Cambridge
**Centre
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UNIVERSITY OF
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The Global Alternative Finance Market Benchmarking Report

Trends, Opportunities and Challenges for Lending,
Equity, and Non-Investment Alternative Finance Models

In partnership with:

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The Global Alternative Finance Market Benchmarking Report

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Since 2015, the Centre for Alternative Finance has pursued a mission of addressing the considerable knowledge gap that has emerged alongside the rapidly developing alternative finance landscape. Among other things, this has meant striving to create a standardized lexicon and commonly acceptable taxonomies to address the quickly emerging and constantly evolving alternative finance instruments, channels and systems the world has come to observe. By dedicating our research towards the creation and transfer of knowledge, it is our hope that the research we have produced in this report will aid in the decision-making of market participants, regulators, and related stakeholders.

The research contained in the following pages serves as the very first attempt by the CCAF to produce a truly global assessment of the online alternative capital raising market. Together with our research partners, we have tracked and analysed the development of alternative finance industry globally; having produced a series of regional reports covering online alternative financing activities in more than 185 countries. For the first time, we have consolidated our annual regional reports to produce one global benchmarking report, with the intention of presenting world-wide online alternative finance market data and insights for 2018. This report brings together the data collected from financial technology firms operating Crowdfunding, P2P/Marketplace Lending and related online capital raising activities. Over 1,200 firms from over 180 countries and jurisdictions responded to our annual survey, with 47% of the surveyed firms operating in at least two jurisdictions. This benchmarking research therefore provides the most robust and globally comparative database currently available.

This global report sheds light on the evolving landscape and market dynamics of the online alternative finance industry which are now providing substantial sources of funding for consumers, start-ups, small and medium sized enterprises, and industrial verticals ranging from manufacturing sector to creative industries. In 2018, the global online alternative finance industry facilitated $304.5 billion worth of funding. Although the Chinese alternative finance market has faced considerable hardships in 2018, it still accounted for 71% of global volumes ($215.4 billion). Excluding China, online capital raising activities grew by 48% year-on-year to reach $89 billion in 2018. The United States ($61 billion) and the United Kingdom ($10.4 billion) came in second and third respectively. In 2018, five additional countries surpassed the $1 billion threshold of alternative finance market volume including the Netherlands ($1.8 billion), Indonesia ($1.45 billion), Germany ($1.27 billion), Australia ($1.16 billion) and Japan ($1.07 billion). This report will provide further analysis in terms of regional market dynamics, institutionalization, market participation by gender as well as industry's perception of regulations.

I would like to particularly thank our European research partner for this study – Agder University, as well as our generous financial supporters Invesco, CME Group Foundation and the Inter-American Development Bank, who all made this study possible.

Dr Robert Wardrop
Director
Cambridge Centre for Alternative Finance

As the first decade of alternative finance research grows to a close, it is more important than ever to review the state of the industry, and its remarkable development. Answering the need for this information from regulators, industry players, as well as platform users, research plays an important role in both recording current state of the industry as well as influencing decision-making that is shaping its future.

The University of Agder's School of Business and Law is home to one of Europe's most active and productive research teams dedicated to crowdfunding research. In the past year, we have launched a crowdfunding research center playing an important role in local, national, regional and international levels in terms of research work, academic publications, as well as industry reach out and intensive support activities in both educational and advisory roles.

This year we continue our close cooperation with the University of Cambridge Center for Alternative Finance through the co-production of the first global alternative finance industry report. For the first time, this report allows stakeholders to review the global state of the industry in addition to regional analyses. Such perspective becomes more relevant every year with the intensification of cross-border activities and transactions.

The current report is an impressive read on the current dynamics and operations of alternative finance highlighting its growth trajectories, innovation directions, as well as scope and impact.

We continue our strong commitment to this important line of work and look forward to following its development through ever more ambitious research.

Dr. Kristin Wallevik
Dean
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As Alternative Finance continues to change and evolve so too do the ways in which we measure and benchmark how companies are adopting new models of finance.

Invesco has had the opportunity to collaborate with the Cambridge Center for Alternative Finance (CCAF) over the past few years in support of the the multiple reports coming from academic research. Historically, the alternative finance reports have been focused on regional studies, so we acknowledge that it's quite an achievement to see the alternative finance studies being pulled together for 2018 in a way similar to the global blockchain benchmarking report.

Congratulations to the team for accomplishing this new feat. This survey sample represents the largest data set collected and analysed for online alternative finance industry benchmarking research conducted by the CCAF to date. Impressively the report includes approximately 1200 unique organizational views with over 2300 firm-level observations globally.

While the study provides an aggregate global view of alternative finance activities around the world, it also does a great job of breaking down findings by region to highlight regional nuances of where certain models are thriving. The report shows that while alternative finance activities (crowdfunding, peer-to-peer (P2P)/marketplace lending or related capital raising activities) slowed, mostly due to a decline in activities in China, the rest of the world including Asia Pacific (ex. China) saw growth. China experienced a sharp decline in activity, even though China still accounts for most of the alternative finance activity in the globe by volume with approximately $215 billion in alternative finance models. The United States and the UK came in at a distant second and third place with $61Billion and $10 Billion respectively. To support the findings, the study found that just under half of the firms who took part in the study operating in two or more countries or jurisdictions, and there was an increase in cross-border activities across all models of alternative finance the study looked at.

Consistently, the largest online alternative finance model by market segmentation was P2P / Marketplace Consumer Lending. The digital nature of most P2P lending platforms can offer opportunities for decreased overhead for lenders and lower interest rates for borrowers, indicating that individuals with capital see P2P and Marketplace lending as a viable option for a return on investment, and borrowers are seeing access to capital previously more difficult to attain. Often the ability to more accurately determine credit risk default also owes it success to artificial intelligence and machine learning that is able to evaluate on newer, less-biased parameters from previous methods in traditional finance.

Invesco is committed to being a client-centric asset manager, and as investor demographics change in terms of age and client expectations on digital interfaces and access to capital, it is important to keep a pulse on the ways that the world is changing its position on traditional finance and how alternative finance is being adopted and evolved throughout the world. As such, we would like to thank the Cambridge Center for Alternative Finance and all of the individuals and teams involved in the creation of this report for their research efforts and supporting the evolution and measurement of financial models around the globe.

Dave Dowsett
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Invesco

This First Global Alternative Finance Market Benchmarking Report continues the success of three consecutive editions of "**The Americas Alternative Finance Benchmarking Report.**" This amplified research scales up the results of the Latin America and the Caribbean (LAC) fintech ecosystem to a world-level. In **Chapter 5: A Regional Discussion on the Americas,** the reader will understand the LAC Alternative Finance industry in the context of some other five geographies. The, now, Global Report, is an effort we will continue to reproduce with the University of Cambridge Centre for Alternative Finance (CCAF), and other partners, for the rest of the regions around the world. Chapter 5 is a proven tool for platforms, investors, regulators, academia, and many other stakeholders, as the only comprehensive and objective set of data and analysis about the alternative finance ecosystem in the region. This year we included a total of 301 alternative finance firms across the region, which were active at the time of the survey.

The results for the year of 2018, are remarkable for Latin America and the Caribbean for five main reasons:

- **First, annual originations surpassed the $1 billion threshold**, reaching a total volume of $1.81 billion. Brazil leads the region in origination with more than a third of the regional ecosystem (Volume: $666.85 million, Regional Share: 37%). Second place in size is Chile ($289.26 million, 16%), followed by Mexico ($233.39 million, 12.9%), Colombia ($192.47, 10,6%), Peru ($158.46, 8.7%), and, Argentina ($129.2 million, 7%). When seen per model, P2P/Marketplace Consumer Lending takes the higher share (Volume: $432.75 million, share of total: 24%), explained mostly by Brazil ($298.5m) and Mexico ($53.7m).
- **Second, LAC was the region to reach the steepest year-to-year growth amongst the six (6) geographical groups** included in the analysis, with an annual growth rate of 173% against the previous year's volume ($663 million). In fact, for the last six years, LAC origination had an average annual growth rate of 147%, consistent exponential growth.
- **Third, the region maintains its focus in businesses with 60% of alternative finance market activity devoted to this specific niche**. The region delivers 60% of its volume to businesses: invoice trading ($398.4 million, 22% of total share) is the largest share of the alternative finance activity in Chile, Peru and Colombia. Marketplace/P2P Business Lending ranks second ($274.8 million, 15%), followed by Balance-Sheet Business Lending ($264.9 million, 15%). In the aggregate $1.08 billion were directed to finance projects for 217,000 businesses across the region. More detail to come in a Deep-Dive to be published soon by IDB, IDB Invest and CCAF.
- **Fourth, Alternative Finance works as a tool for financial Inclusion.** Although 63% of fundraisers had an account in the financial system, all of them funded in the alternative finance platforms. On the other hand, and very remarkably, for the second year in a row, the study gathered numbers on gender, finding how fundraisers share increased from 31% to 34%, and funders increased from 19% to 22%.
- **Fifth, regulatory risks rank as the highest risk perceived by platforms in the region.** Only 44% of the debt-based platforms considered that the existing regulation was adequate and appropriate. Rregulatory landscape changed with regulations or rules issued for the Fintech ecosystem in Argentina, Brazil, Colombia, Mexico, and other jurisdictions and financial supervision tools as innovations hubs (Colombia, Chile), regulatory sandboxes (Mexico, Guatemala) to mention some examples. IDB will publish a study on these advances in the forthcoming months.

Finally, this publication adds up to the efforts that IDB Group (Inter-American Development Bank, IDB Invest and IDB Lab) is fostering across LAC. To this particular extent, the Bank has coordinated **FintechLAC**, a public-private initiative with the participation of regulators, supervisors and Fintech Associations from across Latin America and the Caribbean. Through FintechLAC, we are creating a dialogue through: adoption of best practices, understanding of international regulations and public policies, knowledge sharing, among others. On the other hand, both IDB Invest and IDB Lab are financing many other initiatives in the Fintech sector that include collaboration with entrepreneurs, investing in Fintech companies, among other activities.

We hope that the reader uses this study as an instrument to understand further the current status of alternative finance in the region and within the context of the Americas. As it shows, crowdfunding is growing up at a significant pace, and its impact is beginning to appear material for some jurisdictions financial markets, but most importantly, financial consumers.

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逗派 doughpack	Downing	dream equity	DreamShake	DREAM WALLETS
DURIAN	DUURZAAMINVESTEREN.NL	DYNAMIC CREDIT	EASY LEND	ecoligo .investments
ecozins	edebex Innovative cash-flow solution		enerfip	EnergyFunders
ENGEL&VÖLKERS CAPITAL	enova.	ENVESTORS	eqseed	EQUITISE
eragano	espresso	ethex make money do good	ETHIS	eureeca.com
EMF PIN voorschot	Evolocity FINANCIAL GROUP	ExcelCredit	ExitValley	EXPANSIVE Crowdfunding Inmobiliario
EXPORO	Facturedo	fairplaid	farmcrowdy	FELLOW FINANCE
Fellow Funders smart investment	Ferratum	Fina	finaKtiva FINANCIACIÓN INTELIGENTE	Fi
finanzarel	FinBee ONLINE LENDING P2P	FINCO	finexkap	FH FINHOME.COM
Finnest	finple	FinScore	finzy	Firgun
First Digital Finance	FIXURA	flexfunding	FOLK2FOLK Local Secured Lending	Folkeinvest.no
BANCO FONDEADORA	fondify	Fosburit by I believe in you	Founderlist	FRACSN
FrontFundr Invest in the future	ftcash faster than cash	FUNDTHATFLIP	help	GOTEO
FUNDATION	fundaztic P2P	FundedHere	Funder Nation	FUNDERS
Fundfina	Fundimmo	Funding Circle	funding societies	FUNDING PARTNER
FundingSecure PEER-TO-PEER ASSET BASED LOANS	FUNDKISS keep it smart & simple	fundky	fundlang	fundlift

FundPlaces	FundRazr	FUNDSTART	FundThrough	FUNDU
fundwise	GALANTOM	GAMER GIVING	GELDWERK1	GERU
GET NORTHWARDS		givealittle	GIVE&FUND	give INDIA
givengain	GIVINGHARBOUR	GLIDECAPITAL	GlobalGiving	GoFundAfrica
Good Shepherd ENTERTAINMENT	GOOOD	GODARITY	GRADANA	GrapeCity
GREEN ROCKET	greenCrowd	GREEN FUNDING by T-SITE	GreenVesting	grex
GROUNDFLOOR	GROW.LY	GrowthFunders	GUANXI	gulungo
GYRA+	hamijoo.com	Hannover Machen ...mit der Crowd	HAPPY	Harmoney
headstart	HITHIT	Hola préstamo Asesor	HANDY www.holaandy.com	HOME ROCKET
homunity	HOANDJA	HuyDong.com	I care for you	HEATEO SIHTASUTUS
i-LEND Loans For People By People	iCare BENEFITS LIVING FOR TOMORROW	ICORA	IENTRA The Entrepreneur's Mantra	iFunded
iKiwi	immo rocks	Incit'financement Auvergne-Rhône-Alpes	INDIALENDS	INDIA MONEY MART
Innova Factoring Smart Capital	innova funding	inno vest ment	innpactia	INTERNEX CAPITAL
Inverspot. Tu punto de inversión inmobiliario	INVESDOR	INVEST LATAM	investbook	InvestLocalBC.ca
investree	INVOICE EXCHANGE	invoicefair The Marketplace for Invoice Trading	invoiceinterchange	INVOOP
IOU Financial Business Lending. Simplified.	IOU	iouu.	isf CRÉDITO ORIENTADO SEU GUIA FINANCEIRO.	iuvo group
iVarejo	JULO	Jumpstarter CROWDFUNDING SOUTH AFRICA	US JustUs	k2g Loans

Kabbage	kameo	kapilendo	KAPITALBOOST	KAPITUS
k KAROLINA FUND	Ketto	kiakia	KICKFURTHER	KIKKA
Kiu	kiva	Klathrate	klear	KNAB FINANCE
KOINWORKS Peer-to-Peer Fintech Lending	kolase.com	konfio	KOREGRAF	kredd.
Kuanto	kueski	L'ARRONDI	LA RUCHE	LA BOLSA SOCIAL
LaBoRiusa	LANDBAY	LandlordInvest	LASO	LaunchGood
LC LENDING member of the LC group	Leipziger	Lend & Borrow	lendahand	LenDen club
Lender & Spender	LENDERA	Lendify	LendingCrowd THINK OUTSIDE THE BANK	Lending Loop
Lending Works	LendingClub	LENDINGKA₹T	LENDINGPOINT	LendingStar
LENDINO	lendio	LENDIT	LendKey	LENDORA
Lendosphere.com		lendwithcare	Let'sVenture	LET'S DONATION
LIBERA SUPPLY CHAIN FINANCE	lighter capital	LION ROCKET	LIQUID FINANCE Funding growth	LIWWA
信用市集 LEND & BORROW	LOANCHAMP	LOANMEET	RAIFFEISEN lokalhelden.ch	LOOK&FIN SMART AND ALTERNATIVE FUNDING
LQN LoQueNecesito.co	M-Changa	machi-ya	MADISTON LendLoanInvest	MARKETINVOICE
Marketlend	M	matontine	medifundo LIFE SCIENCE INVESTMENTS	
MEKAR	MERCANIA	MERCHANT GROWTH	meefix financiación inteligente	micochinito.com
micrograam people investing in people	milaap	mimoni contigo para lograrlo.	minterest	mintos

modalku	Monaco Crowdfunding	MONEXO Lend GROW. Borrow GROW	Money Club HAI TOH HO JAYEGA	Money & Co.
MONEYTHING	Moneywecan	monific	Monner	MoolahSense
Morakot Simply Innovative	MOTUSQUO	MOUDA	MOOLA	MS music securities
MULTI FINANTARE	Mutual	M MUTUO FINANCIERA	mycause	MyDilse
myelen.com my ELECTRONIC LOAN EXCHANGE NETWORK	mymoneyhelp.fr	mystartr	MytripleA	Nadační fond pomoci Karla Janečka
NamasteDirect	NEO Finance	NEXOOS	nextseed	NEXU
neyber	NOBLEZA OBLIGA	noverde	NOVICAP	NOVO BANCO CROWDFUNDING
october	ML Smart Financing	omni BNK	ondeck The small business loan specialist	oneplanetcrowd
OPENTAP	OPPORTUNITY FINANCE NETWORK	OurCrowd	OVAMBA	OwnersBook
OXYLOANS Lend - Borrow - Invest	P2Binvestor	pag!	Pango FINANCIAL	patasente
PAYJOY	Paynexus	PayPal Working Capital	PeerPower	PEPINS
PERX FOLKEFINANSIERING	PINJAM WIN/WIN	P	play business	Pocket Funding
PolakPomaga.pl GRUPAPOLAK	Polak potrafi.pl	PONTO EDUCA	Pozible	PPL
precipita ACTIVANDO LA CIENCIA COLECTIVA	PRESTACAP	Prestadero	pretup	prezzta
PrimaryBid	Prodigy Finance	PROFITSHARE PARTNERS	PROFITUS	progressa
PROJEKTU BANKA.LV	Property Moose	Property Partner	PROPERTYSHARES	Proplend
	prospa	PROSPER	QBERA	QUEREMOS!

quero Financiar.com	QUICKRAIZ	RainFin	raizers THE INVESTMENT CIRCLE	Rang De
RapiCredit ¡Crédito cuando lo necesitas!	Rapido Factoring Online	RateSetter	ReaCapital	REALTY AFRICA
.rebanking	rebuildingsociety.com	recaudia	RedCapital	REFINANCIA REFerencia
Regional funding	RElendex	Republic	Respekt.net CROWDFUNDING FÜR EINE BESSERE GESELLSCHAFT	ROBOCASH INVESTMENT ROBOT
roger	Röntgen.	root capital	Royalti	RSF SOCIAL FINANCE
RupeeCircle Borrow Better, Lend Smarter	SalaryFits	SamenInGeld	sancus straightforward financing	Satangdee.com
SAVELEND	SAVY	SBI Social Lending	Seed out WWW.SEEDOUT.ORG	SEED&SPARK
seed[in] TAKE YOUR BUSINESS FURTHER	seedinvest	SEEDMATCH	SEEDRS	sempi.
sesocio.com Vos podés participar	.Sharein	Sharestates	SheEO	SiB KARO
Silver Bullion	SIMPLE CROWDFUNDING	simplygiving.com Helping people make a difference	size SOLUÇÕES FINANCEIRAS	Small Change
SMALL CHANGE.ngo Give a little, change a lot.	smartbiz	SMART MEI	SME CAPITAL	SMU
SOCIO LADDER GLOBAL UNITY FOR HUMAN EQUITY	Sofi.la	SoFi	SOISY	SOUP
sowefund	Spacehive	SparkUp	SPLEiS	SPONSORT
Spotcap	Squirrel Money	start engine	Startskudd	StartSomeGood
starttime	swisspeers	SYNDICATE ROOM Invest with the professionals	เทใจ taejai.com	TVCN TANZANIA VENTURE CAPITAL NETWORK
taralite	TARYA	TERAFUNDING	TESSIN	the housecrowd
the route City wealth club | Finance	SNOWBALL EFFECT	The Tiny Seed	THINCATS	Thinking Capital

Thundafund
TiendaPago
tima Vay trong ngày
TIMIA CAPITAL
TŐKEPORTÁL
Transparent Hands Providing Free Medical & Surgical Care
TRINE
Triodos Bank
TruePillars
TUGENDE DRIVE TO OWN
tumblbug
tunaiku
TWINO
UANGTEMAN
uConecte
Udenom Banken
ulule
unite!
Unternehmerich
upbuilds.com
UpEffect
Uprise.Africa
Upstart
URBE.ME
vaki
vakinha
VANACCO
VAURAUS
velotrade
VENTURE FOUNDERS
verkami
Vested
VIELE SCHAFFEN MEHR
VillageCapital
vision bakery
viventor
Volksbank eG Wümme-Wieste
voordekunst
VR-Bank Rottal-Inn eG
vurke
wadiz
walliance
WeAreStarting
WEDOGOOD
WEALTH CRE8
WeCan.Fund
we make it .com
wenance
WIR BEWEGEN.SH
WiSEED
WISHBERRY
wisr
WOOP food
worldcoo Co-funding cooperation
worthy
www
LOANCHAMP
Yacobro
YALBER
YIELDSTREET
Z2P
ZAR GREAT IDEAS FUNDED
zestfinance
zeste
ZIGWAY
zinc euro
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ZISSMO
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ZONKY
zoomaal
ZOPA
fundlang
L market 債權商城
商借町
新联在线 NEW UNION ONLINE
鄉民貸

Executive Summary

Over the past five years, the Cambridge Centre for Alternative Finance (CCAF) at the University of Cambridge Judge Business School, together with its research partners, has tracked and analysed the development of alternative finance industry globally; having produced a series of regional reports covering online alternative financing activities in more than 185 countries. For the first time, the CCAF has consolidated its annual regional reports to produce one global benchmarking report, with the intention of presenting world-wide online alternative finance data for 2018.

This report presents the key findings from the CCAF annual global survey of online alternative finance. In all, 1,227 unique firms contributed to this study, providing 2,322 firm-level observations globally. Investigating in crowdfunding, P2P/marketplace lending or related capital raising activities, the study shows that 47% of the firms were operating in two or more countries or jurisdictions. Given the increasingly international nature of this industry, we sought to understand not only how firms function within their headquarter country, but also how they operate when entering new markets. Accordingly, when firms operate in more than one country, each entry per country is regarded as a separate firm-level observation.

Breaking the survey sample down by key markets, this study captured 632 firm-level observations in Europe, 87 in the United Kingdom, 438 in China, 334 in the Asia-Pacific, 270 in Latin America and the Caribbean, 237 in the Middle East & Africa, and 143 in the United States and Canada. This survey sample represents the largest data set collected and analysed for online alternative finance industry benchmarking research conducted by the CCAF to date.

Some of the key findings include:

Key Findings from the Global Alternative Finance Market Highlighted:

- In 2018, the global alternative finance industry facilitated USD $304.5 billion in transaction volume. This global alternative finance volume is representative of funds that were raised via an online alternative finance platform for consumers, business and other fundraisers. This volume represents a 27% annual decline against the $419 billion recorded in 2017. However, this drop in global volume stems primarily from a sharp decline in alternative finance activities in China. Excluding the Chinese market, the global alternative finance market volume actually grew by 48% year-on-year, from the $60 billion in 2017 to $89 billion In 2018.
- In terms of individual markets, China still had the largest alternative finance volume by country and generated a total of $215.37 billion in transaction volume in 2018, predominantly from debt-based alternative finance models. The United States ($61 billion) and the United Kingdom ($10.4 billion) came in second and third respectively. In 2018, five additional countries surpassed the $1 billion threshold. These included the Netherlands ($1.8 billion), Indonesia ($1.45 billion), Germany ($1.27 billion), Australia ($1.16 billion) and Japan ($1.07 billion).
- On a per capita basis, the United States, the United Kingdom, Latvia, Estonia and the Netherlands were the top-five ranked countries. It is notable that Latvia and Estonia reached 3rd and 4th ranked positions from relatively low bases (ranked 24th and 29th in terms of total volume). This demonstrates that countries with smaller overall online alternative finance volumes may still have greater market penetration, higher adoption and usage of these models. Most countries with relatively high volumes in per capita terms are predominantly European. Non-European strong performers include Singapore, New Zealand, Australia, Israel and Canada.

- In 2018, the largest online alternative finance model by market segmentation was P2P / Marketplace Consumer Lending, accounting for $195.29 billion – or 64% of total global volume. P2P / Marketplace Business Lending was the second largest market segment, having generated $50.3 billion in market volume in 2018.
- China was the largest market for P2P/Marketplace Consumer and Business Lending, whilst the United States registered the highest volumes for Balance Sheet Business, Property and Consumer Lending. European-based platforms reported the highest volumes for Debt-based Securities, Invoice Trading, and P2P/Marketplace Property Lending in a global context.
- In 2018, alternative finance volumes directed at business funding accounted for $82 billion, which fell by almost half from the high of $153 billion recorded in 2017. Similar to global total market volume, this significant reduction in alternative business funding was largely due to the sharp decline in business-focused funding activity in China in 2018. Excluding China, the global business funding raised through alternative channels actually increased from the $21 billion in 2017 to $31 billion in 2018. As with previous years, the leading markets for alternative business finance were China, the United States, and the UK, with $49.56 billion, $16.81 billion and $5.96 billion recorded respectively.
- Approximately $162 billion of alternative finance volumes directly stem from funding provided by institutional investors such as banks, pension funds, mutual funds and family offices. With the involvement of institutional investors on the rise, most regions were fairly equally split, with roughly 50% of funding coming from the institutions and rest provided by retail investors. The outliers here were the United States with 85% of funding provided by institutions, and Middle East and Africa with 12% and 17% of funds respectively supplied by institutions. Increased institutionalisation was most evident in the Balance Sheet Lending Models, for instance, 93% of the funding for Balance Sheet Consumer Lending was provided by institutional investors.
- This study also sought to understand prevailing payment mechanisms utilized by alternative finance firms. Most alternative finance firms use credit transfers as their predominant payment method. Firms that have Reward– and Donation-based models, however, had more frequent usage of Debit Card and Credit Card payments – for instance, 35% of the firms in Reward-based Crowdfunding have utilised debit cards and 40% have used credit cards for payments. With the exception of Africa, for all other regions, over 50% of all payment service providers were Commercial Banks. In Africa, while 44% of platforms utilized some form of Banks – 22% utilized Mobile Payment services, thanks to the popularity of this payment channel across the Continent.
- Internationalisation is on the rise. Not only is there a notable increase in the number of firms that operate in multiple jurisdictions, there is also an increasing amount of cross-border activities across regions in almost all models. Some models tend to have a higher level of cross border transactions, with P2P Consumer Lending reporting 49% cross border inflows and 48% cross border outflows. Other models with high levels of cross-border activity included Debt-based Securities (38% inflow and 54% outflow), Invoice Trading (34% inflow and 28% outflow) and Balance Sheet Business Lending (22% level inflow and 36% of outflow). The region with the highest cross-border inflows is Africa, with an 83% inflow, which reflects the fact that many of the platforms reporting activities in the region are international platforms bringing inflow of funds to African countries.

Regional Alternative Finance Market Highlights

Europe

- The European alternative finance market (including the UK) grew from $11.9 billion in 2017 to $18 billion in 2018 – a 52% year-on-year increase.
- As with previous years, the UK was the largest contributor by volume – representing 57% of the overall European market and accounting for $10.4 billion in 2018. However, the relative share of the UK market in European volumes has declined from 68% in 2017
- Excluding the UK – the volume generated by platforms across Europe grew by 103% year-on-year from the $3.8 billion in 2017 to $7.7 billion in 2018.
- After the United Kingdom, the Netherlands has leap-frogged Germany and France to claim the spot of top-ranked European country in terms of market volume with $1.8 billion recorded in 2018. Germany ($1.27 billion) and France ($933 million) are placed in second and third places respectively. The Nordic region accounted for $825 million in 2018.
- The leading alternative finance models in mainland Europe include P2P Marketplace Consumer lending ($2.9 Billion), Balance Sheet Property Lending ($1.4 Billion), and P2P Marketplace Business lending ($997 million) accounting for 38%, 18%, and 13% of overall regional volumes respectively.

The Asia Pacific

- Between 2017 and 2018, market volumes in APAC grew 69% from $3.64 billion to $5.90 billion, excluding China.
- Interestingly, compared with the 2017 market volume, the South East Asia sub-region grew 574% year-on-year in 2018 to reach $2.19 billion– accounted for 35.5% of the overall market volume generated in the APAC region. Oceania reported a market volume of $1.41 billion and, South and Central Asia had a market volume of $647.2M in 2018.
- Leading national markets in APAC include Indonesia ($1.4 Billion), Australia ($1.1 Billion), Japan ($1 billion), and South Korea ($753 million), accounting for 25%, 18%, 17%, and 13% of overall regional volumes respectively.
- The leading alternative finance models in the APAC region include P2P/Marketplace Business lending ($1.8 Billion), P2P Marketplace Consumer lending ($982 million), and Balance Sheet Business Lending ($917 million), and accounting for 30%, 17%, and 15% of overall regional volumes respectively.

China

- While the Chinese market had experienced significant growth since 2013 – most recently growing 47% between 2016-2017 – the sector fell 39.8% in 2018. Even with this significant reduction, in 2018 the Chinese market represented 71% of overall global volume.
- The two largest models in the Chinese alternative finance market were P2P/Marketplace Consumer Lending and P2P/Marketplace Business Lending – which combined together accounted for 95% of the overall market volume in 2018.

Americas

- Throughout the Americas, the overall market volume grew by 44% - increasing from $44.3 billion in 2017 to $63.9 billion in 2018. Whilst the United States was still dominating the landscape in the Americas with 96% of the market share, the rest of the region is growing quickly.

- Canada accounted for $908 million in volume in 2018, a modest 5% growth against the previous year.
- The Latin America and the Caribbean region grew by 173% - from the $663 million in 2017 to reach $1.81 billion in 2018. This is the first time that the region has passed the $1 billion threshold. Activity in the region has been driven largely by Brazil (37% of the over-all LAC market), Chile (16%), Mexico (13%), Colombia (11%), Peru (11%) and Argentina (7%).
- P2P/Marketplace Consumer Lending was the largest model in the Americas, growing by 73% to $25.85 billion.

Middle East

- The total market volume in the Middle East has increased steadily, growing 131% year-on-year from the $346.5 million in 2017 to $800.5 million in 2018. P2P/Marketplace Property Lending was the largest model in the region – grew by 827% from the $60m in 2017 to $556.46m in 2018.
- Israel continued to be the largest alternative finance market in the Middle East, accounting for accounting for 90% of the regional volumes, followed by the UAE which accounts for 6%.

Africa

- Online alternative finance in Africa grew by 102%, raising from the $103.8 million in 2017 to $209.1 million in 2018. Overall, P2P/Marketplace Consumer lending accounted for 58%, and P2P/Marketplace Business lending accounted for 9% of regional volumes, in addition, Balance Sheet Business lending accounted for 22% regional volumes.
- Though foreign firms channeled nearly 80% of transaction volume for African fundraisers, domestic firms saw a substantial increase in their reach in 2018. African firms' share of the market has increased from 21% in 2017 to 24% in 2018- to reach almost a quarter of the market, and doubled their 12% market share in 2016.
- Unlike other regions, Africa is not dominated by a single national market. Leading national markets in Africa include Zambia ($40.7 million), Kenya ($35 million), South Africa ($27.4 million), and Uganda ($16.7 million), accounting for 19%, 17%, 13%, and 8% of overall African volumes respectively.

1. The Global Alternative Finance Ecosystem

Chapter 1: The Global Alternative Finance Ecosystem

Introduction

Research rationale and Objectives

This report marks our most comprehensive study on the global alternative finance ecosystem. It examines the growth and development of the alternative finance market both globally and regionally. As alternative finance fundamentally changes capital raising practices for both funders and fundraisers, this report examines developments in platform operability; the business models employed; the innovation directions taken; and the internationalization strategies adopted towards continued growth and success.

Since 2015, the Cambridge Centre for Alternative Finance (CCAF), together with its research partners, has tracked the development of the alternative finance landscape. Having produced separate regional reports throughout the years, it had become clear that discussions related to the evolution of this industry can no longer be segregated geographically. Increasingly, alternative finance firms and the stakeholders they serve are engaging at an international level, and meaningful lessons can be learnt when this industry is observed from a global perspective.

As a result, this year a global alternative finance report will be published for the first time. This report will combine regional analysis with a discussion of global trends, highlighting how some developments are universal while others are specific to a certain context.

The regions covered in this report include the Asia-Pacific region and China; the US and Canada; Latin America and the Caribbean; continental Europe; the UK; and the Middle East and Africa . The data covered by this report is inclusive of the 2018 calendar year, with data collection and analysis occurring throughout 2019. The data was collected from alternative finance actors in 171 countries or territories between March 2019 through September 2019.

This report aims to provide regulators, market participants and key stakeholders with a comprehensive and holistic view of how this industry is developing, as well as its characteristics, potential opportunities and risks. It serves as a starting point or base for more significant globally comparative analysis in the future.

Terminology

This report focuses narrowly on alternative finance models as they relate to capital raising activities. Though a somewhat amorphous term, at its core 'alternative finance' includes activities that have emerged outside of the incumbent banking systems and traditional capital markets. In particular, the capital raising alternative finance ecosystem comprises various lending, investment and non-investment models that enable individuals, businesses and other entities to raise funds via an online marketplace. Typically, these fundraisers satisfy their funding needs through pooled monies from a 'crowd' or network of retail and/or professional investors. As the ecosystem has evolved, clear model types have emerged and become more delineated and sophisticated. As such, the CCAF has adopted a taxonomy of 14 models that can be broadly divided into Debt models, Equity models or Non-investment models.

Debt-models, commonly associated with P2P/Marketplace Lending activities, include non-deposit taking platforms that facilitate online credit to individuals, businesses or other borrower-entities from individual lenders or institutional investors. This debt can be in the form of a secured or unsecured loan, a bond or another type of debtor-note. The below models are included in this category:

Category	Business Model	Stakeholders
P2P/Marketplace Lending[1]	Consumer Lending	Individuals and/or institutional funders provide a loan to a consumer borrower.
	Business Lending	Individuals and/or institutional funders provide a loan to a business borrower.
	Property Lending	Individuals and/or institutional funders provide a loan, secured against a property, to a consumer or business borrower.
Balance Sheet Lending[2]	Consumer Lending	The platform entity provides a loan directly to a consumer borrower.
	Business Lending	The platform entity provides a loan directly to the business borrower.
	Property Lending	The platform entity provides a loan, secured against a property, directly to a consumer or business borrower.
Invoice Trading[3]	Invoice Trading	Individuals or institutional funders purchase invoices or receivables from a business at a discount.
Securities	Debt Based Securities	Individuals or institutional funders purchase debt-based securities, typically a bond or debenture, at a fixed interest rate.
	Mini Bonds[4]	Individuals or institutions purchase securities from companies in the form of an unsecured bond which is 'mini' because the issue size is much smaller than the minimum issue amount needed for a bond issued in institutional capital markets.

These are the debt-activities that are currently specifically segmented by our taxonomy. Other, currently emerging, debt-based activities are captured in our report as 'other'. Continuous refining of our taxonomy is inevitable, as innovations in the fintech credit activities constantly emerge and evolve.

Equity-models, including Equity Crowdfunding, relate to activities where individuals or institutions invest in unlisted shares or securities issued by a business, typically an SME. As equity-based models have advanced, subsets of the model like Real Estate and Property-based crowdfunding have flourished, with investors able to acquire ownership of a property asset via the purchase of property shares.

Finally, Non-investment-based models, including Reward and Donation Crowdfunding, are arguably the iterations of crowdfunding most recognized by the public. In the case of these two models, individuals provide funding to a project, an individual or a business without any obligation from the fundraiser to provide a monetary return for the funds raised.

Category	Business Model	Stakeholders
Investment-based	Equity-based Crowdfunding	Individuals or institutional funders purchase equity issued by a company.
	Real Estate Crowdfunding	Individuals or institutional funders provide equity or subordinated-debt financing for real estate.
	Profit Sharing	Individuals or institutions purchase securities from a company, such as shares, and share in the profits or royalties of the business.
Non Investment-based	Reward-based Crowdfunding	Backers provide funding to individuals, projects or companies in exchange for non-monetary rewards or products.
	Donation-based Crowdfunding	Donors provide funding to individuals, projects or companies based on philanthropic or civic motiva-tions with no expectation of monetary or material
Other		The research team recorded volumes raised through other alternative finance models, including Community Shares, Pension-led Funding, crowd-led-microfinance and other model's which fall outside of the existing taxonomy.

Methodology

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

Data Sources:

The primary data reported in the following pages comes from the Alternative Finance Industry Benchmarking Survey, which is distributed annually by the CCAF. This survey captured data from active alternative finance platforms that fell within the above outlined taxonomy. The list of platforms was compiled based upon the following sources:

- Previous participants from existing database
- List of platforms provided by research partners
- List of additional platforms compile through desk-based research, to include new platforms not identified in the previous sources

Overall, 1,227 unique firms responded to this study, providing 2,322 firm-level observations globally[5]. 47% of firms participating in this study were operating within more than one country or jurisdiction, and provided country-level data in two or more jurisdictions. Each observation was therefore defined as a platform-country observation. This allowed us to better capture volumes from domestic and international platforms operating in each country. This study captured 632 firm-level observations in Europe, 438 in China, 334 in the Asia-Pacific region (excluding China), 270 in Latin America and the Caribbean, 237 in the Middle East and Africa, 143 in the US and Canada, and 87 platforms in the UK. This is the largest data set collected for this benchmarking activity to date.

In addition to the firms that responded to the Global Alternative Finance Benchmark Survey, web-scraping was also used to get the most up-to-date transaction volumes for a limited number of key platforms. This was carried out within the research centre using widely available Python webscraping libraries, and translated to an additional 192 country-level entries.

Considerable care was placed to ensure that the same panel of participating firms from each region was captured in the 2018 dataset. For the most part, this occurred. However, there were a handful of firms that participated in the previous year's survey but chose not to do so this year. In a few cases where platform non-participation led to a significant impact on reported volumes, these were reported and clearly indicated under the relevant regional review sections. There were 67 operational firms that chose not to participate in 2018, most of which based in Europe and the US, and often assumed to represent relatively limited scale of operations.

Over the past five years, the CCAF has maintained a global database of active firms and contacts to facilitate our research. We have also kept track of platforms that have ceased operations, transitioned or pivoted into other fields/traditional finance, as well as the amount of employee turnover of our key platform contacts. This year the information was robust enough to report the overall status of firms over the duration of our research, as well as platform closure rates.

On a global level, an average of 21% of platforms that were operational in 2013 were not operating in the same capacity by 2018. Between 2018 and 2019, this figure is 5%. Regionally, the Americas and Europe had similar rate of platform closure over the last five years, at 20% and 17%, respectively. In the last year, both regions had a 2% closure rate. The UK had the lowest overall rate for both the last 5 years (4%) and the last year (3%). The Middle East and Africa (MEA), as well as the Asia-Pacific region (excluding China) had the highest rates of closure. During the last five years the closure rate was 33% in the MEA and 26% in the Asia-Pacific region (excluding China), and during the last year it was 7% in the MEA and 6% in the Asia-Pacific region (excluding China). At 46% over the last year, China saw the most significant platform closure rate. This followed enforcement efforts by the authorities, in a market where relevant regulations were until recently largely unclear.

Regarding personnel turnover, data collected shows that the highest observed rate of employee turnover was in the US, with 231 platform-contacts now in roles at other firms. Overall, the US and Canada had the largest share of this at 83%. European firms had a lower amount of personnel turnover (95), with Spain taking the largest (15%) share. For the Asia-Pacific region (excluding China), 41 contacts were no longer at their previous role, 22% of whom were from Australian platforms. Only three contacts were identified in the MEA that had shifted to new roles.

Data Collection

The Global Alternative Finance Benchmarking Survey consisted of 35 questions, including both single and multiple response questions, relating to platform operations and performance in 2018. This year's survey consisted of five parts covering: fundraisers; funders; platform structure and strategy; risks and regulations; and financial inclusion[6]. The structured nature of the survey allowed platforms to provide comprehensive, precise and cohesive self-reported data.

Many of the questions remained the same as those used in the previous year to ensure that longitudinal/time series analysis was possible, especially with respect to questions relating to total transaction volumes. Platforms were also presented with a series of non-compulsory questions that built on key research themes identified in last year's report.

To more accurately attribute fundraiser volumes, platforms were able to report model activities and volumes on a per country basis. Subsequently firms could more accurately describe their operations, especially where activities occurred outside of their domestic market.

Invitations for survey participation were sent by members of the research team directly to platforms, were published on targeted social media groups, and were distributed via research partners through their own independent networks (such as industry associations, partner research institutions, etc.). Survey invitations were distributed in the form of personalized email communications, direct messages via social media and telephone calls 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. The survey was distributed in English, French, Spanish, Portuguese, German, Mandarin, Korean, Japanese, Bhasa Indonesia, Thai and Vietnamese.

The survey was hosted on a dedicated site, with submissions accessible only to the principal researchers involved in this project. Once the data set was collected, any discrepancies such as misattributed volumes and anomalous figures were cross-checked through direct contact with the platforms.

Quality Control and Data Handling:

Sanitation and verification were conducted between August 2019 and November 2019. 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 research team anonymized and sanitized data prior to analysis. All personal data was stripped and securely removed from the database. As platforms reported figures in their local currency, the data analysis team converted all local currencies into USD for the 2018 year.[7] This was done using the historical average rate for 2018. For all average data points, the team applied weightings by transaction volume per respondents and significant outliers were removed. Data was only reported if there were a minimum of 10 observations by country and model. At completion, the data was encrypted and stored for retrieval exclusively for the use of this project.

Throughout the analysis process, explanations are suggested for identified trends and survey results. Whenever necessary, abnormal deviations in identified trends vis-a-vis our previous report were principally explained by situations where specific platforms either contributed to last year's research but did not participate again this year, or participated this year but did not contribute in the previous year.

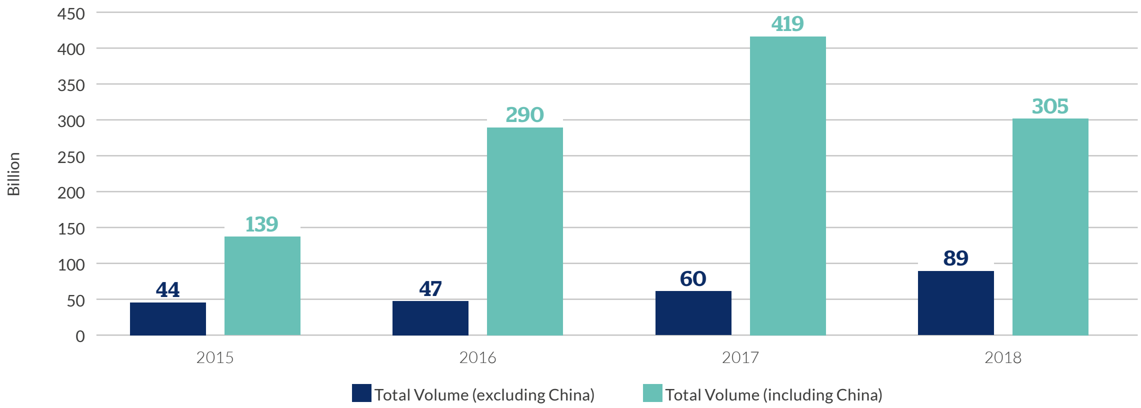
Throughout the report composition process, both analyses and write-up were subjected to repeated peer-reviewing within the research team. Whenever necessary, additional external reviews of certain sections were also conducted enabled to further ensure quality of reporting.

