Cambridge
Centre
for Alternative
Finance

UNIVERSITY OF
CAMBRIDGE
Judge Business School

THE 5TH UK ALTERNATIVE FINANCE INDUSTRY REPORT

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The Cambridge Centre for Alternative Finance (CCAF) is an international and interdisciplinary research centre based at the University of Cambridge Judge Business School. It is dedicated to the study of innovative instruments, channels, and systems emerging outside of traditional finance. This includes, among others, crowdfunding, marketplace lending, alternative credit and investment analytics, alternative payment systems, cryptoasset, distributed ledger technology (e.g. blockchain) as well as related regulations and regulatory innovations (e.g. sandboxes and RegTech).

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a.
alt fi DATA
ArchOver P2P Business Lending
assetz capital
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CapitalStackers
Community Shares
Crowd Racing
CROWD FOR ANGELS
CROWD2FUND
CrowdLords
CROWDPROPERTY
crowdcube
CROWDESTATES
crowdfunder
CROWDSTACKER
Downing
ENVESTORS
eureeca.com

fleximize

FOLK 2 FOLK
Local Secured Lending

Funding Circle

FundingKnight
CROWDLENDING TO BUSINESSES

FundingSecure
PEER-TO-PEER ASSET BASED LOANS

GAMER GIVING

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EXECUTIVE SUMMARY

SUSTAINED OVERALL GROWTH BUT DIFFERENT TRAJECTORIES BY MODEL:

The UK online alternative finance industry market volume grew by 35% year-on-year to reach £6.19 billion in 2017. P2P Business Lending retained the top spot as the largest market segment in online alternative finance with £2 billion in transaction volume in 2017 and 66% year-on-year growth rate. P2P Consumer Lending recorded just over £1.4 billion in 2017, whilst P2P Property Lending achieved £1.2 billion and Invoice Trading registered £787 million. Equity-based Crowdfunding grew by 22% year-on-year to reach £333 million, but Debt-based Securities stagnated to £79 million, a drop of £5 million compared to 2016. Whilst Real Estate Crowdfunding increased by more than 200% to grow to £211 million, Donation-based Crowdfunding only grew by 2.5% and Reward-based Crowdfunding decreased by £4 million year-on-year to register £44 million for 2017.

INCREASINGLY IMPORTANT SOURCE OF SME FUNDING:

Online alternative finance channels have become an increasingly important conduit for SME financing in the UK. In 2017, £4.2 billion of business funding, which is 68% of the total market volume for alternative finance, was raised via online platforms and channelled to start-ups and SMEs across the country. Over 90% of the online alternative finance for business was in debt, with the remainder in equity and non-investment models. To put the alternative business funding data in context, in 2017, based on the UK Finance baseline data, the P2P Business Lending contributed an equivalent of 9.5% of total new loans issued to SMEs by the UK banks.

Given that most of the businesses receiving online P2P lending loans are, in fact, small businesses with an annual turnover of less than £2 million, the higher-bound estimation is that P2P Business Lending in 2017 was equivalent to 29.2% of all new loans issued to businesses of this size in the UK. On the equity side, crowdfunding volumes remained steady in absolute terms and contributed 12.9% of all UK total seed and venture-stage equity investment. The sector's share of overall UK equity funding fell, however, as a number of large venture capital deals completed in 2017 boosted the share of traditional VC funding.

DEEPER LEVEL OF INSTITUTIONALISATION ACROSS KEY MODELS:

2017 saw further increases in the institutionalisation of funding across alternative finance models. On the debt side, 40% of the funding for P2P Business Lending was provided by institutional lenders including mutual funds, pension funds, asset managers, banks, family offices and other financial institutions. This highlights the growing institutionalisation of this funding model, which is up considerably from the 28% in 2016 and 26% back in 2015.

Institutional funding accounted for 39% of the funding in P2P Consumer Lending, up from 32% in 2016. It also accounted for 34% of funding in P2P Property Lending, up 9% from 2016. On the equity side, the pace of institutionalisation accelerated significantly in Equity-based Crowdfunding over the last three years, from just 8% in 2015 to 25% in 2016 and 49% in 2017. This upward trend is driven by the growing 'co-investing' activity on Equity-based Crowdfunding platforms, where venture capital firms, professional investors and retail funders co-invest in crowdfunding rounds.

CONTINUED ADJUSTMENTS IN BUSINESS MODELS AND PRODUCT OFFERINGS:

UK alternative finance platforms have continued to refine their business models in 2017. 12% of surveyed platforms reported that they have significantly altered their business model in the last 12 months, whilst 40% stated that they slighted altered their business model. These numbers are comparable with the figures reported for 2016. However, more platforms altered their products in 2017, with 43% of the surveyed platforms significantly altering their products and a further 33% slightly altering their products. This continued trend in making business model adjustments and innovating product offerings points to an alternative finance market that remains highly fluid and dynamic.

RESEARCH AND DEVELOPMENT PLAY A SIGNIFICANT ROLE:

In the survey, the CCAF asked UK online alternative finance platforms to provide an indicative breakdown of their operating costs and budget allocation for the first time. Besides unspecified expenditures, platforms on average spend approximately 15% of their entire budget on IT, 14% on research and development, 14% on sales and marketing, and 8% on Reporting and Compliance. For loan-based crowdfunding, platforms spent heavily on research and development in streamlining and automation processes, customer verification, artificial intelligence and payment. For investment crowdfunding business models, expenditure of research and development focused on social media and promotional tools, payment processing, process streamlining and community management.

FEMALE MARKET PARTICIPATION:

For P2P Business and Consumer Lending, as well as Equity-based Crowdfunding, the percentage of female funders participating in the online marketplace has decreased over the last three years. However, female participation did increase in some business models. For instance, between 2016 and 2017 female participation as funders in both Real Estate Crowdfunding and P2P Property Lending increased to 39% and 28% respectively. On the fundraiser side, there was a slight drop in the percentage of female fundraisers in P2P Business Lending, Equity-based Crowdfunding, Donation-based Crowdfunding and P2P Property Lending. In contrast, there have been an increase in the percentage of female fundraisers for both Reward-based and Real Estate Crowdfunding at 56% and 43% respectively.

INTERNATIONAL EXPANSION STRATEGY:

For the first time, the CCAF also asked platforms about their international expansion strategies. Over half of the surveyed P2P lending platforms have no current plans for international expansion. However, for those platforms that wished to expand – 75% of Reward-based Crowdfunding platforms, half of the Invoice Trading platforms and 31% of Equity-based Crowdfunding platforms – respondents indicated that they were operating a single global brand and global website. In contrast, the other half of the Invoice Trading platforms, 38% of Equity-based Crowdfunding platforms and 29% of Real Estate Crowdfunding platforms prefer to have a global brand but with localised domains in additional countries.

SLIGHT CHANGES IN INDUSTRY PERCEPTION TOWARDS REGULATION BUT HEIGHTENED CONCERNS IN RISKS:

The survey was largely conducted before the FCA released its latest regulatory review findings – hence, it reflects perceptions during the first half of 2018. During that time, the UK online alternative finance industry's perception towards regulations remained largely positive, with 83% of both loan-based and investment-based platforms regarding the existing UK regulations as being adequate and appropriate. This contrasts with 17% of the surveyed investment-based platforms that responded which felt that regulations were excessive and strict, up 10% from 2016.

Across the whole UK alternative finance industry, concerns over risks have broadly increased. 42% of the surveyed platforms rated the risk of fraud as either very high or high, up from 29% in 2016. 35% of the platforms regarded the risk of a notable increase in default rates as either very high or high, compared to the 17% recorded in 2016. On the regulatory front, the significant changes proposed by the FCA in mid-2018 will have come as a surprise to many platforms. Only 33% of the surveyed platforms rated the risk of regulatory changes as either very high or high, whilst the figure was 25% in 2016.

METHODOLOGY

Since 2013, the University of Cambridge and its partners have endeavoured to document and analyse the development of the alternative finance industry in the United Kingdom. Now in its fifth year, the annual UK alternative finance benchmarking report systematically records the development of the online alternative finance industry in the United Kingdom, and identifies emerging trends.

The research team surveyed UK online alternative finance platforms between May 2018 and September 2018. The research team compiled a platform-outreach database which included previous survey participants and identified new platforms across the region. The list was refined to ensure that platforms included in the outreach database were active and trading in 2017, and were operating in at least one of the models included in the study's taxonomy.

The study was conducted with the support of the Peer-to-Peer Finance Association (P2PFA) and the UK Crowdfunding Association (UKCFA) and included responses from 75 platforms, capturing an estimated 95% of the known UK online alternative finance market. Two additional platform datasets were generated using web-scraping methods and added to the total survey database, which increased the overall research sample size to 77 platforms.

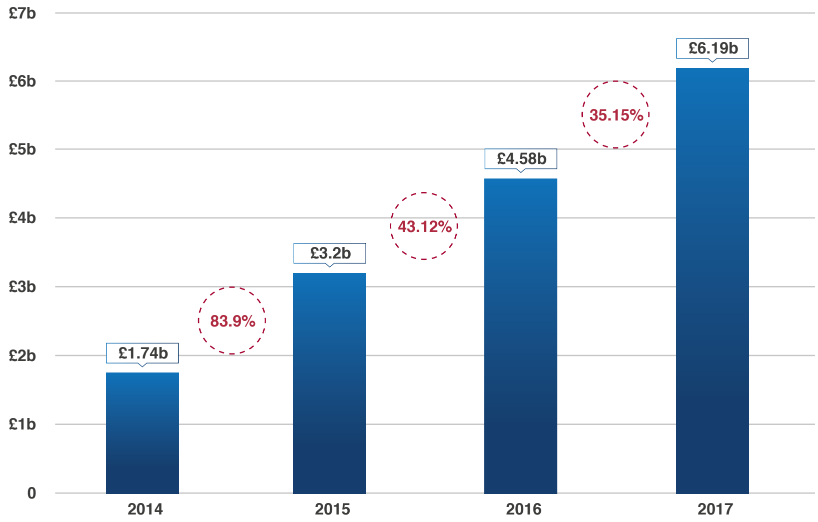
The survey collected aggregate-level data used to measure the size and growth of the industry, as well as other key metrics. Though the data collected in the industry tracking survey is based upon self-reported data, the survey responses were thoroughly verified before being aggregated for analysis. During analysis, all average data points (e.g. platform acceptance rates, funding success rates, or most funded sectors) were weighted (by transaction volume) to increase the accuracy of estimates based on the available data.

Once the data set was collected, any discrepancies such as misattributed volumes and anomalous figures were cross-checked through direct contact with the platforms. In cases where the survey could not obtain primary data (or where there were discrepancies in reported data), the team consulted secondary data (public information, annual reports and press releases) to inform the research. In order to obtain the most up-to-date data on online alternative finance volumes, the team also used web-scraping methods during the verification process and as a compliment to the survey. This was carried out using widely available Python web-scraping libraries, devised within the research centre. All analysis performed was conducted upon a thoroughly sanitised and anonymised data set, removing any platform-identifying information. At completion, the data was encrypted and stored for retrieval exclusively for the use of this project and was accessible only to the core research team.

UK ALTERNATIVE FINANCE INDUSTRY OVERVIEW AND MARKET DYNAMICS

The Cambridge Centre for Alternative Finance (CCAF) and its research partners have been tracking the evolution of the online alternative finance market in the UK since 2011. Over the course of these seven years, a total of £17.2 billion in funding has been intermediated by online alternative finance platforms. As the market has matured, the rapid growth of earlier years has abated. Nevertheless, 2017 marked the seventh consecutive year of substantive market growth for the UK alternative finance industry, with the online alternative finance market growing by 35.2% to £6.19 billion.

Total UK Alternative Finance Market Volume, 2014-17 (£billions)



In absolute terms, transaction volume is driven by debt-based and equity-based models which can generate financial returns for lenders and investors. By contrast, models which do not generate a financial return, such as Donation-based or Reward-based Crowdfunding models (also referred to as non-investment-based models) account for a small proportion of the overall volume.

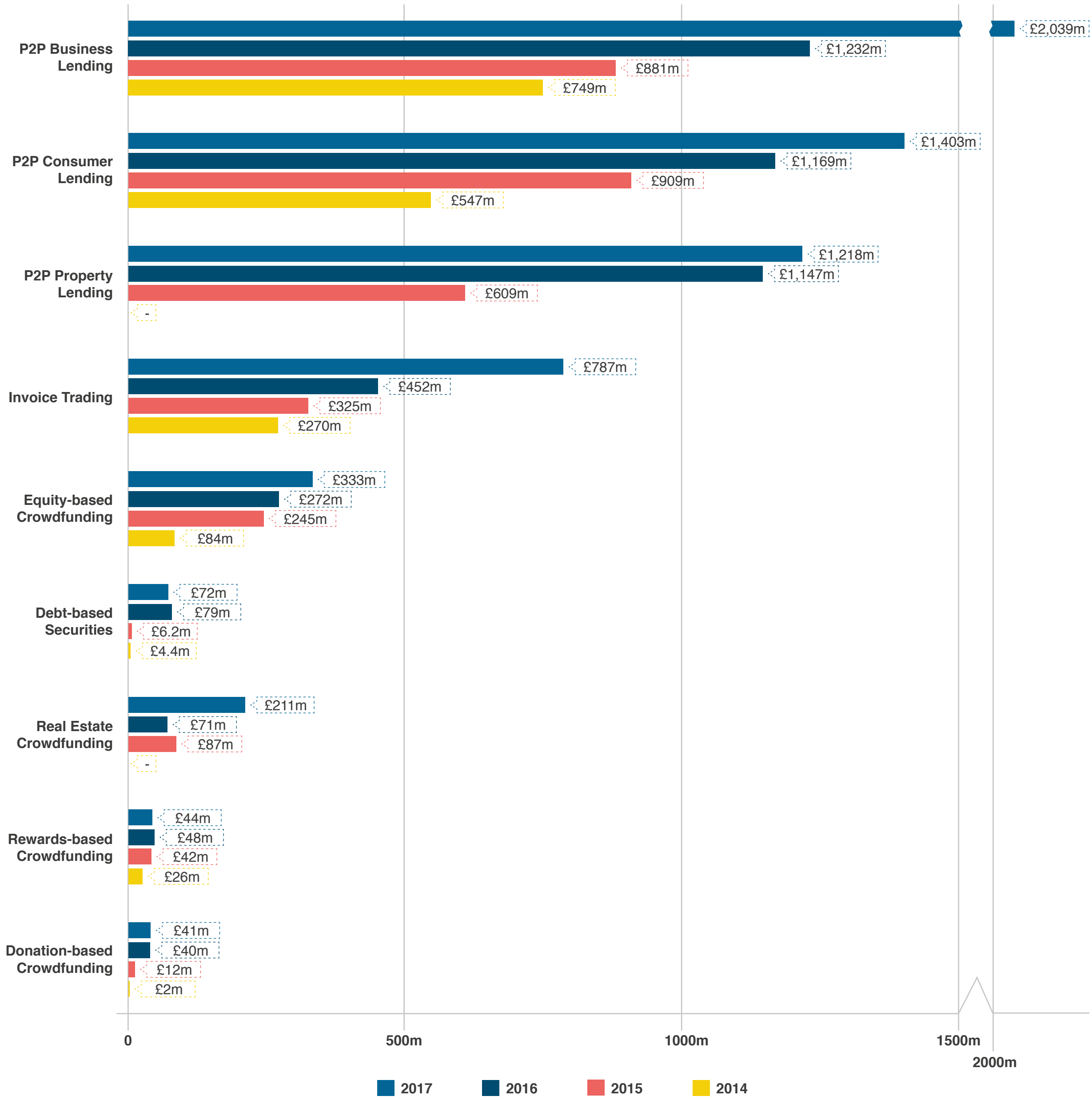
P2P lending models continued to account for the majority of market activity in the UK. P2P Business Lending was the largest alternative finance model, accounting for just over £2.04 billion lent in 2017, followed by P2P Consumer Lending (£1.4 billion) and P2P Property Lending (£1.22 billion). Among the top three key business models, P2P Business Lending registered the fastest annual growth at a rate of 66% year-on-year, whilst P2P Consumer Lending grew by 20% and P2P Property Lending growth rate slowed to just 6% during the same period.

Issuance of Debt-based Securities dropped by 9% to £72 million in 2017 from £79 million in 2016. Invoice Trading – another debt-based model – accounted for £787 million in 2017, with 74% annual growth in transaction volume. This model is growing at a faster pace than all other debt-based models.

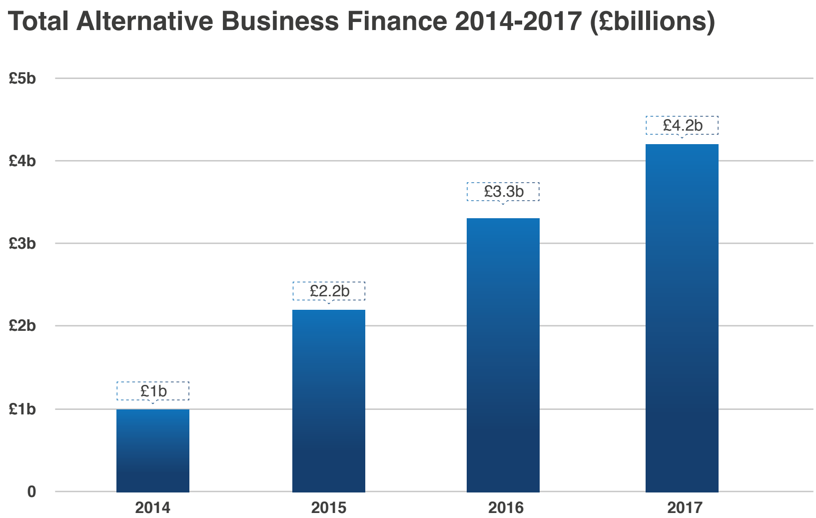
Equity-based Crowdfunding grew by 22% from £272 million in 2016 to £333 million in 2017. Alternatively, Real Estate Crowdfunding recorded the highest year-on-year growth rate of 197%, driving £211 million in total.

Within the non-investment-based space, Reward-based Crowdfunding drove £44 million of volume in 2017, which is slightly lower compared to the previous year (£48 million). Donation-based crowdfunding accounted for £41 million in 2016, representing a slight increase of 3% from last year. This implies that, if the trend continues, Donation-based Crowdfunding could surpass Reward-based Crowdfunding.

