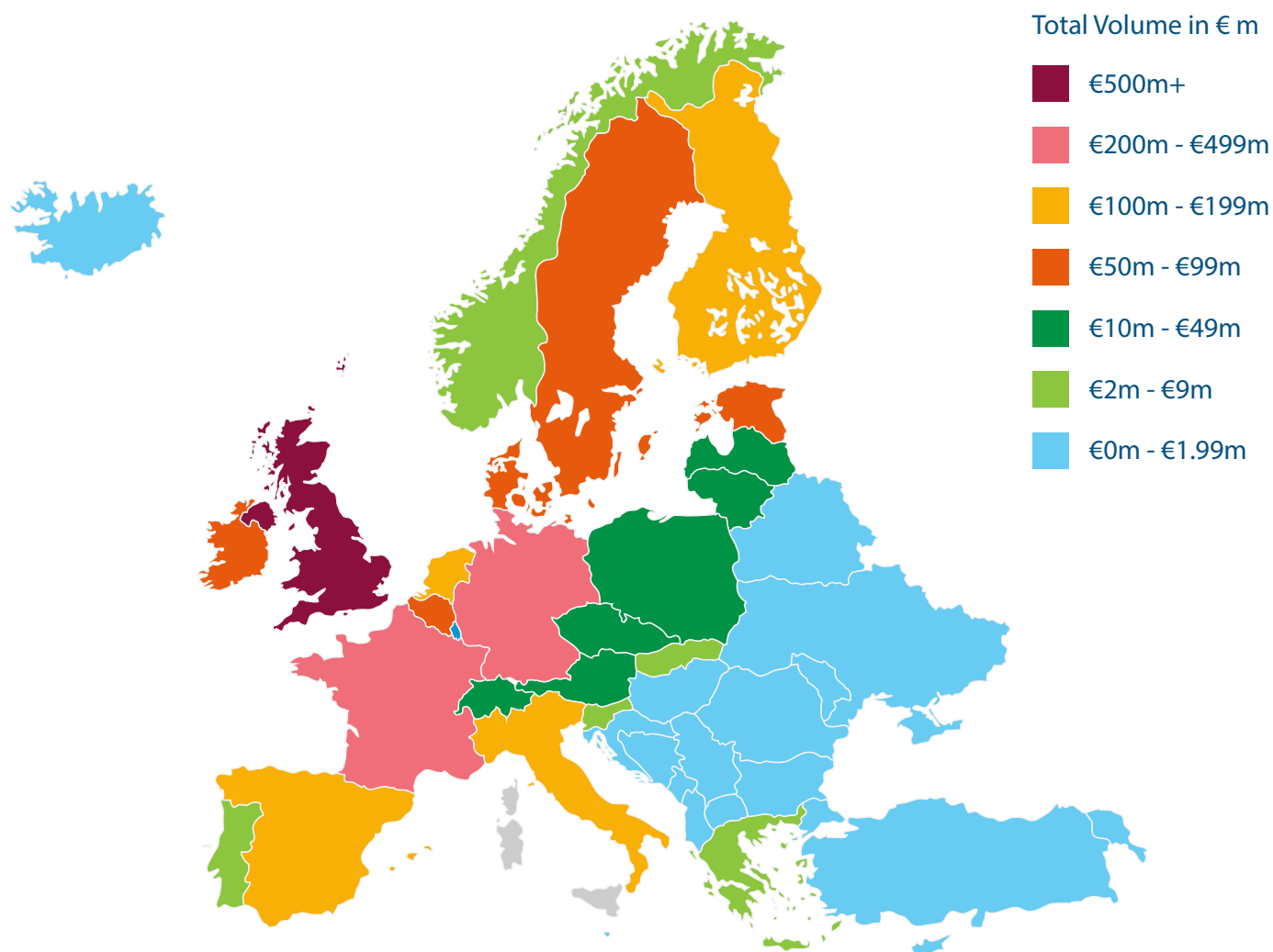


Figure 6: Comparative Market Volumes of Alternative Finance Transactions in the EU (2016)



After the United Kingdom, the top five volume-driving countries<sup>8</sup> were France (€443.98m), Germany (€ 321.84m), the Netherlands (€ 194.19m), Finland (€142.23m) and Spain (€130.90m). (See Appendix 1 for Total Alternative Finance Volume by Country<sup>9</sup>). Interestingly, the volume generated did not necessarily correlate with platform distribution; for instance, Finland had only 8 platforms but ranked fourth in terms of volume whereas Italy, with 26 platforms, ranked in sixth place as related to volume.

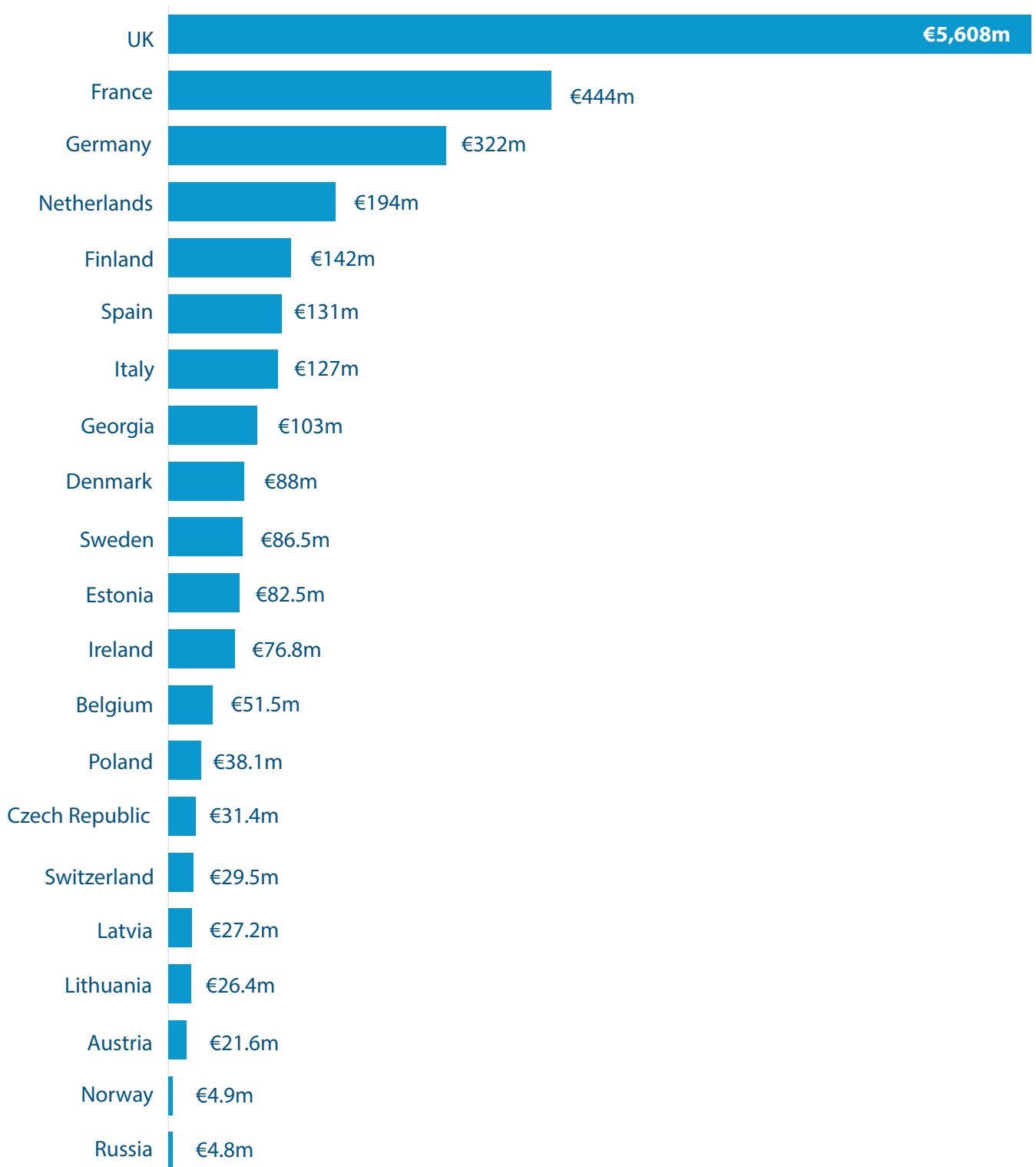
The top three countries by volume (France, Germany and Netherlands) account for just under 47% of the entire region's volume (excluding the UK). While this remains significant, the same three countries accounted for 70% in 2015.<sup>10</sup>

The increase in the countries captured in the survey suggests that alternative finance is becoming more commonplace across Europe, which is in turn distributing volumes more widely across the region, especially toward the Nordic, Baltic and the Iberia regions.

A useful analytical framework is to review alternative finance volumes grouped by European geographical regions. For instance, when reviewed together the Nordics (Denmark, Finland, Iceland, Norway and Sweden) account for just over €322m, Benelux (Belgium, the Netherlands and Luxembourg) account for €245.8m and the Baltics (Estonia, Latvia and Lithuania) account for €136.1m.



Figure 7: Online Alternative Finance Volume by Country 2015 (€ EUR)



## ALTERNATIVE FINANCE VOLUME PER CAPITA

While overall country volume serves as a significant tracker for European alternative finance, by observing alternative finance market volumes as a per capita measure allows for a more nuanced analysis on the development and impact of alternative finance, adjusting for country size.

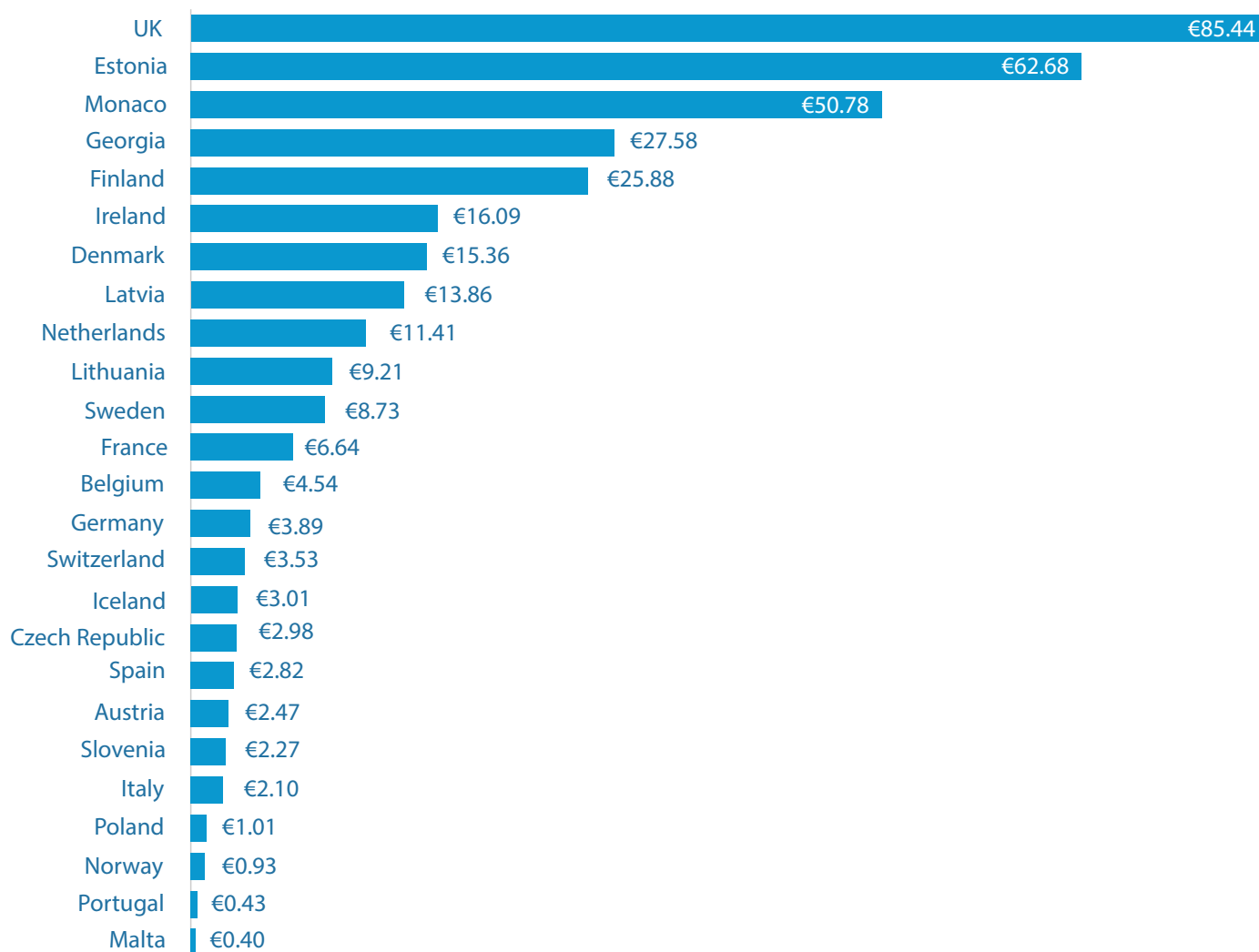
The UK registers highest in alternative finance market volume per capita, at €85.44 (up nearly €20 from 2015 <sup>12</sup>), indicating greater market penetration across the population.

In mainland Europe, the countries reporting highest total volumes are not necessarily the leaders in per-capita terms. For instance, France and Germany slip down to 12th and 14th spot respectively with per capita volumes of €6.64 and €3.89.

This contrasts to Estonia (€ 62.68), which is the highest per-capita performer after the UK despite only landing the 11th place in terms of aggregate volume. Monaco (€50.78) and Georgia (€27.58) are the next highest performers by this measure.

Overall, these considerable shifts in rankings indicate that even countries with smaller online alternative finance volumes may have greater penetration and usage of these models. The only exceptions are that of Finland and Belgium, which remain in 5th and 13th place respectively in terms of both volume ranking and per capita ranking.

Figure 8: Market Volume per Capita by Country for Europe 2016 (€ EUR)



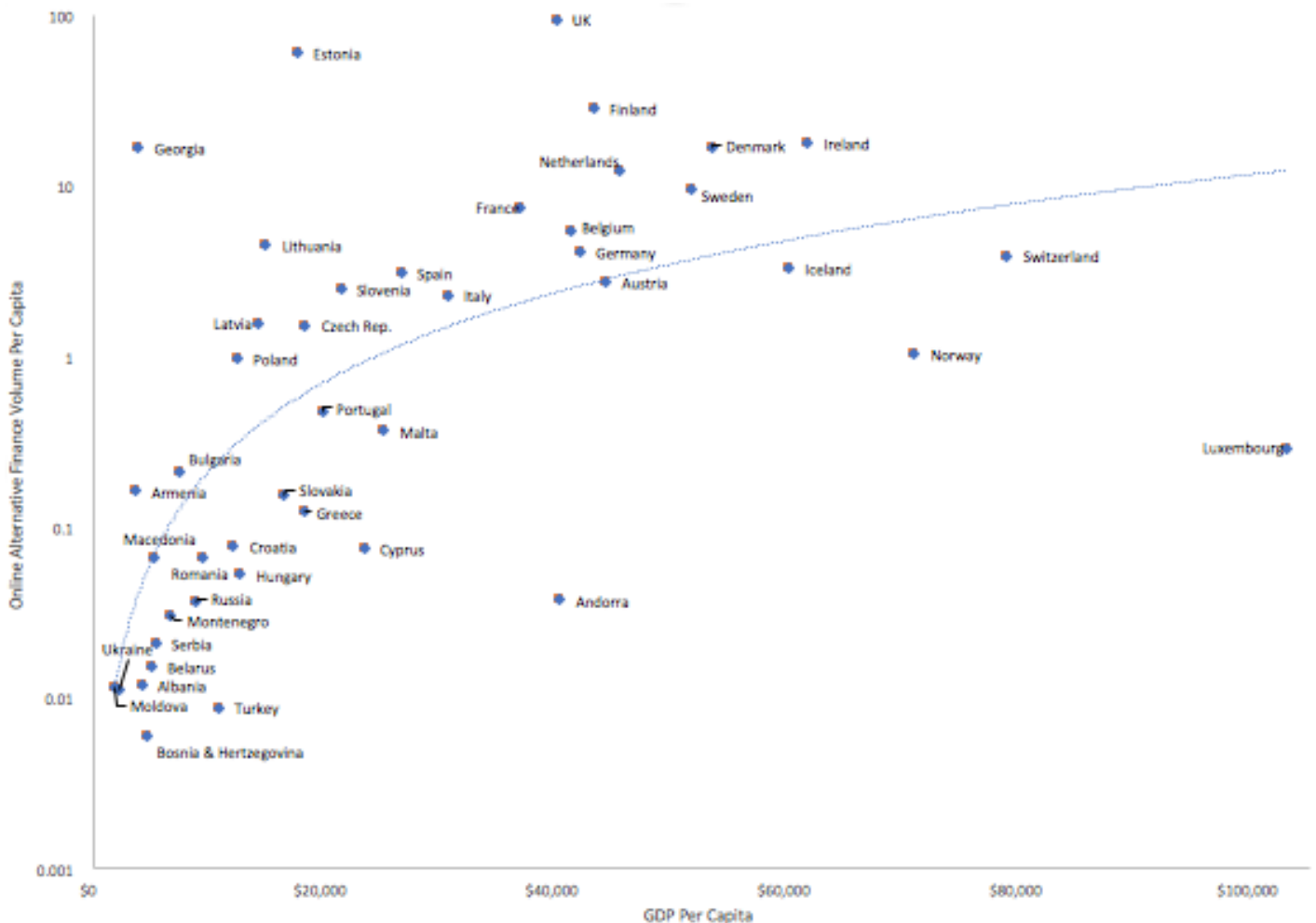
## ALTERNATIVE FINANCE VOLUME PER CAPITA VS. GDP PER CAPITA

Per capita volumes were plotted against GDP per capita for each country to provide another comparative framework. Countries such as the UK, Estonia and Georgia indicated some of the highest contributions of alternative finance per person in contrast to their 2016 GDP (lying well above the line of best fit). Conversely, countries like Norway, Greece, Cyprus and Luxembourg lie well below the line of best fit, a possible indication of an under-utilization of alternative finance in these market versus the potential.

Over the past year, some countries have moved from below the line of best fit to above it; Sweden and Italy, for instance, have both shifted above this line, implying the development of a more sophisticated alternative finance marketplace in these countries.

It is also interesting to review the make-up of platform activity in the countries that lie just above the line of best fit, as opposed to those below. A few possible explanations exist as to why countries such as Norway, Luxembourg or Switzerland, which have high GDP per capita, fall below the trendline. Countries with strong P2P consumer and business lending activities tend to outperform (i.e. UK, Georgia and Estonia), while countries with strong non-investment based models, such as reward-based or donation-based crowdfunding, tend to underperform (i.e. Norway, Greece, Luxembourg, Switzerland, Cyprus, etc.). This is not altogether surprising, as the contributions per fundraise from individual funders will be lower in a non-investment focused model. Additionally, regulatory regimes which might hinder or prohibit investment-based activities (e.g. P2P lending or equity-based crowdfunding) can contribute to underperforming markets. The regulatory impact will be further discussed in subsequent sections.

Figure 9: Total Online Alternative Finance Volume per Capita vs GDP per Capita 2016 (\$ USD)



## THE DIVERSITY OF EUROPEAN ALTERNATIVE FINANCE MODELS

### A Working Taxonomy

European Alternative Finance has grown considerably within the last year. In order to more accurately track development, this study reports aggregate model-based figures from 14 different alternative finance models. This taxonomy mirrors that of the previous European industry benchmarking survey and those conducted in other jurisdictions.

In the 2016 iteration four additional models were added (P2P Property Lending, Balance Sheet Consumer and Property lending, and Mini-bonds) to better represent platform-level activities across the region. The following figures do not include the UK data-set.

| Alternative Finance Model      | Definition   | 2016      | Market Share |
|--------------------------------|--|-----------|--------------|
| P2P Consumer Lending           | Individuals or institutional funders provide a loan to a consumer borrower.  | € 696.81m | 33.8%        |
| P2P Business Lending           | Individuals or institutional funders provide a loan to a business borrower.  | € 349.96m | 17.0%        |
| Invoice Trading                | Individuals or institutional funders purchase invoices or receivable notes from a business at a discount.  | € 251.87m | 12.2%        |
| Equity-based Crowdfunding      | Individuals or institutional funders purchase equity issued by a company.  | € 218.64m | 10.6%        |
| Reward-based Crowdfunding      | Backers provide finance to individuals, projects or companies in exchange for non-monetary rewards or products.  | € 190.76m | 9.2%         |
| Real Estate Crowdfunding       | Individuals or institutional funders provide equity or subordinated-debt financing for real estate.  | € 109.45m | 5.3%         |
| P2P Property Lending           | Individuals or institutional funders provide a loan secured against a property to a consumer or business borrower.   | € 95.15m  | 4.6%         |
| Balance Sheet Business Lending | The platform entity provides a loan directly to a business borrower.   | € 59.13m  | 2.9%         |
| 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. | € 32.40m  | 1.6%         |
| Debt-based Securities          | Individuals or institutional funders purchase debt-based securities, typically a bond or debenture at a fixed interest rate.                                 | € 22.85m  | 1.1%         |
| Balance Sheet Consumer Lending | The platform entity provides a loan directly to a consumer borrower.   | € 16.74m  | 0.8%         |
| Mini-Bonds                     | Individuals or institutions purchase securities from companies in the form of an unsecured retail bonds.   | € 10.16m  | 0.5%         |
| Profit Sharing                 | Individuals or institutions purchase securities from a company, such as shares or bonds, and share in the profits or royalties of the business.              | € 8.36m   | 0.4%         |
| Balance Sheet Property Lending | The platform entity provides a loan secured against a property directly to a consumer or business borrower.  | € 1.00m   | 0.05%        |

P2P Consumer Lending accounted for 34% of European Alternative Finance volume, followed by P2P Business Lending (17%), Invoice Trading (12%), Equity-based Crowdfunding (11%) and Reward-based Crowdfunding (9%). The same five models accounted for the majority of market share in 2015 though not in the same order, with Invoice Trading moving up from fifth in 2015 to third in 2016. The P2P Consumer Lending model remains the largest model in Europe for the fourth year in a row, though with a declining relative market share from year to year. Globally, P2P Consumer Lending also accounts for the highest share in Asia-Pacific and the Americas. It should be noted, however, that this is largely driven by Chinese P2P Consumer Lending (56% of their market) and US-based P2P Consumer Lending (60% of their market).

In 2016, a handful of P2P Consumer Lending platforms also indicated the use of balance sheet lending. Rather than include volumes derived from balance sheet lending, the team opted to collect unique figures as related to the Balance Sheet Consumer Lending model. While this model remains small when compared to other lending models, it is significant to begin tracking in earnest as more platforms begin to operate a balance sheet alongside their P2P activities. In 2016 Equity-based Crowdfunding had a slightly smaller market-share, accounting for 11% of total volume. The market share attributed to Reward-based Crowdfunding also declined compared to previous years, falling to 9% of total volume. In both cases, while relative share may have declined, the total volumes have increased on a year before by 37% in both sectors.

## PREVAILING MODELS & GROWTH IN EUROPE

In 2016, all models tracked experienced positive annual growth, albeit at a variety of rates. P2P Consumer Lending grew by 90%, from €366m in 2015 to €697m in 2016. In the 'Sustaining Momentum' report, it was speculated that P2P Consumer Lending would drop in terms of market-share from its first position to second in 2016, as the model had only experienced 33% growth between 2014 to 2015. The research team noted that much of the hastened 2016 growth came from platforms that operated in multiple jurisdictions, with this model driving volumes across multiple countries. P2P Business Lending grew from €212m in 2015 to €350m in 2016. Although the annual growth rate continues to increase (65% from 2015 to 2016), this is significantly slower than the 128% annual growth from 2014 to 2015. For the first time, the survey tracked volumes associated exclusively to P2P Property Lending (€95m). Similarly, Mini-Bonds were included as a distinct model (€10m) in 2016 as well.

The Profit Sharing model and Balance Sheet Business Lending model both experienced exponential growth between 2015 to 2016, albeit from much lower starting points.

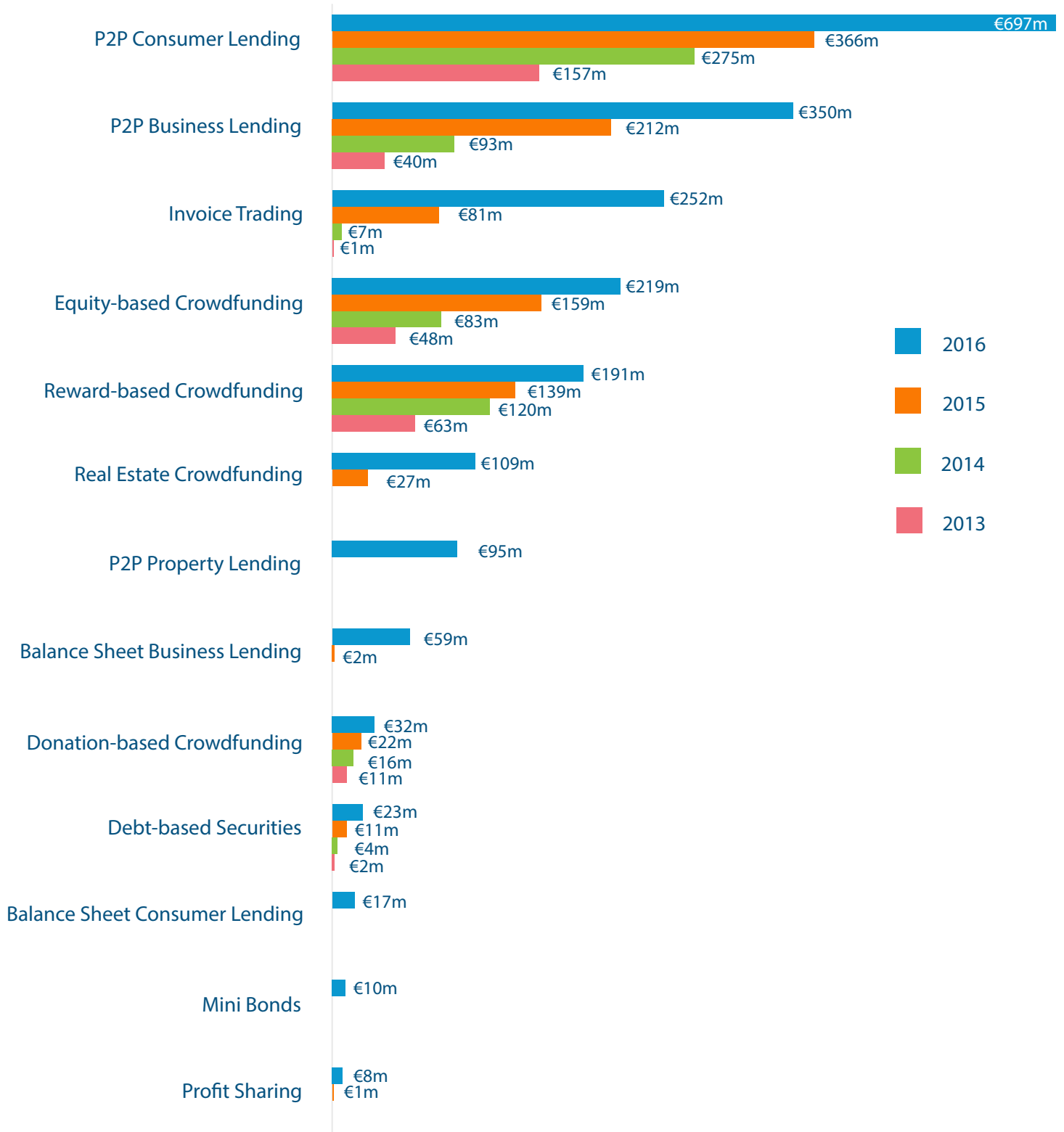
Balance Sheet Business Lending grew to €59m from a low-starting point of €2m in 2015 (2416%), while Profit Sharing grew from €1m to €8m (1449%).

The Real Estate Crowdfunding (306%), Invoice trading (213%) and Debt-based Securities (113%) models all experienced triple digit growth, while the remaining models grew by double digits. All representing emergent models versus models with a slight longer market presence.

Equity-based Crowdfunding grew by only 37% in 2016, from €159m in 2015 to €219m in 2016. Whilst this slow-down is considerable- the 2014-2015 rate was 93% - this slowdown mirrors model activity in the United Kingdom and United States.

Reward-based Crowdfunding grew by 37%, from €139m to €191m. Though this growth rate is seemingly low compared to other models, it is still far in excess of the 16% growth from the previous year. Similarly, Donation-based Crowdfunding grew by 49%, from €22 to €32m in 2016, a modest increase from the 33% annual growth between 2014 to 2015.

Figure 10: Alternative Finance Volume by Model in Europe 2013-2016 (€ EUR)



## COUNTRY CONTRIBUTORS TO KEY MODELS BY VOLUME

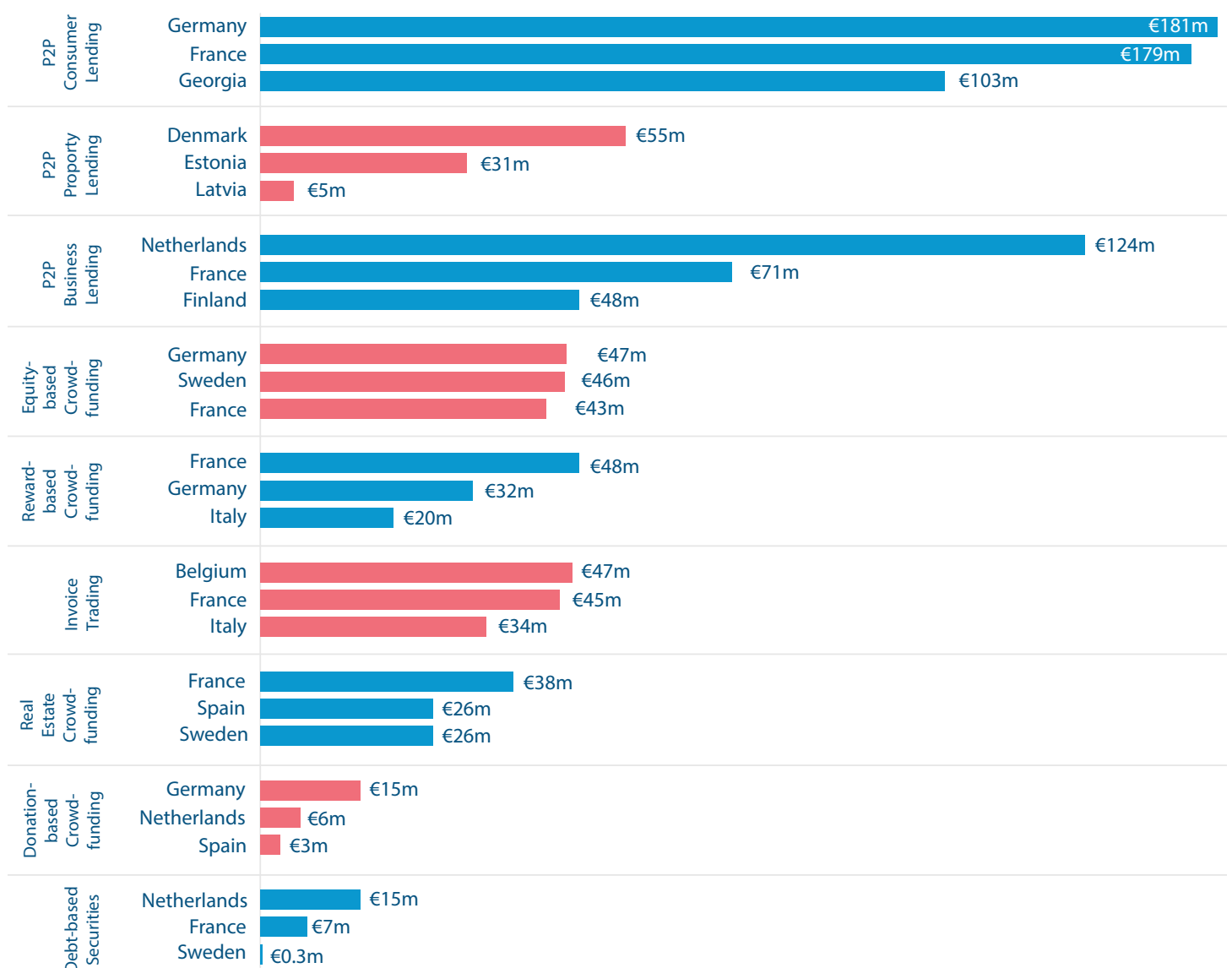
The below chart identifies the top three country contributors to key models in 2016. France appears as top three contributor for seven of the nine models, while Germany appears as top three for four of the models. This is consistent with their status as the key drivers of volume across the entire region.

France is the market leader for the Rewards-based Crowdfunding model (€48m) and Real Estate Crowdfunding (€38m), and comes in second place for P2P Consumer Lending (€179m), P2P Business Lending (€71m), Invoice Trading (€45m) and Debt-based Securities (€7m). France also ranked in third position for Equity-based Crowdfunding (€43.3m).

Germany, though second to France in terms of over-all volume, is the market leader for P2P Consumer Lending (€181m), Equity-based Crowdfunding (€47.4m) and Donation-based Crowdfunding (€15m), and comes in second for Rewards-based Crowdfunding (€32m). The Netherlands also rank highly across the models, leading P2P Business Lending (€124m), Debt-based Securities (€15m) and in second place for Donation-based Crowdfunding.

The P2P Property Lending model is the only model where one of the top three volume driving countries did not feature as a major contributor, with Denmark (€55m), Estonia (€31m) and Latvia (€5m) leading this model. Also of significance is Belgium, which ranks first for the Invoice Trading (€47m).

Figure 11: Alternative Finance Volume Comparison by Model and Country (Excluding the UK) 2016 (€ EUR)



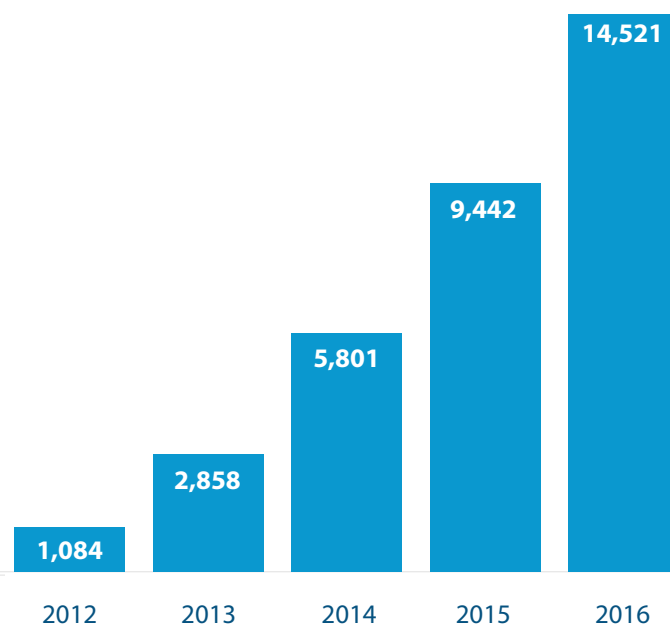
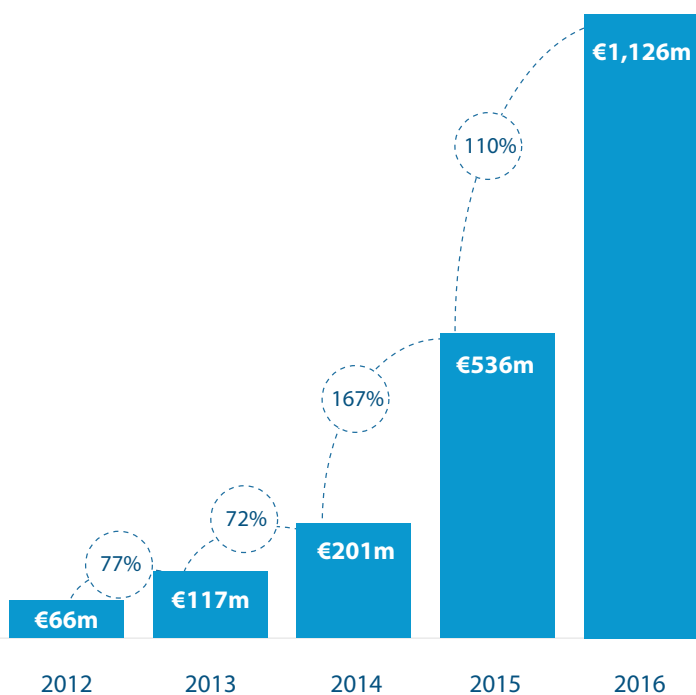
## THE VITALITY OF EUROPEAN ALTERNATIVE BUSINESS FUNDING

The health and strength of the SME sector is considered a key priority across Europe. Nevertheless, business development is often inhibited by an inability to access appropriate levels of financing. Over recent years alternative finance has developed into a viable funding medium for entrepreneurs, start-ups and small and medium sized businesses across Europe.

In 2016, 14,521<sup>13</sup> businesses raised approximately €1126m<sup>14</sup> by utilizing online alternative finance platforms. In terms of volume raised, the 2016 figure represented a 110% annual growth against the previous year's total business funding. Although a considerable growth, the annual growth rate has decelerated somewhat from the 167% annual growth between 2014 to 2015. The number of businesses utilizing alternative finance also grew in 2016 (from 9,442 in 2015), representing an increase of 54%.

Figure 12: Total Online Alternative Business Volumes 2012-2016 (Excluding the UK) (€ EUR)

Figure 13: Number of European Businesses raising Alternative Finance (excl. UK) 2013-2016



A total of €1058m was generated for business across Europe from debt and equity models, leaving only 6% of business funding derived from non-investment models such as reward-based or donation-based crowdfunding.

Across Europe, lending-based platforms account for the majority of the volume generated, with 67% of all business funding coming from debt and lending-based platforms, equating to €754m in 2016. From 2015 to 2016, debt funding increased by 116%, a slight decrease from the 2014-2015 annual growth rate of 156%.

The debt volume was generated from debt based models including P2P Business Lending, Balance Sheet Business Lending, Invoice Trading, Debt-based Securities, etc. The P2P Business Lending model accounted for the most significant proportion of debt-based business funding (€349.96m), followed by Invoice Trading (€251.87).

27% of all business volumes (€304m) was derived from equity models including equity-based crowdfunding and applicable equity crowdfunding from the real estate crowdfunding model.



Interestingly, the annual growth rate for equity models has remained largely the same year-on-year; in 2014-2015, the annual growth rate was 93% compared to 91% in 2015-2016, close to doubling every year-on-year.

While the general funding ecosystem for small and medium sized businesses varies considerably from country to county, latest figures from the European Semester Fact Sheet suggest that some economies fair better in terms of SME access to Finance.

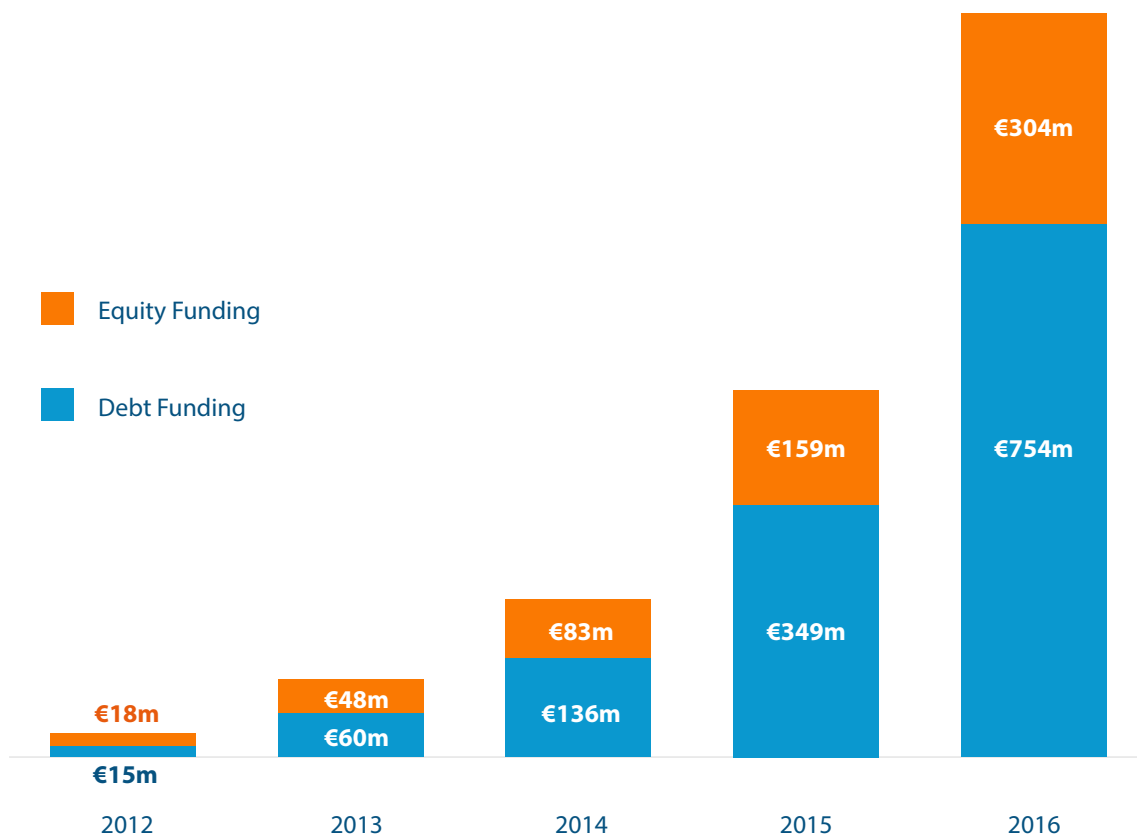
In terms of alternative finance, France, the Netherlands, Spain, Germany and Italy account for the top five countries utilising such alternative finance channels to support businesses. (See Appendix 2 for business volume by country)<sup>15</sup>. Interestingly, three of these five (the Netherlands, Italy and Spain) all registered as countries that, in 2016, fell below the EU average for acceptable SME access to finance, according to the 2017 European Semester Factsheet.<sup>16</sup> This primarily relates to tightened credit standards in such countries where access was below average.<sup>17</sup> The caveat, however, is that traditional access to finance has improved over the time.

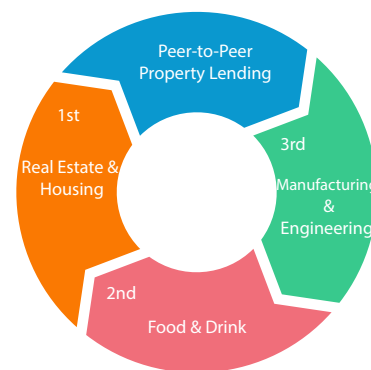
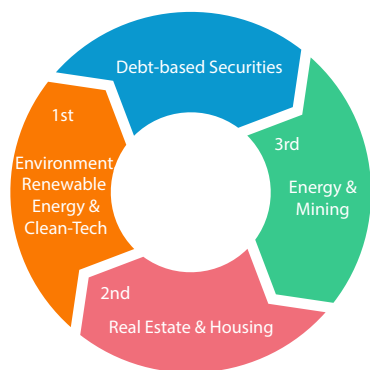
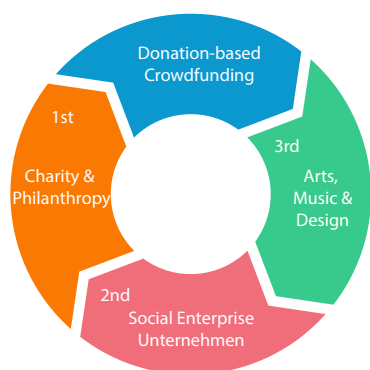
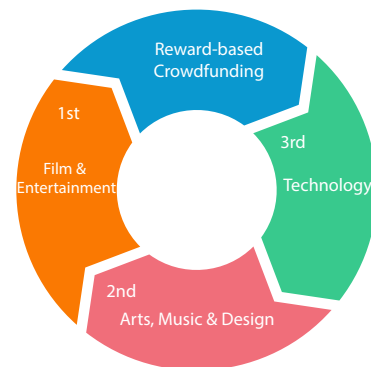
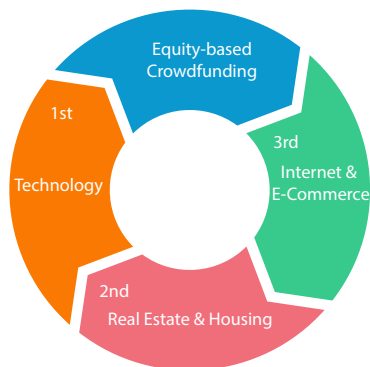
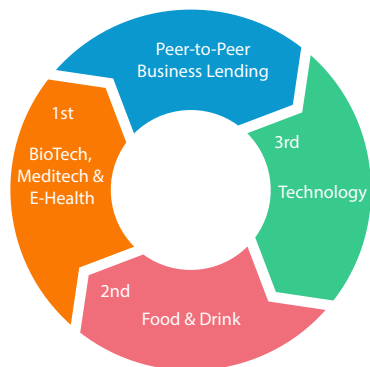
For instance, 'in recent years in Spain, there has been a drop in the proportion of firms facing bank financing constrains, with a firm's ability in accessing bank loans falling from 24% in 2012, to 11% in 2016.' This has reduced the gap as related to the overall Euro area from 12 percentage points to 2 percentage points.<sup>18</sup>

Businesses based alternative finance in France accounted for €218m, with 61% of volume derived from debt models. The Netherlands accrued €182m to local businesses, with 83% of the volume from debt models, with the Netherlands also being the volume leader for the P2P Business Lending model overall. Spanish businesses raised just over €100m, 59% from debt models whilst 36% derived from equity models. In the case of Spanish equity-models, the majority of this volume came from the Real Estate Crowdfunding model, with platform respondents specifically attributing model volume towards small and medium sized enterprises.

German-based platforms raised €97m for German businesses, with 54% of this volume derived from equity models, most specifically the Equity-based Crowdfunding model. This is not surprising, as Germany was the market-leader (accounting for 22%) of all Equity-based Crowdfunding volume across Europe. Finally, Italian-based businesses raised €88m, of which 90% derived from debt models. Much of the Italian-based debt finance came from the Invoice Trading model.

Figure 14: Debt vs Equity Online Alternative Business Finance 2013-2016 (€ EUR)





One of the key characteristics of alternative finance is to be sector-agnostic across models, though some platforms tend to attract certain specific sectors. The data supports this notion that business from a variety of sectors and industries can successfully utilize alternative financing. In the 2016 survey, platforms were asked to rank business sectors as representative of the largest proportion of successful funding on their platform.

Some models were fairly sector agnostic, with their highest-ranking sector accounting for only 10-12% of their platform total volume. This was the case for P2P Business Lending and Invoice Trading. Though Equity-based Crowdfunding did indicate just over 20% of funding to 'Technology', the remaining sector splits were fairly even and included Real Estate & Housing, Internet & E-Commerce, Food & Drink, BioTech & E-health, to name a few.

Some models are aligned with certain industries and thus naturally derive most of their volume from them. For instance, it is not surprising that the vast majority of sector-representation for Real Estate Crowdfunding (83%) and P2P Property Lending (84%) is Real Estate & Housing.

In the case of Debt-based Securities, over 45% of funding went to Environment, Renewable Energy and Clean-tech firms, and drops to 16% and 3% for the next two respective sectors. In the case of Reward-based Crowdfunding, 27% of business fundraisers came from Film & Entertainment, and 26% from Arts, Music and Design. For the Profit-sharing model, 53% related to Sports, while 24% came from Food & Drink.