External Contributions of Practitioner Insight Texts

For further insights, deeper understanding and triangulation across sources, we also invited a selected number of external experts to provide short insight texts, which complement our independent analysis. Such texts reflect the contributing practitioner's own viewpoints about developments taking place in their respective countries, and serve only as supplementary material to the independent research work carried out by the core research team.

The Size and Growth of the Alternative Finance Market

Figure 1.1: Total Alternative Finance Volume (2015-2018), USD

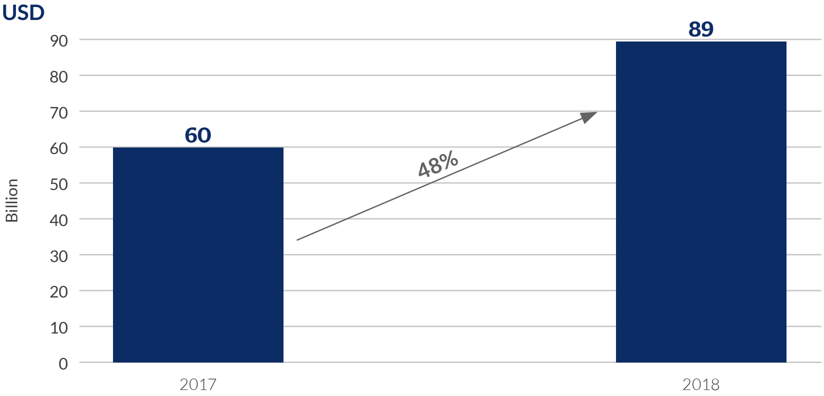


Globally, the impact and role of alternative finance continues to grow, with alternative finance platforms having facilitated USD $304.5 billion in 2018. This volume is representative of funds that were raised via an online, alternative finance platform and delivered to individuals, businesses and other fundraisers. This volume does not include platform or transaction fees and is representative of monies delivered successfully in 2018 to fundraisers.

Notably, global total volumes fell by 27%, from 2017's $419 billion. This significant global drop stems from a sharp decline in alternative finance activity in China. Though China remained the single largest volume contributor, over time the proportion of China's alternative finance market share of the global market is declining. For instance, in 2017 China's volume accounted for 86% of global volumes, while this year it shrank to 71%. This decline is mostly explained by regulatory enforcement efforts by Chinese authorities in a market in which, until recently, such regulations were largely unclearly specified.

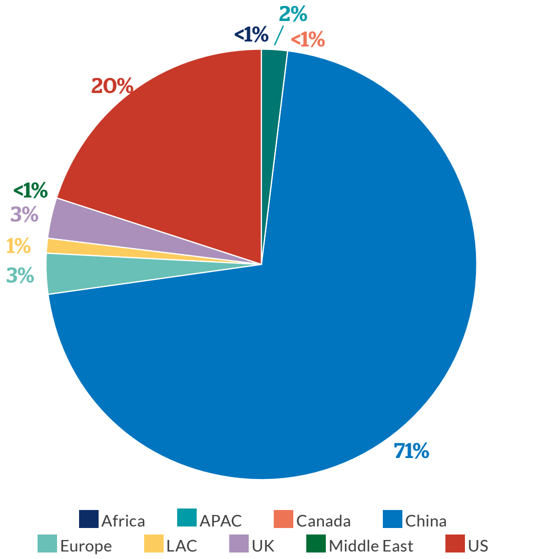
However, when we exclude the substantial outlier of Chinese-based activity, alternative finance in the rest of the world grew by 48%, from $60 billion in 2017 to $89 billion In 2018.

Figure 1.2: Total Volume Change (excluding China) 2017 - 2018, USD



Total Volume by Region

Figure 1.3: Market Share of Alternative Finance Activity by Region



For a fifth year running, the top three volume-generating countries were China, the US and the UK. China accounted for 71% of global volume, followed by the US (20%) and the UK (3%). When we look at this in terms of regional impact, Europe[8] (excluding the UK) accounted for 3%, the Asia-Pacific region[9] (excluding China) accounted for 2% and Latin America and the Caribbean[10] (LAC) accounted for just over 1%. Africa[11], the Middle East[12] accounted for just under 1% of global volume.

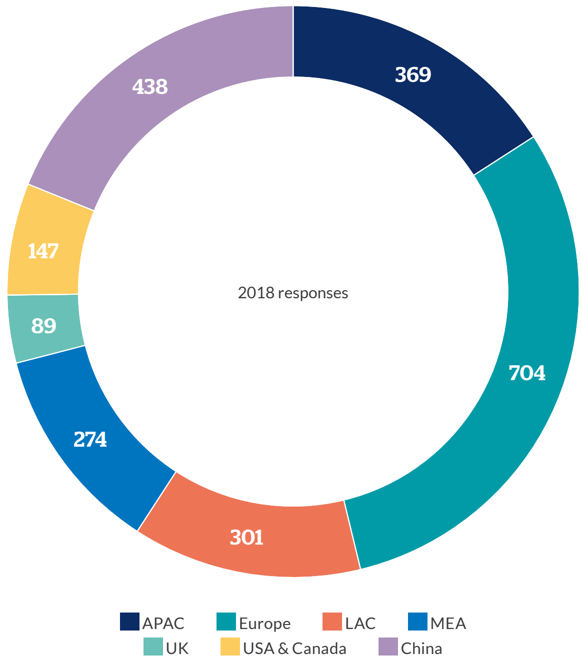
The Geographic Distribution of Platforms and Market Volumes:

This year's study captured data from alternative finance platforms operating in 172 countries and territories. The below chart provides a breakdown of unique firm entries by region. The greatest response came from platforms in Europe (634 responses), China (438), and the Asia-Pacific region (excluding China) (334). Overall, the number of responses per region surpassed previous year's numbers. Most platforms were re-surveyed, with a few exceptions. The main reasons why the research team was unable to capture repeat data were closure of a platform, a change in business model (either to another sector, or to more traditional financial activities) or a merger with another platform.

Critically, this year's report captured the growing scope of international flows of alternative finance transactions. Accordingly, our analyses included data from both domestic firms and foreign firms operating within a given country. Appendix 1[13] provides a breakdown as to the extent to which international activities are prevalent globally.

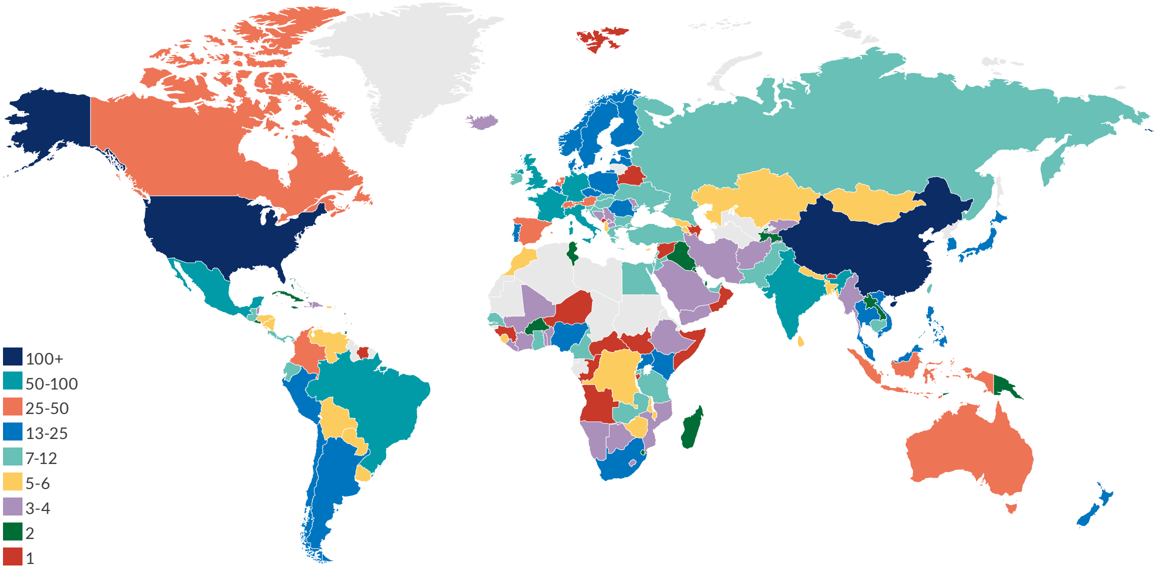
In countries with fairly developed alternative finance ecosystems, domestic firms make up the larger proportion of firms within a country. In 66 of the 172 countries, domestic firms were responsible for higher proportions of country-level volumes. In general, foreign-based platforms were most prevalent in emerging markets. In these instances, these foreign-based platforms drove country-volume.

Figure 1.4: Number of Respondents by Region (2018)



Unsurprisingly, alternative finance volumes generated in a country significantly correlated with number of platforms operating within it. The direction of causality is not clear- i.e. it is not clear whether market volumes indicate the potential triggering a proliferation of platforms, or whether more platforms are engaged in building up larger new markets for alternative finance. For instance, China having the largest overall number (429 local, 9 foreign, 438 in total) also had the highest country-level volume. The next highest concentrations of firms were seen in the US (84 local, 16 foreign, 100 in total), the UK (63 local, 27 foreign, 90 in total), Germany (41 local, 22 foreign, 63 in total), India (49 local, 9 foreign, 58 in total) and Brazil (44 local, 12 foreign, 56 in total). With respect to volume, China, the USA and the UK also account for the top three. The next largest countries by volume were the Netherlands, Indonesia, Germany, Australia, Japan, France and Canada, respectively.

Figure 1.5: The Geographical Distribution of Surveyed Platforms (2018)



When distinguishing between domestic and international volumes and correlating these figures with numbers of platforms several interesting insights emerge. First, both international and domestic volumes are positively correlated with total number of platforms operating in country. This relationship is even stronger for domestic volumes.

Furthermore, both international and domestic volumes are positively correlated with the number of international platforms operating in country. This relationship is substantially stronger for international volumes and suggests that international platforms take a significant portion of domestic transactions, though most transactions they facilitate originate internationally.

On the other hand, international and domestic volumes are also positively correlated with the number of domestic platforms operating in each country. This relationship is substantially stronger for domestic volumes and suggests that domestic platforms do enjoy a significant portion of international transactions, though most transactions they facilitate originate domestically.

Overall, this suggests that regardless of whether a platform is domestic or internationally based, crowdfunding at national level, in most cases, has a substantial international share of transactions. This helps develop our understanding of crowdfunding from a locally based phenomenon into an international one, to an extent that was not evident in earlier reports.

When observing how firms operate within a given country or jurisdiction, we have distinguished between platforms that are viewed as domestic, (i.e those that are primarily headquartered within the country/jurisdiction) and those that are international (i.e. those with primary headquarters abroad). With an increasing amount of global activity, fintech firms are not only servicing their local markets, but those abroad. It is not unusual to find a firm operating in several countries in addition to its own home-market, as driven by both pressures to reach scale and technological first-mover advanatges.

When looking at the blend of firms within a given country, it is interesting to note the number of 'home-grown' firms, or firms that are native to the country, against the number of firms with their roots abroad. Countries with relatively advanced alternative finance marketplaces tend to have a concentration of domestic firms, while emerging markets will see larger proportions of international platforms with activity within their borders.

To assess the value of these domestic versus international firms, we want to understand how important home-grown firms are to driving volumes within a given country or jurisdiction. The below figure allows us to review the proportion of volume that relates to firms that are native to their country (Domestic) and those that are not (International).

When distinguishing between domestic and international volumes and correlating these figures with numbers of platforms several interesting insights emerge. This graph shows that overall, volumes are positively associated with number of platforms operating in a country regardless of whether they are domestically or internationally based. Though the regressions are quite similar, there is slightly stronger correlation with international firms driving local volumes.

There are some extreme cases, where number of domestic platforms is more prominently associated with volumes such as the case of the USA, UK, India, Brazil, Germany, France, Israel and Italy. Most of these markets are either characterized by a relatively large domestic economy or by an ability to attract both domestic and foreign backers to use their home-grown platforms. Indeed, some of the leading international platforms are based in these markets.

On the other hand, funds raised in some emerging African countries like Zambia and Nigeria are driven by international platforms, and a similar trend is also evident in certain transition economies in Eastern Europe such as Slovakia and Slovenia.

Regardless, the majority of countries are only served by international platforms, but at relatively low volumes that are mostly associated with less heavily regulated non-investment models.

Figure 1.6: Number of Platforms vs. Volumes in Country (Ln Value)- 2018

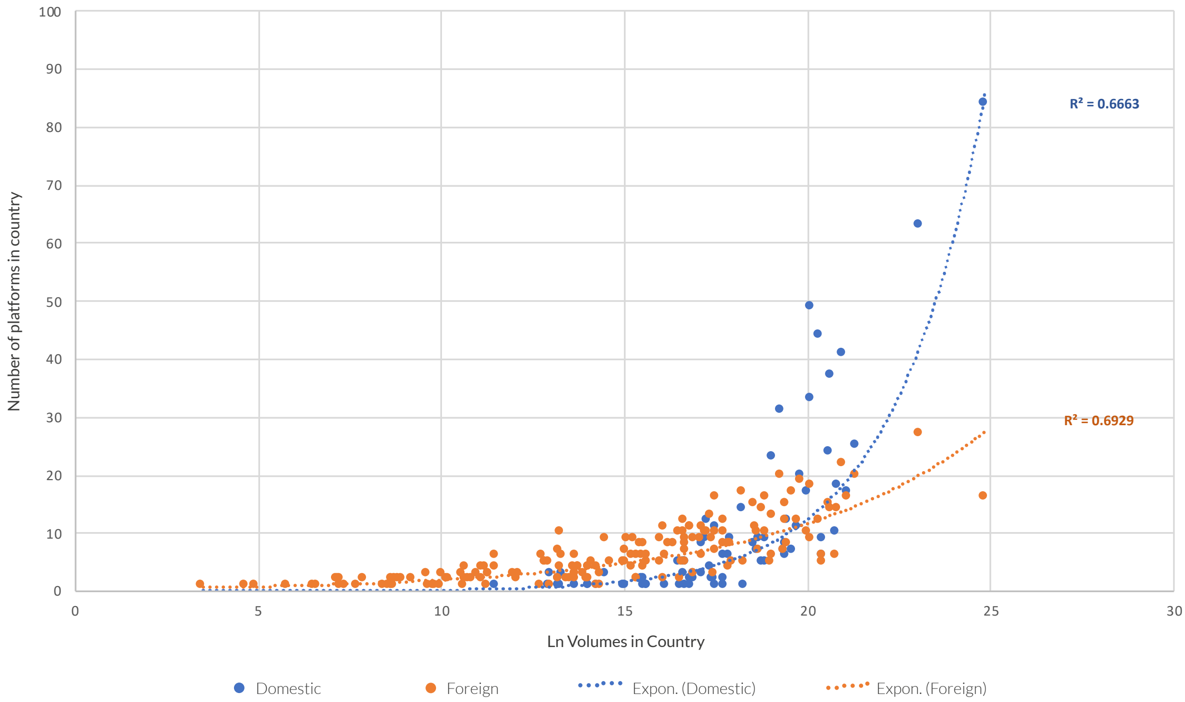
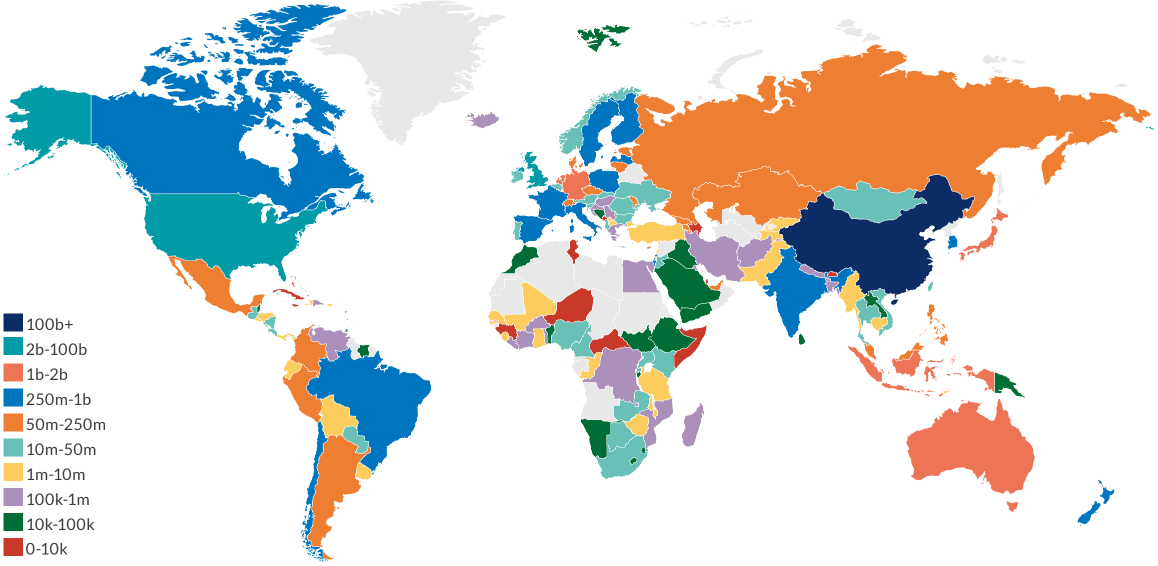


Figure 1.7: Comparative Market Volumes of Alternative Finance Transactions (2018)



Alternative Finance per Capita Volumes by Country Economic Development Level - Top 20 countries - 2018

TOP 20

High Income

1	USA	$186.88	6	Singapore	$88.61	11	Lithuania	$48.92	16	Canada	$24.54
2	UK	$155.93	7	Israel	$81.70	12	Australia	$46.68	17	Slovenia	$17.74
3	Latvia	$132.12	8	Finland	$68.72	13	Monaco	$40.61	18	France	$16.81
4	Estonia	$120.77	9	New Zealand	$56.54	14	Sweden	$29.27	19	Chile	$15.44
5	Netherlands	$104.83	10	Cyprus	$53.32	15	Denmark	$24.97	20	Germany	$15.39

TOP 20

Upper-Middle Income

1	Armenia	$62.35	6	Albania	$6.25	11	Costa Rica	$3.60	16	Nth Macedonia	$1.94
2	Georgia	$51.73	7	Bulgaria	$5.75	12	Brazil	$3.21	17	Mexico	$1.85
3	Samoa	$8.94	8	Peru	$4.95	13	Paraguay	$3.15	18	Guatemala	$1.64
4	Botswana	$6.84	9	Kazakhstan	$4.76	14	Argentina	$2.90	19	Jordan	$1.29
5	Tonga	$6.59	10	Colombia	$3.88	15	Malaysia	$1.96	20	Romania	$1.06

TOP 20

Lower -Middle Income

1	Moldova	$16.66	6	Philippines	$1.09	11	Cambodia	$0.61	16	Cameroon	$0.40
2	Mongolia	$11.91	7	Honduras	$0.95	12	Ukraine	$0.60	17	Bolivia	$0.30
3	Indonesia	$5.42	8	Timor-Leste	$0.95	13	Solomon Islands	$0.51	18	Kyrgyzstan	$0.27
4	Nicaragua	$2.53	9	El Salvador	$0.73	14	Zimbabwe	$0.43	19	Senegal	$0.23
5	Zambia	$2.35	10	Kenya	$0.68	15	India	$0.40	20	Vietnam	$0.18

TOP 20

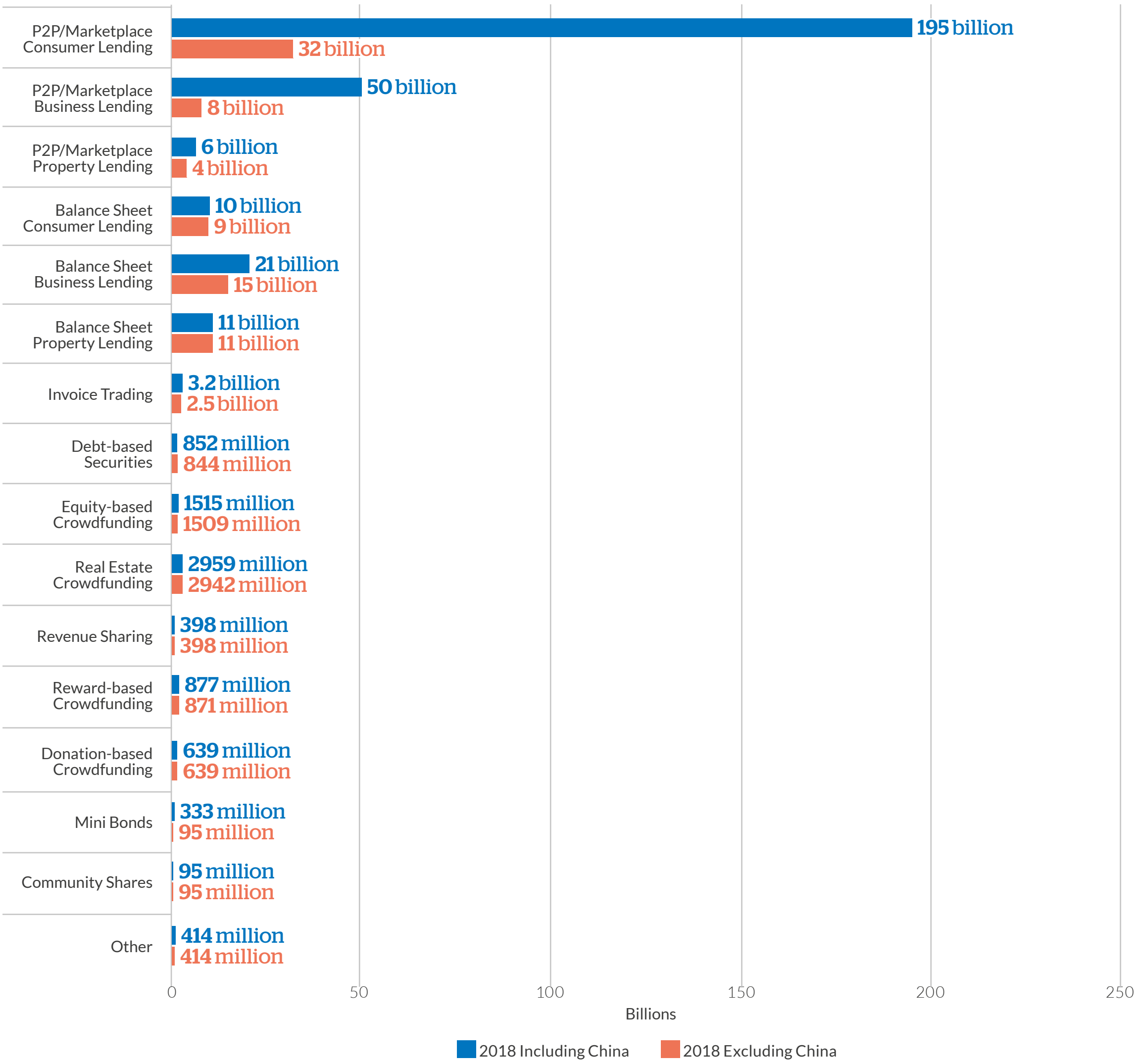
Low Income

1	Rwanda	$0.926	6	Malawi	$0.126	11	DRC	$0.056	16	Benin	$0.005
2	Tajikistan	$0.519	7	Togo	$0.109	12	Burkina Faso	$0.038	17	Afghanistan	$0.005
3	Uganda	$0.393	8	Haiti	$0.099	13	Madagascar	$0.033	18	Burundi	$0.004
4	Liberia	$0.176	9	Tanzania	$0.099	14	Mozambique	$0.019	19	Gambia	$0.003
5	Sierra Leone	$0.176	10	Mali	$0.066	15	Nepal	$0.014	20	South Sudan	$0.002

Our analysis identifies a substantial gap between developed and developing countries in terms of alternative finance contributions per capita. This suggests that alternative finance has not yet delivered on the promise of democratizing finance and closing finance gaps in environments that need it the most.

Global Volume by Alternative Finance Models

Figure 1.8: Global Volume by Model in 2018, USD



The largest model globally in 2018, by a significant margin, was P2P/Marketplace Consumer Lending – raising $195.29 billion, equating to 64% of the overall volume of alternative finance lending. This was followed by P2P/Marketplace Business Lending ($50.33 billion or 17%), Balance Sheet Business Lending ($21.08 billion or 7%), Balance Sheet Property Lending ($11.02 billion or 4%), Balance Sheet Consumer Lending ($9.78 billion or 3%) P2P/Marketplace Property Lending ($5.72 billion or 2%) and Invoice Trading ($3.22 billion or 1%), respectively.

If we exclude China, the top models in the marketplace shift slightly and there is not as large a disparity between them in terms of overall volume. P2P/Marketplace Consumer Lending is still the largest global model with 36% of volume or $31.99 billion. Balance Sheet Business Lending is the next largest model, with 7% ($14.95 billion) of global volume. Following those are: Balance Sheet Property Lending (12% or $11.02 billion), Balance Sheet Consumer Lending (11% or $9.40 billion), P2P/Marketplace Business Lending (9% or $7.59 billion), P2P/Marketplace Property Lending (4% or $3.88 billion).

Table 1.1: Total Volume by Region and Model Categories (Incl China)

	2018 Global Data Excl. China			2018 Global Data Incl. China				
Alternative Finance Model	Volume	Market Share	Model Ranking	Volume	Marketshare	2018 Ranking	2017 Ranking	Change in Ranking
P2P/Marketplace Consumer Lending	$32.0b	36%	1	$195.3b	64%	1	1	
P2P/Marketplace Business Lending	$7.6b	9%	5	$50.3b	17%	2	2	
Balance Sheet Business Lending	$15.0b	17%	2	$21.1b	7%	3	4	(+1)
Balance Sheet Property Lending	$11.0b	12%	3	$11.0b	4%	4	10	(+6)
Balance Sheet Consumer Lending	$9.4b	11%	4	$9.8b	3%	5	3	(-2)
P2P/Marketplace Property Lending	$3.9b	4%	6	$5.7b	2%	6	5	(-1)
Invoice Trading	$2.5b	3%	8	$3.2b	1%	7	6	(-1)
Real Estate Crowdfunding	$2.9b	3%	7	$3.0b	1%	8	7	(-1)
Equity Crowdfunding	$1.5b	2%	9	$1.5b	0%	9	8	(-1)
Reward-based Crowdfunding	$871.1m	1%	10	$876.8m	0%	10	12	(+2)
Debt-based Securities	$844.4m	1%	11	$851.5m	0%	11	14	(+3)
Donation-based Crowdfunding	$639.3m	1%	12	$639.4m	0%	12	13	(+1)
Other	$414.3m	0%	13	$414.3m	0%	13	9	(-4)
Revenue Sharing	$397.7m	0%	14	$397.7m	0%	14	11	(-3)
Mini-bonds	$53.7m	0%	16	$332.5m	0%	15	15	
Community Shares	$94.7m	0%	15	$94.7m	0%	16	16	

In comparison to 2017, the top two model types (P2P/Marketplace Consumer and Business Lending, respectively) retained their places, while the rest of the top five shifted. The greatest change was seen in Balance Sheet Property Lending which grew from tenth largest in 2017 to fourth largest in 2018. Balance Sheet Business Lending, fourth last year, grew to be the third largest model-type. Balance Sheet Consumer Lending, on the other hand fell slightly from third largest in 2017, to fifth largest in 2018. P2P/Marketplace Property Lending also fell slightly, from fifth place in 2017 to sixth place this year.

Several models show a noticeable decrease against their 2017 volumes. This stems from dramatic changes in activity in the domestic Chinese market, as examined earlier. P2P/Marketplace Consumer Lending, P2P/Marketplace Business Lending, Balance Sheet Consumer Lending, Marketplace/P2P Property Lending, and Invoice Trading all experienced drops of 20%, 51%, 69%, 37% and 58%, respectively. Both P2P/Marketplace Consumer and business dropped by roughly $50 billion – from $243.8 billion to $195.29 billion and $103.59 billion to $50.33 billion, respectively. Balance sheet Business Lending, on the other hand, grew by 32% from $16.02 billion to $21.08 billion.

In contrast, when China is excluded from the data, nearly all the aforementioned models grew – with the exception of Balance Sheet Business Lending, which fell by 39%. The top model by volume, P2P/Marketplace Consumer Lending grew from $19.30 billion to $31.99 billion – a growth of 66%. The second largest model, Balance Sheet Business Lending, grew 84% from $8.14 billion to $14.95 billion. The model that experienced the largest year-on-year growth was Balance Sheet Property Lending (both including and excluding China), increasing 827% from $1.19 billion in 2017 to $11.02 billion this year. P2P/Marketplace Business Lending also rose by 44% from $5.27 billion to $7.59 billion.

Total volume by region and model

When examined regionally and by model, Debt-based models by and large took the largest share of global activity in each region. Equity and Non-investment models followed, but are far behind in Debt across all regions.

Overall, China had the largest volume by region, generating $215.37 billion from Debt-based models, $22.18 million from Equity-based models, and $5.79 million from Non-investment models.

The US was the second largest market in 2018, raising $57.67 billion from Debt models, $2.55 billion from Equity models, and $696.50 million from Non-investment models – the highest regional volumes for both Equity and Non-investment models globally.

The UK was the third largest global region – raising $9.31 billion, $870.19 million, and $76.60 million from Debt, Equity, and Non-investment models, respectively.

Europe and the Asia-Pacific region (excluding China) were the third and fourth largest regions, respectively. In Europe, Debt models raised $6.60 billion, Equity Models raised $883.32 million, and Non-investment models raised $237.75 million. For the Asia-Pacific region (excluding China), Debt models generated $5.34 billion, Equity raised $504.84 million, and Non-investment $277.28 million.

Table 1.2: Total Volume by Region and Model Categories (Incl China)

REGION	DEBT	EQUITY	NON-INVESTMENT
China	215.37 b	22.18 m	5.80 m
US	57.67 b	2.55 b	696.50 m
UK	9.31 b	870.19 m	76.60 m
Europe	6.60 b	883.32 m	237.75 m
APAC	5.34 b	504.84 m	277.28 m
LAC	1.70 b	45.61 m	39.05 m
Middle East	754.14 m	35.63 m	10.78 m
Canada	705.69 m	43.52 m	158.94 m
Africa	183.76 m	11.85 m	13.53 m

The following tables provide a breakdown of regional activity by overarching category and model-type.

Once again, the debt-models make up most of activity globally, so it is useful to see which models and subsequent regions contribute most to this category. Unsurprisingly, P2P Consumer lending activities account for 66% of debt, with China driving much of this activity. In fact, 76% of China's debt activity came from the P2P Consumer Lending model. Though Europe (excluding the UK) and the US also had significant debt volumes from this model ($2.8b and $2.5b respectively), the region that was most heavily impacted by the P2P Consumer lending model was Africa, with 61% of all of their debt-based activities stemming from this model. This model is also the largest debt model for Latin America and the Caribbean as well as the Middle East and Africa.

P2P Business Lending accounted for 17% of all debt activity. Again, China is the largest single contributor to this model, though this model is ranked second in the country. The UK ($2.5 billion) followed, and it is this model that accounts for the largest single debt model in the country. This model is also the leading debt model in the Asia-Pacific region (excluding China) (44% of the region's debt activity). P2P Business Lending is second largest for Europe.

Closely linked to the P2P Business Lending model is the Balance Sheet Business Lending model. In most instances, firms that facilitate business lending are mixed model firms, operating both P2P and Balance Sheet facilities. In this model, the US is the leader, with $12b derived from this model. This is approximately 60% of all Balance Sheet Business activity globally. This model is also quite significant in Canada (accounting for 55% of all debt activity), LAC (16%), Africa (25%) and the Asia-Pacific region (excluding China) (17%).

Overall, the Americas are dominated by balance sheet models, heavily influenced by US practice, where regulations tend to constrain P2P lending activity and favour institutional investors that engage in Balance Sheet Lending. For the rest of the world, P2P lending dominates. This may be a result of a combination of weaker infrastructure and slower adaptation of non-American based institutional environments to alternative finance channels, which has also enabled more progressive practice and in some cases regulations in other regions. This is especially relevant as non-American based traditional credit providers tended to be more conservative and risk averse in some cases (e.g. Europe), or represent emerging economies where financial markets are still developing and state-owned entities have failed to provide sufficient access to finance (e.g. China, the Asia-Pacific region (excluding China), Africa).

Geography	P2P/Marketplace Consumer Lending	P2P/Marketplace Business Lending	P2P/Marketplace Property Lending	Balance Sheet Consumer Lending	Balance Sheet Business Lending
Africa of which market share	$111.8m 61%	$18.4m 10%	$0.3m 0%	$0.3m 0%	$46.6m 25%
APAC of which market share	$982.1m 18%	$1772.6m 33%	$658.9m 12%	$883.4m 17%	$917.7m 17%
Canada of which market share	$29.8m 4%	$50.8m 7%	$58.1m 8%	$117.2m 17%	$391.4m 55%
China of which market share	$163302.7m 76%	$42741.2m 20%	$1845.7m 1%	$377.1m 0%	$6124.4m 3%
Europe of which market share	$2889.4m 44%	$996.8m 15%	$144.7m 2%	$99.8m 2%	$80.5m 1%
LAC of which market share	$432.8m 25%	$126.6m 7%	$49.1m 3%	$138.7m 8%	$265.0m 16%
Middle East of which market share	$97.1m 13%	$47.2m 6%	$556.5m 74%	0%	$8.9m 1%
UK of which market share	$2057.4m 22%	$2541.9m 27%	$1759.2m 19%	$642.2m 7%	$855.2m 9%
US of which market share	$25388.3m 44%	$2033.0m 4%	$655.3m 1%	$7520.6m 13%	$12389.0m 21%
TOTAL of which market share	$195291.4m 66%	$50328.5m 17%	$5727.7m 2%	$9779.3m 3%	$21078.7m 7%

Equity-based models account for just under $5 billion of alternative finance volumes globally. Though much smaller than its debt counterparts, models encompassed in this category tend to receive the greatest attention from policymakers and regulators. In recent years, Real Estate Crowdfunding has dominated this category, accounting for 60% of all equity activities (or $2.96 billion). The US leads in this model, amounting to $1.79 billion in 2018. The model accounts for 70% of all US-based equity activity. Real Estate crowdfunding is the dominant equity model in most other regions as well, including the Asia-Pacific region (excluding China), China, Europe and LAC.

Though real estate activities are increasing quickly, the Equity-based Crowdfunding model is arguably one of the more recognisable models. The US leads in this model globally, though it ranks second within the US after Real Estate Crowdfunding. The UK is the second largest marketplace for this model, with Equity-Crowdfunding accounting for just over 56% of all equity activity. Europe is third, with $278m. Though much smaller, equity-based crowdfunding is a leading volume driving model in the Middle East, although most of it is associated with the outlier entrepreneurial powerhouse in Israel which has a history of attracting significant international investment. It accounts for $34.3 million, (96% of the entire market).

Geography	Equity Crowdfunding	Real Estate Crowdfunding	Revenue Sharing	Community Shares	Total Equity Models
Africa of which market share	$3.0m 25%	$3.5m 30%	$5.4m 46%		$11.8m
APAC of which market share	$162.1m 32%	$258.1m 51%	$9.9m 2%	$74.8m 15%	$504.8m
Canada of which market share	$19.9m 46%	$1.5m 3%	$22.1m 51%		$43.5m
China of which market share	$5.7m 26%	$16.4m 74%	0%		$22.2m
Europe of which market share	$278.1m 31%	$600.1m 68%	$3.5m 0%	$1.6m 0%	$883.3m
LAC of which market share	$19.3m 42%	$25.3m 56%	$1.0m 2%	$0.0m 0%	$45.6m
Middle East of which market share	$34.3m 96%	$1.3m 4%			$35.6m
UK of which market share	$484.7m 56%	$264.9m 30%	$102.2m 12%	$18.4m 2%	$870.2m
US of which market share	$507.9m 20%	$1787.5m 70%	$253.6m 10%		$2.55b
TOTAL of which market share	1,514,913,486.27 31%	$2,958,788,653.21 60%	$397,697,842.01 8%	$94,732,047.05 2%	$4966.1m

Balance Sheet Property Lending	Invoice Trading	Mini Bonds	Debt-based Securities	Total Debt Models
0%	$0.2m 0%	0%	$6.1m 3%	$183.8m
$18.7m 0%	$94.0m 2%	$10.7m 0%	$3.0m 0%	$5341.1m
$5.4m 1%	$53.0m 8%	0%	0%	$705.7m
$0.0m 0%	$691.3m 0%	$278.8m 0%	$7.1m 0%	$215368.4m
$1378.4m 21%	$803.0m 12%	$42.8m 1%	$167.8m 3%	$6603.2m
$11.4m 1%	$548.0m 32%	0%	$125.9m 7%	$1697.4m
0%	$44.5m 6%	0%	0%	$754.1m
$72.8m 1%	$854.5m 9%	$0.1m 0%	$529.8m 6%	$9312.9m
$9534.7m 17%	$135.5m 0%	$0.2m 0%	$11.8m 0%	$57668.4m
$11021.4m 4%	$3224.0m 1%	$332.5m 0%	$851.5m 0%	$297635.1m

Revenue Sharing is a relatively new model, which we have only tracked for the last two years. The US and UK drive much of the volume related to this model, though the model's activity in Canada and Africa is quite noteworthy, as it makes up 51% and 46% of all equity activity from the two geographies respectively.

Finally, despite their relative prominence in public discussion, non-investment models make up the smallest over-all category. However the models included in this category are some of the most critical to the alternative finance ecosystem, especially in regions where alternative finance ecosystems are nascent or newly emerging, as they tend to precede the emergence of investment-model platforms.

Reward-based Crowdfunding, the model that the general public is most familiar with when discussing crowdfunding activities, accounts for $876.8 million globally. The US accounts for the greatest proportion of reward-based activities($385m), followed by the Asia-Pacific region (excluding China) ($201.5m) and Europe (175.4m). In terms of jurisdictions with a larger emphasis on this model, the UK's non-investment activity is dominated by Reward activities (84% of the market), though in nominal terms the volumes are much smaller.

Donation-based Crowdfunding is slightly smaller than the Reward-based Crowdfunding, though it plays a particularly important role in Africa (90% of Non-investment activity in the region), Canada (86%) and LAC (68%). In terms of volume drivers, the US (at $311.4 million) and Canada ($136 million) account for just shy of 70% of all Donation-based Crowdfunding volumes. Here, it is important to highlight that these figures may be significantly underestimating real volumes. This is mostly because reported figures here do not include independent donation collection initiatives which bypass platforms, which are very popular in the non-profit sector, as well as volumes of donations channelled via Facebook, which did not provide their figures to our team.

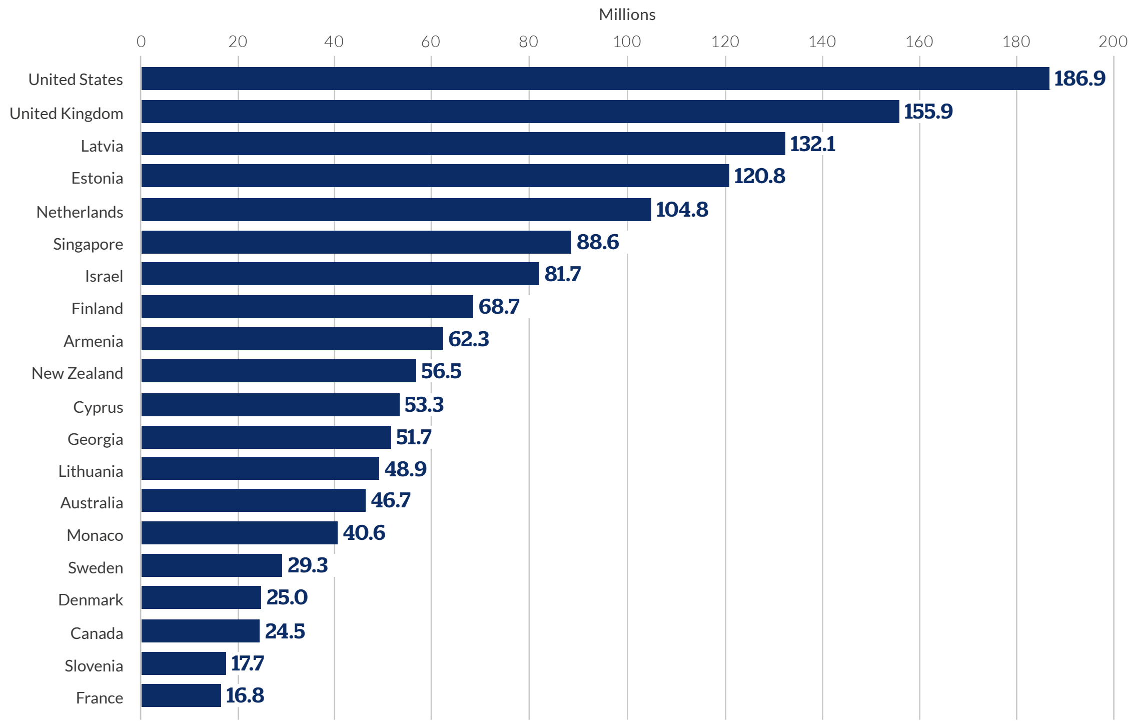
	Africa of which market share	APAC of which market share	Canada of which market share	China of which market share	Europe of which market share	LAC of which market share	Middle East of which market share	UK of which market share	US of which market share	Total Non-Investment Models
Reward-based Crowdfunding	$1.3m 10%	$201.5m 73%	$22.8m 14%	$5.7m 98%	$175.4m 74%	$12.4m 32%	$8.4m 78%	$64.1m 84%	$385.1m 55%	$876.8m 58%
Donation-based Crowdfunding	$12.2m 90%	$75.8m 27%	$136.1m 86%	$0.1m 2%	$62.4m 26%	$26.6m 68%	$2.4m 22%	$12.5m 16%	$311.4m 45%	$639,409,984.59 42%
Non-Investment	$13.5m 1%	$277.3m 18%	$158.9m 10%	$5.8m 0%	$237.8m 16%	$39.0m 3%	$10.8m 1%	$76.6m 5%	$696.5m 46%	$1.52b

Alternative Finance Volume Per Capita

While total volume provides valuable insights, it is also important to control for relative market size. When examining total alternative finance volumes per capita, we find that in addition to the US and the UK certain countries emerge as strong markets for alternative finance as well. Here, most countries with relatively high volumes in per capita terms are European based. These include the Netherlands, thanks to proactive industry players and reform-minded authorities, as well as Latvia, Estonia, and Lithuania, which have become home to some of the most proficient European-based international platforms in the P2P lending sphere. Some Baltic platforms do not only contribute to their own domestic markets but, together with others, have also supported the developments in the Caucasus region, contributing to the entry of both Georgia and Armenia as leading markets in terms of volumes per capita. All of these represent markets where alternative finance has been catering to underserved publics by traditional financial institutions in such strongly reforming transition economies. Some of the other leading European countries include small states such as Cyprus and Monaco, where relative per capita volumes are inflated thanks to small populations. This also applies to some of the Nordic countries including Finland, Sweden, and Denmark, which are characterized by a unique combination of relatively rich societies, highly digitized economies, and high levels of social trust.