Total UK Alternative Finance Market Volume by Key Model, 2014-2017 (£millions)

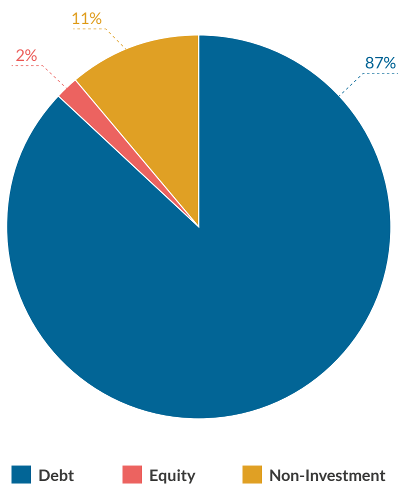


ONLINE ALTERNATIVE BUSINESS FINANCE IN THE UK

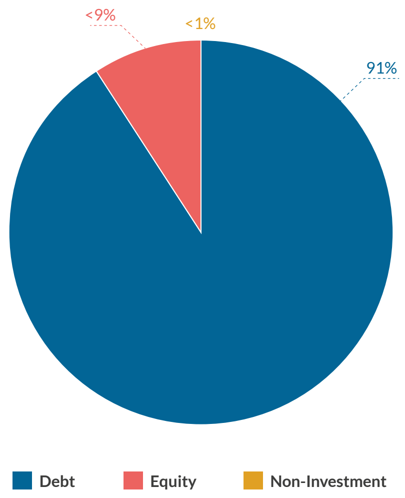


In 2017, approximately 68% of all alternative finance market volume, or £4.2 billion in total, was raised for UK start-ups and SMEs across a combination of the various debt, equity and non-investment funding options offered by the alternative finance industry.[1] This was a £0.9 billion (28%) increase on the £3.3 billion of business finance raised in 2016. A total of circa 29,500 firms utilised alternative finance channels. This represents an 11% decrease on the total number of SMEs utilising at least one form of alternative finance compared with 33,000 in 2016. The principal source of finance for businesses was derived from debt-based models, which lent £3.8 billion to 26,000 businesses, whilst equity-based models provided £349 million of funding to 494 firms. Though the £16 million of funding from non-investment models is proportionally small (being less than 1% of total transaction volume), it is notable that this was across a significant number of firms, namely 3,258 firms.

Composition of Business Finance - Number of SMEs 2017



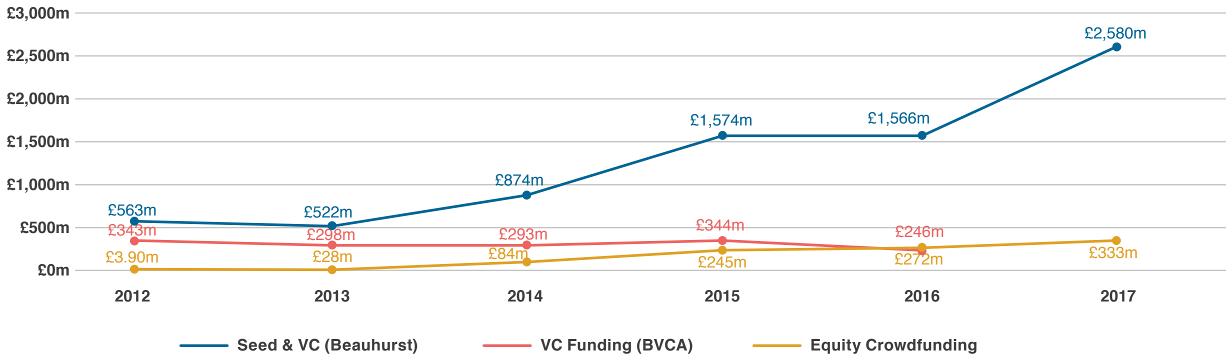
Composition of Business Finance - Proportion of SMEs by Volume, 2017



Over the course of six years, Equity-based Crowdfunding has become an established investment vehicle for seed, start-up, early stage and fast-growing companies seeking growth or expansion capital. The British Private Equity and Venture Capital Association's (BVCA)[2] annual figures for 'total venture capital' and Beauhurst's Seed and Venture Stage figures for total equity investment funding in the UK show that Equity-based Crowdfunding has increasingly played a more significant role in the provision of equity finance.

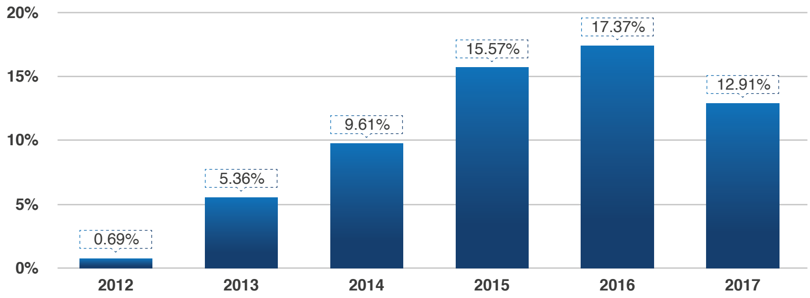
The figure below shows that equity-based finance in the UK saw significant growth in 2017. Beauhurst's figures suggest an overall growth in Seed and Venture stage funding (from £1.57 billion in 2016 to £2.58 billion in 2017) in the UK.[3]

Equity-based Crowdfunding Volumes in the Context of Announced Total UK Seed and Venture Stage Equity (£millions)



In absolute terms, the volume of Equity-based Crowdfunding is on an upward trajectory, growing from just £3.9 million in 2012 to £333 million in 2017, and the sector has become an established source of funding for Seed and Early Stage businesses. Crowdfunding platforms' share of all such equity funding in the UK grew from 15.6% in 2015 to 17.3% in 2016. However, 2017 saw a drop in this share to 12.9% as a result of more rapid growth in conventional Seed and VC capital.

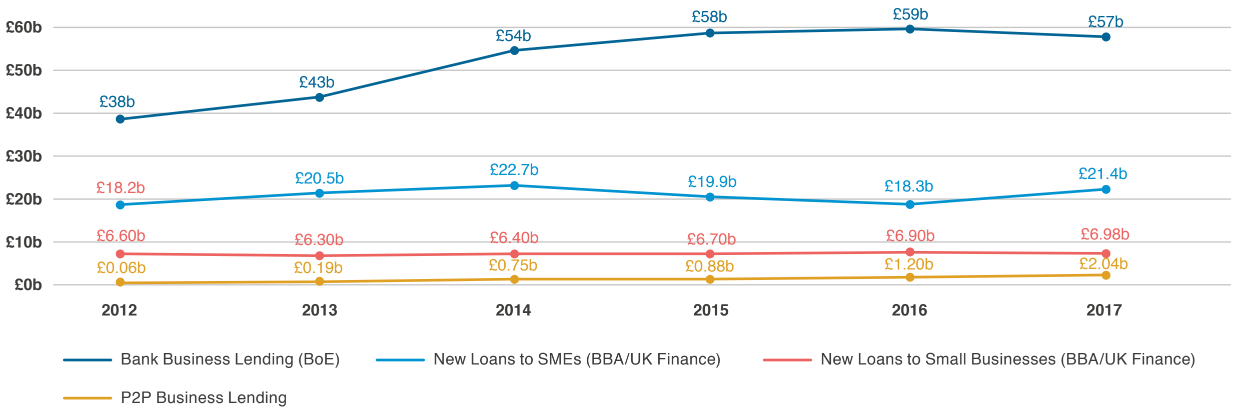
Equity-based Crowdfunding as a Proportion of Total Seed & Venture Stage Equity Investment in 2012-2017 (Beauhurst)



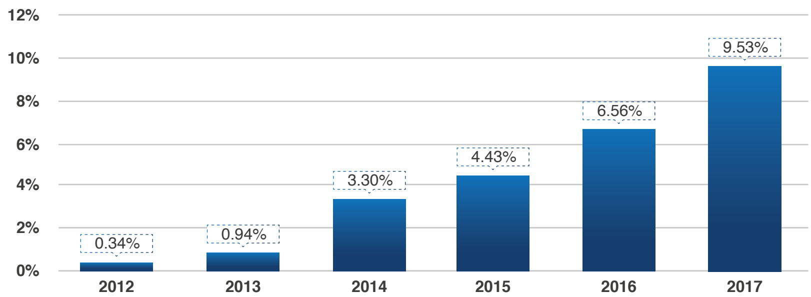
While equity funding contributes an important proportion of business funding, it is dwarfed by SME lending in terms of absolute volume. The Bank of England estimates that £57 billion[4] was lent to SMEs by national banks in 2017, which represents a slight drop compared to last year's figure of £59 billion. UK Finance, on the other hand, estimates that just under £7 billion was lent to businesses with a turnover below £2 million, a marginal year-on-year increase, and another £14.5 billion to businesses with a turnover below £25 million.

By comparing the UK P2P Business Lending volume against that of the UK Finance annual estimate of new loans to SMEs, it has shown that online alternative business lending has increased its share of total lending steadily from just 0.3% in 2012 to 9.5% in 2017.[5]

P2P Business Lending Compared to Bank Lending in 2012-2017 (£billions)



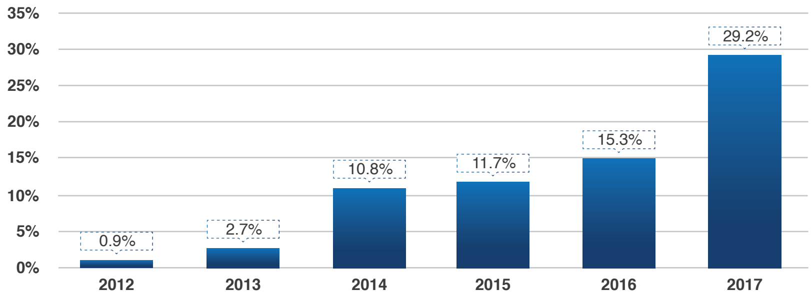
P2P Business Lending as a proportion of Total New Loans to SMEs by banks in 2012-2017



(Source: CCAF and UK Finance)

Assuming that the vast majority of borrowers in peer-to-peer business lending are, in fact, small businesses with an annual turnover of less than £2 million, the chart below shows that the volume of P2P Business Lending in the UK is estimated to be equivalent of 29.2% of all bank lending to small businesses in 2017, almost doubling from 2016. Therefore, P2P Business Lending is becoming an increasingly important contributor to overall SME financing in the UK in comparison to bank lending channels.[6]

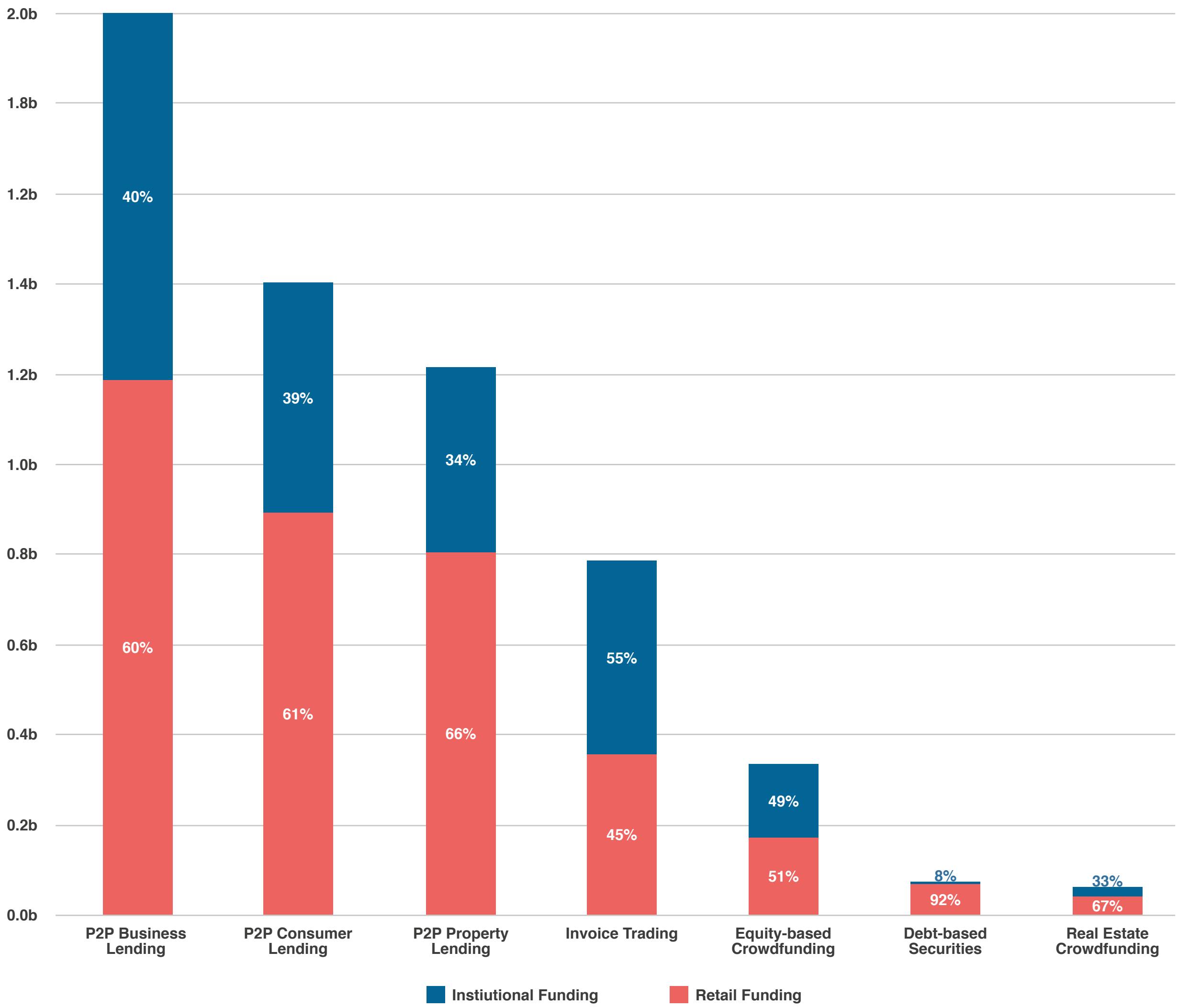
P2P Business Lending as a percentage of New Loans to Small Businesses in the UK



(Source: CCAF and UK Finance)

THE CONTINUED INSTITUTIONALISATION OF THE UK ALTERNATIVE FINANCE MARKET

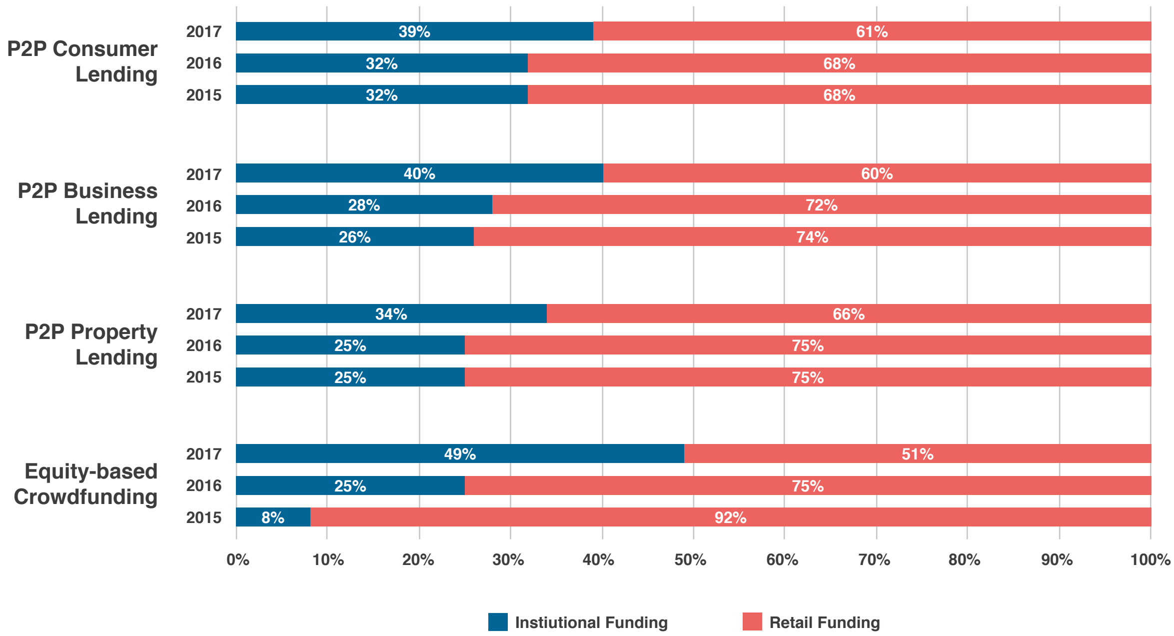
Institutional Vs. Retail Funding Across Alternative Finance Models in 2017 (£billions)



One of the key findings in the previous UK report, ‘Pushing Boundaries’, was the increased presence of institutional players within the market, where institutions invested directly through platforms to SMEs and individual fundraisers. Subsequently, in the 2017 survey, platforms were again asked to indicate the proportion of volume funded by institutional investors.

Though retail investment remains the main driving force of alternative finance volumes, institutional investors also contributed significant sums. The sources of institutional funding vary significantly between models, but, by and large, P2P lending models tend to attract investment from traditional banks, mutual funds, pension funds, hedge funds and asset management firms. Public and governmental funders, such as local authorities and the British Business Bank, also actively lend through such channels. In 2017, 40% (£815 million) of the P2P Business Lending volume came from institutional investors, a sharp increase from 28% in 2016. The corresponding figure for P2P Consumer Lending was 39% (£554 million).