# EUROPEAN ALTERNATIVE FINANCE MARKET FUNDAMENTALS

## AVERAGE DEAL SIZE BY ALTERNATIVE FINANCE MODEL

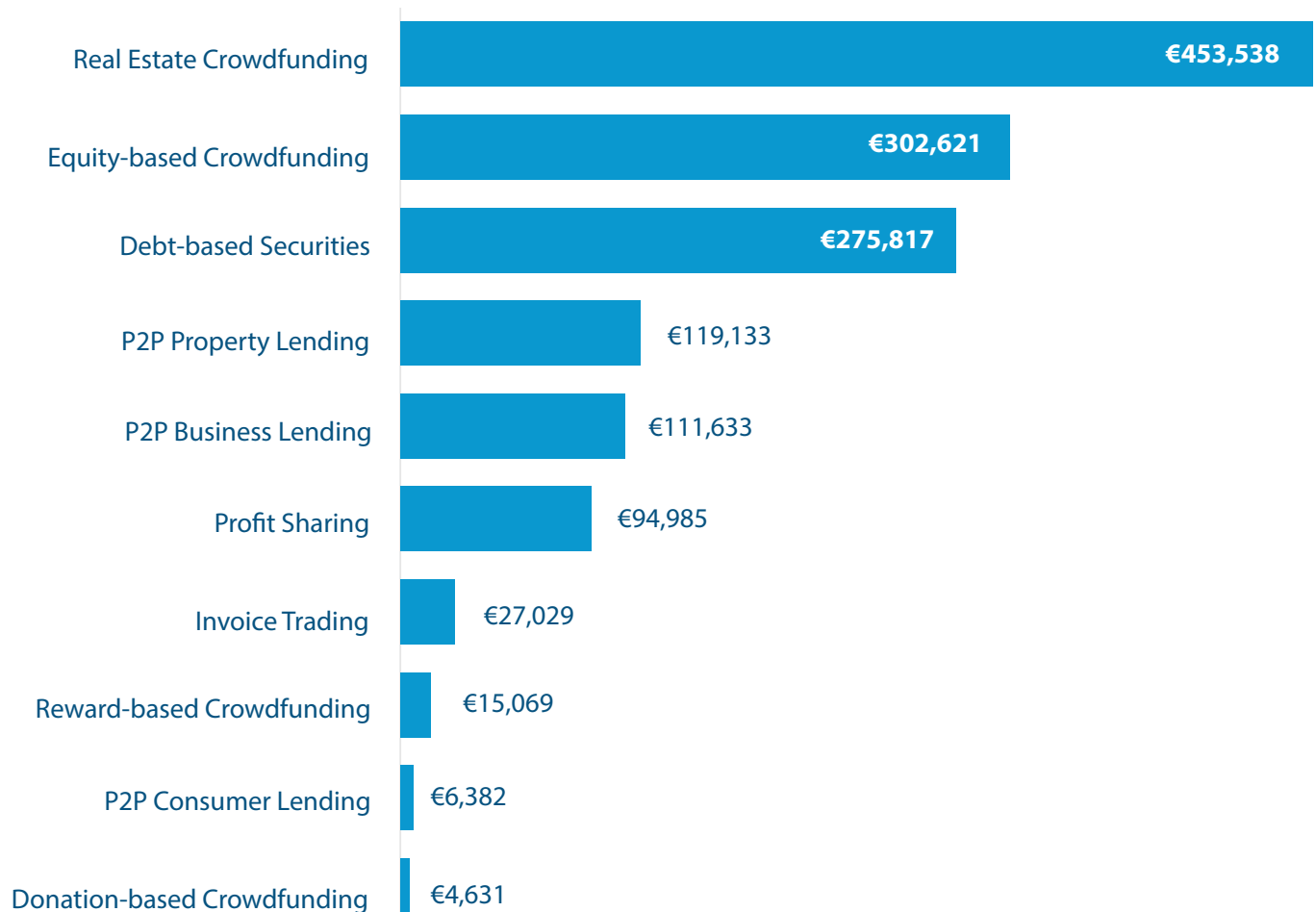
Across Europe, real estate crowdfunding had the highest average deal size (unweighted) by model, at €453,538. This is not altogether surprising, as real estate and property development is a more capital-intensive sector than other activities reported on. This was the first year tracking P2P Property Lending in Europe, with the average deal size equating to €119,133.

Equity-based Crowdfunding saw the second largest average deal size at €324,608. It should be noted, however, that when including platforms with exceptionally large volumes, the average deal size increases to nearly €800k, driven primarily by platforms in the Nordics, Switzerland and Benelux. The larger average deal sizes denoted in certain jurisdictions suggest that the model is being utilized by larger, more established firms and not only by start-up or early stage businesses.

The average deal size for the debt-based securities model grew significantly from 2015 to 2016, as this year's data suggests a figure of €275,817, up from 2015's €190,000. The average loan under the P2P Business Lending model grew slightly from €100,000 in 2015, to €111,633. Interestingly, the average invoice trading deal shrank from €44,000 per transaction in 2015 to €27,029 in 2016.

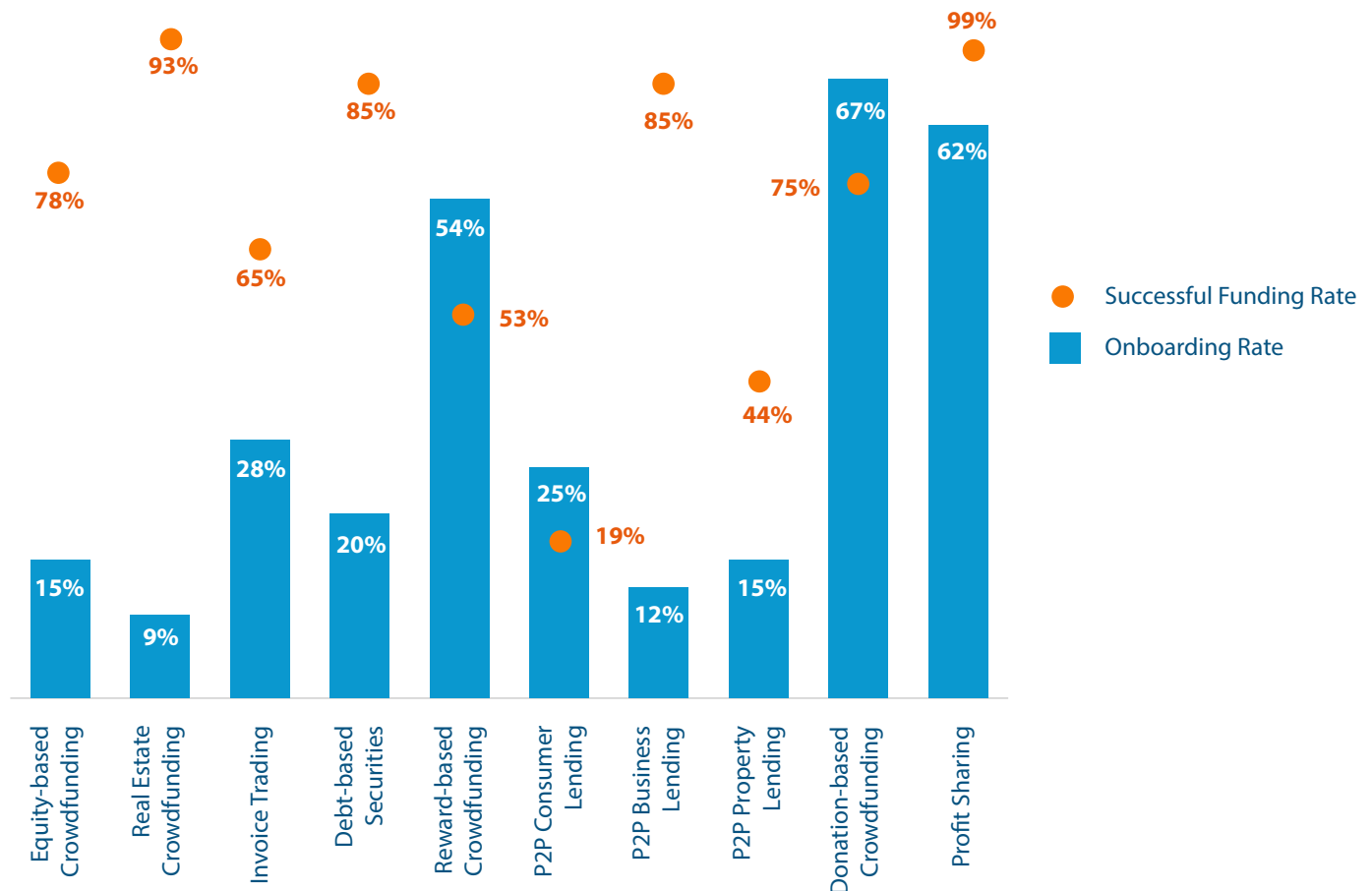
The Profit Sharing model saw the most significant change in average deal size, from €30,000 in 2015 to nearly €95,000 in 2016. This is partially due to considerable increase of platforms offering this model. The average campaign size of the Reward-based Crowdfunding model also grew against the previous year. In 2016, the average campaign size was € 15,069, up from 2015's €4,266. Finally, P2P consumer loans averaged €6,382 per loan, a slight drop from the previous year's average of €10,000.

Figure 15: EU Average Deal Size by Model 2016 (Excluding the UK) (€ EUR)



## ONBOARDING & SUCCESSFUL FUNDING RATES

Figure 16: Onboarding and Success Rates 2016 by Model



Before a fundraiser is able to raise funds on an alternative finance platform, they must first go through a series of checks and assessments to determine suitability. Whilst this assessment process varies from platform to platform, onboarding<sup>19</sup> and successful funding<sup>20</sup> rates across key models provide insight into how this first platform-led check point impacts fundraiser success. The chart provides these data points wherever data was sufficiently robust for analysis.

Real Estate Crowdfunding has one of the lowest onboarding rates, with only 9% of potential fundraisers sufficiently qualified to continue to the platform. Of those qualified to raise finance via the platform, approximately 93% of issuers successfully fund their projects. Since the platform must conduct additional affordability assessments on the real estate or property asset, onboarding is critical to the success of a given deal. A stringent qualification process, coupled with syndicated funding nature of this model,<sup>21</sup> accounts for the high rate of success. The onboarding rate for equity-based crowdfunding platforms is 15%, with a successful funding rate of 78%. This high success rate may relate, in part, to enhanced platform-led due-diligence as part of the onboarding and qualification process. When discussing their onboarding process, equity-based crowdfunding platforms noted that increased emphasis on platform-led

due-diligence spurred from crowd-investors has translated to a more rigorous onboarding process. While the majority of the surveyed platforms perform basic due-diligence, AML and KYC checks, it should be emphasized that the ultimate success (and associated due-diligence) relates to the quality of investors utilizing the platform. An increase in institutional and quasi-professional investors have also impacted the lower qualification rate, and higher success rate.

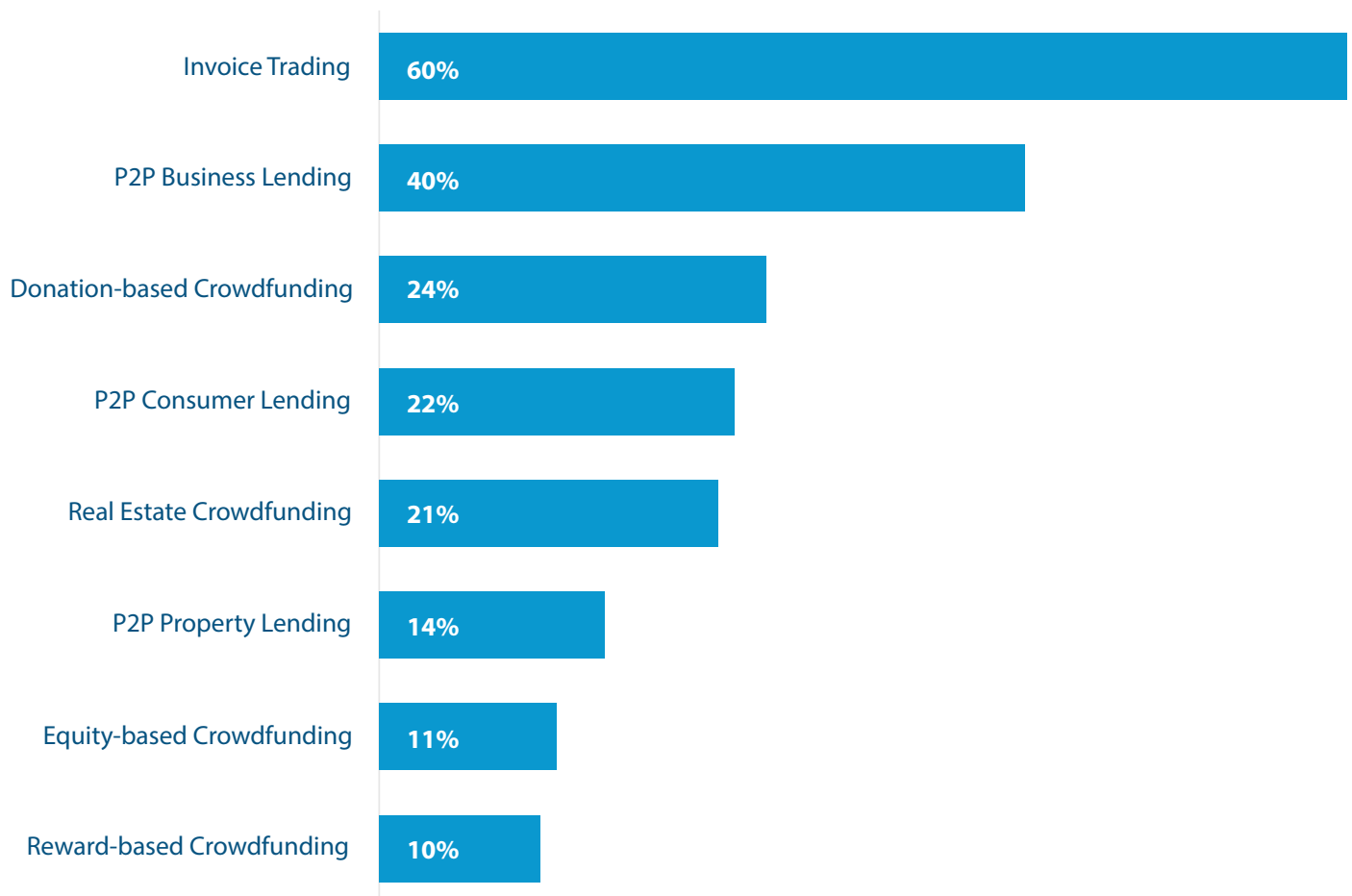
The onboarding and success rate for P2P Business Lending was 12% and 85% respectively. Many remarks from platform operators state that acquiring high-quality borrowers is of paramount importance to the success of their platforms. Therefore, platforms are concentrating on improving their underwriting capabilities and enhancing their credit scoring mechanisms. Consequently onboarding rate remains relatively low. For P2P Consumer Lending, the onboarding rate was 25%, though the successful funding rate is considerably lower, at 19%. The Invoice Trading model onboarding rate was 28%, with successful funding at 65%. With respect to Reward-based (54%) and Donation-based Crowdfunding (67%), both models noted that their onboarding rate related more to 'fundraiser fit', in cases where a platform operated a platform specifically targeted at an industry or sector.

## REPEAT FUNDING RATE ACROSS MODELS

Platforms were also asked to indicate the proportion of repeat funding from successful fundraisers.<sup>22</sup> 60% of successful borrowers utilizing the Invoice Trading model were repeat borrowers. This is not altogether surprising, as many small businesses utilizing this model put forward a number of invoices to support their working capital needs.

40% of P2P Business Lending borrowers were repeat users, while only 22% of P2P Consumer Lending borrowers and 14% of P2P Property Lending borrowers were repeats. Repeat fundraisers accounted for 21% of all Real Estate Crowdfunding issuers, and 11% of Equity-based Crowdfunding issuers.

Figure 17: Repeat Funding Rate Across Models (2016)



## LEVELS OF INSTITUTIONALIZATION

In the ‘Sustaining Momentum’ report, one of the key findings was about the role of institutional investment in alternative finance models. In 2016, institutionalization proved growing in importance, with institutional investors activity increasing dramatically across the region.

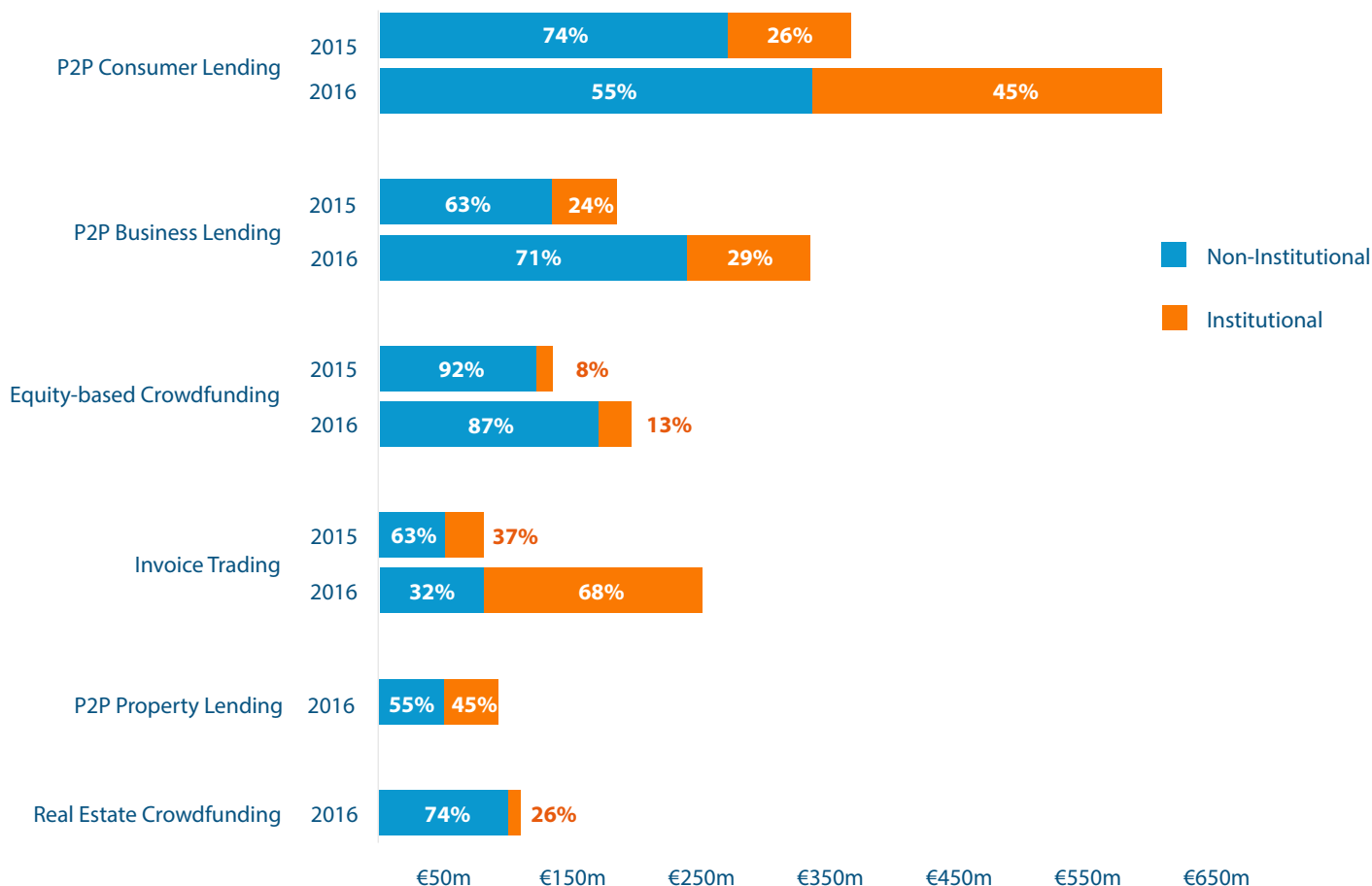
In 2016 the proportion of institutional-led investment (including pension funds, mutual funds, asset management firms, family offices and banks) grew in all observed models. The proportion of institutional investment in the P2P Consumer Lending model grew from 26% to 45%, accounting for €271.63m of the total volume. High levels of institutionalization were noted in platforms headquartered in Spain, Italy and across Eastern Europe. Institutional investment accounted for €96.39m of all P2P Business Lending volume (29%). This represents a more modest increase, as 24% of the models funding came from institutional investors in 2015. That said, a handful of platforms in Germany, Poland and France indicated significantly high-levels of institutional investment.

Institutional participation in Invoice Trading also increased considerably in 2016, from 32% to 63% and accounted for €170.11m of the model’s volume. In the case of this model, high institutionalization also correlated with platform use of a balance-sheet. In this case, 75% of all institutional funding was directed to a platform-run balance sheet, and then lent across available loans.

Institutional investment also grew in the Equity-based Crowdfunding model, from 8% in 2015 to 13% in 2016. Though only accounting for €25.80m, institutional participation in this model is important as it signifies adoption from more traditional seed and venture capital providers, in which professional investors, VCs or Business Angels invest alongside a crowd or retail investor cohort.

Institutionalization has only been tracked in the Real Estate Crowdfunding and P2P Property Lending for the year of 2016. In the case of Real Estate Crowdfunding, only 9% of funding came from institutional investors, while 46% of the P2P Property Lending volume derived from institutional investors.

Figure 18: Percentage of Institutional Funding Across Models in 2016 (Weighted)



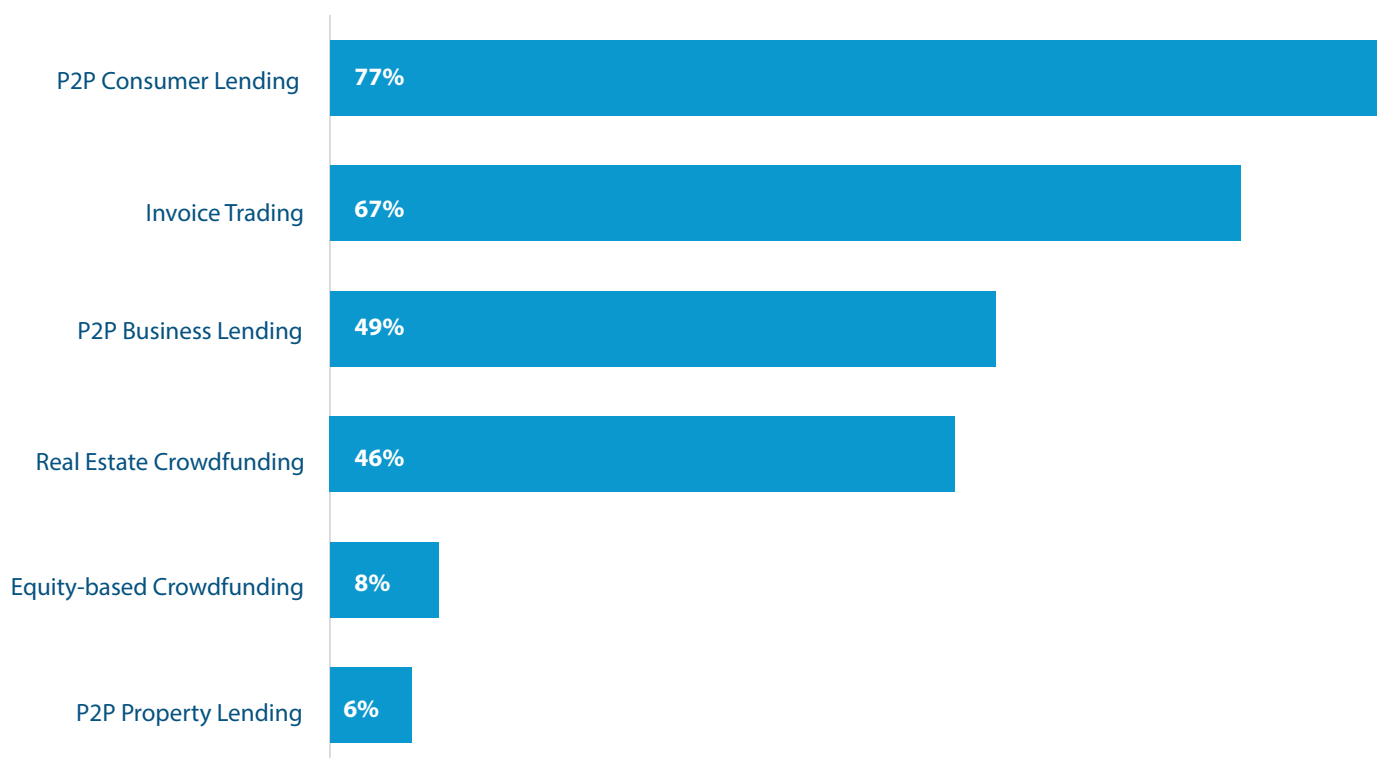
## AUTO-BID FUNCTIONALITY

Auto bid or auto selection is a function offered by many alternative finance platforms, where individual lenders or investors specify investment amount, duration and risk appetite and the platform allocates funds across available investment options based upon the pre-set preferences, effectively auto-diversifying against the available portfolio.

In 2016 both P2P Consumer Lending and Invoice Trading made the most use of auto-bid or auto-selection functions. 77% of P2P Consumer Lenders made use of auto-bid or auto-selection for their platform lending.

One of the key reasons for platforms offering this investment option is to improve market efficiencies regarding fulfilment. In this case, both the lender and borrower know their applicable interest rate with greater certainty, leading to a quick fulfilment and draw-down of the desired loan. Yet, as noted in a previous section, only 19% of borrowers are successful on such platforms. This may suggest that there is insufficient funding to support borrower demand.

Figure 19: Proportion of Auto-Selection by Models 2016



P2P business lending (49%) and real estate crowdfunding (46%) both registered significant usage of auto-bid functions, albeit lower than the preceding two models. When compared to the previous year, the use of auto-bid functions increased substantially, from figures in 2015 for P2P Business Lending (38%) and Real Estate Crowdfunding (25%). Finally, P2P Property Lending (6%) and Equity-based Crowdfunding (8%) both had very low usage of auto-selection.

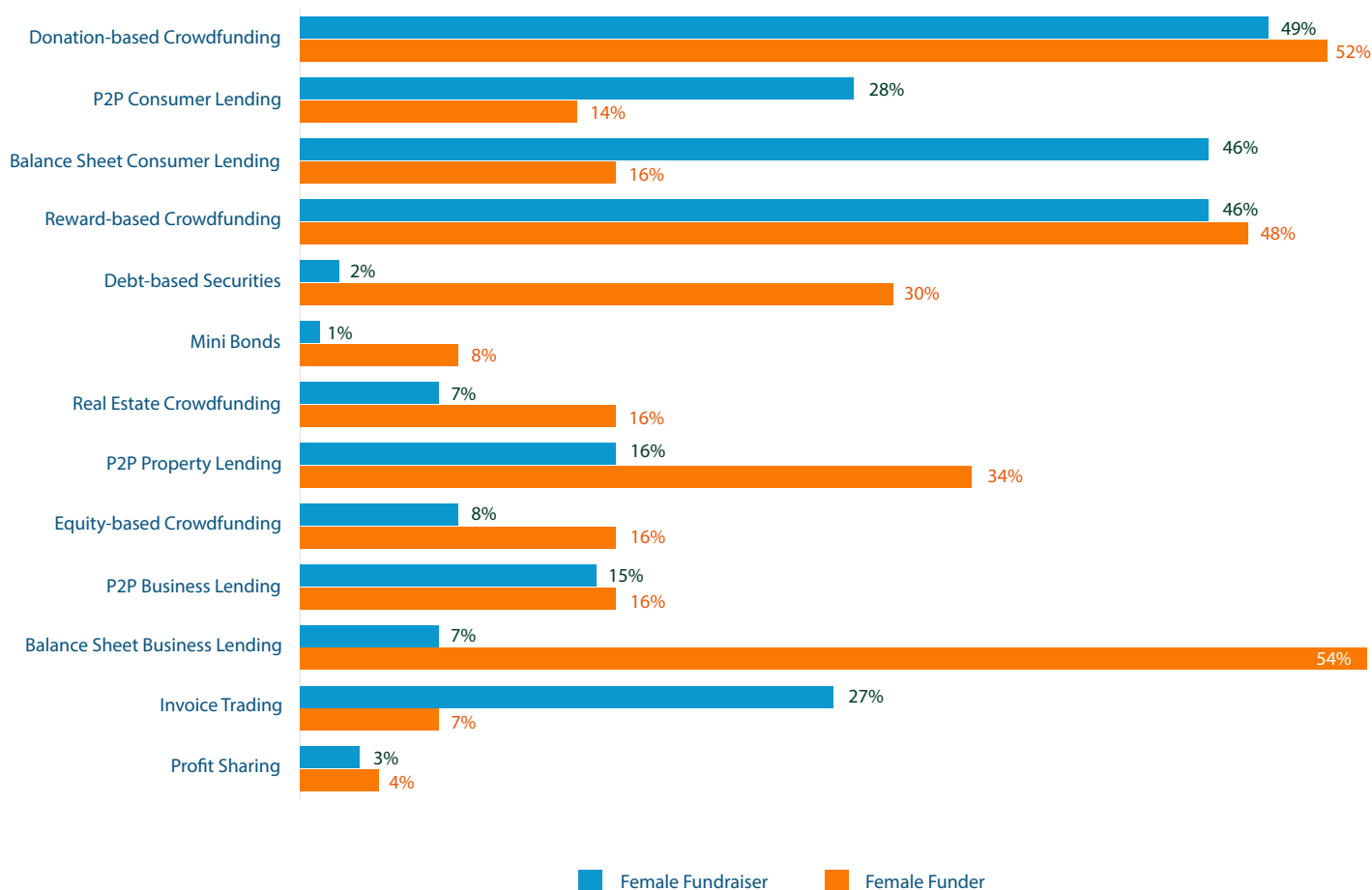
As the platform is responsible for selecting and matching retail investor funds, the importance of due-diligence, underwriting, credit-risk scoring and management are paramount.

As such, a platform must ensure that their own underwriting and credit analytics are sufficiently robust to ensure that the retail investor is safeguarded against unnecessary or unreasonable risk.

This is especially true for platforms that deal with secured lending, either in the form of security against fixed assets or property. Platforms are required to either create their own in-house underwriting facilities or seek external underwriting partners to adequately assess the security on offer. This is most prevalent in P2P Business Lending, P2P Property Lending and Real Estate Crowdfunding, as reliance on fixed assets is a key driving factor for loan success.

## FEMALE FUNDERS & FUNDRAISERS

Figure 20: Female Funders and Fundraisers by Alternative Finance Models (Excluding the UK) 2016



In order to assess the current state of female market participation and access to online alternative finance across the continent, surveyed platforms were asked to indicate the proportion of female funders and successful fundraisers. Responses weighted by each platform's reported volume and broken down by alternative finance model.

As per 2015 donation-based crowdfunding in Europe had the highest proportion of both female funders and fundraisers at 52% and 49% respectively. Reward-based Crowdfunding had the second highest proportion of successful female funders (48%) and fundraisers (46%).

Given the importance of business-facing alternative finance models, it is useful to review how many female-led business campaigns or business borrowers exist in the ecosystem.

According to the European Commission, 'women constitute 52% of the total European population but only 34% of the EU self-employed and 30% of start-up entrepreneurs'<sup>23</sup>. One of the greatest challenges to female entrepreneurship<sup>22</sup> is that of access to finance.

It is encouraging to note that there is a higher proportion of female business borrowers in the P2P Business Lending model against the previous year, 16% in 2016 as opposed to 12% in 2015. Despite positive strides elsewhere, female fundraisers within the Equity-based Crowdfunding model maintain a similar though slightly lower share of total fundraisers (17% in 2015 to 16% in 2016). With respect to female funders, there are more women participating in investing and lending across the board. This was especially true for P2P Consumer Lending (28%) and Invoice Trading (27%).



# MARKET DEVELOPMENTS

Earlier sections of this report have established the growth dynamics within alternative finance, while the remainder of this section seeks to determine how these dynamics affect business development within platforms. First, it is evident that a significant share of platforms across all alternative finance models are operating internationally to some degree, albeit cross-border transactions still represent only a modest share of platform volumes. Secondly, alternative finance models that generate larger volumes are also those which report the most significant changes to their product offerings and business models.

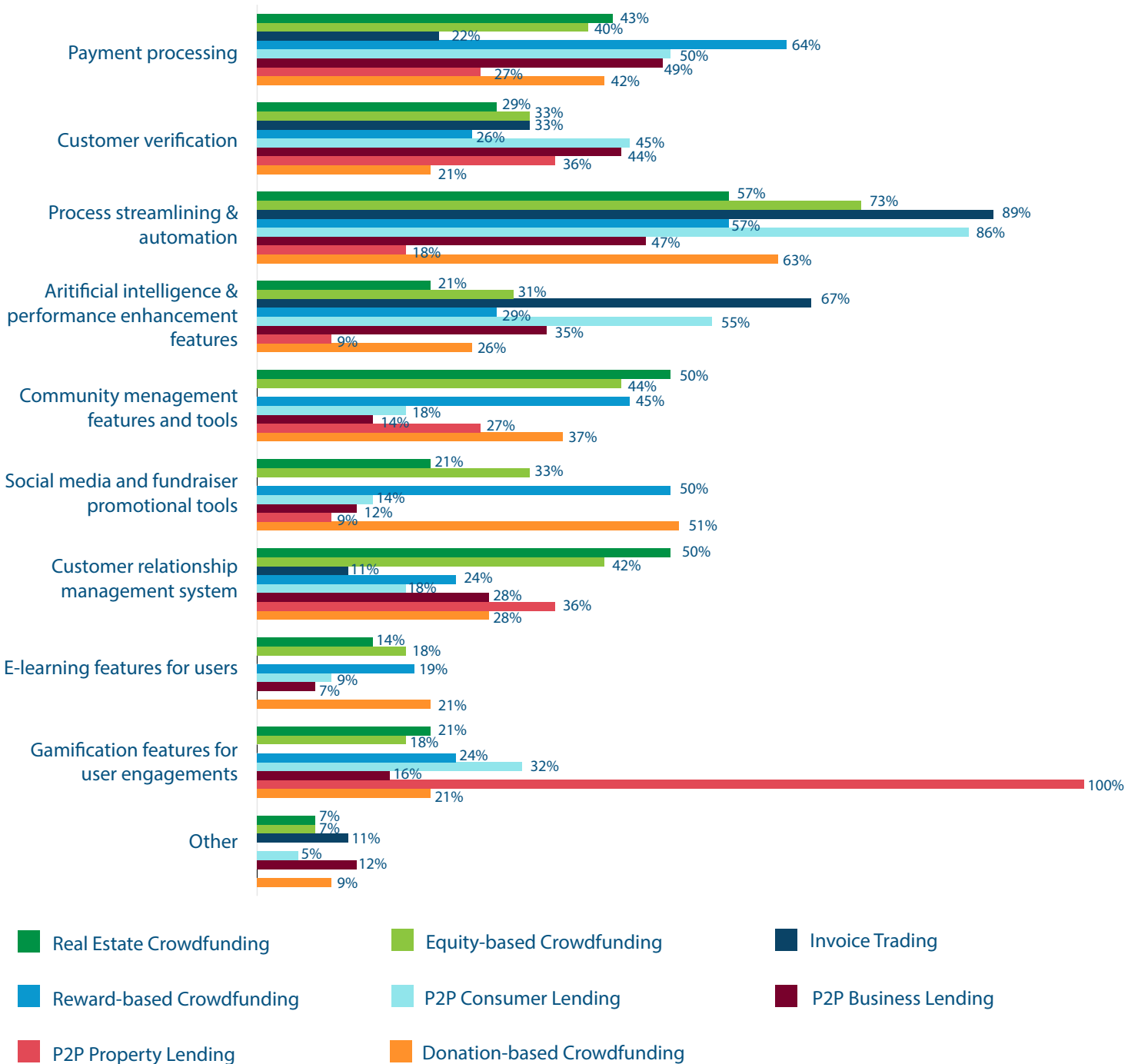
The converse is applicable to models associated with lower volumes. Thirdly, across models, innovation efforts have focused on improving operational efficiency through process streamlining and automation, as well as releasing bottlenecks associated with payment processing and customer verification. Customer service was reported as another priority, with significant investment in community management, CRM systems and social media promotional tools for platform users.

## INNOVATION: R&D FOCUS

Platform innovation has focused on three principal areas, the main priority being efficiency enhancements, followed by customer service and customer experience improvements. Most alternative finance models report high levels of investment in process streamlining and automation. This was reported by most platforms within invoice trading (89%), P2P consumer lending (86%) and Equity-based Crowdfunding (73%). Directly linked to this are innovation efforts focused on resolving two of the key bottlenecks that continue to challenge the industry – payment processing and customer verification. Most dominantly, payment processing is reported as an area of focus by 64% of reward-based crowdfunding platforms, 50% of P2P consumer lending platforms and 49% of P2P business lending platforms. Customer verification is reported as an area of focus by 45% of P2P consumer lending platforms, 44% of P2P business lending platforms and 33% of Equity-based Crowdfunding platforms.

Many platforms are pre-empting future demands through investments in artificial intelligence and performance enhancement features, as reported by 67% of invoice trading platforms, 55% of P2P consumer lending platforms, and 35% of P2P business lending platforms. Platforms have also focused on the development of community management features, customer relationship management (CRM) systems, and customer support tools for social media promotions to improve customer service. Community management features are focused on by 50% of real estate crowdfunding platforms, 45% of reward-crowdfunding platforms, and 44% of equity-based crowdfunding platforms. CRM innovations are mostly focused on by 50% of real estate crowdfunding platforms, 42% of equity-based crowdfunding platforms, and 36% of P2P property platforms. Finally, customer support tools for social media promotions are mainly focused on by 51% of donation-based crowdfunding platforms, 50% of reward-based crowdfunding platforms, and 33% of Equity-based Crowdfunding platforms.

Figure 21: R&D Focus by Model



Whilst improving customer experience is important to platforms, as presented earlier, e-learning and gamification in particular are a lower priority overall. Some platforms have invested in these areas as well, with the provision of e-learning features most frequently mentioned by donation (21%), reward (19%) and equity crowdfunding platforms (18%).

Investments in gamification were reported by 36% of P2P property lending platforms, 32% of P2P consumer lending platforms, and 24% of reward-based crowdfunding platforms.

## CHANGES TO BUSINESS MODELS & PRODUCTS

The extent to which new business models and products have been introduced by platforms during 2016 varies considerably by model.<sup>24</sup> Most changes are reported by P2P consumer lending and P2P property lending, where 59% and 45% of these platforms respectively report introducing significantly new products during 2016, as well as 27% and 36% respectively report introducing significant changes to their business models during 2016.

Moreover, a considerable share of Equity-based Crowdfunding and P2P business lending platforms also report introducing significantly new products during 2016, with 34% and 28% of platforms in these categories reporting this respectively. However, a smaller share of platforms in these categories also report significant changes to their business models, representing 11% of equity-based crowdfunding platforms, and 13% P2P business lending platforms. The smallest shares of platforms reporting introducing significantly

new products in 2016 are associated with invoice trading, reward and donation crowdfunding, were only 11%, 23% and 23% of platforms respectively. Similarly, relatively small shares of these platforms also report significant changes to their business models, with 22%, 14% and 13% respectively, indicating doing so.

The survey data therefore suggests that models associated with larger transaction volumes are more likely to have introduced new products and alterations to their business models. High volume segments may attract more platform participants, as well as regulator interest. Entrance of new participants leads to greater competition, and eventually a requirement for competitive re-positioning. Regulator attention leads to the clarification of legal boundaries. Both increased competition and regular attention are likely to push platforms towards reconfiguring their product offerings and business models to meet the new competitive and regulatory environments.

Figure 22: Changes to Platform Business Model

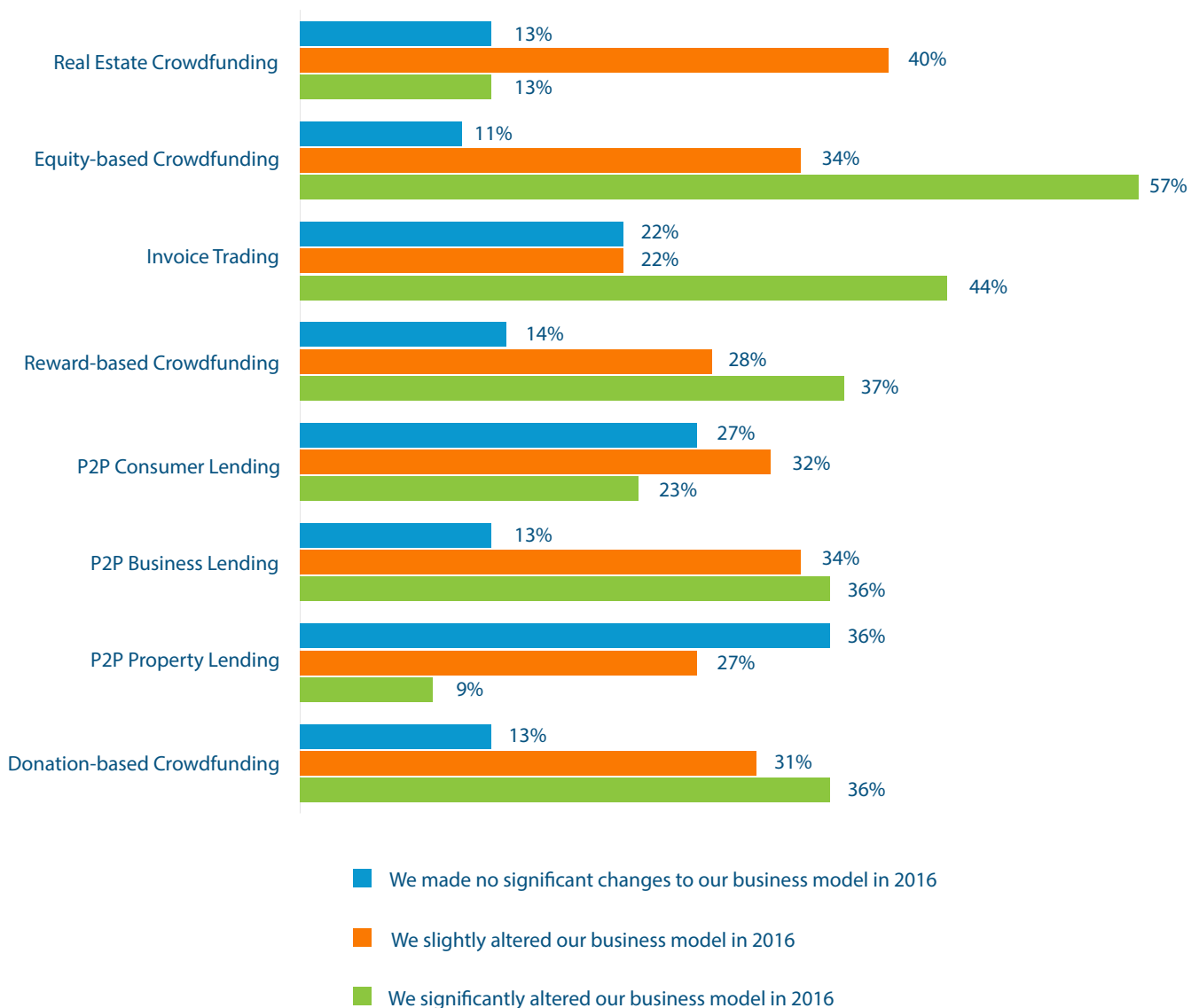
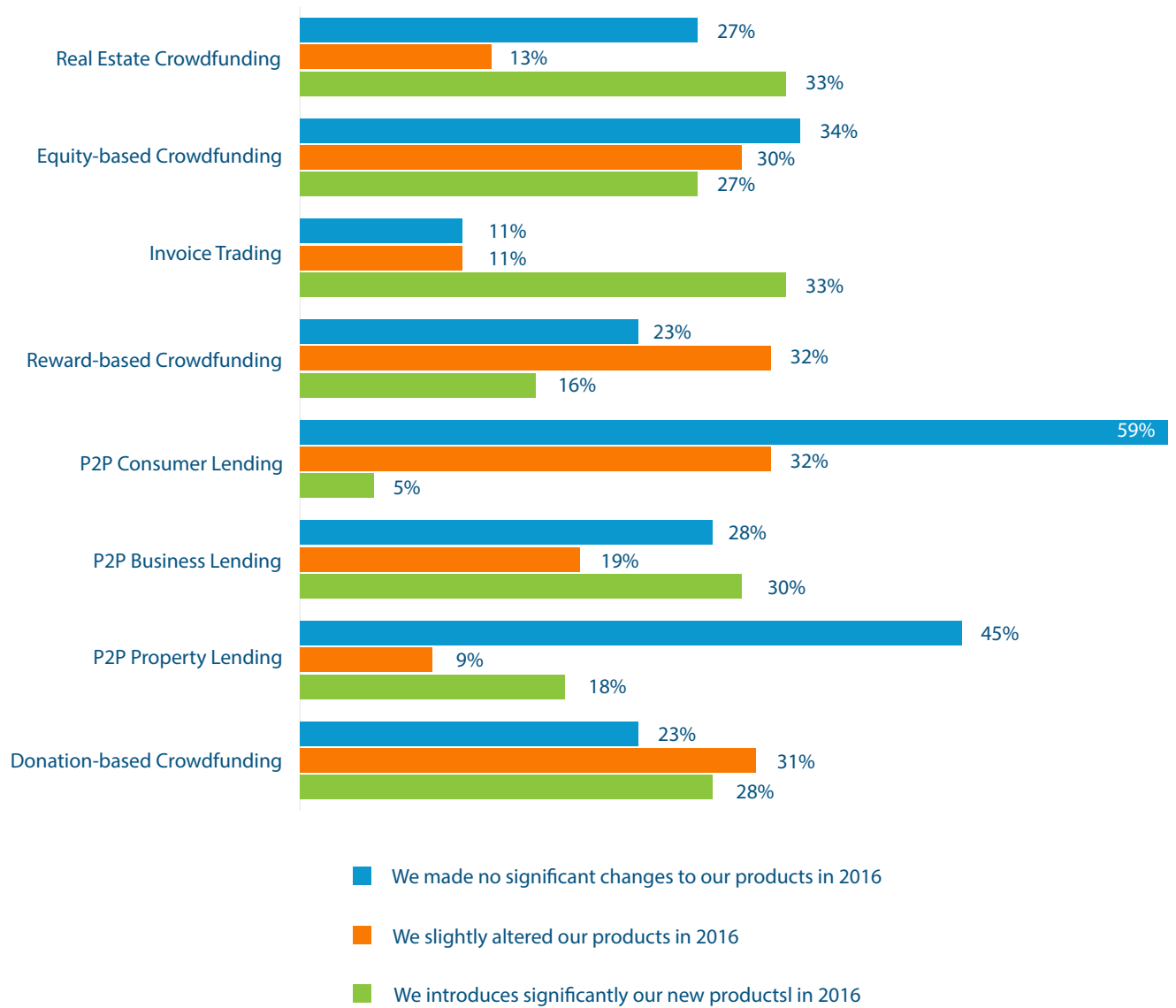


Figure 23: Introduction of New Products





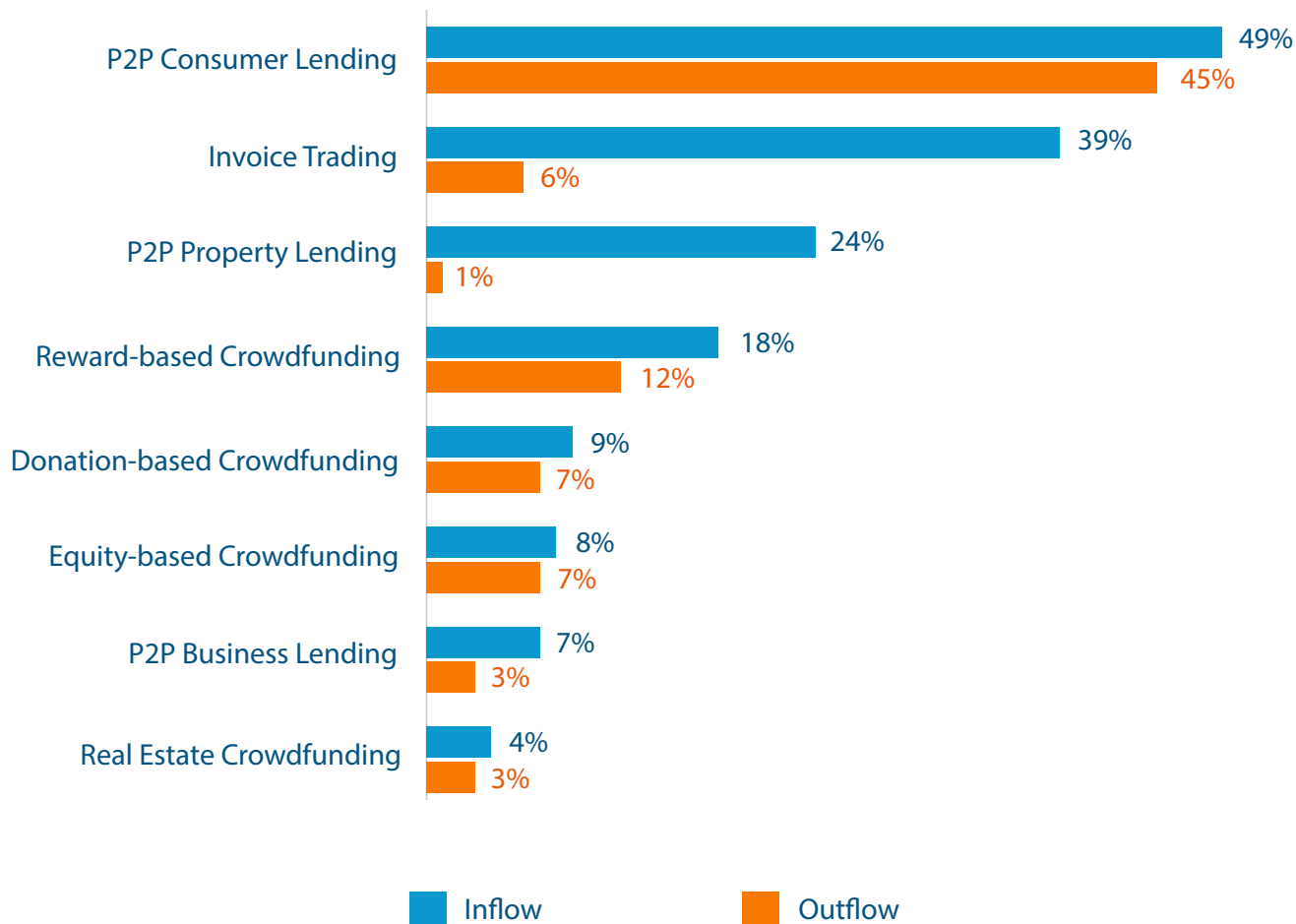
When examined by alternative finance model, it becomes apparent that some models are more dependent on cross-border transaction flows than others; P2P consumer lending emerges as the most cross-border dependent model with 49% of volumes comprised of cross-border inflows and 45% of volumes being cross-border outflows. Invoice trading is second in terms of dependency on cross-border transactions, with 39% of volumes associated with cross-border inflows, and only 6% with outflows. This is then followed by P2P property lending, with 24% of volumes associated with cross-border inflows and 1% outflows.