Strong performers outside Europe include Singapore in Asia, New Zealand and Australia in the Pacific, Israel in the Middle East, and Canada in the Americas. All these countries represent strong innovation-driven economies with liberal financial policies.

Figure 1.9: Alternative Financer Volumes per Capita - Top 20 Countries - 2018 USD



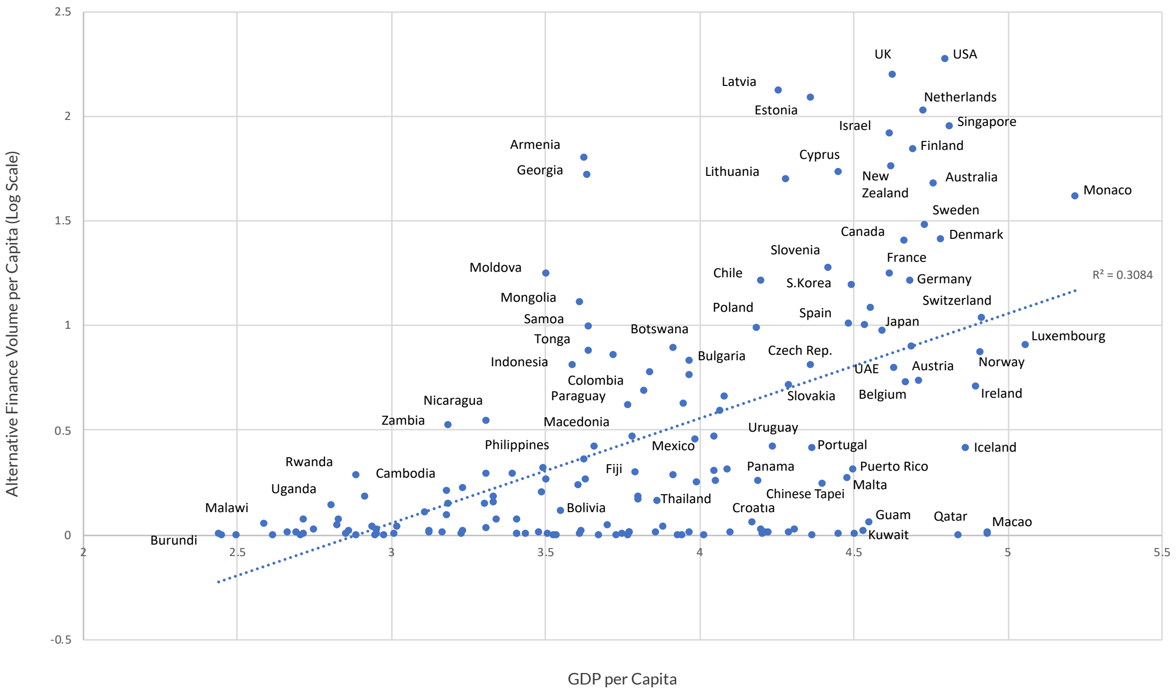
Furthermore, when correlating per capita alternative finance volumes with per capita GDP, we can identify a clear and significant relationship. This suggests that overall the more economically developed a country is, the higher the alternative finance volumes in that same country.

While most alternative finance seems to benefit developed economies (e.g. US, Canada, Australia, New Zealand, Japan, South Korea, Israel, UK, European Union member states, etc.), strong reformers such as Georgia, Armenia, and Moldova also seem to develop significant alternative finance markets. Additionally, some emerging and developing economies seem to also benefit from relatively strong alternative finance markets. This can be seen in countries such as Mongolia and Indonesia in Asia; Botswana in Africa; Chile, Brazil, Colombia, and Paraguay in Latin America; and the Pacific island nations of Samoa and Tonga.

The least developed alternative finance markets with respect to their relative wealth include the Gulf states of Qatar, Kuwait, and Saudi Arabia, which can be explained by a combination of religious observation marginalizing interest-bearing lending and little domestic need for alternative finance. Indeed in Bahrain and Oman no alternative finance transactions were recorded in 2018 at all. An exception here is the UAE, which has been able to develop and record substantial volumes in both equity and lending models.

Other relatively underdeveloped alternative finance markets relative to their wealth include micro-state autonomies such as the US territories of Guam and the Northern Mariana Islands ('NMI'), which may be subjected to US regulation favouring institutional investors while lacking such strong institutions locally. The outlier of China's Macao may be a superficial result, where Chinese platforms report Macao-based volumes under total Chinese volumes rather than separately.

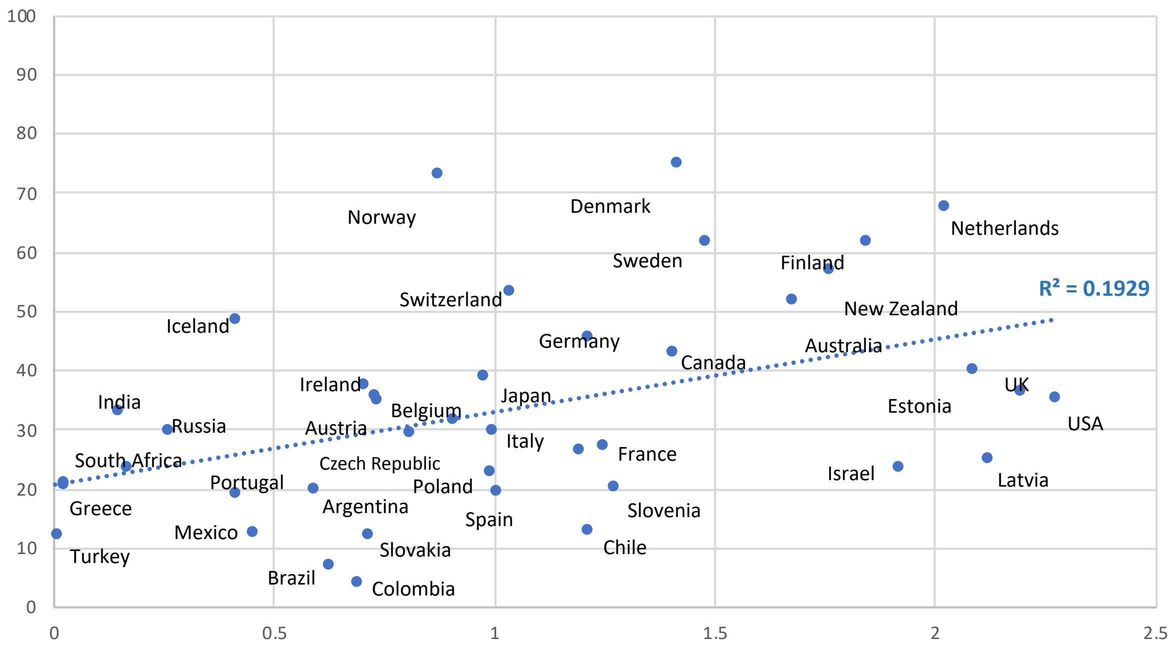
Figure 1.10: GDP per capita vs. Alternative Finance volumes per capita 2018 (Log scale)



Based on 165 countries

This has led us to consider an additional market condition that may influence alternative finance markets, namely social trust. According to OECD measurements[14], national levels of social trust are captured by the percentage of surveyed population in each country indicating that they believe that another person or institution will act consistently with their expectations of positive behaviour. We have correlated available figures of this measure for 41 countries with their respective per capita volumes. Our findings clearly indicate that the higher the levels of social trust among a country's population, the higher the per capita volumes.

Figure 1.11: Social Trust vs. Volume per Capita 2018



Market Dynamics

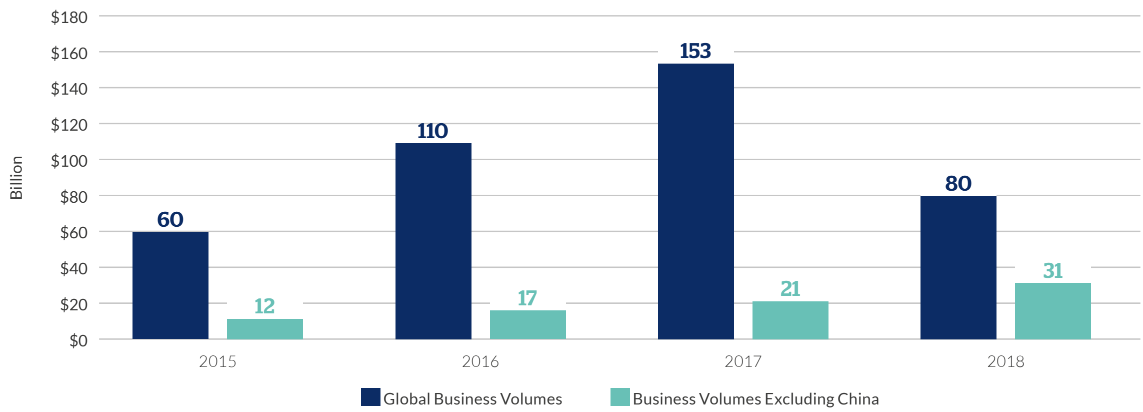
The vitality of alternative finance business funding

Ensuring the growth and vitality of the SME sector is viewed as a key priority by governments and development partners worldwide. However, the development and growth of this sector has often been restricted due to a lack of access to entrepreneurial finance. Our data indicates that alternative finance provides an increasingly important source for SME financing.

With this in mind, business-focused funding activities have been viewed as a key priority when considering the utility of alternative finance. Over the past few years, alternative finance has grown to become a viable funding source for entrepreneurs, start-ups and small and medium sized businesses (SMEs) globally.[15]

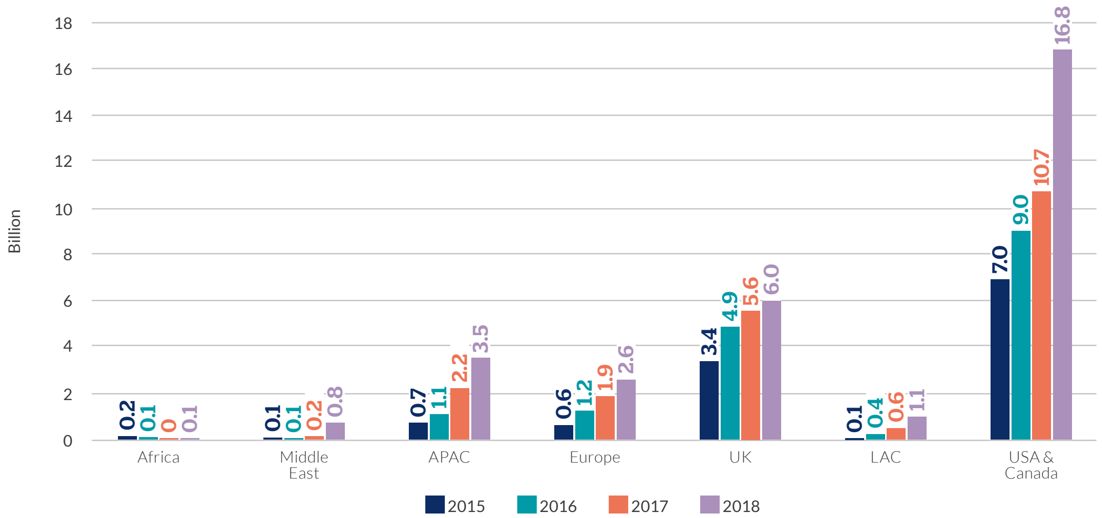
Overall Business finance by Year

Figure 1.12: Alternative Finance Volumes Attributed to Business Fundraisers, 2015-2018 USD



Based on 1531 (66%) of observations, which provided relevant information, we find that in 2018, just over $80 billion was generated via alternative finance activities for business borrowers, issuers and fundraisers. Against the 2017 figure, this is a substantial 48% drop. In order to explain this decline, it is useful to separate Chinese driven business volumes from the rest of the world. As has been explored already, the Chinese alternative finance market has seen steep declines across all models in 2018. This has duly had a considerable impact on SME or Business driven volumes. When we observe global alternative finance activity excluding China, we note that the business-focused funding increased year-on-year. In 2018, global alternative finance for business accounted for $31 billion, up 47% against 2017's $21 billion. China, the USA and the UK have the highest rates of SME financing via alternative finance, with approximately $16 billion and $5.6 billion respectively in 2018. Europe and the Asia-Pacific region (excluding China) have smaller volumes of dedicated business-focused finance, there has been consistent growth over the last four years.

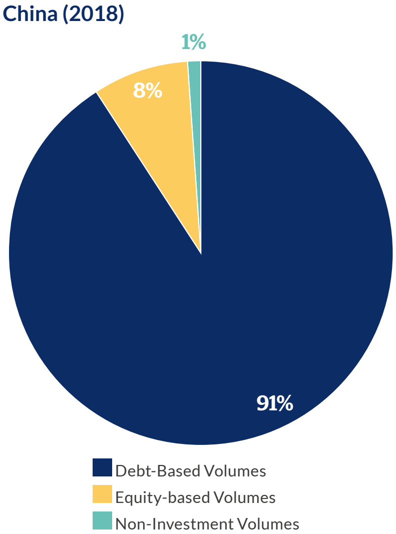
Figure 1.13: Alternative Finance Business Funding, Volumes By Region, USD



When excluding China, over 90% ($27.9 billion) of business funding is derived from debt-based models such as P2P Business Lending. The US (56%), the UK (18%), the Asia-Pacific region (excluding China) (11%) and Europe (8%) are the top geographies driving debt-focused business financing, though debt finance for SMEs is growing rapidly in LAC and Africa.

Equity-based model volumes accounted for just shy of $2.5 billion globally. Chinese business volumes in this category account for less than 1% of global activity. The UK ($852 million) and the US ($842 million) had the most significant rates of equity-based activity for small businesses. In the case of the UK, this came from the Equity-based Crowdfunding model while the US was more focused on Real Estate Crowdfunding.

Figure 1.14: Breakdown of Business Financing by Category, excluding China (2018)



Onboarding rate and Successful Funding rate

This report has thus far shed light on key figures as they relate to volumes by model and country. We now turn to discuss the relationship that alternative finance platforms have with the stakeholders that utilize their platform. Namely, these are the fundraisers, being the individuals, businesses or project-owners who use alternative finance platforms to satisfy their funding needs, and funders (individuals, institutions, etc.) who invest, lend or provide finance to a fundraiser via a platform.

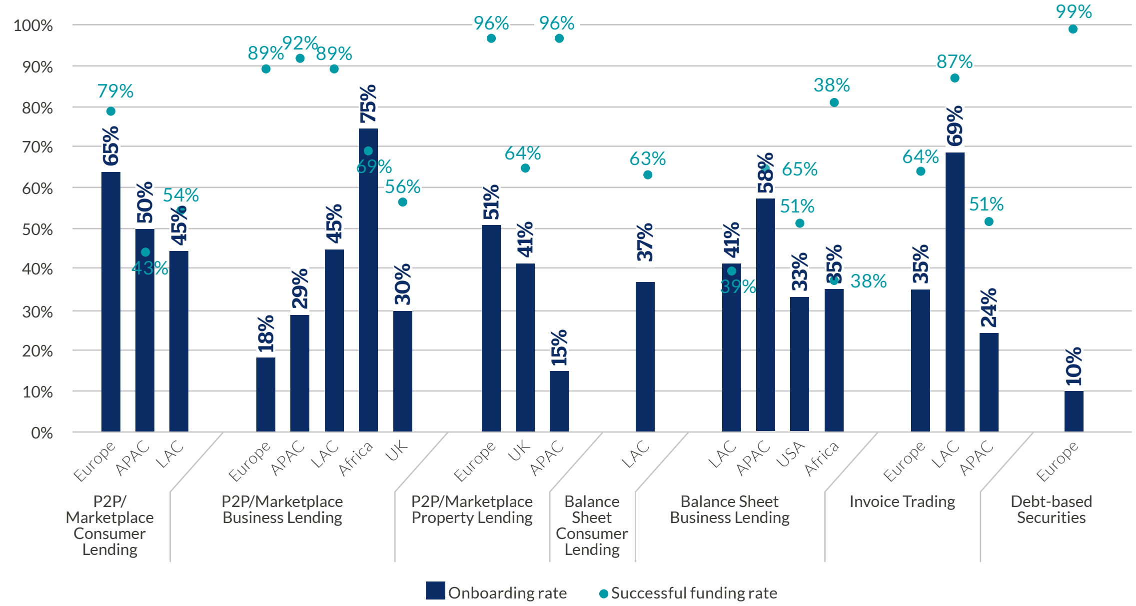
Potential fundraisers must first go through a series of checks and assessments to determine their suitability, before they can raise funds on an alternative finance platform. While the process varies from platform to platform, comparison of the relative rates of onboarding and successful funding provides some insight into how this first checkpoint impacts fundraiser success. The below graphs include the percentage of applicant firms that are considered qualified and are allowed to proceed with a fundraise (on-boarding rate), and then the percentage of these onboarded firms who go on to receive funding through the platform (successful funding). It includes figures on this for business models where there are at least 10 platforms operating in the region studied, which means that some types of business models are only analysed in a limited number of locations

Based on 1184 (51%) of observations, which provided relevant information, we find that different business models show a wide variation in their onboarding and successful funding rates, which also tend to vary significantly between regions. Platforms undertaking P2P Business Lending have one of the most significant variations in onboarding rates between regions, which ranges from 18% in Europe to 75% in Africa. Donation-based Crowdfunding also has a wide range of onboarding rates, with 56% of firms in Europe being accepted in comparison to 99% in the US. A possible explanation for this gap may be the relative popularity of health and education related donation campaigns in the US in comparison to Europe, where both services are more generously covered by state funds and schemes than in the US. The proportion of fundraisers successfully obtaining their funding can also vary widely between regions, with 83% of applications to LAC based Equity-based Crowdfunding platforms being successful in obtaining funding, compared to 44% of fundraisers on platforms based in the UK.

The relationship between onboarding rates and successful funding rates tends to vary between business models. The successful funding rate for P2P business lending platforms is similar across all Europe, Asia Pacific region (excluding China), and LAC, ranging from 89% to 92%. There are stark contrasts to regional differences in the onboarding rate, which range from 18% in the Europe to 45%

Figure 1.15: Onboarding rate and successful funding rate Debt based model

N: 630

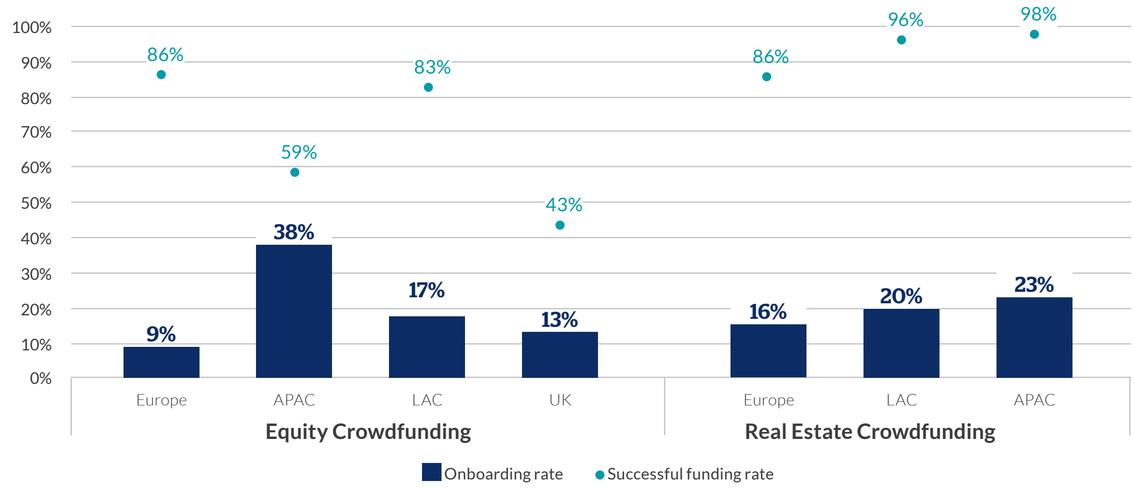


in LAC. Comparing different debt-based models, borrowers using P2P platforms tend to be much more likely to be successful in their funding than borrowers using Invoice Trading or Balance Sheet Lending , although the onboarding rate is on average similar.

Platforms with equity-based business models, comprising Real-estate Crowdfunding and Equity-based Crowdfunding, tend to have a much lower onboarding rate than Non-investment models or debt-based models. This rate is consistently low across all the regions and models studied, ranging form 9% for European-based Equity Crowdfunding platforms to 38% of those in the Asia-Pacific region (excluding China). By contrast, the rate of fundraisers successfully obtaining finance varies significantly. While it is consistently high for Real Estate Crowdfunding platforms, for Equity-based Crowdfunding platforms it ranges from 83% in LAC to 43% in the UK, despite the fact that these regions only have a 4% difference in their onboarding rate.

Figure 1.16: Onboarding rate and Successful funding rate of Equity-based models

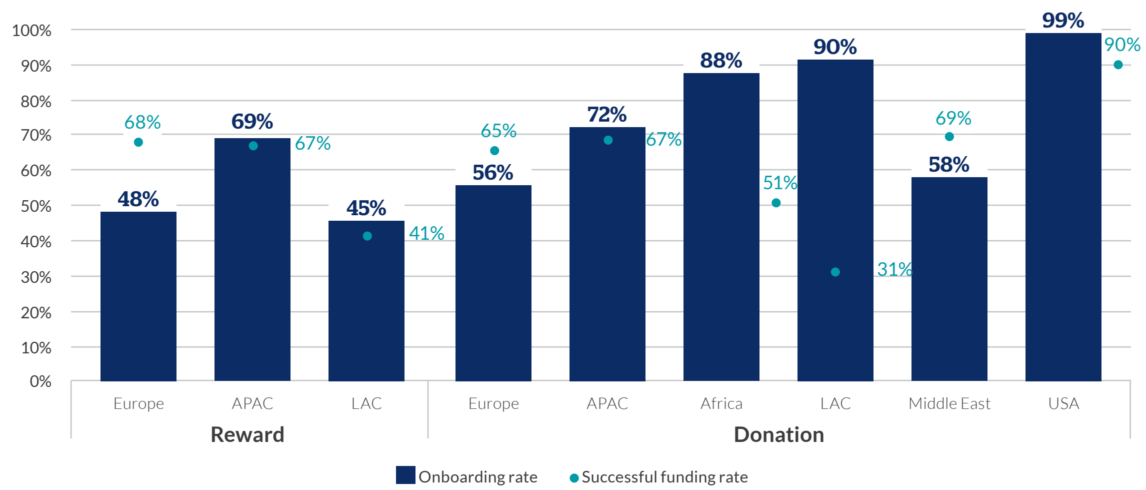
N: 182



Non-investment models differ significantly depending on the business model. Reward-based Crowdfunding platforms have similar rates of onboarding and successful financing across both the Asia-Pacific region (excluding China) and Europe. By contrast, Donation-based Crowdfunding has a higher rate of onboarding and of successful financing in comparison but shows much greater regional variation. European firms had an onboarding rate of 56% and a successful financing rate of 65%, whereas for LAC these figures stood at 90% and 31% respectively.

Figure 1.17: Onboarding rate and Successful funding rate of Non-investment based models

N: 372

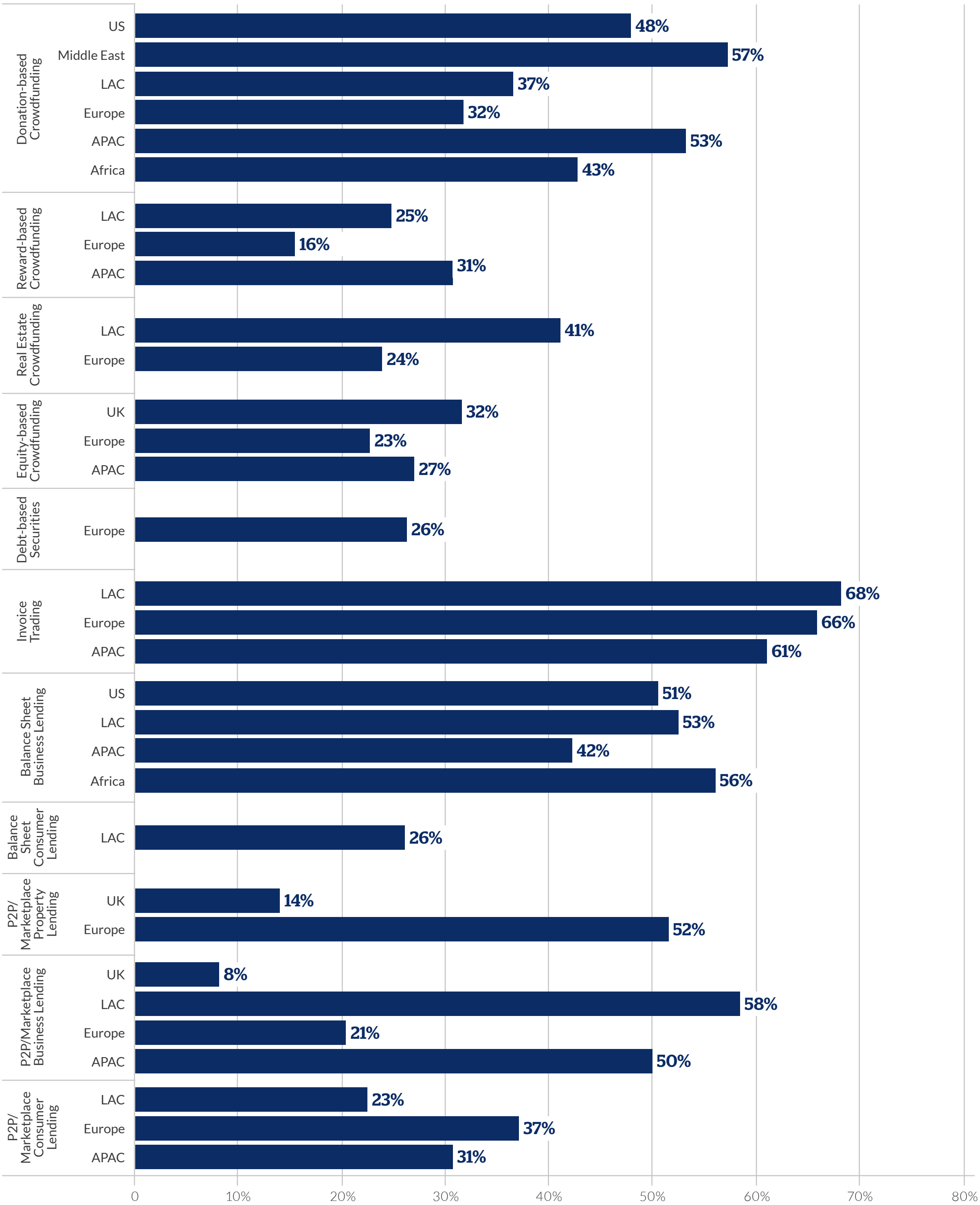


Repeat Rates

Good measurements of the adoption of alternative finance, and of its potential sustainability in the long term are the rates of repeat fundraisers and funders. The survey asked firms to identify the proportion of individuals, businesses or entities that have raised finance on their platform at least twice since joining the platform (repeat fundraisers), as well as investors who invested on their platform more than once in 2018 (repeat funders). The figures for repeat funders exclude individuals using auto-bid with automatic re-investment selected. Based on 942 (41%) of the observations, which provided relevant information, we find the following.

Figure 1.18: Repeat Fundraiser Rate by Model and Region, 2018

N: 942



Invoice Trading had the highest rate of borrowers returning to fundraise again within a year, at 68% in LAC and 61% in Asia-Pacific region (excluding China) Europe. Donation-based crowdfunding similarly had a high rate of repeat usage, ranging from 57% in Middle East to 32% in Europe. P2P/ Marketplace Business Lending in UK had the lowest level of repeat use (8%).

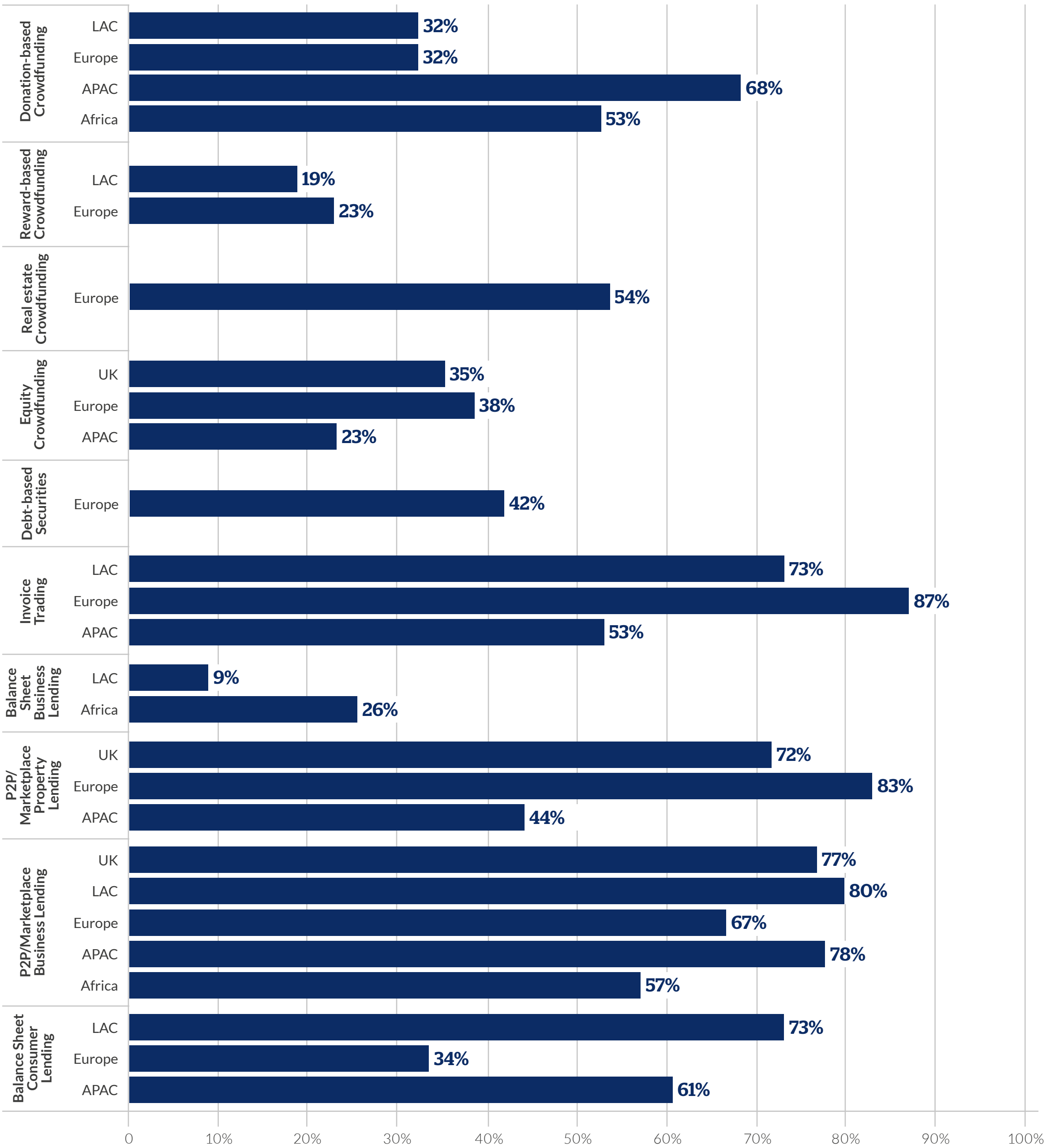
Rates of repeat fundraisers tended to remain generally similar across different geographic areas, with the range not being much more than 10%. The main exception to this is P2P business lending, which has a wider gap between the highest recorded rate of 58% in LAC, and lowest rate of 8% in UK.

The rates of repeat funders tend to be higher than the rates of repeat fundraisers. The highest rate for repeat fundraisers is 68% (Invoice Trading , LAC), while for repeat funders it is 87% (also Invoice Trading,Europe).

Geographical disparity is most evident in P2P property-based models, where the rate of repeat funders ranges between 44% in the Asia-Pacific region (excluding China) and 83% in Europe. The only business models which showed broadly similar

N: 806

Figure 1.19: Repeat Funders Rate by Model and Region, 2018



rates of repeat funders globally were P2P business lending and Equity crowdfunding.

This disparity between different regions makes it challenging to compare rates of repeat funding across different business models. , High rates of repeat funders can be found in various models such as Invoice Trading, P2P property lending, P2P business lending, all exhibiting rates higher than 80%. On average, Balance Sheet Consumer Lending has the lowest rates of repeat funding, with an average rate of 17% across regions.

Auto-selection rate:

One of the mechanisms used by funders to facilitate their investment is auto-selection. The survey asked platforms to indicate the proportion of investors or lenders who used auto-bid or auto-selection mechanisms to make their investments. Auto-bid or auto-selection is a function whereby individual lenders or investors specify their investment amount, duration and risk appetite. The platform then allocates funds across available investment options based upon these pre-set preferences, effectively auto-diversifying against the available portfolio. Auto-selection is only widespread enough to properly measure amongst P2P consumer and P2P business platforms. Based on 27% of relevant observation, we find the following.

Globally, an average of 41% of users of P2P consumer platforms used auto-selection or auto-bidding when providing funds, where the variation between the regions were high. (the Asia-Pacific region (excluding China): 27%, Europe: 65%). Investors using P2P business platforms tended to be less likely to use auto-selection than investors using P2P consumer platforms, with an average rate of around 57% across the 3 regions for which we have data. However, this rate is skewed by the high use of auto-selection in the UK, where it was used by 92% of investors using P2P business platforms. By contrast, its use in the Asia-Pacific region (excluding China) and Europe was much lower- 10% in Asia-Pacific region (excluding China) and 69% in Europe

N: 263

Model	Region	Auto-selection rate
P2P/Marketplace Consumer Lending	APAC	27%
	Europe	68%
P2P/Marketplace Business Lending	APAC	10%
	Europe	69%
	UK	92%

Institutionalisation:

Institutional investors are increasingly making use of alternative finance to support their own or their clients' investment strategies. Platforms were asked what percentage of their total 2018 funding volume was funded by institutional investors, i.e. including banks, trusts, brokerage firms, investment dealers, insurance companies and other non-financial institutions. Based on 63% of the observations, for which relevant information was provided, we find that in 2018, approximately $162 billion of the alternative finance volumes was derived from institutional investors, which is just over 50% of the entire global volume.

There is a wide regional variation in the proportion of institutional-driven funding. The majority of areas had a fairly equal split between institutional and non-institutional funders, with about half of their funding coming from institutional investors, and half coming from individual investors. The exception to this was platforms based in the US, Africa and the Middle East. Platforms in Africa and the Middle East were dominated by non-institutional investors; only 19% ($40m) of funding for African platforms and 8% ($60m) of funding for those in the Middle East came from institutional investors. By contrast, institutional investors provided most funding (88% or $54 billion) via platforms based in the US.

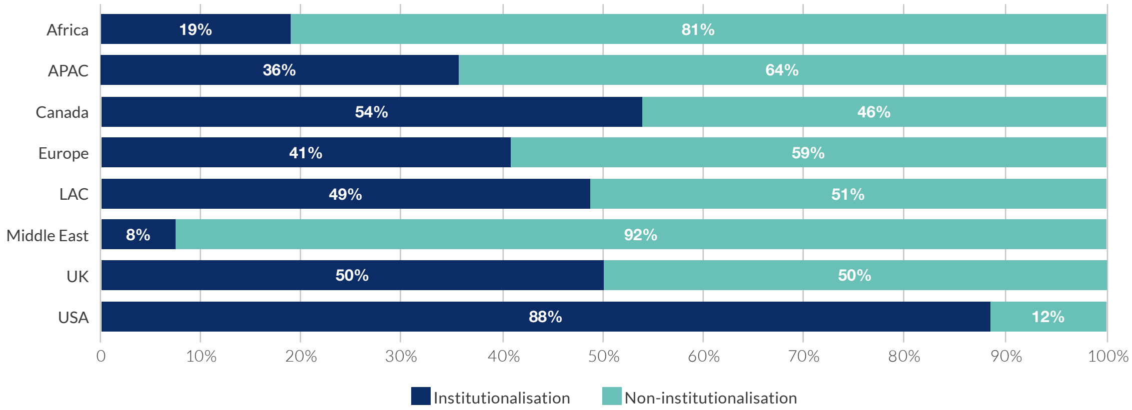
Besides regional variation, the amount of funding which platforms received from institutional investors varied considerably depending on their business model, ranging from 3% of the funding for Reward-based Crowdfunding to 93% of the funding of Balance Sheet Consumer Lending.

Balance Sheet Consumer Lending is followed by P2P Consumer platforms, which gained 83% of their funding from institutional investors. Platforms using other P2P models also received a significant proportion of their funding from institutional investors, at 57% for P2P Business and 44% for P2P Property platforms. Balance Sheet Consumer Lending, Invoice Trading and Revenue Sharing platforms also derived well over half of their funding from institutional investors.

By contrast, 3% of Reward-based Crowdfunding was derived from institutional investors, followed by Real-estate Crowdfunding at 16%. Only 18% of funding for Donation-based Crowdfunding platforms and 23% of funding for Equity

Figure 1.20: Institutionalisation by region

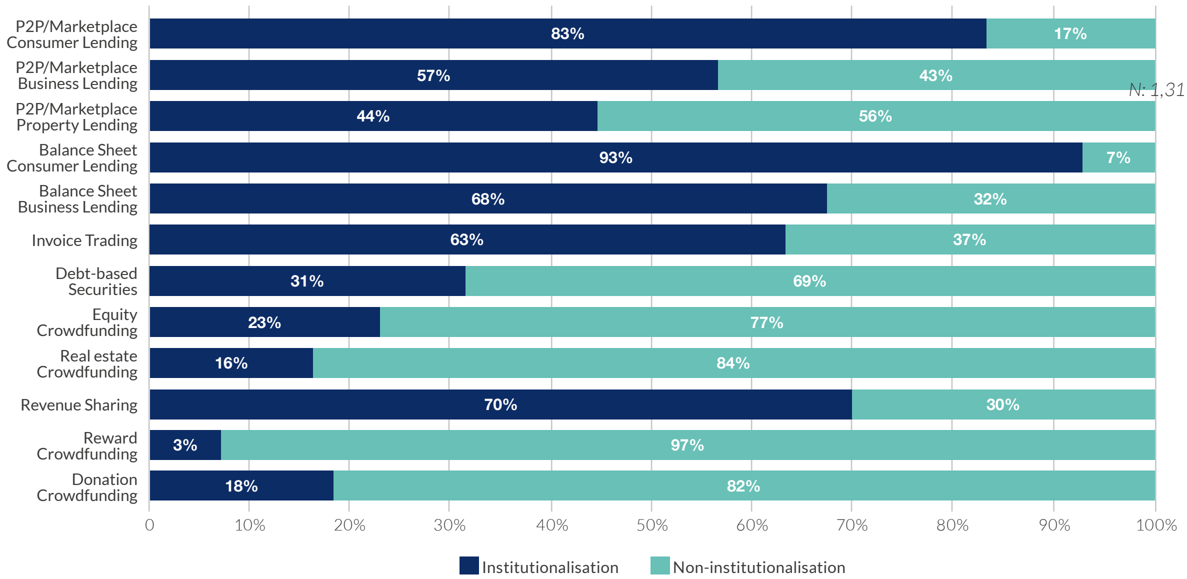
N: 1,459



Crowdfunding platforms came from institutional investors. Hence, while institutional investors account for a substantial proportion of lending activity, they tend to avoid higher risk equity investments, as well as from models with no financial return where contributions are mostly associated with corporate social responsibility action rather than strategic investment.