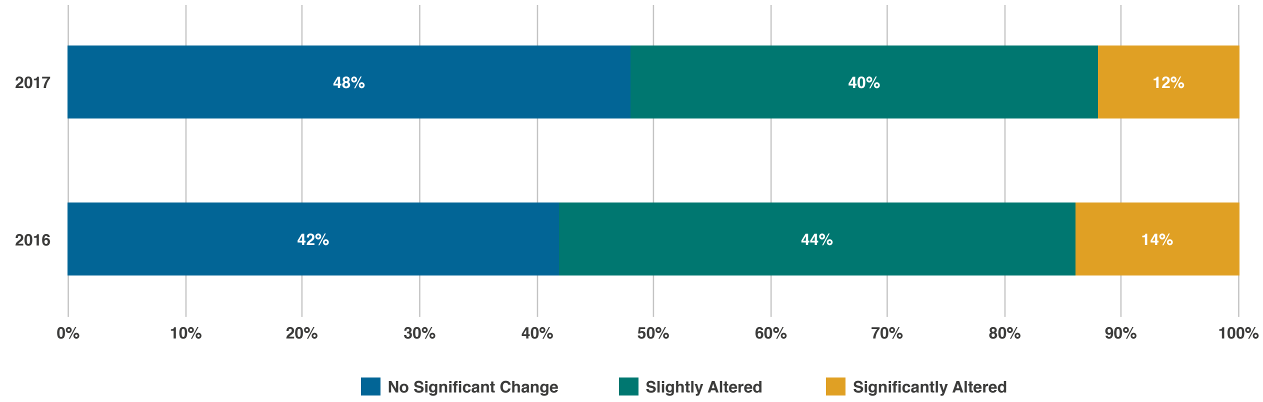
Proportion of Funding from Institutional Investors, 2015-2017



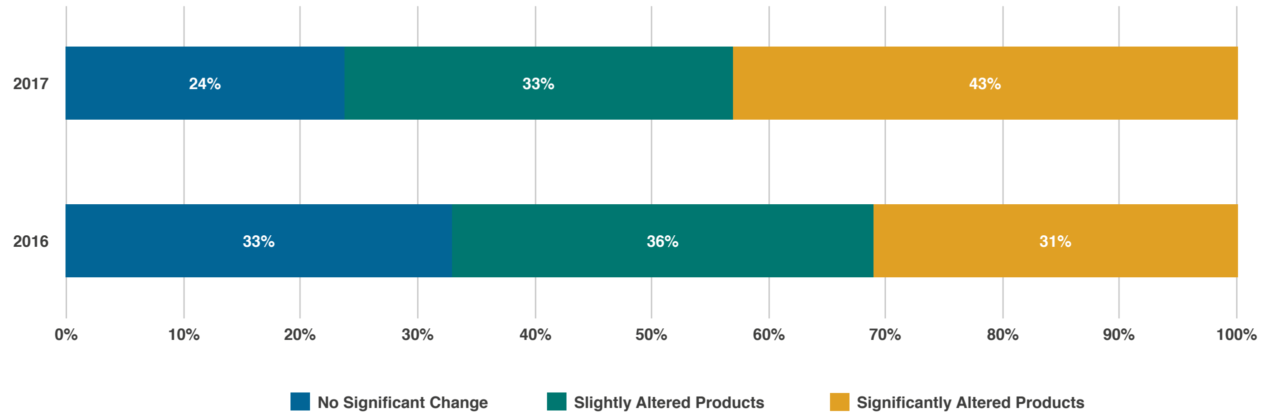
Equity-based Crowdfunding shows the highest levels of institutionalisation, while P2P Property Lending reported that a comparably lower proportion of loans originated from institutional investors, representing £411 million and £163 million, respectively. For Equity-based Crowdfunding, this represents a significant increase in institutional investment, up from 8% in 2015 to 49% in 2017. This suggests that there is an increasing number of co-investment deals whereby traditional VCs or Angels are investing alongside retail investors through a crowdfunding platform. In fact, the British Business Bank and the British Business Angel Association estimate that about a third of all UK business angels, and around 43% in London, have co-invested with the crowd through platforms.[7]

BUSINESS & PRODUCT INNOVATION ACROSS UK ALTERNATIVE FINANCE PLATFORMS

Business Model Changes in the UK Alternative Finance Industry, Annual Change 2016 - 2017



Product Offering Innovations in the UK Alternative Finance Industry, Annual Change 2016 - 2017



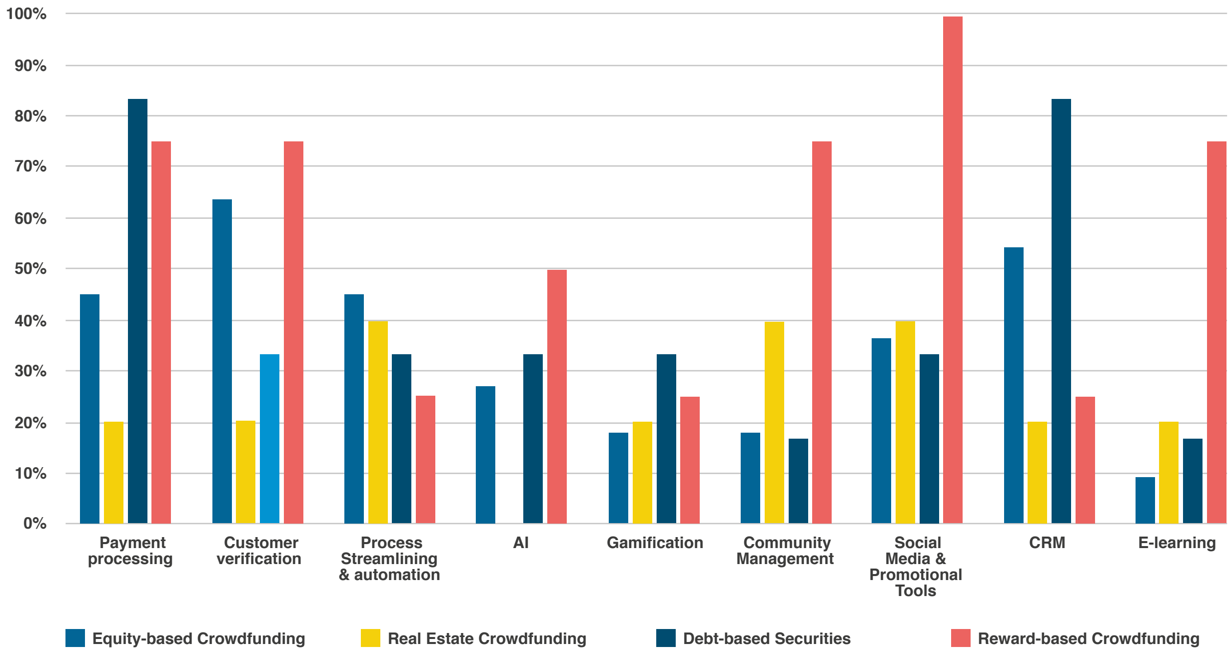
In this year's UK Industry Tracking Survey, platforms were asked to indicate the degree of change within both their business models and the products they offered. 12% of the surveyed platforms indicated that they had significantly changed their business model in the past year, whilst 40% slighted altered their business model.

Survey responses show that product innovation was more prevalent, with more than 43% of surveyed platforms introducing new products in 2017 and a further 33% slightly altering their products in 2017. Only around a quarter of the surveyed platforms (24%) stated that they made no significant changes to their products in the last year.

RESEARCH AND DEVELOPMENT INITIATIVES

Platform innovation has focused on three principal areas, the main priority being efficiency enhancements, followed by customer service and customer experience improvements. On average, platforms are budgeting 14% of their operating costs towards Research and Development. Most alternative finance models report high levels of investment in process streamlining and automation. This was reported by most platforms within P2P Consumer Lending (83%), P2P Property Lending (77%) and Invoice Trading (75%). Directly linked to this are innovation efforts focused on resolving two main bottlenecks that continue to challenge the industry: payment processing and customer verification. Payment processing is reported as the main area of focus by 83% of Debt-based Securities, 83% of Donation-based Crowdfunding and 75% of Reward-based Crowdfunding platforms. Customer verification is reported as an area of focus by 75% of Reward-based Crowdfunding, 67% of P2P Consumer Lending and 54% of Property Lending platforms.

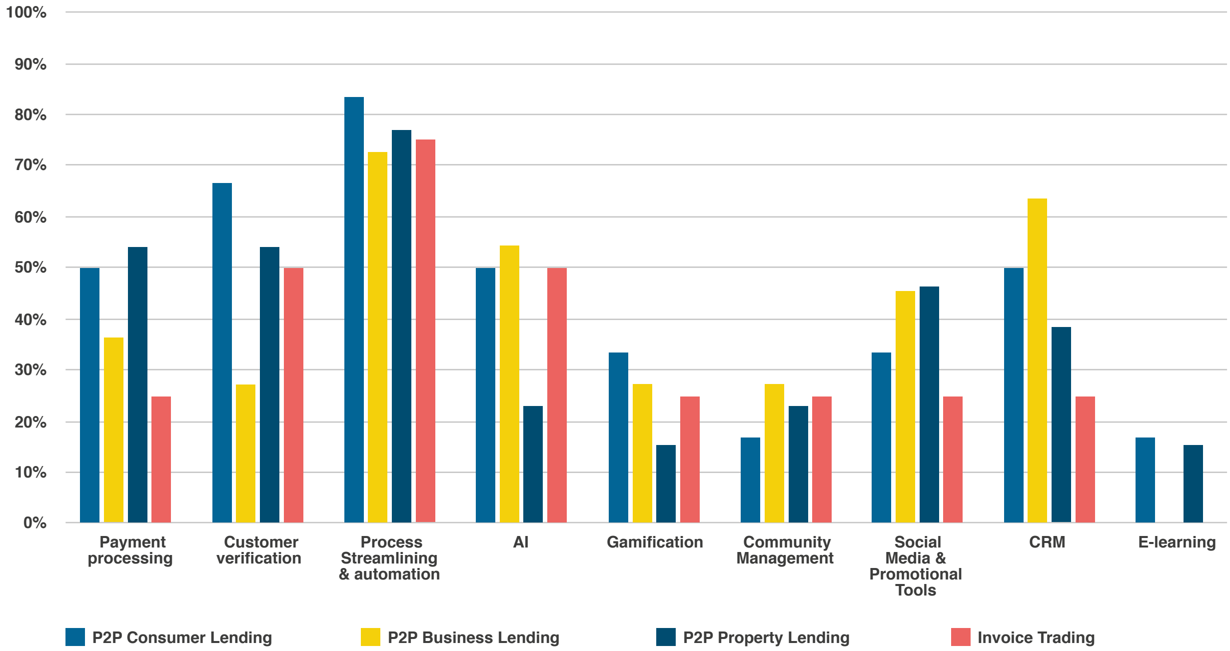
Actively Pursued R&D Initiatives in 2017 by Platforms (Investment and Reward-based Crowdfunding)



Many platforms are pre-empting future demands through investments in artificial intelligence and performance enhancement features, as reported by 55% of P2P Business Lending and 50% of P2P Consumer Lending, Invoice Trading, Reward-based and Donation-based Crowdfunding 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 all Donation-based Crowdfunding platforms, 50% of reward-crowdfunding platforms, and 40% of real-estate crowdfunding platforms. CRM improvement is an area of focus for 83% of Debt-based Securities, 64% of P2P Business Lending, and 55% of Equity-based Crowdfunding platforms. Finally, customer support tools for social media promotions are mainly focused on by 100% of Donation-based and Reward-based Crowdfunding platforms, as well as 46% of P2P Property Lending platforms.

Whilst improving customer experience is important to platforms, e-learning and gamification remain a lower priority overall. Some platforms have invested in these areas, with the provision of e-learning features most frequently mentioned by Reward-based Crowdfunding (75%), Donation-based Crowdfunding (33%) and Real Estate Crowdfunding platforms (20%). Investments in gamification were reported by 67% of donation-based crowdfunding, and 33% of both Debt-based Securities and P2P Consumer Lending platforms.

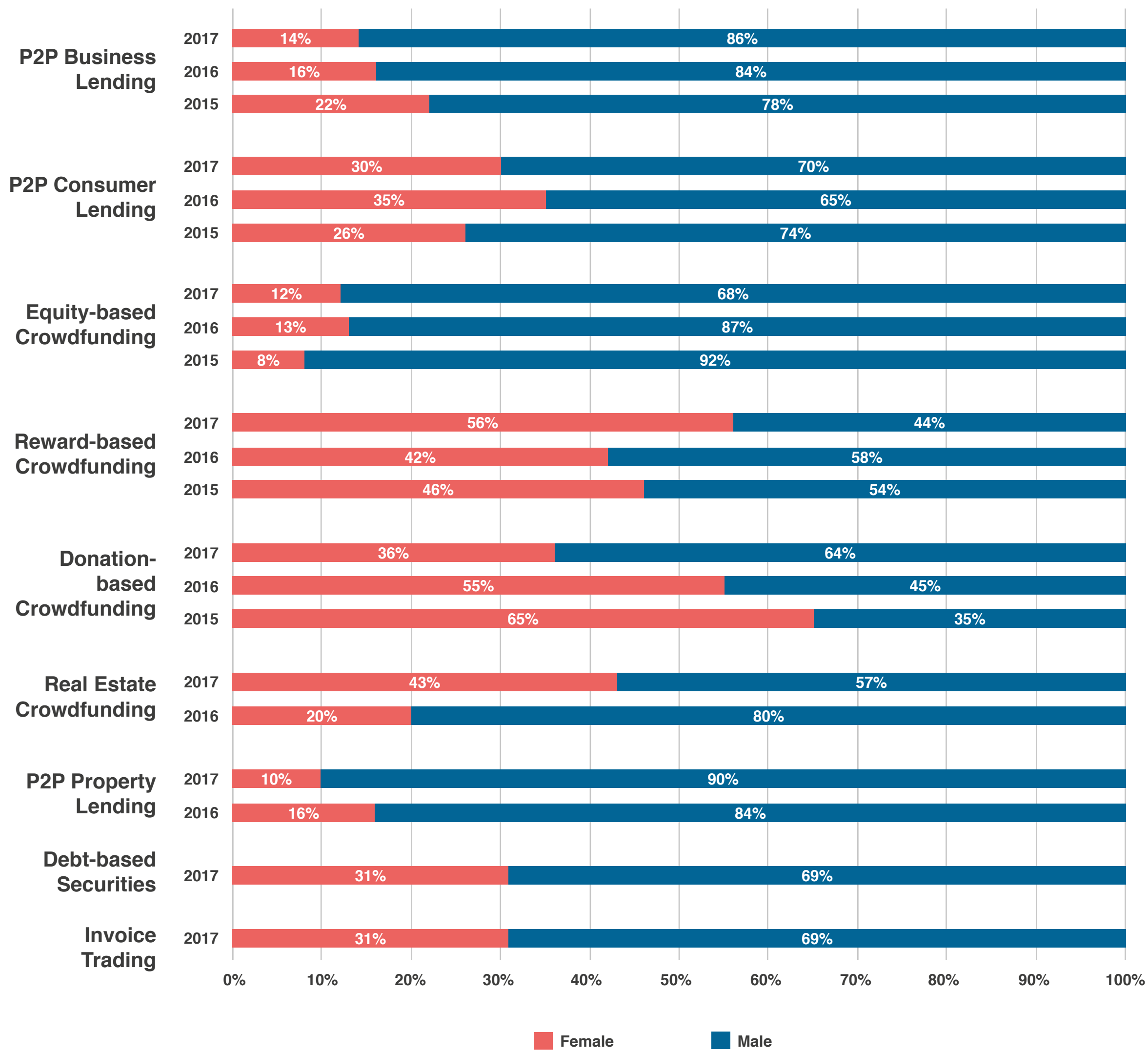
Actively Pursued R&D Initiatives in 2017 by Platforms (Loan-based Crowdfunding)



GENDER DYNAMICS OF THE UK ALTERNATIVE FINANCE MARKET

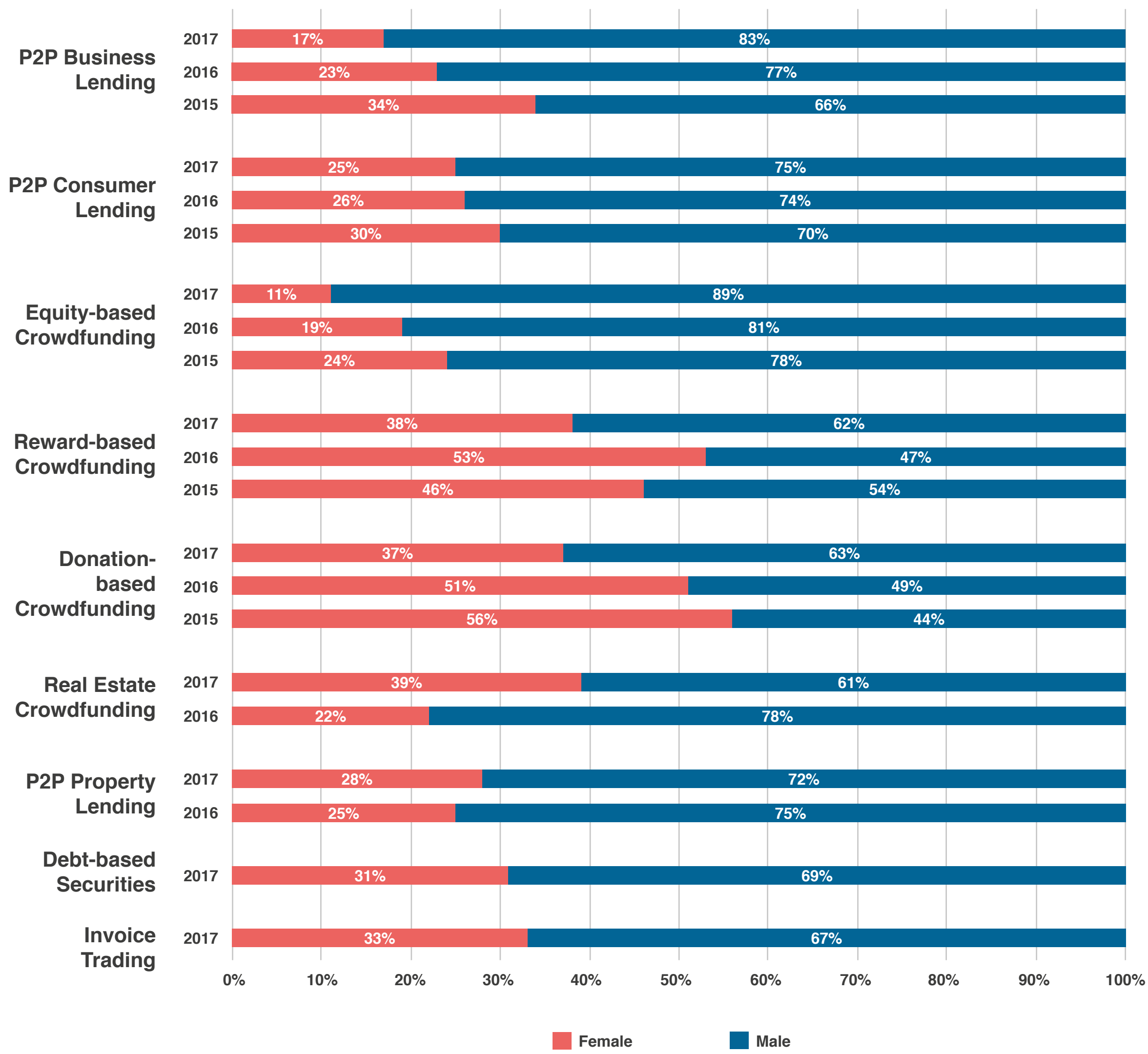
The role that alternative finance can play in increasing financial inclusion and in bridging systemic gender gaps in both the provision and receipt of funding deserves greater attention, though limited evidence-based research currently exists. For the past three years, the CCAF has tracked female participation in order to better understand the demographics and user case study of female funders and fundraisers. Both the benchmarking and funder surveys enquired about female participation in order to enable ongoing and future analysis of this topic.