By contrast, the models least dependent on cross-border transaction flows include real estate crowdfunding, P2P business lending, Equity-based Crowdfunding and donation crowdfunding, where between 4-9% of volumes are associated with cross-border inflows, while 3-7% of volumes are associated with cross-border outflows.

Reward-based crowdfunding, exhibits a unique medium level of international dependency, with 18% of volumes related to cross-border inflows and 12% with outflows.

These findings stand in stark contrast to the regulatory environment in most countries, which is not conducive to thriving cross-border transaction flow, as these vary significantly between countries. While regulation is often constraining to equity, real estate and business lending, it appears that some platforms manage to invest in overcoming regulatory challenges in consumer crowdlending (accounting for 33.8% of total alternative finance in Europe). Cross-border flows in P2P property lending (accounting for 4.6% of total alternative finance in Europe) can be linked to the fact that most relevant platforms suggest clear regulation is lacking. Flows in invoice trading (accounting for 12.2% of total alternative finance in Europe) can be linked to the fact that a majority of platforms deem regulation as lacking or too relaxed.

Figure 25: Cross-Border Inflows and Outflows by Proportion of Volume (by Model)



## INTERNATIONALIZATION: CROSS-BORDER STRATEGIES

It is useful to analyze the transaction flows associated with cross-border finance in conjunction with the internationalization strategies adopted by platforms. Across all alternative finance models, a majority of platforms indicate some degree of international expansion strategy implementation. The most internationally-oriented models are the P2P property and business lending, followed by invoice trading platforms. The most popular strategy is that of serving international markets via a global website in English using the platforms' own staff, as typical of early stage Internet-based internationalizing firms. This model is particularly pronounced among Real Estate crowdfunding (58%), P2P consumer lending (56%), Equity-based Crowdfunding (51%), and donation-based crowdfunding (50%) of relevant internationally-oriented platforms respectively, in each of these models.

Next, when using a localized strategy for international markets (i.e. local domain name, language and currency), most actors localize under the parent platform's brand, and only in a small minority of cases are platforms using local brands.

This model is used mostly by invoice trading (63%), P2P property (55%) and P2P business lending (48%) of relevant internationally-oriented platforms respectively, in each of these models.

Reward-based crowdfunding platforms tend to use a combination of these strategies, where 44% of relevant internationally-oriented platforms use a global website strategy, and 44% use a localized site strategy (with parent or local brand).

Finally, some platforms have also reported different international strategies than those suggested by the researchers, the most common of which are strategic partnerships with foreign organizations serving as distributors and deal-flow generators, as well as the sales of technology rather than platform operations to foreign customers in the form of licenses and white-label solutions.

### Platform Internationalization Strategy by Model

|                             | No international expansion | Localized site with own brand | Localized site with local brand | Global English website | Other |
|-----------------------------|----------------------------|-------------------------------|---------------------------------|------------------------|-------|
| Real Estate Crowdfunding    | 21%                        | 36%                           | 0%                              | 50%                    | 0%    |
| Equity-based Crowdfunding   | 44%                        | 25%                           | 0%                              | 33%                    | 5%    |
| Invoice Trading             | 11%                        | 56%                           | 0%                              | 22%                    | 11%   |
| Reward-based Crowdfunding   | 43%                        | 21%                           | 5%                              | 26%                    | 7%    |
| P2P Consumer Lending        | 43%                        | 38%                           | 0%                              | 48%                    | 0%    |
| P2P Business Lending        | 31%                        | 33%                           | 0%                              | 27%                    | 9%    |
| P2P Property Lending        | 9%                         | 55%                           | 0%                              | 36%                    | 9%    |
| Donation-based Crowdfunding | 46%                        | 17%                           | 5%                              | 32%                    | 10%   |

# RISKS

When examining risks as perceived by European platforms, two types of risks<sup>25</sup> are widely perceived as the greatest concern for European platforms across alternative finance models - collapse of one or more well-known platforms due to malpractice, and fraud involving one or more high-profile campaigns/deals/loans. These concerns resonate well with a young industry seeking public legitimacy under close scrutiny of regulators, and in an environment where journalistic coverage is mostly reserved for failures rather than successes. First, the risk of a well-known platform collapsing due to malpractice is mentioned by 62% of real-estate crowdfunding platforms, 55% of invoice trading platforms, and 54% of consumer lending platforms. Second, the risk of fraud in a high-profile campaign was mostly mentioned by 89% of invoice trading platforms, 56% of real-estate crowdfunding, and 36% of P2P property lending platforms. Both these two concerns were also mentioned by about a third of equity crowdfunding and other crowdlending platforms.

The second set of concerns are associated with increased levels of defaults on loans or business failures, as well as with cybersecurity breaches. The default/failure concerns were mentioned by 55% of invoice trading platforms, 46% of real-estate crowdfunding platforms, and 32% of equity crowdfunding platforms. The concern with cybersecurity breaches were mostly mentioned by 67% of invoice trading platforms, 35% of P2P consumer lending platforms, and 33% of real-estate platforms.

Risks associated with regulatory changes at both local and European levels were the next most commonly mentioned, mainly by crowdfunding platforms (40%). This is mostly explained by the tight scrutiny of these platforms by financial authorities, as well as the substantial efforts and resources these platforms have invested in adjusting to the relatively restrictive regulatory regimes in most countries.

These capture a two-sided concern; on the one hand with further tightening of regulation and making work even more difficult, whereas remain concerned with easing of regulations that can reduce entry barriers for competitors that may enter the market without incurring some of the sunk costs incurred by established platforms.

In addition, potential changes to local regulation were also considered as of high-risk among both real-estate crowdfunding and reward crowdfunding platforms.

The risk of potential 'crowding out' of individual investors as institutionalization accelerates, was of least concern, and was considered as high-risk by less than 20% of platforms across models. This can be explained by the fact that most recently-established and relatively cash-strapped platforms consider "heavy investors" as more of an opportunity than a threat to stabilize their own operations and securing high transaction volumes and flows.

Finally, a view of risks across models seems to suggest that risk concerns are mostly dominant with respect to invoice trading and real-estate crowdfunding platforms. This may be explained by the relatively smaller number of platforms in these segments, the relatively younger nature of these specific segments, as well as certain regulatory ambiguities associated specifically with these younger models of online alternative finance. On the other hand, donation-crowdfunding seems to be the segment where platforms express the least concern across risks. This may be explained by the very nature of the transaction, where nothing tangible is promised to backers for their support, and the fact that regulatory frameworks for donation funding are generally well-established.



Figure 26: Risk Factors by Equity and Non-Investment Models

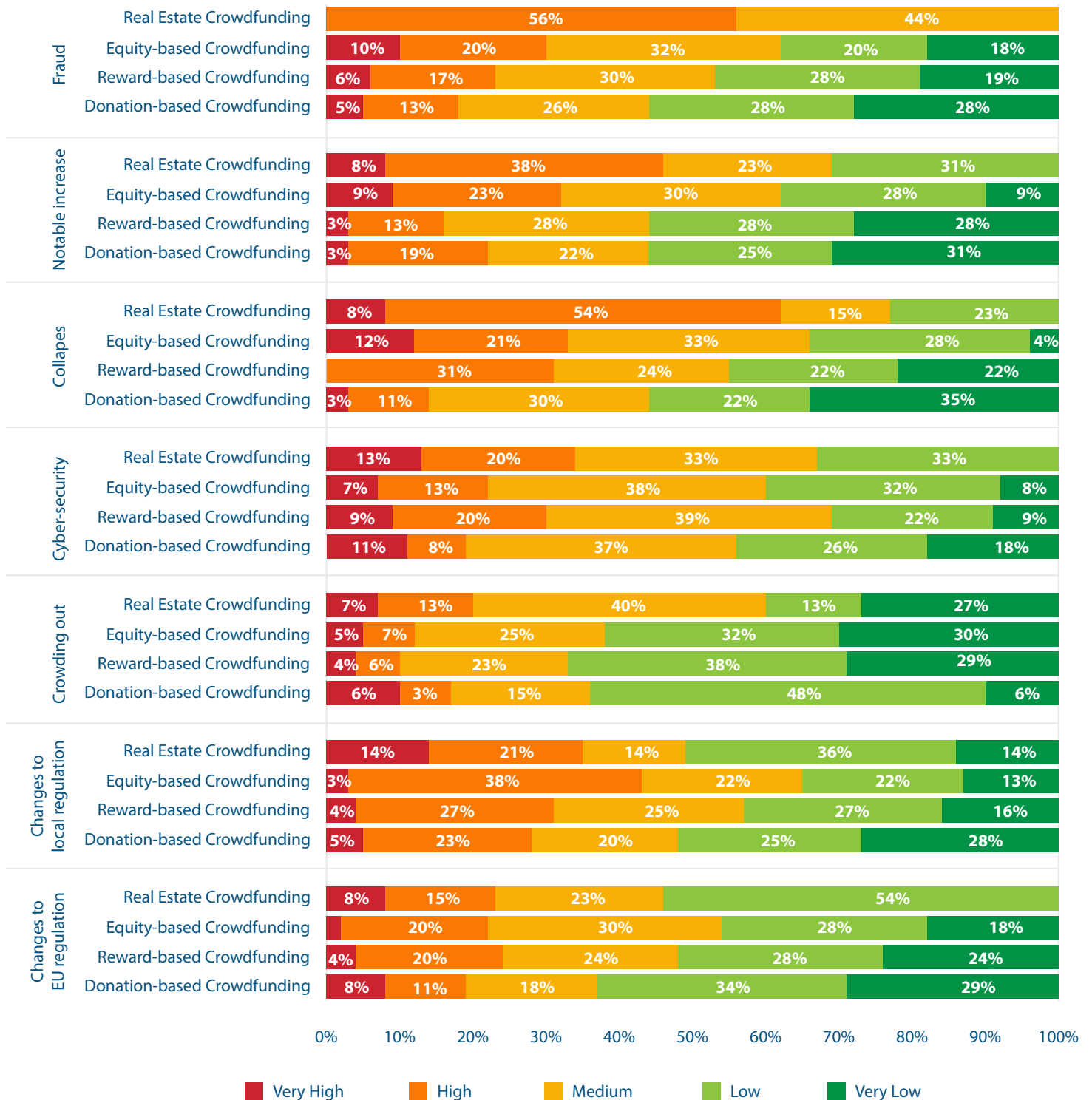
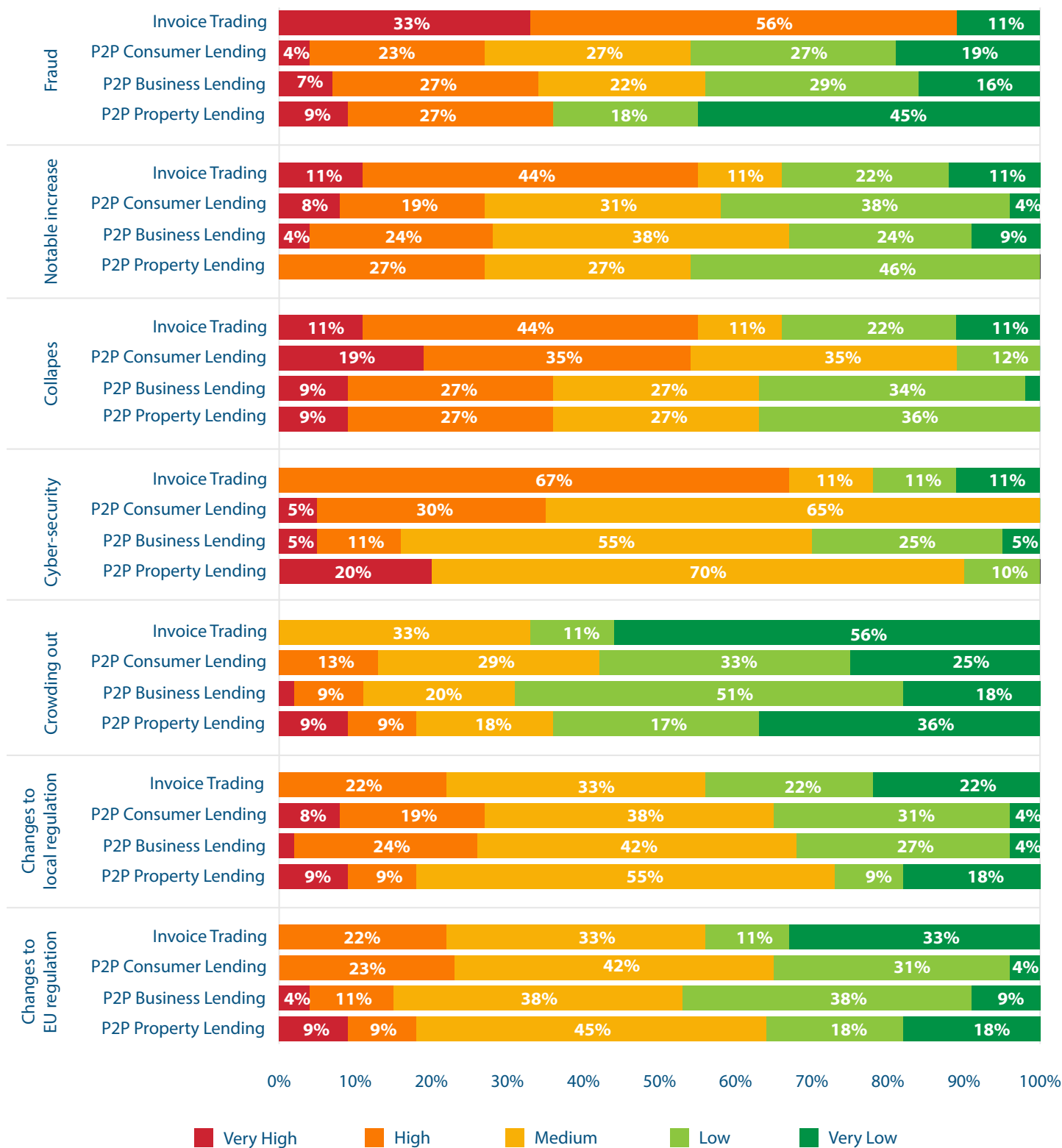


Figure 27: Risk Factors by Debt-based Models



# REGULATION

Regulation remains a core challenge for the development of the alternative finance industry in many European countries. Lack of coherence continues to characterize the regulatory spheres in most national, as well as at cross-national European level. Nevertheless, in recent years some 11 EU member countries have implemented national level regulations for securities-based and lending-based crowdfunding, which serve as corner stones for local market development as well as initial set of benchmarking standards<sup>26</sup> to be evaluated.

Despite these developments, regulatory reviews in many other countries remain stagnant or non-existent, constraining the development of alternative finance market in these jurisdictions.

Moreover, the existing regulation continues to vary considerably across countries, highlighting a critical need for an European Commission level regulatory initiative that may seek to harmonize, balance interests, and facilitate cross-border transactions within the EU and the European Economic Area (EEA). For a full review of legal aspects for each country please consult the European Crowdfunding Network's "Review of Crowdfunding Regulation 2017".

In the current section we will outline perceptions about regulatory frameworks as viewed by platforms operating across Europe, as well as highlight association between perceptions of adequacy of national regulatory frameworks and performance indicators at national level.

## PERCEPTIONS OF EXISTING REGULATORY FRAMEWORKS

When assessing perceptions of regulatory adequacy by European platforms, one must first consider the limitations that regulatory conditions vary significantly across countries, and that findings are limited to platforms that participated in the survey, and are de-facto able to operate under existing regulatory conditions in each country. Nevertheless, several interesting insights emerge, and can serve as important input for any attempts at EC level regulation efforts.

First, the greatest discontent with existing regulation is with respect to equity crowdfunding and all forms of P2P lending. Almost half of equity-based crowdfunding platforms deem existing regulation as either excessive (43%) or lacking and needed (5%).

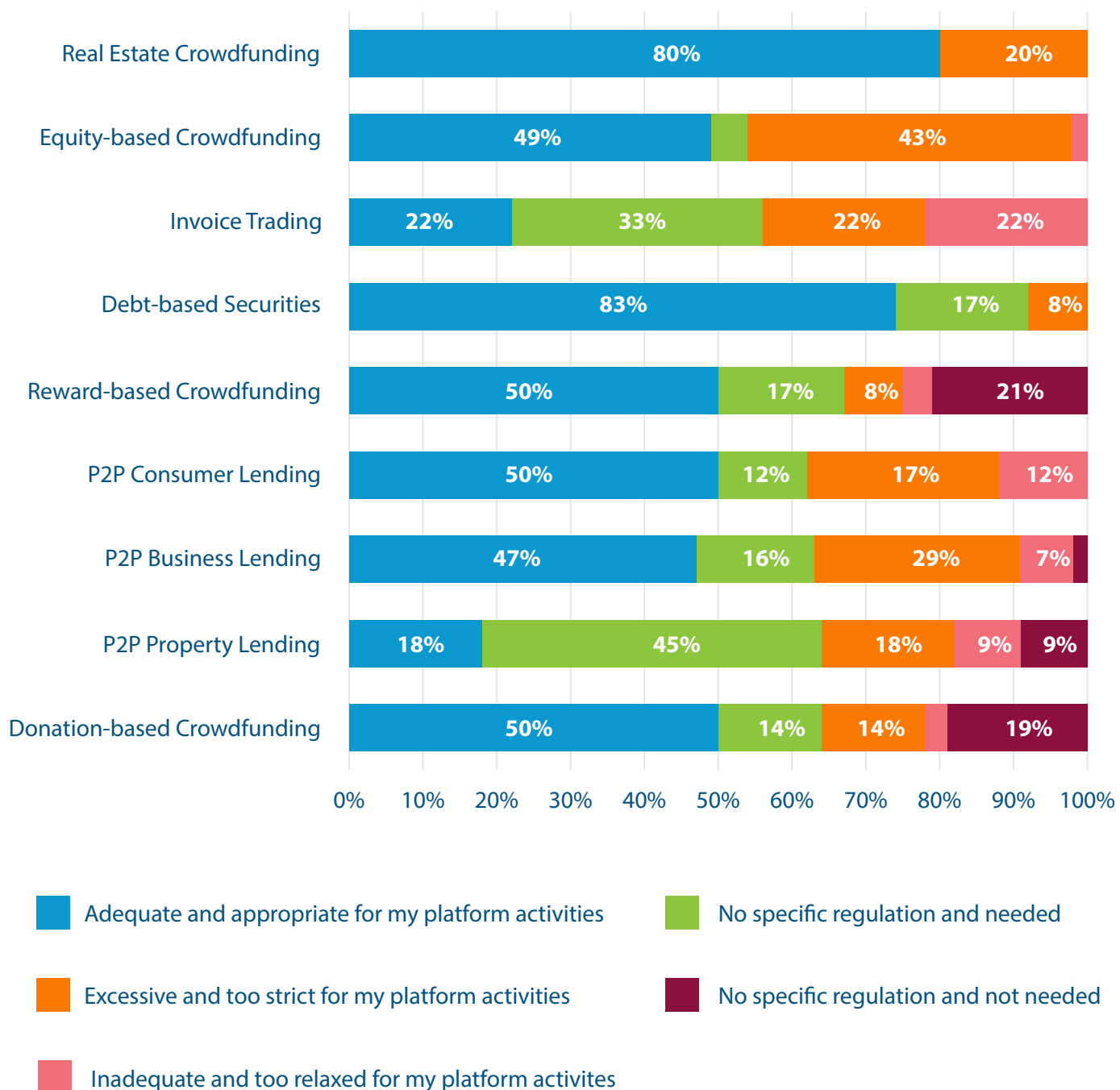
Within lending models, P2P property lending is where most discontent is recorded, with 45% of relevant platforms assessing regulation as lacking and needed and a further 18% considers what does exist as excessive. In terms of P2P business lending 29% consider existing regulation as excessive, and 16% consider it lacking and needed. In the case of P2P consumer lending, 27% view existing regulation as excessive and 12% as lacking and needed.

Second, greatest area of confusion is with respect to regulation of invoice trade, where the full spectrum of opinions is evident whereby 22% of relevant platforms view regulation as excessive, 22% deem it as too relaxed, 33% deem it lacking and needed, and another 22% view it as existing and adequate.

This contrasts with the reward-based and donation-based model in which most platforms consider existing regulation as adequate. Where such regulation does not exist opinions are almost equally divided between those deeming it necessary and those who do not deem it necessary.

Finally, most of the relevant platforms view debt-based securities (83%) and real-estate crowdfunding (80%) as the two models where existing regulations are adequate and appropriate.

Figure 28: Perception Towards Existing Regulation by Model



## PERCEIVED ADEQUACY OF NATIONAL REGULATIONS VS. INDUSTRY PERFORMANCE INDICATORS

Figure 29: Perceived Adequacy of Existing Local Regulations vs. Volume Per Capita 2016 (Log Scale)

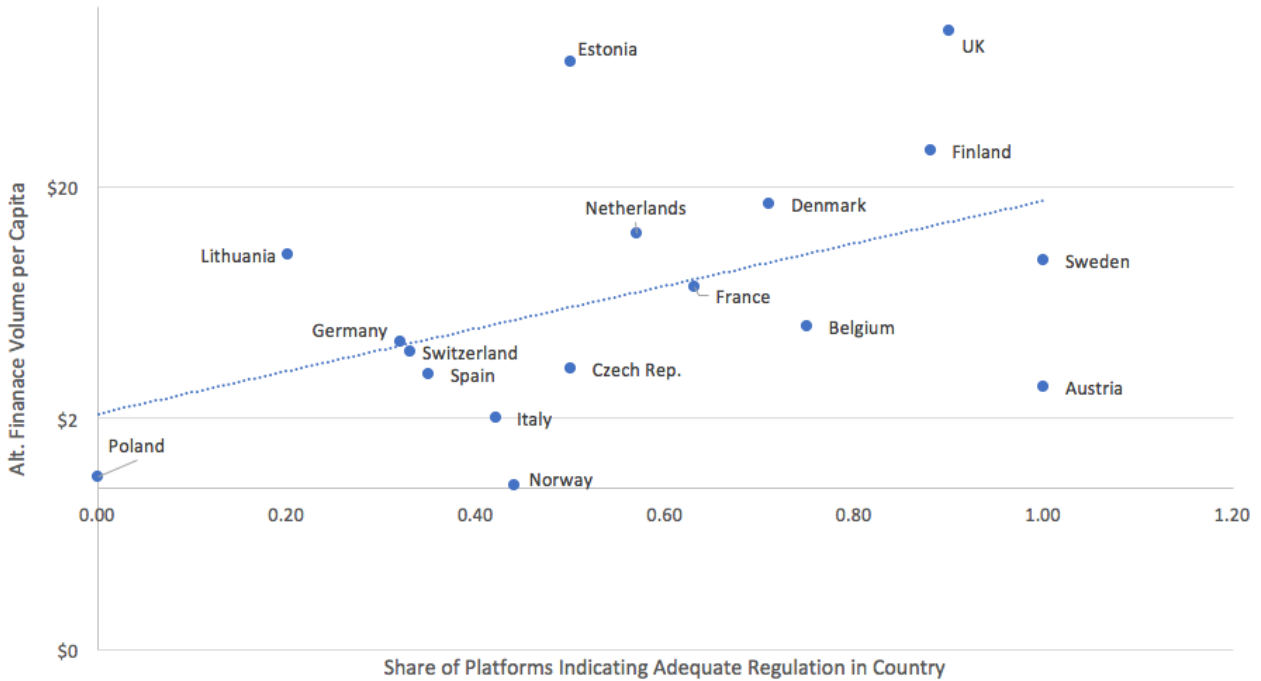
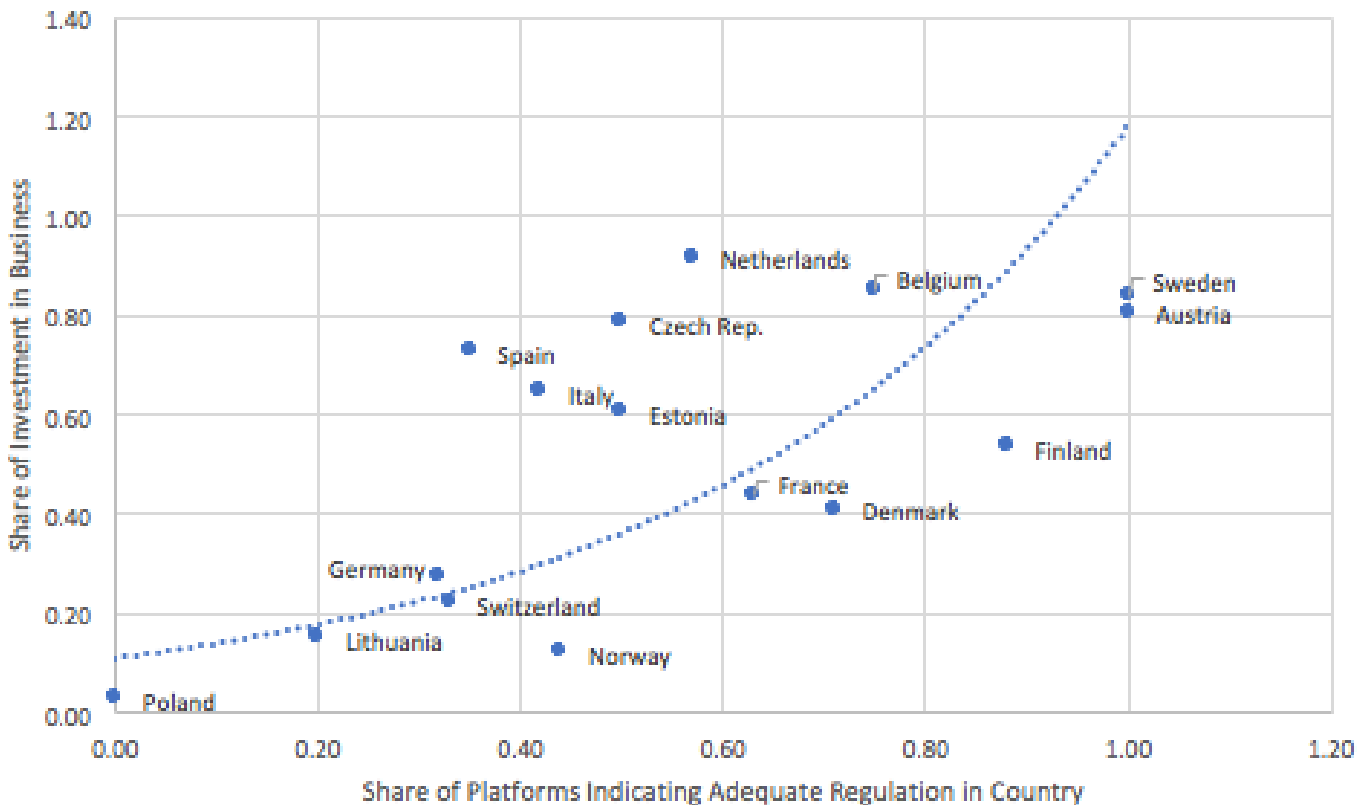


Figure 30: Perceived Adequacy of Existing Local Regulation vs. Share of Business Funding Volume 2016



To try capturing the prospective effects of existing regulatory frameworks at national level, the share of platforms in each country indicating existing regulations as adequate (across models) was plotted with two national level-industry performance indicators – alternative finance volume per capita, and share of business funding out of total national alternative finance volumes.

Only countries that had at least 4 platforms that have fully answered questions relating to regulation adequacy were included, which led to 17 country-level observations. This number of observations prevents statistical significance tests from being performed, but does allow for identifying clear trend lines across these cases to be plotted.

Overall, the scatterplots suggest that the greater the share of platforms indicating that existing regulatory framework is adequate in their countries of operation, the more likely these countries to exhibit higher levels of alternative finance per capita, as well as a larger share of business funding out of total alternative finance volumes in the same country.

These indications, answer an often-debated question contrasting claims that regulation should be amended only when volumes will require it, and claims suggesting that regulation should be amended to facilitate growth towards large volumes. The plots suggest that regulation facilitates or inhibits growth, rather than the other way around. This finding is even stronger when considering that answering platforms are those that are already able to operate under existing regulation, and excludes those that were never started because of regulation challenges.

## INSIGHTS FROM THE FIELD

### **Professional Market Actors lead the way to Harmonised European Regulation** **Oliver Gajda, Executive Director - European Crowdfunding Network**

*The European alternative finance market has undergone significant changes over the past years, which signal an increasingly professional and mature market. Until 2015 the development of national alternative finance markets was shaped by local regulation or the interpretation of European directives. Cross border expansion had faltered in many cases, though for very different reasons. The differences in each European Union Member State regarding investment culture, corporate law, tax regimes and, of course, financial markets and banking regulation, including specific rules for crowdfunding, online direct lending and other relevant markets, had created a very fragmented European industry. Platform operators were largely exploiting opportunities on national markets to reach scale. Regulators had mostly ignored the guidelines by the European Commission, the European Banking Authorities and the European Securities and Markets Authorities not to create regulatory frameworks under national law, but to leave the markets to mature first. The European commission consequently published a statement in early 2014<sup>27</sup> claiming that harmonisation was not yet on the cards, as the industry was, basically, not showing adequate signs of scale, but also reflecting the significant regulatory fragmentation. Instead, the continued monitoring of the yet promising sector was proposed.*

*Within just three years, at the end of 2017, however, this has changed notably. A significant number of European platform operators have expanded beyond their home market to open operations in multiple other European Member States, partly adapting to local regulation and partly under European regulation. Subsequent professional standards also have seen first IPOs (Initial Public Offerings) executed via crowdfunding platforms in 2016. The Prospectus Directive was put up for discussion in a proposal of the European Commission in early 2016, following a public consultation in 2015, and with input from the European Parliament and the European Council, as well as industry, the prospectus exemption for public securities offerings have been raised from €100,000 to €1m, while the upper limits under Member State interpretation have been raised from €5m to €8m, with effect of 21 June 2019 across Europe.<sup>28</sup> Additionally, small and medium sized companies will be able to raise up to €20m with a 'growth prospectus' (the specifics are still being defined and are expected to be lower than that of a standard prospectus) that should enable MiFID regulated crowdfunding platforms to offer such transactions across Europe.*

*With increasing professional conduct within the industry, growing cross border transactions and the appearance of market champions, the European Commission has, based on further research, launched efforts to harmonize both online direct lending to SMEs involving retail investors (lending-based crowdfunding) and security offerings via online platforms (equity-based crowdfunding) at European level, at least for cross border transactions. In November 2017 the European Commission launched a public consultation of potential approaches.<sup>29</sup> By March 2018 the European Commission will communicate its final proposal to the European Parliament and the European Council. The details of the proposal may align closely to the already established thresholds within the forthcoming Prospectus Laws, thus limiting individual transactions in alternative finance (both lending and equity) to €1m per fundraising per year, and not the maximum of €8m, depending clearly on the willingness of Member States to open their national markets to European competition. Either way, harmonization would provide a clear path for growth and competition within the sector and should clearly be welcome by the industry. If the upper limits would be set at €1m, alternative finance providers would face significant limitations in scaling through increased transaction values. This is a problem that the European Commission is aware of but would need to find a solution to within the dialogue with the European Parliament and the European Council throughout 2018.*

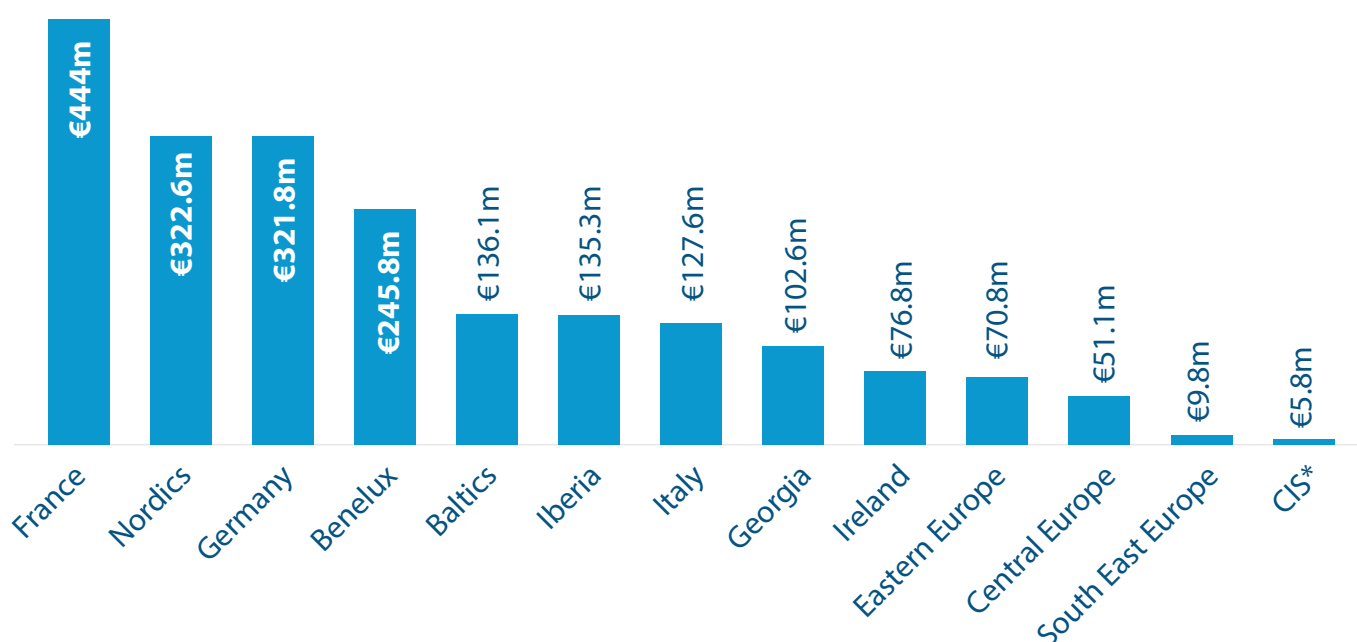
# MARKET SNAPSHOTS



The following chapter provides a detailed review of key models and trends from the leading countries and regional groups across Europe. Each section includes a review of overall market volumes and the key models that are driving them, followed by a discussion on regulation, risks and innovations. It should be noted, commentary was only possible for countries with sufficiently robust data.

Wherever possible, analysis on risk and regulation was aggregated by overarching model categorization, being Non-investment models (ie Reward-based and Donation-based Crowdfunding), Equity models (ie Equity-based Crowdfunding) and Debt models (ie P2P Lending). Additionally, factual insights provided by industry organizations, associations, platforms and thought leaders were included to provide additional context beyond the data collected by the research team.

Figure 31: Regional Alternative Finance Volumes 2016 (€ EUR)



| REGION            | COUNTRIES  |
|-------------------|--|
| France            | France, Monaco   |
| Nordics           | Denmark, Finland, Iceland, Norway, Sweden  |
| Germany           | Germany  |
| Benelux           | Belgium, Netherlands, Luxembourg   |
| Baltics           | Estonia, Latvia, Lithuania   |
| Iberia            | Spain, Portugal, Andorra   |
| Italy             | Italy, Malta   |
| Georgia           | Georgia  |
| Ireland           | Ireland  |
| Eastern Europe    | Poland, Czech Rep., Slovakia, Hungary  |
| Central Europe    | Austria, Switzerland   |
| South East Europe | Romania, Bulgaria, Greece, Turkey, Slovenia, Croatia, Bosnia & Herzegovina, Serbia, Montenegro, Macedonia, Albania, Cyprus |
| CIS <sup>11</sup> | Russia, Belarus, Ukraine, Moldova, Armenia   |

\*CIS = Commonwealth of Independent States European members

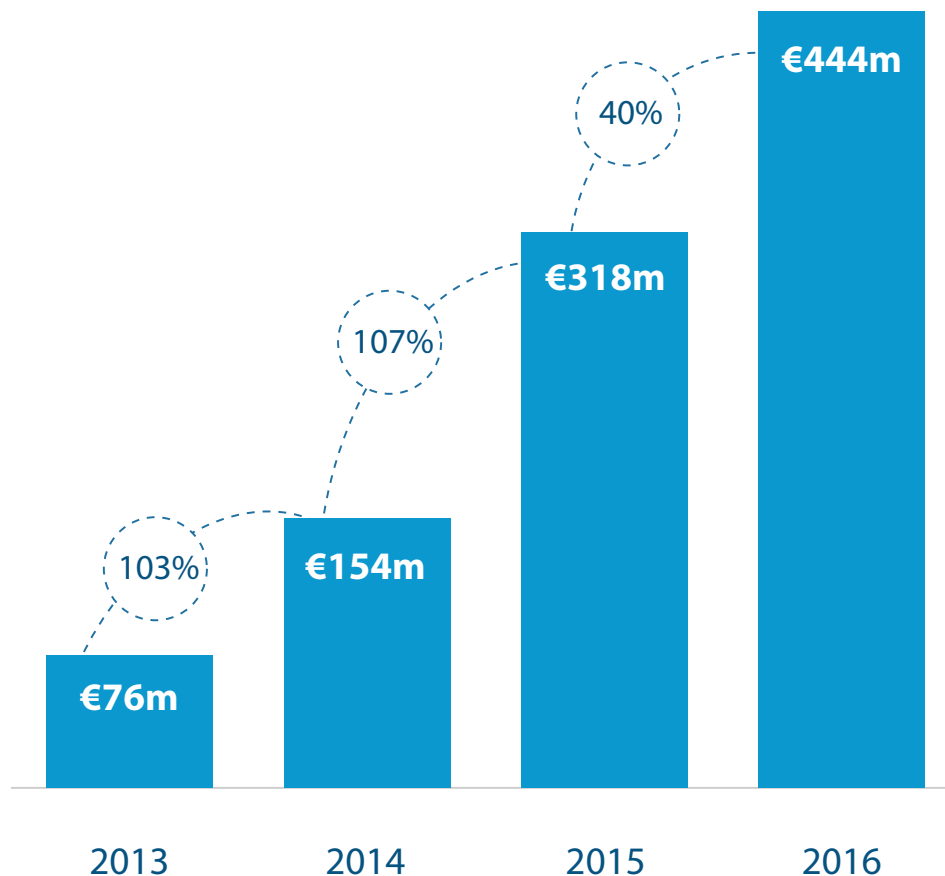


# FRANCE

France remained the market leader in European alternative finance for the fourth consecutive year, accounting for 22% of all European alternative finance volumes in 2016, having raised €444m for the calendar year. This equates to 40% annual growth from €318m in 2015, although this is the first year where triple digit growth did not occur.

This deceleration in growth is not considered problematic and in actual fact typifies a maturing market. This survey highlighted that a number of platforms had either moved away from alternative finance to focus on more traditional activities. Other platforms had closed down altogether, whilst some had merged with other existing platforms. Overall there were fewer repeat survey participants, though those platforms that responded both this year and last represented some of the most sophisticated and strongest European platforms.

Figure 32: France Online Alternative Finance Market Volumes 2013-2016 (€ EUR)



The P2P Consumer Lending model is the largest model represented in the French alternative finance data set. This model continued to lead French alternative finance volumes, having done so for 4 consecutive years, growing from €134.7m in 2015 to €179m in 2016. This model is also responsible for just over 40% of all of France's volume.

P2P Business Lending was the second largest model represented in the dataset, having generated €70.9m, and saw considerable increase against the previous year (152%). It should be noted, the 2016 data did not capture any unique

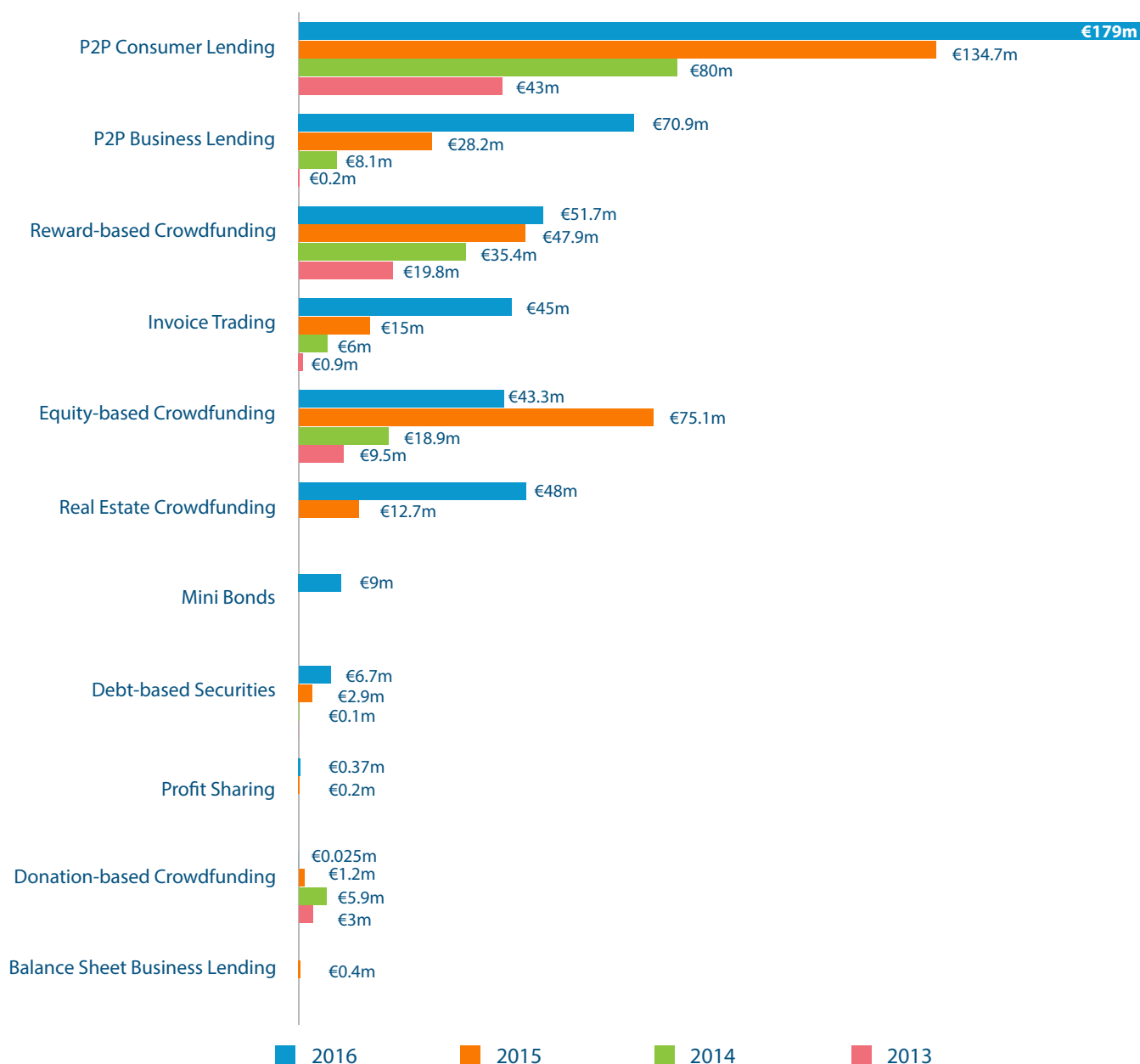
Balance Sheet Business Lending, while a modest volume of which was reported in the previous year. Rather, a handful of platforms operating the P2P Business Lending model indicated utilizing a balance sheet to support crowd activities, though insufficient data was provided to indicate usage as a proportion of volume. The Invoice Trading model also saw considerable growth, at 200% from €15m in 2015 to €45m in 2016. Furthermore, these two models are significant contributors to finance provided to businesses utilizing alternative finance as part of their funding activities. As a reminder, France ranked first in terms of overall business funding from alternative finance models much thanks to the growth of these models.

The equity-based crowdfunding model and the donation-based crowdfunding models were the only two to generate lower volumes than the previous year. Equity-based Crowdfunding accounted for €43.3m in 2016, a 42% drop against the previous year, in part due to consolidation in the market. With a decrease in repeat platform participation, with previous platforms leaving the space or pivoting to more traditional venture capital activities, volume was driven from a handful of strong incumbents. Whilst the overall figure decreased, incumbents experienced steady growth, albeit not at the same rate as previously recorded.

This was also the first year where the survey collected data about Mini-Bond transactions separately from the Equity-based Crowdfunding model. Given the inherently different product on offer platforms were able to disaggregate these volumes. Mini-bonds accounted for €9m.

Further, this is the second year that the CCAF are tracking the Real Estate Crowdfunding model. This model saw considerable growth, from €12.7m in 2015 to €38.1m in 2016 (a 200% annual growth rate). Comments from platforms in relation to this model suggest that there will be further volume growth within this model during 2017.

Figure 33: Total Alternative Finance Volume by Model in France 2013-2016 (€ EUR)



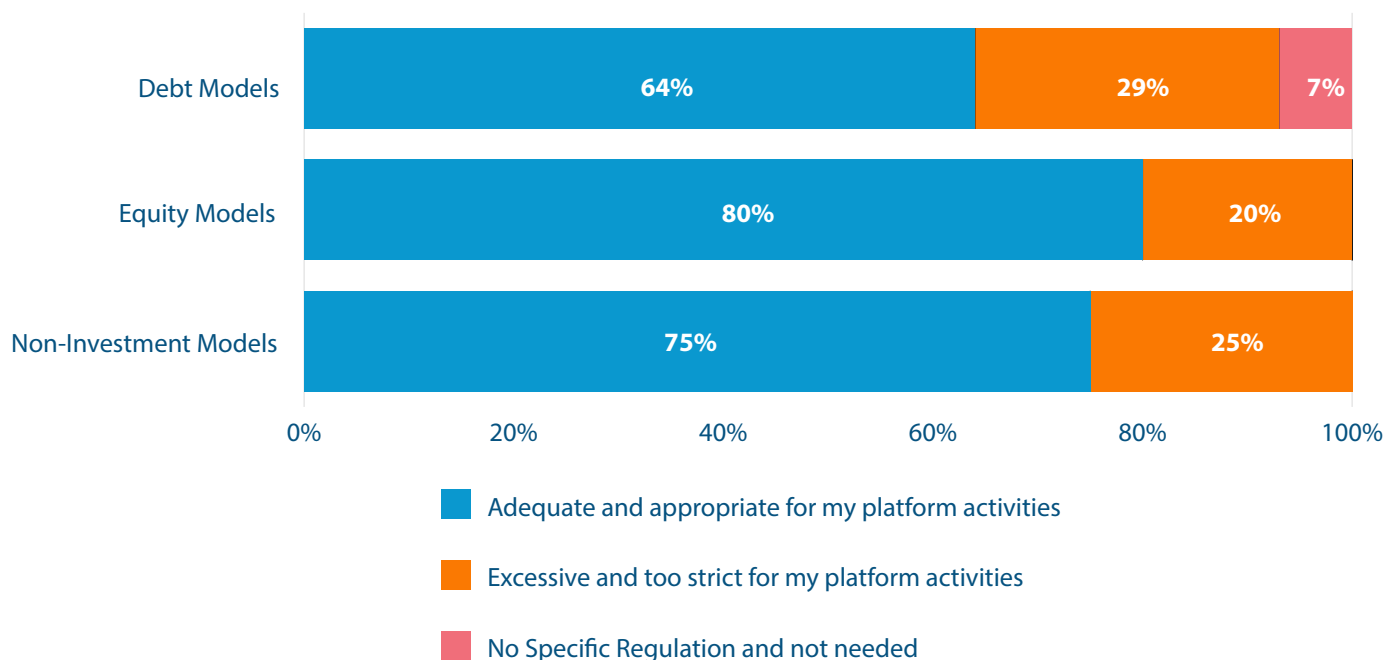
## REGULATION

A discussion on the development of alternative finance would not be complete without mention of regulation. France has been a leader in setting European expectations for FinTech focused regulation. With a forthcoming harmonization scheme on the horizon, it is useful to understand how platforms perceive the existing regulatory and supervisory frameworks. As such, platforms within France were asked to indicate their perception towards existing regulation.