Figure 1.21: Institutionalisation by model

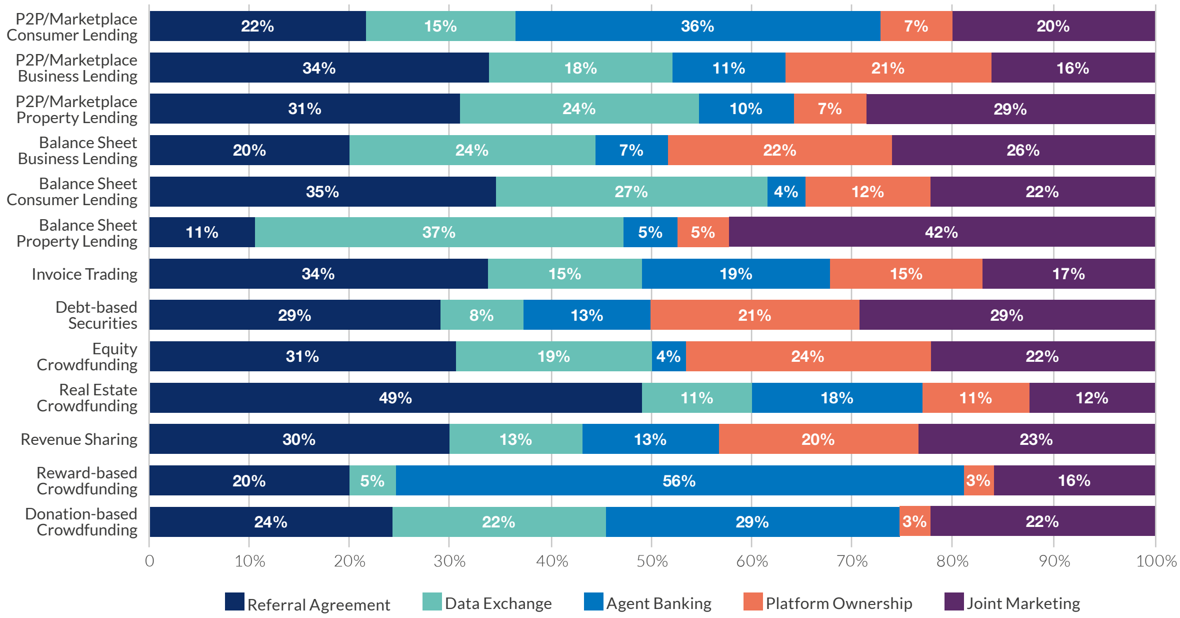
N: 1,311



Partnerships with Institutional Investors

Figure 1.22: Partnerships by model-2018

N: 1,177



Other Collaborations with Institutional Partners

While institutional investment certainly is an important marker in understanding the synergies between traditional financial services and alternative finance platforms, it is also important to review the types of collaborative arrangements that exist between platforms and traditional financial institutions. To this end platforms were asked about the ways in which they collaborate with such partners. These included referral agreements, data exchange, agent banking, platform ownership and custodianship. Based on 51% of the observations, for which relevant information was provided, we find the following.

Real Estate Crowdfunding, Balance Sheet Business Lending, and Invoice Trading, had the highest proportion of platforms with referral agreements – at 49%, 35%, and 34%, respectively. With regard to data exchange, the highest proportion of platforms that utilized this were Balance Sheet models – including Balance Sheet Property Lending (37%), Balance sheet Business Lending (27%), and Balance Sheet Consumer Lending (24%). For Agent Banking, 56% of Reward-based Crowdfunding platforms, 36% of P2P/Marketplace Consumer Lending platforms, and 29% of Donation-based Crowdfunding. Partial institutional ownership was reported by 24% of Equity-based Platforms, 22% of Balance Sheet Consumer Lending platforms, and 21% of Debt-based Securities platforms. Finally, with regards to marketing agreements 29% of Debt-based Securities platforms, 29% of P2P/Marketplace Property Lending, and 26% of Balance Sheet Consumer Lending reported institutional partnerships.

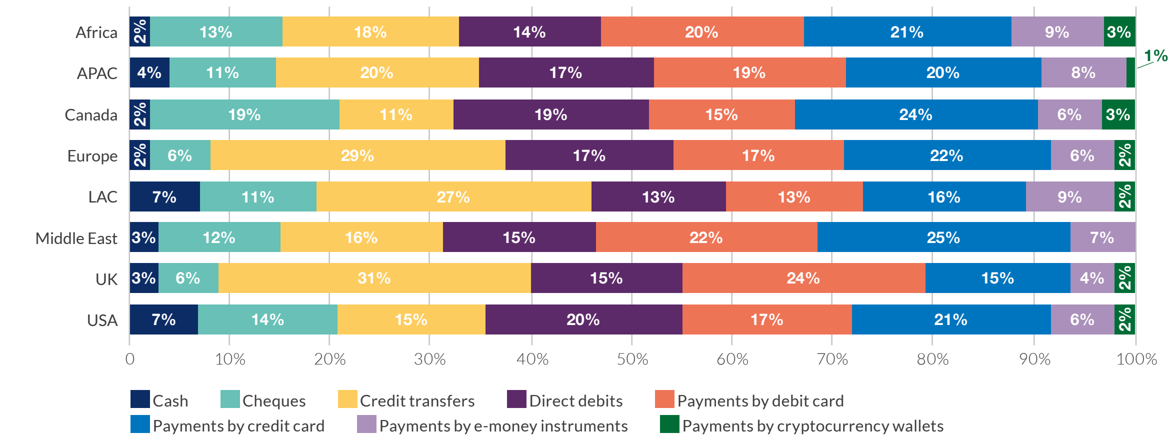
Payment Infrastructure Utilised by Alternative Finance Platforms

With regards to how investments were made on platforms, participating firms were asked to identify the methods utilized by their customers when making a transaction on the online platform. This has been broken down into analyses by region and by model type. Based on 44% of the observations, for which related information was provided, we find the following.

Generally across all regions, payments by credit transfers or by credit card were the clear preferred method of payment. For African platforms, 58% of all payments were done by Credit (21%) or Debit (20%) payments or via Credit Transfers (18%). In the Asia-Pacific Region (excluding China), 59% of transactions were completed utilizing Credit Transfers (20%), Credit (20%) or Debit (19%) transfers. Platforms in Canada reported that 63% of payments were completed by Credit Card (24%), Direct Debit (19%) or Cheque (19%). Among

Figure 1.23: Payment instruments by region-2018

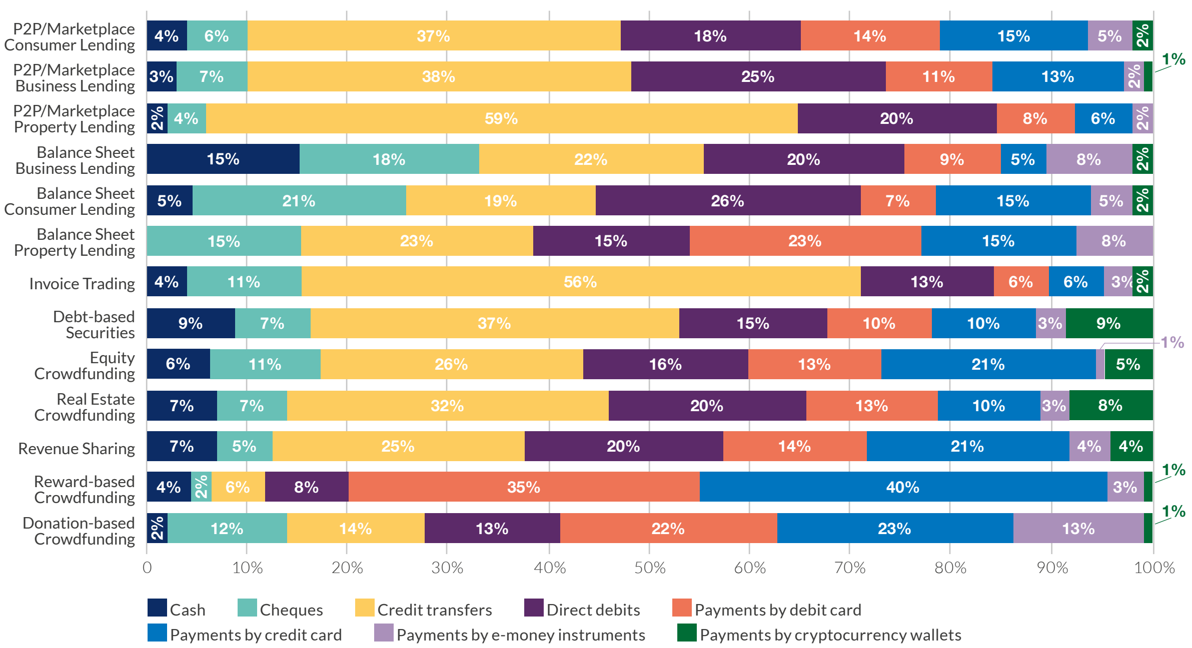
N: 1,012



European Platforms (excluding the UK), 84% of payments were completed via Credit Transfers (29%), Credit payments (22%), Debit Payments (17%) or Direct Debit (17%). In Latin America and the Caribbean, 70% of Payments came from Credit Transfers (29%), Credit Card (16%), Direct Debit (13%) Debit Card (13%) payments. Overall, 63% of payments in the Middle East were split between Credit Cards (25%), Debit Cards (22%) and Credit Transfers (16%). Platforms in the UK reported that 85% of payments came from Credit Transfers (31%), Debit card payments (25%), Credit Card Payments (15%) and Direct Debit (15%). Platforms in the US reported that 57% of their payments were by Credit Card (21%), Direct Debit (20%) and Debit Card (17%).

Figure 1.24: Payment instrument by model-2018

N: 1,012



By overarching model – with the clear exception of Reward- and Donation-based Crowdfunding – most model types utilized credit transfers as their predominant payment method. This may result from the fact that non-investment models are likely to involve substantially smaller financial transactions than those associated with investment behaviour. This was particularly evident with respect to P2P/Marketplace Property Lending and Invoice Trading, where 59% and 56% of platforms utilised this method. Over half (55%) of P2P/Marketplace Consumer Lending utilized Credit Transfers (37%) or Direct Debits (18%). The largest share (63%) of P2P/Marketplace Business Lending also used Credit Transfers (38%) or Direct Debits (25%). For Balance Sheet Consumer Lending the top three methods accounted for 60% of their payment instruments, being Credit Transfers (22%), Direct Debits (20%) Cheques (18%). A total of 66% of Balance Sheet Business Lending platforms also utilized Direct Debits (26%), Cheques (21%), and Credit Transfers (19%). In Balance Sheet Property Lending, 23% of payments were done through Credit Transfers, and an additional 23% were done via Debit Card Payments.

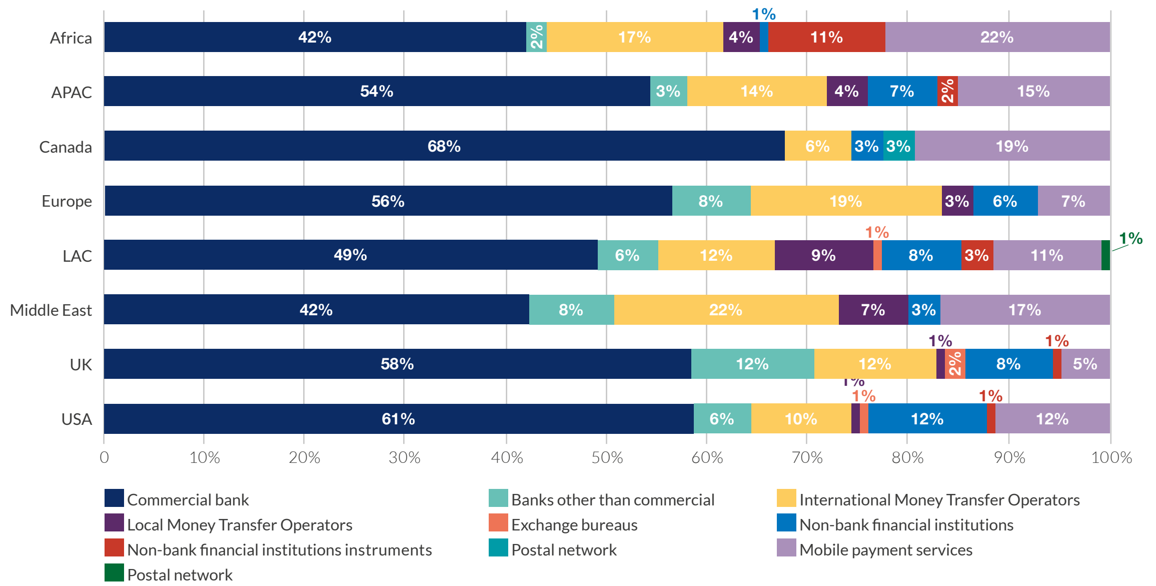
Just over half (51%) of Debt-based Securities payments came through Credit Transfers (37%) or Direct Debit (15%). While Equity-based Crowdfunding also had the largest share of payments coming from Credit transfers (26%), the second largest share was from Credit Card Payments (21%). Similarly, Revenue Sharing had 25% of payments from Credit Transfers, 21% from Credit Card payments, and 20% from Direct Debits. Real Estate Crowdfunding had 52% of its payments split between Credit Transfers (32%) and Direct Debits (20%). Reward and Donation-based models, however, had a larger share of Debit and Credit Card payments – at 35% debit and 40% credit for Reward-based, and 22% debit and 23% credit for Donation-based.

Respondent platforms were also asked about the categorization of their payment service providers.

For all regions, with the exception of Africa, over 50% of all payment service providers were banks. For Africa, while 42% of platforms utilized a commercial bank and 2% utilized another bank. Notably, 22% utilized Mobile Payment services and 11% utilized Mobile network operators. Interestingly, the Asia-Pacific Region (excluding China), Canada and the Middle East also utilized a sizable portion of Mobile payment services (15%, 11 and 17% respectively). Additionally, the Middle East, Europe and Africa also utilized International Money Transfer Operators (22%, 19% and 17%, respectively).

Figure 1.25: Payment Clearance methods by region-2018

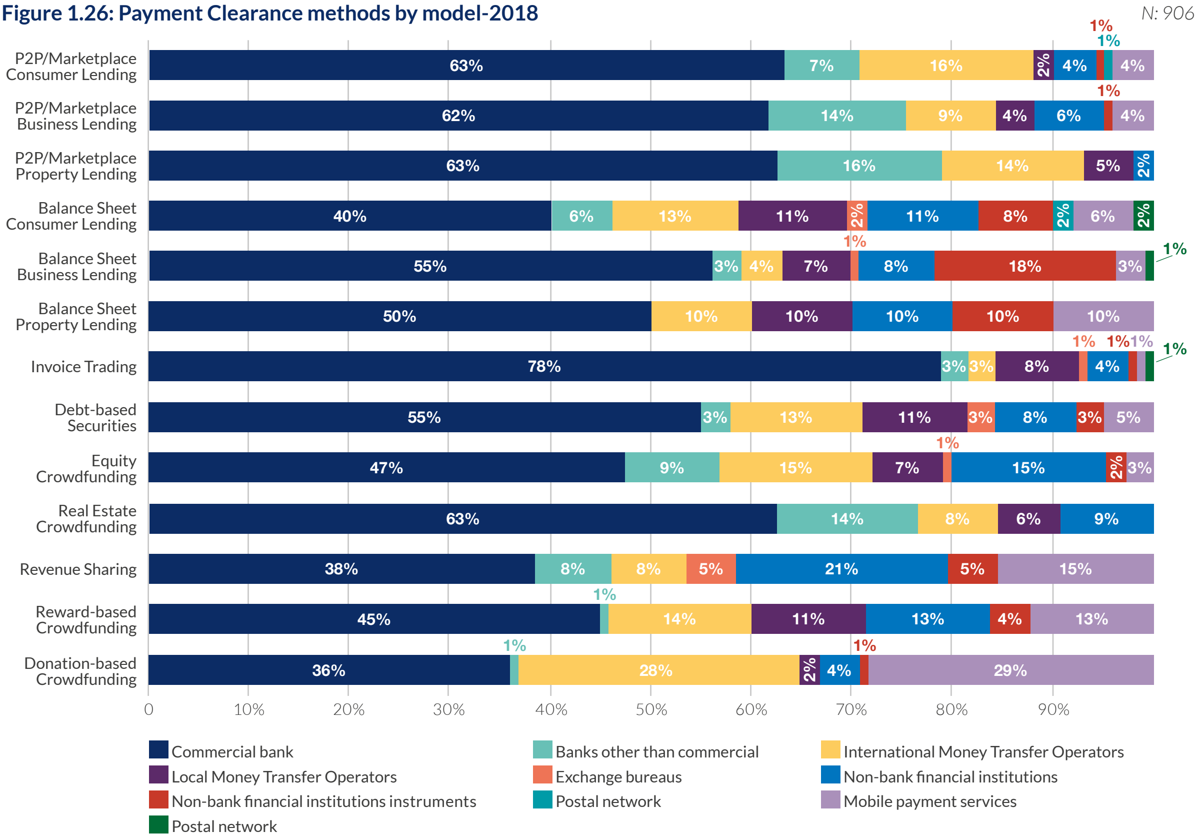
N: 906



Similar to the response by region, when examining payment clearance by model type the largest source of payment clearance was through that of commercial banks – as reported by over 60% of P2P/Marketplace models platforms, 63% of Real Estate Crowdfunding platforms, and 78% of all Invoice Trading Platforms. When combined with 'banks other than commercial', these shares become even higher. All model types reported that 50% or more of their constituent platforms utilized either soley a Commercial bank, or both a commercial bank and an 'other bank', with the exception of Balance Sheet Consumer Lending, Revenue Sharing, Donation and Reward-based Crowdfunding.

Figure 1.26: Payment Clearance methods by model-2018

N: 906



Donation-based Crowdfunding had the lowest amount of Commercial Banks (36%) and 'Other' banks (1%) that functioned as a clearance method – and the highest amount of International Money Transfer Operations (28%) and Mobile Payment Services (29%). Reward-based Crowdfunding similarly had 45% Commercial Bank involvement, and 1% 'Other bank'- and 14% International Money Transfer Operations, 13% Non-bank Financial Institutions, and 13% Mobile Payment Systems. Revenue sharing, on the other hand, had 38% or its payment clearance through Commercial Banks, 8% through 'Other banks', 21% through Non-bank Financial Institutions, and 15% through Mobile Payment services. Balance Sheet Consumer Lending, had 40% of its payment clearance through Commercial banks, 6% through 'Other' banks, as well as 13% International Money Transfers, and 11% for both Local Money Transfer Operators and Non-bank Financial Institutions.

Market developments

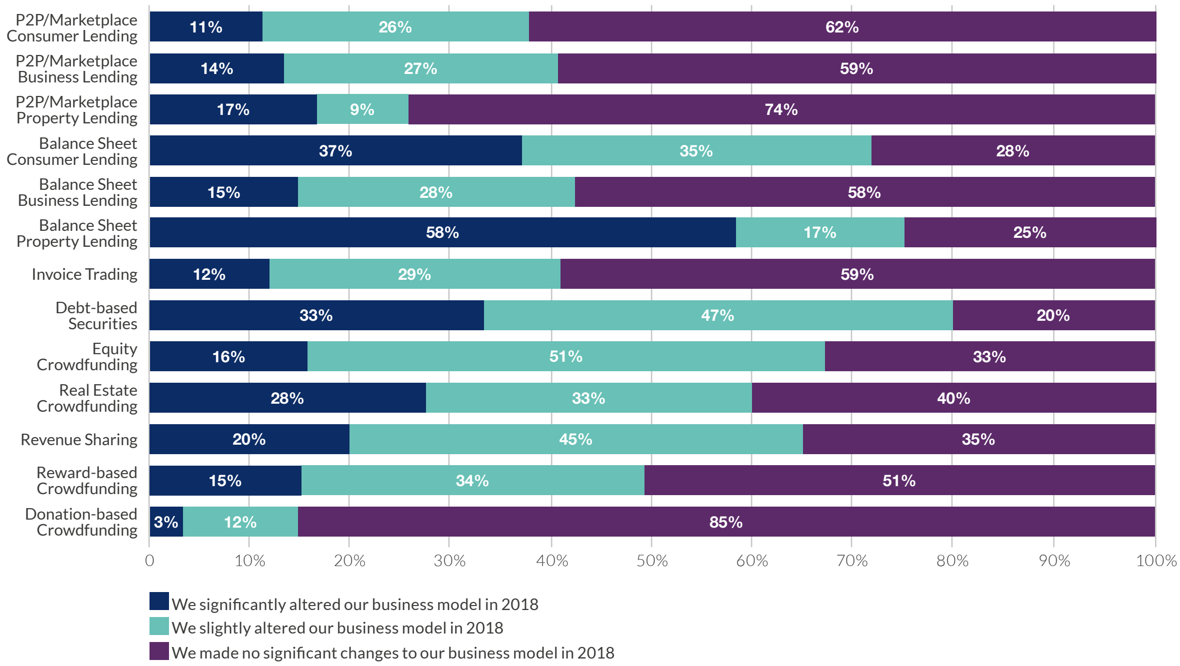
Innovation

The alternative finance market is increasingly incorporating new technologies while opening new businesses lines aimed at supporting a rapid and efficient market. When analysing these advances, it is useful to understand how different segments of the alternative finance ecosystem are innovating. In the first instance, we asked firms to indicate if they made any changes to their business model within the last year, and, if so, to what degree. Based on the 43% of observations for which relevant information was provided, we find the following.

For most reporting P2P lending firms, no significant changes to their business models occured in 2018. This was particularly evident for P2P Property Lending, which saw 74% of firms saying that no changes occurred. In contrast, when looking at Balance Sheet Property Lending, over half of firms indicated some sort of change to their business model, with 58% of platforms saying that they had significantly altered their business model, and 17% only slightly so. Balance Sheet Consumer Lending also noted considerable business model changes, with 37% indicating significant change and 35% slight change. An emphasis on business model transformation was also prevalent from firms operating a Debt-based Securities model, with 33% significantly altering their model and 47% significantly altering their model.

Figure 1.27: Changes to business model by model-2018

N: 995

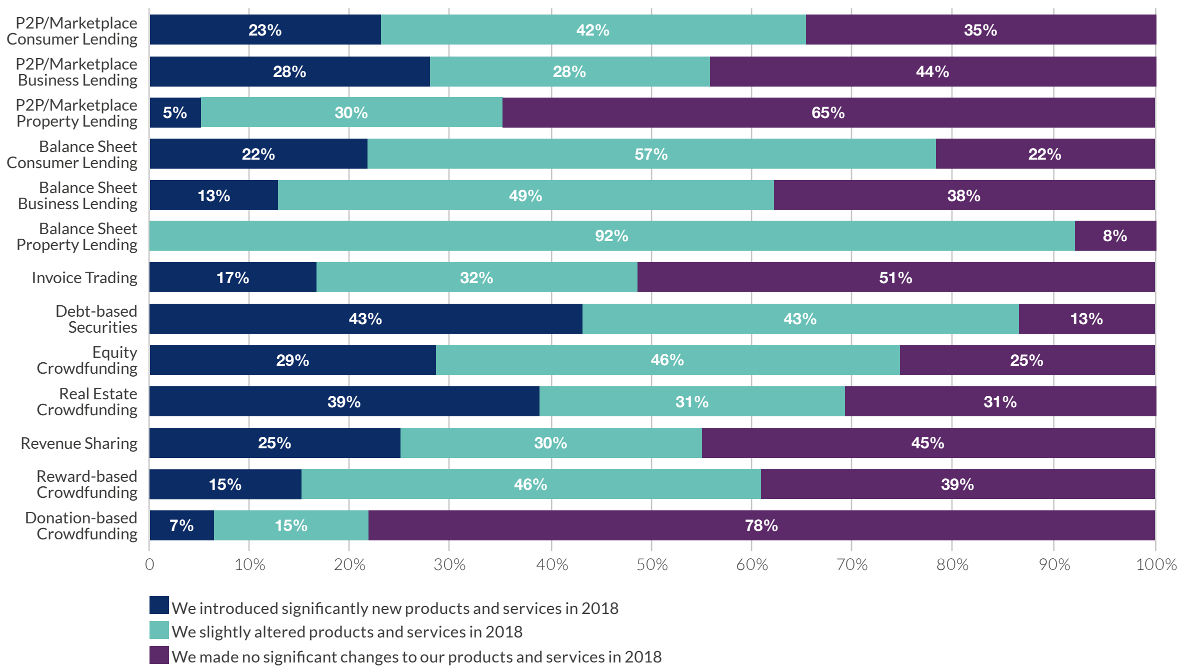


In the case of equity-models, firms reported greater levels of business model change. For Equity-based Crowdfunding, 16% said that significant change to their business model occurred, while 51% noted slight changes. Similarly, 28% of Real Estate Crowdfunding and 20% of Revenue Sharing firms noted significant changes.

When considering Non-investment models, 85% of Donation-based Crowdfunding firms have noted no significant changes, while 12% reported only slight changes. In Reward-based Crowdfunding, 51% of platforms indicated no change and 34% indicated only slight change. In this respect, model changes seem to correspond with regulatory influx, where most attention is focused on Investment rather than Non-investment models, and where resulting amendments require adjustments from Investment model platforms to a greater extent.

Figure 1.28: Changes in products and services by model- 2018

N: 995



The products and services offered by platforms are diverse and constantly evolving in line with regulatory amendments, as well as technological development and market demand patterns. In the case of P2P Consumer Lending, a significant proportion of firms did indicate changes to their core products and services, with 23% introducing new products and services in 2018 and 42% making slight changes to their existing offerings. Similarly, 49% of Balance Sheet Consumer Lending firms noted slight changes as well. P2P Business Lending firms also noted significant introduction of new products or services (28%), while 49% of Balance Sheet Business Lending firms indicated slight changes. Interestingly, while firms from the Balance Sheet Property Lending model had previously indicated significant changes to their business model, a significant 92% did note incorporating changes to their existing product and service offerings. Firms operating a Debt-based Securities model also noted considerable changes to their product offerings, with 43% indicating the introduction of new products or services and 43% noting slight changes.

Overall, equity-based models indicated significant transformation, with 29% introducing new products or services, and 46% making changes to their existing offering. In the case of Real Estate Crowdfunding, 39% of firms introduced products and services and 31% making changes.

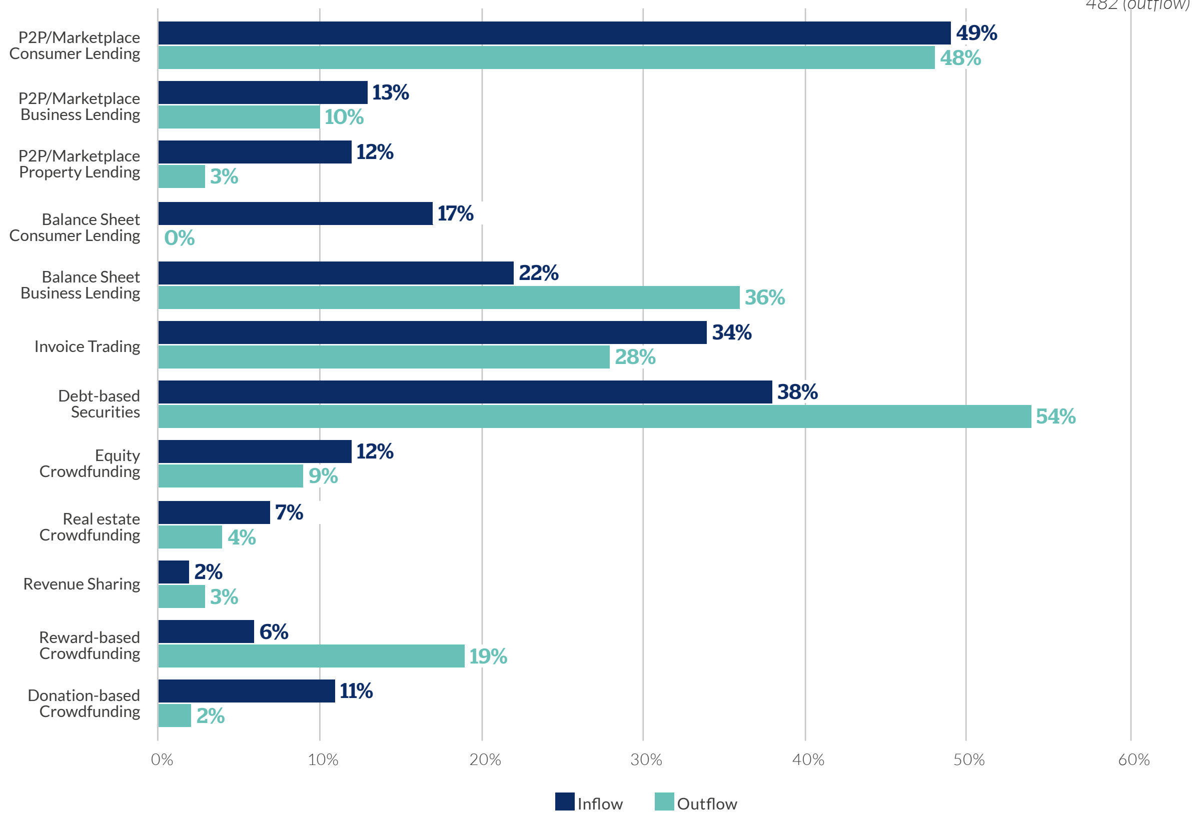
Donation-based Crowdfunding remained mostly unchanged, with 79% of platforms responding they made no significant changes to their products or services and 15% of platforms slightly altering them. In contrast, 46% of Reward-based Crowdfunding, firms did not tend to change their existing product offerings, with fewer firms (15%) noting introduction of new products or services.

Internationalization

One of the advantages of conducting a global survey is the ability to more accurately track cross-border transactions. As the provision of finance is moving beyond transactions located solely within one jurisdiction, and as alternative finance activities become increasingly international, with firms setting up operations in multiple countries, it follows that their clients are also becoming increasingly international. As such, we wanted to understand the impact of cross-border transactions, looking specifically at the inflow of funds (i.e. funds from investors which came from abroad) and outflows (i.e. funds which went to fundraisers abroad). The following findings are

Figure 1.29: Inflow rate and Outflow rate by model-2018

N: 635 (inflow)
482 (outflow)

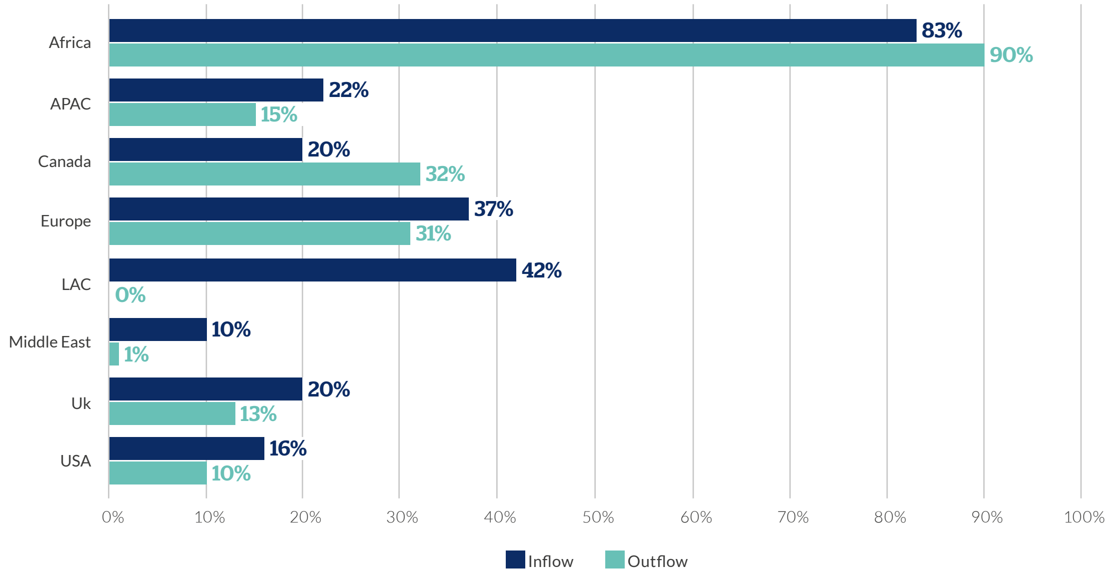


based on 28% of total observations which provided information about international inflows and 20% of observations which provided information about international outflows, regardless of size (including no flows).

Cross-border transactions are more common to some models, with P2P Consumer Lending accounting for some of the highest proportions of cross border inflows (49%) and outflows (48%). Other models with high levels of cross-border activity included Debt-based Securities (38% inflows and 54% outflows), Invoice Trading (34% inflows and 28% outflows) and Balance Sheet Business Lending (22% inflows and 36% outflows). It is possible that certain models lend themselves better to such cross-border interactions. If we look, for instance, at the models which tend to be more geographically locked or domestically-orientated, models which require security against an asset (such as a property) tend to be more focused on domestic clients and stakeholders. This is certainly the case for both P2P Property Lending and Real Estate Crowdfunding. Similarly, Equity-based Crowdfunding is predominantly a local activity, and this may stem from a reliance on investor-issuer relationships, with a greater emphasis typically placed on 'knowing your investment', as well as need for regulatory compliance for investor protection in relatively high risk investments, which varies between countries.

Figure 1.30: Inflow rate and Outflow rate by region-2018

N: 707 (inflow)
530 (outflow)



It is also useful to note which regions tend to rely more on international funding, especially to support domestic ventures or fundraisers. Here, our reported findings are based on 31% of total observations which provided information about international inflows and 23% of observations which provided information about international outflows, regardless of size (including no flows).

The region with the highest cross-border inflows and outflows is Africa, which had an inflow rate of 83% and an outflow rate of 90%. This unique result reflects the fact that most platforms reporting activities in African countries are actually international platforms based outside of Africa. In such cases, inflows originate from a variety of countries globally, and the outflows go out to organizations either registered in Africa or elsewhere abroad (while operating in Africa). Furthermore, even the relatively few platforms based in Africa tend to attract support from African diaspora members and their extended networks outside of Africa. Indeed, African platforms considers diaspora a strategic segment of focus, while expecting slower and gradual uptake domestically.

It is followed by LAC, which had a 42% cross-border inflow rate. Substantial volumes of this are associated with US-based global platforms, as well as important share of contributions from diaspora funding. Europe accounts for a 37% inflow and 31%

outflow rate (though much of this occurred within the European Union), and Canada a 20% inflow and 32% outflow rate. The UK shows a 20% inflow and 13% outflow rate, and the US a 16% inflow and 10% outflow. The lowest levels are observed in the Middle East, with a 10% inflow and 1% outflow. Here, a combination of politics limiting cross-border financing, limited trade between the regional heavyweight Israel and its neighbours, and relative wealth of key Middle Eastern countries lead to low levels of international transactions.

Financial Inclusion

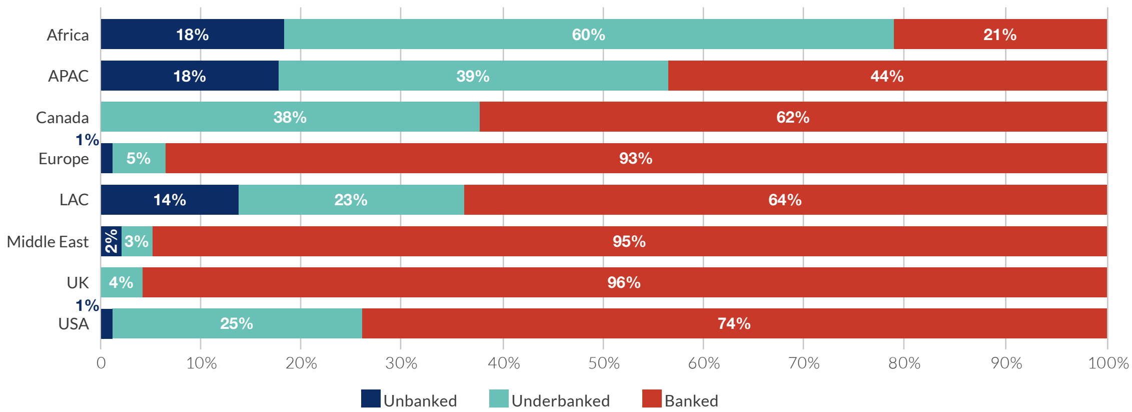
Banked, Underbanked and Un-banked Status of Fundraisers

An important measure of financial inclusion is banking status. Respondents were asked to indicate the proportion of their customer base who were unbanked (not served by or without access to any traditional financial service), underbanked (with access to some basic financial services, but not a complete suite), and banked (users that have access to a full suite of financial services). Based on the 36% of observations for which relevant information was provided, we find the following.

Looking at respondents geographically, those based in Africa and the Asia-Pacific region (excluding China) have the highest percentages of unbanked customers, at 18% in both regions. However, the Asia-Pacific region (excluding China) platforms' lower levels of underbanked customers mean that overall 44% of platforms' customer base is banked, compared to 22% of African platforms' customers. While respondents from the USA and Canada reported minimal to no unbanked customers, they noted a significant level of underbanked customers. In the USA, 25% of customers were underbanked, while 38% were underbanked in Canada. These means that these countries' overall reported levels of banked customers are significantly lower than those in Europe, the Middle East and the UK, which all have similar levels of around 95% banked customers. We did not have sufficient data for China to analyse the banking status of customers at Chinese firms.

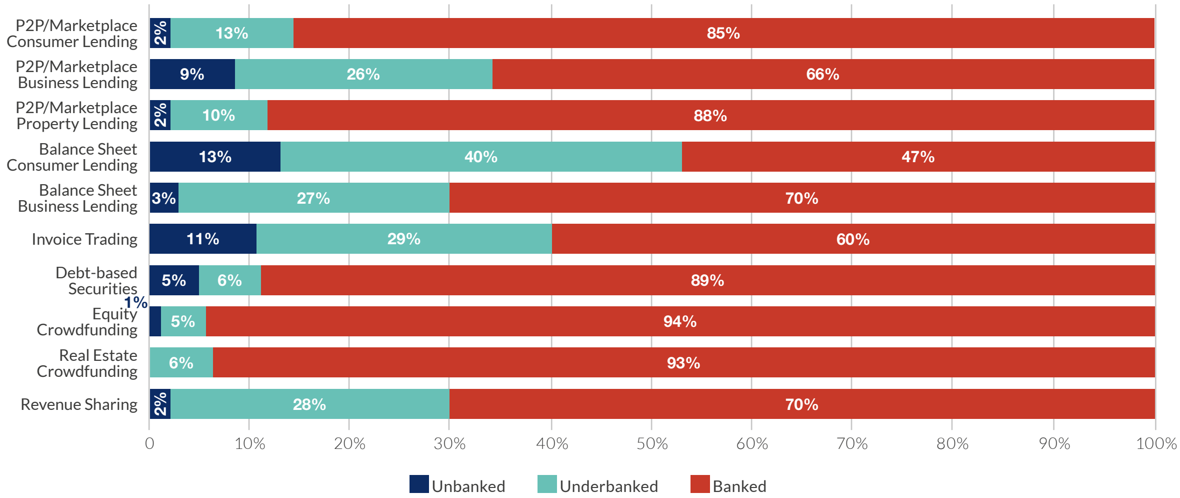
Overall, this indicates that alternative finance does contribute to improvement in access to finance, but these improvements do not correspond with the significant positive expectations that characterized the industry's earlier years. It remains to be seen whether this is a result of nascent platforms seeking legitimacy and scale on the way to improving wider access to finance, or whether this is a result of growing share of institutionalisation that may continue to discriminate such segments through new channels as well.

Figure 1.31: Banking Status by region



As well as the region in which they are based, the banking status of respondents' customers also varies depending on the firm's business model. Real-estate Crowdfunding and Equity-based Crowdfunding firms have the highest proportions of Banked customers, while Balance-Sheet Consumer Lending has the lowest proportion, at 47%.