Percentage of Female Fundraisers (2015-2017)



The majority of participants within alternative finance continue to be male, and for most model types the overall percentage of male fundraisers appears to have increased over the last year. Only a quarter of lenders were female across P2P Lending models, although the proportions of female borrowers differed between models. The number of female participants decreased compared to the last year; 30% of borrowers in P2P Consumer Lending were female, compared to 14% in P2P Business Lending. Reward-based and Real Estate Crowdfunding registered the highest levels of female participation, both in terms of fundraisers and funders, with 56%/38% for Reward-based and 43%/39% for Real Estate Crowdfunding, respectively. Finally, relative to the other models, P2P Property Lending registered the lowest proportion of female participation in terms of investors (10%) and Equity-based Crowdfunding in terms of issuers (12%). Our previous survey did not capture gender data for both the Invoice Trading and the Debt-based Securities model. In 2017, female fundraiser participation rate was 39% and 31% respectively for these two models.

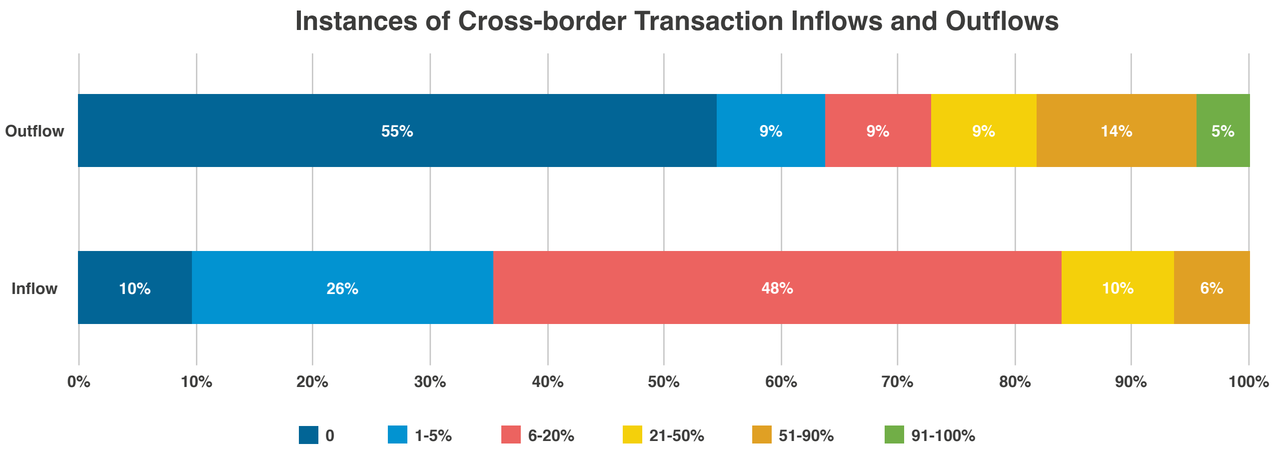
Percentage of Female Funders (2015-2017)



In addition to collecting information on the gender split of the fundraiser population, data was also collected on the gender split in terms of proportion of invested funds. In comparison to the previous year, female funder participation dropped in five of seven models. For instance, female lenders of the P2P Business Lending model contributed 17% of overall investment, whilst female lenders to the P2P Consumer Lending model contributed 25%. With respect to Equity-based Crowdfunding, Reward-based Crowdfunding, and Donation-based Crowdfunding, the population and proportion of finance from female investors was 11% and 38% and 35% respectively. Real Estate Crowdfunding and P2P Preoperty Lending both saw annual increases in female funder participation with 39% and 28% female participation respectively.

Finally, our previous research did not capture the Invoice Trading and Debt-based Securities female funder participation rate, so we do not have an annual comparison. However, in 2017, 33% of Invoice Trading lenders and 31% of Debt-based Securities Investors were female.

CROSS BORDER ACTIVITIES IN UK ALTERNATIVE FINANCE MARKET



The proportion of cross-border transactions within alternative finance continues to be a topic of interest within the UK and globally. Data showing funding inflows and outflows demonstrate that the financing of online alternative finance deals remains a predominantly national activity, with limited inward or outward Foreign Direct Investment ("FDI"). In early 2018, the European Commission unveiled a proposed regulation[8] aimed at allowing crowdfunding platforms to provide their services across the EU while complying with a single set of rules across jurisdictions.

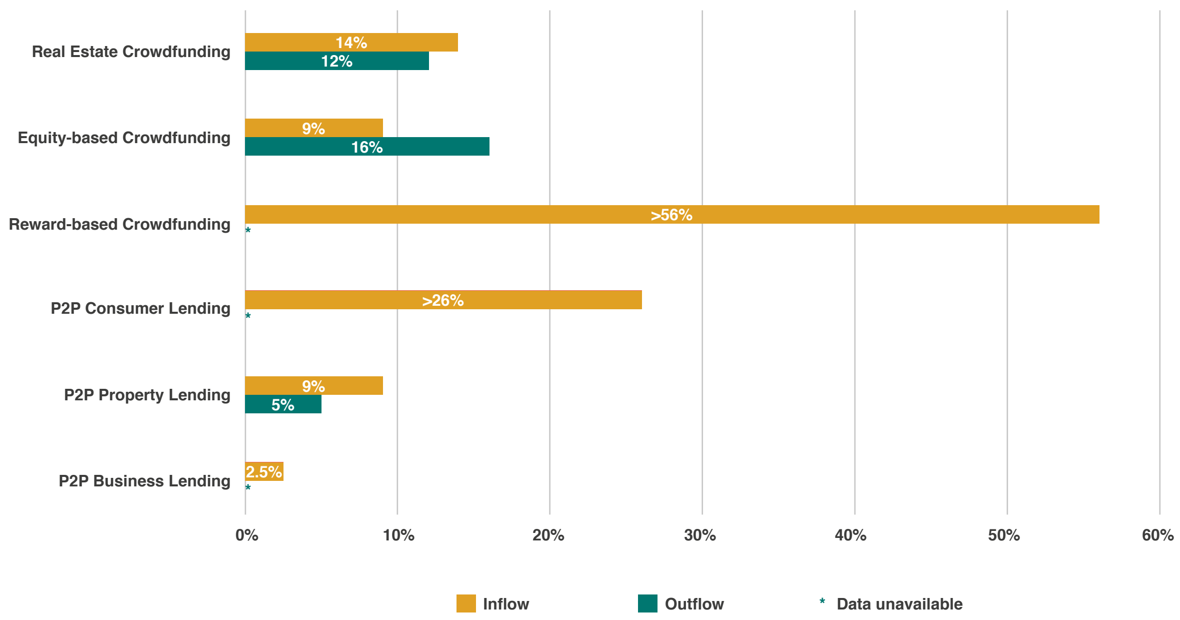
Platforms were asked to provide an estimate of overseas funding inflow (the proportion of funding raised through the platform for UK-based fundraisers from foreign investors) and funding outflow (the proportion of funding raised for fundraisers based outside of the UK from non-foreign investors).

As per the chart above, 55% of platforms indicated that none of their funding goes to fundraisers located outside the UK. This figure is down from 81% of platforms which had no outward funding flow in 2015. Nevertheless, whilst most financing remains within the UK, there are some instances of outward flows. Of the remaining 45% of platforms that had outward flows, 9% of platforms indicated that 1-5% of the funding went to foreign fundraisers, another 9% stated that 21-50% of funding left UK shores, 9% indicated 51-90%, 14% of surveyed platforms stated that 51-90% of funds left the UK, and only 5% of surveyed platforms stated that 91-100% of funds left the UK.

Conversely with outward flows, inward flows have increased year-on-year. In 2016, approximately 53% of platforms indicated no inward flows secured for UK businesses, suggesting that just under half of all platforms were experiencing some levels of inward investment, albeit at varying degrees. With significant change, in 2017 only 10% of platforms indicated no inward FDI, while the majority with 48% stated that 6-20% of funds came from outside the UK. 26% of survey platforms stated that 1-5% of funds came from non-UK funders and 10% stated that 21-50% of funds came from outside foreign funders. The remaining 6% of firms stated that the majority of 51-90% of funds came from non-UK funders and no platforms stated that 91-100% of funding came from externally based funders.

Increasing cross-border investment in 2017 reverses last year's trend, but it is interesting to note that, prior to 2016, the yearly trend was increasing cross-border investment. This finding necessitates further investigation, especially against the context of a future Brexit and increasing harmonisation across continental Europe.

Cross-border Inflows and Outflows by Proportion of Volume (by Model)



When examined by an alternative finance model, it becomes apparent that some models are more dependent on cross-border transaction flows than others; Reward-based Crowdfunding emerges as the most cross-border dependent model with more than half of the transactions representing cross-border inflows. P2P Consumer Lending is the second most dependent with more than a quarter of the volumes (>26%) associated with cross-border inflows. This is followed by Real Estate Crowdfunding, where 14% of volumes are associated with cross-border inflows and 12% of volumes are associated with cross-border outflows.

By contrast, the models least dependent on cross-border transaction flows are Equity-based Crowdfunding and P2P Property Lending whereby 9% of volumes are cross-border inflows, while between 5% and 16% of volumes are cross-border outflows.

P2P Business Lending exhibits a lowest level of international dependency, with only 2.5% of volumes related to cross-border inflows.

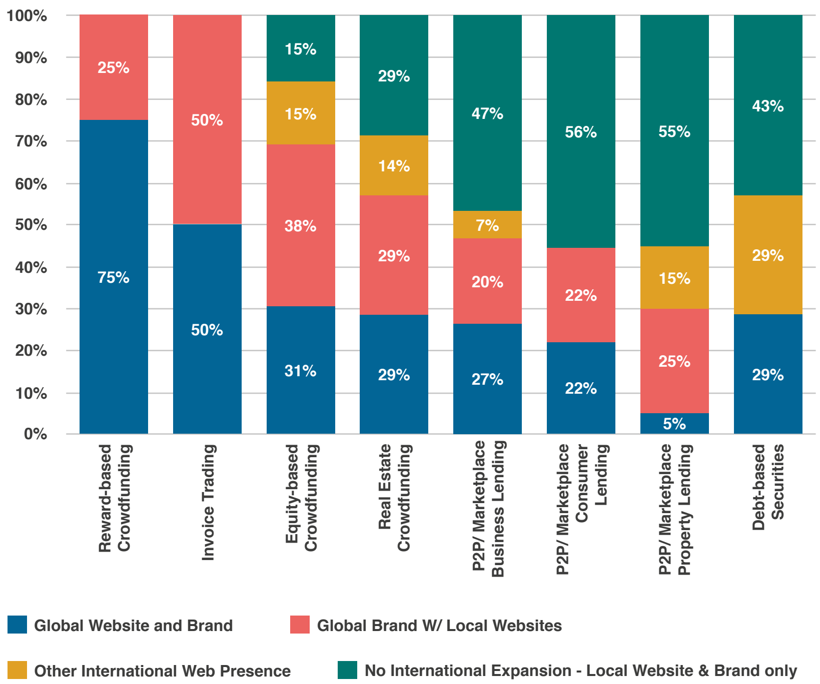
INTERNATIONALISATION STRATEGIES

For the 2017 benchmark research, the CCAF has expanded its survey questions and asked platforms about their internationalisation strategies in order to analyse these in conjunction with cross-border finance volumes. Across all alternative finance models, a majority of platforms indicate that some degree of international expansion strategy is being implemented.

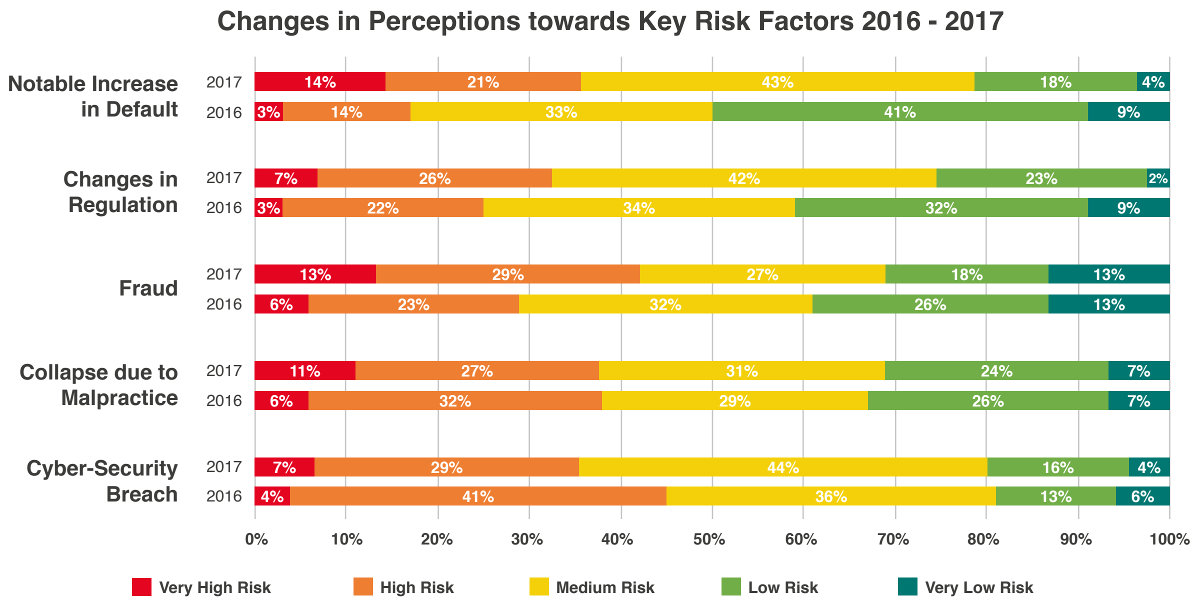
The most internationally oriented models are Reward-based Crowdfunding, Invoice Trading and Equity-based Crowdfunding Platforms. The most popular strategy among different business models is utilising a global website and brand. The platforms that utilised this method the most were Reward-based Crowdfunding (75%) and Invoice Trading (50%).

Conversely, P2P Consumer Lending, P2P Property Lending and P2P Business Lending are the least internationalised models with 56%, 55% and 47% of platforms, respectively, having no current plans for international expansion, relying instead on their local web presence and brand for growth.

Platforms Internationalisation Strategy by Model

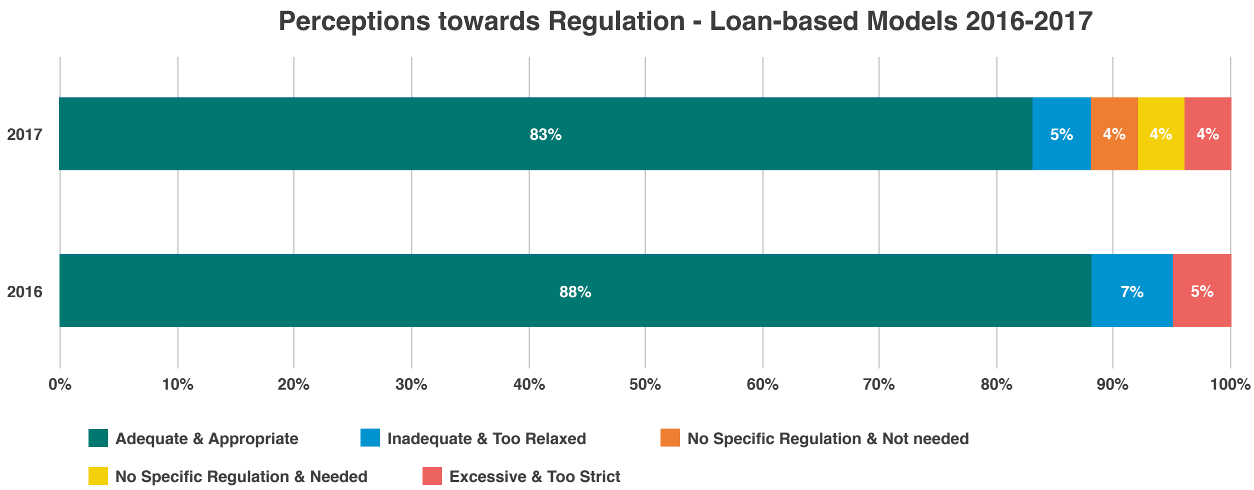


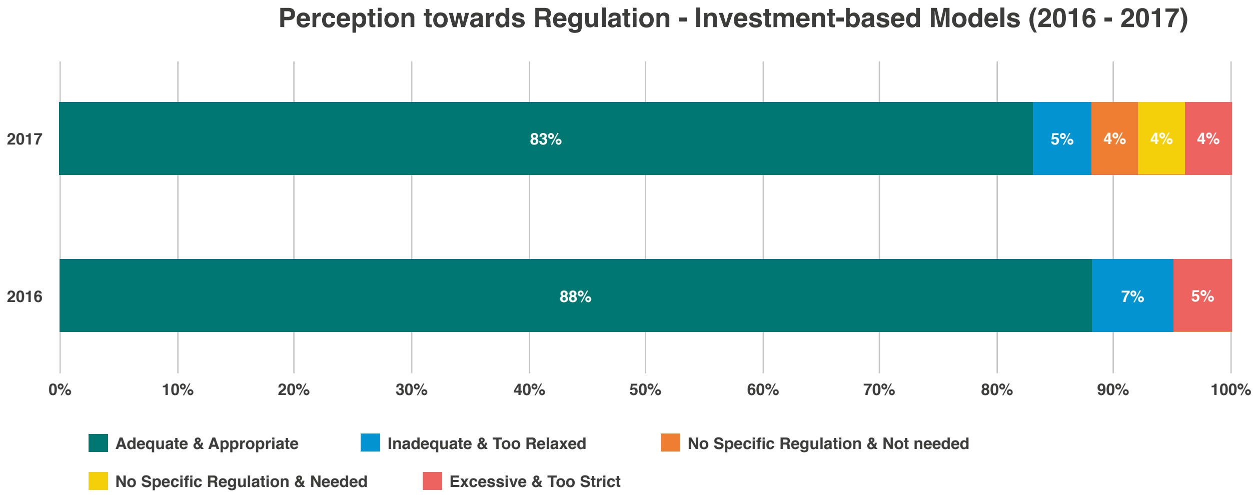
PERCEIVED RISKS BY THE UK ALTERNATIVE FINANCE INDUSTRY



Platforms were asked to rate five key risk factors as related to their business model. In 2017, all but one of the risk factors were viewed as more significant potential risks than in the previous year. Concerns over Fraud were viewed as the most significant risk, with 42% of firms viewing this factor as 'very high to high' risk. This risk factor increased significantly when compared to 29% in 2016. Collapse due to malpractice was the second highest overall risk factor, with 11% of firms indicating this as 'very high' risk (compared to 6% in 2016) and 27% noting this factor as 'high risk'. A notable increase in default rates was the next highest risk factor, up 36% in 2017 from 17% in 2016. Though risk of cyber-security breach was rated as a high or very high risk by 36% of platforms, this share was down significantly against the previous year (45%). Platforms also provided indicative estimates on the proportion of their operating cost towards IT & Cyber-Security. On average, firms allocated 15% of their budget on IT with an additional 3% dedicated to Cyber-Security. The lowest risk factor was 'changes to regulation' (33%), which was nonetheless up from 25% in 2016.