Though the general sentiment from French platforms is that regulation is adequate, it is useful to review this assertion when broken down by model category. Three-quarters of all non-investment-based models (i.e. Reward-based and Donation-based Crowdfunding) indicated that existing regulation was 'adequate and appropriate', whilst 25% felt that existing regulation was 'excessive and too strict'.

Approximately 80% of all equity models (i.e. Equity-based Crowdfunding) viewed regulation as 'adequate and appropriate', though 20% viewed it as 'excessive and too strict'. In the case of debt models (i.e. P2P Lending), 64% of surveyed platforms perceived regulation as 'adequate and appropriate', 29% as 'excessive and too strict' and 7% noted that 'no specific regulation [was applicable to their activities] and that it was not needed.' As indicated by collected supplementary qualitative remarks, the French regulatory framework appropriately frames platform advice and information as presented to individual (or retail) investors. Yet, concern arises with respect to rules related to specific activity, with platforms indicating that there exists a level of misunderstanding from the regulator as to how specific platform operations or model-characteristics function in the context of processes and/or borrower/issuer acquisition and fulfilment.

Figure 34: Perception towards Existing National Regulation



### INSIGHTS FROM THE FIELD

#### **Florence de Maupeou, Finance Participative France**

France has been a pioneer in Europe, setting up a regulatory framework dedicated to crowdfunding platforms with the creation of two statutes from October 2014. France now has a proven practice with firms who operate under these industry-specific statutes:

- The crowdfunding intermediary (*Intermédiaire en Financement Participatif (IFP)*), supervised by the *Autorité de contrôle prudentiel et de résolution (ACPR)*, for lending platforms and donation platforms or rewards-

based crowdfunding - this statute hitherto optional for donation and rewards-based crowdfunding platforms has become mandatory since the end of 2016. Some 110 IFPs are listed in the *Orias* register - the single register for intermediaries in insurance, bank and finance.

- The *Participating Investment Advisor (Conseiller en Investissements Participatifs (CIP))*, supervised by the *Autorité des Marchés Financiers (AMF)*, for the platforms intermediating specific financial instruments and mini bonds. Some 50 CIPs are listed in the *Orias* register.

## RISKS

French platforms perceived risk to the industry in a variety of ways, though certain factors<sup>30</sup> were more prominent than others. French platforms were asked to rank seven 'risk factors' in relation to a platforms' operations. Given the diverse ecosystem of the French alternative finance marketplace, analysis of risk factors was aggregated by model category (Debt, Equity and Non-Investment Models).

Debt models viewed four of the seven risk factors as substantive to their operations, with 'high' and 'very high' ranking above or equal to 50%. Notably, no single factor ranked above 50%, though the following three equated exactly 50%. The single highest risk was that of fraud, with a 21% of platforms viewing this as a 'very high' risk and an additional 29% as 'high risk'. Also of significance was that of 'collapse of a well-known platform due to malpractice', with 14% of platforms noting this as 'very high risk' and 43% as 'high risk'. Cyber-security also ranked as a major risk, with 50% of platforms viewing this as a 'high risk'. The lowest risk to debt platforms was that of 'changes to regulation at a national level' (50% Low Risk) and 'changes to regulation at a European level' (36% Low Risk and 7% Very Low Risk).

Equity models viewed four of the seven risk factors as substantive to their operations, with 'high' and 'very high' ranking above or equal to 50%. The collapse of a well-known platform due to malpractice was viewed as the highest risk factor, with 34% of platforms viewing this as a 'very high risk' and 33% as a 'high risk'. Notable increase in business failure was also viewed as a significant risk, with 60% of platforms ranking this factor as 'very high risk' and 'high risk', split equally across both ranking options. Fraud (55%) and Cyber-security breach (50%) were also viewed as 'very high' to 'high' risks. With respect to regulation, 42% viewed changes at a national level as a high risk, while 25% viewed changes to pan-European regulation as a high risk.

In the case of non-investment models, they viewed five of the seven factors as a high or very high risk (overall 50%). The factors considered the least risky were the collapse of a well-known platform due to malpractice, with 66% of platforms rating this as a 'very low' risk and potential crowding out, which was viewed as a medium to low risk by 66% of platforms, split equally.

Figure 35: Risk Factors for Platforms - France



## INNOVATIONS

2016 is characterized by considerable innovations within French alternative finance, with platforms introducing new products, expanding their international reach and focusing on research and development as a core strategy to their business model.

To facilitate a discussion on innovation, platforms were asked a series of questions on their business models, their internationalization strategies and the types of research and development focuses they had implemented in the previous year. Though only 10% of platforms made significant changes to their underlying business models, 45% did indicate introducing slight changes to their existing operations, where these changes focused on facilitating investor or borrower activity and functionality. To that end, 30% of platforms indicated significant additions of new products on offer, and another 55% slight product changes. Many of the products focused on the investor side of their business, with introduction of new automation tools, secondary markets and auto-diversification functions on repayments.

Debt and Equity-models prioritized research and development, with 60% and 58% respectively of platforms prioritizing 'process

streamlining and automation' to the functionality of their platform. Research into artificial intelligence and performance enhancing features was also a priority for 42% of equity model respondents and 40% of debt model respondents.

French equity models are predominantly domestically focused, with 64% of platforms indicating no present international expansion strategies in place. That said, approximately 27% of platforms did note that their platform served different markets from their main domain site (i.e. 'com' sites) by utilising staff and partners in different markets. The remaining 9% of platforms indicated that they had created a local domain (in the local currency, language and with a local staff) but with the same look and feel of the parent company branding.

Debt platforms, by contrast, had a more robust internationalization strategy, with 40% operating branded company domains in distinct markets, with the local language, currency, etc managed outside of the home market. Another 13% utilized their main domain to service distinct markets, led by staff and partners outside of the home country.

### INSIGHTS FROM THE FIELD

#### **Dynamics of the French Alternative Finance Sector** **Florence de Maupeou, Finance Participative France**

*A diversity of alternative platforms emerged in France, creating a broad-spectrum of innovation in the finance sector aimed to facilitate the process of investment through the platforms (digital signature, robot-advisors, ...). Such Innovations support the development of emerging and high-growth industries, offer a wide possibility of sectors to finance (the projects in real estate and for renewable energy are taking more and more space in the alternative finance field) and enable the financing of the real economy by all citizens.*

*Moreover, France is the first State to have taken the initiative to include blockchain technology in a regulation. Here, blockchain technology is specifically intended as a tool enabling the issuance and sales of "minibonds" using digital distributed ledger technology. Some experimentations are running, as the one launched by the Caisse des Dépôts and Financement Participatif France to create an open blockchain for the emission of minibonds. However, the issue in the longer term will be to create and facilitate a second market for crowdfunding.*

*The alternative finance in France evolves in a framework characterized by a capacity of agility where the regulators struggle to follow and adapt the regulation. Moreover, the business models of crowdfunding platforms are based on applying relatively low margins to large collection volumes. In France, 70 platforms are members of the association, but in total, there are more than 100 platforms operating in the market. In this context of strict regulation and high competition, we can imagine that the French market will consolidate in the next months. We have already seen the beginning of this consolidation with the merging of some actors with traditional actors like funds or banks.*

*The crowdfunding associations (FPF, AFIP, AFCIM) work with the ACPR and the AMF in order to keep the proportionality principle in the regulation. The rules that govern French platforms were mostly based on regulations written when the customer relationship was not dematerialized. They are now difficult to transpose, unless through the use of suitable tools developed by FinTech firms. The use of new solutions enabling crowdfunding platforms to perform their business in a more efficient way must be promoted. These include solutions relate to « know-your-customer » (funded companies and investors), source and traceability of funds, data security, ease of payment, digital identification, etc. At the same time, the prohibition to solicit or advertise, a tax system that does not encourage risk-taking and investment in non-listed companies, are some aspects that block the development of the alternative finance. Overall, the French financial center is favorable to a common statute for crowdfunding in order to create a harmonized and direct application of regulation at a European level.*

# GERMANY

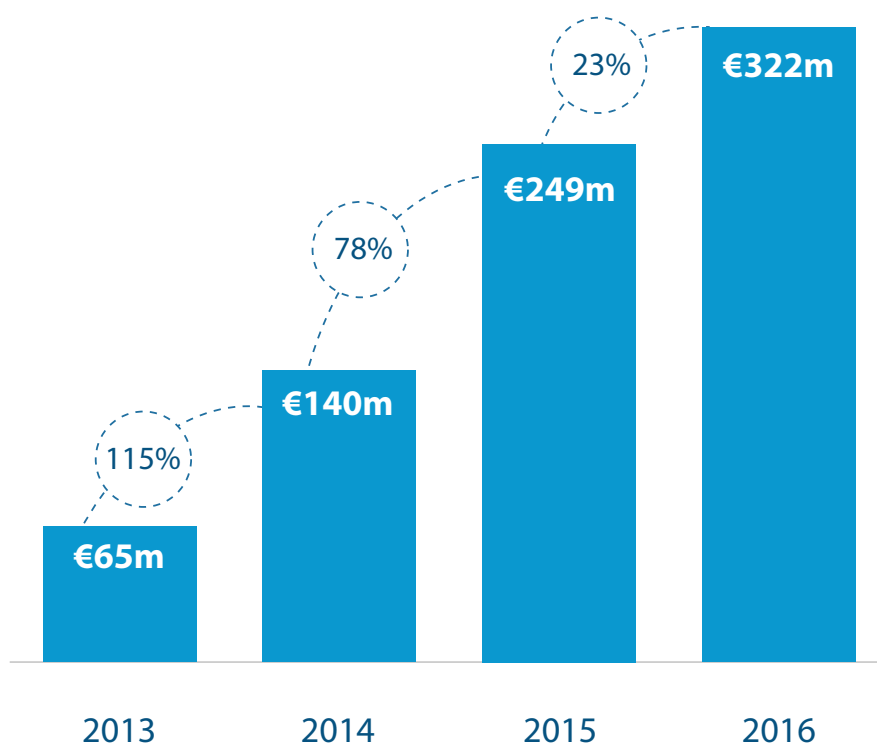
## MARKET VOLUME

The German Alternative Finance Market is puzzling; whilst it remains a strong and innovative alternative finance market, there are many areas which seemingly remain undeveloped. Germany's alternative finance market has grown to € 322m in 2016 from € 249m in 2015. The growth rate of 29% is smaller than in previous years (2015: 78%; 2014: 115%), yet Germany remains the second-largest national market in Continental Europe after France in terms of total national volumes of alternative finance transactions. Overall, Germany accounts for 15.6% of the total volume of alternate finance in Europe (excluding the UK).

The German market can be put into perspective by comparing it to the Nordic region, which saw 211% growth in 2016.

The countries of Denmark, Finland, Iceland, Norway and Sweden have a slightly larger Alternative Finance Market at €323m. However, when examined vis-à-vis the size of these economies as captured by Germany's GDP of \$3,479b, compared to the joint GDP of all Nordic Countries at \$ 1,445b, one may assume that Germany has further growth potential. If scaled by GDP, one can expect Germany's alternative finance volume to be at least twice the volume of the Nordic Countries. This applies, especially when taking into consideration, the young nature of the industry in both markets, the assumption that alternative finance serves market gaps existing in both markets, this may indicate an underperforming of the German alternative finance market, hindered by a regulatory framework which constrains market development.

Figure 36: Germany Online Alternative Finance Market Volumes 2013-2016 (€ EUR)



## VOLUME BY MODELS

P2P consumer lending has reached € 181.5 million in 2016, with a combined volume of € 434.7m since 2013. While the growth rate has slowed down from 121% in 2014, 70% in 2015 and 33% in 2016, P2P consumer lending remains the biggest sector of the alternative finance market in Germany.

P2P business lending is now in fourth place, with € 23.3m Euro in 2016 (2015: € 48.7m), presenting a fall in volumes as well as relative share of market, having been the second largest in 2015. This can be explained by the combination of a number of business lending platforms merging, been bought by foreign platforms or have stopped reporting their figures. The decline of P2P business lending in the German market shows the undergoing transformation of this sector in 2016.

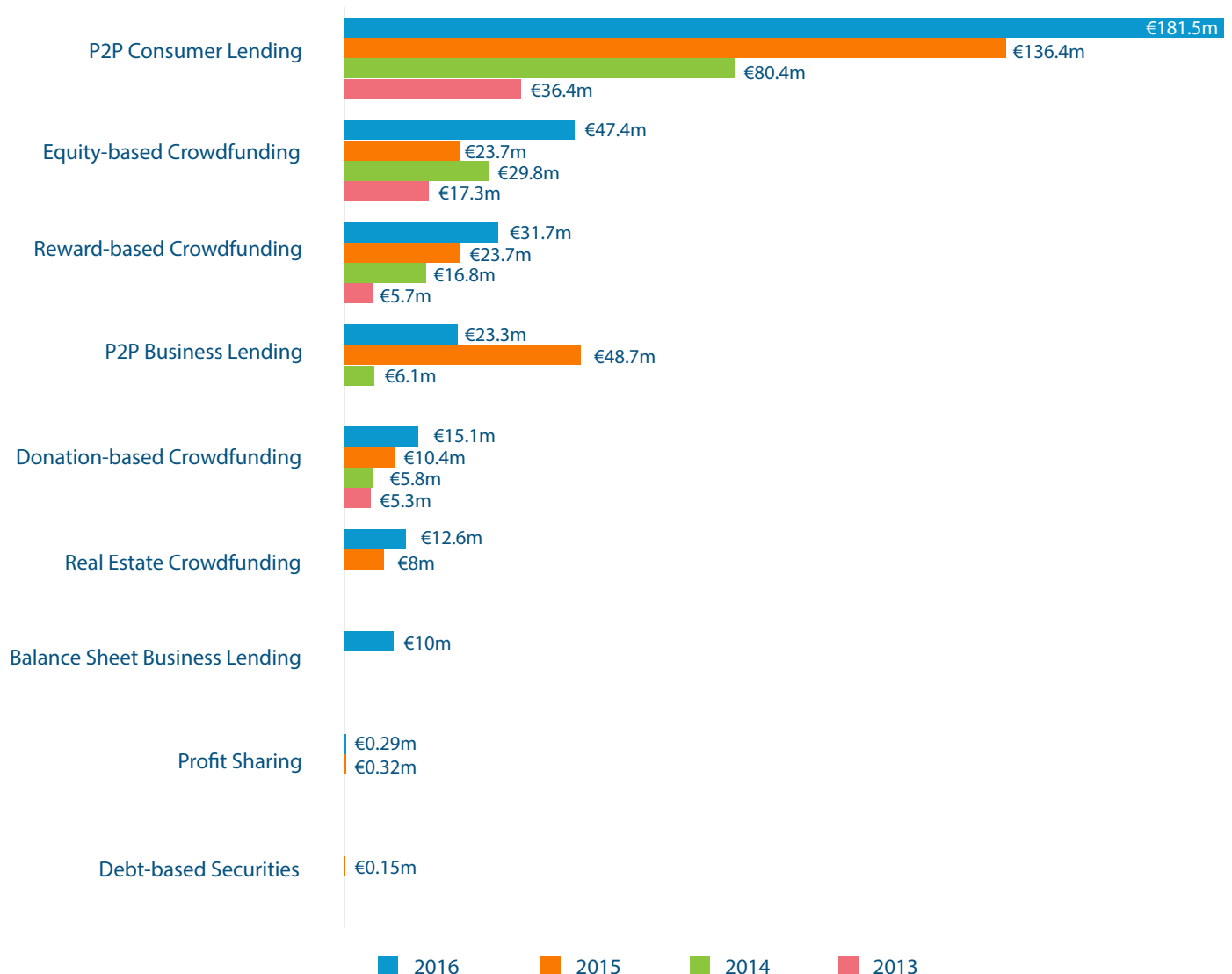
Equity-based Crowdfunding now represents the second largest volume of alternative finance in Germany. The data confirms the dependency of volume on legislative changes. In 2015, Equity-based Crowdfunding underwent a regulatory revision – and the market followed with increasing volumes from t € 23.7m in 2015 growing 135% to € 55.5m in 2016 after the platforms remodelled their legal framework and implemented the new laws.

Reward-based crowdfunding is the third largest sector in alternative finance at € 31.7m in 2016 (2015: € 21.1m; 2014: € 16.8m). The growth rate in the sector has increased from 26% in 2015 to 50% in 2016, partially due to the fact that international reward-based platforms have made it easier to launch German-based campaigns on their platform.

Donation-based Crowdfunding is reported at € 15.2m, a growth from 46% in the year 2015. Donation-based Crowdfunding and traditional online fundraising methods through direct donations are difficult to distinguish methodologically, since some donation-based Crowdfunding platforms deviate from the classic model of fixed campaign amounts and fixed campaign time, but are allowing continuous donations instead. In Germany, about 150 platforms allow some form of donation-based Crowdfunding. Most of these platforms are very small and operate only in a small region.

Real Estate Crowdfunding has grown to € 12.6m from € 8.0m in 2015, a sign of the emerging industry in this sector. A number of platforms were initiated in the second half of 2016 specializing in real estate crowdfunding, and accordingly, this sector is likely to further grow in 2017.

Figure 37: Total Alternative Finance Volume by Model in Germany 2013-2016 (€ EUR)



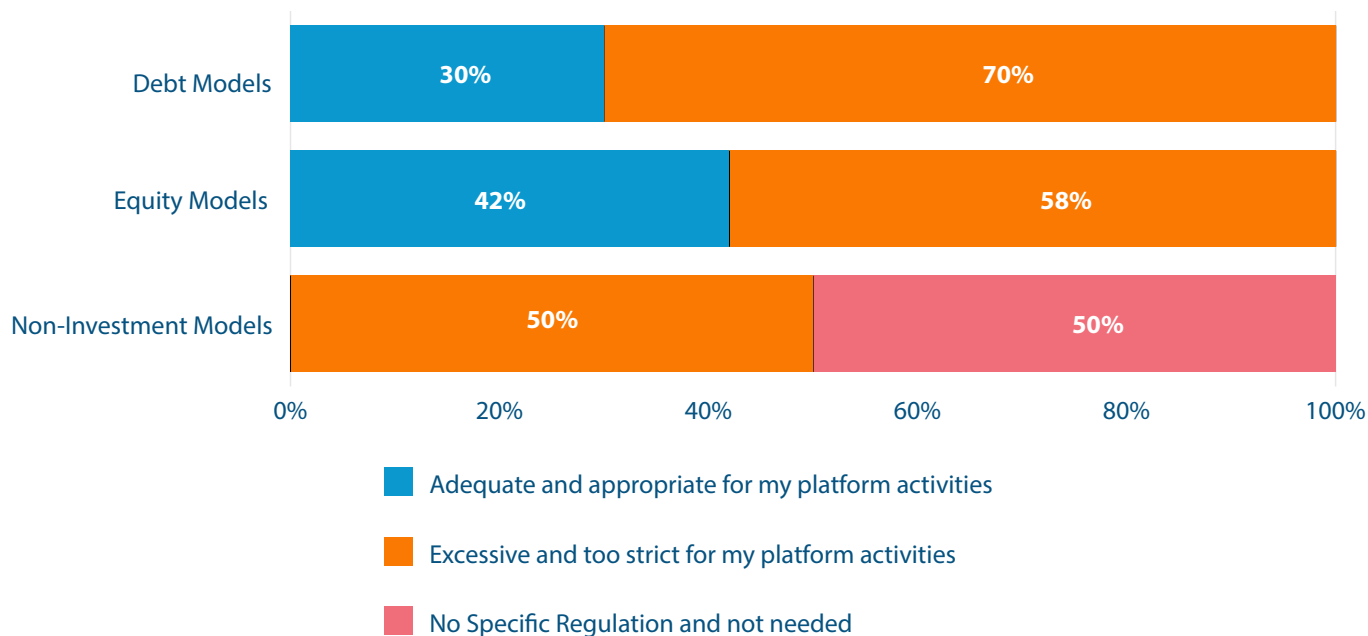
## REGULATION

The German alternative finance market in 2016 matured but also became less diverse due to the regulatory framework in place. In 2015, the government awarded subordinate loans a privileged exemption from the Prospectus Requirement, which motivated the equity-based platforms to use this type of financial instrument. This led to a situation where even if they had previously used other forms of equity instruments, most platforms switched to the subordinate loans. The regulation thus seemingly reduced competition and choice for retail investors. At the same time, Germany saw new participants emerge within the crowdfunding market. Several banks had operated Donation-based Crowdfunding platforms before and chose to initiate Equity-based Crowdfunding Platforms in 2016. In addition, it is worth noting that two major electricity producers are operating their own Energy Crowdfunding Platforms.

The debate about regulation is ongoing in Germany, affecting particularly the equity-based Crowdfunding platforms; and in the spring of 2017, another review of the regulatory framework took place. Accordingly, one can assume that this has shaped the responses from the platforms, where 58% of the Equity model platforms expressed a negative view of the existing national regulation, while 42% see the existing national regulation as adequate and appropriate for the platform activities. In addition, 70% of the Debt model platforms see the regulation as too strict, with only 30% as adequate and appropriate.

Since there is no specific regulatory framework for Donation-based and Reward-based Crowdfunding, it is unsurprising to see that the Non-Investment Platforms either claim that the regulation does not apply to them (50%) or that the regulation is adequate and appropriate (50%).

Figure 38: Perception towards Existing National Regulation





# RISK

The risks perceived by the platforms underscore how differently the legislative framework is perceived. Equity and debt platforms perceive the risk of Fraud, Business Failure and Collapses of Major Platforms higher than their reward-based and donation-based crowdfunding counterparts.

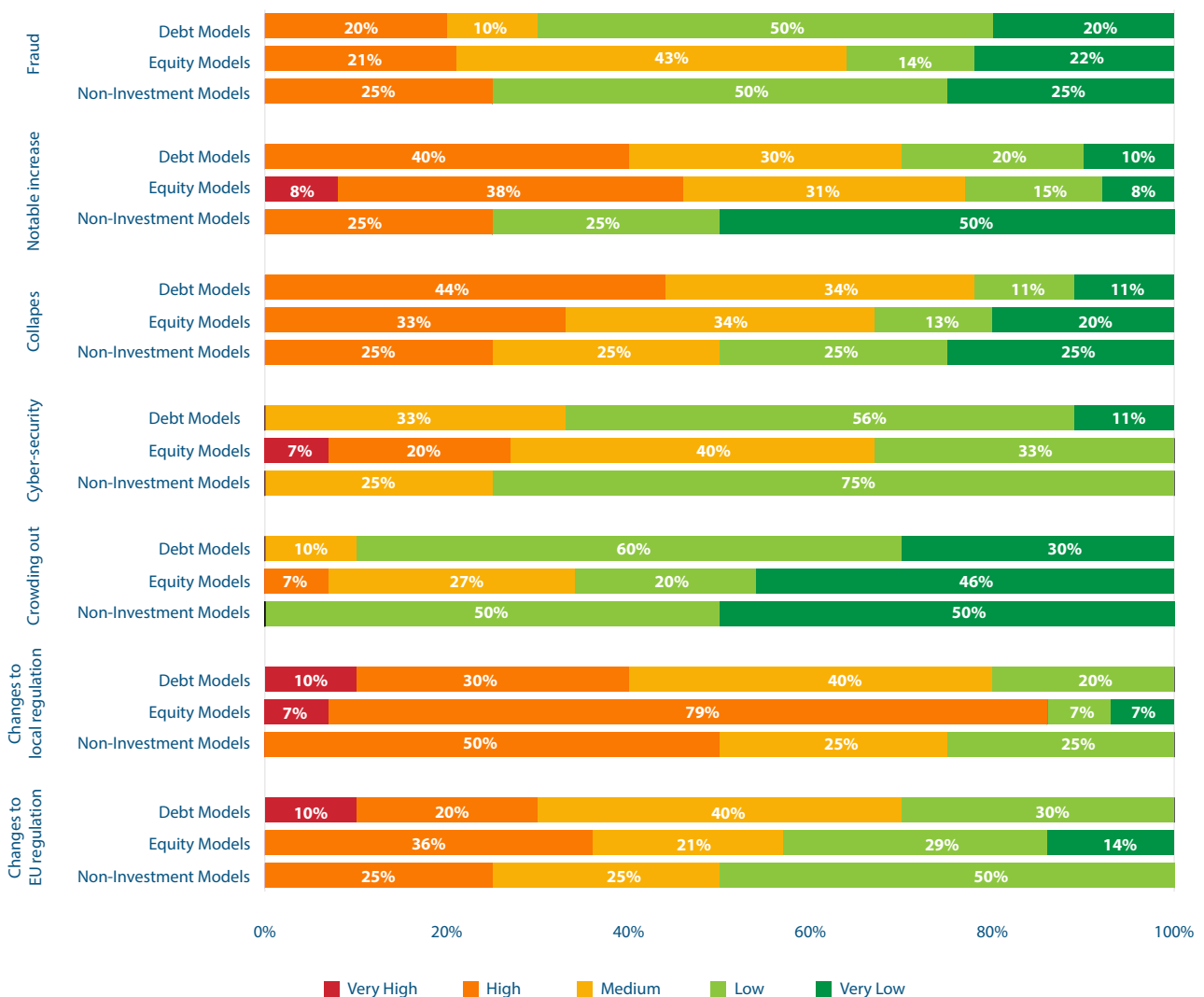
Equity platforms saw the risk of Fraud slightly higher (with 64% indicating a medium to high risk) followed by lending platforms (with 30%). The market for Equity-based platforms is scattered among more platforms and therefore fraudulent behaviour is seen a slightly more pressing problem. Similarly, equity-based crowdfunding platforms saw a notable increase in business defaults as more pressing problems (8% regarding it as very high risk and 38% as high risk), closely followed by debt-based platforms (40% regarding it as high risk).

The collapse of a major platform is viewed by 44% of Debt platforms as a 'high risk', compared to only 33% in Equity models. Similarly, most platforms regard the collapse of a well-known platform as a 'medium to very low risk'.

Cyber-security breach is not seen as imminent danger, due to the already high standards of data protection in Germany with 66% of debt platforms indicating only a low or very low risk. 73% of equity platforms indicate a medium to low risk for this factor.

Equity and debt model platforms are concerned about impending changes to the regulatory framework, given that the third review of the Crowdfunding framework is expected to occur in 2018. More than 86% of the equity platforms see a very high risk or high risk of the eminent regulatory changes on the national level. And 40% of debt platforms see this as a high or very high risk. Changes in the regulation on the European level are seen as more favourable, and of concern to only a third of equity and lending platforms, probably given the impact of the European Capital Market Regulation on the German Crowdfunding Ecosystem. Furthermore, due to the limiting nature of existing regulation in the German market, European-wide regulation can be expected to present a measure of relaxation rather than tightening of regulation in comparison to the German regulation.

Figure 39: Risk Factors for Platforms - Germany



## INNOVATIONS

In general, equity- and debt-based models rely on fees from the process of intermediation between investor and investee, or lender and borrower respectively. Most platforms have added additional services to their portfolio, such as supporting the projects with media resources during the campaign. In the case of R&D priorities, 73% of equity platforms have focused R&D attention on 'process streamlining and automation', and 47% are also focusing on 'community management features and tools'. For debt models, 44% of platforms are focusing R&D on 'process streamlining and automation'. Interestingly, 56% of debt model platforms noted 'artificial intelligence and performance enhancement features' as an R&D priority.

P2P Consumer Lending is dominated by one large lending platform, providing a high market entry barrier for new platforms due to its scale and presence in the market. After one of the larger P2P business lending platforms was acquired by its British competitor in 2016, and another platform was sold to a new owner, the business model of these platforms will most likely change in the future. In the case of debt model operators, 70% of debt models made no alterations to their business model and 60% indicated making no significant changes to their product offerings. In contrast, while 80% of equity model platforms made no alterations to their business model, 63% of these platforms did introduce 'significantly new' products or services to their customers, and an additional 30% introduced 'slightly new' products.

Equity-Crowdfunding platforms have reached out to more risk-averse investors in the recent years. While the start-up-platforms have been attractive for digital pioneers who wanted to invest in other digital business models and profit from high exits in the industry, real estate and energy crowdfunding has attracted investors that were aiming for a steady return rate. Start-up platforms have responded by offering equity

instruments for growth financing of small businesses as well. By and large, the German alternative finance market is driven by domestic activities. Debt models saw internationalization, in part, from P2P Business Lending platforms with mixed success. Some early attempts of establishing subsidiaries of German P2P lending platforms in other European and Non-European Countries have not indicated a clear success story, therefore it is not surprising that 40% of these lending platforms indicated 'no internationalization strategy' and have focused their energy

on growing in the German market and partnering with financial institutions. Nevertheless, about half of all debt platforms did note that they were 'serving different markets from their main domain' while 10% indicated operating different markets using a 'local domain in the local currency and language, but with parent platform branding'.

The equity market in Germany remains strongly domestic, with 75% of these platforms indicating no internationalization strategy whatsoever, though some 8% of platforms did indicate running a 'local domain in the local language and currency of another market whilst using company branding', and 17% 'served different markets off of their main platform domain'. A handful of equity platforms did note that they were awaiting EU harmonization before pursuing an international expansion strategy.

Reward-based Crowdfunding has seen a significant number of platforms which have ceased operation, especially platforms which focussed on specific sectors or branches. The remaining few platforms have continued to grow. For German entrepreneurs, there is a wide choice of using German, French, Dutch, British or US-based reward-based Crowdfunding platforms. Not surprisingly 70% of these platforms 'serve different markets from [their] main domain site (i.e .com sites) with [their] own staff and partners in different markets', and 20% have created distinct domains in the local currency and language of the different market but with the same branding as the parent company'.

Reward-based Crowdfunding displayed innovative approaches as well; platforms which were run as a singular platform merged onto a common network of platforms, which enabled them to share the Crowdfunding Community. Co-finance mechanism introduced public funding from grants and private funding from foundations to the Crowdfunding ecosystem. With respect to their R&D priorities, 83% of these platforms were focusing on 'community management features and tools', 83% on 'process streamlining and automation' and 50% on 'social media and fundraiser promotional tools'. Reward-based Crowdfunding platforms have relied on the fees as well, but have been increasingly cooperating with public institutions, private foundations or financial service providers which have covered the costs of the platform.

## **INSIGHTS FROM THE FIELD**

### **Jamal El Mallouki, CEO of CrowdDesk GmbH, President of the German Crowdfunding Association and Member of the Board**

*Increasingly, Financial Institutions are entering the market as platform provider. CrowdDesk is operating a platform on behalf of GLS Bank, the first bank which established its own equity-based Crowdfunding platform. In our association, we are having an intense dialogue with the associations from older industries, to ensure that banks don't see Crowdfunding as a threat, but as an opportunity to increase customer engagement and validate business proposals.*

### **Ralph Pieper (CFO, kapilendo) (Member of the Board of the German Crowdfunding Association)**

*Despite record levels of market liquidity, German SMEs still lack access to sufficient funding. Traditional lenders remain reluctant to issue loans under €1m as their high fixed costs and capital requirements make this segment less attractive.*

*Growth financing in particular is an area where P2P lending can add value, by providing SME with both access to funding and exposure to a wide audience of potential customers.*

# BENELUX

## MARKET VOLUME

The Benelux countries, which are Belgium, the Netherlands and Luxembourg, grew by 67% in 2016, which is in line with the average four-year growth rate of 74%. In 2016 the alternative finance market volume has grown by circa €99 million, placing the Benelux region as the 4th largest market for alternative finance in mainland Europe with a total volume of €246 million.

Currently, most volume is driven by the Netherlands, which accounts for 79% of regional volumes. Jointly, the Benelux Countries account for 11.9% of total 2016 volumes of alternative finance in Europe excluding UK, and 3.2% of volumes in Europe including UK.

Figure 40: Benelux Total Alternative Finance Market Volumes 2013-2016 (€ EUR)

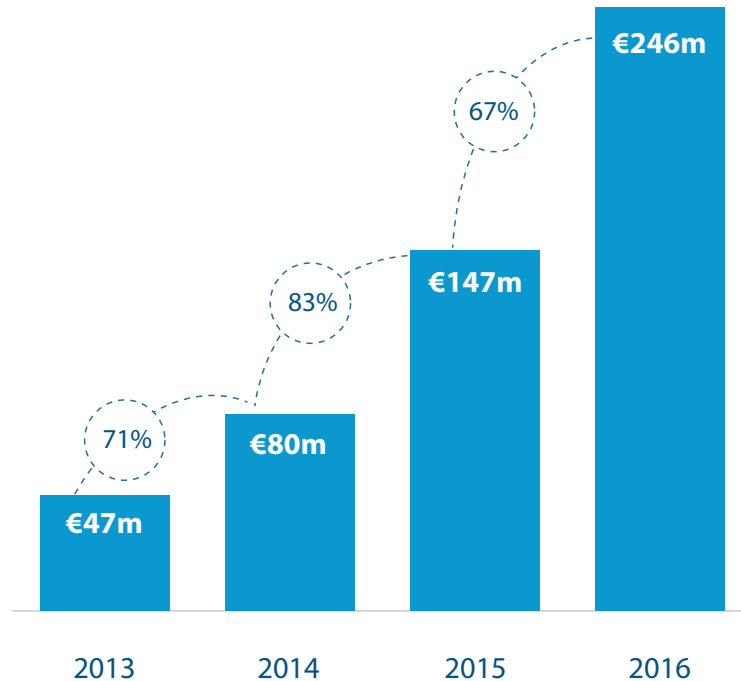
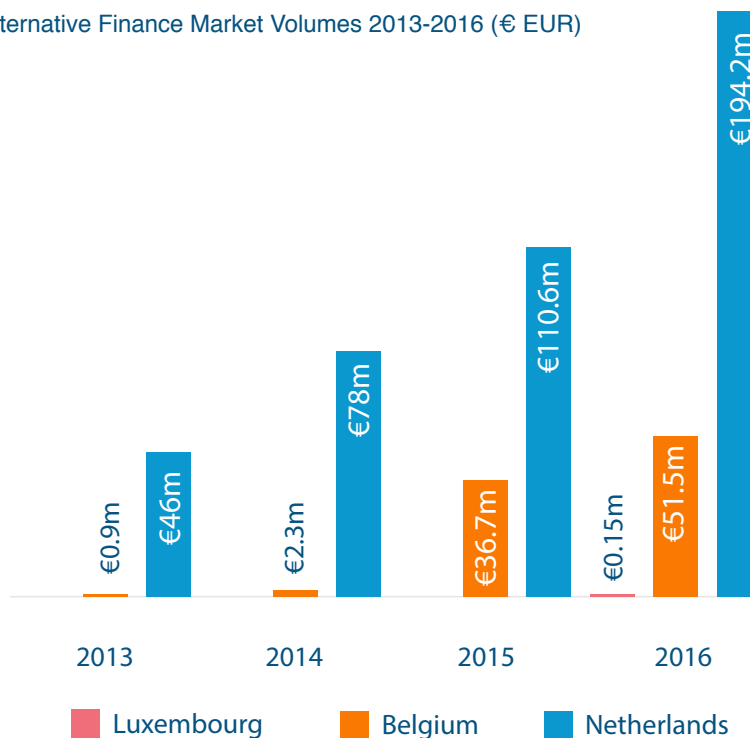


Figure 41: Benelux Online Alternative Finance Market Volumes 2013-2016 (€ EUR)



## VOLUME BY MODEL AND COUNTRY

Two models were responsible for the greatest growth – P2P business lending and invoice trading. P2P business lending generated €132.3 million, representing 54% of Benelux alternative finance volumes in 2016, and growing 71% from 2015. This growth is mostly exclusively based on activities in the Netherlands (99.9% of regional volumes). Invoice trading, on the other hand, valued at €47.7 million, representing 19% of regional alternative finance volumes, and growing 91% from 2015 is almost exclusively based on activities in Belgium (98.6% of regional volumes).

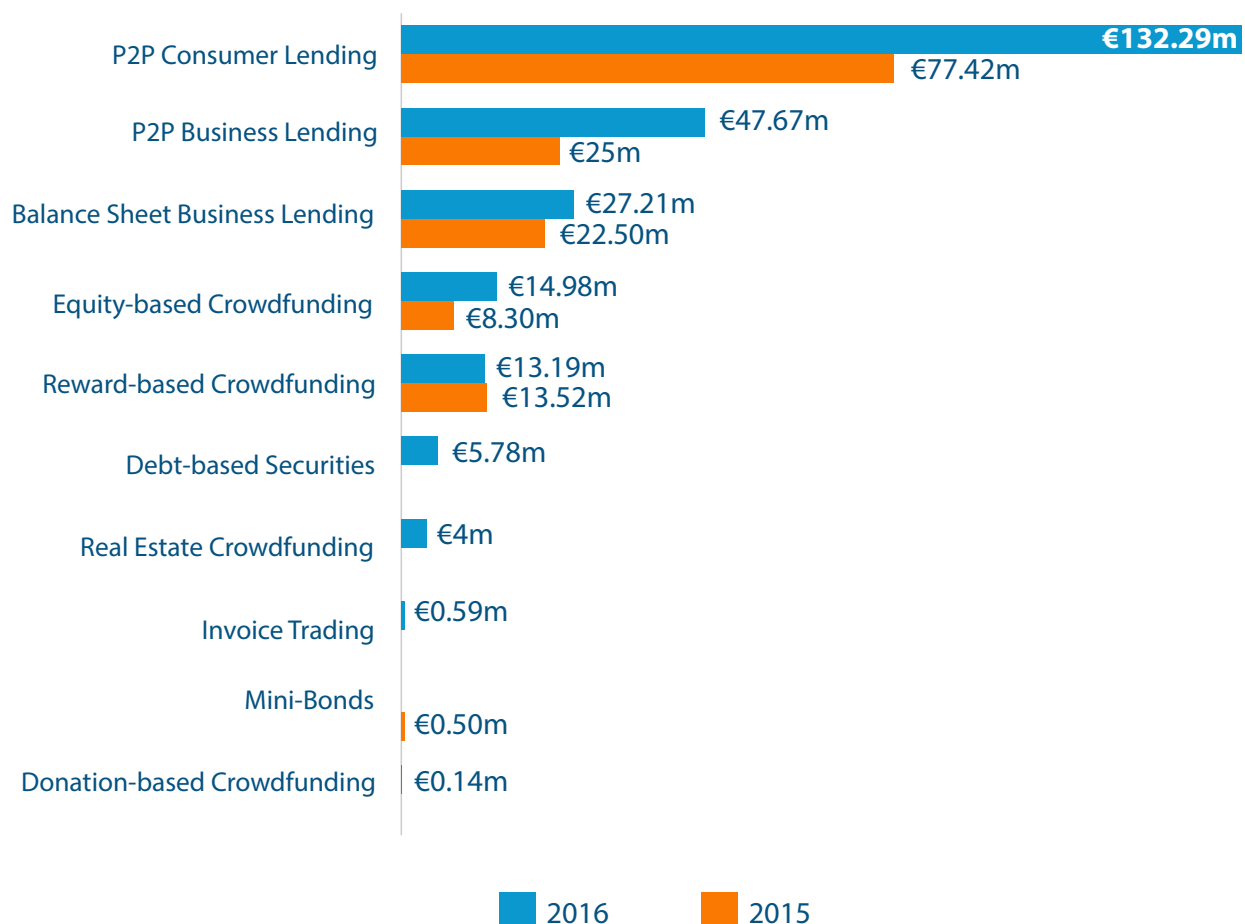
Equity-based crowdfunding, while seeing growth of 21% from 2015 and reaching a volume of €27.2 million in 2016 disguises opposite developments among the regions two main participants.

In the Netherlands, equity crowdfunding has grown 63% to €27.1 million (capturing 99.8% of regional equity crowdfunding volumes), while in Belgium this form of alternative finance dramatically declined by 99% from €5.9 million to just €60K. While equity platforms in both markets operate under significant limitations, the Dutch system offers more flexibilities than its Belgian counterpart.

Closely related is the growth observed in the Netherlands with respect to debt-based securities, accounting for €15 million, growing 80% from 2015, and representing 6.1% of the regional alternative finance volumes. Some Dutch platforms in this space use debt-based securities in the form of convertible subordinate loans as an alternative investment to equity shares.

Reward-crowdfunding is the only major model evident in all three countries and accounts for a volume of €13.2 million overall, which is 5.4% of overall Benelux alternative finance volumes. The volumes are mainly driven by the Netherlands (71%), followed by Belgium (28%) and Luxembourg (1%). The aggregate volume is 2% lower than in 2015.

Figure 42: Total Alternative Finance Volume by Model in Benelux 2015-2016 (€ EUR)



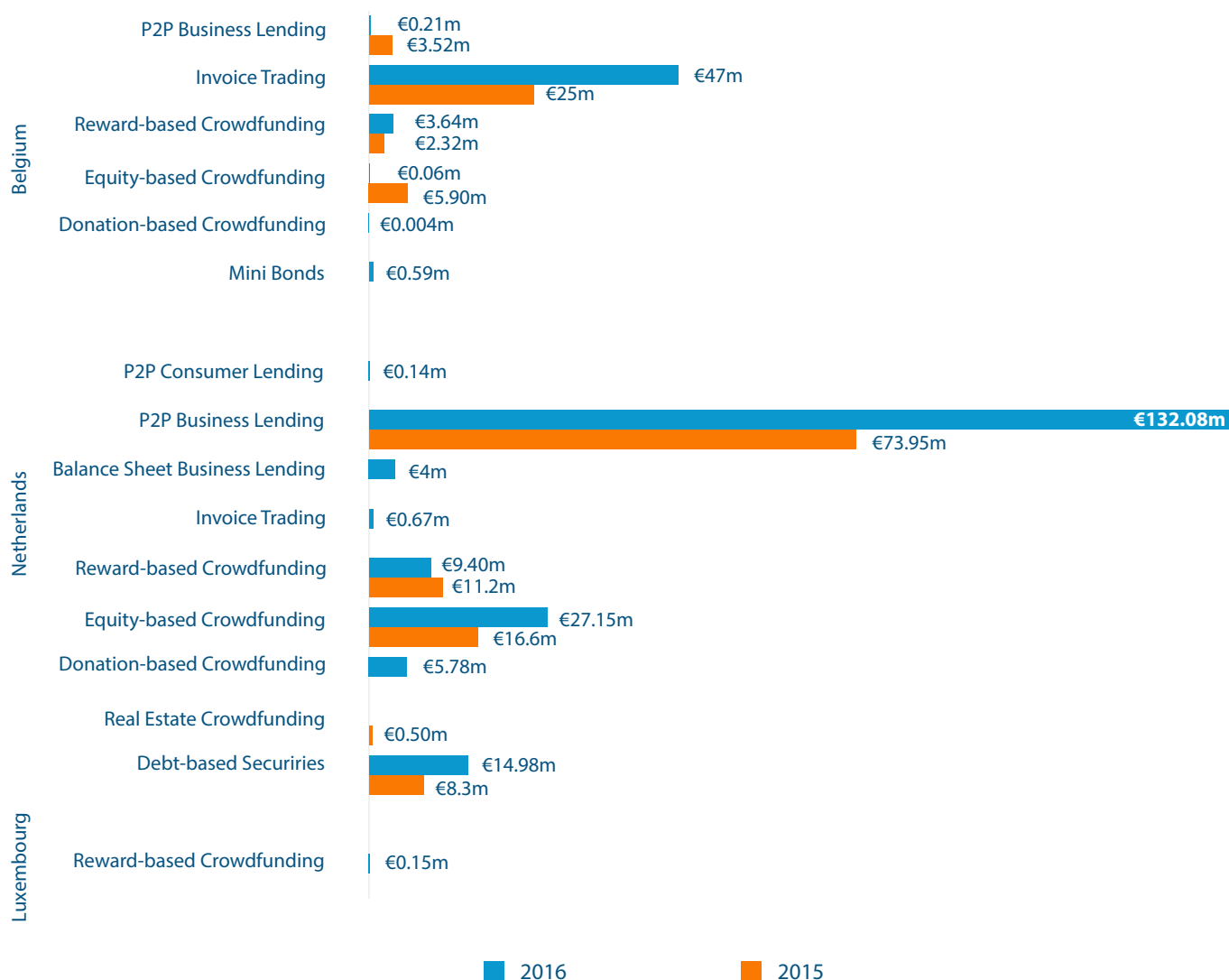
All remaining models maintain relatively small volumes and represent activities in single markets. Donation-based crowdfunding is almost exclusive to the Netherlands (capturing 99.99% of regional donation crowdfunding volumes) and accounts for €5.8 million. Balance sheet business lending, evident only in the Netherlands accounts for €4 million in 2016. Mini-bonds are evident only in Belgium and account for €0.59 million. Real Estate crowdfunding is evident only in the Netherlands and accounts for €0.50 million. And P2P consumer lending, also only evident in the Netherlands accounts for €0.14 million.

Overall, the Netherlands maintains its position as the regional leader across multiple models, with total market volumes estimated at €194.2 million in 2016, a growth of 76% from 2015, and per capita contributions of €11.41 landing it the 9th highest in Europe.

Belgium has seen a good growth of 40% in 2016 although slower than its neighbors, mainly due to a dramatic decline in equity crowdfunding, which is largely compensated through a significant growth in volumes of invoice trading. Nevertheless, regulatory challenges continue to weigh heavy and slow crowdfunding market growth in Belgium. Nevertheless, 2016 volumes stand at €51 million, and per capita contribution level of €4.54, ranking 13th in Europe.

Luxembourg, despite its position as a European financial service hub, represents a small home market with high concentration of traditional institutions. In 2016 it only raised just €0.15 million, with per capita contributions of €0.26 and ranking 26th in Europe. Efforts to establish local platforms have not yet succeeded, and the market is only served through foreign platforms from the US and elsewhere in Europe. Volumes traced thus far only relate to reward-crowdfunding, but attempts at equity and Real Estate Crowdfunding are under way.

Figure 43: Total Alternative Finance Volume by Model Breakdown by Country - Benelux2015-2016 (€ EUR)



**INSIGHTS FROM THE FIELD****Slowing growth and consolidation in the Dutch crowdfunding market****Ronald Kleverlaan, Director, European Centre for Alternative Finance, Utrecht University, the Netherlands**

*In the last 12 months the Alternative Finance industry in The Netherlands slowed somewhat and hasn't grown as fast as in previous years. One of the reasons was lack of a regulatory framework and a fragmented industry with 50+ platforms offering Alternative Finance investments.*

*This year the Dutch regulator (AFM) and the industry all pushed for a regulatory framework and the government is currently working on it. At the same time, following stronger restrictions from the regulator, several crowd investing platforms stopped their activities. This created a public debate on the continuation of the services by the platforms when a platform stops operations. Platforms now need to produce a continuation plan. Moreover, several reward-based crowdfunding platforms stopped their operations or merged.*

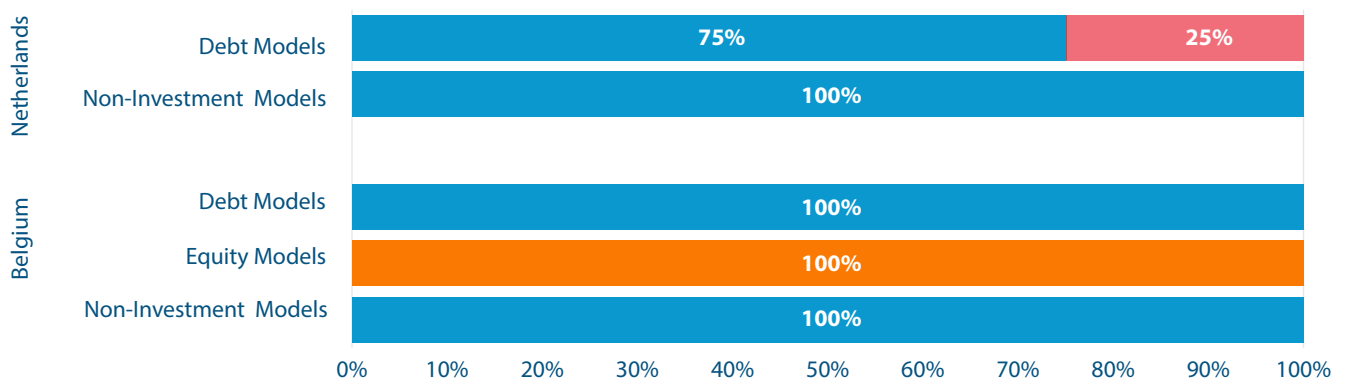
**REGULATION**

All Benelux countries are founding EC members. However, the since the EC has not yet developed a common regulatory framework for crowdfunding, such issues should be examined at a national level. When interpreting the findings with respect to platform perception of regulation in each country, one must acknowledge that only few platforms operate in each market, and those operating are unlikely to be the ones limited by regulation. Nevertheless, the findings seem to highlight a few important aspects.