Figure 1.32: Banking Status by model



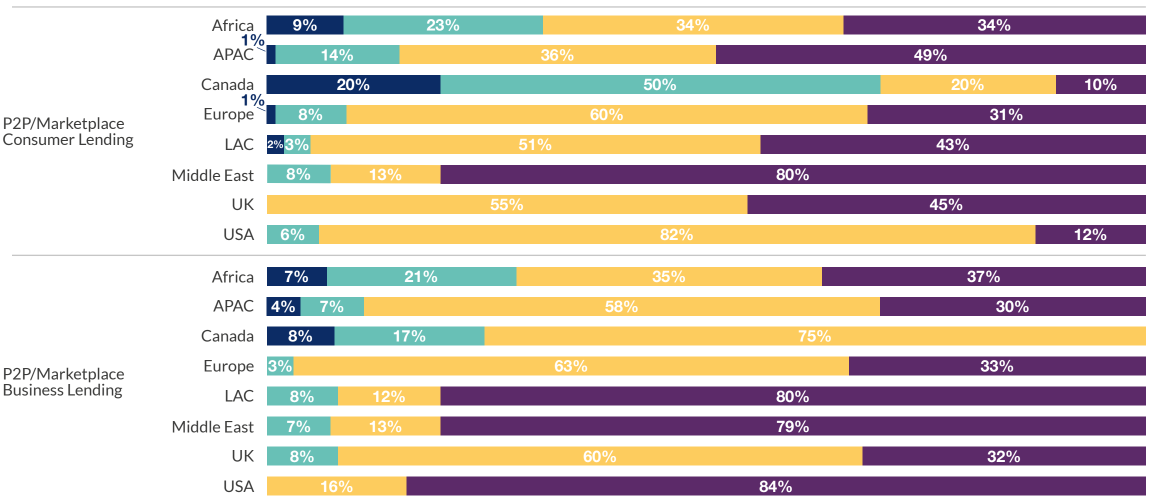
The Income Status of Investors

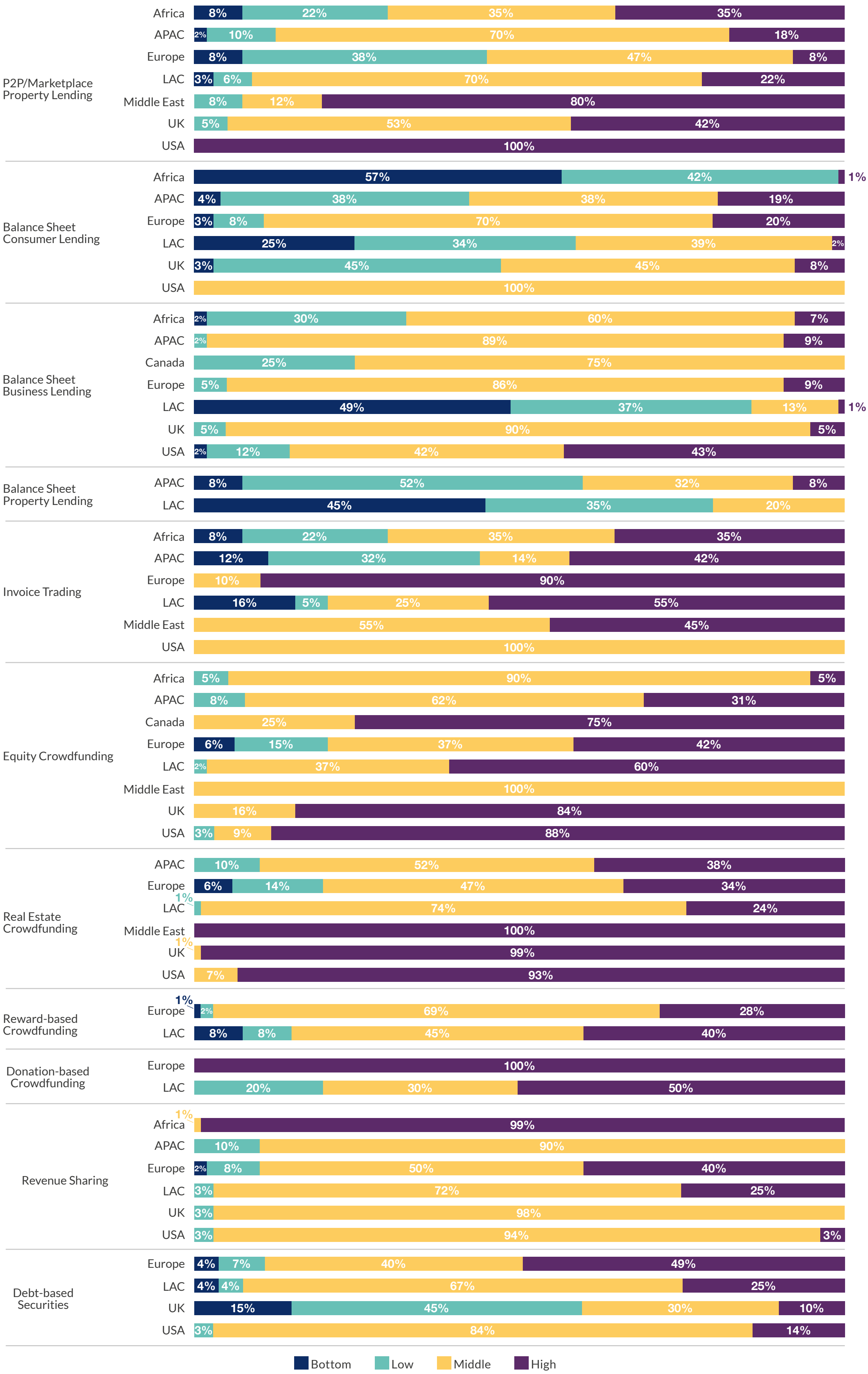
Examining the income status of funders and investors lets us better understand the level of participation at different income levels, and indirectly to what extent do lower income level individuals in particular use crowdfunding as an investment channel. Respondents divided the income status of their funders into four categories- 'bottom income', 'low income', 'middle income' and 'high income'.

Based on 22% of observations for which relevant information was provided, we find that for almost all types of firms, whatever region they are located, most of funders come from a middle or high-income bracket. Real-estate Crowdfunding, Invoice Trading and Donation-Based Crowdfunding firms have the highest proportion of high-income funders, a trend which is consistent through almost all regions.

However, a few types of firms draw a significant proportion of their investment from funders in lower income brackets. A notable example of this is Balance Sheet Property Lending, where 60% of the funders to Asia-Pacific Region (excluding China) firms, and 80% of the funders for LAC firms are classed as having the bottom or low level of income. This phenomenon is present globally and is not limited to Emerging Markets and Developing Countries. P2P consumer firms in Canada draw 50% of their investment from funders with a 'low' income status, and around 60% of Debt-based Securities firms in the UK draw investment from funders classed as having the bottom or a low level of income, as did 45% of European P2P Property firms. This could represent evidence that low income investors are brought into the fold and allowed to build up capital base via alternative finance. However, at the same time this may raise concerns that platforms need to ensure that such individuals understand the risks they are taking when engaging in such investment activities.

Figure 1.33: Income Status by Model and Region




P2P/Marketplace Property Lending
Africa 8% 22% 35% 35%
APAC 2% 10% 70% 18%
Europe 8% 38% 47% 8%
LAC 3% 6% 70% 22%
Middle East 8% 12% 80%
UK 5% 53% 42%
USA 100%
Balance Sheet Consumer Lending
Africa 57% 42% 1%
APAC 4% 38% 38% 19%
Europe 3% 8% 70% 20%
LAC 25% 34% 39% 2%
UK 3% 45% 45% 8%
USA 100%
Balance Sheet Business Lending
Africa 2% 30% 60% 7%
APAC 2% 89% 9%
Canada 25% 75%
Europe 5% 86% 9%
LAC 49% 37% 13% 1%
UK 5% 90% 5%
USA 2% 12% 42% 43%
Balance Sheet Property Lending
APAC 8% 52% 32% 8%
LAC 45% 35% 20%
Invoice Trading
Africa 8% 22% 35% 35%
APAC 12% 32% 14% 42%
Europe 10% 90%
LAC 16% 5% 25% 55%
Middle East 55% 45%
USA 100%
Equity Crowdfunding
Africa 5% 90% 5%
APAC 8% 62% 31%
Canada 25% 75%
Europe 6% 15% 37% 42%
LAC 2% 37% 60%
Middle East 100%
UK 16% 84%
USA 3% 9% 88%
Real Estate Crowdfunding
APAC 10% 52% 38%
Europe 6% 14% 47% 34%
LAC 1% 74% 24%
Middle East 100%
UK 1% 99%
USA 7% 93%
Reward-based Crowdfunding
Europe 1% 2% 69% 28%
LAC 8% 8% 45% 40%
Donation-based Crowdfunding
Europe 100%
LAC 20% 30% 50%
Revenue Sharing
Africa 1% 99%
APAC 10% 90%
Europe 2% 8% 50% 40%
LAC 3% 72% 25%
UK 3% 98%
USA 3% 94% 3%
Debt-based Securities
Europe 4% 7% 40% 49%
LAC 4% 4% 67% 25%
UK 15% 45% 30% 10%
USA 3% 84% 14%
Bottom
Low
Middle
High

Gender

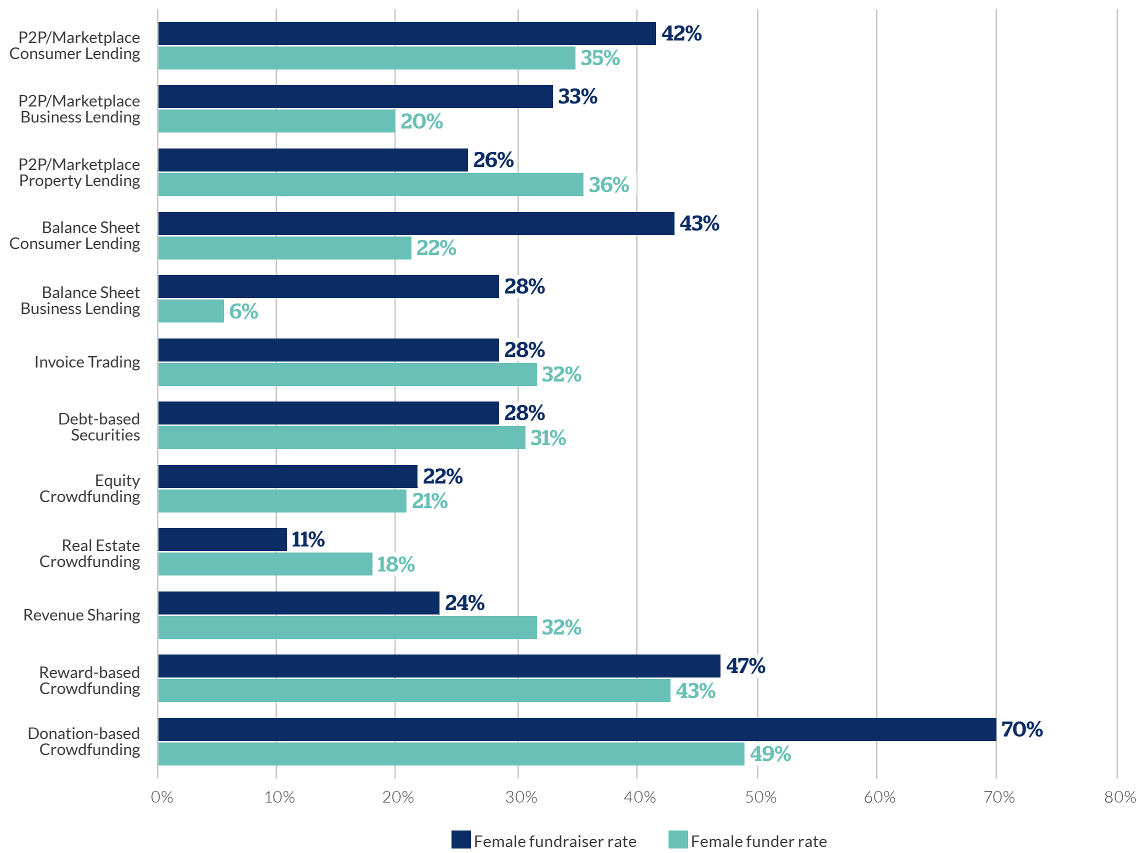
Gender is a key topic when discussing financial inclusion. Participating firms provided information on the gender of both their funders and their fundraisers. Based on the 34% of observations for which relevant information was provided, we find that both women and men are utilizing alternative finance. However, with a few notable exceptions, women tend to participate at a significantly lower rate than their male counterparts as both fundraisers and funders.

For almost all types of firms surveyed, female participation, whether as a fundraiser or a funder, is below 40%. Notable exceptions to this are certain types of crowdfunding associated with the non-investment models; 47% of fundraisers, and 45% of funders to Reward-based Crowdfunding are female, as are 70% of fundraisers for Donation-based Crowdfunding- the only category which is majority female.

By contrast, only 11% of fundraisers and 18% of funders of Real-estate Crowdfunding are female. Overall, in Investment models females only account for roughly 20-30% of funders in most cases, and 30-40% of fundraisers. Despite persistent gender gaps, these findings do indicate that overall, females take larger share of investment in alternative channels than in traditional ones, especially when considering relatively high risk-high return investments. At the same time, a larger share of funding raised via alternative channels reach women than in traditional channels. For example, a study by Pitchbook reported in Fortune Magazine[16], indicated that all female founder teams received just 2.2% of VC investments in 2017.

Furthermore, the percentage gap between female fundraisers and female funders does not show a consistent pattern between different investment models. It is only 1% for Equity-based Crowdfunding, 3% for Debt-based securities and 4% for Invoice Trading- but 22% for Balance Sheet Business Lending, where 28% of fundraisers are female compared to 6% of funders.

Figure 1.34: Female fundraisers and funders rate by model

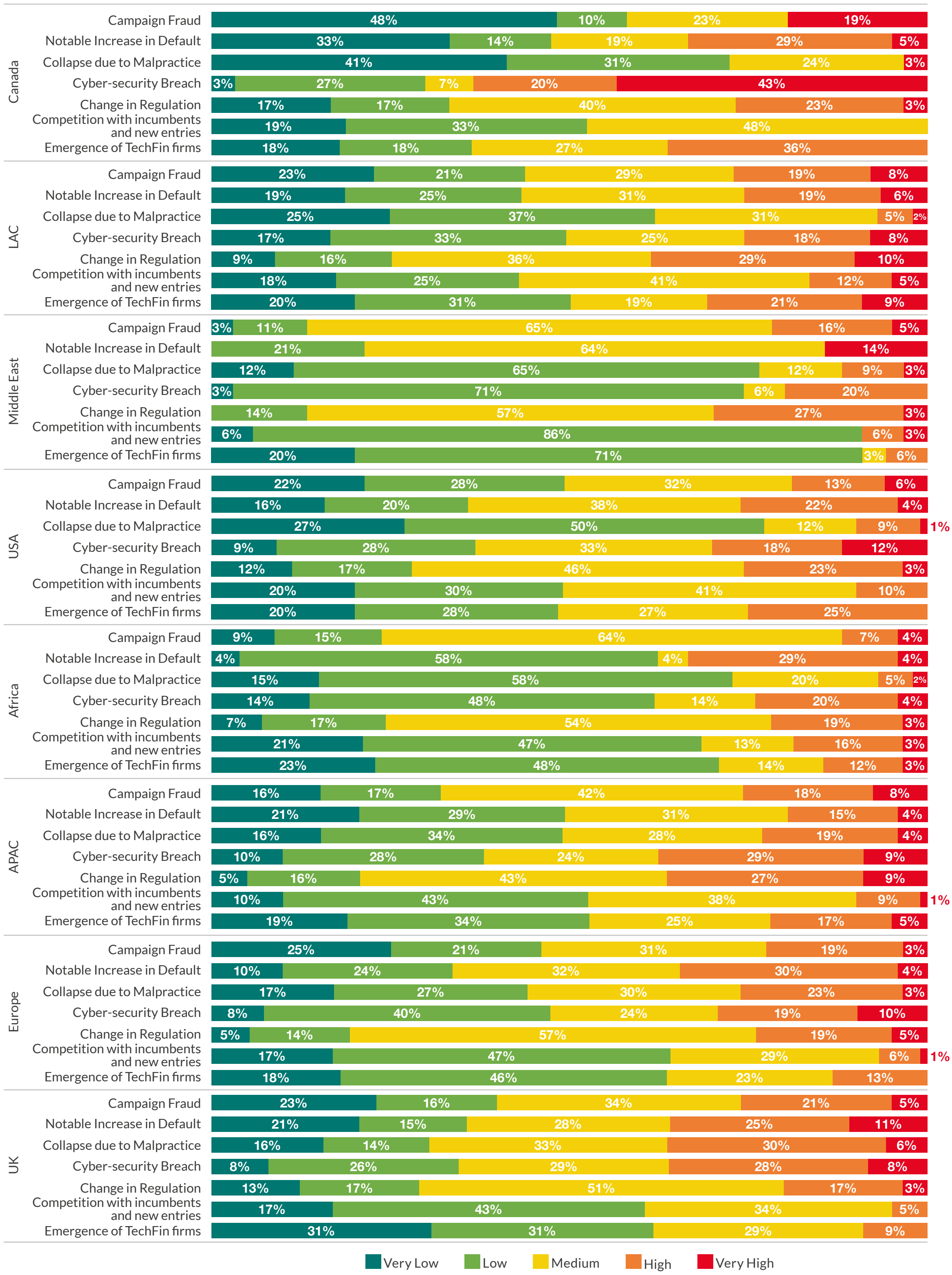


Risk and Regulations

Perception of risk by region and model

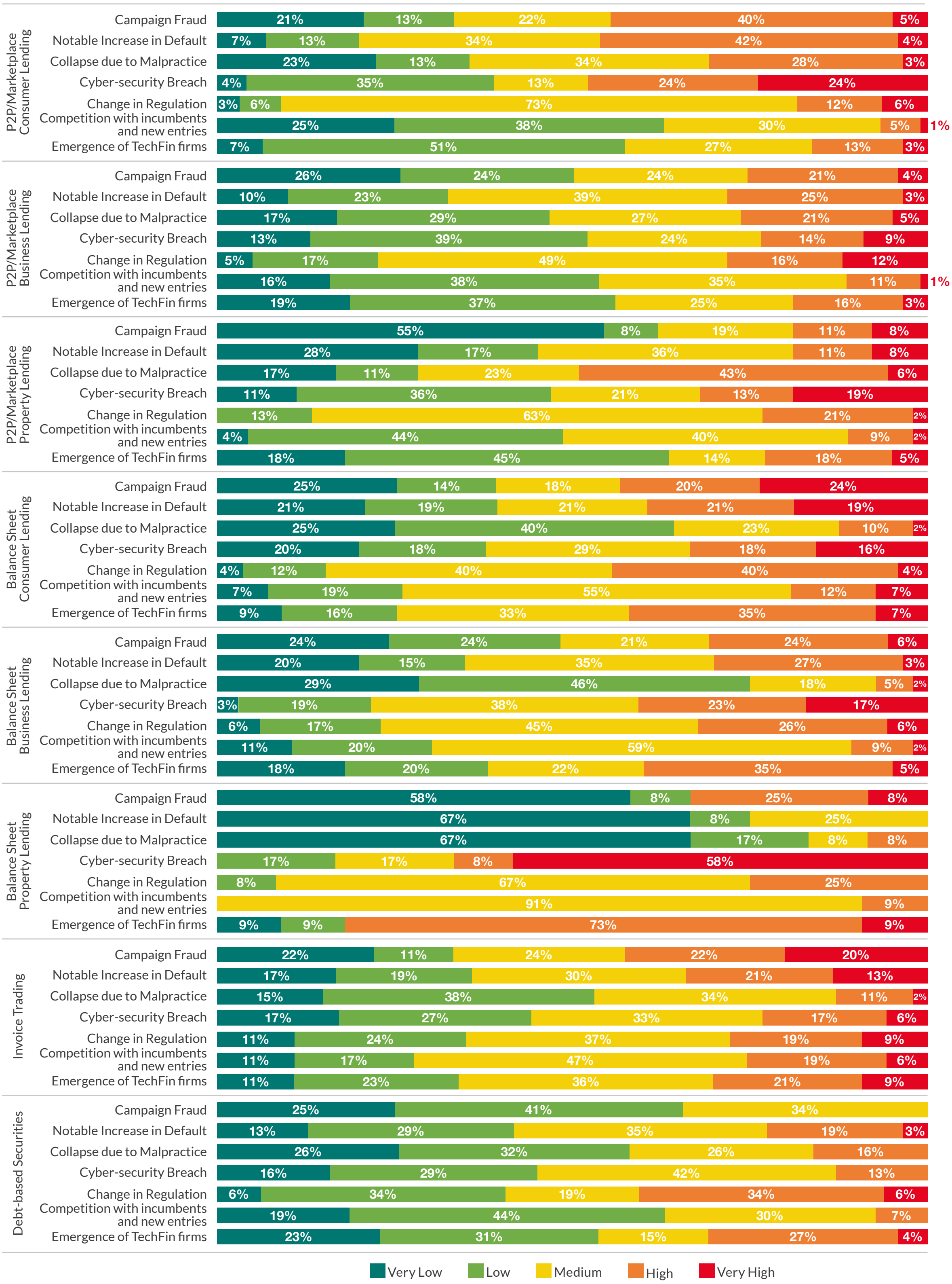
Respondents were asked about their perception of various risks that could potentially affect their platform. These risks were campaign fraud; notable increase in defaults; collapse due to malpractice; cyber-security breach; change in regulation; competition with incumbents and new entries; and the emergence of TechFin firms. Based on the 39% of observations for which relevant information was provided, we find that although the perceived risks varied depending on the platform's location, there are several consistent similarities across regions.

Figure 1.35: Perceived risks of platforms by region-2018



In every region except Canada, a change in regulation is perceived to pose the greatest potential threat to firms. Other threats which are consistently seen as significant across different regions are campaign fraud, and the possibility of a notable increase in defaults. All these indicate concerns with legitimacy; platforms invest much in building up their user base and project portfolios, and negative experiences in the market can easily spill over across platforms who share the burden of educating the market and achieving its legitimacy and acceptance. Furthermore, since regulation is

Figure 1.36: Perceived risks of platforms by model-2018



more likely to be concerned with limitations towards mitigation of risks, rather than enablement of new innovation, resource constrained platforms are naturally concerned about increasing compliance costs and resource requirements.

By contrast, in almost every region potential threats linked to the growth of the alternative finance space, namely 'competition with incumbents and new entries' and 'the emergence of TechFin firms', are consistently seen as posing the least threat. This indicates an industry still at the growth stage, where opportunities abound, and saturation is far from being achieved.

Amongst respondents, the perception of different risks, and their relative significance, also varies depending on the activity being carried out.

Similar to the findings in the above chart on perceived risks in different regions, the possibility of a change in regulation is perceived as one of the most significant risks across all business models. It is seen as slightly less significant amongst platforms carrying out Invoice Trading and Debt-based Securities- but even amongst these categories more than half of platforms surveyed consider regulatory changes to be a medium or high risk.

Comparison of their relative perceived risks reveals how different types of platform perceive their own risk, depending on their business model. Invoice Trading, Balance Sheet Business Lending and Balance Sheet Consumer Lending are those most sensitive to risks, which corresponds with their relative higher dependence in traditional institutional investors. In each of these areas, more than 50% of firms ranked 6 out of the 7 possible risks as being medium, high or very high.

This is significantly different from non-investment models like Donation-based Crowdfunding firms, where only two possible risks, 'campaign fraud' and 'change in regulation', were noted by more than 50% of firms as having a risk level of medium or above. The absence of tangible or monetary returns, means that platforms experience less pressure of campaign performance and are more concerned about costs and image management.

Perception towards existing regulation

Globally, regulation is still a key challenge for the alternative finance sector. As was seen above, firms see changes to regulation as being their most significant potential threat. This section analyses in greater detail platforms' perception of regulation in their jurisdiction, breaking down their responses by region and business model (divided between Debt, Equity and Non-investment models).

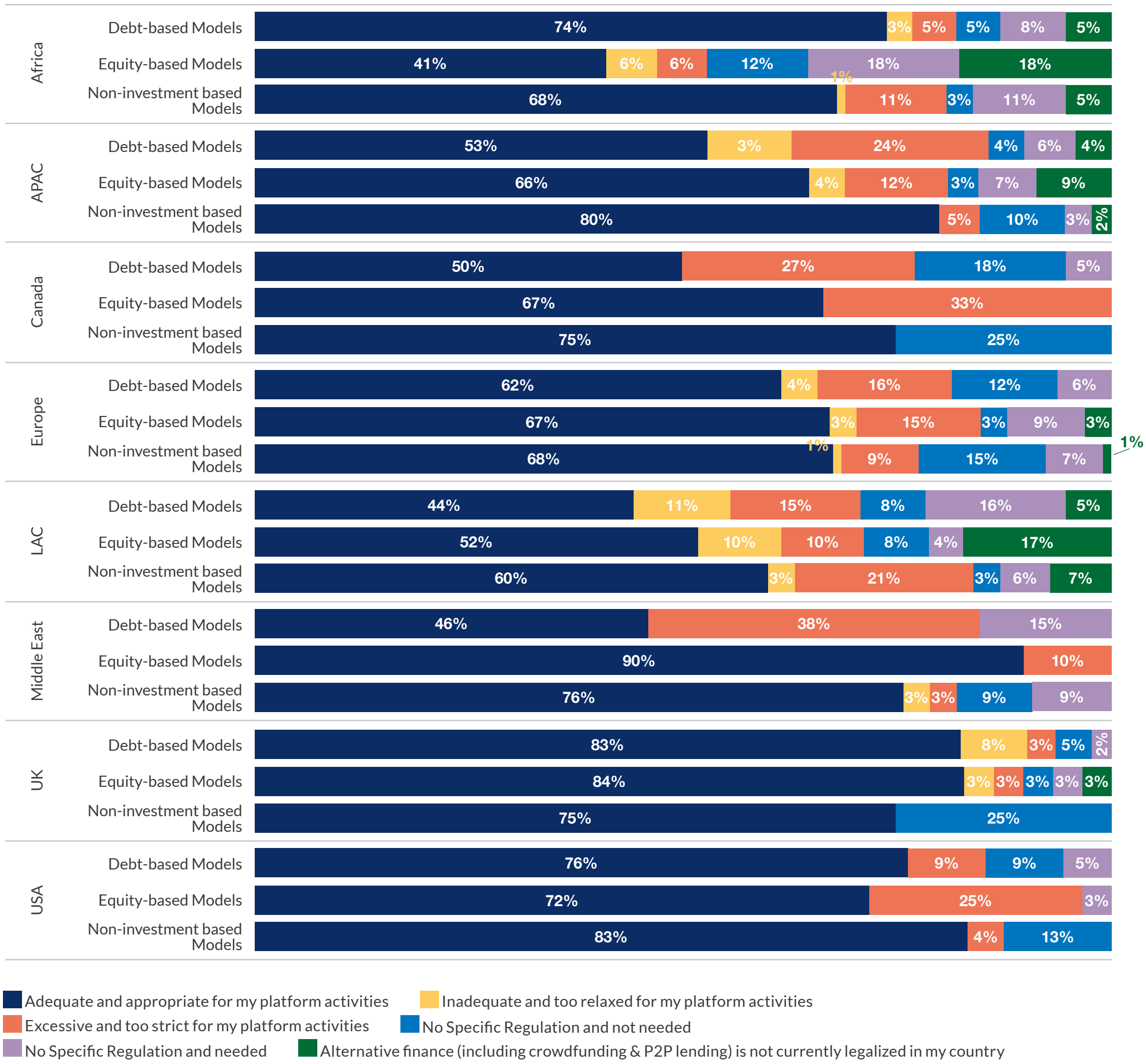
Based on the 81% of observations for which relevant information was provided, we find that in the majority of regions analysed- namely the USA, the UK, Europe, Canada and the Asia-Pacific Region (excluding China)- over half of platforms across all business models perceive regulation in their jurisdiction to be both adequate and appropriate. In the UK and the USA this rises to over 70% of platforms considering their regulation to be adequate and appropriate. It remains unclear whether this is a reflection of the efforts regulators have put in to developing an appropriate regulatory system for alternative finance, or is this just reflecting the fact that most platforms reporting this information are indeed those that meet regulatory requirements and are hence operational.

Interestingly, there are only few similarities when comparing similar business models' perception of regulation across multiple regions. In Africa, only 41% of equity-based models consider regulation to be adequate and appropriate, compared to 90% of equity-based models in the Middle East. For debt-based models, however, this are almost totally reversed- only 46% of debt-based platforms in the Middle East consider their regulation to be adequate and appropriate, compared to 74% of those in Africa.

One trend that can be seen across different regions is that equity-based models are relatively less satisfied with existing regulation. In the UK, LAC, Europe, the Asia-Pacific Region (excluding China) and Canada, equity-based models all had close to 30% of platforms reporting that regulation was either absent or inadequate.

Across all regions, only a small proportion of platforms indicated that there was a need for specific regulation in their area. Where relevant, platforms were far more likely to consider regulation as excessive and too strict, rather than express a demand for new regulation in their area.

Figure 1.37: Perception towards existing regulation-2018



Extent of being regulated

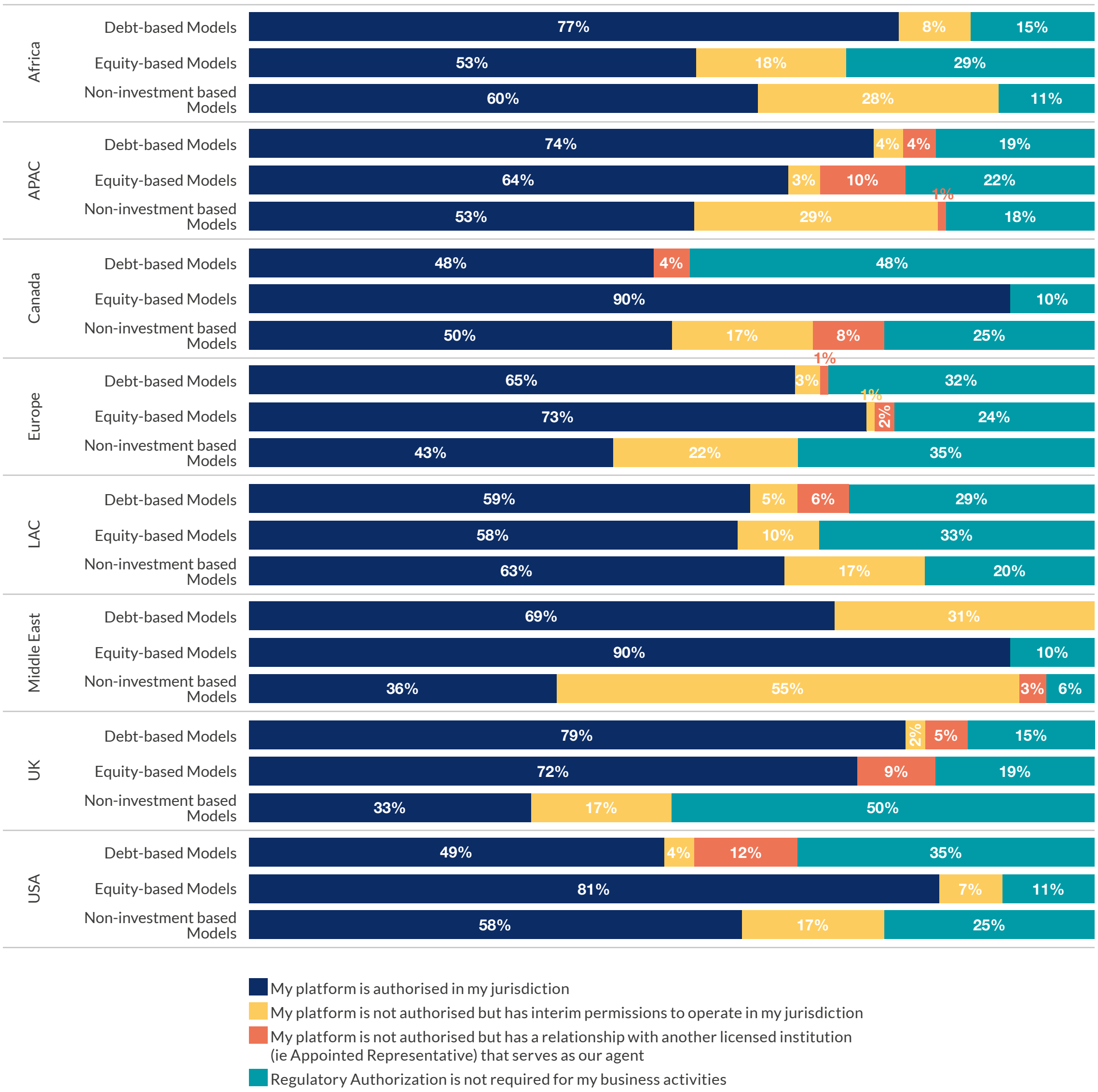
Platforms' opinions on regulation is partially shaped by their relationship with the regulator in their jurisdiction. As seen in the above chart, in some jurisdictions there is no specific regulation covering platforms' activities, a trend especially seen among equity-based models. To explore this further, respondents were asked about the legal basis under which they operate.

Based on the 81% of observations for which relevant information was provided, we find that in all regions studied and across all business models, a proportion of platforms surveyed report that they do not require regulatory authorization for their activities. This proportion generally falls between 20-30% of platforms, with some notable exceptions- 48% of debt-based platforms in Canada, and 50% of non-investment models in the UK report they do not require any sort of authorization. Looking regionally, the Middle East is the main outlying area in this regard; between all business models only about 5% of all platforms report not being required to obtain authorizations. On a global level, a platform's business model does not seem to give a direct sign as to whether or not it requires authorization; 48% of debt-based models in Canada report that they do not require authorization, compared to 15% in the UK and in Africa.

However, the majority of platforms have some sort of relationship, whether directly or tangentially, with the regulator in their jurisdiction, as opposed to not requiring authorization. This includes those which report that they are directly authorised, those which report that they are not authorised but have an 'interim permission' to operate, and those which report that they are not authorised but have a relationship with a licensed third-party institution that acts as an agent.

By a large margin, the most common of these relationships is for platforms to be authorised in their jurisdiction. Firms operating under interim permissions is the next most common, especially for non-investment models. Only a small proportion of firms are not authorised but have a relationship with an authorised institution that serves as their agent. Nevertheless, there are strong differences between the same business model across different regions. For example, 63% of non-investment platforms in LAC are authorised, compared to 33% in the UK.

Figure 1.38: The extent of existing regulation-2018

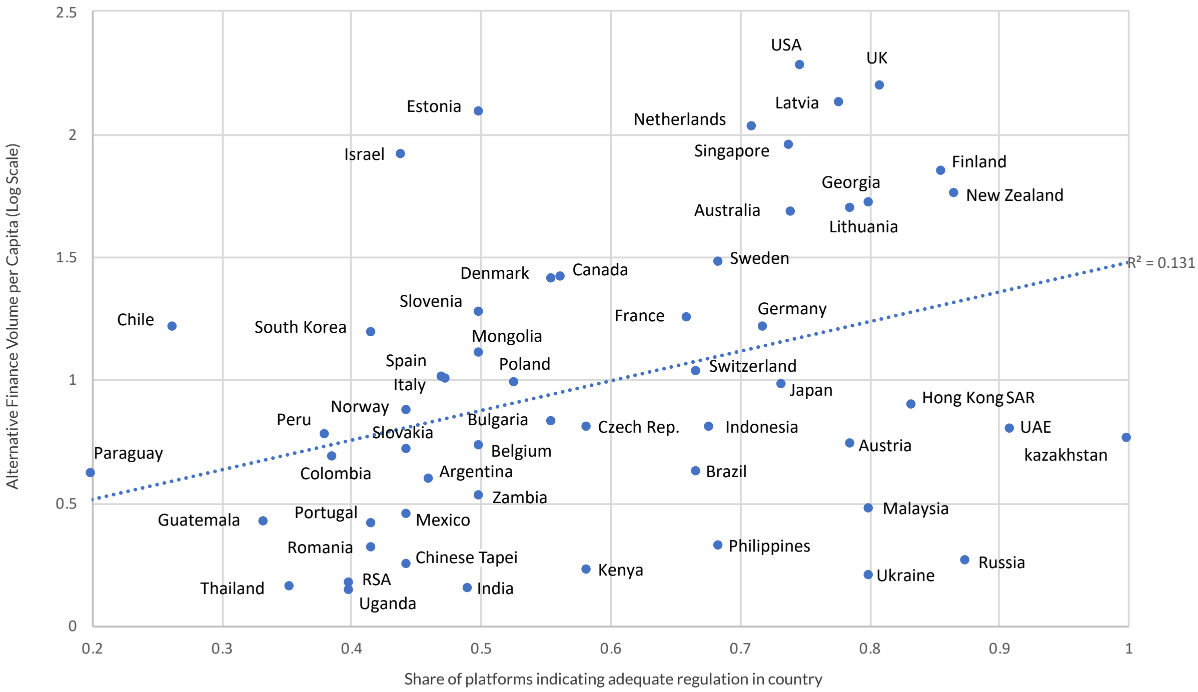


Regulatory Friendliness

Regulation has been often recognized as an important pillar in either enabling or constraining industry growth. In our analysis of the relationship between perceived regulatory adequacy and volumes per capita, we have only included countries with annual volumes higher than $20 million. Furthermore, we only include countries where at least four platforms answered related questions. Accordingly, perceived regulation adequacy represents the relative share of platforms in country indicating regulation is "adequate and appropriate for my platform activities".

Our findings show a positive effect, where the more adequate national regulation is perceived to be by platforms the higher the per capita volumes in the same country.

Figure 1.39: Perceived Regulation Adequacy vs. Volume per Capita 2018 (Log Scale)
Global - All Platforms



On a global level, this relationship is stronger in the case of non-investment models, and less strong in the case of investment models. Here, while regulatory requirements concerning non-investment models may be clearer and uncontroversial, the same cannot be said about investment models. Hence, the weaker association evident with respect to investment models may reflect a more varied interpretation of what constitutes adequate regulation in different jurisdictions. Furthermore, it may also reflect differences whereby some investment models may be properly regulated, while others are not. For example, in Denmark business lending is considered to be properly regulated, while equity and consumer lending are considered to not be properly regulated.

Figure 1.40: Perceived Regulation Adequacy vs. Volume per Capita 2018 (Log Scale)
Global - Investment Platforms

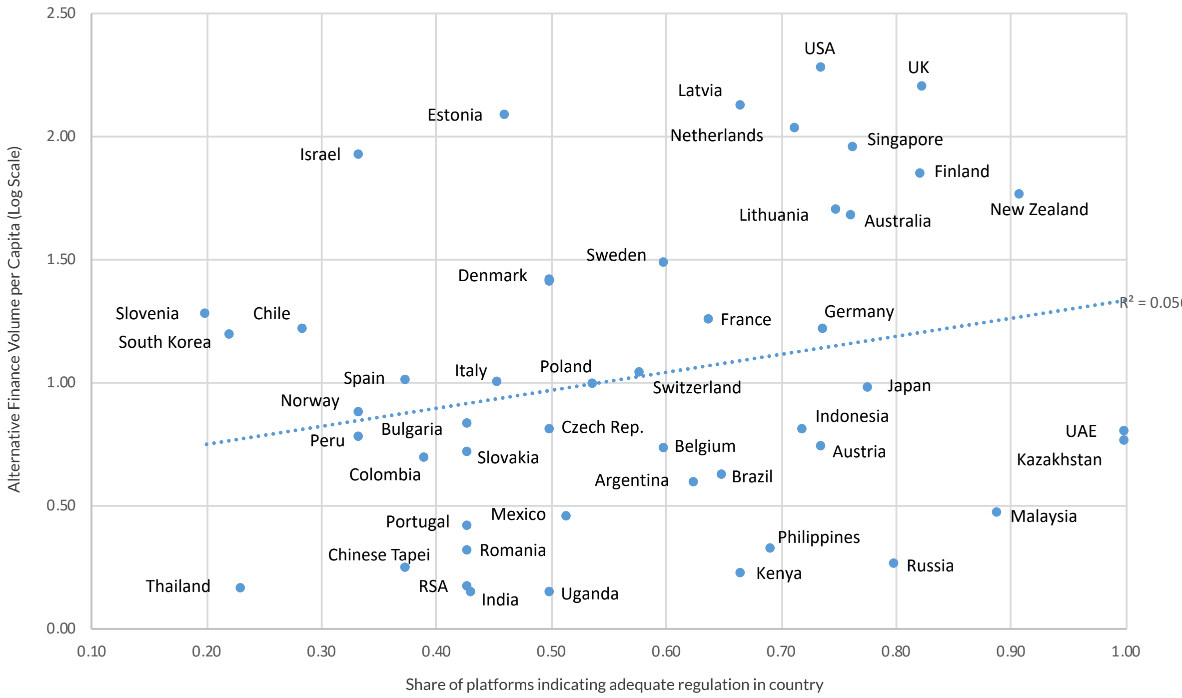
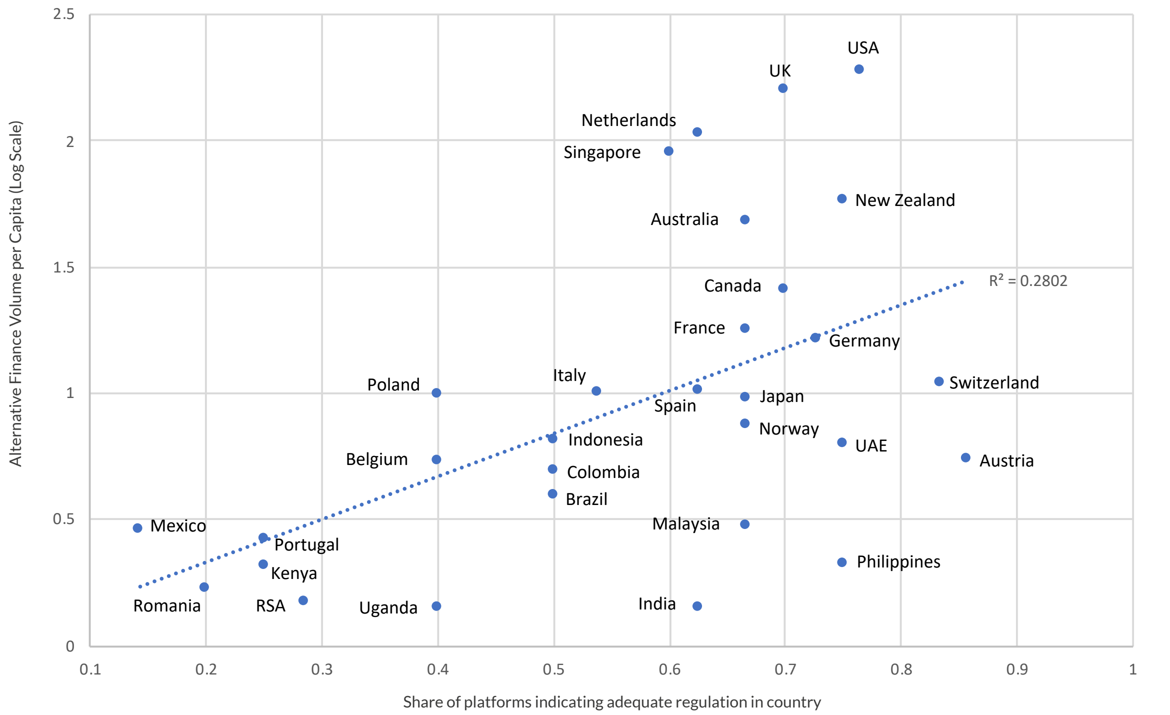


Figure 1.41: Perceived Regulation Adequacy vs. Volume per Capita 2018 (Log Scale)
Global- Non-Investment Platforms



2. A Regional Discussion on Europe & the United Kingdom

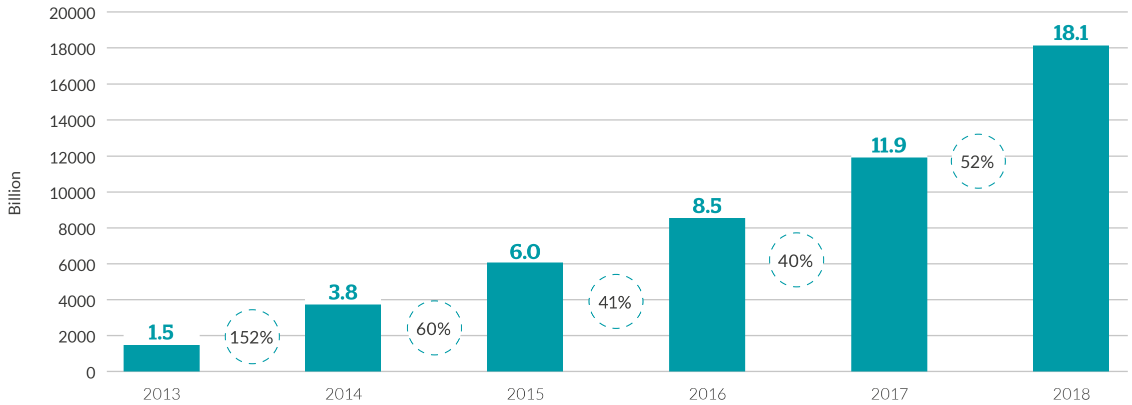
Chapter 2: A Regional Discussion on Europe & the United Kingdom

Total Regional Volume

There are definite indications in the data that the alternative finance market in Europe grew to new strengths in 2018. The total alternative finance market volume in the region reached $18 billion in 2018. By way of comparison, the average growth rate between 2013 and 2018 was 69%. Though there was an exponential growth of 152% between 2013-14, from 2014 onwards the rate of growth, though positive, has been declining year on year (41% in 2016, 40% in 2017). However, in 2018, the growth rate has surpassed the previous year, increasing to 52%. While recent growth rates are lower, they remain significantly higher than those observed in most other industries, and, moreover, the absolute volumes added year on year are dramatically increasing.