INDUSTRY PERCEPTION OF UK REGULATION





A discussion on the development of alternative finance would not be complete without comment on regulation.

Platforms within the UK were asked to indicate their perception towards existing regulation. 2017 was an important year for the UK alternative finance industry – particularly for loan-based and investment-based crowdfunding as defined by the FCA. In light of the ongoing review of the regulatory regime for this sector, the study also asked UK platforms for their perspectives on the FCA approach to regulating the sector. The survey was largely conducted before the FCA released their latest regulatory review findings. As a result, our findings reflect perceptions during the first half of 2018.

Most loan-based crowdfunding platforms surveyed deemed existing FCA loan-based crowdfunding regulations to be adequate and appropriate at the time, with 83% of surveyed platforms stating so. Only 5% of surveyed loan-based platforms thought that existing regulations were too relaxed for their platform activities, while an even smaller percentage of platforms (4%) stated existing loan-based crowdfunding regulations are too stringent. The other 4% indicate that there is no specific regulation but needed, while the remaining 4% shows no specific regulation but not needed.

With respect to investment-based crowdfunding, which encompasses Equity-based Crowdfunding and Debt-based Securities, 83% of surveyed platforms saw existing FCA regulation to be adequate and appropriate. In general, both loan-based and non-investment-based models' survey results suggest that, while the majority of platforms are happy with the existing level of regulations, the number of platforms that find regulations as adequate are decreasing compared to 2016.

Platforms were asked to indicate the proportion of their operating costs vis a vis regulation, thus providing us with an indication of how much platforms are budgeting towards scoping, licensing and compliance. On average, platforms budget 2% of their costs towards regulatory scoping, followed by 3% towards obtaining authorisation or licensing. Finally, platforms are allocating 8% of their budget to compliance related activities.

POST-IMPLEMENTATION REVIEW OF CROWDFUNDING REGULATION: A NOTE ON CCAF FIGURES CITED

In CP18/20, published in July 2018, the FCA provided feedback on the post-implementation review of Crowdfunding regulation.[9]

The review included commentary based upon the CCAF's 2016 data collection, including our Funder Survey.[10] The 2016 Funder Survey dataset was comprised of 8,370 responses across the six models,[11] and only included responses from investors or lenders in loan-based or investment-based alternative finance activities. The surveys were collected in complete anonymity and disseminated through platform-based outreach, with 22 platforms assisting in this process. The collection period began in October 2016 and ended at the start of February 2017. Three-quarters of responses were collected in 2016, with the survey referring to Funder activity until the 2016 calendar year.

One of the key statistics that has been mentioned in CP18/20 is that '40% [of P2P investors] said they had invested more than their total annual income'.[12] Whilst this figure is technically correct, we did not include this or a comparable figure in our own annual alternative finance report. This is because we believe it should be cited in an appropriate context to avoid misinterpretation.

The quoted figure relates to all P2P Lending models in aggregate, which obscures important differences between the three models and their investor populations. Our Funder survey collected 3,837 entries for P2P Consumer Lending, 1,258 for P2P Business Lending and 720 from P2P Property Lending.

Secondly, our survey asked investors to indicate the amount that they had invested through any lending platforms they used since they first started lending through platforms. Respondents were not able to provide a specific figure, but were asked to indicate the most applicable range. A comparison of multiyear stock figures to annual income flows is unlikely to provide a good proxy for total exposure.

Thirdly, the 40% statistic relates to shares of income as opposed to wealth, which is the more relevant comparator. A study designed to produce a measure of exposure should have accounted explicitly for wealth, and the use of income as a proxy in the estimates published by the FCA is not an optimal fit for the regulator's purposes. Alternatively, national statistics can provide an approximate wealth to income ratio for different demographics. For example, the latest published estimates from ONS' Wealth and Assets survey suggest a wealth-to-income ratio of 21:1 for UK households in the top wealth decile.[13]

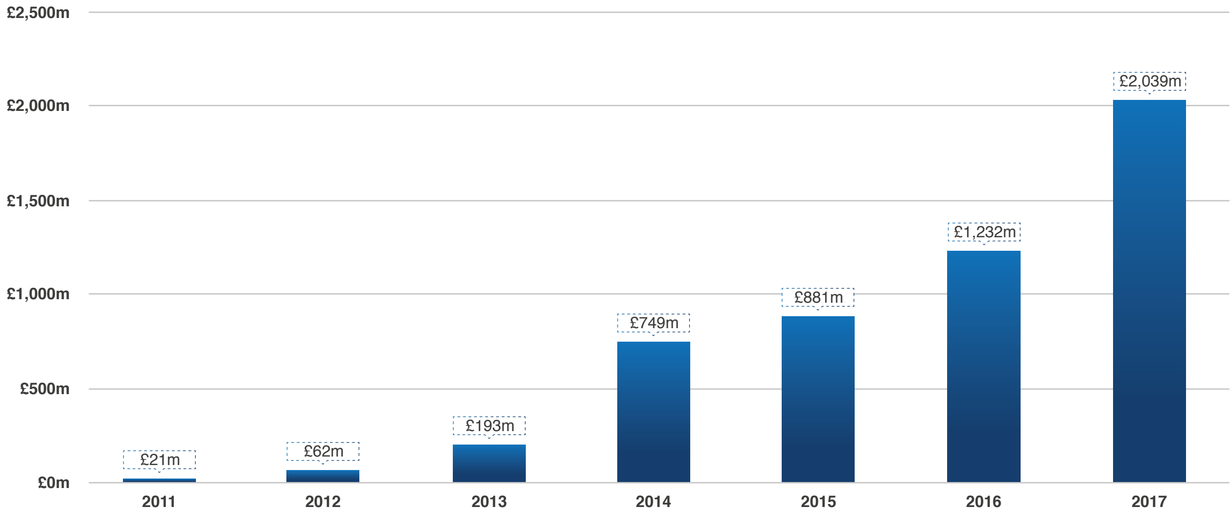
Finally, the question of demographics is of key consideration. The majority of investors for each of the three models are aged over 55, and the 'over 65' cohort makes up (in most cases) more than half of that group.[14] [15] For the P2P Consumer Lending model, 51% of this cohort drew an income of between £15k and £35 and are identified predominantly as pensioners. For P2P Business Lending, this was 40%.

Investors in those age groups may well be asset-rich without being cash-rich if they are retired, particularly during a period when relatively safe investments attract very low yields. Thus, at least some explanation for the FCA's estimates may be found in the investment activities of pensioners.

In our view, further research needs to be conducted to understand more accurately how retirement age and retired investors interact with the respective investment models.

P2P BUSINESS LENDING

Total UK P2P Business Lending 2011-2017 (£millions)



In 2017, P2P Business Lending continued to be the largest contributor to the UK's overall online alternative finance volume – generating £2.039 billion. There has been £5.17 billion of P2P Business Lending in the seven years CCAF has researched alternative finance, 39% of which was in 2017. Volumes in P2P Business Lending grew 66% year-on-year, compared to 40% in the preceding year.

The qualification/onboarding rate[16] notably declined in 2017 to 12% from 38% in 2016. However, this seems to have had a more pronounced effect on the successful funding rate[17], which moved from 31% in 2016 to 96% in 2017. This implies that, while the number of borrowers that were deemed sufficiently qualified to raise funds and create campaigns decreased, the quality and overall success of these campaigns significantly increased.

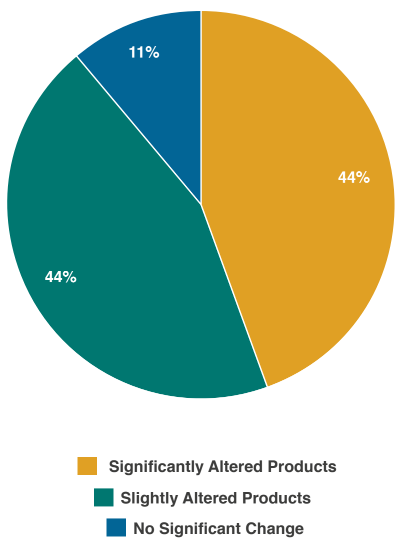
Interestingly, while the overall number of successful repeat borrowers increased by 31% between 2015 to 2016, the number of repeat borrowers actually decreased to only 12% in 2017. The number of repeat investors on the platforms, however, was markedly higher at 89%. Additionally, across this model, the portfolio-wide default rate remained low at 2.2%, only increasing slightly over the previous year's 2.1%.[18]

The number of investors utilising auto-selection increased significantly – growing from 61% in 2016 to 97% in 2017.

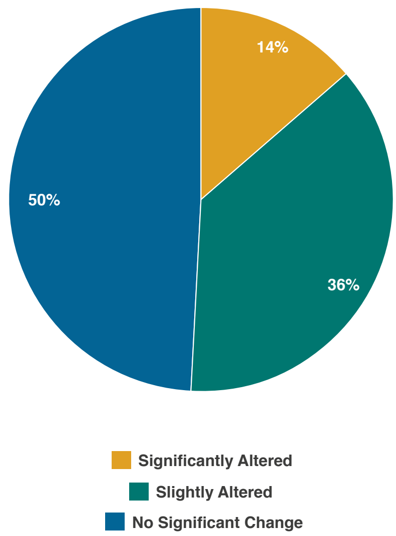
A total of 29% of platforms have some sort of referral agreement in place. This year's data also showed that a slight majority of platforms – 57% - have no partnership with an institution at all, while 14% are in part owned by an institution.

Balance Sheet Business Lending, which is one component of P2P Business Lending, had some key differences from the overall model. In particular, balance sheet lending's onboarding rate was significantly higher at 77%. Despite a significantly higher onboarding rate than average, the successful funding rate remained high at 85%. Additionally, 55.4% of balance sheet fundraisers were repeat fundraisers.

Product Innovation - P2P Business Lending in 2017



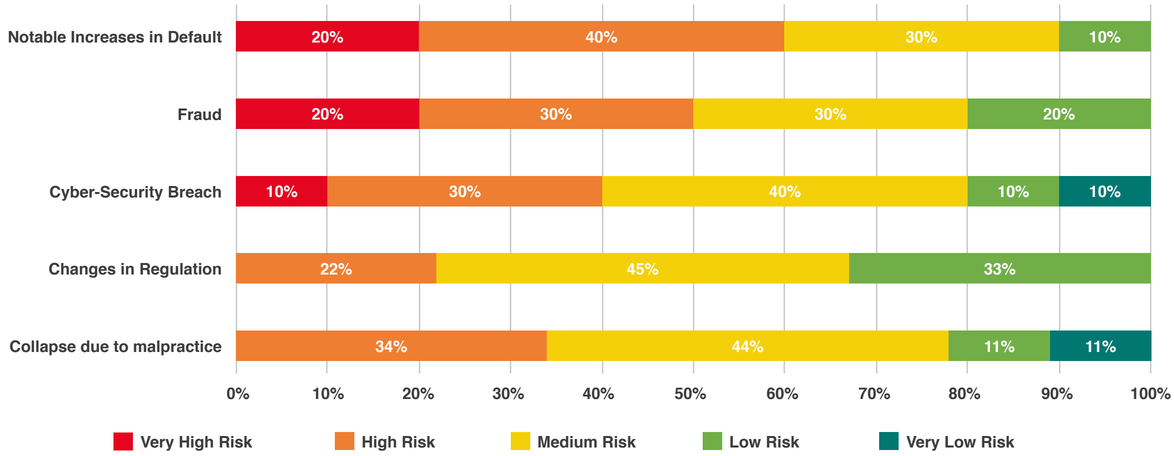
Business Model Innovation - P2P Business Lending in 2017



As the alternative finance sector continued to mature in 2017, individual platforms have continued to tweak and change their products and business models. Regarding product innovation, most platforms made some sort of change to their products, with 44% of platforms significantly altering products and 44% slightly altering their products. Only 11% made no significant changes.

On the other hand, with regard to business model innovation, half of the platforms made no significant changes to their model. Only 14% of platforms made significant alterations to their business model, whereas 36% made slight changes.

Perceptions towards Risk Factors - P2P Business Lending 2017



Platforms were asked to rate five different factors based on their perceived levels of risk to their own platform's operation. These factors included: 'notable increases in default', 'fraud', 'cybersecurity breach', 'changes in regulation', and 'collapse due to malpractice'.

With regard to perceptions of risk factors towards the industry, most P2P Business Lending platforms saw all of these factors to be at least a medium risk to their operations. However, they considered 'notable increases in default' and 'fraud' as their highest risks. 'Notable increases in default' was seen by 20% of platforms as a very high risk and an additional 40% viewed it as high risk. 'Changes in regulation' was perceived as the lowest risk factor, with 33% viewing it as a low risk and 45% viewing it as a medium risk.

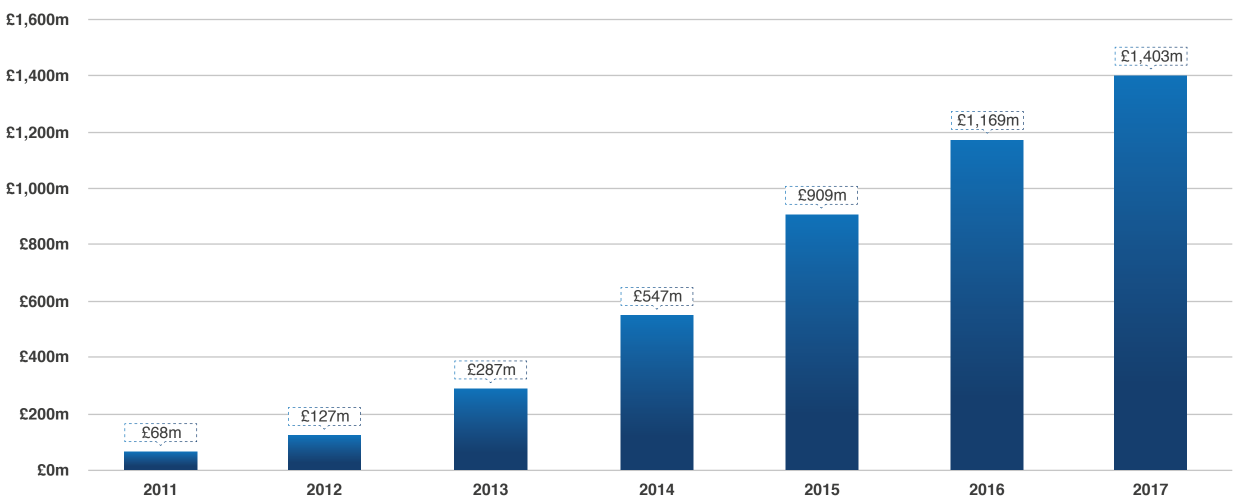
P2P CONSUMER LENDING

As in 2016, the second largest volume was generated in P2P Consumer Lending at £1.4 billion, an annual increase of 20%. For this research, volume data has been recorded for P2P Consumer Lending since 2011; since that date, £4.5 billion has been generated, with 2017's volume making up 26% of the total.

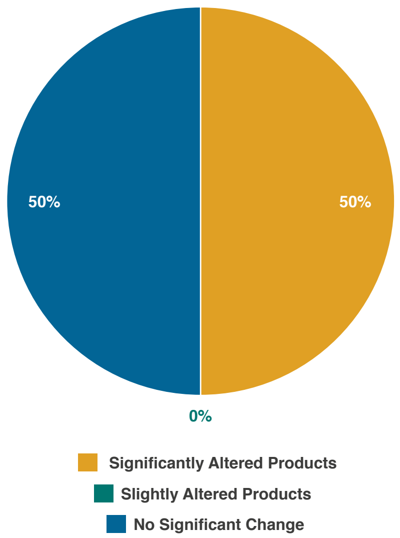
This year, 20% of borrowers on P2P Consumer Lending platforms were repeat borrowers, a decrease of 5% year-on-year, while a majority, namely 67%, of lenders on the platforms were repeat lenders. The qualification rate remained consistent with 2016 at 44%, although the successful finding rate increased by 7% to 40%. Lenders' reliance on auto-selection/auto-bid was near complete, rising from 95.3% to 99% of all investments.

This year's data also showed that a majority of platforms – 66% – have no partnership with an institution at all, while 33% are in part owned by an institution. Additionally, 17% of P2P Consumer Lending platforms utilised some sort of referral agreement from an institution.