While operating platforms based on non-investment models does not pose serious regulatory challenges, and while current regulations covering business debt models allow the industry to balance growth with consumer protection, challenges do remain

particularly with respect to equity crowdfunding and consumer debt models. This is applicable for both the Netherlands and Belgium. Some efforts have been taken in the last years in both countries to re-visit existing relevant regulations, but outcomes remain uncertain and will only be evident in the next coming years. More specifically, the new Belgian "Crowdfunding Platform Act" which came into power in February 2017, while presenting progress in easing earlier limitations (that may have affected 2016 volumes), still remains on the restrictive side of the spectrum in comparison to regulatory frameworks elsewhere. Accordingly, this may hamper growth also in 2017 and onwards.

Figure 44: Perception towards Existing National Regulation



- Adequate and appropriate for my platform activities
- Excessive and too strict for my platform activities
- Inadequate and too relaxed for my platform activities

## RISK

Four main risks concern the platforms of the Benelux countries. First, the risk of notable increase in default rates or business failures, which is exclusively associated with debt models of alternative finance, was indicated as of “high” or “very high” risk by 36% of platforms in the region (50% of Belgian and 33% of Dutch platforms).

Second, an additional major concern is also evident with respect to the risk of collapse of one or more platforms due to malpractice, which is associated with both investment and non-investment platforms. Here, 33% of the region’s platforms have evaluated this risk as “high” or “very high” (35% of Dutch and 25% of Belgian platforms).

Third, the risk of cybersecurity breaches, which is again common to both investment and non-investment model platforms, was indicated as a concern by 33% of regional platforms (50% of Belgian, and 29% of Dutch platforms) rating it as “high” or “very high” risk.

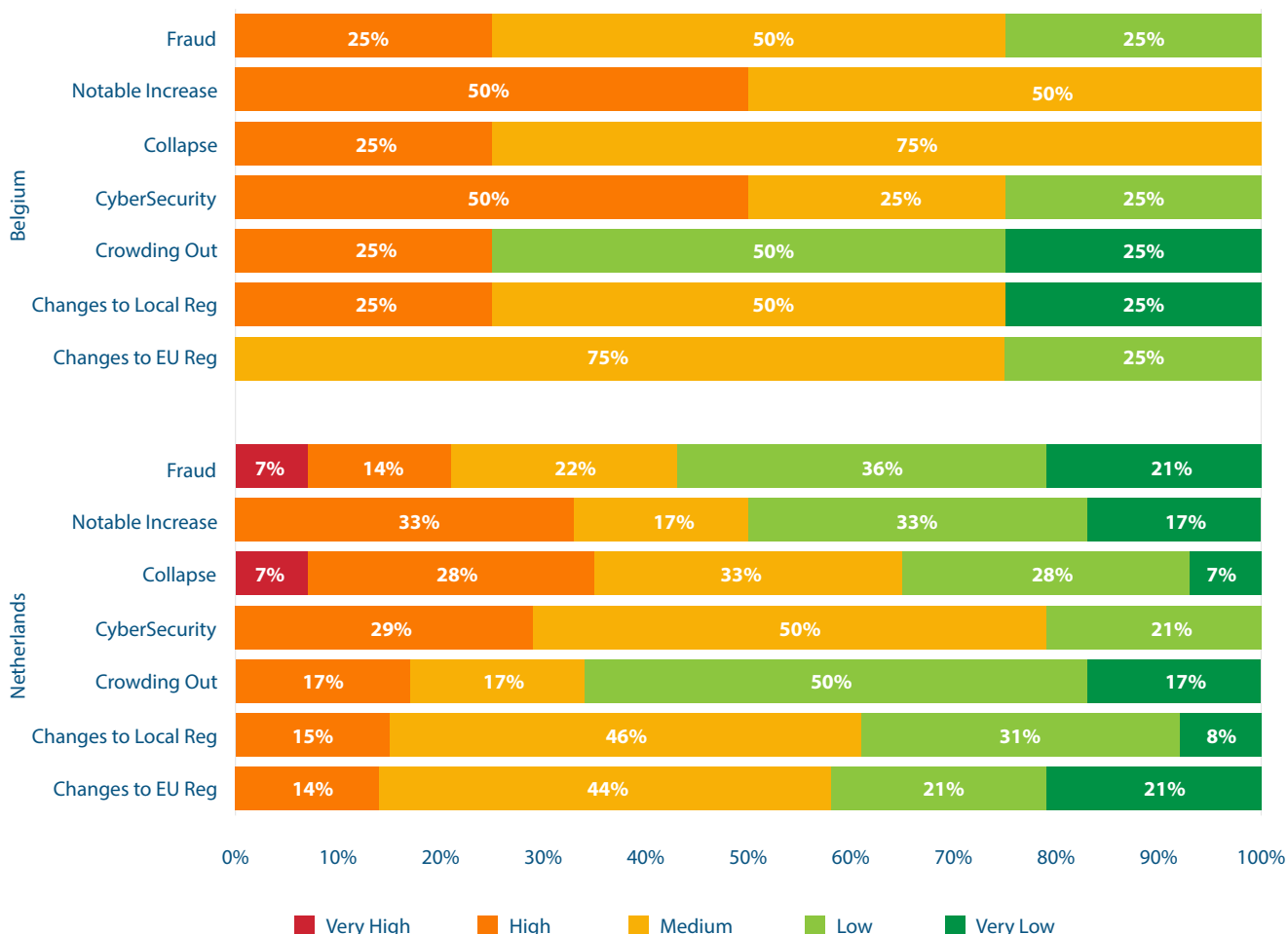
Fourth, a concern with fraud involving one or more high profile campaign was rated as risky by 22% of regional platforms,

interestingly enough all from non-investment models (25% of Belgian and 21% of Dutch platforms). This may reflect self-belief of investment model platforms in own screening procedures, as well as some level of resource limitations for thorough screening of reward and donation campaigns, which are associated with much lower volumes.

Only a relatively small share of regional platforms are concerned with possible regulatory changes, may they be investment or non-investment platforms. At a regional level 18% of platforms expressed concern with risks in regulatory changes at local level, and only 11% were concerned with risks in regulatory changes at EU level. This suggests that regulatory changes would be a welcomed development, as well as low expectations that current regulations can get much tighter.

Finally, relatively few platforms have considered the risk of crowding out of retail investors by institutional investors, mentioned by 19% of regional platforms, all representing investment model operations. This can be explained by young platforms regarding recruitment of “heavy” investors as an opportunity more than a threat.

Figure 45: Risk Factors for Platforms - Benelux





## INNOVATIONS

Benelux platforms have been investing in development both via innovative efforts, and international market expansion, although in most cases have veered off significant changes to their business models.

Sixteen platforms from Benelux have provided information about their R&D efforts, with a majority of which reporting investments in more than one area of focus. Current efforts are mainly directed towards two objectives – customer verification and process streamlining and automation, with 56% of regional platforms reporting innovative efforts in these areas. However, customer verification is an innovation priority in 73% of investment model platforms, while being mentioned only by 20% of non-investment platforms. Nevertheless, process streamlining and automation is a priority in both types of platforms, with 63% of investment platforms and 40% of non-investment platforms reporting work in this area.

A second area of focus for R&D efforts involves improvements to customer service and management systems. Here, 38% of platforms report efforts towards community management features, 31% towards aid tools for social media promotions, and 25% towards customer relationship management systems. Difference between platforms is only evident with respect to the latter, where only investment model platforms report work on customer relationship management. This may be due to higher volumes associated with each transaction, as well as an assumption that investors are more likely to be repeated customers than backers of reward and donation campaigns. The same reasoning can also provide explanation to the fact that only investment model platforms report working on innovation in the area of payment processing, representing 25% of all regional platforms and 36% of investment model platforms. Here, challenges may be greater in terms of relatively large sum transactions, as well as cross-border investments. 25% of regional platforms also report work with artificial intelligence and performance enhancement technologies. And only a few platforms report innovation effort in areas of e-learning and gamification features,

reported by 19% and 13% of regional platforms respectively. Jointly these features may be considered as advanced for an industry where platforms are more concerned with survival, growth and compliance, rather than with enhancement of existing capabilities.

Seventeen platforms from Benelux have provided information about the status of their business models. Overall, 53% of platforms report no significant change to business model (58% of investment platforms and 40% of non-investment platforms), and 41% report only a slight alteration of it during 2016 (33% of investment platforms and 60% of non-investment model). Ten platforms from Benelux provided information about introduction of new products where 60% of platforms report no changes to their products during 2016, and 30% report introduction of slightly altered products in the same period.

Seventeen platforms from Benelux countries have provided information about their international strategies and efforts. 44% have indicated no plans for international expansion, while 56% have indicated various strategies for catering to international customers. This stands in contradiction to a stringer domestic orientation of French and German platforms, and represents the need of platforms from relatively small domestic markets to expand for achieving scale and profitability in the long-term, but first achieving stability and satisfactory coverage in domestic markets.

Among those with international activities, the most popular strategy is the use of own global website and staff for serving both local and international customers. This was used by 31% of platforms. 19% of platforms adopted a different strategy through the use of a localized site, with local domain, language and currency under a common brand, and 13% of platforms report use of localized sites with local brands.

The only difference between platforms in the investment and non-investment models is evident with respect to no plans for international expansion, as reported by 55% of investment platforms and 20% of non-investment platforms. This may be explained by the greater regulatory challenges facing investment model platforms in cross-border activities in comparison to non-investment platforms.

## **INSIGHTS FROM THE FIELD**

### **Crowdfunding regulation developments in the Netherlands**

**Ronald Kleverlaan, Director, European Centre for Alternative Finance, Utrecht University, the Netherlands**

*The Dutch regulator (AFM) published in summer 2017 a report and announced that there is a need for a regulatory framework on crowdfunding. The Ministry of Finance is currently working on this new regulation and opened for public consultation on October 10, 2017 on crowdlending. The expectation is that at the end of 2018 the new regulations will be implemented. Most likely equity crowdfunding will also follow the same process, but no announcements are made yet.*

*Nevertheless, from October 1, 2017 the maximum amount of funding for an individual project that is allowed to be raised without a prospectus is raised from € 2,5 million to € 5 million, but some additional requirements are added. Every company that is starting a crowdfunding round is obligated to inform the regulator about it in advance and it is mandatory to use a standard information document for the offer.*

### **Startups adopt Equity-based Crowdfunding and Debt-based Securities**

**By Gijsbert Koren, Managing Partner, Douw&Koren Crowdfunding Agency, the Netherlands**

*In 2016, around 20% of reported funding rounds for Dutch startups were funded via crowdfunding platforms. At the same time, just below 1% of the small enterprises in the Netherlands, that raised funding in 2016, used crowdfunding to do so. Startups overwhelmingly lead the way and use mainly Equity-based Crowdfunding and Debt-based Securities. Both startups and (in)formal investors are getting used to combining crowdfunding with other types of equity funding, using crowdfunding as a leverage to raise an additional sum from (in)formal investors. When combined, Debt-based Securities are preferred over Equity-based Crowdfunding.*

# THE NORDICS

## MARKET VOLUME

The Nordic market, including Denmark, Finland, Iceland, Norway and Sweden, has exhibited a dramatic growth of 211% in 2016, far in excess of the average four-year growth rate of 76%. In 2016 the alternative finance market volume has grown by circa €220 million, placing the Nordic region as the 2nd largest market for alternative finance in mainland Europe after France and just a little over Germany which generated €323 million.

The Nordic Countries collectively account for 15.6% of total 2016 volumes of alternative finance in Europe excluding UK, and 4.2% of volumes in Europe including UK.

Figure 46: The Nordics Online Alternative Finance Market Volumes 2013-2016 (€ EUR)

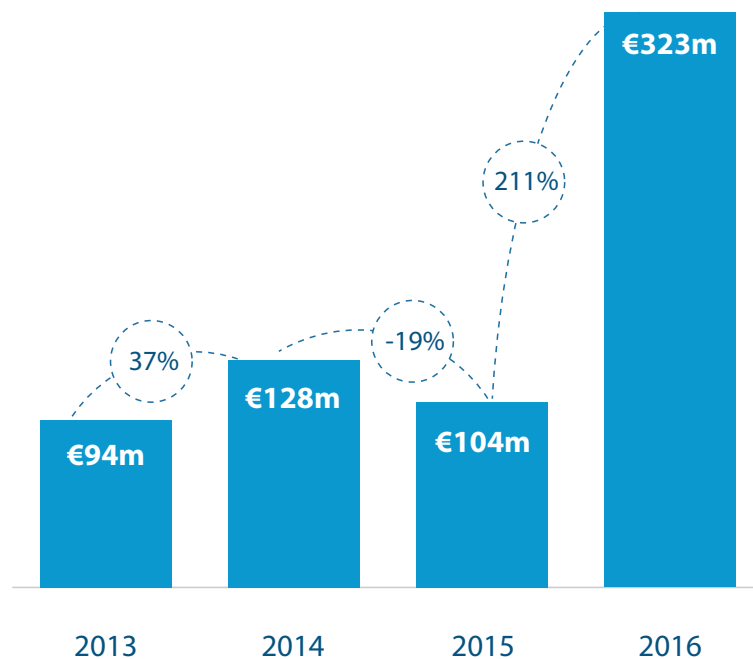
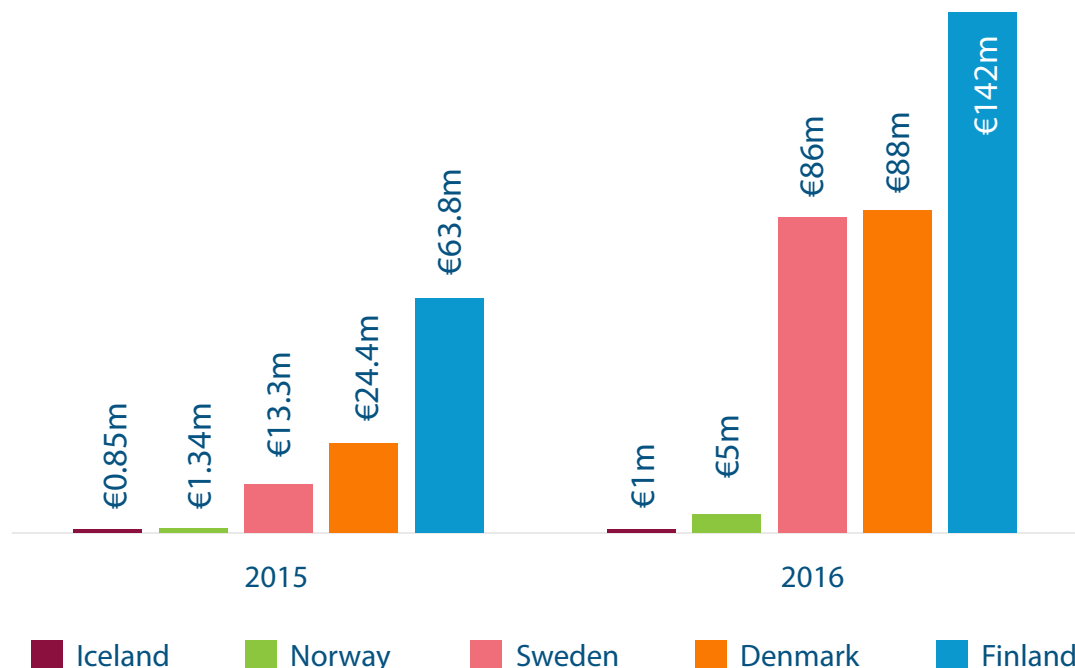


Figure 47: The Nordics Online Alternative Finance Market Volumes by Country 2013-2016 (€ EUR)



## VOLUME BY MODEL AND COUNTRY

The greatest growth for a particular model was for equity-based crowdfunding which grew 493% from 2015 to €75.4 million, representing 23% of regional alternative finance volumes in 2016. This growth is mostly based on activities in Sweden (61% of regional volumes) and Finland (38% of regional volumes), where authorities have allowed equity crowdfunding to operate under supervision. Equity-crowdfunding volumes in Norway (1% of regional volumes) are associated with activities of foreign platforms, and no activity reported in Denmark and Iceland. The relative absence of equity crowdfunding in all three countries (Norway, Denmark and Iceland) can be traced to regulatory challenges that haven't been addressed by authorities, where amendments are necessary so as to accommodate equity crowdfunding within or outside existing laws but under special supervision.

Another impressive development is associated with alternative finance in the real estate industry with volume valued at €82 million, comprised of both P2P property lending and real estate crowdfunding. Both models only emerged in 2016, and within one year already captured 25% of regional alternative finance volume. The main drivers of this development are Denmark (67% of regional volumes) and Sweden (33% of regional volumes). Like equity-crowdfunding, favorable regulation in Denmark and the flexible approach of Swedish authorities have allowed this model to grow. Activities have also started in Finland and Norway but are likely to only be registered in 2017. This development is in line with the general real estate market in all Nordic countries that has seen healthy growth both domestically and through attracting foreign investors in recent years.

Figure 48: Total Alternative Finance Volume by Model in The Nordics 2013-2016 (€ EUR)

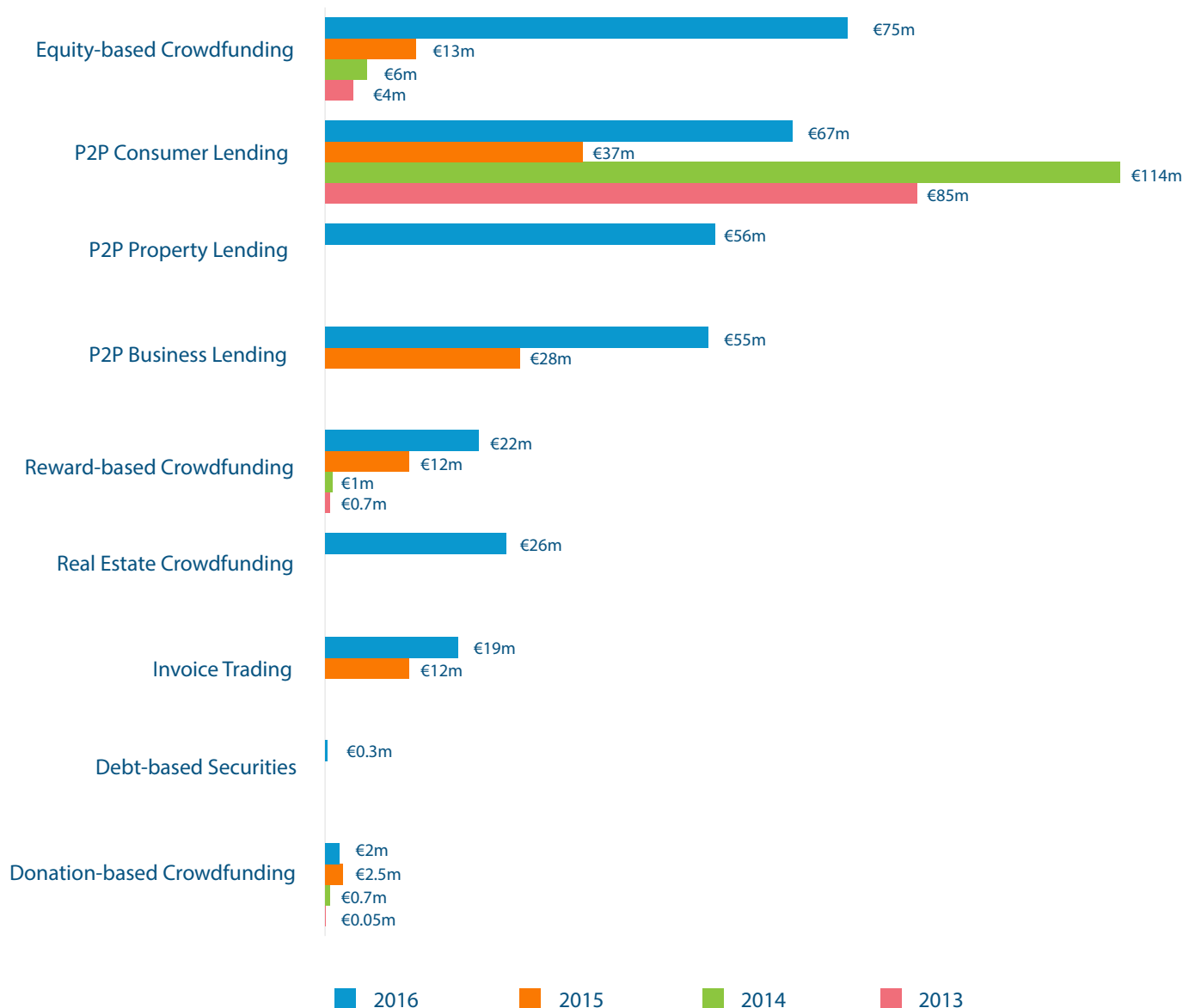
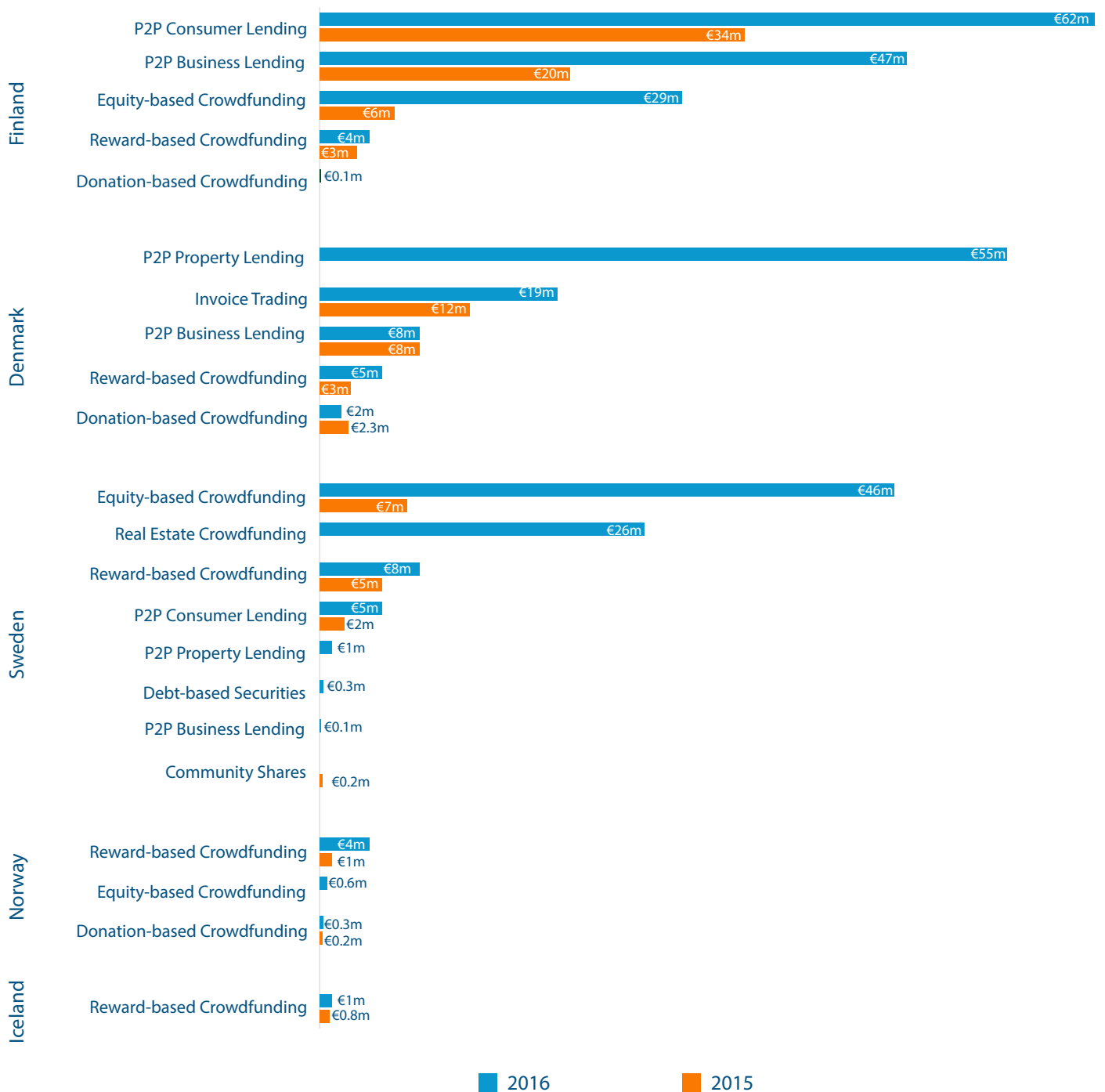


Figure 49: Total Alternative Finance Volume by Model Breakdown by Country - The Nordics 2015-2016 (€ EUR)



Growth within P2P Lending models has also continued on an upward trajectory. The P2P consumer lending market has been recovering from a loss of a major platform to bankruptcy in 2015. Current volumes total close to €67 million, representing 21% of regional alternative finance volumes, and growing 83% from 2015. 93% of regional volumes are associated with activities in Finland and 7% in Sweden. Regulatory challenges are preventing launch and growth of P2P consumer lending in Denmark, Iceland and Norway.

The P2P business lending sector grew by 97% to €55 million, which represents 17% of regional volume. 86% of these volumes are associated with activities in Finland, 14% in Denmark, and less than 1% reported in Sweden. In general, regulatory challenges, associated with very restrictive interpretations of existing laws, have prevented launch and growth of P2P business lending in the other countries. Nevertheless, in Norway, the financial authorities are expected to allow a few platforms concessions to operate in Norway from the end of 2017.

Reward-based crowdfunding is the only major model fully functional in all Nordic countries. Volumes grew 82% annually to €22.4 million in 2016 and account for 7% of regional volume. The intra-regional spread is more evenly distributed, with Sweden representing 37%, Denmark 24%, Norway 18%, Finland 17%, and Iceland 4%. This is mostly due to greater public familiarity with the model, its straight forward regulation and non-investment nature.

The only model exhibiting decline in 2016 is donation crowdfunding, which accounts for just €2 million, down 21% from 2015. This decline is associated with more careful scrutiny of certain platforms in Denmark, where donation fundraising is regulated in a less efficient manner than elsewhere, requiring engagement in application processes for getting costly permissions from authorities. A similar problem also is evident in Finland, keeping volumes low there as well.

Finally, all remaining models maintain relatively small volumes and represent activities in single markets. Invoice-trading is only present in Denmark and grew 56% to a total volume of €18 million in 2016. Debt-based securities emerge for the first time in 2016, currently only evident in Sweden, and accounted for just €0.3 million.

Overall, Finland maintains its position as the regional leader in multiple critical models, with total market volumes estimated at €142 million, growth of 123% from 2015. Finland's per capita contributions of €25.88 make it the 4th highest level in Europe (after the UK, Estonia and Monaco). Denmark has maintained second position, with €88 million in 2016 and is 6th place in Europe based on per capita contributions of €15.36 in 2016. Volumes in Denmark grew by 266% in 2016, though further growth in equity and P2P consumer lending has been inhibited by regulation. Sweden has seen an annual growth rate of 548% from 2015, and a total volume of €86.5 million in 2016, as well as per capita contribution of €8.73. Jointly these three countries account for 98% of regional alternative finance volumes.

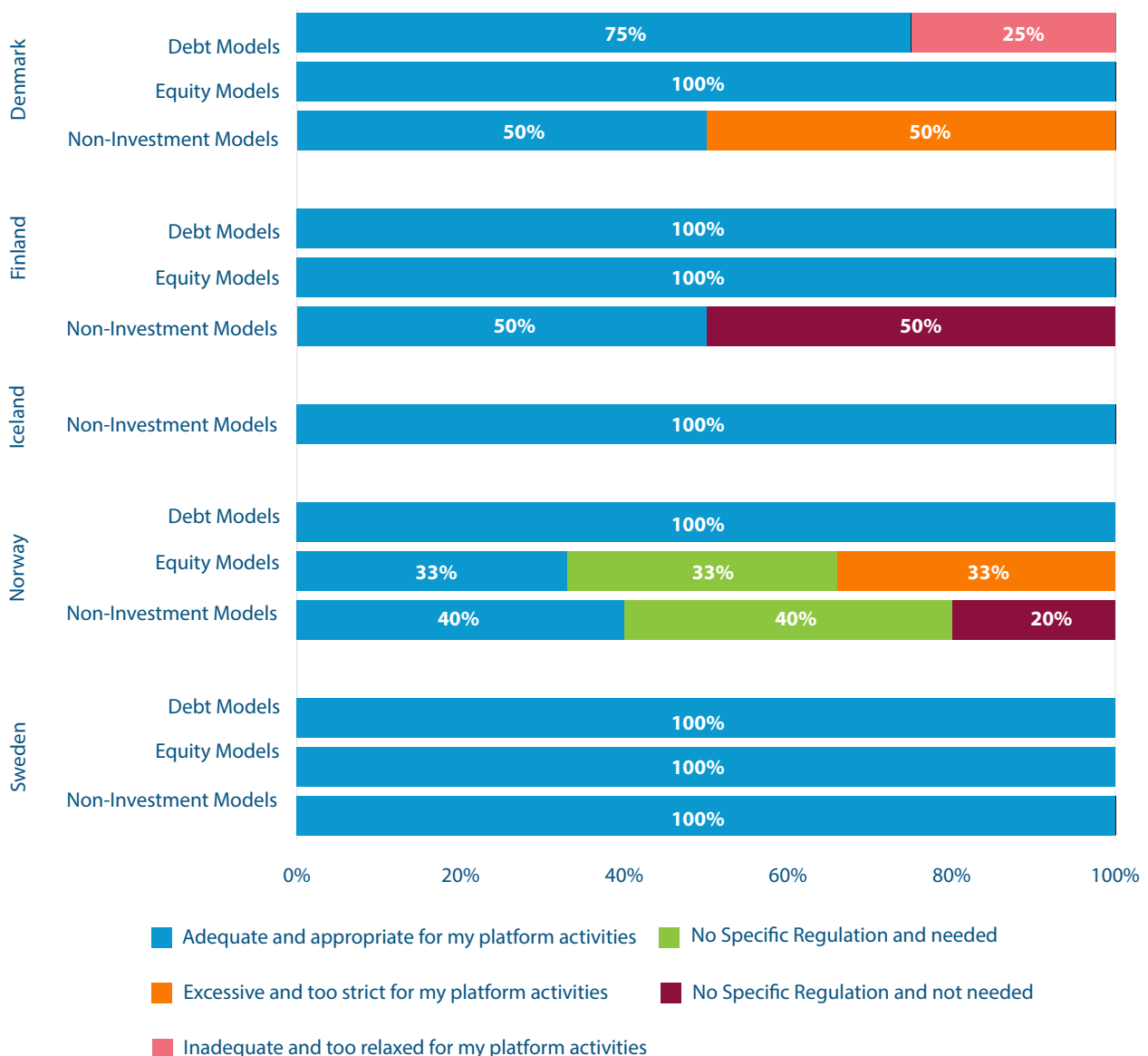
Norway, accounting for just 1.5% of regional volumes, and Iceland accounting for 0.5% of regional volumes, are both being held back by excessive regulation. However, crowdfunding volumes are primarily in reward and donation models only, with equity slowly gaining foothold in Norway via activities of foreign licensed platforms. Nevertheless, Iceland reports an average contribution of €3 per capita in 2016, while Norway only €0.93 per capita during the same year.

## REGULATION

Since there is no common legal framework in the Nordic countries overseeing investment and non-investment fundraising, one must examine such issues at the national level. Here, when interpreting our findings with respect to platform perception of regulation in each country, one must acknowledge

that only few platforms operate in each market, and those operating are unlikely to be the ones limited by regulation. Nevertheless, our findings seem to highlight a few important aspects.

Figure 50: Perception of Existing National Regulation - Nordics 2013-2016 (€ EUR)



Firstly, friendly crowdfunding-regulation in Finland has been the result of long productive dialogues between authorities and industry players, culminating with the Crowdfunding Act that was ratified by parliament in 2015. This removed many obstacles (such as use of a lighter disclosure document, lower license fees, higher raising capital limit, etc.) to equity crowdfunding practice.

Existing regulation already facilitated crowd-lending and reward crowdfunding in a satisfactory manner. Accordingly, Finland is the de-facto market leader both by volume and per capita contributions. An issue remaining is that of donation crowdfunding, which requires an expensive, lengthy registration with authorities that hamper growth of this non-investment model.

The satisfaction in Sweden, as captured by 100% ratings of perceived regulatory adequacy, represents more a lack of specific regulation, rather than satisfactory regulation for crowdfunding. Authorities in the country have adopted an observational stance, where they allow platforms of different models to operate under supervision of the financial authorities. Some work in evaluating current frameworks is undertaken by officials, but, to the best knowledge of the authors, there has not been a formal stance outlining crowdfunding-specific regulation during 2016 or earlier. An exception is extra caution taken by authorities with respect to P2P consumer lending, following an unceremonious bankruptcy of a major Swedish platform in 2015.

in Denmark satisfactory regulation is in place for P2P business lending and reward crowdfunding. However, regulatory challenges remain with respect to P2P consumer lending, equity and donation. When considering equity, current laws make it extremely expensive for young startups to engage in equity crowdfunding, which limits activity in this area; a single licensed equity platform has been launched in 2016 but has yet to generate a single success case due to these limitations. With respect to donation, such fundraising requires a relatively expensive permission from authorities which render such activities futile unless raising large sums. Within to P2P consumer lending actors have not yet been fully successful in applying similar interpretation of laws as those used for P2P business lending.

Norwegian authorities have not formally engaged in efforts of revisiting existing legal frameworks. Thus far, authorities have allowed equity crowdfunding by a few MIFID licensed platforms that have sent notifications. P2P lending has been blocked, but in 2017 reports of first concessions for operation under observation of the national authorities have been reported.

Finally, Iceland may suffer from both challenges of some of the strictest post-crisis financial regulations in combination with a small domestic market. While reward crowdfunding has been thriving, other models have not yet to emerged, due to the dual issues of foreign investment restrictions on the one hand and heavy dependence on foreign investment on the other.

Overall, the Nordic region represents a wide range of regulatory positions from liberal to conservative, and from strict observation to flexible operation under supervision of national authorities. In early 2017, the Nordic Crowdfunding Alliance has published a White Paper on Regulation calling for clarifying crowdfunding regulation, adjusting existing regulations and harmonizing regulations across the region, based on regional integration bodies and initiatives. The Nordic countries represent relatively small domestic markets, where platforms long-term survival and the vibrancy of local market exchanges will be heavily dependent on cross-border investments and transactions.

## INSIGHTS FROM THE FIELD

### ***Finnish Crowdfunding Act accelerating the growth of crowdfunding market in Finland By Aki Kallio, DanskeBank Helsinki, former adviser at the Finnish Ministry of Finance, Finland.***

*The Finnish Crowdfunding Act entered into force on 1st September 2016. The preparation work in the Ministry of Finance started on 2014 based on an order from the Minister of Finance in place at the time. The aim was to ease the strict interpretation made by the Finnish Financial Supervisory Authority basically categorising all investment based crowdfunding as placing of financial instruments without a firm commitment basis as defined in Markets in Financial Instruments Directive (MIFID).*

*The Act eased the regulation of investment-based crowdfunding (based on MIFID article 3 exemption) and correspondingly clarified the ground rules for loan-based crowdfunding. In addition, the Act clarified the responsibilities of various authorities in the supervision of crowdfunding, improved investor protection and aimed to diversify financial markets by way of facilitating the entry of crowdfunding platforms therein.*

*For crowdfunding intermediaries (platforms), the Act replaced the administratively onerous and time-consuming operating licence process with a registration process that is less expensive, simpler and faster. In addition, the Act dismissed the necessity to join the Investors' Compensation Fund, reduced the minimum capital requirement from EUR 125,000 to EUR 50,000, introduced a concept of good crowdfunding practice as well as self-regulation for the industry and created a crowdfunding exemption to Finnish prospectus rules (till 5m€).*

*The Act applies to mediation and acquisition of crowdfunding for financing business activities in Finland. For operating in other EU countries, an intermediary should still apply for e.g. a MIFID operating licence.*

*In Finland, the crowdfunding market has more than doubled in size from 2015 (70.5m€) to 2016 (153m€) according to a survey by the Ministry of Finance and the growth is expected to continue according to predictions of the Ministry.*

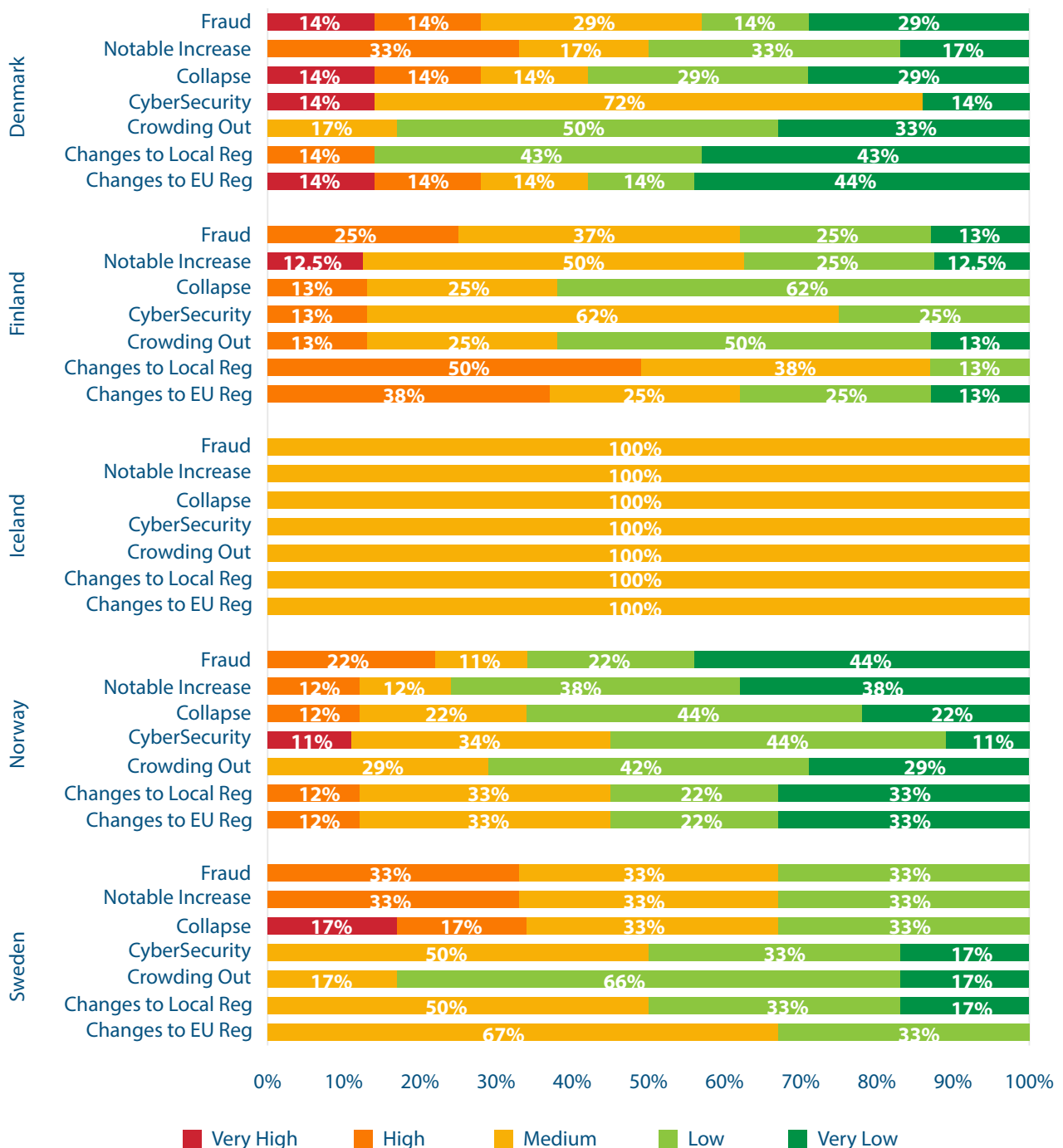


## RISK

Four main risks seem to concern the platforms of the Nordic region. The first is that of risk associated with 'fraud involving high profile platforms', which is exclusively associated with investment models of alternative finance such as debt and equity. This was indicated as of "high" or "very high" risk by 33% of platforms in Sweden, 28% of platforms in Denmark, 25% of platforms in Finland, and 22% of platforms in Norway.

A closely related concern is that with the risk of collapse of one or more platforms due to malpractice, which is associated with both investment and non-investment platforms. 33% of Swedish, 28% of Danish, 13% of Finnish, and 12% of Norwegian platforms have evaluated this risk as "high" or "very high". Both of these concerns are likely to represent echoes of the collapse of a Swedish prominent debt platform in 2015.

Figure 51: Risk Factors for Platforms - Nordics



Secondly, the risk of a ‘notable increase in default and business failure rates’, which is again primarily associated with investment models, was indicated as a concern by 33% of platforms in Denmark, 33% of platforms in Sweden, 13% of platforms in Finland, and 12% of platforms in Norway. This concern, may be typical in a young industry seeking legitimacy, where uncertainty and actual risks are high, and users may be extra sensitive to bad news.

The third group of key concerns are those with potential changes to regulation, both at EU and national levels. Some platforms are already operating under tight oversight by national authorities. Segments in which progressive regulation was passed are concerned about reversal to more challenging regulatory environments, as evident by 50% of Finnish platforms concerned about changes to local regulation, and 38% concerned about changes to EU regulation. This concern is also evident to a lower extent in Denmark where business crowd-lending was made possible, but equity remains a challenge,

where 14% are concerned of changes to local regulations, and 28% concerned with changes to EU regulations. In Norway, reported concerns are more with making a tough regulatory environment even tougher, with 12% of platforms concerned about regulatory changes at both national and EU levels. No such concerns are reported in Sweden or Iceland. Iceland already has the strictest regulatory framework in place, and any change is likely to be for the better. In Sweden, no clear regulation is in place, platforms are allowed to operate under flexible observation of the national authorities, hence not exposing platforms to the challenging relations with national authorities experienced elsewhere.

Finally, platforms across investment and non-investment models, also report some level of concern with possibilities of cybersecurity breaches. Here, 14% of Danish, 13% of Finnish, and 11% of Norwegian platforms have evaluated this risk as “high” or “very high”. 50% of platforms in Sweden, and the single platform operating in Iceland have evaluated this as of “medium” risk.

## INNOVATIONS

Nordic platforms have been investing in development both via innovative efforts, and international market expansion. Thirty-two Nordic platforms have provided information about their R&D efforts, with a majority of which reporting investments in more than one area of focus. Current efforts are mainly targeted towards performance enhancement technologies. 75% of platforms have reported efforts in process streamlining and automation, 66% reported efforts in payment processing, and 53% reported efforts in artificial intelligence and performance enhancement features.

A second set of R&D efforts are directed towards customer service and management systems. Within this field 38% of platforms report efforts towards customer verification, 28% towards aid tools for social media promotions, 25% towards community management features, and 22% towards customer relationship management systems.

By contrast, only a minority of platforms report R&D efforts towards gamification and e-learning features, with 13% and 6% of platforms reporting each respectively.

In most categories there are no major differences between investment and non-investment model platforms. Exceptions to this are a higher preoccupation with payment processing as reported by 92% of non-investment platforms versus 50% of investment model platforms, as well as a higher preoccupation with customer relationship management systems as reported by 30% of investment model platforms versus only 8% of non-investment platforms.

### INSIGHTS FROM THE FIELD

#### **COOLCROWD: Local Crowdfunding for a Low-Emission Society**

**By Dr. Pia Piroshka Otte, Senior Researcher at the Centre for Rural Research, NTNU, Norway**

*Crowdfunding has a large unexploited potential for funding climate change adaptation and mitigation in the public and private sector. The Research Council of Norway recently approved the funding for a three years research project that will test the feasibility of a local crowdfunded climate program that enables Norwegian farmers to install climate-friendly technologies on their land and the Norwegian public to invest in local climate mitigation measures by offsetting CO2 emissions from transport. Coolcrowd is led by the Centre for Rural Research and collaborates with several Norwegian research institutions and industry partners from the agricultural and transport sector.*

## BUSINESS MODELS

Thirty Nordic platforms have provided information about the status of their business models. Overall, 52% of platforms report no significant change to business model, and 29% report only a slight alteration of it during 2016.

The opposite, however, is evident with respect to introduction of new products; 57% of platforms report introduction of significantly new products during 2016, and 17% report introduction of slightly altered products in the same period.

## INTERNATIONALIZATION

Thirty Nordic platforms have provided information about their international strategies and efforts. 33% have indicated no plans for international expansion, while 67% have indicated various strategies for catering to international customers. This follows expectations where platforms from small domestic markets will depend on international expansion for achieving scale and profitability in the long-term, as similar to dynamics in Benelux-based platforms and in contrast with platforms from large domestic markets such as France and Germany.

Among those with international activities, the most popular strategy used by 55% of platforms is the use of a localized site, with local domain, language and currency, usually in conjunction with a local partner. A different strategy used by 35% of platforms is the use of own global website and staff for serving both local and international customers. The remaining 10% have reported different strategies including licensing and white-label solutions with local partners in foreign markets, and campaign swaps with foreign partner platforms. No dramatic difference has been observed between platforms in the investment and non-investment models of alternative finance.

### INSIGHTS FROM THE FIELD

#### **European sports crowdfunding service entering the US market Ola Akselberg, CEO, SPONSOR.me, Norway.**

*SPONSOR.me, a leading European sports crowdfunding platform, has seen 500,000 unique users and more than 50,000 athletes and teams funded the last 12 months. Its multi-language interface has attracted attention from near and far, and due to increased traffic from North-America, the firm is now set to enter the US market. SPONSOR.me will be operating locally through and in cooperation with various universities and colleges for serving the market. The Norway-based company sets to formally launch its US activities Winter 2017.*

#### **FundedByMe: A European Platform's Expansion to Asia Daniel Daboczy, CEO and Lovisa Strömsholm, Investor Relations, FundedByMe, Sweden**

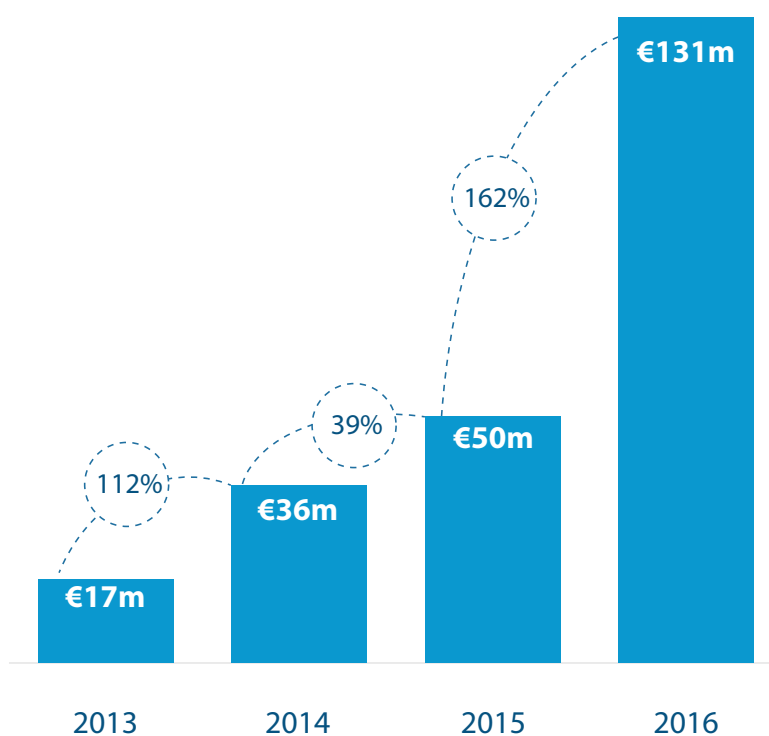
*FundedByMe, a leading Swedish-based equity platform, is accelerating its international growth with top priorities set on the Asian market. To overcome knowledge barriers, FundedByMe has approached the Asian opportunity through cross boarder investments. The platform focused on securing dedicated shareholders in the market, which then can provide the opportunities required to enter. FundedByMe has already launched two Asian offices in Singapore and Malaysia, where it was awarded a permission to operate by the Malaysian Securities Commission. Both offices provide European companies with access to Asian investors, while, at the same time, offering European investors access to Asian companies. In the passing year, more than 1 million euros have been raised for Asian campaigns via FundedByMe.*

# SPAIN

2016 was a watershed year for Spanish alternative finance, growing by 162% from €50m in 2015 to €131m. For Ranking fifth in terms of over-all EU volume for a fourth year in a row, the hallmark of Spain's alternative finance ecosystem is business-focused activities.