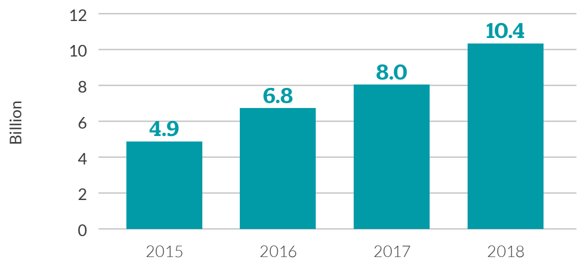
In each region, one country is the origin for a substantial proportion of the volume. The UK remains the main contributor to the European alternative finance volume, but this imbalance is decreasing as the volume in other European countries continues to rise. In 2015, the UK volume was 81% of the total European market. This market share, however, has continuously decreased since this point, reaching 73% in 2016, 68% in 2017 and 57% in 2018.

Figure 2.1: European Online Alternative Finance Market Volumes 2013-2018 USD (Including the UK)



The UK online alternative finance total market volume showed sustained overall growth since 2015. Online alternative platforms operating in the UK intermediated over $30 billion in funding in the past years. The market grew by 30% year-on-year in 2018, reaching $10.4 billion compared to the $8 billion of the previous year.

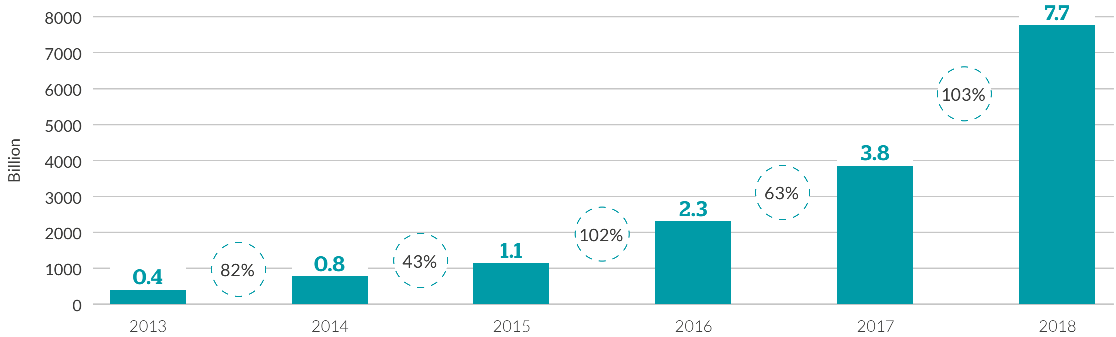
Figure 2.2: Total UK Alternative Finance Market Size (USD)



The total European alternative finance volume excluding the UK more than doubled from 2017 to 2018, reaching $7.7 billion, up from $3.8billion in 2017 and $2.2 billion in 2016. The 2018 growth rate of 103% was back at the growth rate of 2016 (102%). Although the UK remained a robust alternative finance market, the rest of Europe has been catching up.

Three trends may be the cause of this development: UK platforms are increasingly active on the continent as well and are keen to establish footholds outside the British market given growing concerns over Brexit. In 2018, UK regulation, especially as it relates to P2P Lending, was under revision, and the underlying macro-economic changes had a considerable impact on the loan portfolio of lending-platforms. Finally, the continental alternative finance market in Europe is growing, partially due to revisions to existing regulatory frameworks, but also in anticipation of the European Crowdfunding Service Provider Regime, which will create harmonised legal framework across the continent for cross-border crowdfunding.

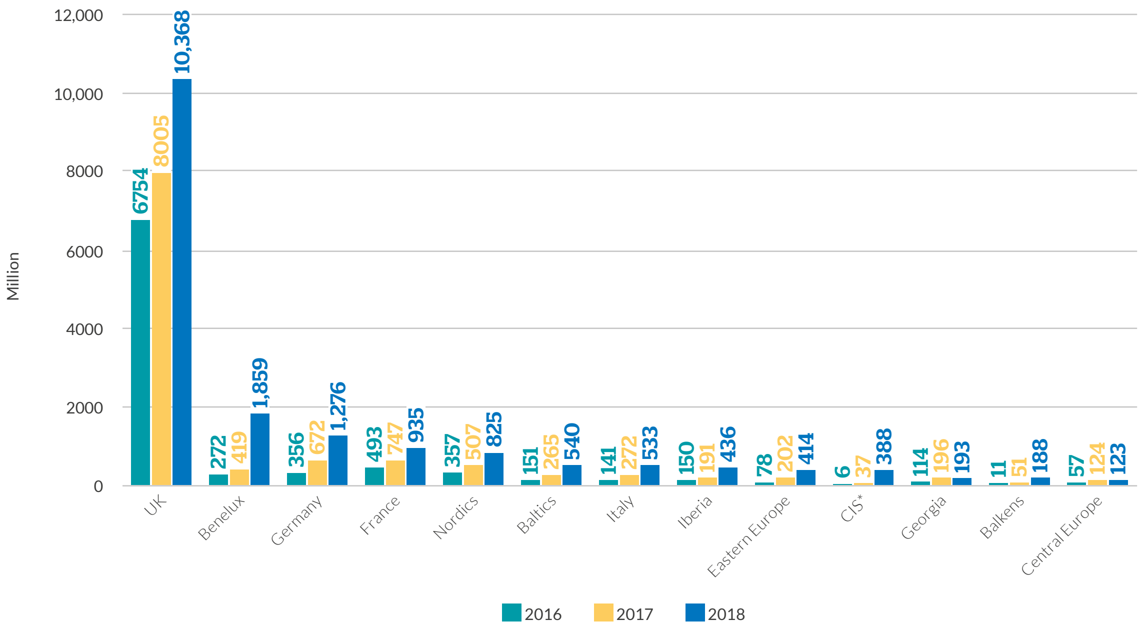
Figure 2.3: European Online Alternative Finance Market Volumes 2013-2018 in USD (Excluding the UK)



Total volume by internal EU designations

The previous European Benchmarking Reports have shown significant disparities across regions within Europe in terms of the volume and number of platforms, but also in the ratio of debt-based and equity-based activities to the overall alternative finance volume in the region.

Figure 2.4: Regional Alternative Finance Volumes 2016-2018 USD



The UK has been and continues to be the most significant contributor to European alternative finance market volumes, with 91% of the UK volume ($9.3 billion) derived from debt-based models, 8% from equity-based models ($870 million) and the remainder from non-Investment models ($76.6 million).

On continental Europe, the markets show considerable diversity. Due to especially strong growth of debt-based models in the Netherlands, the Benelux region (Belgium, Netherlands, Luxembourg) ranks second with $1.86 billion market volume. 2017 saw volumes in the Benelux region at only $419 million, placing the region fourth in Europe and demonstrating an impressive growth rate of 343% from 2017 to 2018. The growth rate overwhelmingly (98%) results from the growth of debt-based models ($1.8 billion), while equity-based (1%, $26 million) and non-investment (1%, $17 million) account for the remaining volume. This is the first time volume in the Netherlands has exceeded $1 billion.

Germany has had growth rates in the high double digits. From 2016 to 2017, the German market grew from $356 million to $672 million at 85%. From 2017 to 2018, the German alternative finance market grew to $1.28 billion, at a growth rate of 90%. This volume makes it the third-largest volume in Europe after the UK and Benelux, the same position it held after the UK and France in 2017. Unlike the UK and the Benelux countries, only 69% of the total volume in 2018 is a result of debt-based activities ($882 million). $351 million (28%) have been raised on platforms intermediating equity instruments, $42 million (1%) on non-investment models.

This report finds a similar pattern in France. $647 million (70%) have been raised through debt-based models, $225 million (24%) came through equity instruments, $55 million (6%) through non-investment instruments. After the UK, France has the second-largest alternative finance market for non-investment instruments, i.e. Reward- and Donation-based Crowdfunding. Looking at the total market, France, which was in the second position in the year 2017, experienced only moderate growth in 2018. Despite this slower growth, French alternative finance activity will likely surpass the $1 billion mark in 2019. In 2018, the combined volume of France and Monaco was $934 million, a growth of 25.1% from $747 million in 2017. From 2016 to 2017, France exhibited a growth of 48%, with the 2016 volume being $493 million.

The Nordic countries (Denmark, Finland, Iceland, Norway and Sweden) exhibited the fifth-largest alternative finance market volume in 2018. Having displayed a volume of $357 million in 2016, their volume grew by 39% to $507 million in 2017, and finally reached $824 million in 2018 (a growth rate of 62%). As in Germany and France, equity-based instruments are relatively more important than in the UK, Benelux or the Baltic States. Debt-based activities measured $632 million (77%) in all Nordic countries in 2018, equity-based instruments measured at $169 million (21%), and non-investment instruments at $22 million (3%). The two strong engines for Nordic growth are Finland and Sweden, accounting for 46% and 36% of regional volumes respectively.

The Baltic States of Estonia, Latvia and Lithuania have created favourable business and regulatory environments, and have an advanced IT infrastructure which allows firms to scale up relatively quickly and at considerably lower costs. These three countries combined produced a volume of $539 million in 2018, making them sixth-largest in Europe. This was due to a growth rate of 103%, and is more than double their volume of $265 million in 2017, which itself followed earlier growth of 72% from a volume of $151 million in 2016. The structure of the market is more consistent with that of the Dutch or the British market. $529 million (98%) of the alternative finance market in 2018 came through debt-based instruments, only $9 million (2%) through equity-based instruments.

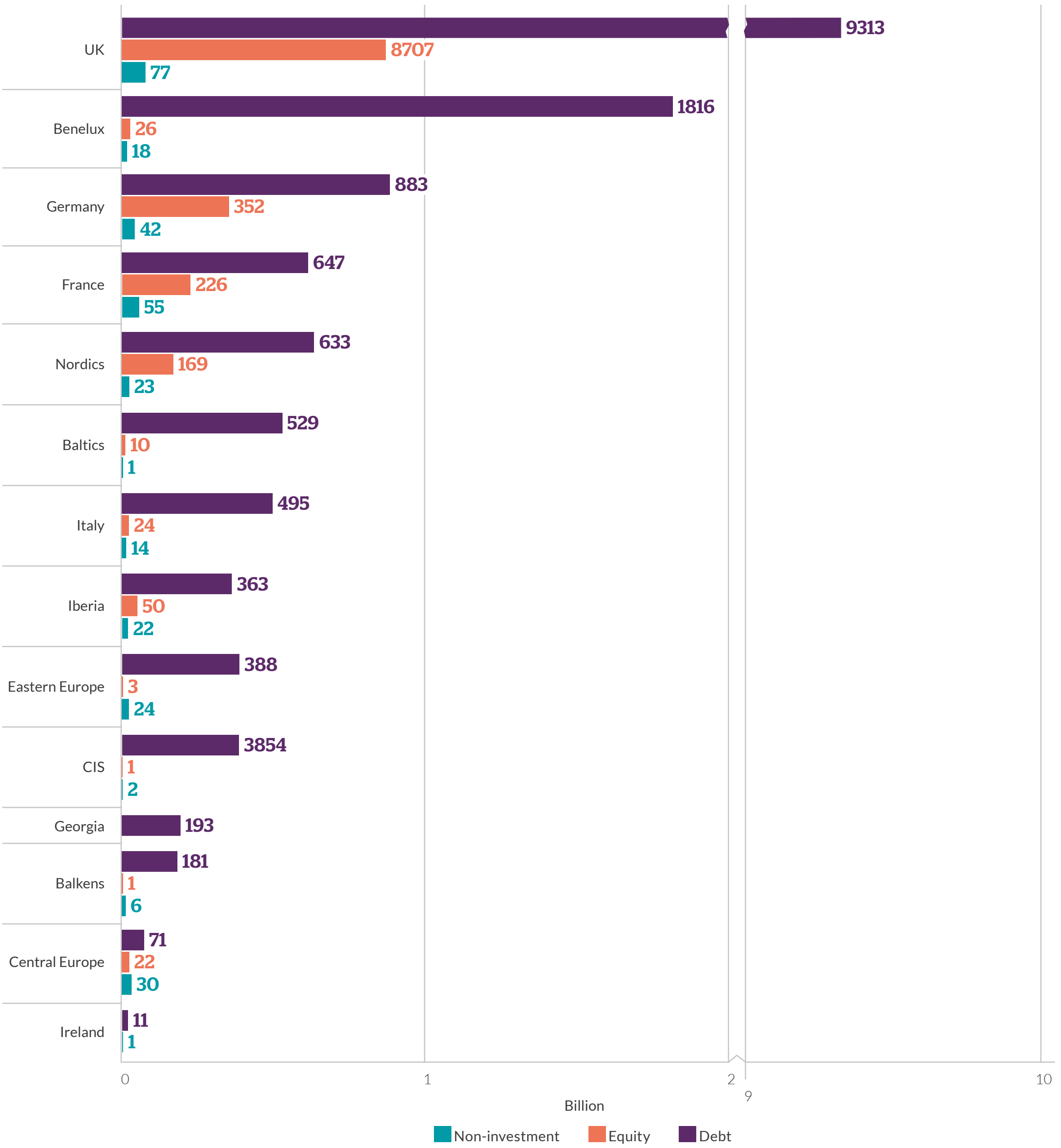
In 2018, Italy grew by 95% to $532 million, ranking Italy and Malta on the seventh place in Europe. Italy and Malta combined in 2016 had a similar alternative finance volume to that of the Baltic states, at $141 million, which grew to $272 million (89%) in 2017. The Italian market has a strong debt-based sector, with a volume of $495 million in 2018 (93%). Equity-based instruments only contributed $23 million (4%), and non-investment instruments only $13 million (3%).

From 2017, the Iberian region of Spain, Portugal and Andorra grew at 127% to $435 million, making it the 9th largest alternative finance market in Europe. In 2016, this region raised $150 million, more than Italy and more than the Baltic States, then growing at 25% to $191 million in 2017. The Iberian alternative finance market is more in line with the German, French or Nordic alternative finance market, partially because equity-based platforms have sought to increase their presence in Spain and Portugal. Equity-based models contributed $50 million (12%), debt-based models contributed $362 million (83%) and non-investment models contributed $22 million (5%).

In this benchmarking report, the countries of Poland, the Czech Republic, Slovakia and Hungary are labelled as Eastern Europe. In 2018 their alternative market volume reached $414 million. These markets exhibited a growth rate of 104% from $202 million from 2017, a reduction in the previous 153% growth rate from $78 million in 2016. Eastern European countries traditionally have a dominance of Donation-based Crowdfunding, with non-investment models contributing $23 million (6%) to the overall volume, whereas equity-based models are negligible with $3 million (1%). Debt-based models contribute $387 million (93%) to the market in Eastern Europe, a noteworthy development in countries which have hitherto lacked a robust equity-based sector. The regional engine here is Poland, accounting for 80% of regional volumes.

An even more impressive growth rate was exhibited by the so-called CIS (Commonwealth of Independent States) countries (Russia, Belarus, Ukraine[17], Moldova, Armenia). In 2018, these countries accumulated $388 million in alternative finance. In 2016, the report only captured $6 million of alternative finance volumes, and in 2017 only $37 million. These growth rates of 465% from 2016 to 2017, and 949% from 2017 to 2018, place the CIS countries as the 12th largest region in Europe in alternative finance in 2018. The accumulated volume is a result of a robust debt-based model, with $385 million (99%) market share for such models. The market volumes of equity-based models, at $1 million (<1%), and non-financial models, at $2 million (1%), are negligible. At a state

Figure 2.5: European Total Volume by Region and Model Type 2018 USD



level, most dramatic growth is recorded in Armenia, accounting for 47% of regional volumes due to the rapid emergence of a new debt-based market.

Georgia, which left the CIS in 2008, is analysed separately. In 2016, the alternative finance market in Georgia was $114 million, growing to $196 million in 2017 at a rate of 68%. In 2018, the country only raised $193 million, a reduction of 1.4%. Similar to the CIS-countries, the alternative finance volume stems almost entirely from debt-based instruments ($193 million), with only $0.04 million in platform volumes being the result of non-financial instruments (<1%).

The South-East European Countries of Romania, Bulgaria, Greece, Turkey, Slovenia, Croatia, Bosnia & Herzegovina, Serbia, Montenegro, Macedonia, Albania, Cyprus and Kosovo (grouped under 'Balkans' in this report) had a joint alternative finance volume of $188 million in 2018, growing at a rate of 268% from $51 million in 2017. In 2016, this report captured only a volume of $11 million, resulting in a growth rate of 361% towards 2017. Despite the relatively low total volumes, the data shows the dominance of debt-based models at $181 million (96%). Equity-based models play a very minor role in these countries, amounting to only $0.7 million in volume (<1%), while non-investment models contribute $6 million (3%). Regional volumes here are mostly driven by the rapid growth in Cyprus, Bulgaria, and Slovenia, which account for 34%, 21%, and 19% of regional volumes respectively. Greece, on the other hand, continues a decline, falling 63% from 2017 volumes, which were already 23% lower than those recorded in 2016.

Austria, Switzerland and Liechtenstein, labelled as Central Europe in this report, only account for $123 million in 2018. It is important to note that Swiss-based lending activities are not sufficiently captured in this report, primarily due to industry players who have declined to participate in this study over the years. As we are not able to verify the full scope of activity in Switzerland, we can only publish the findings from firms that have chosen to report. That said, other relevant industry reports point to a volume of more than 374 million CHF[18]. In Austria, debt activities denoted as Lending-based Crowdfunding are not permitted. In 2017, the Central European countries reported an alternative finance volume of $124 million, which would result in a negative growth rate. In 2016, the Central European alternative finance volume was measured at $57 million. The missing lending-based sector is also evidenced by the fact that the Central European lending (i.e. Swiss Lending) is reported at $71 million (58%), whereas Austrian and Swiss equity-based models account for $22 million (18%). Non-investment models (i.e. Reward- and Donation-based Crowdfunding) make up $29 million (24%), the highest ratio measured across Europe.

Irish Platforms reported noticeably less volume in 2018 – only $19 million, down by 83.5% from $121 million in 2017 and $85 million in 2016. 95% came from debt-based models ($18 million), 5% from non-investment models (0.9m).

Total volume by model Excluding UK (2016-2018)

Table 2.1: Alternative Finance Volume by Model in Europe (Excluding UK) 2013-2018 ($USD)

	2018	2017	2016	2015	2014	2013
P2P/Marketplace Consumer Lending	$2889.4 m	$1570.3 m	$771.2 m	$406.1 m	$364.9 m	$208.6 m
Balance Sheet Property Lending	$1378.4 m	*	*	*	*	*
P2P/Marketplace Business Lending	$996.8 m	$526.2 m	$387.5 m	$235.4 m	$123.7 m	$52.6 m
Invoice Trading	$803.0 m	$604.3 m	$278.7 m	$89.5 m	$8.8 m	$1.2 m
Real Estate Crowdfunding	$600.1 m	$291.8 m	$121.1 m	$29.9 m	$0.0 m	$0.0 m
Equity-based Crowdfunding	$278.1 m	$237.9 m	$242.0 m	$176.9 m	$109.8 m	$63.1 m
Reward-based Crowdfunding	$175.4 m	$179.1 m	$211.1 m	$154.6 m	$159.9 m	$83.8 m
Debt-based Securities	$167.8 m	$84.8 m	$25.3 m	$11.9 m	$4.8 m	$2.3 m
P2P/Marketplace Property Lending	$144.7 m	$75.1 m	$105.3 m	$0.0 m	$0.0 m	$0.0 m
Balance Sheet Consumer Lending	$99.8 m	$3.4 m	$18.5 m	$0.0 m	$0.0 m	$0.0 m
Balance Sheet Business Lending	$80.5 m	$24.4 m	$0.0 m	$0.0 m	$0.0 m	$0.0 m
Donation-based Crowdfunding	$62.4 m	$107.0 m	$65.4 m	$2.6 m	$0.0 m	$0.0 m
Minibonds	$42.8 m	$59.9 m	$35.9 m	$24.1 m	$21.7 m	$14.9 m
Other	$6.3 m	$32.8 m	$11.2 m	$0.0 m	$0.0 m	$0.0 m
Revenue Sharing	$3.5 m	$1.8 m	$9.3 m	$0.6 m	$0.0 m	$0.0 m
Community Shares	$1.6 m	$0.0 m	$0.0 m	$0.0 m	$0.0 m	$0.0 m

Debt-based alternative finance activities, especially from P2P Lending models, dominate the alternative finance markets across the globe. Europe, including and excluding the UK, is no exception to this phenomenon.

P2P consumer lending remains the top model in terms of volume, raising $2.8 billion in Europe (excluding the UK). This volume has continuously seen substantial annual growth, having grown by 89% from 2017. In 2017, P2P Consumer Lending contributed $1.5 billion to the total volume, while 2016 saw a volume of $771 million. Balance Sheet Consumer Lending, which barely raised $3 million in 2017, grew to $144 million in 2018, having started in 2016 with $18 million.

The second-largest model in the European market excluding the UK, came from Balance Sheet Property Lending, which $1.3 billion in 2018. This magnitude of volume was not anticipated, especially as this model was not included in previous European analysis and its emergence to the region is relatively recent. Most of this can be explained by the entry of a new dominant platform that has not provided data in previous years. And furthermore in previous reports, indications of balance sheet activities were reported alongside the P2P Property Lending model, with firms not differentiating their lending activity by model type. Through continuous discussion with market participants, it became necessary to carve out this model to reflect better how the sector was developing across the region. In fact, just over 50% of firms reported operating both models. Balance Sheet Property Lending is the second-highest volume driving model in Europe, excluding the UK. Interestingly, the other Balance Sheet Lending models have not seen this same level of growth or adoption in Europe. Activity based on the P2P Property model was the ninth-largest alternative finance volume in Europe, driving $144 million in 2018. This is a considerable jump from 2017's $75 million. Though an impressive year-on-year growth rate, property-based lending is very much driven by the Balance Sheet model.

P2P Business Lending in Europe has also grown by double digits, reaching $996 million in 2018, up from $526 million in 2017, a growth rate of 89%. Given the emphasis on business-focused funding, it is not surprising that these models continue to see rapid growth, especially from one year to another (having grown by 36% from 2016 to 2017).

In 2017, it was reported that Invoice Trading experienced exponential growth, up 117% from 2016's $279 million to a volume $604 million. In 2018, this model accounted for the fourth-largest model, with a volume of $802 million, a 33% increase in 2017. It should be noted that this growth seems to stem from rapid growth from a handful of platforms, rather than from new entrants, as was more prevalent in previous years.

Balance Sheet Business Lending raised $80 million in 2018, from a lower starting point of $24 million in 2017.

Real Estate Crowdfunding has also seen impressive increases, reaching triple-digit growth in the last three years to become the fifth-largest sector in the alternative finance market. Having started at $121 million in 2016, the market grew to $291 million in 2017 and $600 million in 2018. As one of the fastest-growing models, with no indication of slowing down, it is worth considering some of the macro-economic factors which might be contributing to this model's growth. As indicated by PWC's 'Emerging Trends in Real Estate in Europe' 2019 report:

The combination of the late property cycle, the geopolitical uncertainty and the rising interest rate environment has reinforced the need for secure, long-term income. For many, the search for income is the main, guiding narrative for European real estate investment [...] with investors [trading] capital growth for rental stability and growth. [...]. Any asset getting a predictable level of income is in demand, and real estate is in that role. The demand side is still good; the ability to satisfy that demand is more variable.[19]

This model satisfies a retail investor's preference for investing into stable, income-producing assets.

In contrast to the Real Estate Crowdfunding model, the growth rates of Equity-based Crowdfunding, while positive, are at lower levels. In 2016, Equity-based Crowdfunding accounted for a volume of $241 million, which declined to $237 million in 2017 and has rebounded to $278 million in 2018. Equity-based Crowdfunding, consisting of high-risk investments in early-stage startups, continues to see a migration of investors to other forms of alternative finance, but still ranks as sixth-highest alternative finance market volume.

Reward-based Crowdfunding in Europe (excluding the UK) continues its decline from previous years. In 2016, $211 million was raised on Reward-based Crowdfunding platforms, which declined to $179 million in 2017 and $175 million in 2018. Declining activity from this model seems to stem from an over-arching dampening of activity from large international platforms, rather than a decline in the activities of local/domestic serving firms. Furthermore, as regulation overseeing investment crowdfunding is amended in leading markets, both parties to transactions may find investment models more attractive as an alternative to Reward-based Crowdfunding. Fundraisers realise that higher sums can be raised via investment platforms than via reward platforms for more or less similar levels of effort. At the same time, some backers realise that their contributions can be converted to financial gains rather than consumption, and prefer the latter.

Debt-based Securities, similar to the types of lending-based Crowdfunding described above but in contrast to equity-based crowdfunding, has also reached a considerable market size of $167m in 2018. Starting at $25 million in 2016 and growing to $84 million in 2017, its volumes are now the eighth-highest in the alternative finance market in Europe, excluding the UK.

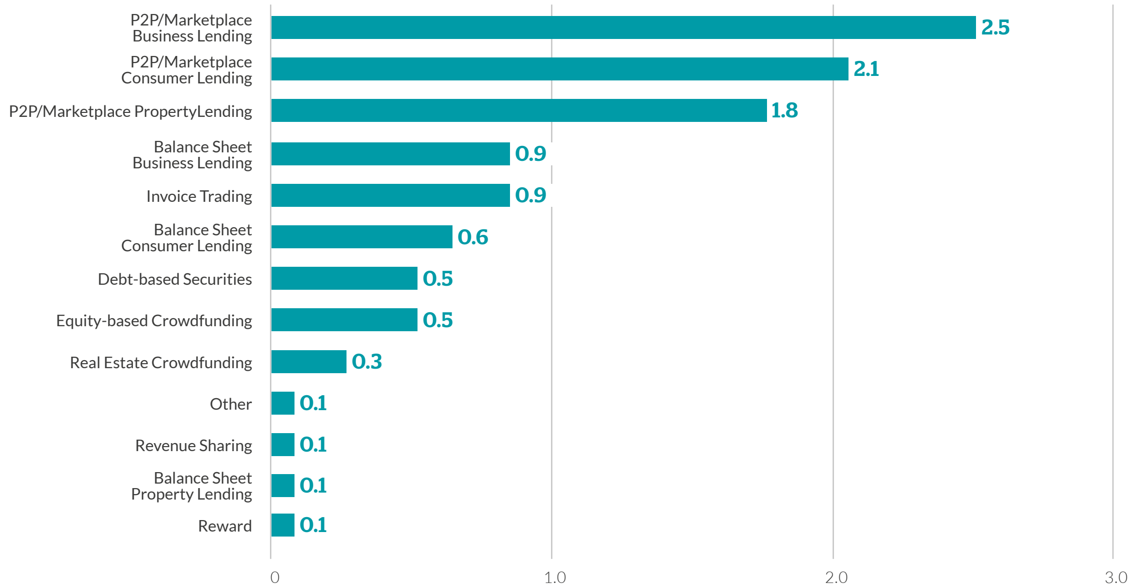
Donation-based Crowdfunding platforms raised $62 million in 2018, down from $106 million in 2017, but on the level of their 2016 rate of $65 million. We propose that this decline may be superficial as our figures do not include donation volumes raised via Facebook, which chose not the share these figures. Nevertheless, Facebook did release an estimate that between 2015 and 2019, close to $3 billion was raised for personal fundraisers and nonprofit causes on Facebook.[20] In this respect, it is likely that Facebook is emerging as a formidable competitor to donation-based crowdfunding platforms.

Minibonds, which are mostly used in the Netherlands and France, raised $42 million in 2018. Revenue Sharing models contributed $6 million in 2018, declining from their 2017 volume of $32 million. This seems to be stemming from a handful of key platforms that had operated this model in 2017 but have since pivoted away to either Equity Crowdfunding, or more traditional convertible notes (not included in our taxonomy). For the first time, this survey has captured the Community Share Models, which contributed $1.5 million in 2018. Activity that could not be readily attributed to an existing model within our taxonomy was noted under 'other'.

Total Volume by Model (UK)

The largest alternative finance model in the United Kingdom was P2P Business Lending, accounting for $2.5 billion in 2018. This was the first time that the data collection tool was able to include both P2P/Marketplace and Balance Sheet activity as separate models. Of the 23 platforms that responded to the

Figure 2.6: 2018 UK Volume by Model Type (USD Billions)



P2P Lending model, four also indicated a significant proportion of their volume coming from the Balance Sheet Business model. This model accounted for $855.2 million, amounting to a total of $3.4 billion. It is worth noting, nearly 100% of volume from the Balance Sheet Business Lending model derived from institutional investors.

The second-largest model in the UK was that of P2P Consumer Lending, at $2.1 billion. Aligned with this model is that of Balance Sheet Consumer Lending ($642.2 million), total consumer lending accounted for $2.7 billion. There were 15 firms that denoted consumer lending activity, 2 of which operated both Balance Sheet and P2P consumer Lending. These two firms were headquartered outside of the United Kingdom. All other firms were headquartered in the United Kingdom. P2P Property Lending ($1.8 billion) and Balance Sheet Property Lending ($72.8 million) made up the third largest segment of the UK market, followed by Invoice Trading ($854.5 million) and Debt-based Securities[21] ($529.8 million).

Turning to Equity models, $485 million derived from Equity-based Crowdfunding platforms, $265 million from Real Estate Crowdfunding and $102.2 million from Revenue Sharing. There was minimal overlap from these models (with only 2 firms operating both models); and both Equity and Real Estate Crowdfunding were almost entirely headquartered in the United Kingdom, with minimal cross-border activity. In contrast, the firms reporting Revenue Sharing volumes were headquartered outside of the UK. Though smaller in volume, the Reward-based Crowdfunding ($64.2 million) and Donation-based Crowdfunding ($12.5 million), these models have significant fundraiser engagement, with large numbers of projects and campaigns. When considering small business fundraisers, the rewards model secured funding to a large number of firms.

Top Countries by Model

The following section will discuss the top 4 countries by each model type. The section will indicate individual countries, not entire regions, as the basis for analysis.

In P2P Business Lending and P2P Consumer Lending, the UK occupies the top spot, followed by Germany and France. Looking at the numbers displays the dominance of the British alternative finance ecosystem. The UK had a volume of $2.5 billion in 2018, whereas Germany had $161 million. France with $148 million and the Netherlands with $147 million have each around 6% of the British P2P Business Volume.

A similar situation can be seen in P2P Consumer Lending. The UK volume of $2 billion in 2018 dominated the market. German consumer lending, with a single platform providing a large volume, amounted to $651 million, or 32% of the British market. The French market had a volume of $346 million (17% of the British market volume) and the Polish market volume was $281 million (14% of the British market). The Polish lending market displayed a strong presence of lending-platforms based in the Baltic States and operating cross border. Polish market emergence replaces Georgia as the 4th largest market for P2P Consumer Lending in Europe, which held the position in 2017.

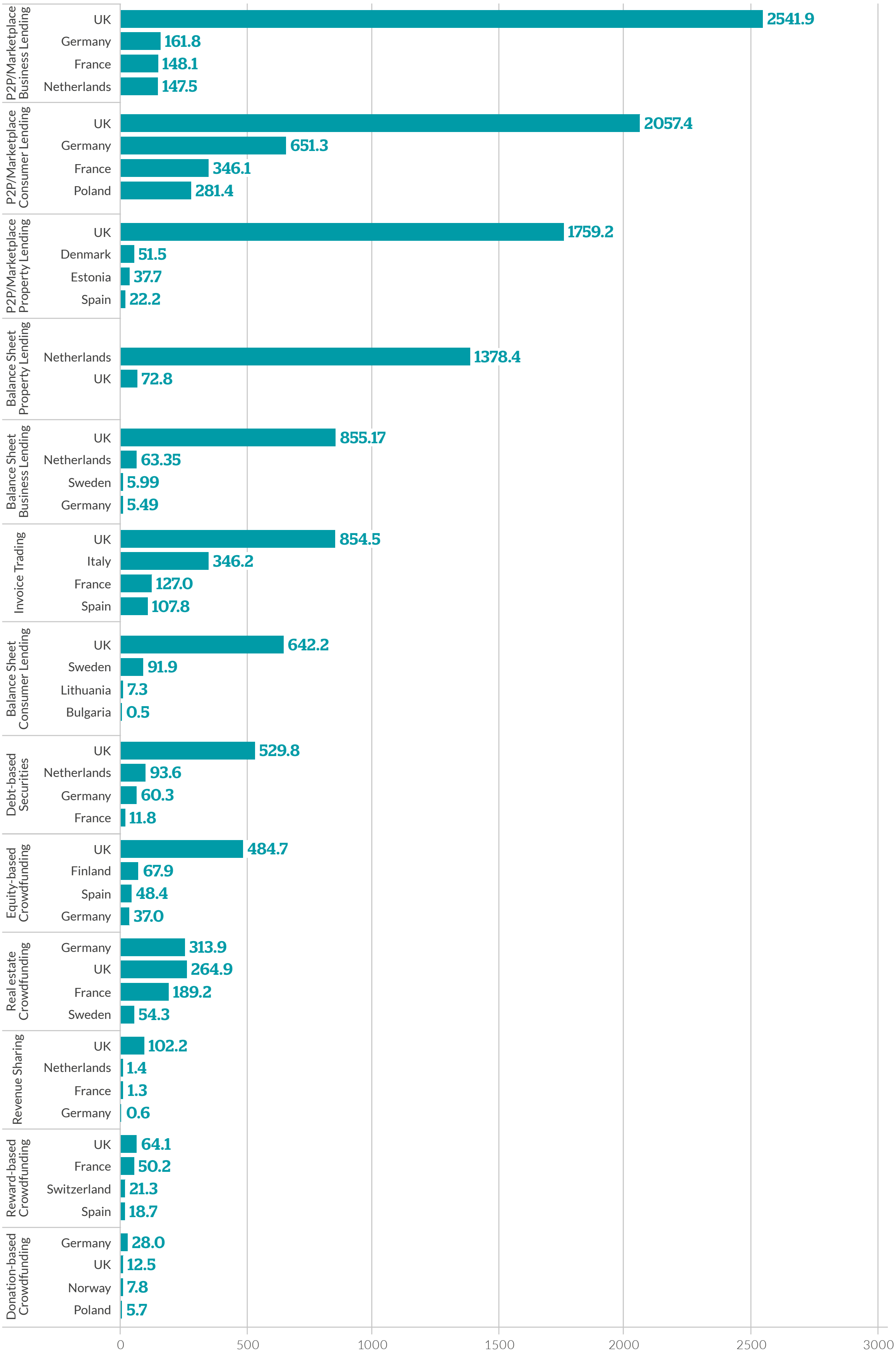
P2P Property Lending again sees the UK at the top, with a market volume of $1.8 billion in 2018. Here Germany and France do not play a relatively active role. Instead, Denmark with $51 million (3% of the British Market), Estonia at $37 million (2%) and Spain at $22 million (1%) can be found in the top four.

Balance Sheet Property Lending is one of only four markets where the UK is not the top contributor. While the Netherlands had a volume of $1.3 billion, the UK's volume was only $72 million, 5% of the Dutch market. Again, the strong presence of Dutch Balance Sheet Property Lending is part of the reason why the Benelux Market is so strong more broadly in this report.

When it comes to Balance Sheet Business Lending, the UK is the main contributor. $855milllion in 2018 was raised on British platforms with this model. Dutch platforms of the same model raised $63 million (7% of the British volume), Swedish Platforms raised $6 million and German platforms $5 million (both about 1% of the British Balance Sheet Business Lending).

Equity-based Crowdfunding in the UK is supported through a liberal regulatory framework and tax incentives which promote early-stage investments. Therefore, it is not surprising to find the British Equity-based Crowdfunding as having the highest volumes, at $484 million in 2018. In the second

Figure 2.7: Top 4 countries in volume by model- 2018 (USD, Millions)



place, Finland, which also has a healthy ecosystem for startups, had an Equity-based Crowdfunding market volume of $68 million, which is about 14% of the volume of British Equity-based Crowdfunding. Swedish Equity-based Crowdfunding ranks third with $60 million (12%), and Spanish Equity-based Crowdfunding ranks fourth with $48 million (10% of the British market),

Similar to Equity-based Crowdfunding, Invoice Trading sees the UK as the top contributor to the market. The UK market had a volume of $854 million in 2018, but other countries also have active Invoice Trading markets. The Italian Invoice Trading market reached $346 million, which is about 41% of the British Market. The third place is occupied by France – here the Invoice Trading market is about 15% of the British market, at $127 million. The fourth place is held by Spain, whose volume of $107 million is equivalent to 13% of the British market. The growth of France and Spain means they have overtaken Ireland and Belgium, which held the 3rd and 4th largest European market positions in 2017, but have experienced a significant decline in 2018, down 83% and 70% respectively.

Real Estate Crowdfunding is the second market in which the UK is not the top contributor. In this case, Germany contributed $313 million to the market in 2018, followed by the UK with $264 million (84% of the German market), France with $189 million (60% of the German market), and Sweden with $54 million (17% of the German market).

Revenue Sharing models can overwhelmingly be found only in the UK. The British Revenue-Sharing market stood at $102 million in 2018, in stark contrast to the $1.4 million seen in the Netherlands, $1.3 million in France and $0.6 million in Germany.

Reward-based Crowdfunding in the UK ranks first with $64 million in 2018. However, the second-ranking country, France, raised $50 million through Reward-based Crowdfunding in 2018, followed by Switzerland with $21 million and Spain with $18 million. Germany, which was ranked 3rd largest European market for reward crowdfunding in 2017, saw a decline of 46% in volumes in 2018.

The third market where the UK is not the top contributor is Donation-based Crowdfunding. Germany has an extensive network of banks providing Donation-based Crowdfunding service, which resulted in a market volume of $27 million.

The UK ranked second with 12 million, while Norwegian platforms raised $8 million and Polish Platforms raised $5 million in 2018. Norway and Poland have overtaken the 3rd and 4th positions from France and the Netherlands, which held them in 2017 but saw a decline of 50% in volumes in 2018.

As discussed earlier, the volume for Mini-Bonds is small compared to other markets in Europe. The Netherlands contributed $23 million to this market, France contributed $14 million to this market, the Czech Republic followed with $5m, and the UK with $0.1m. The Mini-Bond-Market is the fourth sector where the UK was not the top contributor.

Alternative finance volume per capita

Even when controlling for market size, some countries that are large by market volume maintain top positions including the UK and the Netherlands, which reported per capita volumes of $155.9 and $104.83 respectively. Other European markets also rank on the global top 20 leaders in terms of volumes relative to population. These include the Baltic states, with a strong performance in Latvia, Estonia, and Lithuania who report per capita volumes of $132.1, $120.8, and $48.9 respectively. Strong performance is also recorded in the Caucasus, which, as discussed previously, are mainly driven by Baltic-based platforms. Armenia and Georgia had $62.4 and $51.7 per capita volumes respectively. Finally, Finland leads the Nordic countries performance with $68.7 per capita, while Sweden and Denmark close the top global performers list with $29.3 and $24.9 per capita volumes.

Market Dynamics

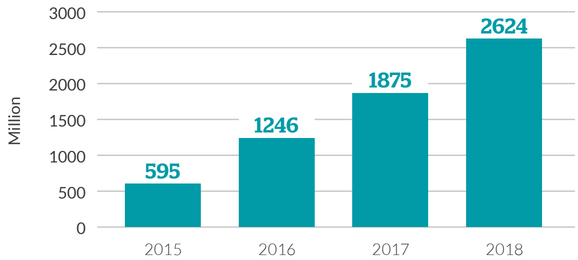
The vitality of alternative finance business funding

SME finance activity in Europe

Access to finance is a major reason why the European Crowdfunding Service Provider Regime was being discussed in the European Union in 2019. The trialogue partners of the European Commission, the European Council and the European Parliament have repeatedly declared how vital access to finance is for small- and medium-sized companies, and to foster growth and innovation.

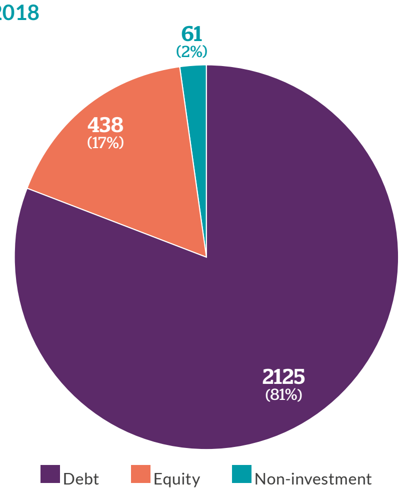
European Crowdfunding platforms, excluding the UK, raised $2624 million for businesses in 2018. This amounted to a 140% year on year increase compared to 2017, and represents approximately 34% of all alternative finance raised in the region. This volume of SME focused finance has been increasing steadily over recent years, though declining in terms of absolute proportion of volume. By way of comparison, in 2016, business funding was 55% of the total volume, while in 2017 business funding was 49% of the total volume. Regardless, current figures may still underestimate actual volumes that go into SMEs as some consumer loans involve personal lending by entrepreneurs for business-related spending.