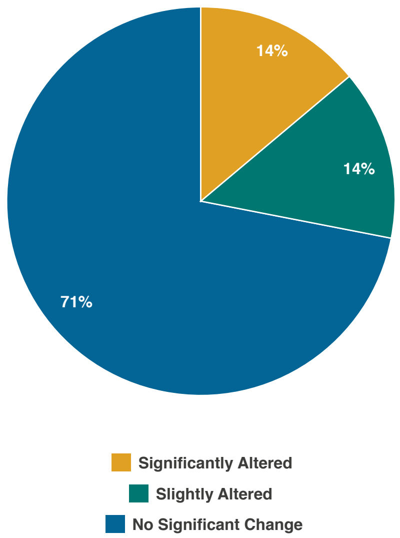
Total UK P2P Consumer Lending Volume 2011-2016 (£millions)



Product Innovation in P2P Consumer Lending in 2017



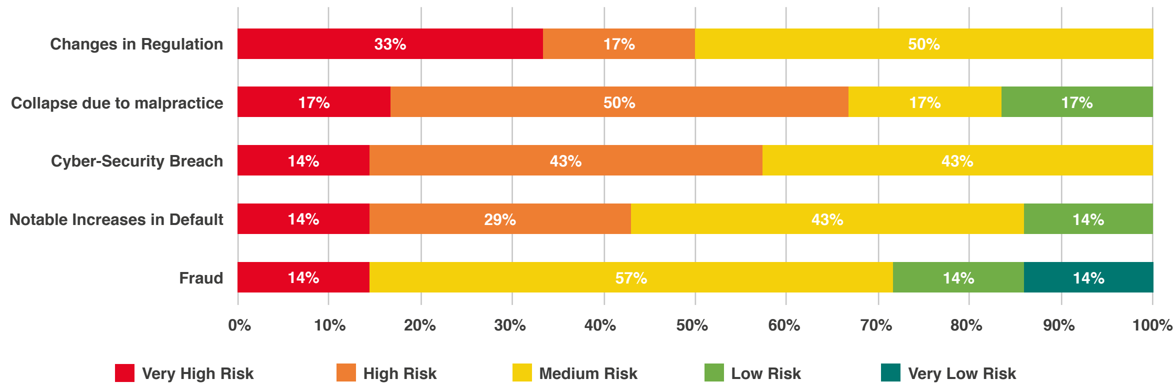
Business Model Innovation in P2P Consumer Lending in 2017



As P2P Consumer Lending continued to develop in 2017, platforms either maintained their current products or significantly altered them in equal proportions, being 50%. There were no instances of marginal changes.

In contrast, most P2P Consumer Lending platforms maintained their current business models, with 71% reporting that they had made no significant changes to their business. The remaining 28% of platforms that had altered their business model were equally split, with 14% reporting significant alterations and 14% reporting slight alterations to their model.

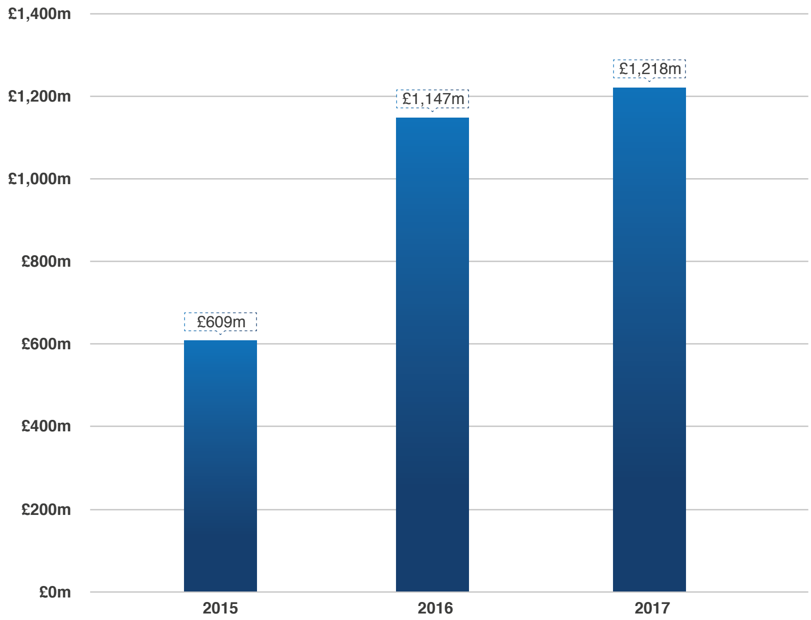
Perceptions towards Risk Factors - P2P Consumer Lending 2017



Throughout the P2P Consumer Lending industry, all of the five risk factors considered by the survey were rated highly by respondents. ‘Potential changes to regulation’ was seen by 33% of platforms to be the highest risk. However, ‘collapse due to malpractice’ at 67% and a ‘cybersecurity breach’ at 57% were the largest perceived risks when perceptions of very high and high were combined. The lowest risk factor was ‘fraud’, although an equal proportion of platforms – 14% – saw it as a very high or very low risk. Note, this was the only factor perceived by some platforms as very low risk.

P2P PROPERTY LENDING

Total UK P2P Property Lending 2015-2017 (£millions)



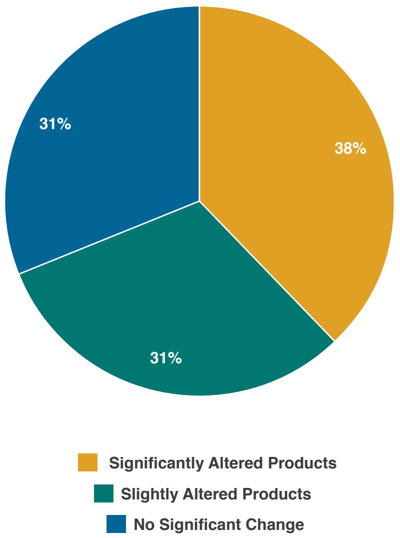
Similar to last year, P2P Property Lending represents an important segment of the industry and contributed the third largest volume within Alternative Finance in the UK. P2P Property Lending generated £1.218 billion, a 6% increase on 2016's volume of £1.147 billion. Since the CCAF categorised P2P Property Lending as an independent model (prior to 2015 it was captured within Business Lending), it has raised £2.97 billion, 41% of which was in 2017.

The qualification/onboarding rate for 2017 nearly doubled year-on-year to 33.6%. Of those qualified to raise funds on the platforms, 74.6% successfully raised funds. This is a small decrease from last year's 84% success rate.

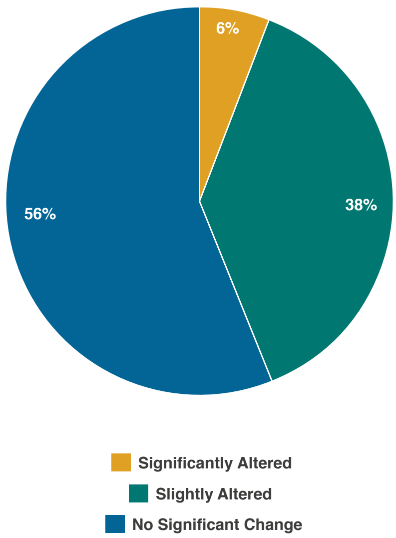
Auto-selection – which experienced a large increase in utilisation in this model between 2015 and 2016 (from 18% to 60%) – decreased to 43%. It is interesting to note that 86% of investors on these platforms were repeat investors. Additionally, the rate of repeat borrowing has continued to increase, from 28% in 2016 to 34% in 2017.

Overall, 21.43% of P2P Property Lending platforms utilised some sort of a referral agreement. Additionally, while only 7.1% of platforms were partially owned by an institution, 71% had no partnership with an institution at all.

Product Innovation in P2P Property Lending in 2017



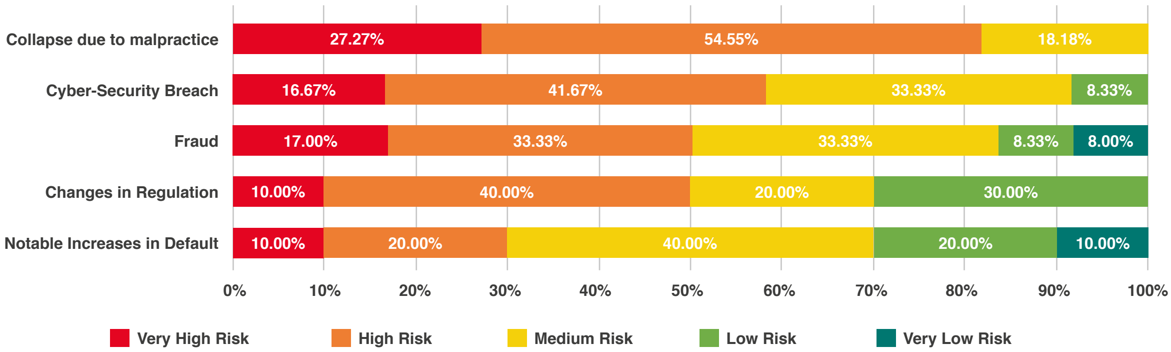
Business Model Innovation in P2P Property Lending in 2017



In 2017, most P2P Property Lending platforms tried to change or enrich their product offerings in some way; 69% of platforms indicated that they had attempted to alter their products, with 38% noting significant changes and 31% slightly altering their products. Additionally, 31% of platforms made no significant changes.

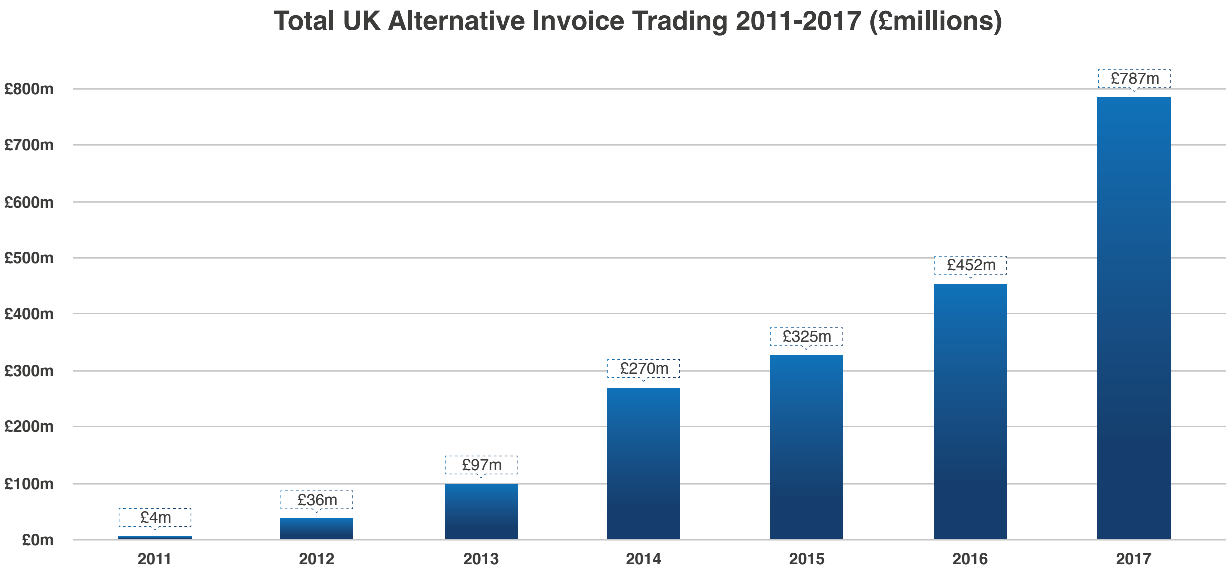
In contrast, over half of P2P Property Lending platforms maintained their current business model, with 56% reporting that they had made no significant changes to their business. 38% of platforms made slight alterations to their model, whereas only 6% made significant changes to their model.

Perceptions towards Risk Factors - P2P Property Lending 2017



Throughout the P2P Property Lending sector, all five risk factors considered by the survey were rated highly by at least some of the platforms. ‘Collapse due to malpractice’, however, was seen by all platforms as at least a moderate risk, and 82% of respondents viewed it as either very high or high. The next highest perceived risk was a ‘cybersecurity breach’, with 58% of platforms viewing it as a very high or high risk. The lowest perceived risk was ‘notable increases in default’, with 30% viewing it as a very high/high risk, and 30% as a very low/low risk. The remaining 40% of platforms viewed ‘notable increases in default’ as a medium risk.

INVOICE TRADING



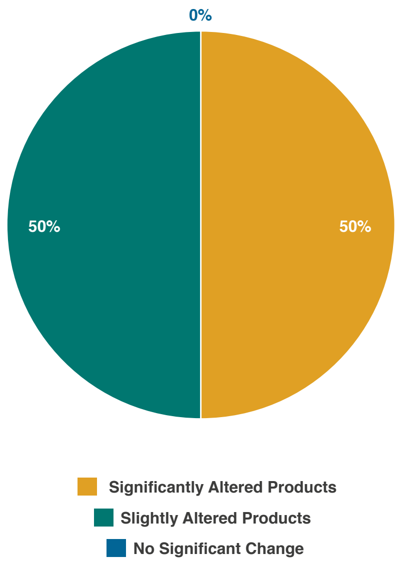
Invoice Trading in 2017 accounted for £787 million of volume, a 74% increase from 2016. From 2011 to 2014, Invoice Trading saw triple digit annual growth but began to slow between 2014 and 2015 – falling to 20% from 178%. The annual growth rate did, however, increase from 39% in 2016 to 74% in 2017.

Between 2016 and 2017, the onboarding/qualification rate grew from 69% to 77%. The funding success rate for invoice trading remains high. Repeat borrowers also increased, moving from 50.4% in 2016 to 75% in 2017. The number of repeat investors involved on these platforms was 81.9%.

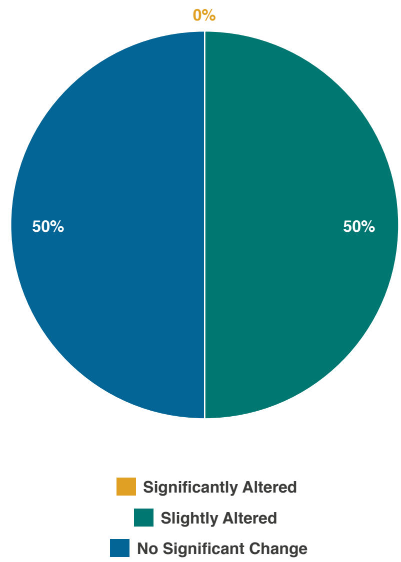
Interestingly, the use of auto-selection increased as well, from 41% to 71.9% of investors. While data on the default rate was not collected in 2016, the overall default rate in 2017 was low at 2.8%.[12]

Out of all of the platforms surveyed, 33% had utilised some sort of referral agreement.

Product Innovation in Invoice Trading in 2017



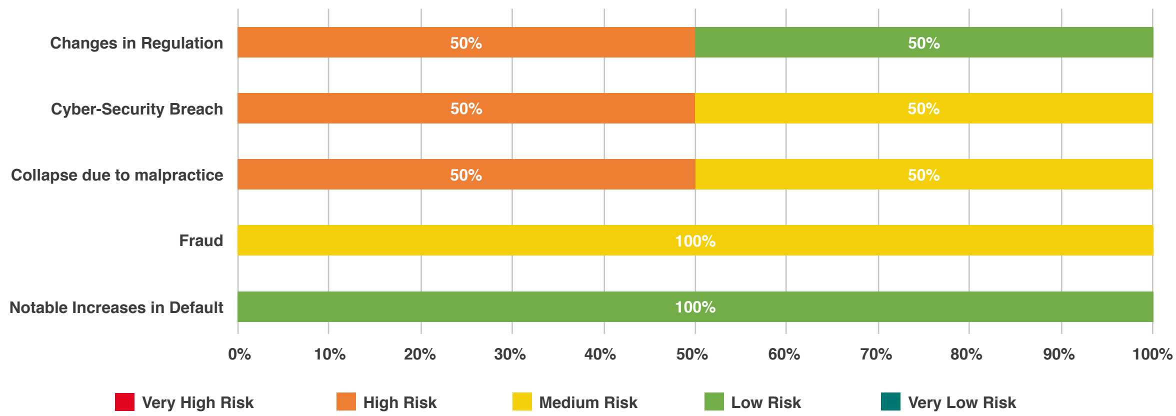
Business Model Innovation in Invoice Trading in 2017



Within Invoice Trading, all platforms reported at least some sort of product innovation, with 50% significantly altering product offerings and 50% slightly changing their products. Notably, none of the Invoice Trading platforms surveyed reported making no changes to their product offering.

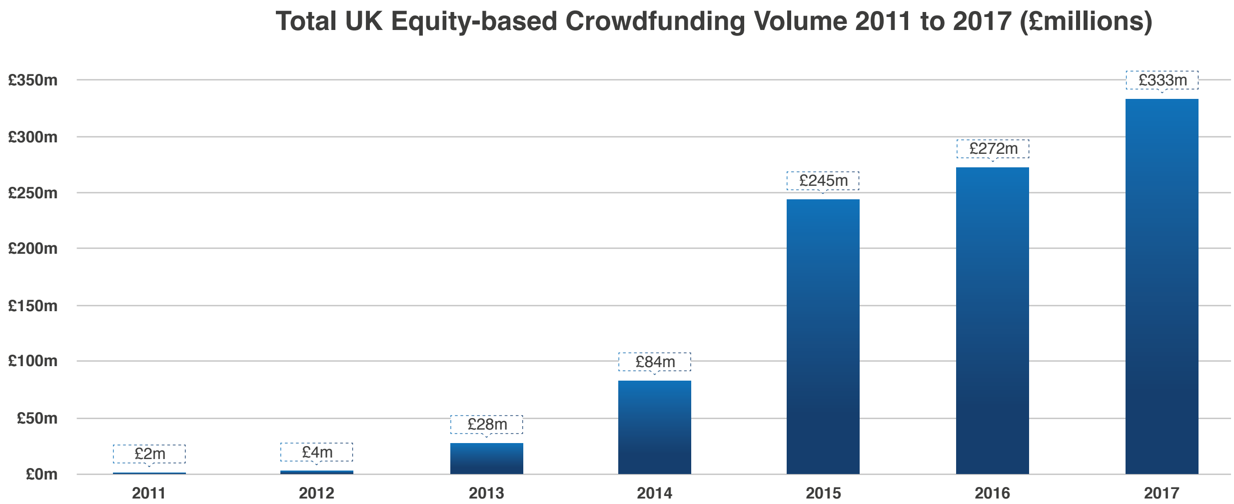
Conversely, most platforms in Invoice Trading continued utilising their current business model with little to no changes; there were no platforms that significantly altered their business model. Overall, half of all respondents noted slight alterations, while the other half made no significant changes.