In fact, Spain is the third largest country in terms of Business-focused alternative finance, with over €100m (roughly 76% of country volume) going to start-ups, entrepreneurs and small and medium sized businesses.

Figure 52: Spain Online Alternative Finance Market Volumes 2013-2016 (€ EUR)



## INSIGHTS FROM THE FIELD

### **Carles Escolano, co-funder partner of Arboribus**

*The past year has seen a step change in P2P business lending in Spain, with the incorporation of professional investors and investment advisers. These investors already account for more than 50% of the capital invested and are fueling Arboribus' capability the increase in loan sizes and target even larger business. The use of automatic lending tools is also widespread amongst these investors, providing businesses with more speed and lenders with greater diversification and convenience. This is paving the way for the arrival of Institutional investors but it also poses even more strict requirements and procedures for platforms.*

*Close to 18 months since regulation of P2P lending came into force (July 2015), a key issue remains to be solved. Invoice-trading platforms have been left out of the scope of the law, offering investors less protection and transparency and creating lots of confusions on media and investors alike.*

## VOLUME BY MODELS

Given the emphasis on business focused funding, it is not surprising that P2P Business Lending accounts for the largest volume-driving model in Spain, having grown by 104% from €21.8m in 2015 to €44.5m in 2016.

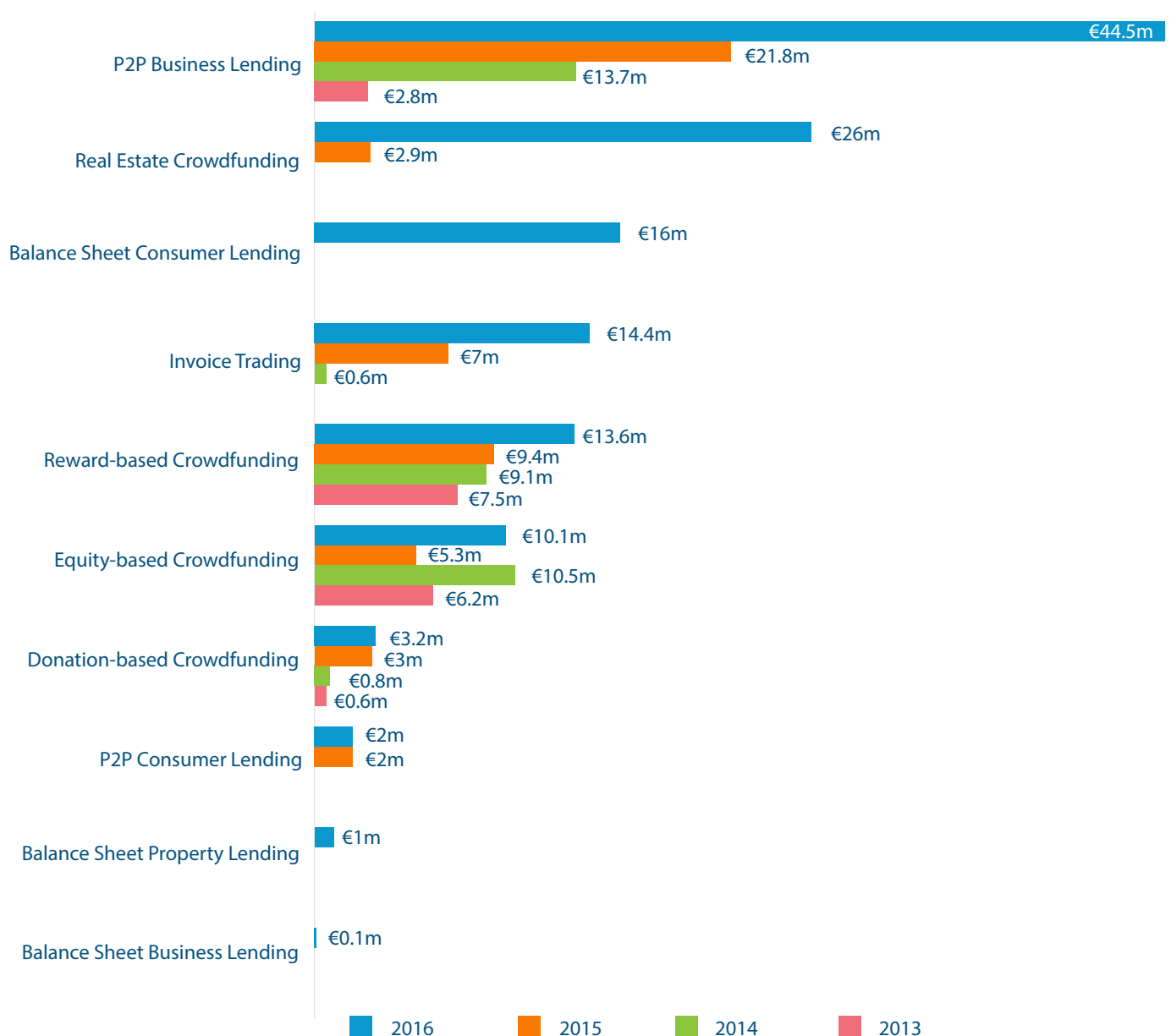
Real Estate Crowdfunding was the second largest model (€26m), having grown by 782% against the previous year. This is only the second year that this model has been tracked, with volume driven by a plethora of new platforms operating this model and a handful of incumbents growing rapidly. Invoice Trading also grew considerably, more than doubling from €7m to €14.4m in 2016 (107% annual growth).

Reward-based Crowdfunding accounted for €13.6m in 2016, representing an annual growth of 45%. Around 38% of model volume went to Spanish businesses.

Equity-based Crowdfunding grew by 88% per annum to €10.1m in 2016.

2016 was also the first year that our survey tracked growth from a handful of models, all from the Balance Sheet Lending arena.

Figure 53: Total Alternative Finance Volume by Model in Spain 2013-2016 (€ EUR)



## REGULATION

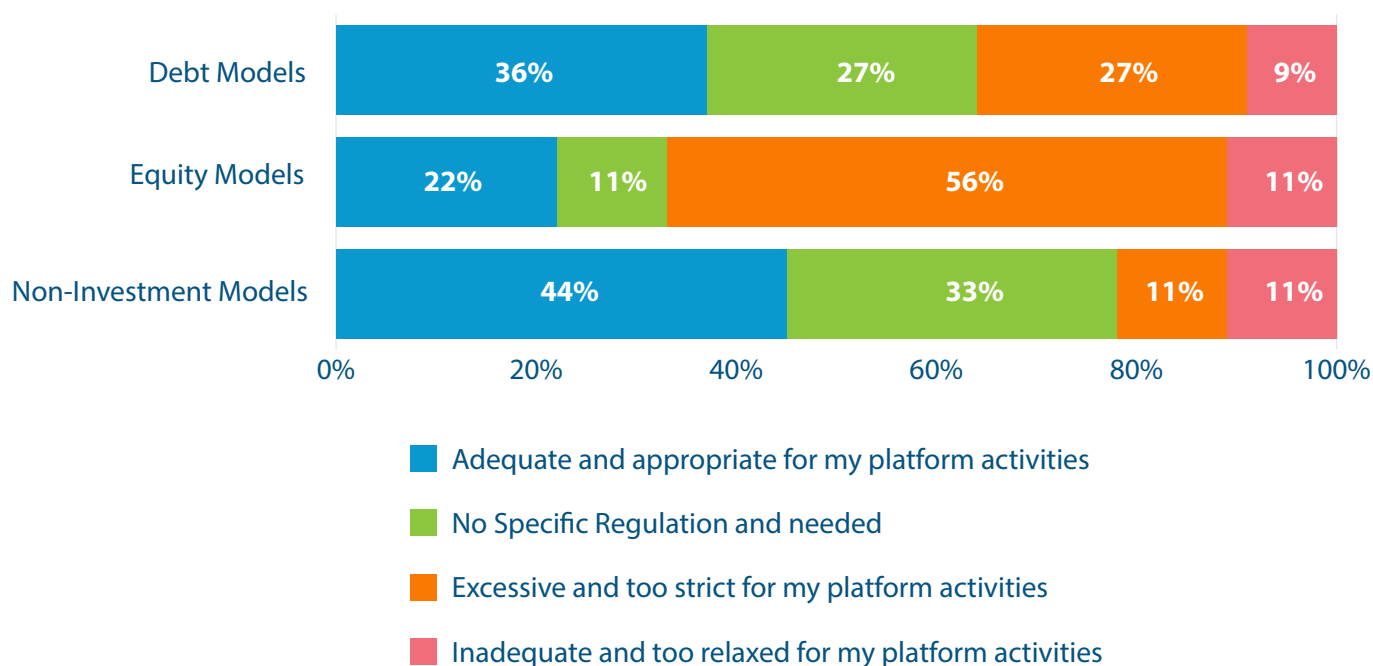
Regulation remains a divisive issue in Spain, reflected in the varying opinions from platforms regarding the suitability of the FinTech-focused legislation of 2015. 36% of respondents within debt models viewed national existing regulation as 'adequate and appropriate', whilst 27% viewed regulation as 'excessive and too strict', 9% as 'inadequate and too relaxed' and a final 27% indicated that no specific regulation existed [as relevant to their activities] and was needed'.

Within equity models 22% perceived existing regulation as 'adequate and appropriate', while a considerable 56% indicated existing regulation as 'excessive and too strict.' 11% felt that regulation was 'inadequate and too relaxed' and a remaining 11% noted that 'no specific regulation existed and was needed.'

Platforms generally indicated that there is possibly some residual uncertainty or misunderstanding with regards to how certain activities within debt and equity models work in practice. This sentiment underlines concerns that 'the same requirements [are] applicable to Equity based Crowdfunding platforms and Lending based [...] platforms considering that both types of platforms provide different activities and, hence, the risks inherent to them vary.'<sup>31</sup>

With respect to Non Investment-based models, 44% felt that regulation was 'adequate and appropriate', 11% viewed it regulation as 'excessive and too strict' and an additional 11% as 'inadequate and too relaxed.' Finally, 33% indicating that 'no specific regulation existed and was needed'.

Figure 54: Perception towards Existing National Regulation



## RISK

Spanish platforms perceived the seven risk factors in a variety of ways, with certain factors weighing more heavily than others. Debt model platforms viewed the ‘collapse of one or more well-known platforms due to malpractice’ as the single highest risk factor, with 64% of platforms noting this a ‘high risk’. Fraud was also viewed as a significant risk, with 19% of platforms indicating the factor as ‘very high risk’ and 36% as ‘high risk’.

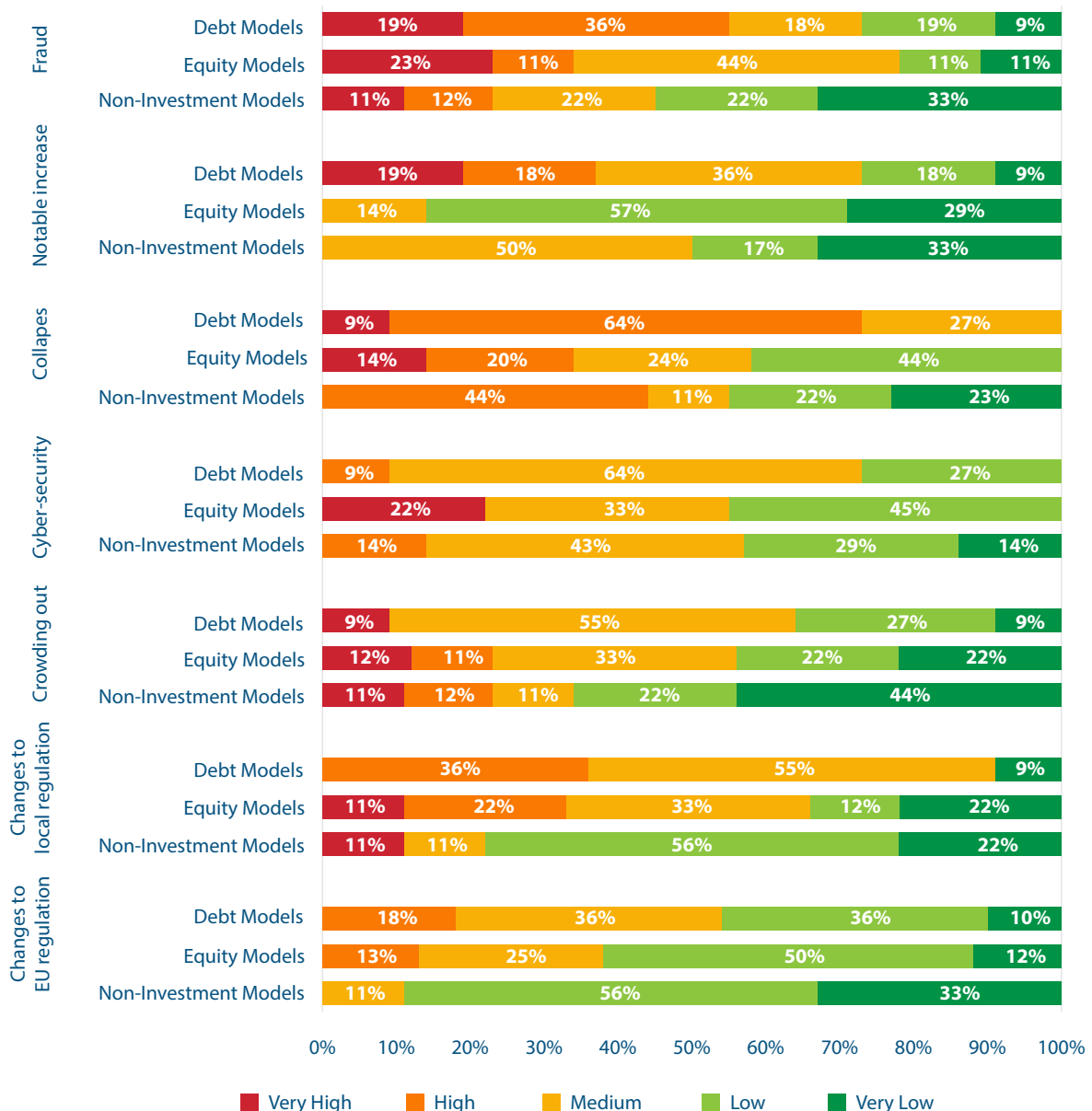
Despite the slightly negative perception towards regulation denoted in the previous section, these platforms did not view changes to regulation as a significant risk; 36% of platforms viewed changes to local regulation as a high risk, while 18% viewed pan-European changes as ‘high risk’. One of the more colourful qualitative comments collected from a platform noted that ‘regulatory changes could only be positive,

as [they] would only move away from the poorly construed framework currently in existence.’ Changes, especially those at a pan-European level are overwhelmingly welcome by the vast majority of respondents surveyed.

Equity model platforms in Spain were generally positive with respect to the risk factors, with a greater proportion of platforms viewing the risk factors as medium to very low risk. The most significant risk factor was that of Fraud, with 23% of platforms noting ‘very high’ risk and 11% as high risk, and ‘collapse of a well-known platform due to malpractice’, 14% very high risk and 20% high risk. This suggests that risks associated with reputation are paramount to these platforms.

For Non-Investment platforms, 44% viewed ‘collapse’ as a high risk, but on the whole these platforms were undaunted by the majority of risk factors.

Figure 55: Risk Factors for Platforms - Spain



## INNOVATIONS

Spain's alternative finance ecosystem is focused on innovation, with platforms introducing new products, investing in R&D and pursuing internationalization strategies.

Only 28% of debt-model platforms made 'no significant changes to their business model' while the remaining 72% noted significant or slight alterations (36% each) to their business models. 25% of platforms introduced significantly new products offered on their platform, while 50% introduced slightly altered products. Only 13% of platforms made no change to the products on offer.

When considering the types of innovations, many of these products focused on borrower protections, with a number of platforms introducing investment warranties or quasi-provision fund products. Regarding the types of R&D priorities debt platforms were pursuing, 64% had a focus on 'process streamlining and automation', and 55% on 'payment processing and customer relationship management systems'.

### INSIGHTS FROM THE FIELD

#### **Credit Rating for competitive Small Businesses lending, Alberto Sánchez Navalpotro, CEO Inbonis**

*The real cost for SME of the supposedly "cheap" bank lending in Spain is 1000bp above cost of money<sup>32</sup>. Efficient Credit Rating enables to offer more competitive risk-adjusted loans. To combat this, Inbonis has developed a Credit Rating factory powered by:*

- *Data aggregation machine gathering all structured and unstructured data (eg, financial, behavioral, reputational, hyperlocal, sector, transactional).*
- *Advanced risk assessment models (including : expert, econometric, ML , predictive sector default, peer-group benchmarking models)*

*One of Inbonis' risk assessment model blocks is a Natural Language Process program that provides sentiment analysis on all unstructured information about an SME. Such program, called AROA<sup>33</sup>, has been successfully tested as SME rating predictor in absence of financial data. Test on a diversified sample of 10.000 SME (millions of content signals were generated and analysed with >90% precision by our Machine Learning algorithms to discriminate relevance & sentiment) has demonstrated robust correlation (with confidence > 95%) with best-in-class statistical scoring based on SME historical financials. To this end, Inbonis is providing cost-effective ratings on SME and powering with its technology several leading financial institutions and banks to improve their SME business by identifying good potential clients and analysing incoming loan application.*

Finally, 45% of debt platforms indicated they had no current international expansion strategy in place (though qualitative comments indicated the implementation of such a strategy in 2017/2018), 27% of platforms ran a local domain (in the language and currency, of a different country) but utilizing the platforms main branding, while 9% served distinct markets from their main domain with partners and staff in different markets. Turning now to equity models, 80% of Equity models in Spain made significant (20%) or slight (60%) changes to their business model, while 20% made no changes to their business

operations. For a handful of the platforms that made 'significant' changes, they indicated that this was moving away or discontinuing certain activities rather than introducing new ones. With respect to introducing new products, 75% of these platforms introduced slight alterations to the products on offer, with these products relating predominantly to the base of investors utilizing the platforms, especially relating to automation and optimizing the investor experience.



With respect to R&D, 89% of equity platforms were focusing on 'Customer relationship management systems, 56% on 'process streamlining and automation' and 44% on 'payment processing. R&D related to deal flow and acquisition was also important, with 44% of platforms prioritizing 'customer verification' processes. In qualitative remarks collected, several platforms described R&D focusing on automated risk assessment tools/models and verification technology for onboarding new business/campaigns.

From an internationalization perspective, 67% of equity platforms ran a local domains in distinct countries with the platform branding, while 22% served different markets utilizing one domain. An additional 3 platforms wrote in that they were

looking to an internationalization strategy from 2018 onwards, and were waiting to see how pan-European regulatory frameworks might impact such a strategy.

Finally, though the majority of non-investment models made no changes to their underlying business model or introduced new products in 2016, these platforms did have robust R&D priorities and are actively exploring a number of themes. 70% of these platforms are focused on 'social media and fundraiser promotional tools', and just over half of all platforms have prioritized 'Payment Processing', 'Process streamlining and automation', and 'Gamification' within their R&D agenda.

## INSIGHTS FROM THE FIELD

**Daniel Oliver**  
**Founder, Spanish Crowdfunding Association**

*With a background of strong growth and institutional recognition, the sector is reaching a level of maturity that has definitely taken it away from the pioneering phases. During 2016, more money was raised by platforms that didn't exist in the early days of the industry than by the market initiators, and more money was raised by financing models that didn't exist three years ago than by the "classic" modes of crowdfunding.*

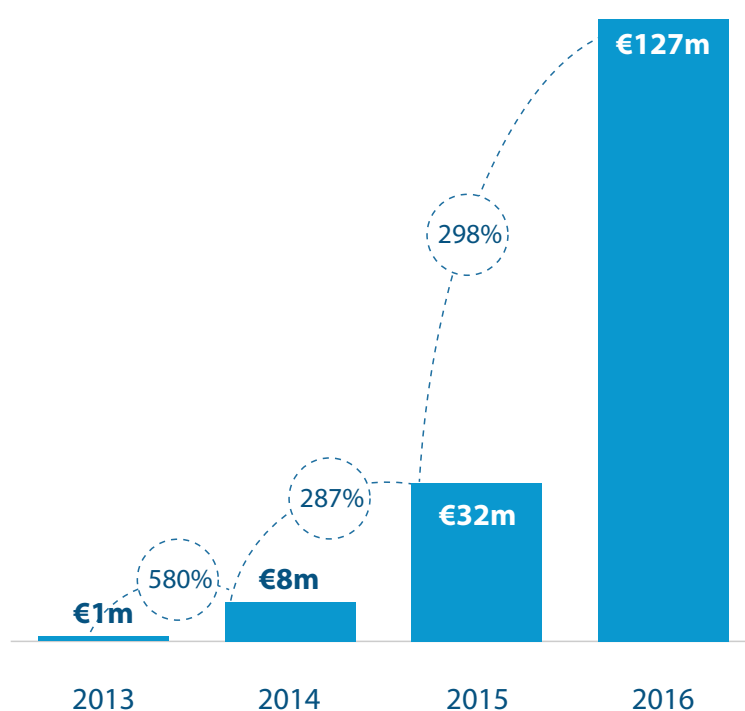
*The "bigger" business models such as P2P Lending and Real Estate Crowdfunding are already starting to be perceived as less of an innovative trend and more so as an established industry, and it's becoming extremely difficult to find someone who hasn't heard of or used investment crowdfunding. As the whole ecosystem moves closer to mainstream recognition, some voices say that a new wave of innovation could be coming from a few key technological improvements: blockchain, tokens, and mobile technology. And as ICOs loom larger and larger on the horizon, some of us start to wonder - could a 5-year-old industry already be on the verge of a complete shakedown? Whatever it is, the future for alternative finance looks brighter than ever.*

# ITALY

Italy was the sixth largest market for alternative finance in Europe, and fifth in terms of business-focused finance. Starting from a relatively low volume in 2013, Italian online alternative finance has grown exponentially year-on-year.

In 2016, the market rose to €127m, a 249% growth against the previous year (€32m).

Figure 56: Italy Online Alternative Finance Market Volumes 2013-2016 (€ EUR)



Balance sheet Business Lending was the leading online alternative finance model by market volume in Italy in 2016, accounting for €40m, which equates to a market share of 31%. This was the first time that the industry survey captured data from platforms operating this model. A combination of factors account for the strong growth in business focused finance, with a struggling SME access to finance environment stemming from continued banking sector constraints. Given the emphasis on business-focused finance, it is also not surprising that the P2P Business Lending model grew exponentially, by 860% to €6.1m in 2016. Similarly, Invoice Trading grew by 756% annually, from €3.9m to €33.6m in 2016.

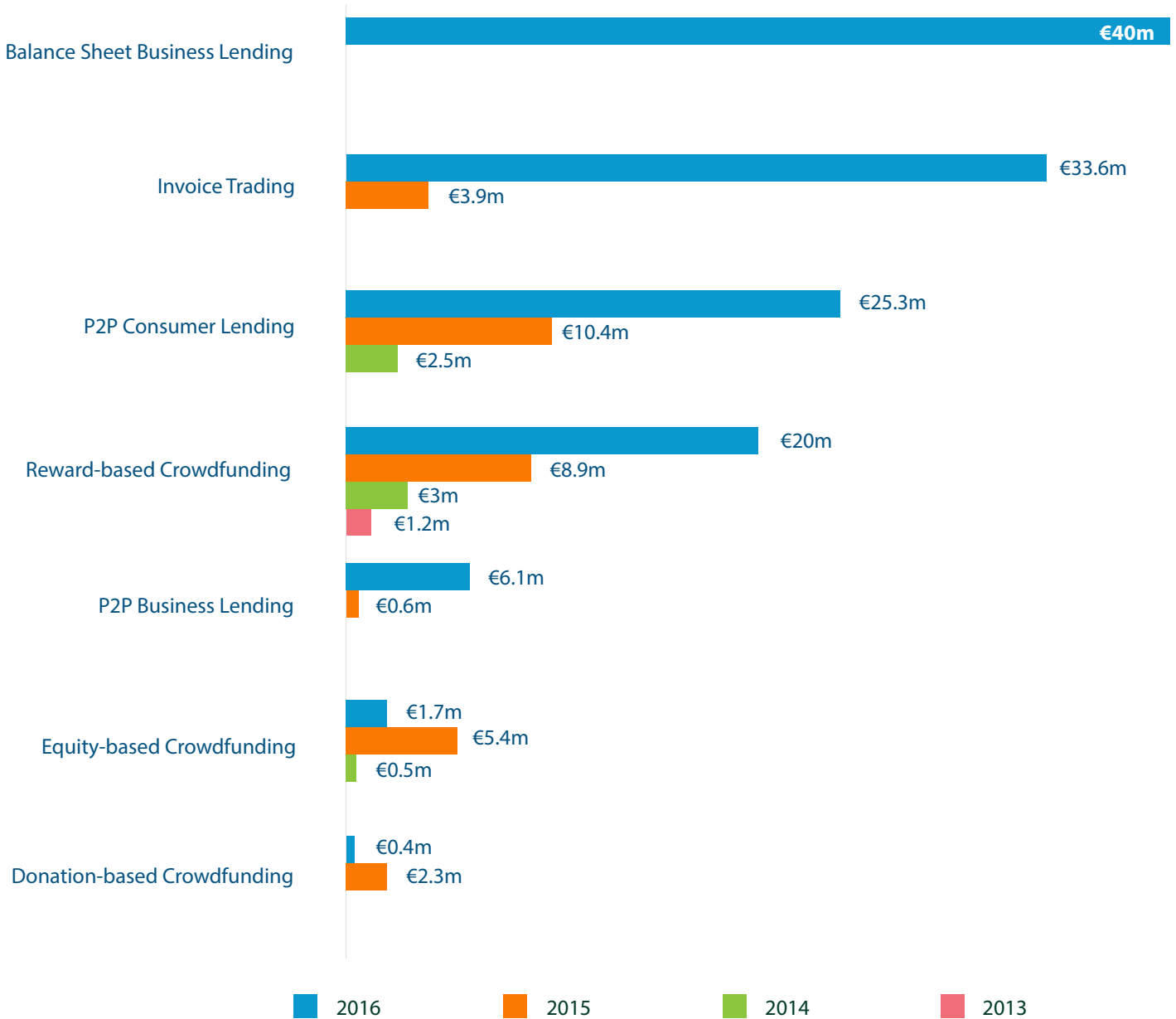
P2P Consumer lending, which accounted for the highest volume in 2015, slipped to third place behind Balance Sheet Business Lending and Invoice Trading. Nevertheless, this model remains significant and continues to grow at an exponential rate, spurred predominantly by incumbent platforms. P2P Consumer lending volume rose from €10.4m in 2015 to €25.3m in 2016, a 143% annual increase.

Reward-based Crowdfunding also continued to grow significantly in 2016, from €8.9m in 2015 to €20m in 2016 (125%). Interestingly, around 40% of all reward-based volumes went to start-up and businesses, reflecting the importance of this model as a funding tool for start-up and growing businesses.

Equity-based Crowdfunding generated €1.7m in 2016, a drop from the previous year. However, this is potentially explicable by the fact that one large platform declined the opportunity to participate in the survey and data could not be verified through external sources. As a result, it is likely that the Equity-based Crowdfunding figure reported here is lower than in reality.

Though this overall volume has shrunk, the repeat respondents all grew considerably in 2016. We expect model-level data for the 2017 calendar year to show substantive growth based upon comments received from the 2016 participants and figures already provided by these platforms.

Figure 57: Total Alternative Finance Volume by Model in Italy 2013-2016 (€ EUR)

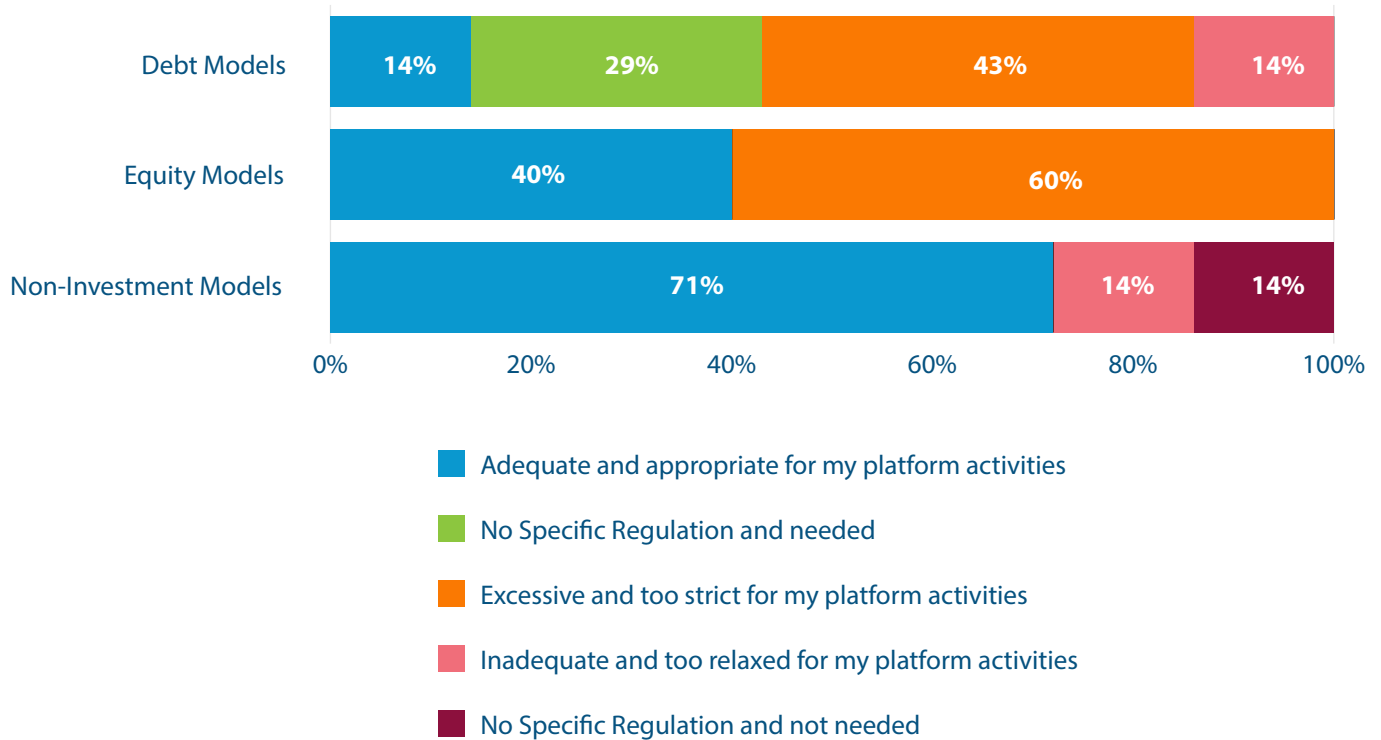


## REGULATION

Italian platforms had varying views relating to national regulation as it affects their business model. Debt models varied most significantly, with 14% of platforms viewing regulation as 'adequate and appropriate' for their activities and 14% viewing regulation as 'inadequate and too relaxed'. Interestingly, 43% of platforms perceived existing regulation as 'excessive and too strict', while 29% indicated 'no specific regulation and not needed' with respect to their current activities.

The majority of Equity models (60%) indicated that existing regulation was 'excessive and too strict', while 40% perceived it as 'adequate and appropriate'. Finally, the majority of Non-investment based platforms (71%) felt that regulation was 'adequate and appropriate', 14% 'inadequate and too relaxed' and a final 14% indicated that 'no specific regulation [as related to their activities] and not needed.'

Figure 58: Perception towards Existing National Regulation



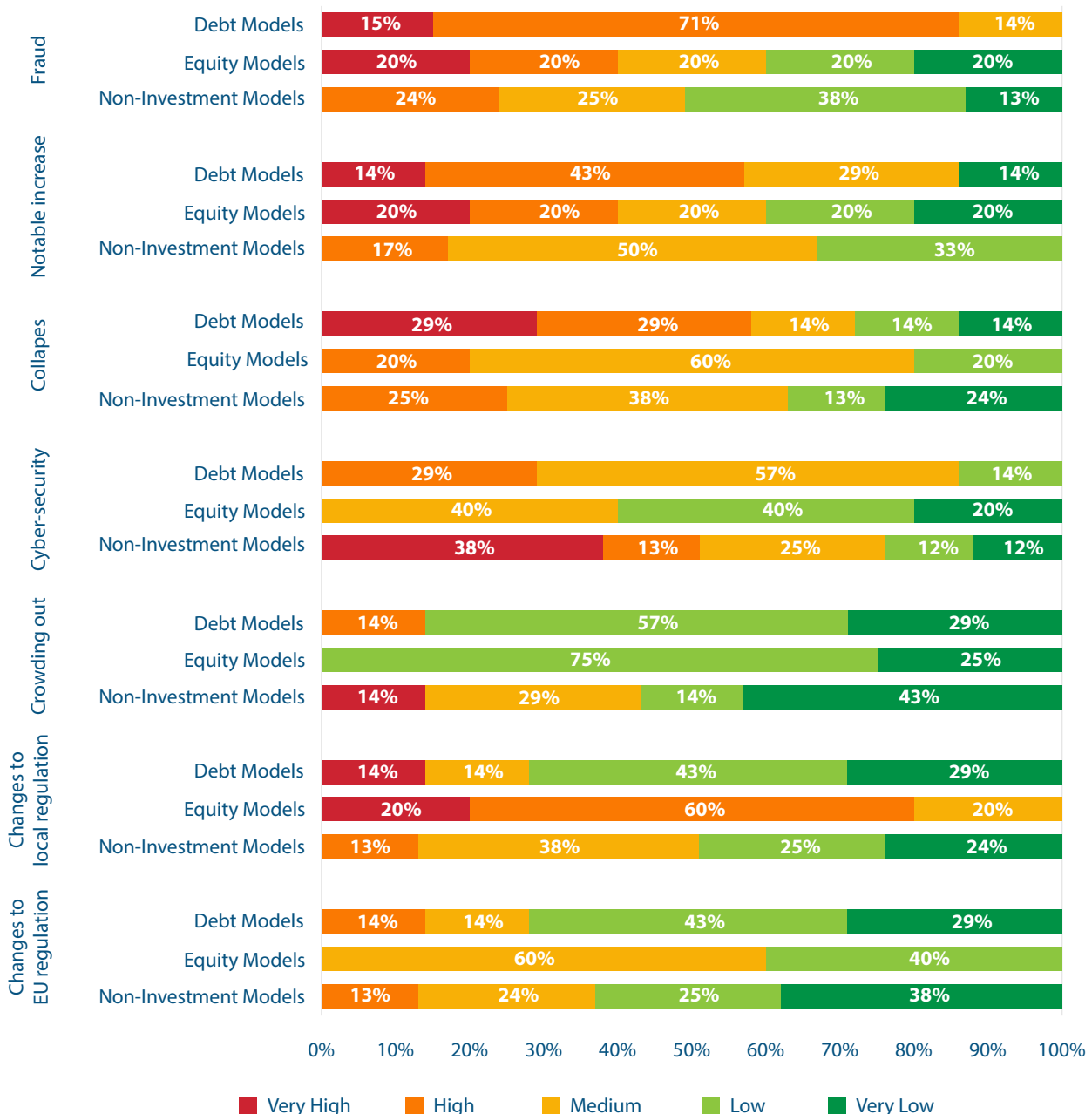
## RISK

Debt models viewed Fraud is the single highest risk, with 15% of platforms indicating this factor as ‘very high’ and a considerable 71% as ‘High Risk’. The collapse of a well-known platform due to malpractice denoted significant risk as well, with more platforms indicating this as ‘very high’ risk (29%), though overall this factor ranked second (57% very high and high risk). Finally, a ‘notable increase of default’ was also viewed as a significant risk, with 57% of platforms indicating it as ‘very high to high’ risk. For both local and pan-European regulatory changes, 72% of platforms viewed this as low to very low risk.

Apart from regulation, equity model respondents viewed the risk factors as less serious or potentially affecting to their operations. Platforms only ranked ‘changes to local regulation’ as a significantly risky with 80% of platforms ranking the factor as very high to high risk. Yet, resoundingly, pan-European changes were not viewed as a risk by any of the respondents. Just under half of platforms viewed fraud or business failures as significant risks, with 40% noting these as very high to high risks.

Similarly, non-investment model respondents were mostly unperturbed by the risk factors. Only ‘cyber security breach’ was considered a high to very high risk, with 38% of platforms noting it as very high risk and 13% as high risk.

Figure 59: Risk Factors for Platforms - Italy



## INNOVATIONS

Platform operators were asked about their business model and the types of products on offer. Whilst 73% of platforms indicated making no significant changes to their business model, 65% of the platforms did introduce significantly new products to their customer base. Within debt models just under 75% of platforms introduced significantly new products. Platforms were given an opportunity to describe the nature of new products on their platform, most indicating that these products were focused on borrower acquisition. A handful of platform described introducing products that would facilitate new origination channels, with special emphasis on small shop or small business owners. A few platforms described products which would guarantee loan fulfilment to pre-approved borrowers (indicating that those borrowers went through additional checks/credit checks but would have the benefit of guaranteed fulfilment rather than depending upon an auction). Whilst most platform emphasis was placed on origination, a number of platforms also noted the introduction of secondary markets (to enable liquidity for investors) and additional options to their auction-based models.

Though 63% of Italian platforms indicated no internationalization strategy, a number of platforms were pursuing international expansion in a variety of ways. A fifth of all platforms were already actively serving different markets from their main domain site, with staff and partners based in different markets. Another 16% of platforms indicated that they had created local domains in the local language, currency and with a country manager based outside of their home country, but with the same branding and feel of the main platform.

Finally, a large proportion of platforms are actively investing in research and development as a means of meeting their business priorities. For just over 50% of platforms are investing in new payment processing and customer verification tools, whilst 45% of platforms are focusing on process streamlining & automation, Artificial intelligence & performance enhancement features and social media and fundraiser promotional tools

### INSIGHTS FROM THE FIELD

#### **Alessandro Lerro, Chairman of the Italian Equity Crowdfunding Association.**

*While financial markets remain steady, both crowds and sophisticated investors are taking confidence with platforms and innovative earning opportunities.*

*Lending and invoice trading growth is huge, with several new platforms supporting the explosion of business focused alternative finance and compensating the current shortfall of banking offerings.*

*Though volumes are not yet so relevant, also equity crowdfunding is constantly growing; the success rate, above 60%, demonstrates a big interest in alternative investment opportunities and an excellent selection by the platforms. Meanwhile, thanks to the continuous efforts of the Italian Equity Crowdfunding Association, during 2017 new regulations overcame the former limitations and opened the market for any small and medium enterprises; 5 million Italian companies and any European enterprise with an Italian branch may now raise capital online.*

# CENTRAL EUROPE

## MARKET VOLUME

The Central European Alternative Finance Markets of Austria and Switzerland have shown a steady growth in the past year. Both countries together have a volume of € 52m, which makes this region the 11th largest Alternative Finance Market in Europe (including the UK).

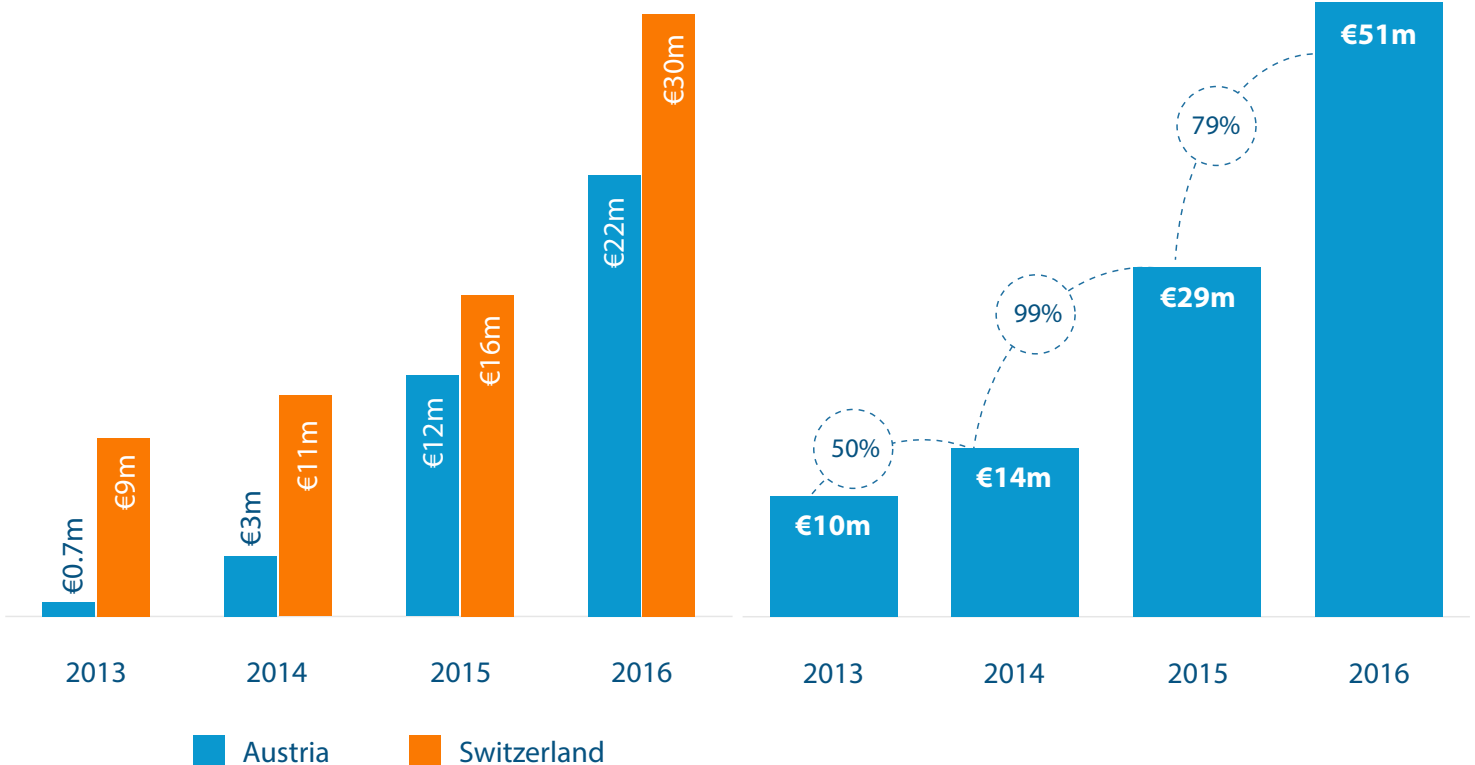
Austria grew from € 12m in 2015 to € 22m in 2016 (up 76%) driven largely by Equity-based Crowdfunding, which had a revision of the legal framework in early 2015. The reduced growth in 2016 is a sign that the platforms are consolidating their business.

Switzerland grew from € 16m in 2015 to € 30m in 2016 (up 81%). It should be noted, in a separate survey using a different taxonomy, it was found that the Swiss Crowdfunding Market in 2016 had a volume of CHF 128.2 million (+362%), with lending-based Crowdfunding at 55.1m, and equity based Crowdfunding at CHF 39.2m.<sup>34</sup>

The data presented in this chapter relates to activity from platforms operating in the models described in the Centre's taxonomy and only includes volumes that went to fundraisers in Switzerland (ie excludes funding that went for fundraisers outside of Switzerland).

Figure 60: Central Europe Online Alternative Finance Market Volumes 2013-2016 (€ EUR)

Figure 61: Central Europe - Total Alternative Finance Market Volumes 2013-2016 (€ EUR)



## VOLUME BY MODELS BY COUNTRY

In Austria, Equity-based Crowdfunding utilized sub-ordinate debt products, akin to German and Austrian platforms who also use this particular instrument.

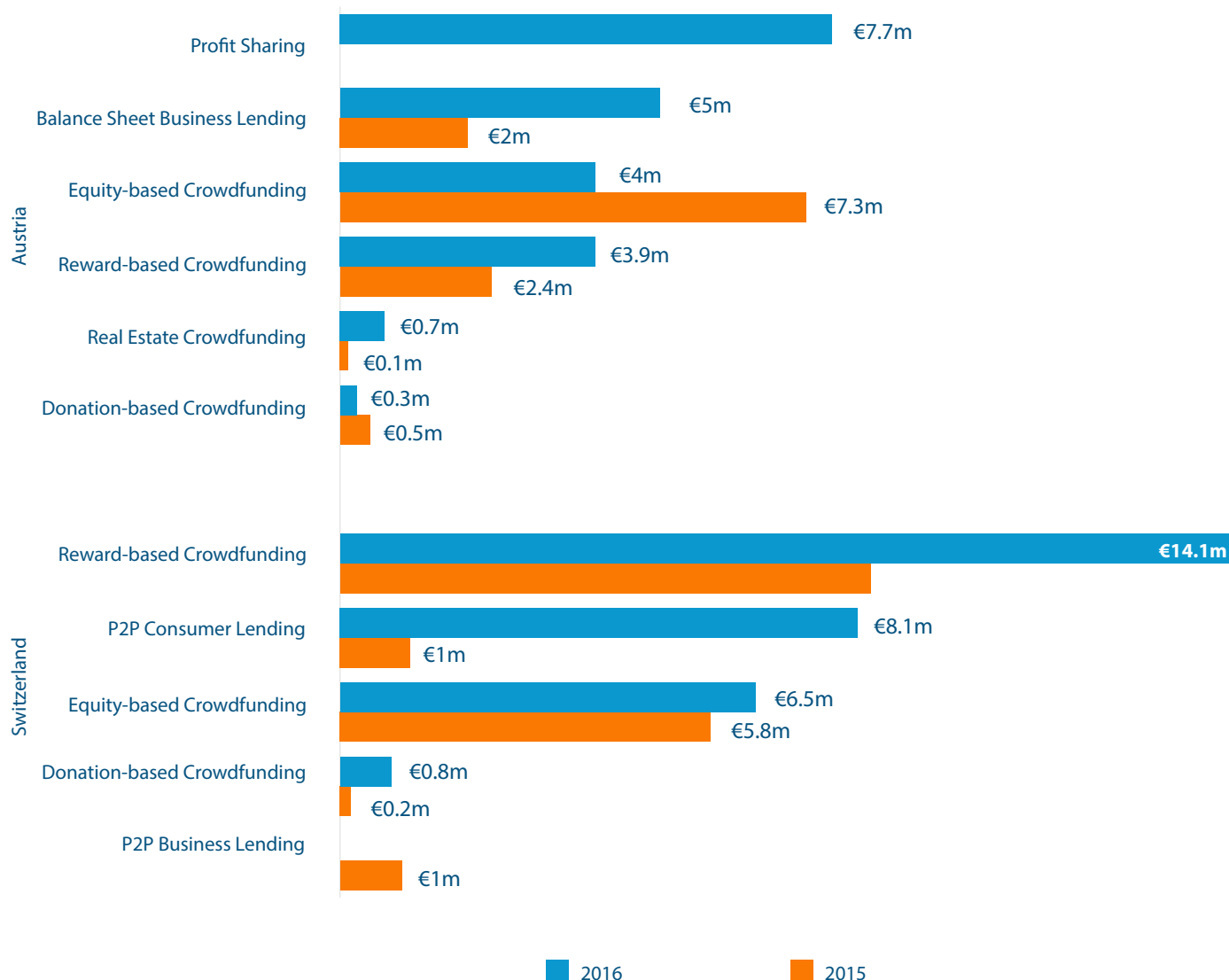
The interest rate on the subordinated loan is dependent on a variety of factors, such as revenue or exits, or can be a fixed interest rate. Platforms chose different types of subordinated loans and categorized themselves accordingly – either inside the Profit Sharing model, the Equity-based model or the Balance Sheet Business Lending Model (as P2P Consumer Lending does not exist in Austria). Therefore, it is helpful to consider all investment-types of Crowdfunding in this analysis. This market segment grew to € 17.42m from € 9.42m, equating to 84% annual growth. Other studies have indicated an even higher market, with the Industry itself stating the volume of € 22.8m for Equity-based Crowdfunding in 2016.