Figure 2.8: Total Alternative Finance Funding for Businesses USD (Excl. UK)



Funding for Business overwhelmingly stems from debt-based models – with $2125 million being raised in this category. This accounted for 81% of all business funding. Equity-based models contributed $438 million (or 17% of business funding) and Non-Investment Models $61 million (2% of business funding).

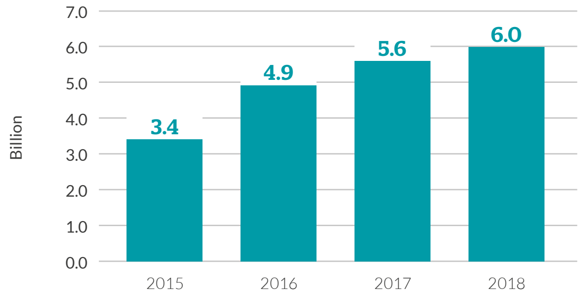
Figure 2.9: Distribution of Alternative Finance by Category (USD)- 2018



UK-focused Business Finance

An emphasis on business finance can be seen in the UK alternative finance ecosystem. In 2018, $6 billion (or 58% of the UK's total alternative finance volume) was raised for business borrowers, issuers and fundraisers, representing a 7% increase in the volume against the previous year.

Figure 2.10: Total UK SME Alternative Finance Volume (USD, Billion)



A case study from the UK – Equity Crowdfunding

Equity-based Crowdfunding has become a vital source of finance for seed, start-up, early stages and fast-growing companies seeking growth or expansion capital. The British Private Equity and Venture Capital Association's (BVCA) 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 is increasingly playing a more significant role in the provision of equity finance.

The figures below, shown in GBP, reveal that significant growth in equity-based finance in the UK continued in 2018. Beauhurst's figures suggest that Seed and Venture stage funding increased from £2.58 billion in 2017 to £3.17 billion in 2018 in the UK with a 23% year-on-year growth rate.

In absolute terms, the volume of Equity-based Crowdfunding is on an upward trajectory, growing from just £3.9 million in 2012 to £363 million in 2018, and the sector has become an established source of funding for Seed and Early Stage businesses. Despite the growth in absolute terms, equity crowdfunding platforms' share of all such equity funding in the UK dropped from 17.37% in 2016 to 12.91% in 2017. This trend continues in 2018 with a further drop in this share to 11.4%, which can be seen as a result of more rapid growth in conventional Seed and VC capital.

Figure 2.11: Equity-based Crowdfunding Volumes in the Context of Announced Total UK Seed and Venture Stage Equity (£millions)

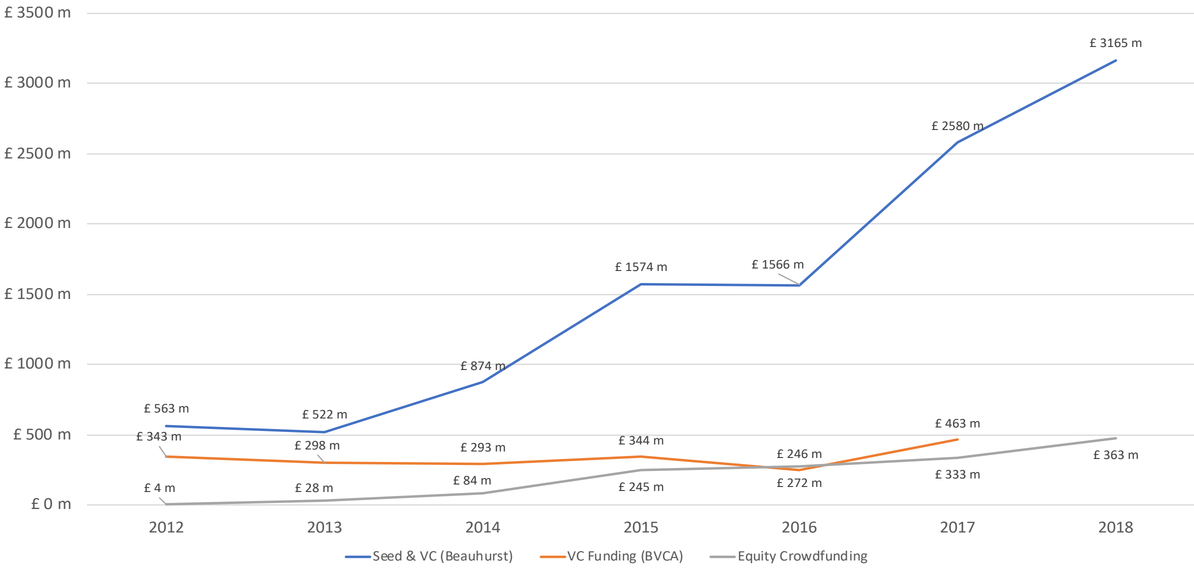
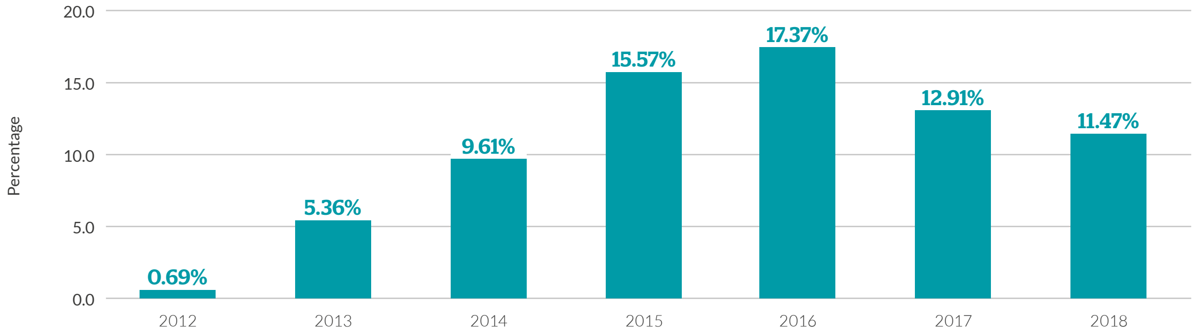


Figure 2.12: Equity-based Crowdfunding as a Proportion of Total Seed & Venture Stage Equity Investment in UK 2012-2018 (Beauhurst)



While equity funding contributed to an essential proportion of business funding, it is dwarfed by SME lending acquired from traditional business lending channels in terms of absolute volume. The Bank of England estimates that £57.7 billion was lent to SMEs by national banks in 2018, which represents a 1.2% growth rate compared to last year's figure of £57 billion. UK Finance, on the other hand, estimates that £9.2 billion was lent to businesses with a turnover below £2 million, a marginal year-on-year increase, and another £13.2 billion to businesses with a turnover below £25 million.

In the UK, the P2P Business Lending industry has become an essential finance channel for business borrowers. In order to maintain consistency across our time-series analysis, the figure presented in the following charts refers to Business Lending activity from the P2P and Balance Sheet lending models.

As this is the first year that participating firms could distinguish their specific model activity, we have combined the P2P Business and Balance Sheet Business volumes to account more accurately for this market.

By comparing the UK P2P Business Lending[22] 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 9.53% in 2017 to its highest level of 11.59% in 2018. This is because the growth rate of P2P lending in the UK was much higher than growth in traditional business lending channels. The P2P business market grew by 25% year-on-year in 2018, reaching £2.5 billion compared to the £2.04 billion of the previous year.

Figure 2.13: P2P Business Lending Compared to Bank Lending in the UK 2012-2018 (£billions)

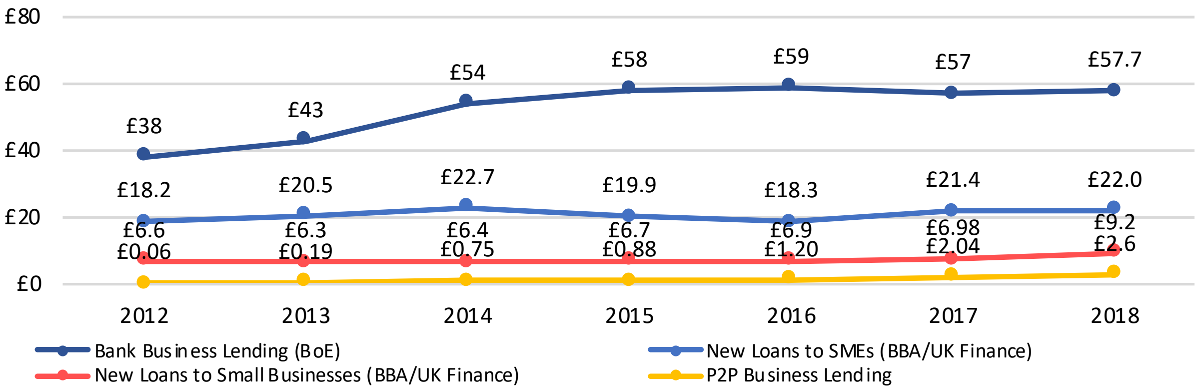
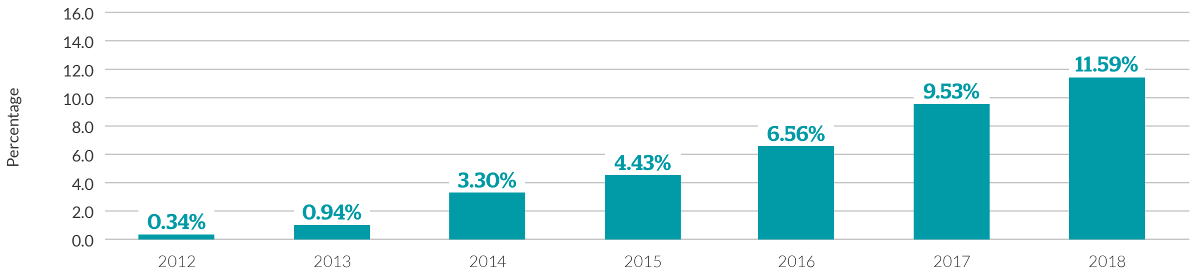
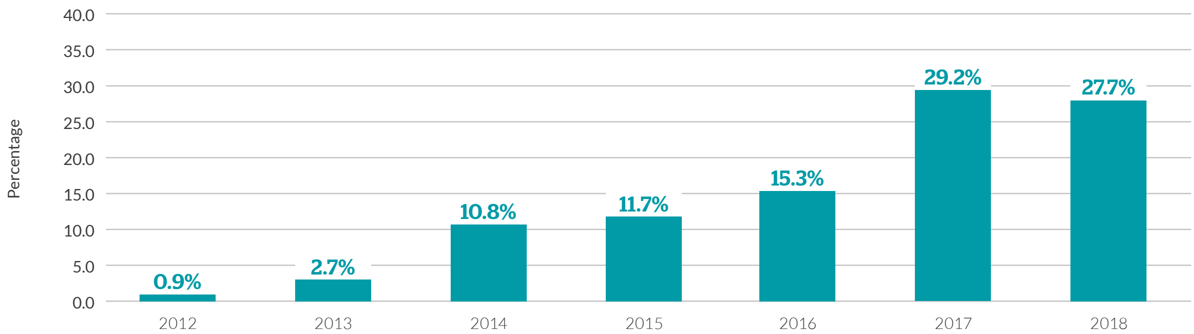


Figure 2.14: P2P Business Lending as a proportion of Total New Loans to SMEs by banks in the UK 2012-2018



Assuming that the vast majority of borrowers in P2P 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 27.7% of all lending to small businesses in 2018. Therefore, P2P Business Lending is becoming an increasingly important contributor to overall finance of SMEs.

Figure 2.15: P2P Business Lending as a percentage of New Loans to Small Businesses in the UK 2012-2018



Institutionalisation

Platforms were asked what proportion of volume had been funded by an institutional investor, which is also indicative of the partnership of the platform with institutional investors. The 603 platforms with business activities in Europe had a weighted average of 29% of the volume being funded by institutional investors in 2018. Consequently, 71% of the volume is funded by non-institutional investors.

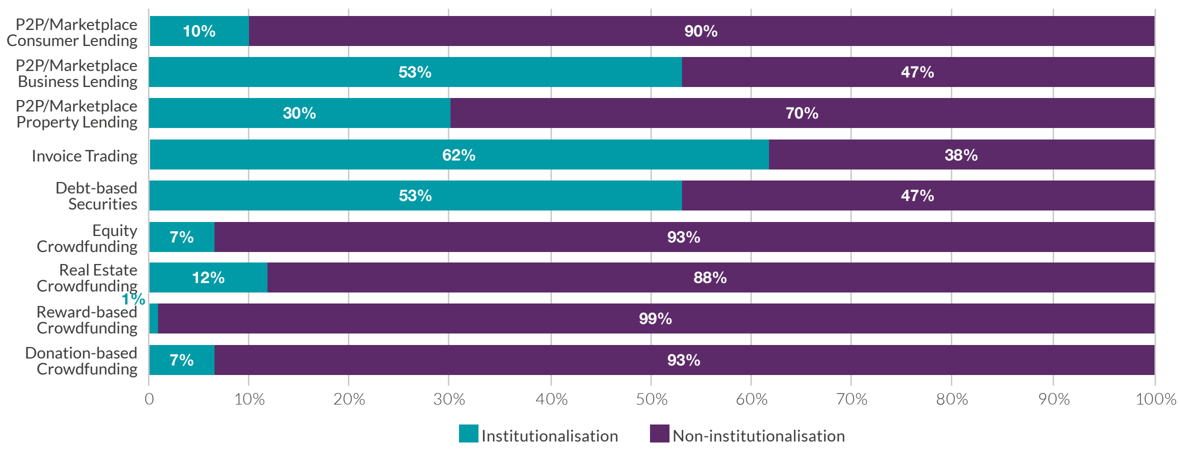
Invoice Trading (73%), Debt-based Securities (60%), P2P Business Lending (55%) and P2P Property Lending (38%) platforms indicated that more than one-third of their volumes were funded through institutional investors. These investment instruments can be standardised across recipients of the funds and they can be incorporated into auto-bidding procedures for retail- and institutional investors. It is thus no surprise that platform business models have shifted towards greater openness for institutional investors.

The high rate of institutional funding in Invoice Trading is consistent with previous reports (2015: 37%; 2016: 68%; 2017: 48%). However, the 2018 proportion of institutional funding in P2P Business Lending is significantly higher than that reported in previous years (2015: 28%; 2016: 29%; 2017: 24%), indicating that the shift of business models is most significant in P2P Business Lending. P2P Property Lending has had varying rates of institutional funding in the past(2016: 46%; 2017: 1%), indicating that business models in P2P Property Lending space are still under considerable redesign.

By contrast, low portions of institutional investors are seen in Reward-based Crowdfunding (4%), Donation-based Crowdfunding (10%) and Equity-based Crowdfunding (16%) platforms, perhaps because the projects involved are not suited to institutional investors, involving either non-investment activities or high-risk investments (e.g. equity). Furthermore, the fundraising cases on such platforms allow limited room for standardisation across projects. Most institutional backing on non-investment platforms takes the form of corporate social responsibility matching funds, and do not represent the core value creation activities of such institutional entities.

It is somewhat surprising that P2P Consumer Lending (18%) and Real Estate Crowdfunding platforms (16%) report low rates of institutional investment since it is relatively easier to standardise both instruments. Institutional funding of P2P consumer lending has varied significantly – from 12% in 2017, via 26% in 2015, to 45% in 2016. However, this can be explained by dramatic growth in volumes that dilute the share of institutional investments despite growth in absolute figures. Equally, Real Estate Crowdfunding reported only 9% of institutional funding in 2016 and 2% institutional funding in 2017. Both represent cases where incumbents have limited interest for engagement, as both models compete with more than they supplement existing channels for funding requests with acceptable risk levels, or deemed too risky in cases of higher risk funding requests.

Figure 2.16: Institutionalisation rate by model-2018



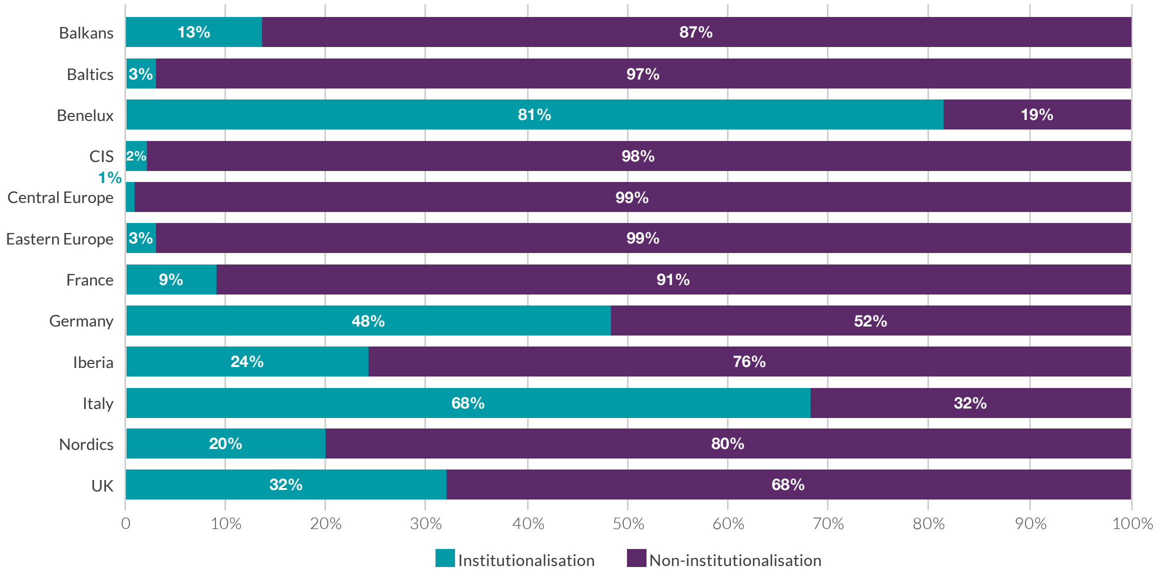
Institutional funding varies significantly across regions. The weighted average is 34% institutional funding across 634 platforms (or platform branches) linked to European regions. Italy (2018: 90%, 2017: 45%), Benelux (2018: 88%; 2017: 20%) and Germany (2018: 64%; 2017: 5%) all report that more than half of alternative finance volumes came from institutional investors, a significant increase from previous years.

Countries with small portions of institutional funding include the CIS countries (2018: 2%; 2017: 1%), as well as those in Central Europe (2018: 4%; 2017: 6%), Eastern Europe (2018: 5%; 2017: 5%), and the Baltics (2018: 5%; 2017: 3%), which all consistently report single digit proportions.

Such markets are either characterized as higher risk transition economies (such as in wider Eastern Europe and the CIS), or those with exceptionally strong traditional banking sector (such as Switzerland).

In certain regions, the rate of institutional investors is increasing steadily, such as France (2018: 10%; 2017: 6%); the Balkans (2018: 24%; 2017: 10%) or

Figure 2.17: Institutionalisation by region-2018



the Iberian countries (2018: 29%, 2017:18%). Such environments were relatively little affected by the previous financial crisis, and thus may represent markets where traditional financial institutions serve as trust facilitators. This is an example of how institutional engagements in alternative finance can both enable and have a more significant influence on how the alternative finance market develops.

Market developments

Innovation

Platforms continue to develop their business model, but compared to 2017, the market seems to have settled in 2018. The anticipation of the European Crowdfunding Service Provider Regime caused platforms to postpone structural changes in the platform in 2018.

In Ireland, 57% of the platforms reported changes in the business model, while in the UK, 53% indicated changes in the business model.

By contrast, in continental Europe the percentage of platforms which either report significant or slight business model changes decreased from 2017 to 2018 in almost every country. The CIS countries (2018: 10%, 2017: 63%) reported the most drastic decrease of business model alteration, but significant decreases were also seen in the Baltics (2018: 22%; 2017: 36%), the Balkans/South East Europe (2018: 25%; 2017: 50%), the Benelux countries (2018: 26%; 2017: 50%), the Iberian countries (2018: 32%; 2017: 38%), the Nordic countries (2018: 35%; 2017:51%), Georgia (2018: 40%; 2017: 60%), France (2018: 47%; 2017: 53%), Central European countries (2018: 49%; 2017: 53%) and Eastern European countries (2018: 49%; 2017: 57%).

Only the ratio of German platforms reporting business model change has increased over the past year, from 43% in 2017 to 48% in 2018. Some of this may be traced to a significant liberalisation of the prospectus regime in Germany in 2018, which caused platforms to change their business model.

The report finds a similar trend regarding changes in the products and services offered. In comparing 2017 and 2018, a drastic reduction in percentage of platforms with new products and services can be seen in Georgia (2018: 13%; 2017: 66%), the CIS countries (2018: 17%; 2017: 75%), the Baltics (2018: 28%; 2017: 71%) and the Balkans / South-East Europe (2018:36%; 2017: 68%).

Approximately half of the platforms either introduced new products and services or altered existing products and services in Germany (2018: 48%; 2017: 58%), the countries of Eastern Europe (2018: 48%; 2017: 62%); Central Europe (2018: 49%; 2017: 80%); and the Nordics (2018: 51%; 2017: 72%).

France (2018: 63%; 2017: 85%) and the Benelux (2018: 64%; 2017: 90%) reported that more than half of the platforms changed their products in 2018. This still marks a decrease from higher numbers in 2017.

Figure 2.18: Changes to business model by region-2018

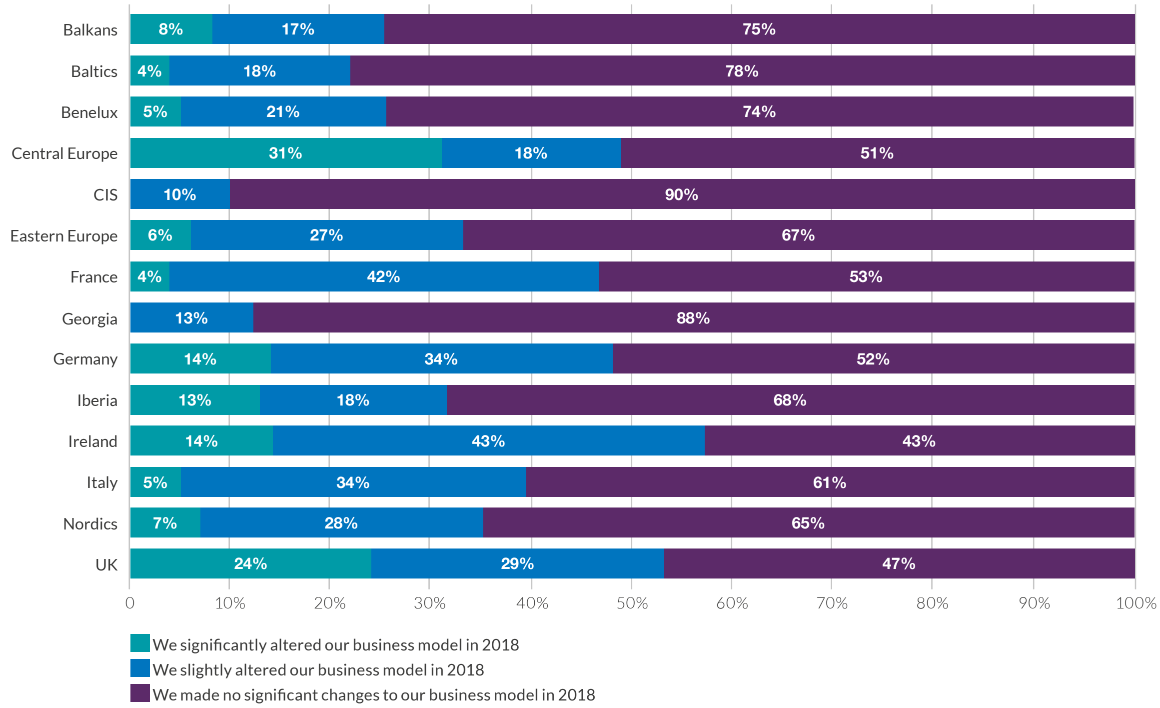
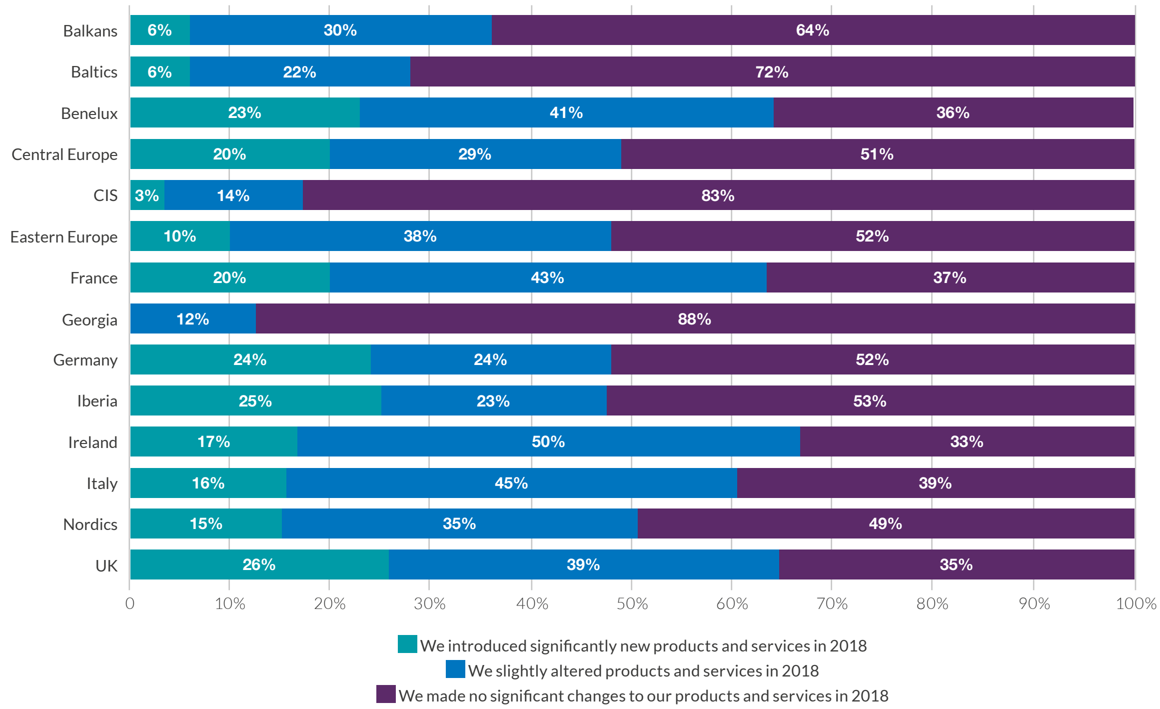


Figure 2.19: Changes in products and services by region- 2018



Only the Iberian countries (2018: 47%; 2017:45%) and Italy (2018: 61%; 2017: 59%) reported that more platforms changed their products and services in 2018 as opposed to 2017.

Research & Development

In terms of research and development efforts, the data does not report any significant differences in innovation across models when looking at all R&D initiatives. On average, 11% of the platforms in each model focus on a particular area of innovation. However, the report finds differences in the area of innovation prioritised by different platforms.

Across models, 20% of all platforms report that 'Process streamlining and automation' is a priority. More than a quarter of Invoice Trading (27%) and P2P Consumer Lending (26%) platforms have indicated that this is a focus of innovation.

Across models, 16% of all platforms report that customer verification is an important innovation area. Again, more than a quarter of Invoice Trading (31%) and P2P Consumer Lending (27%) platforms have indicated activities in this field.

The focus shifts when analysing 'Artificial intelligence and performance enhancement features', which 16% of platforms prioritise. Two-thirds of Balance Sheet Business Lending platforms (67%) report activities in this area. A significant proportion of platforms conducting Balance Sheet Consumer Lending (25%), Balance Sheet Property Lending (21%) and P2P Consumer Lending (19%) have indicated that AI-activities are of importance to the platforms.

Equally crucial to platforms is customer verifications. 16% of platforms report this activity as a relevant R&D category. A significant proportion of platforms offering Invoice Trading (31%) and P2P Consumer Lending (27%) put an emphasis on developing their innovations in this field.

The other areas of innovation warrant less attention of the industry. Payment processing is essential for slightly more than a quarter of Invoice Trading platforms (27%), and for slightly less than one-sixth of P2P Business Lending platforms (14%), P2P Property Lending (14%), Balance Sheet Property Lending (14%), Debt-based Securities (14%), Real-estate Crowdfunding (14%) and Revenue-share models (14%).

Every tenth platform indicated that social media and fundraiser tools are a priority. Looking specifically at Reward-based Crowdfunding, 19% of platforms indicated that this activity is part of their research agenda, which tops all other innovation areas Reward-based Crowdfunding.

Table 2.2: Actively Pursued R&D Initiatives in 2018 by Platforms (by Model)

	Payment processing	Customer verification	Process streamlining and automation	Artificial intelligence and performance enhancement features	Community management features and tools	Social media and fundraiser promotional tools	Customer relationship management systems	E-learning features for users	Gamification features for user engagements
P2P/Marketplace Consumer Lending	8%	27%	26%	19%	2%	6%	6%	2%	5%
P2P/Marketplace Business Lending	14%	19%	22%	11%	5%	9%	13%	1%	5%
P2P/Marketplace Property Lending	14%	21%	22%	11%	3%	9%	13%	1%	6%
Balance Sheet Consumer Lending	7%	14%	11%	25%	11%	7%	7%	11%	7%
Balance Sheet Business Lending	0%	17%	17%	67%	0%	0%	0%	0%	0%
Balance Sheet Property Lending	14%	7%	21%	21%	7%	14%	7%	7%	0%
Invoice Trading	27%	31%	27%	7%	0%	2%	5%	0%	0%
Debt-based Securities	14%	16%	22%	6%	13%	12%	14%	1%	1%
Equity Crowdfunding	12%	15%	17%	6%	13%	12%	13%	4%	8%
Real Estate Crowdfunding	14%	14%	22%	8%	10%	13%	13%	3%	2%
Revenue Sharing	14%	9%	18%	14%	18%	14%	9%	5%	0%
Reward Crowdfunding	12%	11%	16%	4%	16%	19%	9%	8%	5%
Donation Crowdfunding	14%	13%	14%	6%	14%	14%	7%	6%	12%

Community management tools are of high importance to revenue sharing (18%) and reward-based (16%) platforms, indicating the need to continue being innovative in mobilising external communities for this model of crowdfunding. 9% of all platforms indicated that this is a priority.

Customer-relationship management is a focus of 9% of all platforms, with Debt-based Securities (14%), P2P Business Lending (13%), P2P Property Lending (13%, Equity-based Crowdfunding (13%) and Real-estate Crowdfunding (13%) prioritising activities in this field. This may be a result of a relatively small share of repeat fundraisers using the same service, but seems to run counter to the logic of harnessing the value of backers by mobilising existing backers to contribute to future fundraising calls.

Surprisingly, e-learning features are only prioritised by 4% of all platforms, with Balance Sheet Consumer Lending (11%) and Balance Sheet Property Lending putting a relatively higher focus on this activity than the rest of the models. This may be counter to platforms' interests in enhancing successful use of their services, as well as in achieving efficiency gains from reduction of customer support thanks to e-learning features that may fulfill such needs. At the same time, it is possible that platforms do not want to invest in a public good, such as public education, that may serve users using other platforms as well.

Gamification features for user engagement are not a priority for platforms (4% of platforms report activities here), except for 12% of donation-based platforms, which otherwise focus on payment processing (14%), process streamlining (14%), community management (14%), customer verification (13%). This may be a result from growing competition from Facebook, where platforms are required to develop higher levels of engagement to attract sufficient activity from a dominant social media platform.

Internationalisation

Inflows & outflows

Cross-border flows in alternative finance were initially weak when the first platforms arrived. However, some regions have seen large proportions of cross border flow, intertwining the distinct alternative finance markets.

The CIS Countries reported 96% inflows and 95% outflows on average in 2018 (2017: 100% inflows, 87%: outflows), the highest numbers on the continent. Consequently, 95% of platforms in the CIS countries reported a global website and brand in their internationalisation strategy. This may be explained by the fact that most platforms operating in the CIS are headquartered outside of it. Eastern European countries reported the second-highest ratio of inflows at 89% and the second-highest outflow ratios at 88% (2017: 91% inflows and 76% outflows). Eastern European platforms specified that 67% have a global website and brand as part of their internationalisation strategy. The Baltic States indicated a ratio of 86% inflows and 86% outflows (2017: 83% inflows and 72% inflows), placing Estonia, Lithuania and Latvia in third place. In these countries, 67% of all platforms listed a global website and brand as their primary business presence. All three regions (CIS, Baltics, Eastern Europeans) share a market perspective driven by the need to scale quickly across the European continent because home markets are either too small or lack enough development. In particular, these markets are also associated with relatively lower levels of social trust, as well as rates of adoption of e-services explaining lower share of domestic flows. However, international flows may be explained by money transfers from diasporas residing in more prosperous European countries, as well as from foreigners identifying the potential for higher return investments in growing Eastern European economies compared to sluggish growth in more developed European economies.

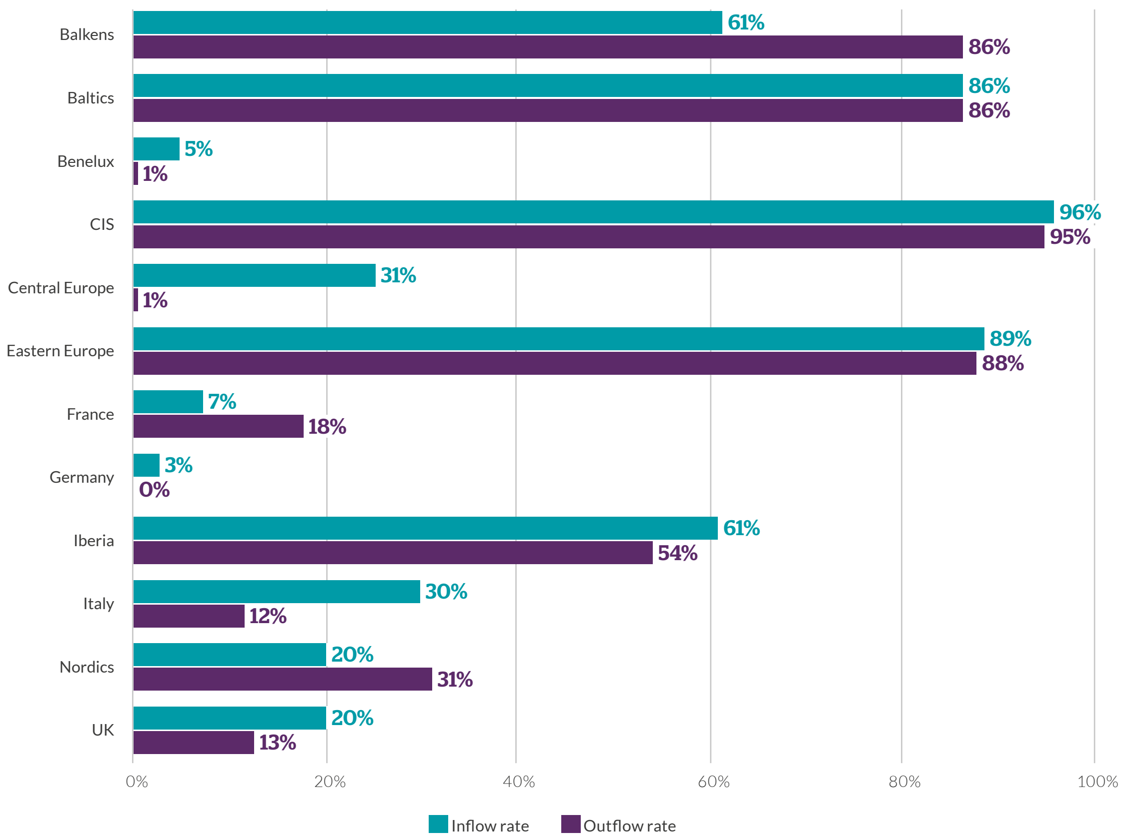
Germany occupies the other end of this spectrum. Ranking 12th, the German inflow in 2018 was only 3% and the outflow measured at less than 1% (2017: 6% inflows, 2% outflows). This finding is consistent with evidence that German investors make up a large portion of the investor base of Baltic platforms (which are captured by inflow measures there), but the German platforms have relatively low levels of non-German projects. A direct consequence of regulation in Germany makes cross-border transactions unfeasible to the platforms. 42% of German platforms reported that they had no internationalisation strategy, while only 23% had a global platform and brand. 23% of the German platforms indicated that they had a global brand with localised web presences often in neighboring German speaking countries such as Austria and Switzerland.

France exhibits a similar trend. 27% of the platforms reported having no internationalisation strategy, and a mere 24% of the platforms have a global website and brand. 22% listed web localisation with a global brand, 23% web localisation with a local brand as their business strategy. Consequently, inflows in France, ranking 10th, were at 7%. Outflows were at 18% ranking seventh (2017: 8% inflows, 1% outflows). Both Germany and France are representative of markets that have sufficient volumes to sustain platforms without forcing them to internationalise their business. Both these markets represent relatively large domestic markets that have not been fully tapped into, and hence may exhibit less interest in international expansion for the time being.

Before discussing differences in inflows and outflows across models, it is worthwhile to note a few regions with drastic changes in inflows and outflows from 2017 to 2018. Italian platforms reported 30% inflows and 12% outflows in 2018. However, in 2017, Italian platforms listed 67% inflows and 7% outflows, which is an indicator of Italian platforms also presenting investment opportunities abroad, as well a reduced attractiveness of Italian platforms to foreign investors. 39% of Italian platforms had a global website and brand, while 39 % of the platforms had no internationalisation strategy. This may reflect that domestic interest in Italian platforms has increased following earlier successful fundraising that was fuelled by more significant international contributions, which enhanced the legitimacy and trust of domestic users in these platforms.

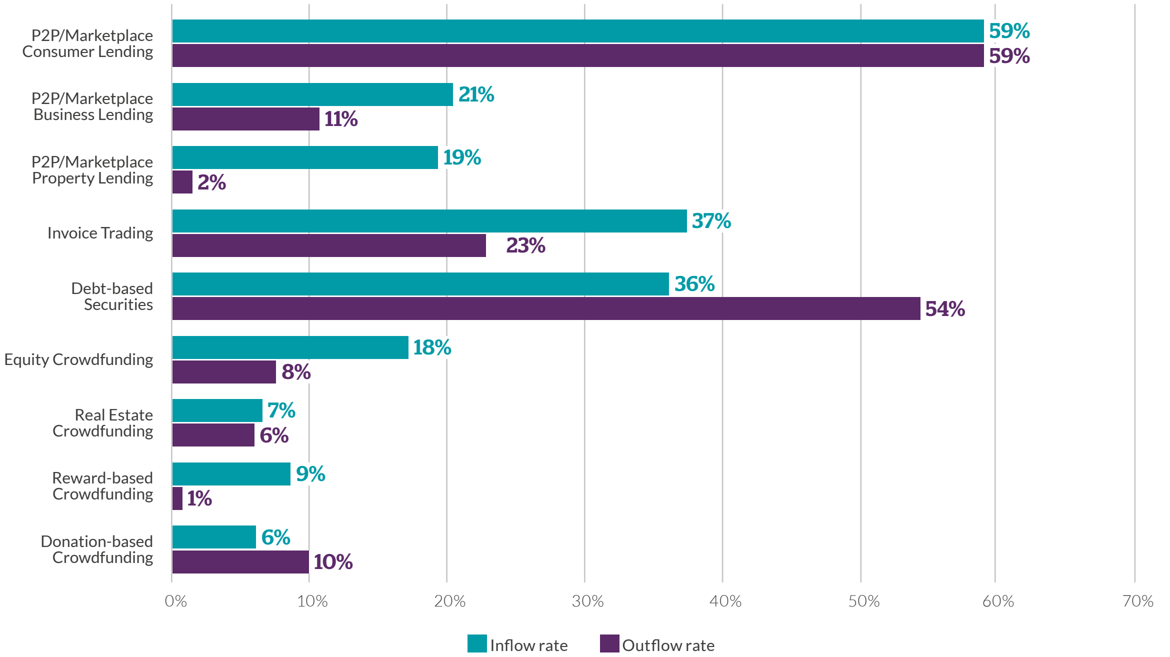
The Benelux countries reported an inflow rate of 5% and an outflow rate of 1% in 2018, after reporting 38% inflows 19% outflows in 2017. 43% of platforms based here have no internationalisation strategy, while 41% of the platforms stated a global website and brand. This result is due to the significant presences of specific debt-based models in the Dutch market, which tend to reduce inflows and outflows.

Figure 2.20: Inflow rate and Outflow rate by sub-region- 2018



Rates of inflows and outflows by the business model are indicative of their dependency on cross-border transactions. For instance, the average ratio of P2P Consumer Lending platforms in 2018 was 59%, while the average outflow ratio was also 59% (2017: 84% inflows, 80% outflows). The reduced ratios from 2017 to 2018 indicate that domestic markets for consumer lending grew. In 2017, 69% of the platforms had a global website and brand; in 2018, this number declined to 54%.

Figure 2.21: Inflow rate and Outflow rate by model- 2018



The same trend is evident in other models. P2P Property Lending platforms only reported 19% inflows and 2% outflows in 2018 (2017: 48% inflows; 51% outflows). In 2017, 70% of the platforms reported a global website and brand, which remained high (at 67%) in 2018.

Real-estate Crowdfunding platforms listed 7% inflows and 6% outflows (2017: 6% inflows; 4% outflows). Only 33% of the platforms reported having a global website and brand strategy in 2017, which decreased to 29% of the platforms in 2018. Therefore, the market dynamics had a bigger impact on inflow and outflow than platform strategies.