Perceptions towards Risk Factors - Invoice Trading 2017



Invoice Trading platforms did not rate any of the risk factors considered by the survey very highly in 2017. However, 50% of platforms viewed cybersecurity breaches, 'collapse due to malpractice', and 'changes in regulation' as high risk. Additionally, the other half of the platforms viewed 'cybersecurity breaches' and 'collapse due to malpractice' as a moderate risk, and changes in regulation to be a low risk. All of the platforms surveyed viewed 'fraud' as a medium risk and 'notable increases in default' as low risk.

EQUITY-BASED CROWDFUNDING



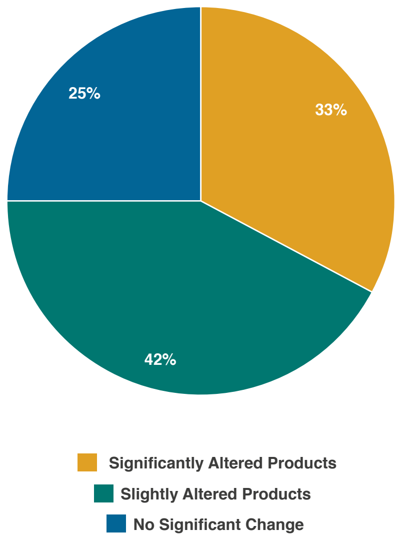
Equity-based Crowdfunding has raised a cumulative £967.6 million over the last seven years – 34% of which was raised in 2017 alone. In 2017, £333 million was generated, equating to a 22% increase from 2016. It is important to note that annual growth between 2015 and 2016 dropped from 192% to 11%, so it appears that growth in Equity-based Crowdfunding is continuing to increase, if at a slower rate. Early-stage equity investment is volatile and cyclical. Unlike in the loan-based crowdfunding segments, sector maturity is unlikely to be a significant contributor to slowing growth in this segment of the market.

Onboarding/qualification rates for Equity-based Crowdfunding steadily increased since 2015, moving from 20.6% in 2015 to 32.6% in 2017.

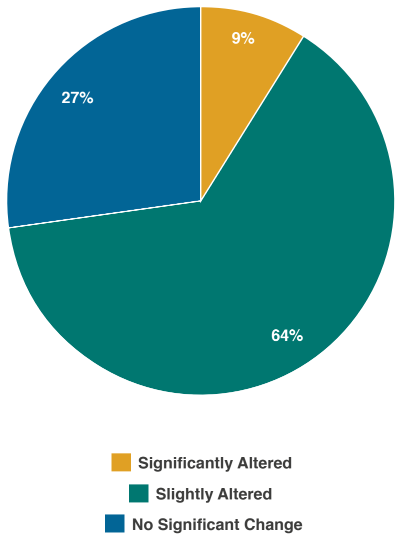
Additionally, while the repeat funding rate decreased slightly from 26.6% in 2015 to 18.5% in 2016, it notably increased in 2017 to 42%. Of all investors in Equity-based campaigns, 36.8% of them were repeat investors. A majority of platforms in 2017, namely 70%, also had some sort of referral agreement with existing financial institutions in place.

It is also worth noting that, in 2017, there were nine exits, up from six in 2016.

Product Innovation in Equity-based Crowdfunding in 2017



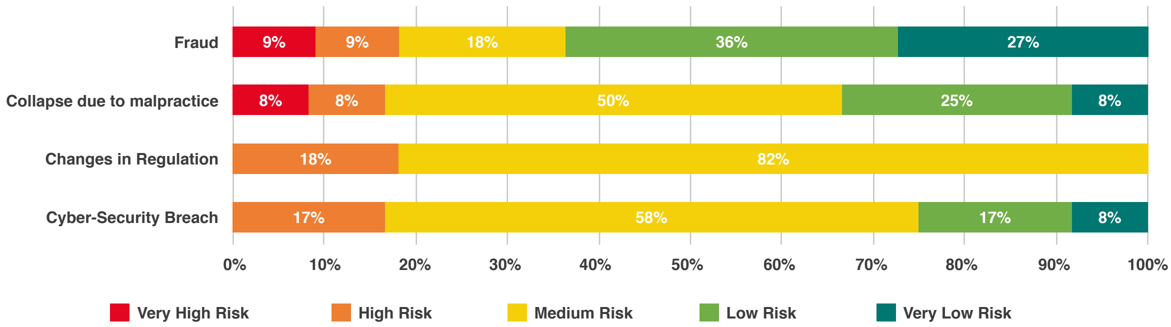
Business Model Innovation in Equity-based Crowdfunding in 2017



In 2017, most Equity-based Crowdfunding platforms altered their product offering in some way. Overall, 42% 'only slightly' altered their products, while 33% of platforms significantly altered their products. A quarter of platforms made no significant changes to their product.

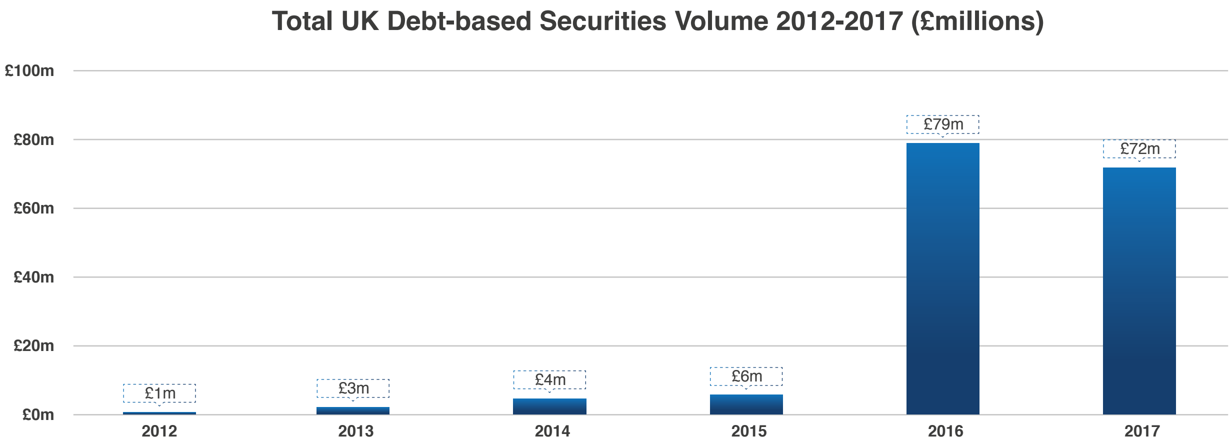
Concurrently, most Equity-based Crowdfunding platforms also made some sort of change to their business models in 2017. A clear majority of platforms, 64%, only made slight alterations, while 9% made significant changes. Just over a quarter of platforms (27%) noted no significant changes to their business model.

Perceptions towards Risk Factors - Equity-based Crowdfunding 2017



For Equity-based Crowdfunding, most of the risk factors considered by the survey were rated medium to low by respondents. 'Fraud' was seen by 9% of platforms to be a very high risk, and by an additional 9% as a high risk – but a low or very low risk by 63%. Additionally, 'collapse due to malpractice' was similar – 8% saw it to be a very high risk, 8% as high risk, and 33% as low to very low risk. With the exception of 'fraud', 50% or more of these platforms viewed these risks to be a medium risk.

DEBT-BASED SECURITIES



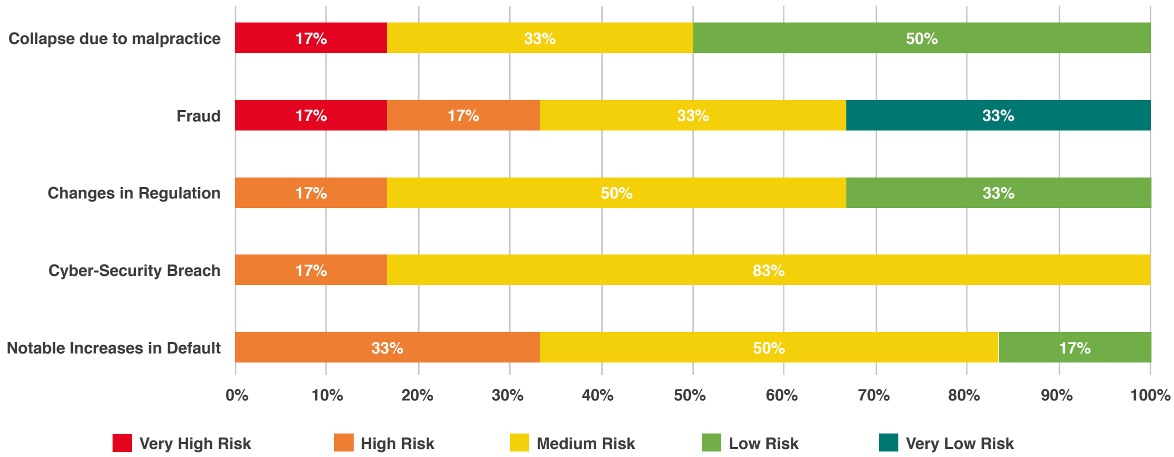
Since 2012, Debt-based Securities, including debentures and bonds via an investment-based platform, have raised £166 million. The 2017 volume of Debt-based Securities fell by 9% from 2016 to £72 million. It must be noted, however, that given the massive increase between 2015 to 2016 (1177%), even with a small decrease, 2017 accounts for 43% of volume over the last six years.

Interestingly, the onboarding/qualification rate between 2016 and 2017 more than doubled from 14% in 2016 to 41.3% in 2017. At the same time, the successful funding rate for qualified platforms increased from 70% in 2016 to 94.7% in 2017. Additionally, the number of repeat borrowers again rose – with the repeat funding rate increasing from 15.7% in 2016 to 30.7% in 2017. Just over half – 56.4% – of investors in Debt-based Securities were repeat investors. The default rate increased from 0% in 2016 to 1.8%.

In 2017, there was also one successful exit that delivered returns to investors.

While 17% of these platforms have some sort of referral agreement in place, 83% have no sort of partnership with an institution. The use of auto-selection also slightly declined from last year's 18% to 15%.

Perceptions towards Risk Factors - Debt-based Securities 2017



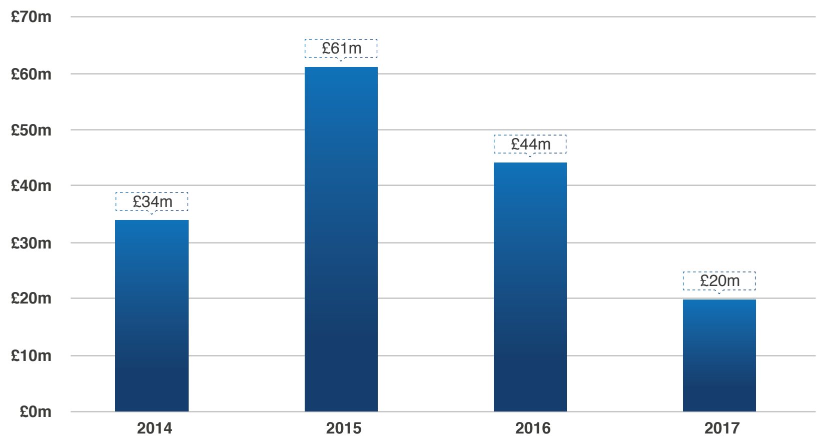
Most Debt-based Securities platforms viewed these five potential risk factors as medium to low risk – with at least 66% of platforms viewing them as such. ‘Collapse due to malpractice’ and ‘fraud’ were the only categories that some platforms viewed as very high risk. In both cases, only 17% of the platforms viewed it as ‘very high risk’. An additional 17% of platforms saw ‘fraud’ to be a high risk.

‘Fraud’ and ‘collapse due to malpractice’, however, also had a significant proportion of platforms view the risk to be low or very low. All in all, 50% of platforms surveyed saw the risk of ‘collapse due to malpractice’ to be low risk, while 33% saw the risk of fraud to be very low.

‘Notable increases in default’ was viewed by 33% of platforms to be a high risk.

COMMUNITY SHARES

Total UK Community Shares Volume 2012-2017 (£millions)

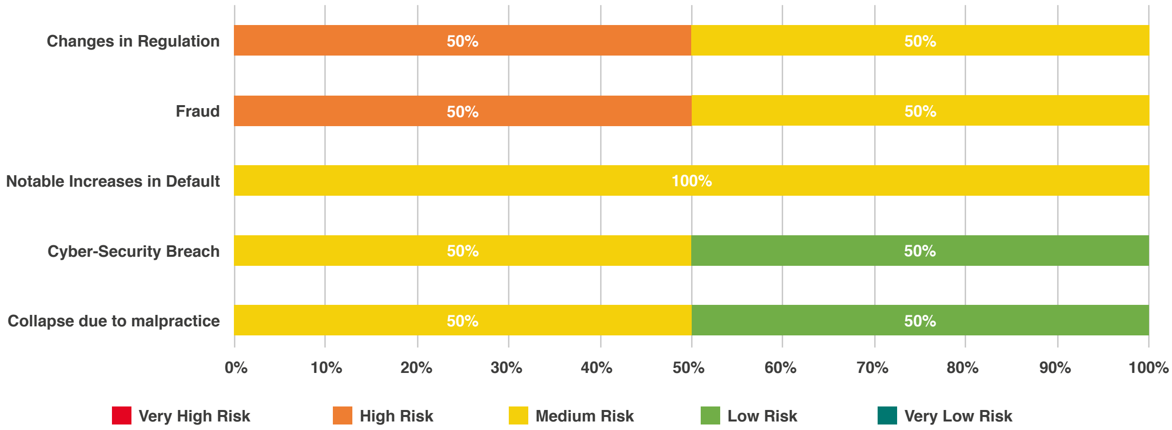


The Community Shares model experienced significant decline in 2017. The Community Shares model accounted for £20 million in volume in 2017, a 55% decrease from £44 million in 2016. Since 2015, the volume of Community Shares has decreased annually – first, decreasing 28% between 2015 and 2016, and now 55%.

In 2017, Community Shares had a 60% onboarding/qualification rate and, of these qualified fundraisers, 91% of campaigns were successful in raising funds. A total of 36% of those raising funds on Community Shares platforms were repeat fundraisers.

Additionally, 13% of Community Shares platforms were in part owned by an institution.

Perceptions towards Risk Factors - Community Shares 2017



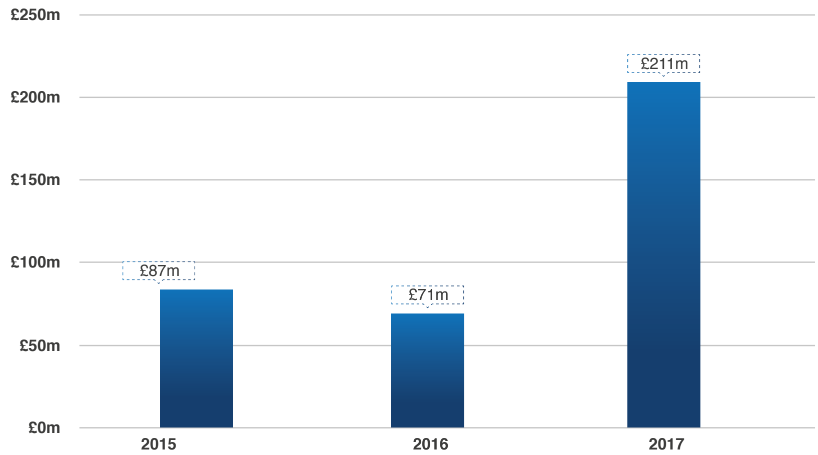
Community Shares platforms in 2017 viewed ‘changes in regulation’ and ‘fraud’ to be the highest risk factors – with 50% of respondents designating both as high risk and 50% as medium risk.

A ‘notable increase in default’ was ranked lower by respondents, but 100% of platforms perceived this as a medium risk.

The overall lowest perceived risk was seen to be that of a ‘cybersecurity breach’ or ‘collapse due to malpractice’ which 50% of platforms viewed as a medium risk and 50% as a low risk.

REAL ESTATE CROWDFUNDING

Total UK Real Estate Crowdfunding 2011-2017 (£millions)

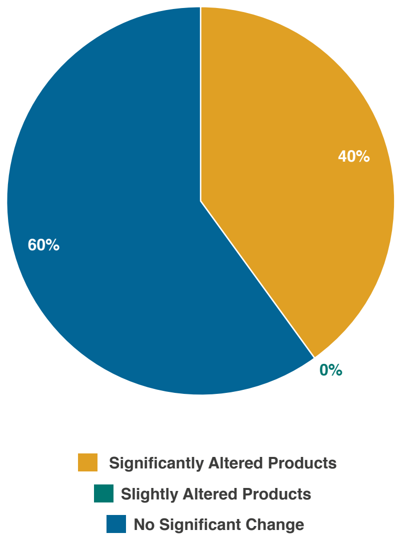


The volume generated by Real Estate Crowdfunding increased dramatically from 2016 to 2017, rising 197% from £71 million to £211 million. This increase is significant in the context of the preceding year's volumes, in which total volumes fell 18% year-on-year. Since the CCAF first began tracking Real Estate Crowdfunding in 2015, the model has generated £369 million - 57% of which was generated in 2017 alone.

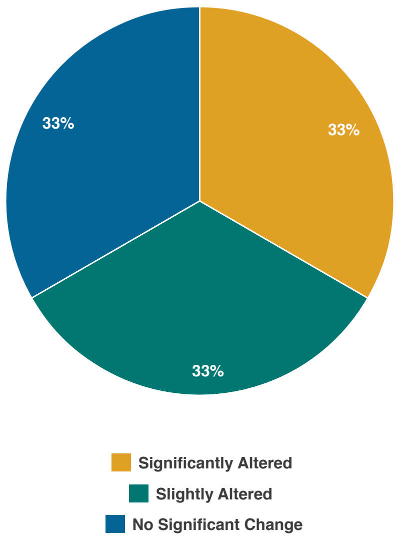
The onboarding/qualification rate for Real Estate Crowdfunding was 13%. Additionally, the number of platforms that successfully raised funding after qualification decreased from 96% in 2016 to 53% in 2017. The number of repeat fundraisers rose, from 29% in 2016 to 59% in 2017. Of all investors in Real Estate Crowdfunding, 78% had invested in a previous campaign. Utilisation of Auto-selection/Manual Selection in this model remained at 0%.