### INSIGHTS FROM THE FIELD

**Paul Pöltner, CEO of Conda, Board Member of the Austrian Financial Services Branch of the Austrian Chamber of Commerce**

*Crowdfunding enjoys a very positive public image in Austria. A solid foundation for development of the market was laid with the enactment of the crowdfunding law (Austrian Alternative Financing Act) in late 2015. In the year 2016 a total amount of million 22.8 EUR was raised by Austrian Crowdfunding platforms, which indicated (1) strong overall growth of the market and (2) good reception of the legislative changes. We expect this trend to continue in the coming years, as more specialized platforms are pushing into the market.*

Figure 62: Total Alternative Finance Volume by Model in Central Europe 2015-2016 (€ EUR)





Reward-based Crowdfunding in Austria grew from € 2.37m to € 3.91m, whereas donation-based Crowdfunding declined from €0.47m in 2015 to €0.26m in 2016. Several platforms from Germany, the US and Switzerland compete with Austrian platforms for projects.

The Swiss crowdfunding market is fairly diverse; a number of reward-based platforms from Germany, France and Austria operate in Switzerland, together with strong local platforms which have created a network of platforms financed by Banks. The reward-based Crowdfunding grew to € 14m in 2016, the Donation-based Crowdfunding market grew to € 0.8m. 2016 saw the emergence of several lending platforms in Switzerland, propelling the P2P Consumer Lending Market to € 8m.

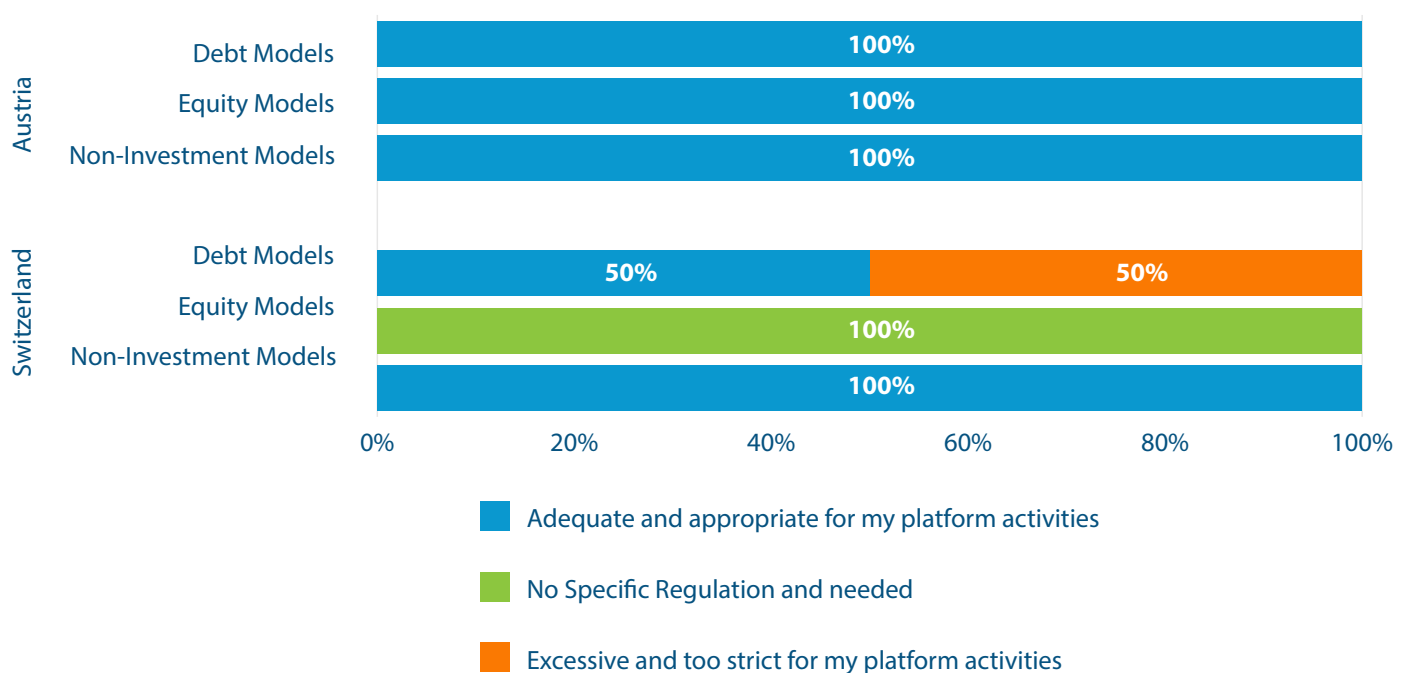
## REGULATION

In Austria all platforms which responded to our survey unanimously perceived existing national regulation as ‘adequate and appropriate’ to their platform activities. This reflects the good dialogue between regulators and platforms in Austria.

In Switzerland 50% of the debt platforms indicated that existing national regulation was ‘excessive and too strict’ while the other half viewed it as ‘adequate and appropriate’ for platform activities.

The equity platforms that responded to our survey indicated that ‘no specific regulation [existed for their activities] and was needed’, yet it should be noted that these platforms also indicated approval of ‘proposed’ national regulatory changes, deeming upcoming changes as ‘adequate and appropriate’. Finally, all non-investment based model platforms viewed existing regulation as ‘adequate and appropriate’ to their activities.

Figure 63: Perception towards Existing National Regulation



## RISK

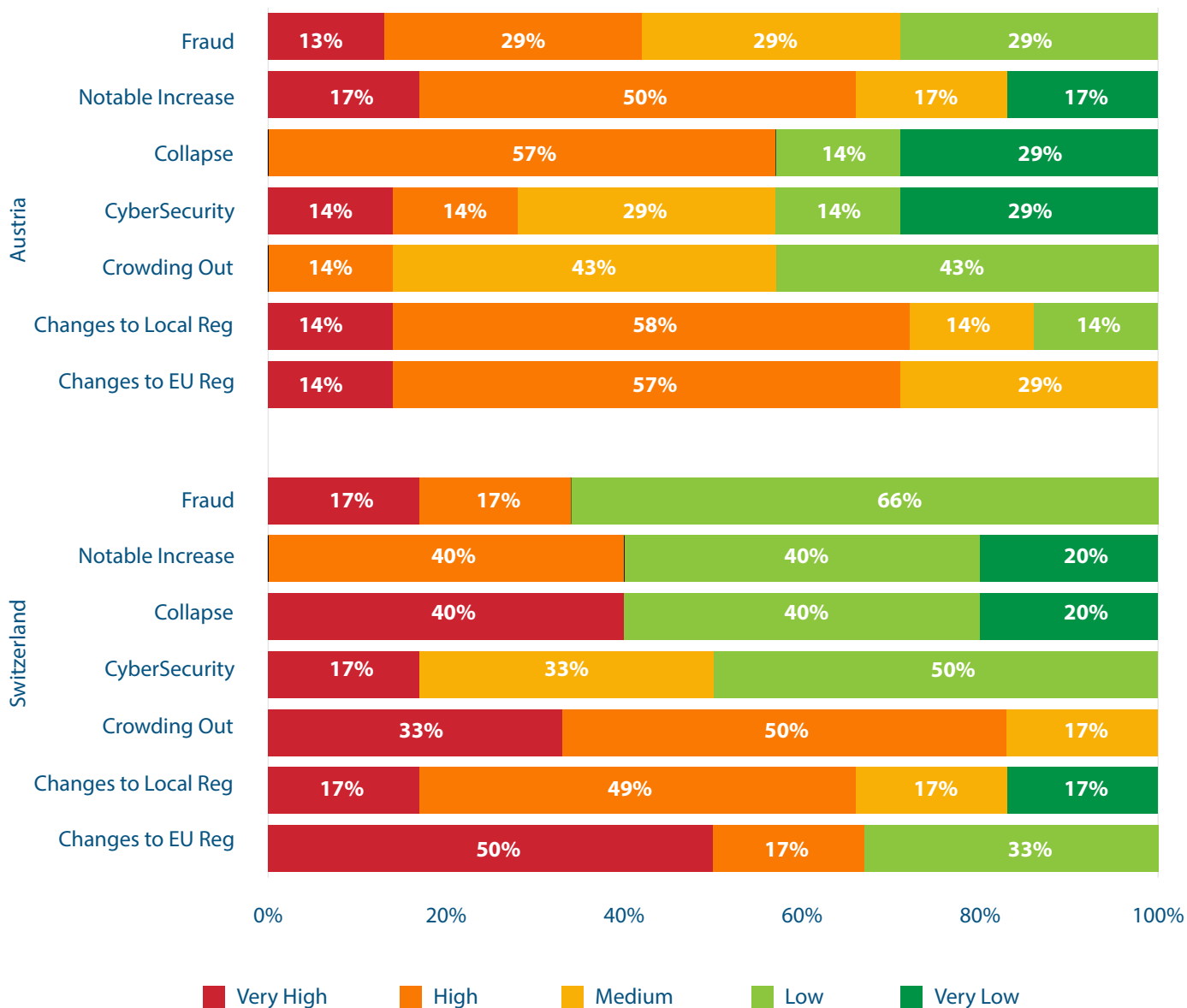
Due to small sample size, we were unable to present disaggregated model categories relating to risk factors Austria and Switzerland.

In Austria, changes to regulation as a national and pan-European level were considered the most significant risk factors, with 14% of platforms noting 'very high risk' and 58% 'high risk' to changes to local regulation. 14% 'very high risk' and 57% 'high risk' was indicated for changes to European regulation. A 'notable increase in business failure/default' signified a 'very high risk' to 17% of platforms, and 'high risk' for 50% of platforms.

Finally, 57% of Austrian platforms indicated 'collapse of a well-known platform due to malpractice' as a high risk.

In Switzerland 'crowding out of retail investors' was viewed as a significant risk, with 33% of platform indicating this factor as 'very high risk' and 50% as 'high risk'. Changes to local regulation, though viewed positively in terms of perception, was also viewed as a significant risk to Swiss businesses. For 17% of platforms, this was a 'very high risk' and 'high risk' for 49% of platforms. Changes to pan-European regulation is viewed as a 'very high risk' by 50% of platforms and 'high risk' to 17% of platforms. The 'collapse of a major platform was viewed as 'very high risk' by 40% of platforms while 'notable increase of default or business failure' was a 'high risk' for 40% of Swiss platforms.

Figure 64: Risk Factors for Platforms - Central Europe



## INNOVATIONS

Industry market standards were drafted in both Austria and Switzerland, partially in response to proposed legislation but also as a way to develop guidelines for new platforms. Austria and Switzerland have considerable cross-border activities, and significant emphasis on internationalization strategies. 72% of Austrian platforms and 67% of Swiss platforms indicated that they were serving different markets from their main domain site, utilising their own staff and partners in different markets. 17% of Swiss platforms and 14% of Austrian platforms were also serving other markets with local domains modelled after the parent company.

Austrian platforms in the field of equity-based Crowdfunding are establishing subsidiaries abroad, especially with a focus on Germany, Poland, Slovenia, Slovakia and other Central and Eastern European platforms. Swiss platforms are actively involved in Germany, Austria, France and Italy, at the same time French and German platforms have established subsidiaries in Germany.

Both countries also saw an increased likelihood of platform-bank cooperation. First, banks co-financed reward-based and equity-based campaigns, then opened donation-based platforms and are now cooperating with platforms on a regular level.

### INSIGHTS FROM THE FIELD

**Wolfgang Gumpelmaier-Mach**

**Austria Representative of the Institut für Kommunikation sozialen Medien (ikosom)**

*In Austria, Crowdfunding education is becoming a major trend by public bodies. Several regions are financing Crowdfunding classes for campaigns and consultants. Two regions, Graz and Linz, have also established funds which co-financed local campaigns. Crowdfunding has also become a major source of finance for tourism-related projects*

# THE BALTICS

## MARKET VOLUME

The Baltic countries, including Estonia, Latvia and Lithuania, have exhibited one of the fastest regional growth rates at 287% from 2015 to 2016. The alternative finance market volume has grown by close to €101 million in 2016, placing the Baltic region as the 5th largest market for alternative finance in mainland Europe with a total volume of €136 million.

The region is currently dominated by Estonia, accounting for 61% of regional volumes, followed by Latvia and Lithuania, accounting for 20% and 19% respectively. Jointly, the Baltic Countries account for 6.5% of total 2016 volumes of alternative finance in Europe excluding UK, and 1.7% of volumes in Europe including UK.

Figure 65: Baltics Online Alternative Finance Market Volumes 2013-2016 (€ EUR)

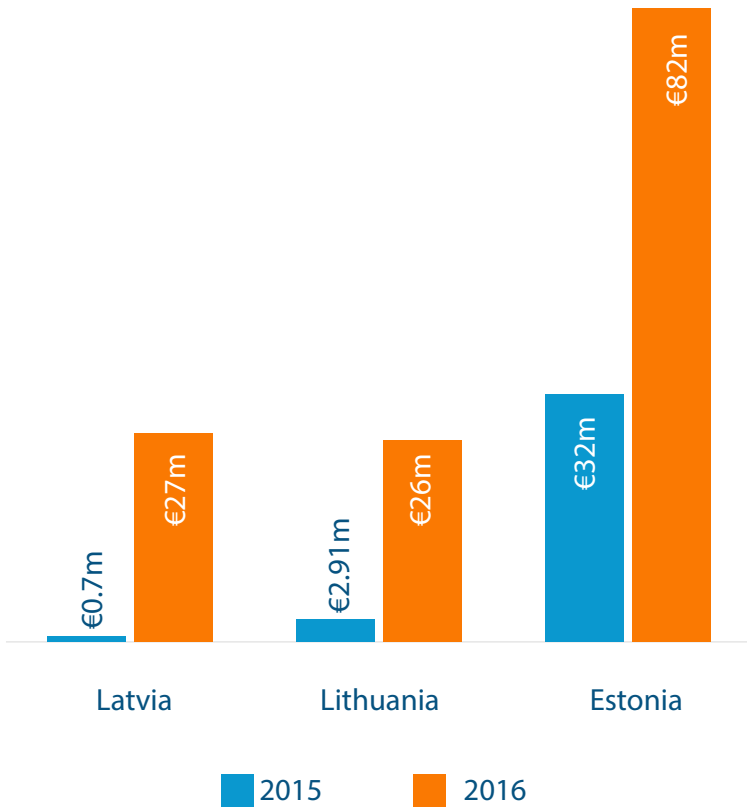
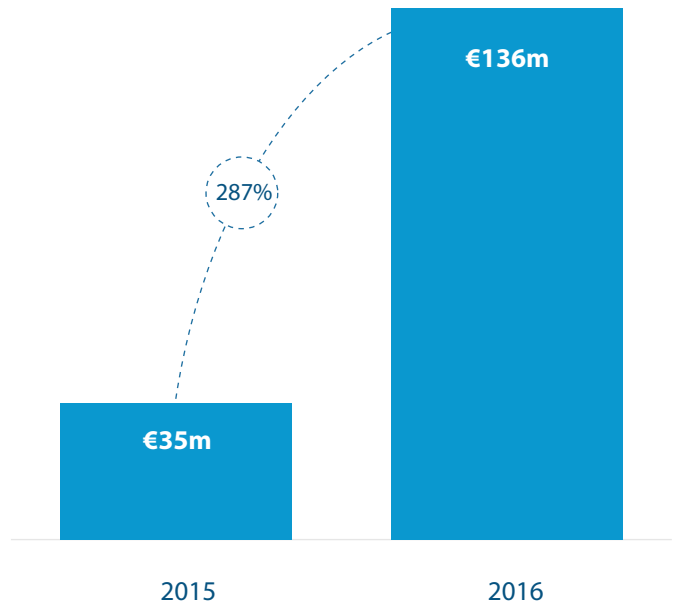


Figure 66: Baltics - Total Alternative Finance Market Volumes 2015-2016 (€ EUR)



## VOLUME BY MODEL AND COUNTRY

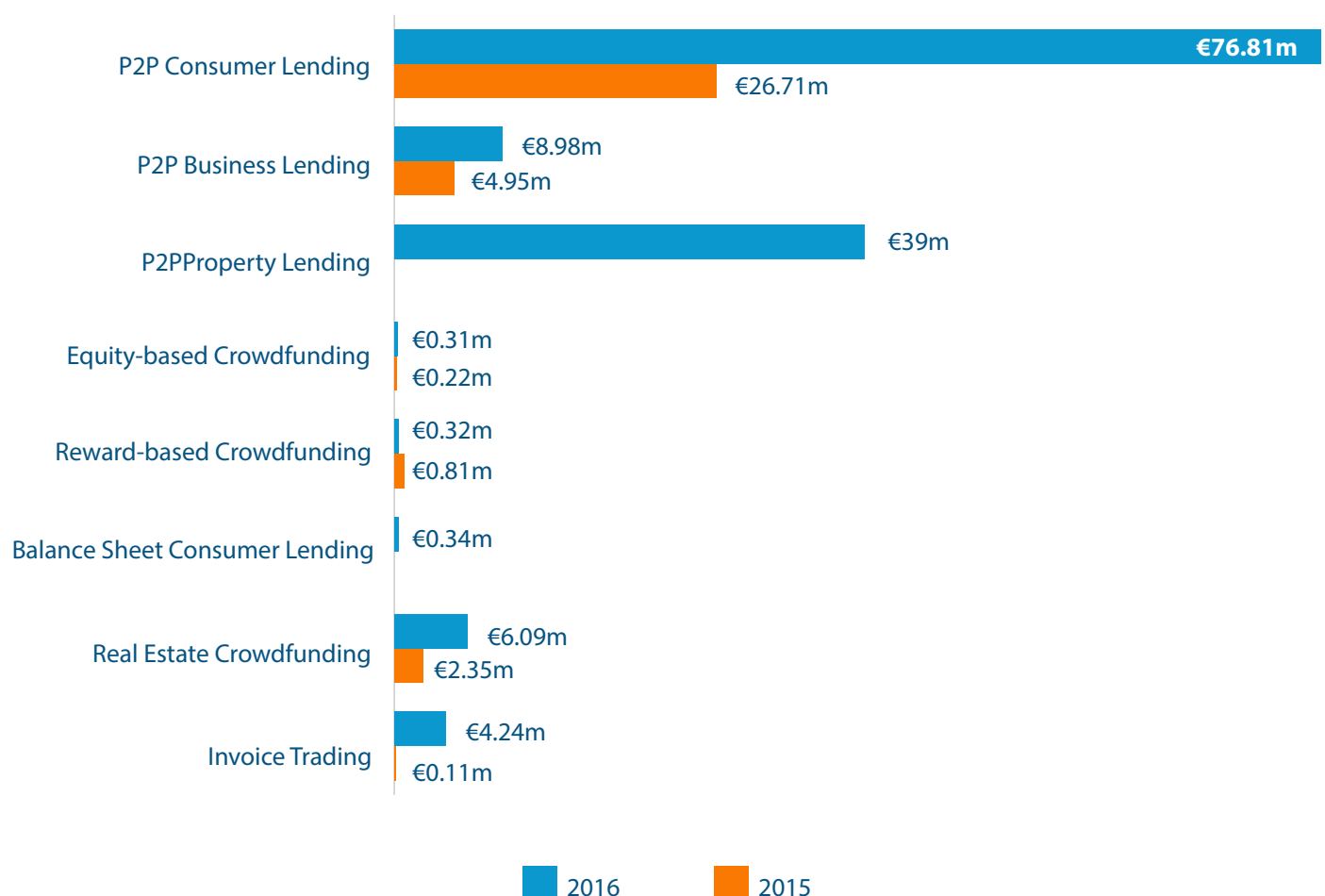
When examining market developments by model, the greatest growth is evident with respect to two models – P2P consumer lending and P2P property lending. P2P consumer lending valued at €76.8 million, represents 56.4% of regional alternative finance volumes in 2016, and growing 188% from 2015. This growth is evident in all countries with Latvia up €19 million, Lithuania €16 million and Estonia €14 million. P2P property lending has emerged in 2016 with €39 million in 2016, representing 28.7% of regional alternative finance volumes. This model has emerged in all three countries with Estonia capturing 80% (€31 million), Latvia 14% (€5 million) and Lithuania 6% (€2 million) of this growth. In this context, Real Estate crowdfunding, evident only in Estonia has also grown 159% in 2016, and accounts for a volume of €6 million. Taken together, all models associated with Real Estate account for 33% of regional alternative finance volumes.

Significant growth is also registered with respect to invoice trading and P2P business lending, up €4.1 million and €4.5 million respectively. While invoice trading is only recorded in Estonia and accounts for 3.1% of regional volumes, P2P business lending exhibited growth in all Baltic states and accounts for 6.6% of regional volumes.

Equity crowdfunding is recorded only in Estonia and accounts for marginal volumes of €0.31 million, or just 0.2% of regional volumes. Here, a combination of regulatory challenges remaining in all three countries, and a culture of strong risk aversion may contribute to the low volumes recorded.

Finally, reward-crowdfunding, has been on decline between 2015 and 2016 in all three countries, down by close to half a million euros overall.

Figure 67: Total Alternative Finance Volume by Model in Baltics 2015-2016 (€ EUR)

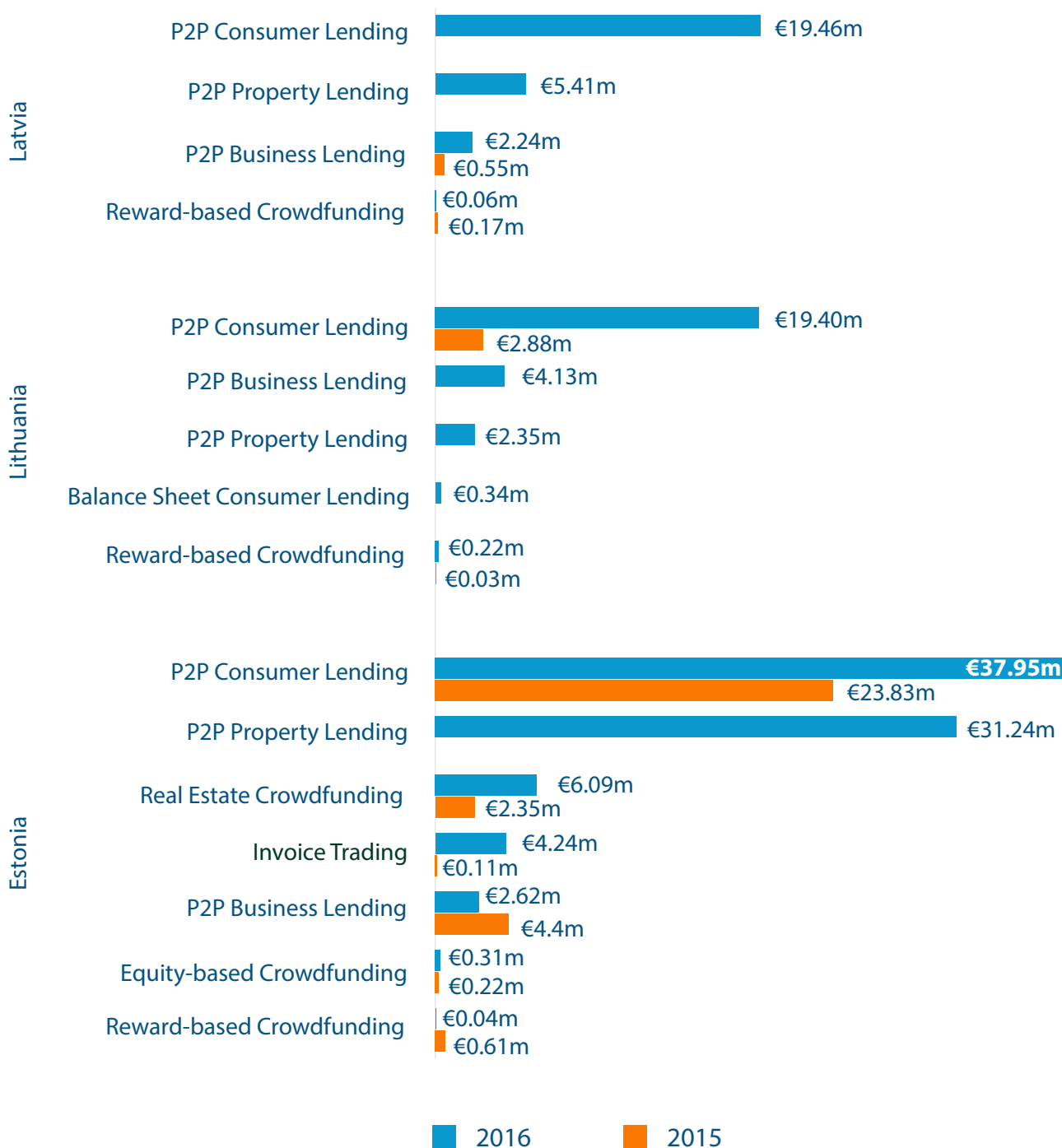


Overall, Estonia maintains its position as the regional leader in multiple critical models, with total market volumes estimated at €82 million in 2016, a growth of 162% from 2015, and per capita contributions of €52.68 placing it the 2nd highest in Europe. Latvia has seen impressive growth of 3699% in 2016 although from a low volumes of of just €0.7 million in 2015, reaching €27 million in 2016. This growth is primarily associated with P2P consumer and property lending.

Overall, per capita contributions in Latvia reached €13.86 in 2016 placing it the 8th highest in Europe.

Finally, Lithuania has also exhibited fast growth of 808% between 2015 and 2016, reaching volumes of €26 million, and per capita levels of €9.21 in 2016 positioning it as the 10th highest in Europe. This growth is primarily associated with P2P consumer and business lending.

Figure 68: Total Alternative Finance Volume by Model and Country Baltics 2015-2016 (€ EUR)

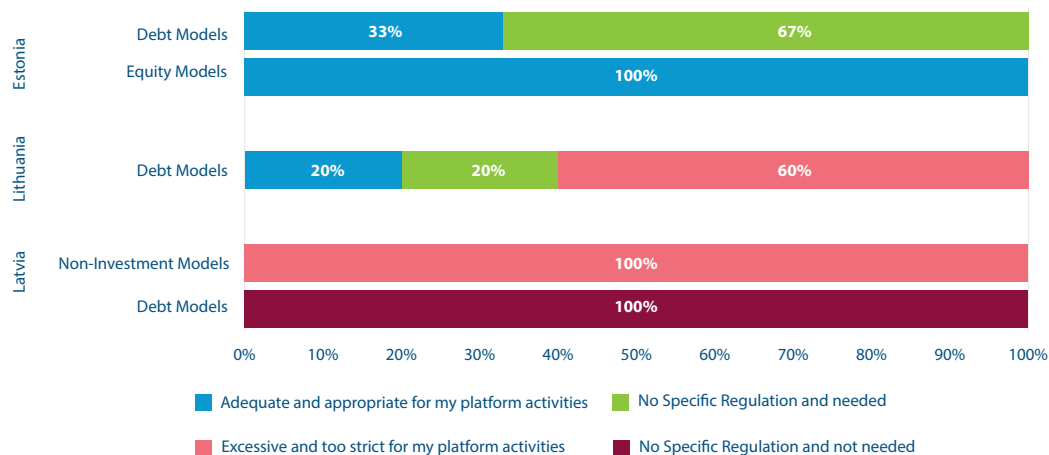


## REGULATION

All Baltic countries are EC members. However, in the absence of a common EC regulatory framework for addressing crowdfunding, one must examine such issues at the national level. Here, when interpreting our findings with respect to platform perception of regulation in each country, one must acknowledge that only few platforms operate in each market, and those operating are unlikely to be the ones limited by regulation. Nevertheless, our findings seem to highlight a few important aspects. Firstly, operation of platforms based on non-investment models does not pose serious regulatory challenges in any of the Baltic countries. However, discontent is currently expressed with respect to crowd-lending regulation; existing regulatory frameworks are non-specific to the unique aspects of

crowd-lending in both Estonia and Latvia. This stands in contrast with the situation in which some Latvian-based crowdlending platforms have experienced significant growth, while generating most of their business from deal flows outside the country. An exception is recent regulation amendments in Lithuania that have helped clarify and ease some of the previous constraints that were hampering platform development. Despite this development, most crowdlending platforms still consider regulation excessive. Equity-crowdfunding, regulation has not yet been amended in any of the Baltic countries to accommodate for lighter requirements (as in neighboring Finland). Nevertheless, a few unlicensed equity platforms are currently operating in Estonia with relatively low volumes.

Figure 69: Perception towards Existing National Regulation



### INSIGHTS FROM THE FIELD

#### **Crowdfunding in Lithuania: A Fully Regulated Market**

**Dr. Vytautas Šenavičius, Chairman of the Board at Lithuanian P2P and Crowdfunding Association, Partner at law firm TVINS**

According to the Bank of Lithuania, approximately 40% of SME loan applications are rejected in Lithuania, and 50% of Lithuanian residents hold their savings in cash. Number of rejected loans is even higher for the startups. Therefore, the necessity for alternative financing and alternative investment opportunities were top priorities of the Ministry of Finance and the Bank of Lithuania. With the ambition to become one of the most attractive FinTech destination in Europe, at the end of 2016 Lithuania approved a number of regulatory changes: amended KYC regulation (enables non face-to-face identification), amended consumer credit rules related to peer to peer regulation. And, finally, the Law on Crowdfunding came into force, which eliminated obstacles to crowdfunding business in Lithuania.

First, in terms of crowdlending, the regulator has opted for a liberal approach towards development of lending business in Lithuania. As a result, both consumer lending and business lending are regulated, volumes have been consistently increasing, and interest rates for investors have been some of the highest in European Union.

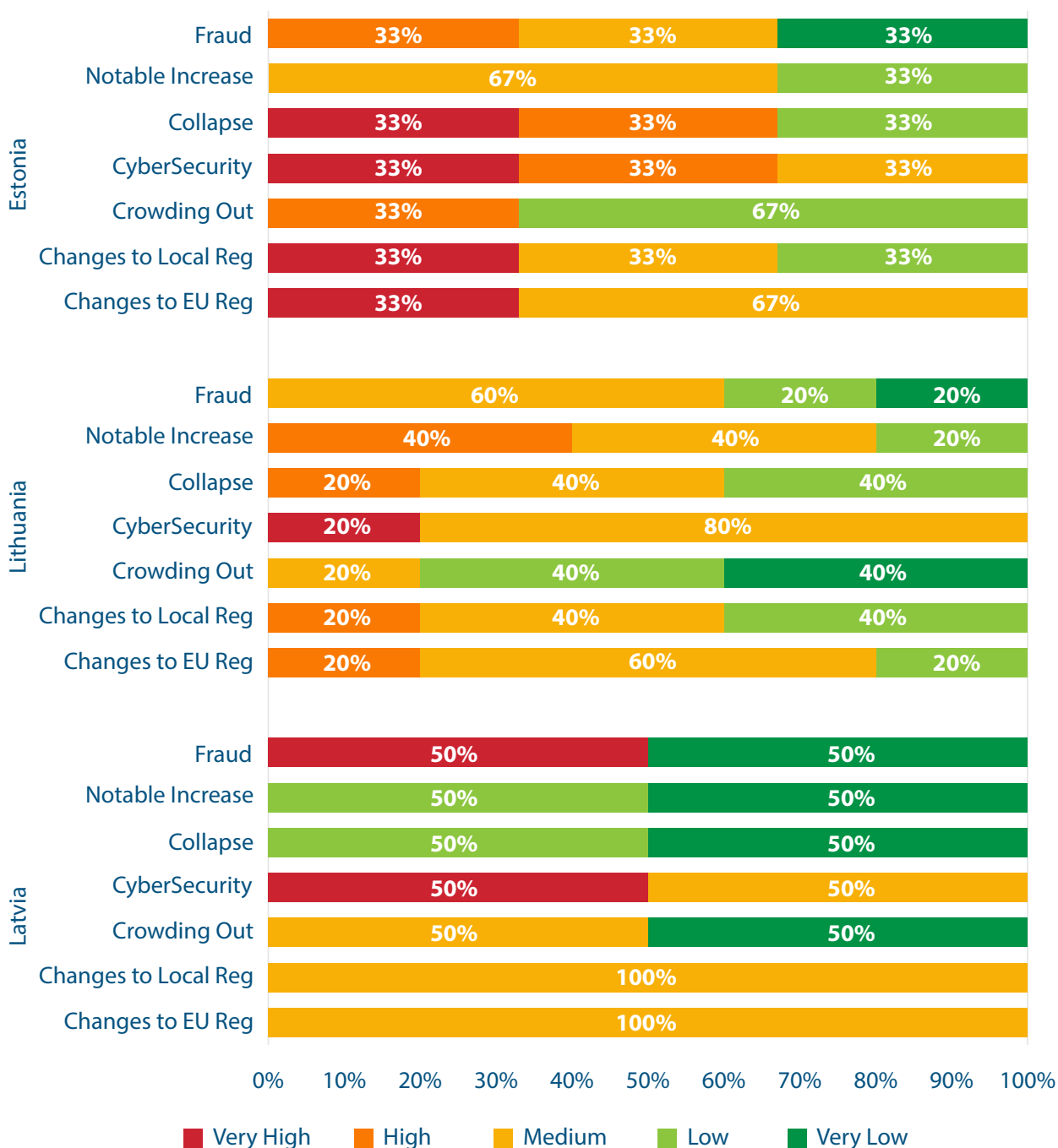
Second, in terms of equity crowdfunding, the general provision states that for provision of investment recommendation, reception and transmission of orders the platform isn't obliged to have a MiFID license. Nevertheless, uncertainty remains with respect to whether provisions of public offering apply for the shares' or bonds' offering through the platforms. And whether platforms that are MiFID licensed should require an audited financial statement from equity campaign owners. Finally, the Lithuanian P2P and Crowdfunding Association has played an important role in dialogues with authorities about regulatory changes, and continues such dialogues with the Tax inspectorate and other institutions aiming to adopt rules to crowd-business.

## RISK

Most platforms operating in the Baltic region are crowdlending platforms. Accordingly, risk concerns are often associated with issues related to this model. There is a major concern with the risk of collapse of one or more platforms due to malpractice as stated by 33% of the region’s platforms, all representing

crowdlending models, as “high” or “very high” risk. This concern was more pronounced among Estonian than Lithuanian platforms. Cybersecurity breaches were also rated by 33% of the region’s platforms as of “high” or “very high” risk, across both debt and non-investment platforms.

Figure 70: Risk Factors for Platforms - Baltics





22% of the region's platforms - all crowdlending platforms - view the risk of notable increase in default rates or business failures as "high" or "very high". Interestingly, this was reported only by Lithuanian platforms, probably due to extra pressured felt to deliver under the revised crowdlending regulation in the country. 22% of the region's platforms also report concerns about changes to local and EU regulations. This was only reported by crowdlending platforms, which is potentially contradictory given that most of these platforms also think that specific regulation is needed and the existing one excessive or unfitting. This may, however, reflect concerns of a worsening of conditions under new regulation, rather than easing them.

A related finding here could be the relatively low concern with fraud, as reported by only 11% of the region's platforms, which can be associated with tight regulation.

Finally, relatively few platforms have considered the risk of crowding out of retail investors by institutional investors, mentioned by 11% of regional platforms, all representing crowdlending platforms. This can be explained by young platforms regarding recruitment of "heavy" investors as an opportunity more than a threat.

## INNOVATION

Baltic platforms have been investing in innovative efforts with focus on releasing procedural bottlenecks and improving customer service, have overseen international market expansion, as well as engaged in significant changes to their business models and the launching of new products. Eleven Baltic platforms have provided information about their R&D efforts, the majority of which reporting investments in more than one domain. Current efforts are mainly by crowdlending platforms and are directed towards three objectives – customer verification, process streamlining and automation, and payment processing. Innovation efforts in these areas are reported by 64%, 55% and 45% of regional platforms respectively.

The second area of focus for R&D involves improvements to customer service and management systems; 36% of platforms report work on developing community management features, 18% on aid tools for social media promotions and 18% on customer relationship management systems. In addition, 18% of regional platforms also report work with artificial intelligence and performance enhancement technologies. And a few platforms also report innovation effort in areas of e-learning and gamification features, reported by 18% and 9% of regional platforms respectively. Jointly these features may be considered as advanced for an industry where platforms are more concerned with releasing procedural bottlenecks, efficiency and customer relations management.

## BUSINESS MODEL

Ten Baltic platforms have provided information about the status of their business models. Overall, five platforms report significant change to their business model, and four report only a slight alteration of it during 2016. Indicating a dynamic market where 90% of regional platforms have engaged in some form of alteration to their business model during 2016.

Eight Baltic platforms provided information about introduction of new products, of which four report significant changes to their products during 2016 and three introductions of slightly altered products in the same period. This means that 88% of platforms overall have engaged in some form of alteration to their product offering.

Both developments are linked to internationalization efforts, strategic partnerships and targeting of institutional investors. Internationalization

Ten Baltic platforms have provided information about their international strategies and efforts. Only one platform has indicated no plans for international expansion (10%), while 9 have indicated various strategies for catering to international customers (90%). This represents the need of platforms from small home markets to expand for achieving scale and profitability in the long-term.

Among those with international activities, the most popular strategy used by 5 platforms is the use of a localized site with local domain, language and currency, but under one common brand. 3 platforms indicated using their own global website and staff for serving both local and international customers. And one platform indicated a combination of both, when serving different international markets.

# EASTERN EUROPE

## MARKET VOLUME

Poland, Czech Republic, Slovakia and Hungary are often clustered together and, for the purpose of this report, make up Eastern Europe. Eastern Europe accounts for the 10th largest alternative finance market in terms of volume, at € 70.8m. This group of countries consisting of Czech Republic, Hungary, Poland and Slovakia, and display some very different characteristics in their alternative finance ecosystems.

Poland and the Czech Republic are on track to become mature alternative finance markets, with a handful of established platforms within their borders. Poland exhibited the largest growth from €10.2m to € 38.1m in 2016 (up 272%).

The Czech Republic’s alternative finance market grew at 247% from €9m to €31m. Slovakia and the Czech Republic share a few international platforms that are active in both countries, though Slovakia is still lacking behind its neighbours to the North and West. Hungary has a very small alternative finance marketplace, with only Reward- and Donation-based Crowdfunding existing in earnest at the moment.

The Slovakian market grew from €2m to €3.34m (up 63%), It should be noted that much of the volume attributed to Slovakia came from platforms headquartered or operating outside of Slovakia, which were serving Slovakian fundraisers. As such, platforms were not natively Slovakian despite siphoning funds to borrowers and campaign owners in Slovakia. Slovakia. Hungary has grown from €0.28m to €0.47m (66%).

Figure 71: Eastern Europe Online Alternative Finance Market Volumes 2013-2016 (€ EUR)

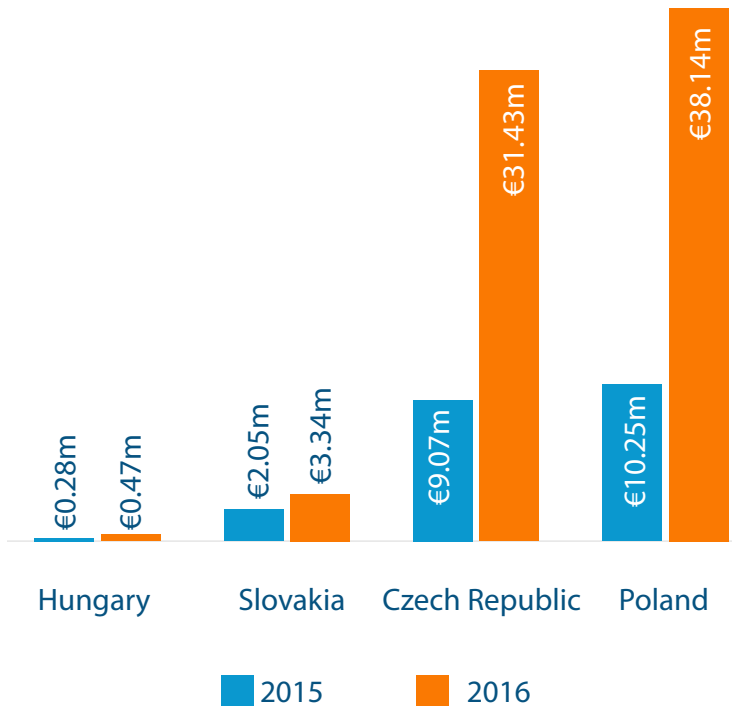
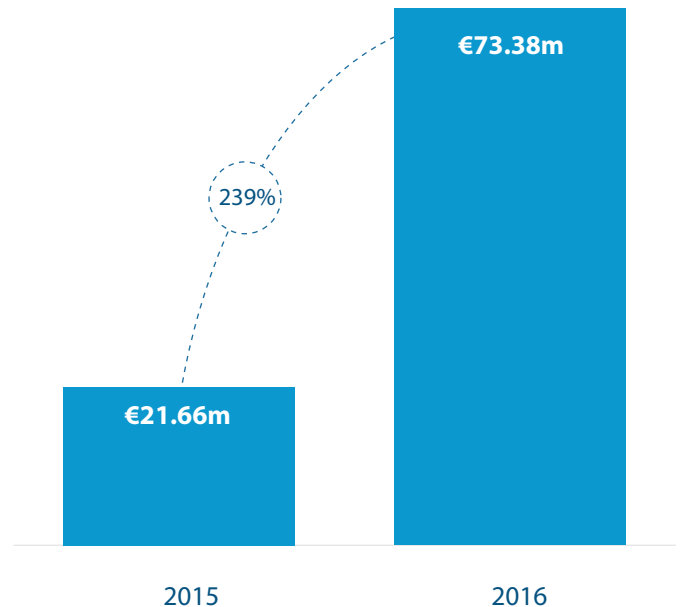
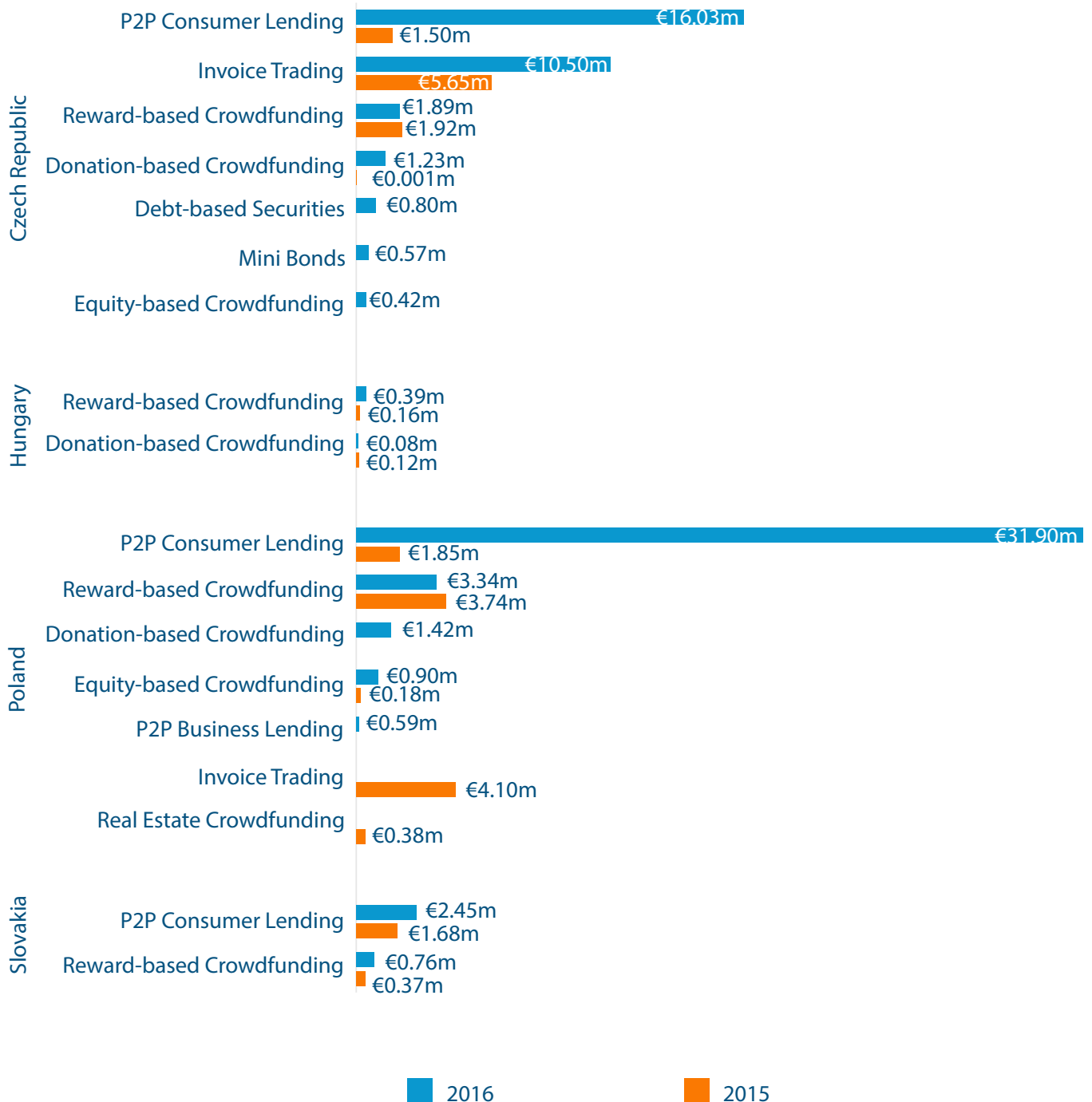


Figure 72: Eastern Europe - Total Alternative Finance Market Volumes 2015-2016 (€ EUR)



## VOLUME BY MODELS BY COUNTRY

Figure 73: Total Alternative Finance Volume by Model in Eastern Europe 2015-2016 (€ EUR)



In examining the alternative finance volumes by model, it is possible to see the transformation each country is undergoing right now.

Poland has a diverse alternative finance landscape, with platforms operating in several markets. P2P Consumer Lending is the largest model, accounting for €31.9m in 2016 and accounts for 84% of Poland's overall alternative finance volume. The second largest model is that of reward-based crowdfunding, at €3.34m. Though the second largest, this model contracted slightly against the previous year (€3.74m in 2015).

In the Czech Republic, P2P Consumer Lending was also the largest model, accounting for €16m in 2016. Invoice trading, the second largest model, accounted for €10.5m. The Czech alternative finance ecosystem also saw the emergence of Equity-based Crowdfunding, Debt-based Securities and Mini-bonds.

P2P Consumer Lending was the largest model in Slovakia, accounting for €2.45m in 2016. The remaining volume came from non-investment models; rewards-based and donation-based crowdfunding.

Hungarian alternative finance volume was entirely driven by non-investment models, with reward-based crowdfunding accounting for €0.39m in 2016.