While 40% of Real Estate Crowdfunding platforms have some sort of referral agreement in place, only 20% have partial institutional ownership.

Product Innovation in Real Estate Crowdfunding in 2017



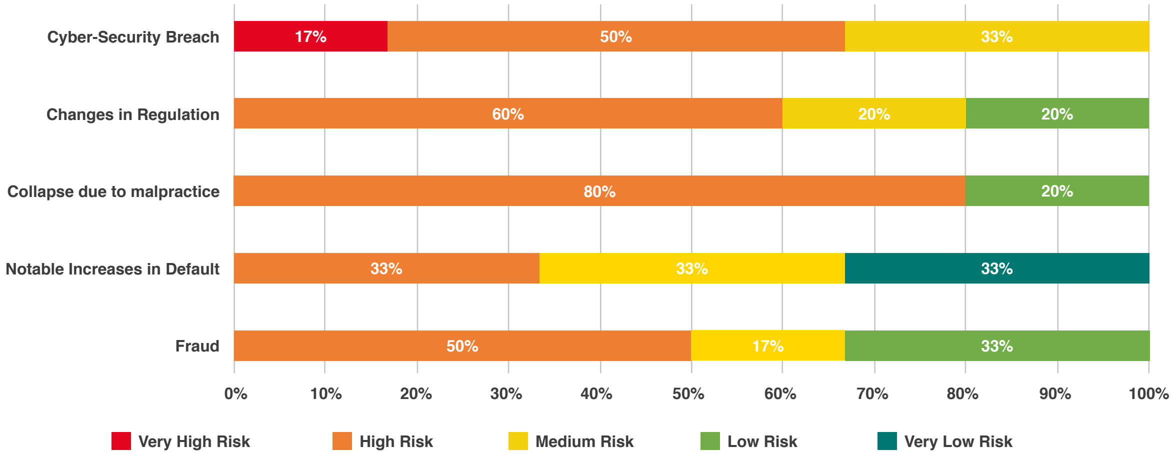
Business Model Innovation in Real Estate Crowdfunding in 2017



Most Real Estate Crowdfunding platforms made no significant changes to their product offerings. Interestingly, platforms reported that they had either made no changes or made significant alterations to their products – with no platforms slightly changing their products. Overall, 60% of platforms made no significant changes, while 40% made significant alterations.

With regard to innovation in Real Estate Crowdfunding platforms' business models, responses were equally split three ways – with 33% responding that there was 'no significant change,' 33% stating that they had 'significantly altered' their model, and 33% 'slightly modifying' their business model. Overall, this highlights that two-thirds of Real Estate Crowdfunding platforms made some sort of change in their business model in 2017.

Perceptions towards Risk Factors - Real Estate Crowdfunding 2017

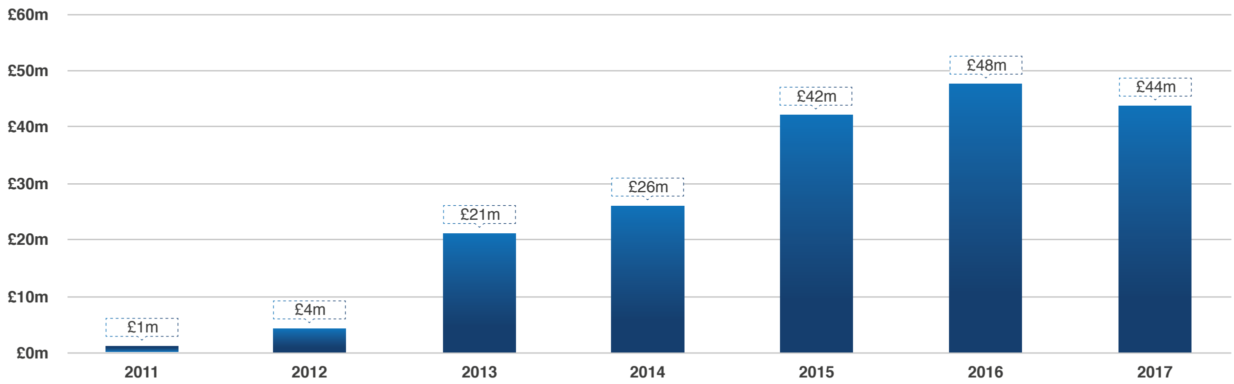


Among Real Estate Crowdfunding platforms, the type of risk most likely to be rated 'very high' was that of a cybersecurity breach, with 17% rating it as a very high risk and 50% seeing it as a high risk. While not designated as a very high risk by any of the platforms, 'collapse due to malpractice' was ranked first among the industry's concerns, with 80% of platforms viewing it as a high risk.

Additionally, while 50% of platforms rated 'fraud' a high risk, the remaining 50% viewed it as medium (17%) or low (33%). The lowest overall perceived risk was with regard to 'notable increases in default', with 33% of platforms seeing it as medium risk and 33% as very low risk.

REWARD-BASED CROWDFUNDING

Total UK Reward-based Crowdfunding in 2011-2017 (£millions)

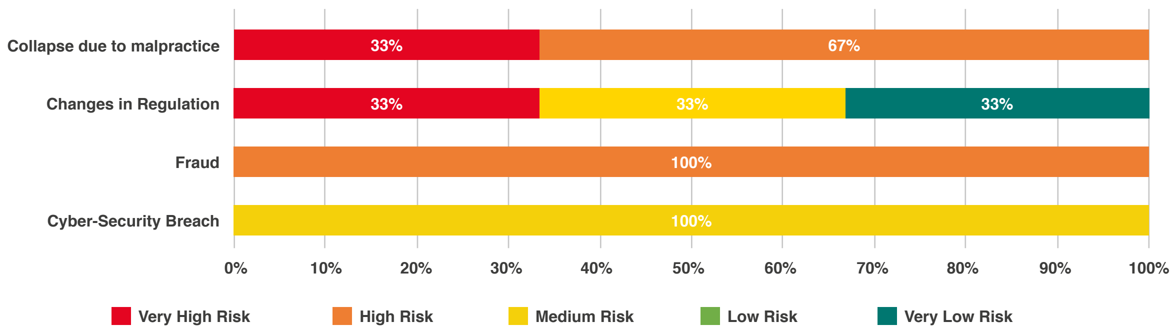


Reward-based Crowdfunding is another model which is experiencing a decline in volume. Reward-based Crowdfunding accounted for £44 million in 2017, an 8% decrease from 2016. This is the first year that the model has decreased in volume. In the first three years of recorded data (2011 to 2013), Reward-based Crowdfunding grew at triple digit rates, before the growth rate began to decelerate between 2014 and 2016. Overall, between 2011 and 2017 the model accounted for £185 million in volume – 24% of which is represented by 2017.

The onboarding/qualification rate for Reward-based Crowdfunding was 28%. While the overall volume decreased, the number of successful campaigns increased. In 2017, the successful funding rate increased from 42% to 90% year-on-year. Of those raising funds on a reward-based platform, the number of repeat fundraisers increased from 5.9% in 2016 to 11% in 2017.

Across the model, 33% had some sort of referral agreement, 33% utilised agent banking, and 33% had custodianship.

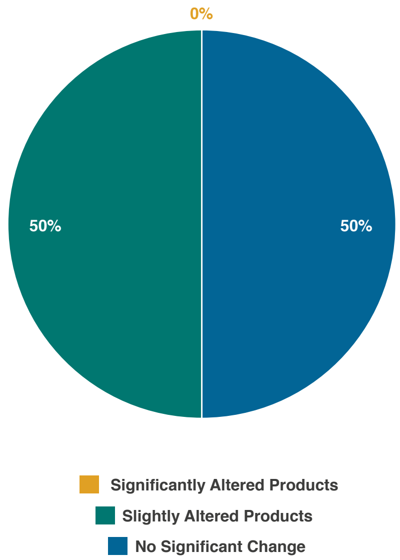
Perceptions towards Risk Factors - Reward-based Crowdfunding 2017



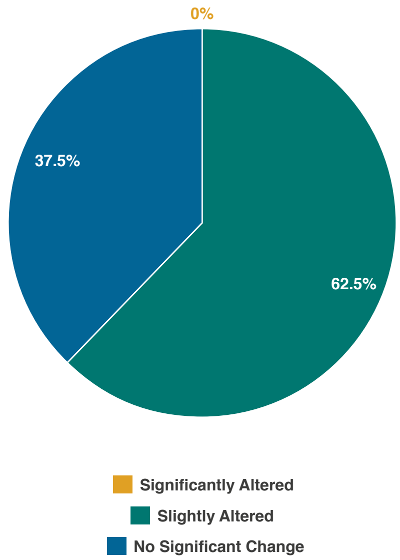
For Reward-based Crowdfunding in 2017, the highest perceived risk was ‘collapse due to malpractice’, with all platforms viewing it to be a high risk (67%) or a very high risk (33%). ‘Changes in regulation’ was equally seen as a very high risk (33%), medium risk (33%) or very low risk (33%). ‘Fraud’ was universally viewed as a high risk, while ‘cybersecurity breach’ was also unanimously viewed as a medium risk.

The absolute lowest risk factor was ‘notable increases in default’ – with no platform rating it above low risk (67%), and 33% perceiving it as a very low risk.

Product Innovation in Reward and Donation Crowdfunding in 2017



Business Model Innovation in Reward and Donation Crowdfunding in 2017



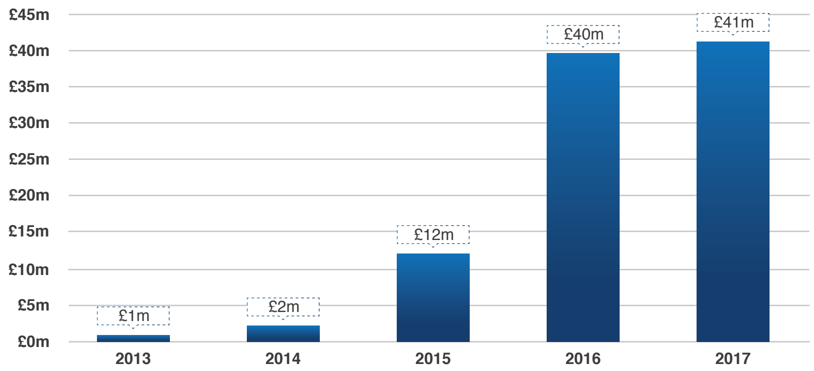
Reward- and Donation-based crowdfunding were combined when looking at innovations in products and business models. Across both models, there were no platforms in 2017 that significantly altered their products or business model.

With regard to product innovation in Reward- and Donation-based crowdfunding, responses were equally split. Half of the platforms reported slight alterations, while half had no significant changes.

A majority of Reward- and Donation-based crowdfunding platforms (63%) slightly altered their business model in 2017.

DONATION-BASED CROWDFUNDING

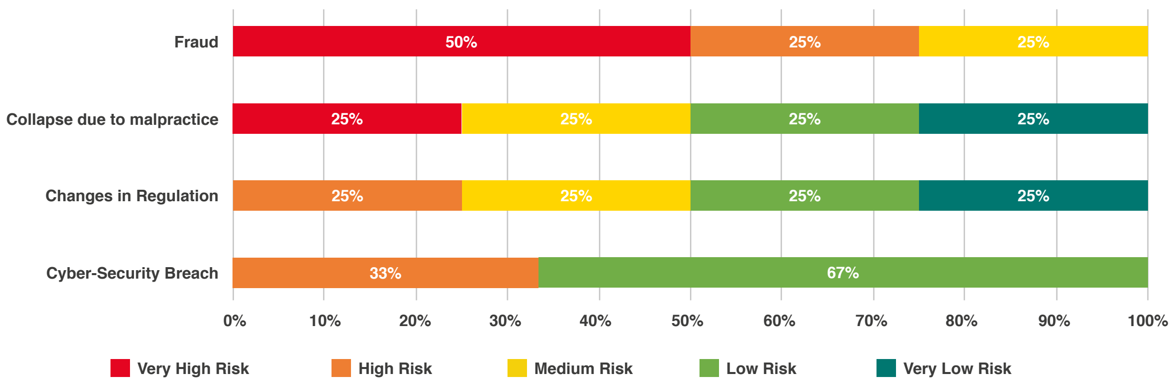
Total UK Donation-based Crowdfunding Volume 2013-2017 (£millions)



Donation-based Crowdfunding raised a total of £41.2 million in 2017, growing 4% from 2016. In the five years that the CCAF has tracked the model, Donation-based Crowdfunding has raised a total of £96 million, 43% of which was in 2017 alone. This year represents the first year that Donation-based Crowdfunding has not grown by triple digits – although it has nevertheless continued to grow.

Interestingly, the onboarding/qualification rate for fundraisers declined from 91% in 2016 to 65% in 2017. The drop in onboarding, however, did not materially impact the successful funding rate, although it did decrease slightly from 56% in 2016 to 51% in 2017. Additionally, the number of repeat funders rose significantly – from 74% in 2016 to 82.4% in 2017.

Perceptions towards Risk Factors - Donation-based Crowdfunding 2017



‘Fraud’ was perceived to be the highest risk for Donation-based Crowdfunding platforms in 2017, with 50% of respondents ranking it a very high risk and 25% rating it as a high risk. Additionally, platforms unanimously viewed ‘notable increases in default’ to be a high risk.

Views on the risk level of ‘collapse due to malpractice’ and ‘changes in regulation’ were both split into four equal segments – 75% of platforms rating them between a medium and very low risk. ‘Collapse due to malpractice’ was seen to be a slightly more severe risk, with 25% of platforms reporting that it was a very high risk, while 25% viewed ‘changes in regulation’ to be a high risk.

ENDNOTES

1. Business volume is derived from the applicable volume from P2P Lending, Invoice Trading, Debt-based Securities, Equity-based Crowdfunding, Real Estate Crowdfunding and Reward-based and Donation-based Crowdfunding. In the case of web-scraped data, 35% of Reward-based Crowdfunding was attributed to Business funding.
2. BVCA, *BVCA Private Equity and Venture Capital Report on Investment Activity 2016*, p. 5. Available at: https://www.bvca.co.uk/Portals/0/Documents/Research/Industry%20Activity/BVCA-RIA-2016.pdf
3. British Business Bank and Beauhurst, *Small Business Equity Tracker 2018*, p. 4. Available at: https://www.british-business-bank.co.uk/wp-content/uploads/2018/07/Equity-Tracker-Report-2018.pdf
4. British Business Bank, Small Business Finance Markets 2017/18, p. 54. Available at: https://british-business-bank.co.uk/wp-content/uploads/2018/02/364-Small-Business-Finance-Reportweb.pdf
5. UK Finance, SME Finance Update – Quarter 1, 2018, Created: 8 June 2018. Available at: https://www.ukfinance.org.uk/wp-content/uploads/2018/06/SME-Update-Q1-2018-v2.pdf
6. UK Finance, 'Number of new loans to SMEs increases in Q1 2018', UKFinance.org.uk, Created: 12 June 2018. Available at: https://www.ukfinance.org.uk/number-of-new-loans-to-smes-increases-in-q1-2018/
7. https://www.british-business-bank.co.uk/wp-content/uploads/2018/06/Business-Angel-Reportweb.pdf
8. https://ec.europa.eu/info/law/better-regulation/initiative/1166/publication/181605/attachment/090166e5b9160b13_en
9. https://www.fca.org.uk/publications/consultation-papers/cp18-20-loan-based-peer-peer-and-investment-based-crowdfunding-platforms-feedback-our-post
10. https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/alternative-finance/downloads/2017-12-ccaf-entrenching-innov.pdf
11. The models analyzed in the Funder Survey included three models from Loan-based Crowdfunding, and three from Investment-based Crowdfunding.

Loan-based crowdfunding:

- Peer-to-Peer Consumer (P2PC) Lending
- Peer-to-Peer Business (P2PB) Lending
- Peer-to-Peer Property (P2P Property) Lending
- Investment-based crowdfunding:
- Debt-Based Securities (DBS)
- Equity-Based Crowdfunding (Equity)
- Real Estate Crowdfunding (RE CF)

12. https://www.fca.org.uk/publication/consultation/cp18-20.pdf Page 42, section 5.48

13. https://www.ons.gov.uk/file?uri=/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/compendium/wealthingreatbritainwave4/2012to2014/wealthingreatbritainwave42012to2014/extendedanalysesreferencetablesfinal_tcm77-428848.xls

14. Please refer to Figures 30 and 31 of 'Entrenching Innovation': https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/alternative-finance/downloads/2017-12-ccaf-entrenching-innov.pdf

15. Please see a more detailed breakdown of 65+ respondents by their reported income range:

	PROPORTION OF P2P CONSUMER LENDING	PROPORTION OF P2P BUSINESS
Not Reported	4%	3%
Less than £15,000	11%	10%
£15,001 – £25,000	27%	21%
£25,001 – £35,000	24%	19%
£35,001 – £50,000	19%	24%
£50,001 – £100,000	12%	17%
£100,001 – £150,000	2%	5%
Over £150,000	1%	2%

16. The Qualification/onboarding rate refers to the rate of fundraisers whose initial application to raise funds on a platform were considered qualified and allowed to proceed on to the platform. This does not capture successful fundraising.

17. Of those qualified to fundraise, the successful fundraising percentage refers to fundraisers who were able to receive funding through a platform.

18. It should be noted that the probability of default rises as a loan matures, and thus older loan cohorts tend to have higher default rates. Default rates across the entire portfolio may underestimate the risk of default related to new loans, particularly if the total loanbook is growing fast and is therefore substantially consists of relatively recent loans.

19. It should be noted that the probability of default rises as the duration of a receivable grows and the underlying obligation matures, and the caveats provided in relation to crowdfunded loan default rates should be borne in mind for this segment of the market as well. However, because invoices tend to have shorter maturities than crowdfunded loans, total default rates are likely to be more representative in this seg

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