#### **INSIGHTS FROM THE FIELD**

##### **Karol Król – cofounder of Collaborative Economy Center ([cgs.org.pl/en](http://cgs.org.pl/en)), Vicepresident of Polish Crowdfunding Society**

*The last 18 months show very significant growth of interest on alternative finance market in Poland. With investment in Fintech startup Zencard, the biggest bank PKO BP with 9 million clients showed the path of innovation in finance at a large scale. The emerging equity-based Crowdfunding market is increasing in volume, as well as offering broad portfolio of different financial models, including equity crowdfunding, P2P loans, mezzanine financing and even exchange notes.*

*Very important signals come from the administration as well, with the Polish Securities Commission leading the way. 2 legal initiatives, Blockchain experts hired by Ministry of Digital Affairs, and FinTech Hub established by government and a FinTech-Crowdfunding position report are only a few examples from last few months.*

*SMEs in Poland are aware of alternative finance possibilities and 1 in 8 startups plans to use crowdfunding within next 6 months, according to the Startup Poland report. I see those intense changes as a very great sign for Polish economy, which is in line with AltFi developments across European Union.*

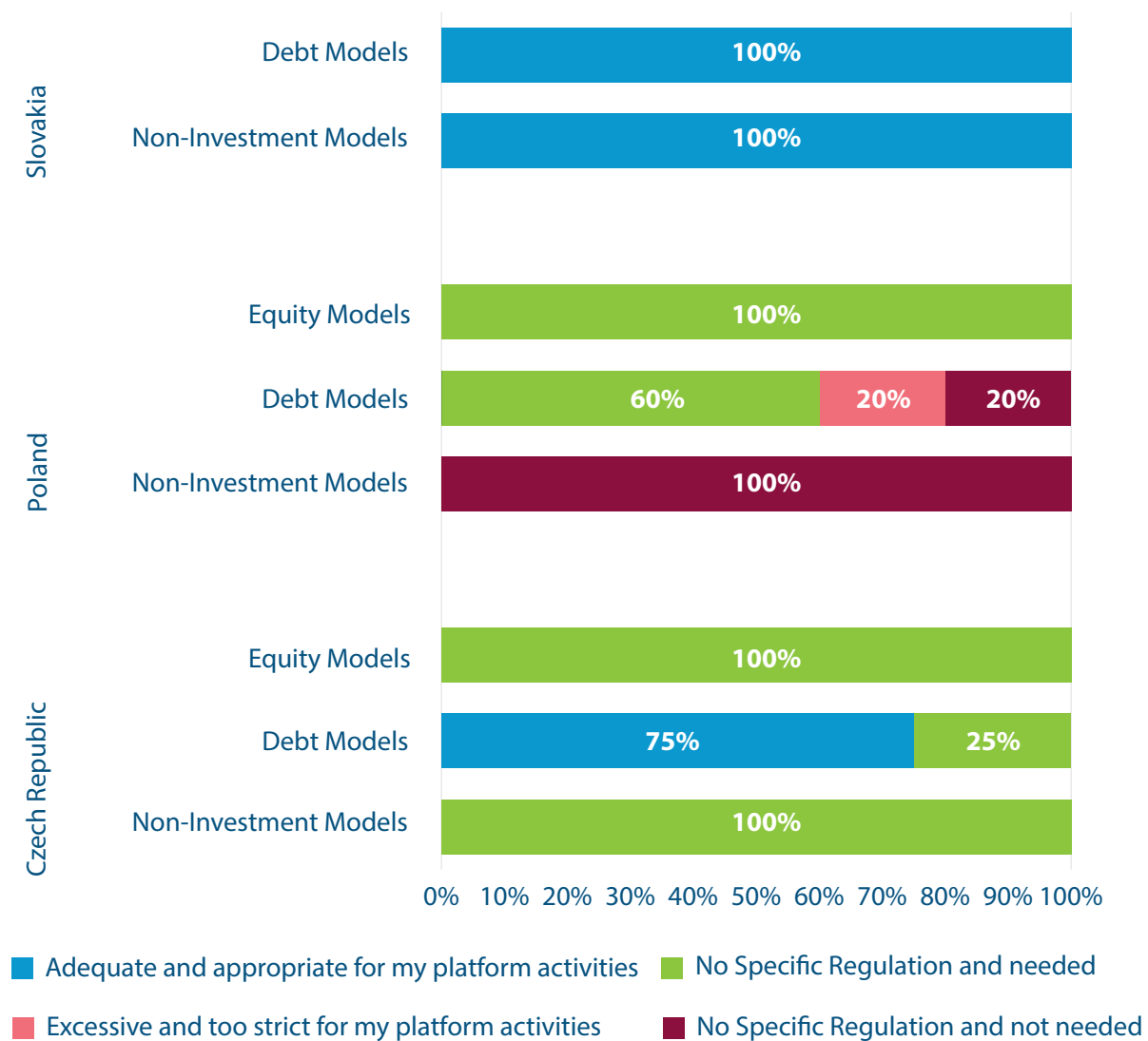
## REGULATION

The regulatory landscape is vastly different across the region, resulting in different attitudes of the platforms. In Slovakia Debt and Non-investment platforms saw local existing regulatory frameworks as 'appropriate and adequate' to their activities, while in Poland a majority of debt (60%) and equity platforms (100%) felt that there exists 'no specific regulation and that it is needed' while 20% of debt platforms view existing regulation as 'excessive and too strict'.

Another 20% of debt platforms noted that there was 'no specific regulation and not needed.'

In the Czech Republic, equity and non-investment platforms felt that 'no specific regulation existed and was needed' while 75% of debt platforms viewed existing regulation as 'adequate and appropriate'.

Figure 74: Perception towards Existing National Regulation



## RISK

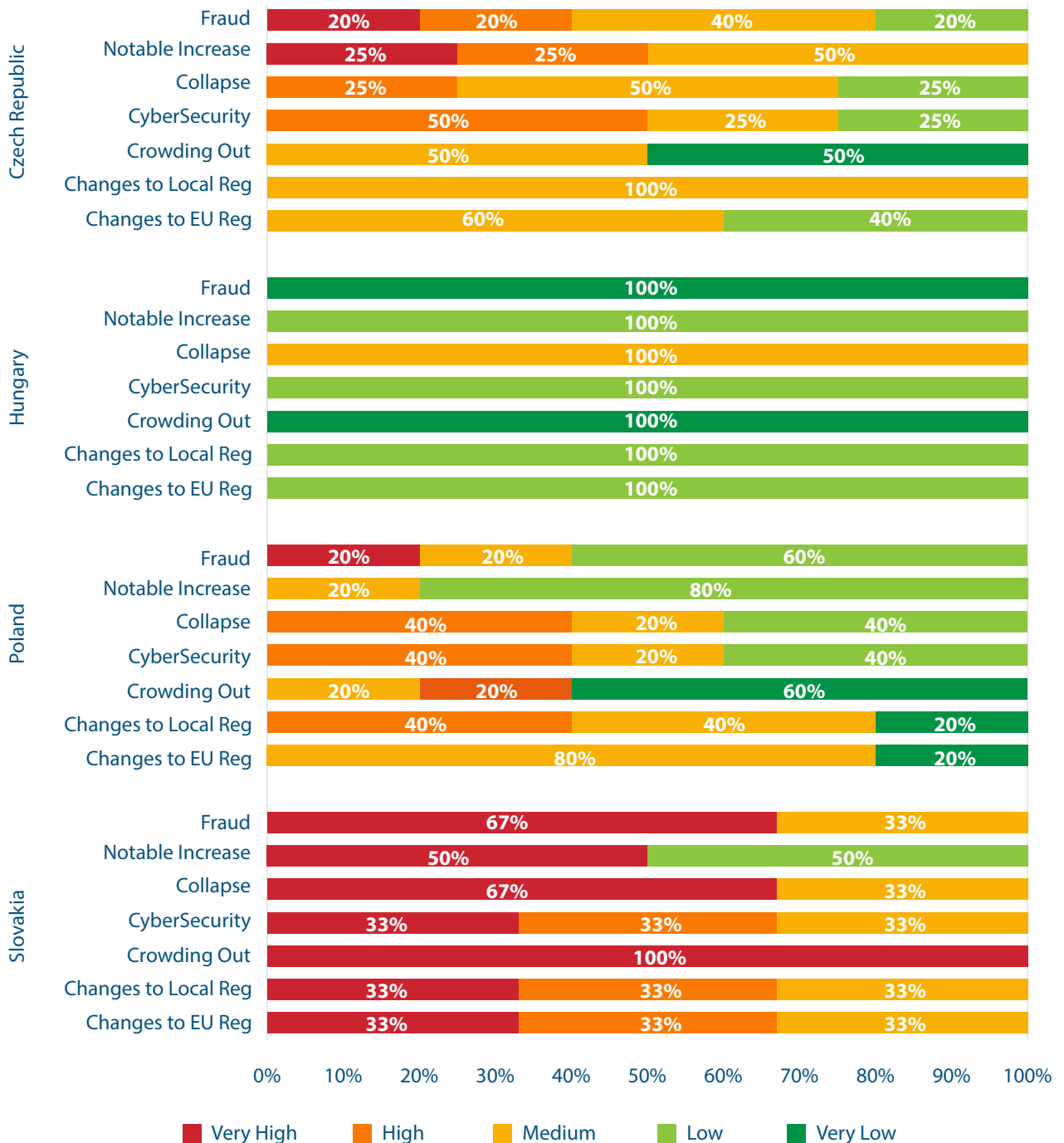
The approach to risk by platforms reflects the maturity of the ecosystem. With no specific regulation in Hungary, the Hungarian platforms assigned medium to very low risk to all named factors.

In contrast, the Slovakian platforms viewed ‘crowding out (100%)’, ‘cyber-security breach (66%)’, ‘collapse of a well-known platform due to malpractice (67%)’ and ‘fraud (67%)’ as significant threats (very high to high risks).

In the Czech Republic, 25% of platforms viewed ‘notable

increase of default/business failure’ as a very high risk, and another 25% as a high risk. Fraud was also viewed as a significant threat, with 20% of platforms denoting this as a ‘very high risk’ and another 20% as a ‘high risk’. For 50% of platforms, ‘cyber-security breach’ was viewed as a high risk. In Poland, 20% of platforms viewed Fraud as a ‘very high risk’. In the case of ‘notable increase of default/business failure’, ‘collapse of a well-known platform due to malpractice’ and ‘changes to local regulation’, 40% of polish platforms were viewed as a ‘high risk’.

Figure 75: Risk Factors for Platforms - Eastern Europe



## INNOVATIONS

The alternative finance markets of Poland, Czech Republic, Slovakia and Hungary is at a stage where growth is dependent on emerging regulatory frameworks which will help the region become more mature.

In the Czech Republic, half of all platforms surveyed indicated 'slightly altering their business model', and 75% introducing new products to their clients (25% significantly new products, 50% slightly new products). Many of these platforms focused these new products on customer acquisition, especially as related to fundraiser onboarding. For 80% of platforms, an R&D focus was placed on 'process streamlining and automation', and 40% of platforms focused on 'payment processing' and 'social media and fundraiser tools'.

In Poland, platforms indicated high levels of innovation. All platforms indicated changing their business models, with 33% significantly altering their model and 67% slightly altering their models. Similarly, all platforms introduced new products, with 67% of platforms introducing significantly new products and 33% slightly new products. These platforms had a variety of R&D priorities, with 60% of platforms focusing on 'payment processing', 'gamification' and 'process streamlining and automation'. There was insufficient data collected from Hungarian or Slovakian platforms to accurately assess their innovation in terms of business changes, products and R&D.

### INSIGHTS FROM THE FIELD

**Jan Kroupa, Czech Fundraising Center, [www.fundraising.cz](http://www.fundraising.cz)**

*Looking back in retrospect and comparing the crowdfunding ecosystem in the Czech Republic to the rest of the world, we may state that Czech Republic has fully developed scope of crowdfunding opportunities. On the reward-based side of the spectrum we have two market leaders: HitHit and Startovac where hundreds of project and NGOs successfully completed campaigns. Both leading platforms are "all or nothing" organized and thus creating a sense of urgency, which present a key element in this type of "fundraising", for we all know that if I can donate tomorrow or next week, I will never do it today and that likely and often turns to means never. Urgency is a must in fundraising and in some cases, it is hard to get outside the time pressure of a reward-based crowdfunding platform. There are about a dozen of other – usually more specialized platforms, but their user traffic does not come even close.*

*The "donation-based" side of crowdfunding world has been very successfully served by Darujme.cz. There are other players on the market, but they all seem to be lagging behind – or trying to catch up by copying. From fundraising of view, their success lies in combining great technological intuition and skill with deep philanthropy/fundraising and donor management expertise. Darujme.cz is similar to JustGiving in the UK. It offers customized payment / giving mechanism to NGOs to be integrate as a widget to their websites, microsities, e-mails etc.. It offers an opportunity for NGOs to design their own giving microsities directly on Darujme.cz, including on-line payment tools. And as of this year, it also offers the opportunity for P2P fundraisers / ambassadors to create their own giving challenges or events in support of a registered charity of their choice with an account on darujme.cz.*

*In addition, Darujme.cz provides API-based whitelabel solutions for larger fundraising projects – such as the running webportal for Hospices in the Czech Republic ([www.behyprohospice.cz](http://www.behyprohospice.cz)), where you can register and organize running competitions, organize running challenges or become a voluntary ambassador to support a selected hospice in the Czech Republic.*

*Income from fundraising on-line seems to have been among the fastest-growing compared to other segments of fundraising in the course of the past several years. Yet, fundraising remains to be very personal and so it will be interesting to see to what degree a one on one conversation between live human beings will remain to be the fundamental fundraising tool into the future.*

# SOUTH EASTERN EUROPE

## MARKET VOLUME

According to our data, the alternative finance market in South Eastern Europe had a total volume of € 9.6m, having grown by 104% annually. The region includes Romania, Bulgaria, Greece and Slovenia. South Eastern Europe is considered a nascent alternative finance ecosystem, dominated by reward and donation-based crowdfunding.

The countries in South Eastern Europe have the following total volume - Bulgaria: € 1.4m; Greece: € 2.3m; Romania: € 1.2m and Slovenia: € 4.7m

Slovenia has seen the largest growth (188%) , partially due to the advent of the invoice trading model.

Other large markets showed similar impressive growth rates albeit smaller: Greece grew at 88%, Romania at 74%, and Bulgaria at 18%.

Figure 76: South Eastern Europe Online Alternative Finance Market Volumes 2013-2016 (€ EUR)

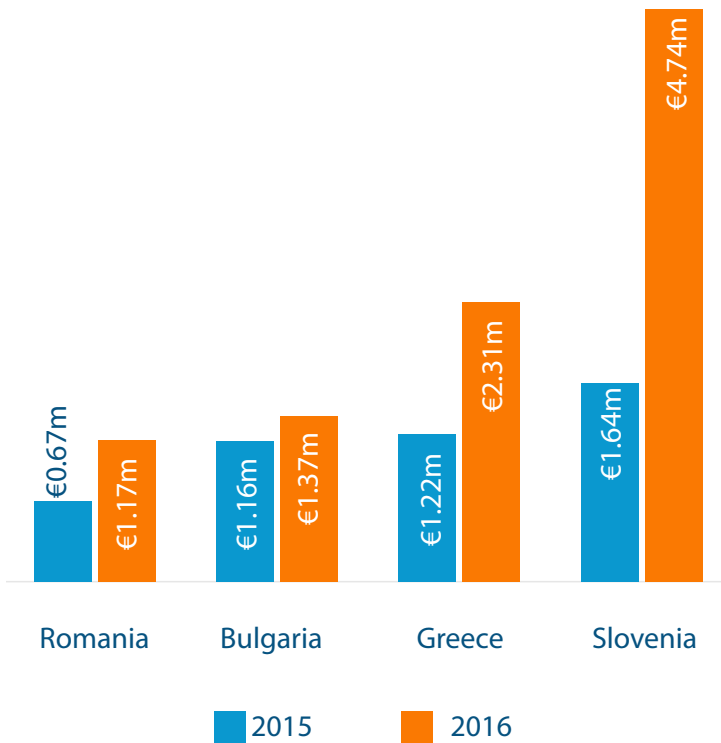
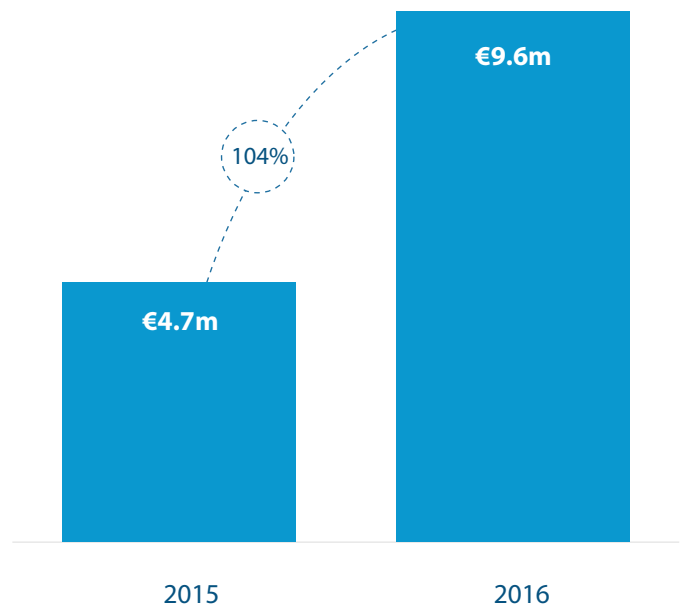


Figure 77: South Eastern Europe - Total Alternative Finance Market Volumes 2015-2016 (€ EUR)





## VOLUME BY MODELS BY COUNTRY

This region is marked by non-investment based models, with reward or donation-based crowdfunding responsible for the majority of the regions volume.

In Greece and Romania, donation and reward-based crowdfunding made up the entirety of the country's 2016 volume. In Bulgaria, P2P consumer lending (€0.87m) made up the largest proportion of the country's volume (63%), followed by balance sheet business lending (€0.4m). Invoice trading accounted for 63% of Slovenia's alternative finance market.

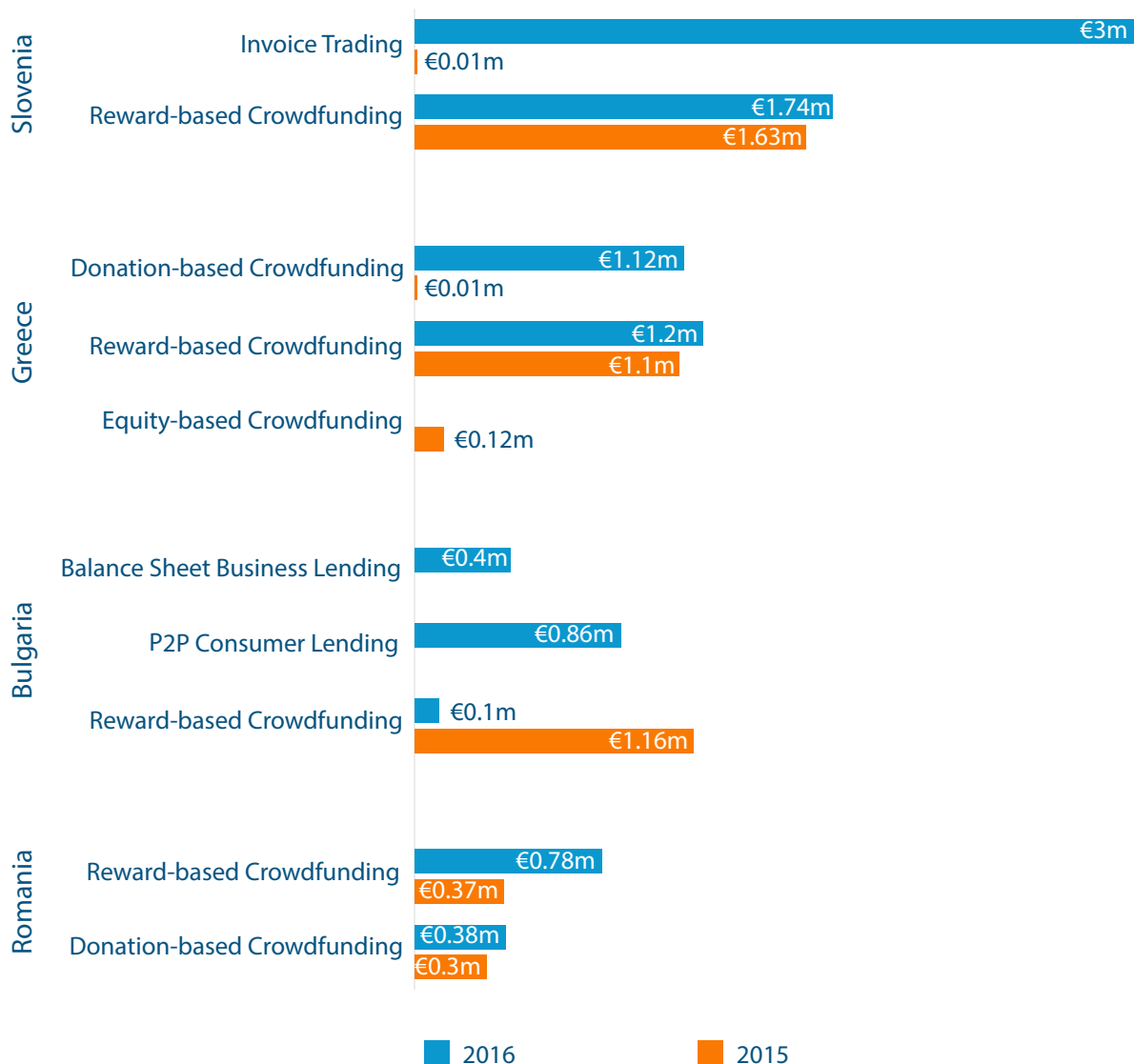
### INSIGHTS FROM THE FIELD

#### P2P Lending Takes off in Bulgaria

**By Ivaylo R Ivanov, Director, IUVO Group, Bulgaria.**

The second half of 2016 saw two P2P lending platforms (iuvo and Klear) launching on the Bulgarian market within months of each other. Both managed to grab the attention of the crowd and to generate over 1m EUR in investment turnover in a period of less than 6 months. Crowdlending, together with real estate crowdfunding (lead by PropertyClub, launched in 2015), currently represent the main activity in the field of alternative investment services coming from Bulgaria. Even though platforms are a bit late to the party, investors from Bulgaria generally have already had experience with other crowdfunding services from around the world and the adoption rate looks very promising.

Figure 78: Total Alternative Finance Volume by Model in South Eastern Europe 2015-2016 (€ EUR)

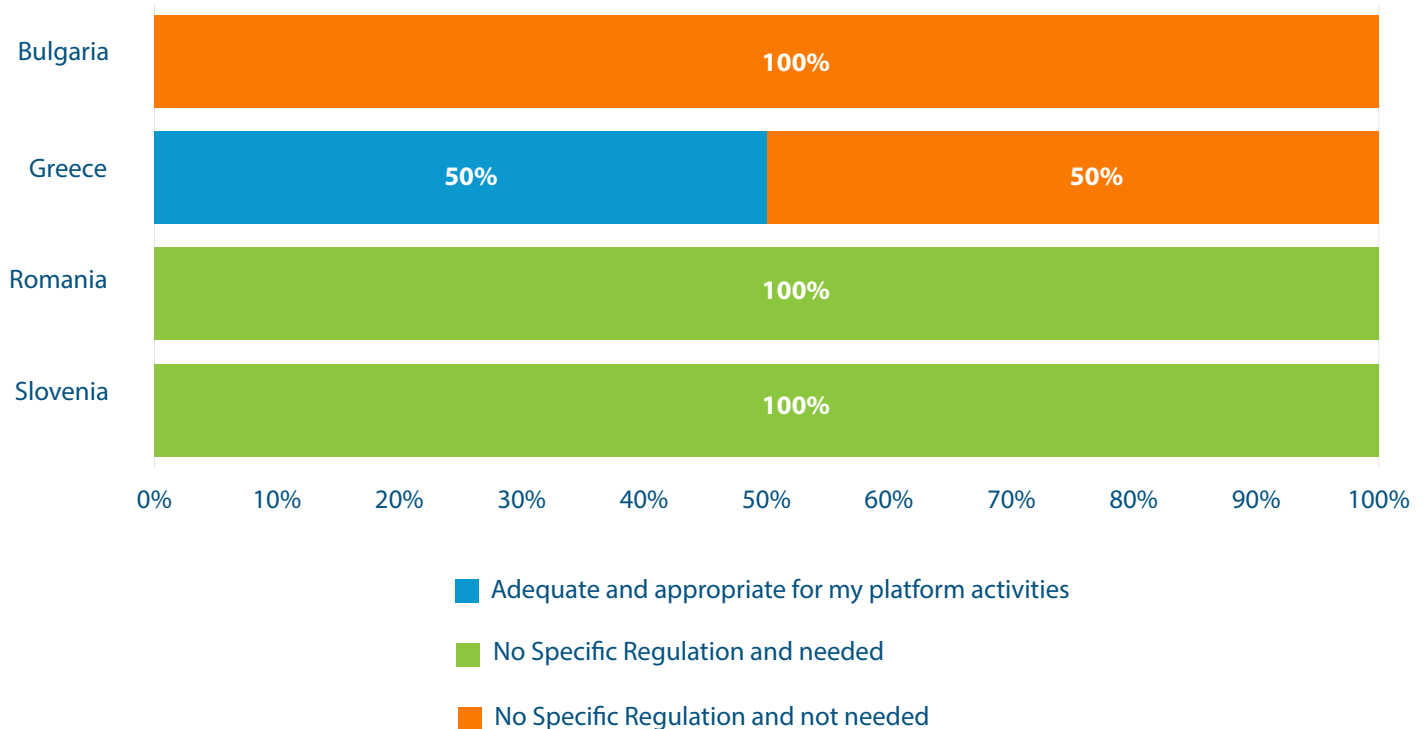


## REGULATION

In most countries in South Eastern Europe, the platforms indicated the need for a consistent regulatory framework, especially for equity-based and debt-based platforms. In Slovenia and Romania, all surveyed platforms indicated that 'no specific regulation [existed] and was needed'.

In Greece, 50% of platforms viewed existing national regulation as 'adequate and appropriate', while the remaining 50% indicated that 'no specific regulation [existed] and was not needed'. Finally, in Bulgaria, 100% of respondents indicated that 'no specific regulation [existed] and was not needed'.

Figure 79: Perception towards Existing National Regulation

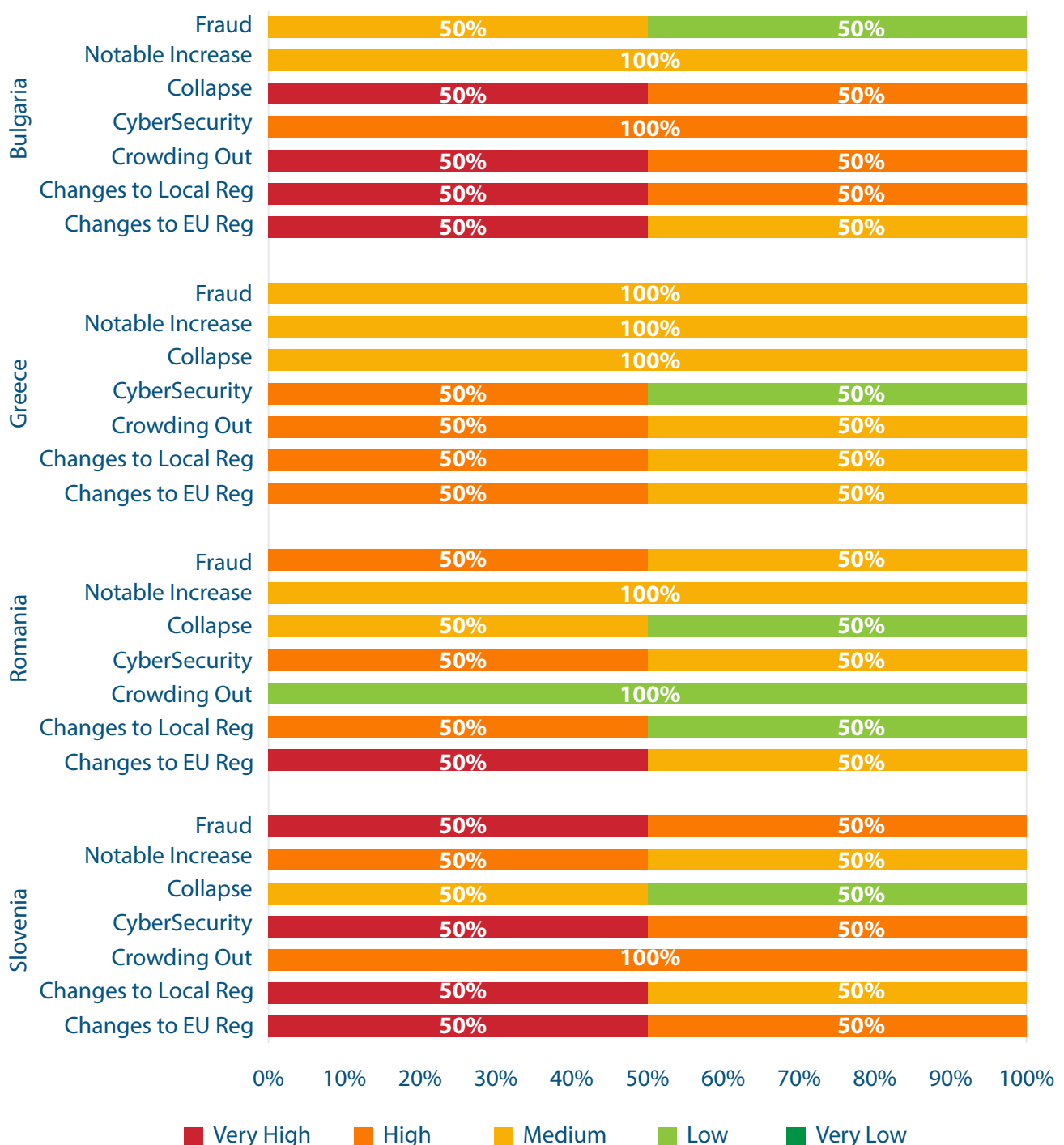


## RISK

In Bulgaria, 50% of respondents viewed ‘collapse of a well-known platforms due to malpractice’, ‘Crowding out’ and ‘changes to local and European regulation’ as a ‘high risk’.

In Slovenia, 50% of platforms viewed ‘fraud’, ‘cyber-security breach’ and ‘changes to local and European regulation’ as ‘high risk’. Only ‘changes to EU regulation’ were viewed as a ‘high risk’ in Romania. All other factors were viewed as ‘medium to very low’ risks across the four countries.

Figure 80: Risk Factors for Platforms - South Eastern Europe



## DEVELOPMENTS

Some countries in South Eastern Europe are showing first signs of market maturity. Industry networks are emerging, education programs for SMEs and Startups are in place to allow the Crowdfunding campaigns to be more efficient.

### INSIGHTS FROM THE FIELD

#### **Anja PRISLAN**

**Project Manager at eZavod, Project Leader at Crowdfundport-Projekt**

*Since first beginning in 2012, Slovenian crowdfunding market is developing and has matured, due to different kind of support to SMEs, start-ups, offered by entrepreneurship support organizations. The focus of support was oriented towards organization of different kind of awareness raising events (workshops, trainings), where crowdfunding, its purpose and knowledge how to prepare and launch successful crowdfunding campaigns were offered. To support further development of the market, in 2016, two crowdfunding platforms were established, network called Slovenian Crowdfunding Meet-up community (connecting entrepreneurs interested in crowdfunding), started to operate and also two transitional EU project, providing additional knowledge and capacity support, "CROWD-FUND-PORT" (Interreg CE) and "Crowdstream" (Interreg Danube) started with its support activities.*

#### **Damir Soh**

**Project Manager, Brodoto**

*The region (Slovenia, Croatia, Serbia, Bosnia and Herzegovina, Montenegro, Macedonia) faced an impressive 450% growth in funds raised through crowdfunding from 2012-2016. Even though the number of crowdfunding campaigns in Croatia had fallen last year when compared to 2015, the number of backers as well as the success rate is slowly growing, which points to a general positive trend of growth of the crowdfunding industry in Croatia. However, still there is less than 1% of the population in Croatia that has so far supported any of the crowdfunding campaigns, which points to a considerable level of infamiliarity and distrust when it comes to participating in this model of alternative financing.*

*South Eastern Europe is at a juncture of its development. Donation-based and reward-based Crowdfunding have created a base for reaching a wider audience and early successes have been covered in the media.*

*Several Western and Northern European Platforms have established a presence in these markets and will be launching equity- and lending-based projects soon on the new platforms. Governments are increasingly aware of Alternative Finance and are seeking ways on how to support the growth of the market.*

*Yet the fragmentation of the market along currency and language barriers makes cross-border Crowdfunding quite difficult, despite a strong cultural and historical heritage which the countries share. Start-ups in South Eastern Europe have been found to focus on internationalisation as a top priority – growing in the markets of Western Europe and the US first before establishing a home presence.*

*The market entry barriers for new platforms is low, so we expect new actors emerge in the Crowdfunding Ecosystems in 2017 in South Eastern Europe.*

# ACKNOWLEDGEMENTS

We would like to thank BBVA and the CME Group Foundation for their financial support of this research programme and report.

This report would not have been possible without the support of European-based alternative finance platforms and industry leaders across the region. In particular, we would like to thank the following industry partners for their continued support and advice. They are David Charlet, Andrew Dix, Simon Douw, Darko Fercej, Oliver Gajda, Giancarlo Giudici, Marko Gregovic, Ronald Kolverlaan, Lars Kroijer, Karol Król, Jan Kroupa, Claus Lehmann, Alessandro Lerro, Nicolas Lesur, Florence de Maupeou, Anu Muürsepp, Jonathan Normand, Daniel Oliver, Marina Petrovic, Karin Rainer, Peter Renton, Bruno Schneider, Vytautas Senavicius, Frederik Søgaard and Kasper Oldby.

We are extremely grateful to the Summer CCAF research team for their role in data collection. They are Valentina Ausserladscheider, Christiaan J. Knaup and Thales Panza de Paula. The research team at the CCAF would also like to thank Robert Wardrop, Raghavendra Rau and Mia Gray from the University of Cambridge for their counsel, guidance and feedback throughout the study. We would also like to thank Sebastian Späth of the University of Hamburg for his support.

We would also like to thank Mint Garvey for her work on designing the publication, and Charles Goldsmith, Kate Belger, Ruth Newman and Philippa Coney for their continued support in producing and publishing this report.

| Rank | Country              | 2016 Volume | Annual Change 2015-2016 |
|------|----------------------|-------------|-------------------------|
| 1    | UK                   | € 5608.00m  | 28.99%                  |
| 2    | France               | € 443.98m   | 39.37%                  |
| 3    | Germany              | € 321.84m   | 29.40%                  |
| 4    | Netherlands          | € 194.19m   | 75.65%                  |
| 5    | Finland              | € 142.23m   | 122.69%                 |
| 6    | Spain                | € 130.90m   | 162.07%                 |
| 7    | Italy                | € 127.06m   | 301.90%                 |
| 8    | Georgia              | € 102.58m   | 63398.50%               |
| 9    | Denmark              | € 88.00m    | 259.66%                 |
| 10   | Sweden               | € 86.48m    | 547.58%                 |
| 11   | Estonia              | € 82.48m    | 161.68%                 |
| 12   | Ireland              | € 76.79m    | 2173.44%                |
| 13   | Belgium              | € 51.49m    | 40.17%                  |
| 14   | Poland               | € 38.14m    | 272.10%                 |
| 15   | Czech Republic       | € 31.43m    | 246.52%                 |
| 16   | Switzerland          | € 29.52m    | 81.22%                  |
| 17   | Latvia               | € 27.16m    | 16355.36%               |
| 18   | Lithuania            | € 26.45m    | 807.57%                 |
| 19   | Austria              | € 21.59m    | 76.00%                  |
| 20   | Norway               | € 4.89m     | 264.76%                 |
| 21   | Russia               | € 4.77m     | -30.00%                 |
| 22   | Slovenia             | € 4.68m     | 184.41%                 |
| 23   | Portugal             | € 4.42m     | 173.87%                 |
| 24   | Slovakia             | € 3.34m     | 62.75%                  |
| 25   | Greece               | € 2.31m     | 88.48%                  |
| 26   | Monaco               | € 1.93m     | 396.08%                 |
| 27   | Bulgaria             | € 1.37m     |                         |
| 28   | Romania              | € 1.17m     | 74.40%                  |
| 29   | Iceland              | € 1.01m     | 18.46%                  |
| 30   | Turkey               | € 0.63m     | 22.28%                  |
| 31   | Hungary              | € 0.47m     | 64.88%                  |
| 32   | Ukraine              | € 0.46m     |                         |
| 33   | Armenia              | € 0.43m     |                         |
| 34   | Croatia              | € 0.29m     |                         |
| 35   | Luxembourg           | € 0.15m     |                         |
| 36   | Malta                | € 0.18m     | 1098%                   |
| 37   | Serbia               | € 0.13m     |                         |
| 38   | Belarus              | € 0.13m     |                         |
| 39   | Macedonia            | € 0.13m     |                         |
| 40   | Cyprus               | € 0.08m     | 76.53%                  |
| 41   | Moldova              | € 0.04m     |                         |
| 42   | Albania              | € 0.03m     |                         |
| 43   | Bosnia & Herzegovina | € 0.02m     |                         |
| 44   | Montenegro           | € 0.02m     |                         |
| 45   | Andorra              | € 0.00m     |                         |

| Rank | Country              | Debt-based Volume | Equity-based Volume | Non investment-based Volume | Total Business Volume |
|------|----------------------|-------------------|---------------------|-----------------------------|-----------------------|
| 1    | France               | € 131.90m         | € 71.22m            | € 14.66m                    | € 217.78m             |
| 2    | Netherlands          | € 151.72m         | € 27.15m            | € 3.54m                     | € 182.41m             |
| 3    | Spain                | € 59.06m          | € 36.08m            | € 5.05m                     | € 100.19m             |
| 4    | Germany              | € 33.54m          | € 52.16m            | € 11.30m                    | € 97.00m              |
| 5    | Italy                | € 79.67m          | € 1.71m             | € 7.06m                     | € 88.44m              |
| 6    | Finland              | € 47.55m          | € 28.78m            | € 1.95m                     | € 78.28m              |
| 7    | Ireland              | € 75.00m          | € 0.00m             | € 0.27m                     | € 75.27m              |
| 8    | Sweden               | € 0.42m           | € 72.00m            | € 1.19m                     | € 73.61m              |
| 9    | Belgium              | € 47.80m          | € 0.06m             | € 1.23m                     | € 49.09m              |
| 10   | Estonia              | € 44.19m          | € 0.31m             | € 0.01m                     | € 44.51m              |
| 11   | Denmark              | € 36.09m          | € 0.00m             | € 2.65m                     | € 38.74m              |
| 12   | Austria              | € 12.70m          | € 4.72m             | € 1.37m                     | € 18.79m              |
| 13   | Czech Rep.           | € 11.87m          | € 0.42m             | € 0.44m                     | € 12.73m              |
| 14   | Switzerland          | € 0.00m           | € 6.50m             | € 5.59m                     | € 12.09m              |
| 15   | Latvia               | € 4.96m           | € 0.00m             | € 0.02m                     | € 4.99m               |
| 16   | Portugal             | € 3.30m           | € 0.00m             | € 0.21m                     | € 3.51m               |
| 17   | Slovenia             | € 3.00m           | € 0.00m             | € 0.60m                     | € 3.60m               |
| 18   | Lithuania            | € 1.77m           | € 0.00m             | € 0.08m                     | € 1.84m               |
| 19   | Poland               | € 0.59m           | € 0.90m             | € 1.17m                     | € 2.65m               |
| 20   | Monaco               | € 0.00m           | € 1.44m             | € 0.05m                     | € 1.49m               |
| 21   | Norway               | € 0.00m           | € 0.59m             | € 2.54m                     | € 3.13m               |
| 22   | Russia               | € 0.00m           | € 0.00m             | € 0.33m                     | € 0.33m               |
| 23   | Bulgaria             | € 0.00m           | € 0.00m             | € 0.04m                     | € 0.04m               |
| 24   | Greece               | € 0.00m           | € 0.00m             | € 0.42m                     | € 0.42m               |
| 25   | Romania              | € 0.00m           | € 0.00m             | € 0.28m                     | € 0.28m               |
| 26   | Iceland              | € 0.00m           | € 0.00m             | € 0.74m                     | € 0.74m               |
| 27   | Slovakia             | € 0.00m           | € 0.00m             | € 0.26m                     | € 0.26m               |
| 28   | Turkey               | € 0.00m           | € 0.00m             | € 0.15m                     | € 0.15m               |
| 29   | Hungary              | € 0.00m           | € 0.00m             | € 0.14m                     | € 0.14m               |
| 30   | Ukraine              | € 0.00m           | € 0.00m             | € 0.16m                     | € 0.16m               |
| 31   | Armenia              | € 0.00m           | € 0.00m             | € 0.15m                     | € 0.15m               |
| 32   | Croatia              | € 0.00m           | € 0.00m             | € 0.01m                     | € 0.01m               |
| 33   | Luxembourg           | € 0.00m           | € 0.00m             | € 0.05m                     | € 0.05m               |
| 34   | Malta                | € 0.00m           | € 0.00m             | € 0.07m                     | € 0.07m               |
| 35   | Macedonia            | € 0.00m           | € 0.00m             | € 0.04m                     | € 0.04m               |
| 36   | Serbia               | € 0.00m           | € 0.00m             | € 0.05m                     | € 0.05m               |
| 37   | Belarus              | € 0.00m           | € 0.00m             | € 0.03m                     | € 0.03m               |
| 38   | Cyprus               | € 0.00m           | € 0.00m             | € 0.03m                     | € 0.03m               |
| 39   | Georgia              | € 0.00m           | € 0.00m             | € 0.02m                     | € 0.02m               |
| 40   | Moldova              | € 0.00m           | € 0.00m             | € 0.01m                     | € 0.01m               |
| 41   | Albania              | € 0.00m           | € 0.00m             | € 0.01m                     | € 0.01m               |
| 42   | Bosnia & Herzegovina | € 0.00m           | € 0.00m             | € 0.01m                     | € 0.01m               |
| 43   | Montenegro           | € 0.00m           | € 0.00m             | € 0.01m                     | € 0.01m               |
| 44   | Andorra              | € 0.00m           | € 0.00m             | € 0.00m                     | € 0.00m               |

# END NOTES

<sup>1</sup> For example, Norwegian based company 'reMarkable' raised €14.5m for their proprietary e-paper tablet technology. This reward-based campaign ran independently of an alternative finance platform, based off of the company's own website. <https://techcrunch.com/2017/08/16/crowdfunded-remarkable-e-paper-tablet-ships-on-august-29/>

<sup>2</sup> For example, European-based campaigns on platforms like GoFundMe, PledgeMusic, etc. were not captured in this study.

<sup>3</sup> Section A: This section collected key data points and information about fundraisers (borrowers, issuers and campaigners) that had actively utilized the platform to raise finance in 2016.

Section B: Funders: This section collected key data points and information about active funders (investors, lenders, backers, etc.) that had provided finance through a platform in 2016.

Section C: Platform Structure & Strategy: This section collected information relating to a platform's strategic decision making and strategies as related to their platform operations and future business goals.

Section D: Risks & Regulations. This section collected information related to a platform's own perception towards potential risks and changes to regulation, and its impact on their operations.

<sup>4</sup> The UK total volume in 2016 was £4.580 billion.

<sup>5</sup> Cultivating Growth-The 2nd Asia Pacific Alternative Finance Industry Report <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/cultivating-growth/#.WiQp7Upl9PY>

<sup>6</sup> Hitting Stride – The 2nd Americas Alternative Finance Industry Report <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/hitting-stride/#.WiQr1kpl9PY>

<sup>7</sup> This figure excludes web-scraped platforms.

<sup>8</sup> Alternative finance volume refers to the amount (in Euros) of money that was received by fundraisers (borrowers, campaigners, issuers, ect) with a given country through an alternative finance platform for the year of 2016. In this instance, do not include volumes 'provided'

<sup>9</sup> Total Alternative Finance Volume by Country-2016

<sup>10</sup> Sustaining Momentum: The 2nd European Alternative Finance Industry Report <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/sustaining-momentum/#.WiQ6WEpl9PY>

<sup>11</sup> Commonwealth of Independent States European members

<sup>12</sup> In the previous year's study, the UK Market volume per capita accounted for €65.88.

<sup>13</sup> Wherever possible, the data set was corrected to remove repeat business borrowers or fundraisers.

<sup>14</sup> To calculate the total online alternative funding attributed to business, the research team aggregated the 2016 volumes from the following models: P2P business lending, balance-sheet business lending, invoice trading, equity-based crowdfunding, debt-based securities, profit-sharing crowdfunding and mini-bonds alongside relevant volumes specifically attributed to businesses by platform's operating P2P Consumer and Property Lending, Consumer and Property Balance Sheet lending, Real Estate Crowdfunding, Donation-based crowdfunding and the Reward-based Crowdfunding models. Additionally, 35% of web-scraped reward-based crowdfunding volume was attributed to business funding. Fundraising from individuals or for creative or communal projects unrelated to a business were excluded from this figure.

<sup>15</sup> European Business Volumes by Country and Model-type, 2016

<sup>16</sup> EUROPEAN SEMESTER THEMATIC FACTSHEET SMALL AND MEDIUM-SIZED ENTERPRISES' ACCESS TO FINANCE [https://ec.europa.eu/info/sites/info/files/file\\_import/european-semester-thematic-factsheet-small-medium-enterprises-access-finance\\_en.pdf](https://ec.europa.eu/info/sites/info/files/file_import/european-semester-thematic-factsheet-small-medium-enterprises-access-finance_en.pdf)

<sup>17</sup> In particular, the Netherlands saw tightened credit standards in the 3rd and 4th quarters of 2016, impacting loan approvals for SMEs. <https://www.ecb.europa.eu/stats/pdf/ecb.blssurvey2016q4.en.pdf?b7a0060e46c313a1a98768907215dfcb>

<sup>18</sup> <https://www.bde.es/f/webbde/SES/Secciones/Publicaciones/PublicacionesAnuales/InformesAnuales/16/Files/cap2e.pdf>

<sup>19</sup> Platforms were asked the following question as related to their Onboarding Rate – 'Of the fundraisers that applied to your platform, what percentage were considered qualified and allowed to proceed with a fundraiser through your platform?'

<sup>20</sup> Platforms were asked the following question as related to their Successful Funding Rate – 'Of those qualified to fundraise, what percentage received funding through your platform?'

<sup>21</sup> In many cases, the platform functions as an SPV and is able to provide finance to the issuer. The platform then syndicates sub-ordinate debt or shares to retail and institutional investors.



<sup>22</sup> For the purpose of this analysis, repeat fundraisers are borrowers, issuers or campaign owners who have raised finance on the same platform more than once.

<sup>23</sup> [https://ec.europa.eu/growth/smes/promoting-entrepreneurship/we-work-for/women\\_en](https://ec.europa.eu/growth/smes/promoting-entrepreneurship/we-work-for/women_en)

<sup>24</sup> Platforms were asked to indicate whether they have engaged in launching of new products or changing business model during 2016. The categories for reporting included - launch of significantly new products, slightly new products or no new products; and significant changes to underlying business model, slight changes to business model or no changes to business model.

<sup>25</sup> The risk factor categories were denoted in the survey as follows:

- Fraud involving one or more high-profile campaigns/deals/loans.
- Notable increase in default rates/business failure rates
- The collapse of one or more well-known platforms due to malpractice
- Cyber-security breach
- Potential 'crowding out' of individual investors as institutionalization accelerates
- Changes to regulation at a national level
- Changes to regulation at a European level

<sup>26</sup> Gajda, O. (Ed.) (2017). Review of Crowdfunding Regulation 2017: Interpretations of existing regulation concerning crowdfunding in Europe, North America and Israel. Brussels: European Crowdfunding Network.

<sup>27</sup> European Commission (2014): Unleashing the potential of crowdfunding in the European Union. [https://ec.europa.eu/info/publications/communication-crowdfunding\\_en](https://ec.europa.eu/info/publications/communication-crowdfunding_en)

<sup>28</sup> European Commission (2017): Prospectus - Regulation (EU) 2017/1129 [https://ec.europa.eu/info/law/prospectus-regulation-eu-2017-1129\\_en](https://ec.europa.eu/info/law/prospectus-regulation-eu-2017-1129_en)

<sup>29</sup> European Commission (2017): Inception impact assessment Legislative proposal for an EU framework on crowd and peer to peer finance [http://ec.europa.eu/info/law/better-regulation/initiatives/ares-2017-5288649\\_en](http://ec.europa.eu/info/law/better-regulation/initiatives/ares-2017-5288649_en)

<sup>30</sup> The risk factor categories were denoted in the survey as follows:

- Fraud
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- Potential 'crowding out' of individual investors as institutionalization accelerates
- Changes to regulation at a national level
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<sup>31</sup> ECN Review of Crowdfunding Regulation 2017, [http://eurocrowd.org/wp-content/blogs.dir/sites/85/2017/10/ECN\\_Review\\_of\\_Crowdfunding\\_Regulation\\_2017.pdf](http://eurocrowd.org/wp-content/blogs.dir/sites/85/2017/10/ECN_Review_of_Crowdfunding_Regulation_2017.pdf) page 602

<sup>32</sup> <http://inbonis.es/whitepaper>

<sup>33</sup> Inbonis' proprietary AI-algorithm – AROA stands for Automated Reputational Online Analysis

<sup>34</sup> According to the Lucerne University of Applied Arts and Sciences: Crowdfunding Monitoring Switzerland 2017, Institute of Financial Services Zug IFZ Prof. Dr Andreas Dietrich, Simon Amrein <https://blog.hslu.ch/retailbanking/crowdfunding/>



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