Internationalisation Strategy

Figure 2.22: Internationalisation Strategy by sub-region-2018

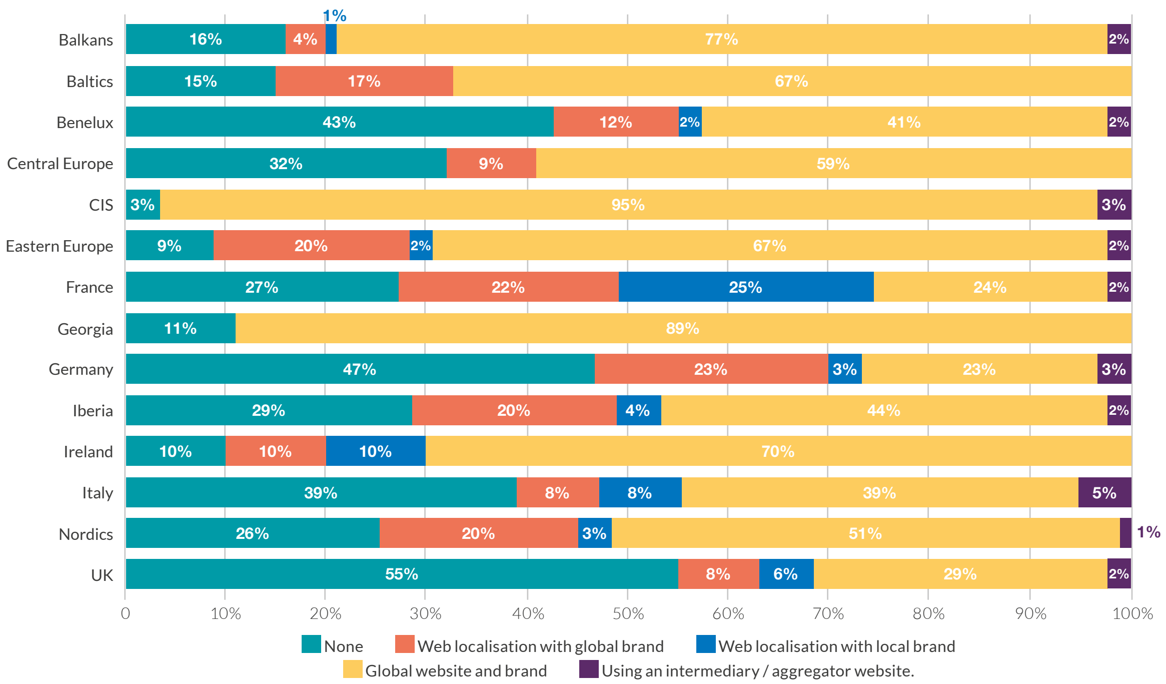
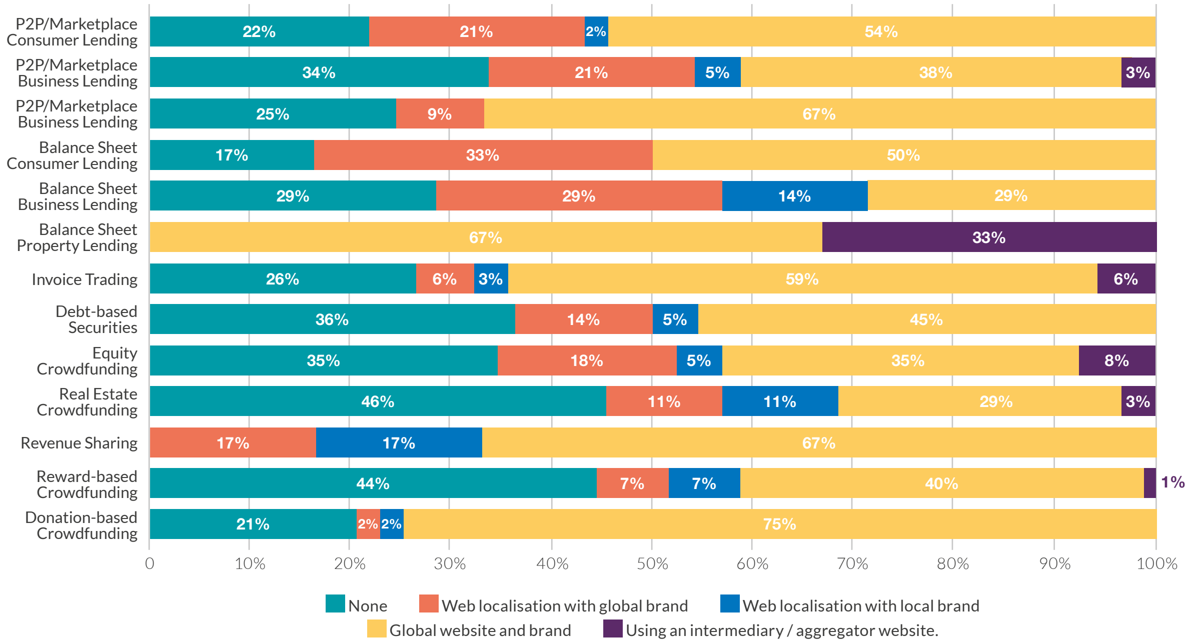


Figure 2.23: Internationalisation Strategy by model-2018

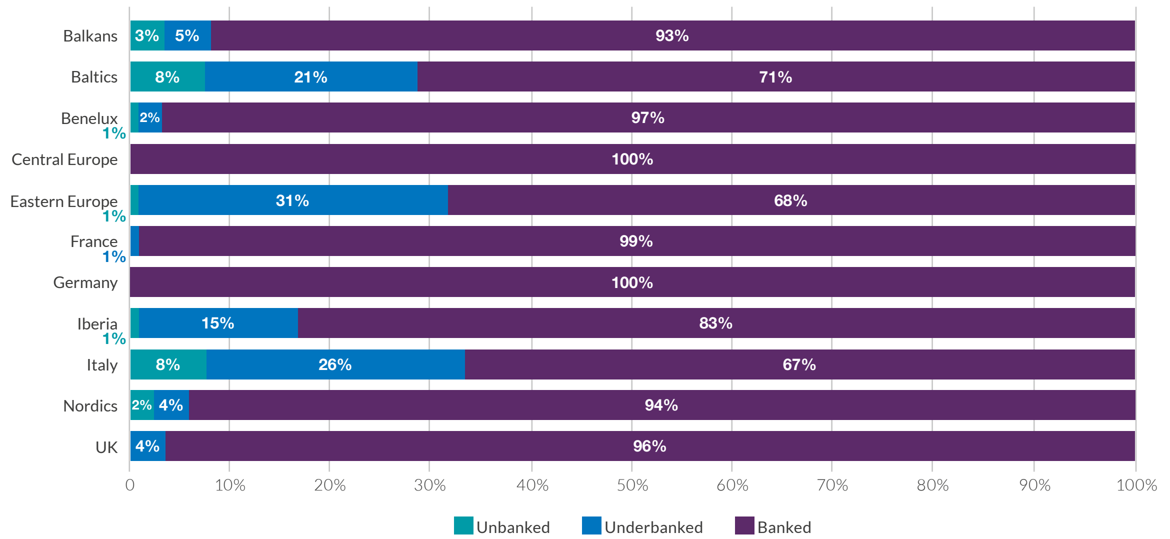


Financial Inclusion

Banking Status of Borrowers

Approximately two hundred fifty platforms operating in Europe provided information about the status of their borrowers. Unbanked costumers are rare, with the exception of Baltics and Italy where they account for 8% of borrowers. In four regions in Europe, underbanked costumers represent 15% or more. These include Iberia (15%), Baltics (21%), Italy (26%), and Eastern Europe (31%). Central Europe and Germany stand out as serving only banked costumers.

Figure 2.24: Banking Status by Model and Region

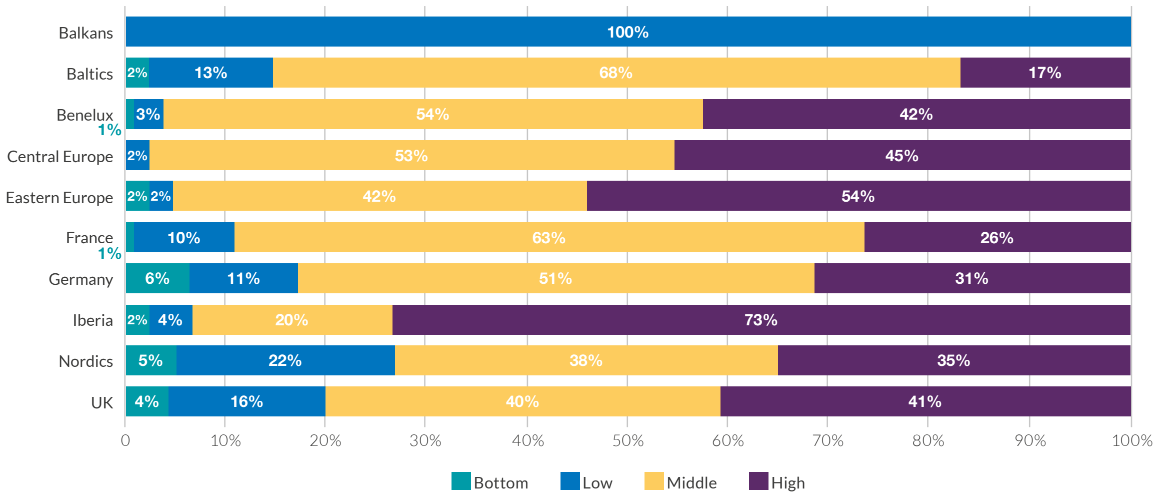


Income-based

Platforms in different European regions reported different average levels of income status of their customer base. Bottom-income customers represent less than 5% of users in all regions except for Germany (6%), whereas in the Balkans they are not represented at all. Low-income customers are also underrepresented, accounting for less than 15% in all regions apart from the UK (16%) and Nordics (22%). Eastern Europe and Iberia are two regions in which more than half of funders or loan sponsors fell into high-income, with 54% and 73% respectively. Platforms in Europe, thus far, mainly catered to individuals from middle-incomes.

In most regions, it seems that high income funders are overrepresented vis-a-vis their relative share in society. This can be because they are either more financially educated and able, because regulation favors their involvement in investments, or because platform policies are biased towards this segment. Regardless, such findings may indicate that, for the time being, alternative finance is only partially living up to its promise of democratizing finance by providing wider access to new investment channel to most people.

Figure 2.25: Income Status by Region



Gender-based

Female Funder and Fundraiser

The report asked European platforms to indicate the proportion of female stakeholders using their firms' services in order to assess the role alternative finance currently has on women's financial inclusion. Female market participation differs between different alternative finance models, as well as between the proportion of female fundraisers and funders.

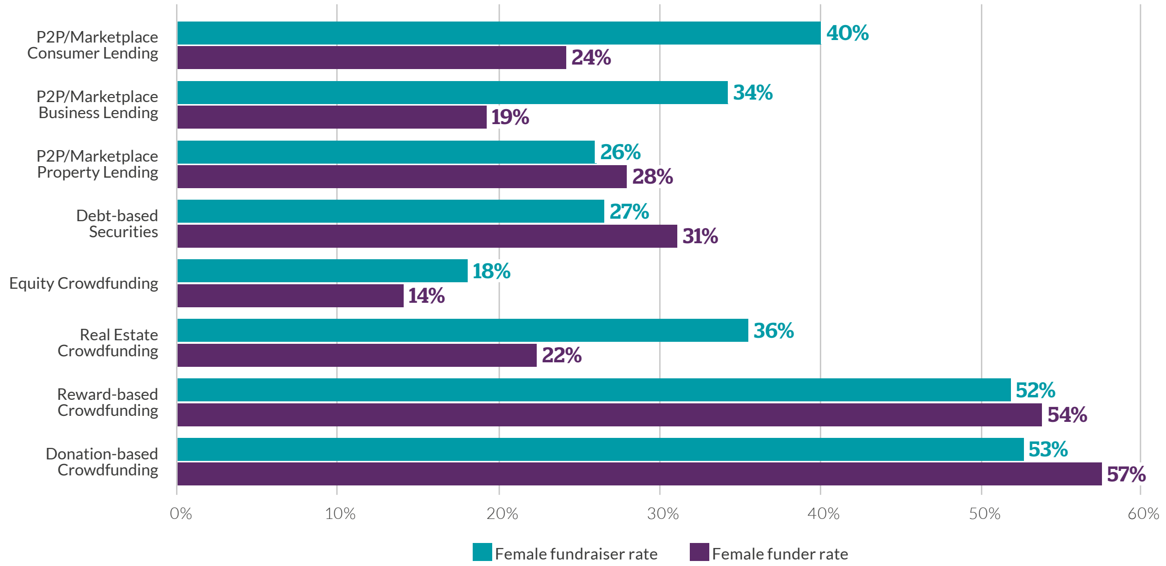
In both Donation-based and Reward-based Crowdfunding, the female participation rate is higher than male, concerning both fundraisers and funders.

When reviewing models with a financial return, women participation as funders accounts for more than one third only in platforms conducting P2P Consumer Lending (40%), Real-Estate Crowdfunding (36%), and P2P Business Lending (34%). The proportion of female funders is less than 30% for all remaining financial-return models, including P2P Property Lending (26%), Debt-based Securities (27%), and Equity Crowdfunding (18%). Such distribution corresponds well with historical research which consistently finds that women exhibit greater caution and lower risk tolerance in comparison to their male counterparts.

The proportion of female-led campaigns remains below one third for all financial-return models. When reviewing the key debt-focused models, the proportion of female borrowers was 31% for Debt-based Securities, 28% for P2P Property Lending, 24% P2P Consumer Lending, and 19% for P2P Business Lending. Similarly, only 22% of campaigners were female in Real-Estate Crowdfunding. Equity Crowdfunding remains the model with the lowest participation of women fundraisers of 14%.

While this corresponds well with earlier research showing a lower share of females in entrepreneurial populations, it remains surprising because research also shows that female entrepreneurs are faced with greater challenges in access to finance from traditional channels.

Figure 2.26: Female fundraisers and funder rates by model



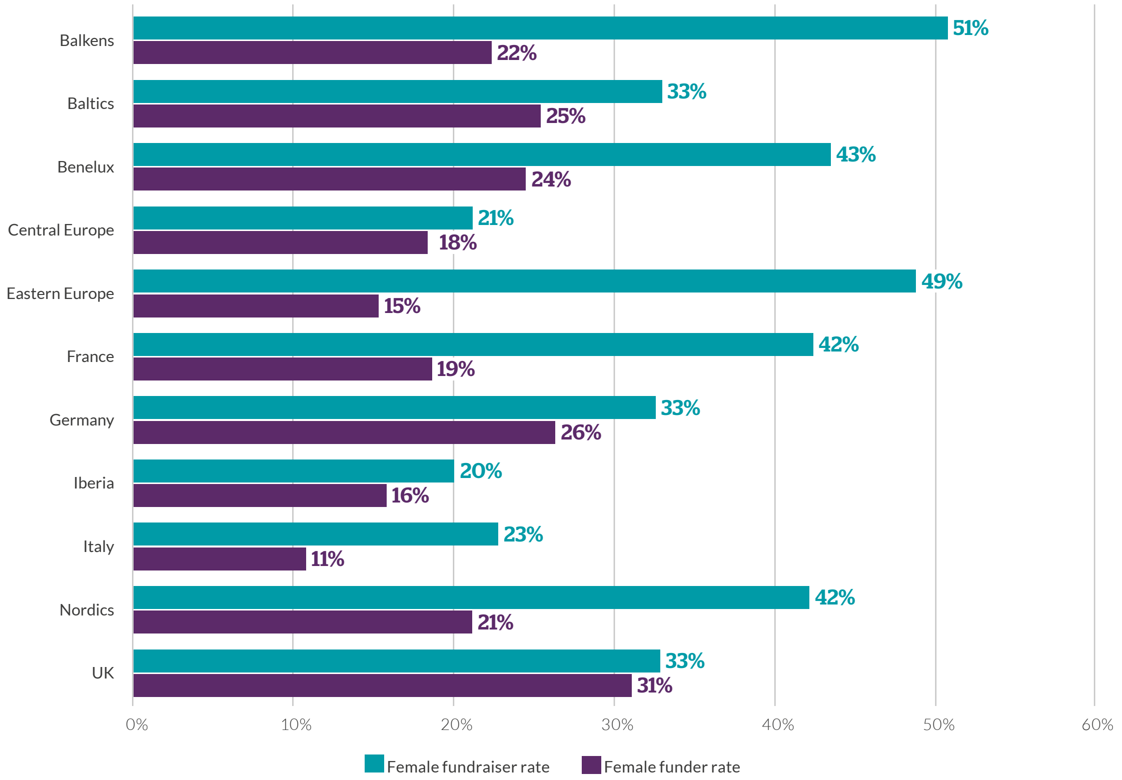
Female Funder and Fundraiser

When comparing the participation of women as funders across different regions in Europe, differences are pronounced. In the Balkans and Eastern Europe, female participation as funders was around 50%, followed by Benelux countries (43%), France (42%), and the Nordics (42%). In all other European regions, women accounted for about one third or below of all funders. Participation rates may be affected by the different distribution of alternative finance models across regions, with Balkans and Eastern Europe being dominated by Donation-based and Reward-based Crowdfunding.

In addition, high shares of female participants in the Nordics and Benelux, which are dominated by investment models, can be linked to higher gender egalitarianism and equality characterizing such cultures.

The proportion of female fundraisers is below one third in all regions. UK and Germany took the lead with 31% and 26% of female-led campaigns, respectively. The Italian data captured the lowest level of female fundraisers at merely 11%. Female participation as fundraisers also remained below 20% in Central Europe, Eastern Europe, France, and Iberia.

Figure 2.27: Female fundraisers and funder rates by sub-region



Risk & Regulations

Perception of Risk

Platforms in Europe were asked to rank seven risk-factors as related to their platform's operations. Overall, a notable increase in defaults is a crucial challenge for the continued development of the European alternative finance sector. It presented the highest or the second-highest risk in all regions except France. All platforms in Ireland, 68% in the Nordics, 62% in Iberia, 55% in Italy, and 50% in Eastern Europe and CIS described this factor as 'high' or 'very high'. Another notable concern among European platforms is cyber-security, indicated as a 'very high' or 'high' risk by more than one-third of platforms in the Balkans, CIS, France, Germany, Ireland, and the UK. Both concerns are unsurprising, as most platforms represent new players seeking market legitimacy, and are facing extreme scrutiny by authorities, the media, and users. In such delicate phases of industry development, failure associated with defaulting or cybersecurity violations can cause considerable damage to industry and platform image, beyond any actual proportion to the specific financial risks involved.

Platforms in the Balkans, Benelux, CIS, Eastern Europe and the Nordics are primarily preoccupied with two risk factors- a notable increase in defaults and cyber-security risk. 41% of platforms in the Baltics, 36% in the UK, and 33% of platforms in Central Europe also fear the risk of collapse due to malpractice. Campaign fraud was noted as 'high' or 'very high' risk by 57% of platforms in Ireland, 35% in Iberia, and 34% in Italy.

In contrast to results from previous years, changes to regulation are among the top risks only in France and Germany, with 36% of German and 29% of French platforms perceiving regulatory changes as 'high' or 'very high' risk. This may be due to the expected European Crowdfunding Service Provider (ECSP) regime that both clarifies and harmonises regulation. In this respect, the two markets dominated by domestic platforms in countries where regulation has already been amended to a degree, may fear both increased international competition, or harshening of laws as a result of intra-European negotiations on harmonised law.

The perception of risk is relatively divergent across different alternative finance models in Europe. A risk factor of significant importance for debt-based models is a notable increase in defaults. 70% of Invoice Trading, 55% of P2P Consumer Lending, 38% of Balance-sheet Lending, and 33% of P2P Business Lending platforms reported this risk as 'very high' or 'high'. Campaign fraud is another important risk factor, with more than half P2P Consumer Lending, Balance-sheet Property Lending and Invoice Trading platforms describing it as 'very high' or 'high'. All three P2P models also fear a collapse due to malpractice of one of their competitors - 67% of P2P Property platforms (67%) expressed this concern. In contrast, Balance-Sheet Lending models are preoccupied with cyber-security — more than one-third of platforms operating each of the three models reported their serious concerns.

Figure 2.28: Perceived risks of platforms by region – 2018 (Baltics, Balkans, Benelux, Central Europe, CIS, Eastern Europe)

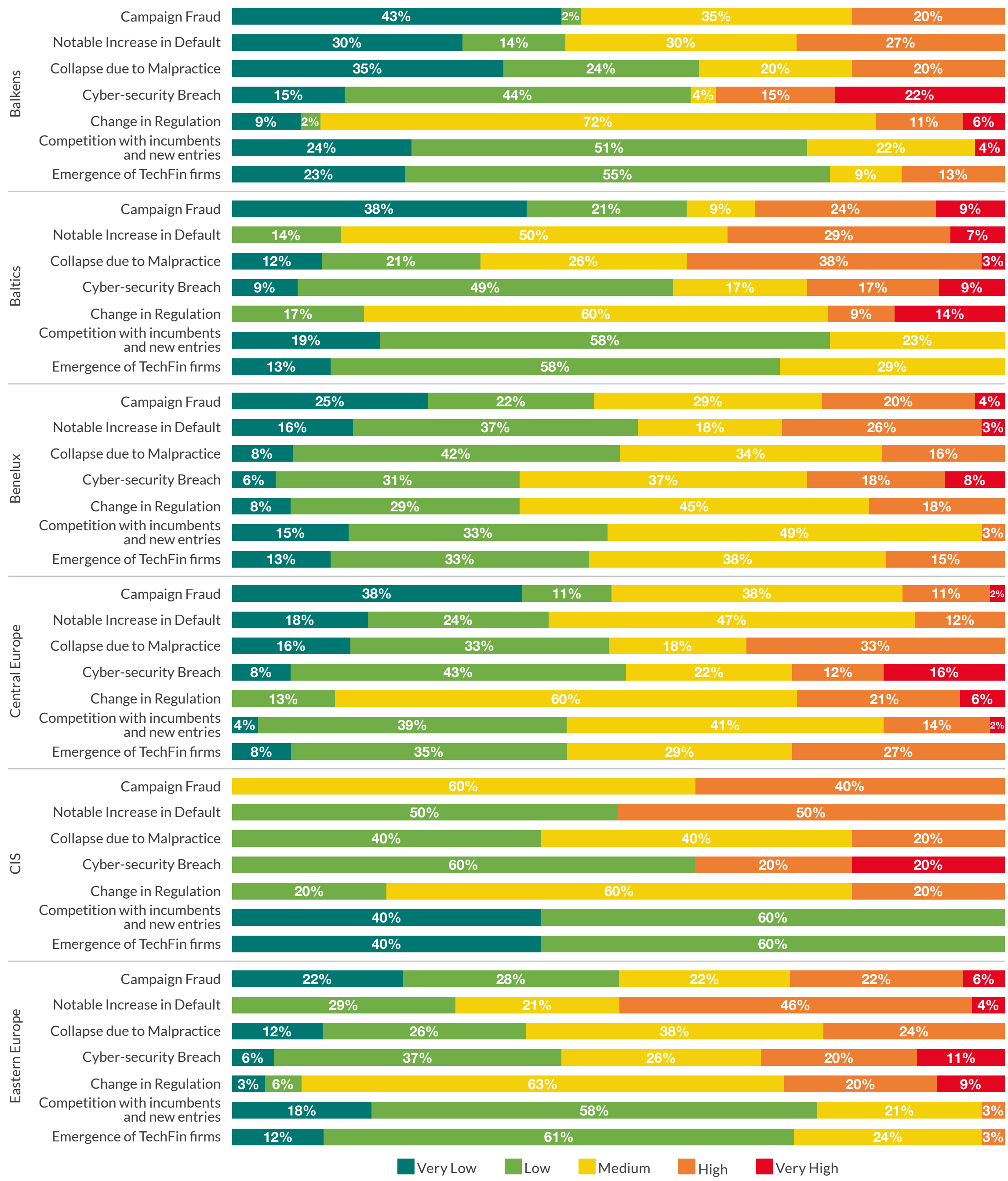


Figure 2.29: Perceived risks of platforms by region - 2018 (France, Germany, Iberia, Ireland, Nordics, UK)

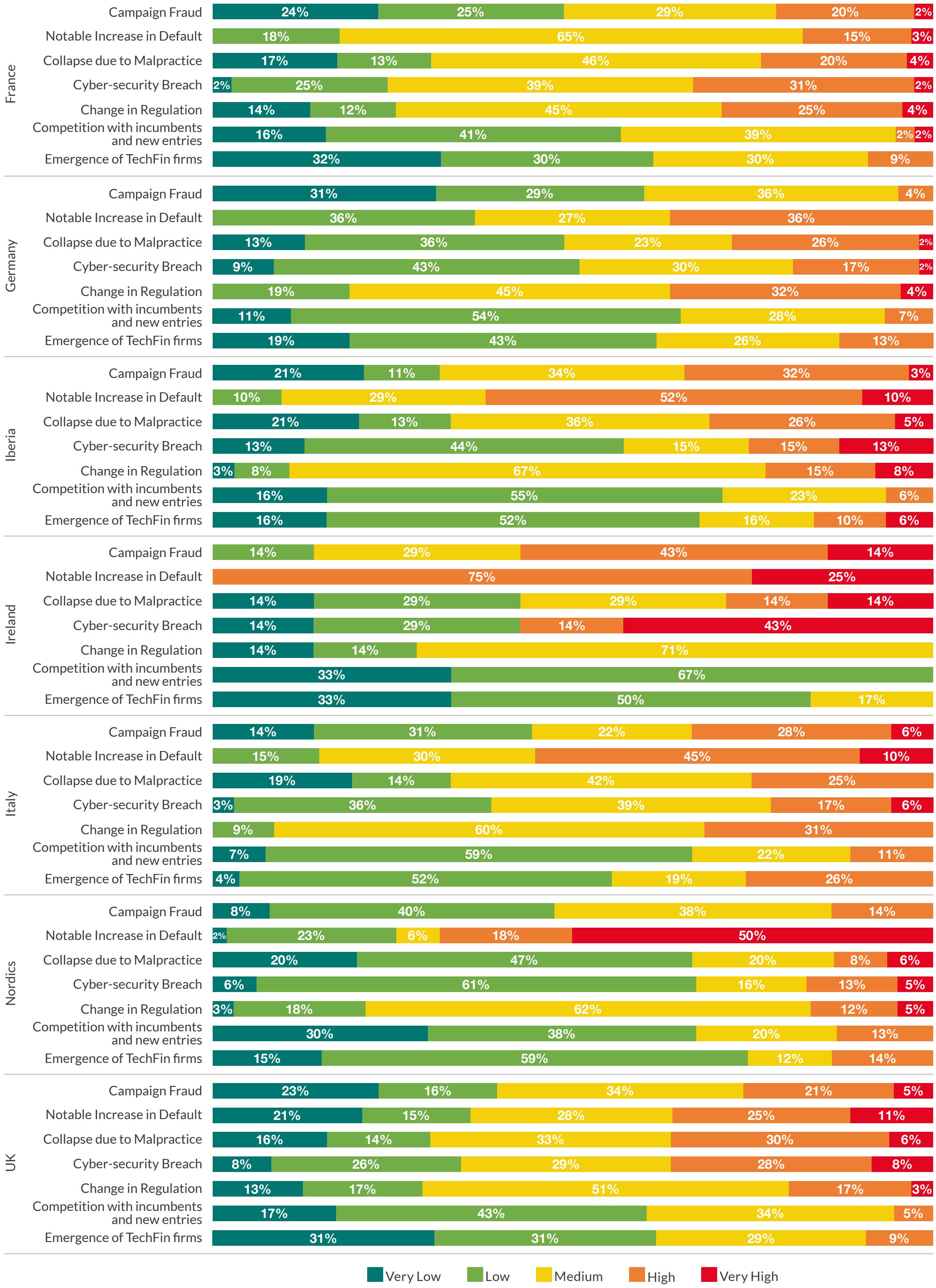
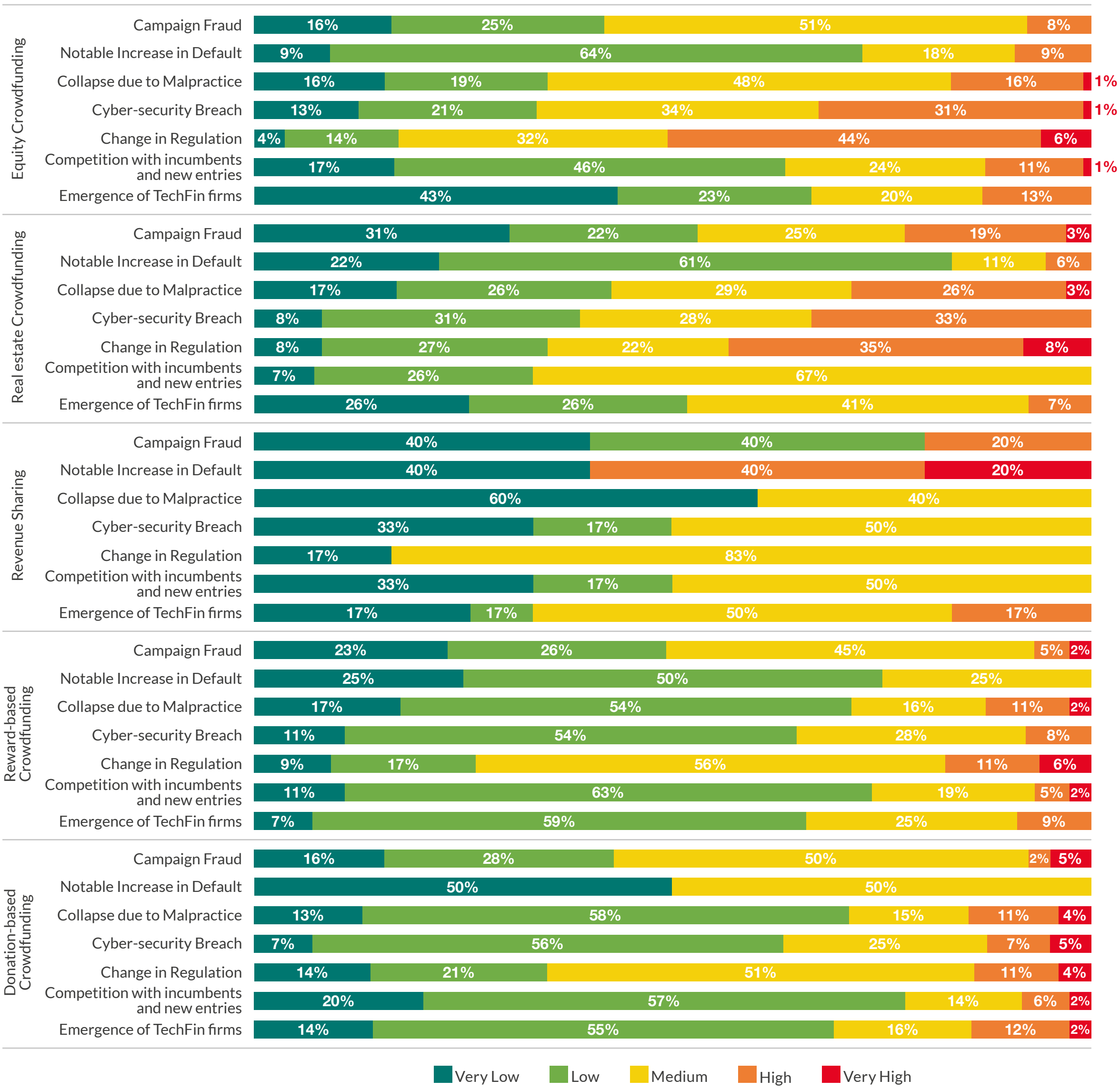


Figure 2.30: Perceived risks of platforms by Debt models-2018

Figure 2.31: Perceived risks of platforms by Equity and Non-investment models-2018



Equity Crowdfunding and Real Estate Crowdfunding both perceive cyber-security and changes in regulation as main risks to their businesses, with 30-50% of platforms reporting these factors as particularly risky. This may be explained by the fact that platforms in operation have already met relatively stringent requirements and may be concerned about the entry of new players under more permissive regimes on the one hand, or the increase in compliance costs should regulation become more stringent as part of regulatory changes on the other hand.

Somehow surprising, platforms operating non-investment models, (Reward-based and Donation-based Crowdfunding), also ranked changes in regulation as their top concern, although only 17% of Reward-based and 15% of Donation-based Crowdfunding platforms think of it as 'very high' or 'high' risk. Here, regulation has tended to be permissive and relatively clearer than in investment models. Hence changes to regulation are more likely to be associated with requirements becoming more stringent.

Alternatively, non-investment platforms may be concerned with potential growing competition from investment platforms, should more permissive regulation be passed for such models.

In contrast, platforms that operate Revenue sharing models, which are much more similar to Equity Crowdfunding, reported campaign fraud and a notable increase in defaults as their major risk preoccupations.

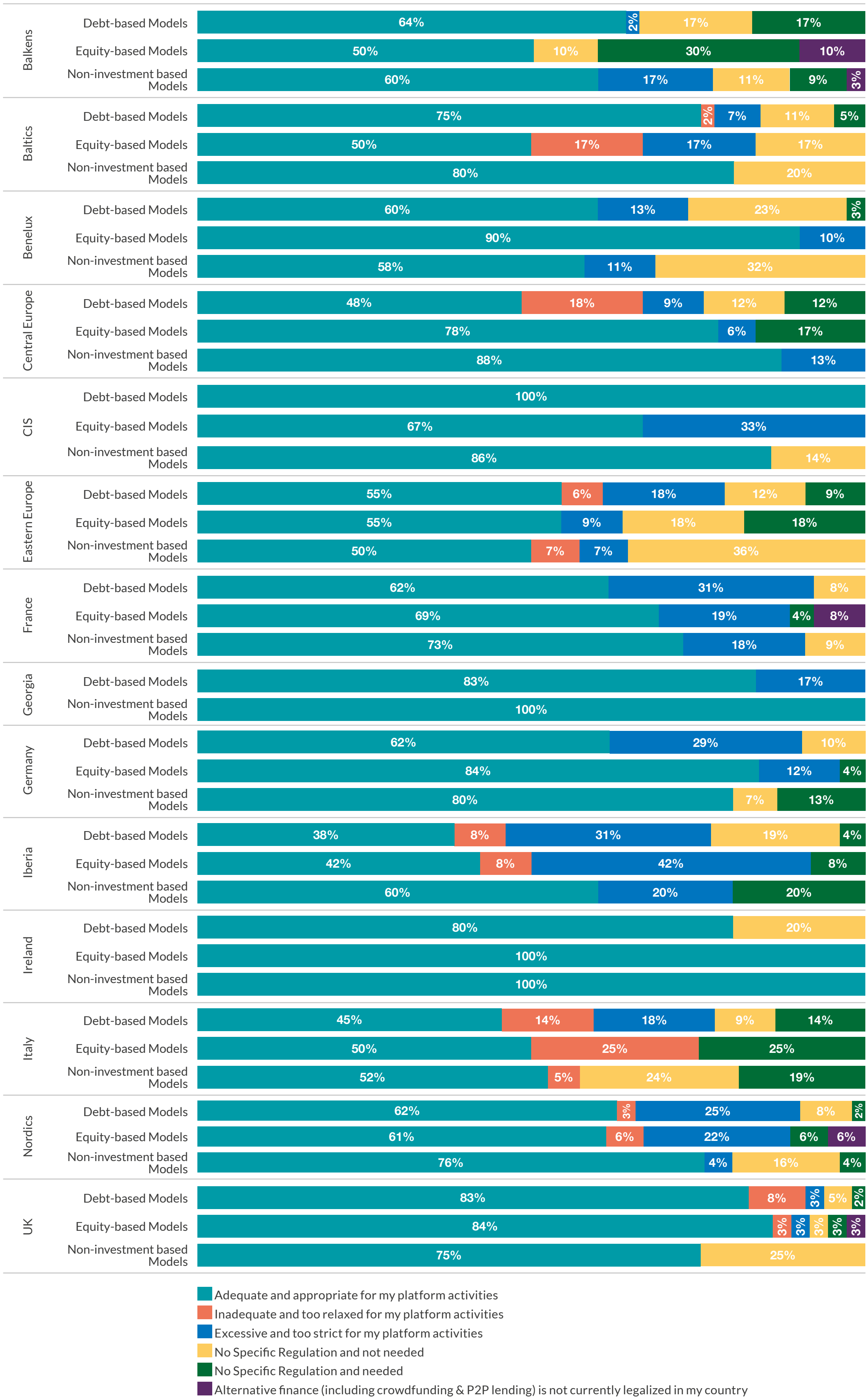
When assessing how platforms across Europe perceive the adequacy of regulations, it should be noted that regulatory frameworks vary considerably between different jurisdictions and models. Nevertheless, the majority of platforms operating debt, equity and non-investment models considered regulation to be adequate and appropriate for their platform's activity. Exceptions include Central Europe, Iberia and Italy. 48% of debt-based platforms in Central Europe described regulations as adequate, whereas 18% reported facing inadequate and too relaxed regulations. Similarly, less than half of debt-based platforms in Iberia and Italy considered regulations to be adequate, with 31% of Iberian and 18% of Italian platforms describing them as excessive and too strict for their activities. In contrast to results from previous years, regulations of equity models were deemed adequate by majority of platforms in all regions except Iberia.

Platforms in the Balkans, Baltics, Benelux and Eastern Europe reported lacking specific regulation for alternative finance which they consider necessary. This concern was common among platform operating both debt, equity and non-investment models.

In France, Germany and the Nordics, a fairly significant portion of platforms operating investment models reported struggling with the strictness of regulations, although the majority described them as adequate.

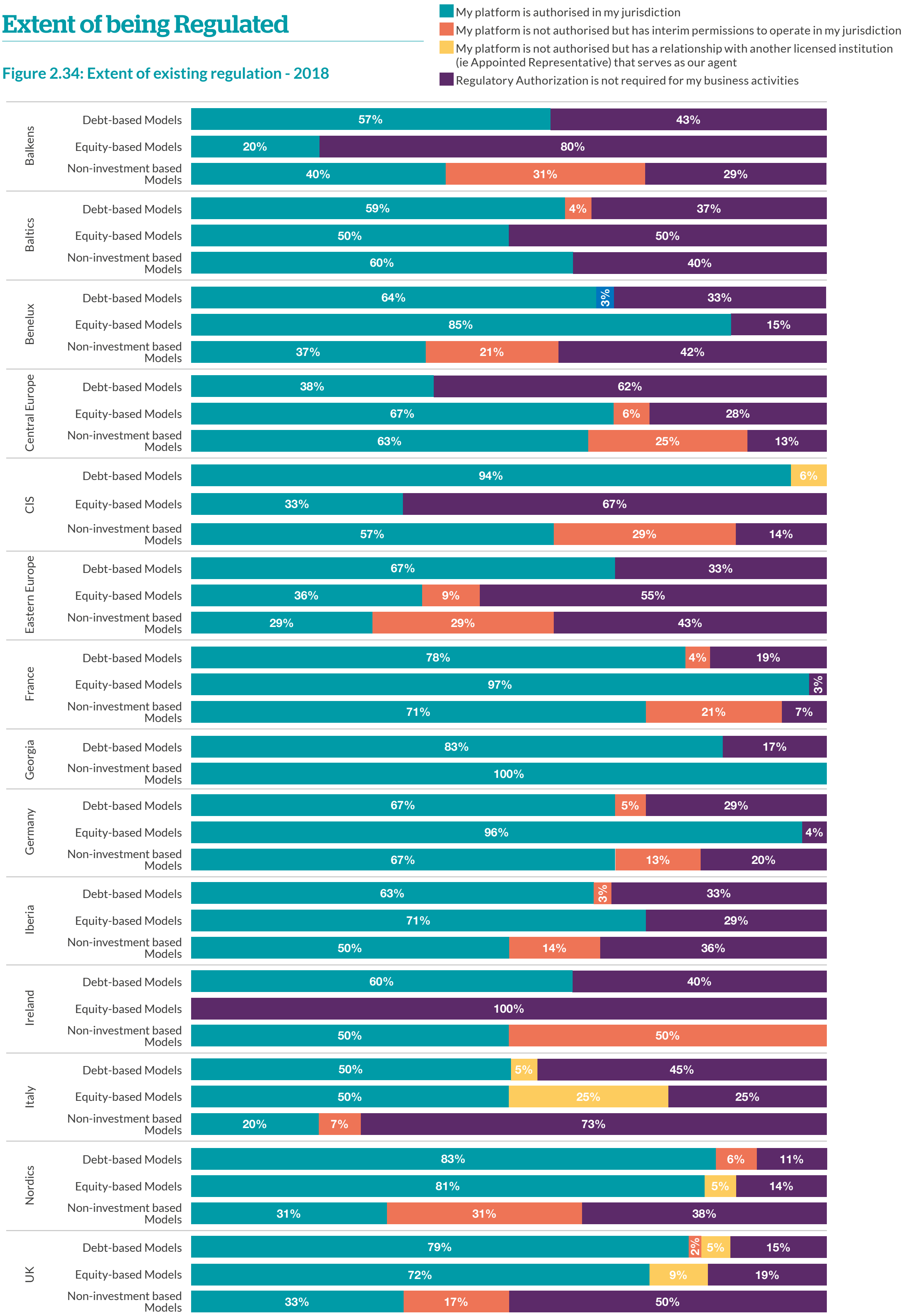
Finally, Ireland and UK are examples of countries where there was a very high level of adequacy of existing regulations as perceived by platform operating debt, equity and non-investment models.

Figure 2.32: Perception towards existing regulation-2018



Extent of being Regulated

Figure 2.34: Extent of existing regulation - 2018



Platforms in Europe were asked to describe whether they were authorised to operate in their jurisdictions, and, if so, under which regulatory arrangement they fell. Two trends are discernible across different regions. Firstly, in line with results from previous years, lack of authorisation is most often reported by platforms operating non-investment models. For instance, only 20% of Reward-based and Donation-based platforms in Italy, 31% in the Nordics, and 33% in the UK reported having the authorisation to operate. Platforms in these jurisdictions usually consider that authorisation is not required for their business activities. In countries in which non-investment platforms require an authorisation, it is common to obtain interim permission to conduct their activities.

Secondly, a lack of authorisation among equity models is usually reported in regions that do not have mature alternative finance markets yet, such as in the Balkans, Baltics, CIS and Eastern Europe.

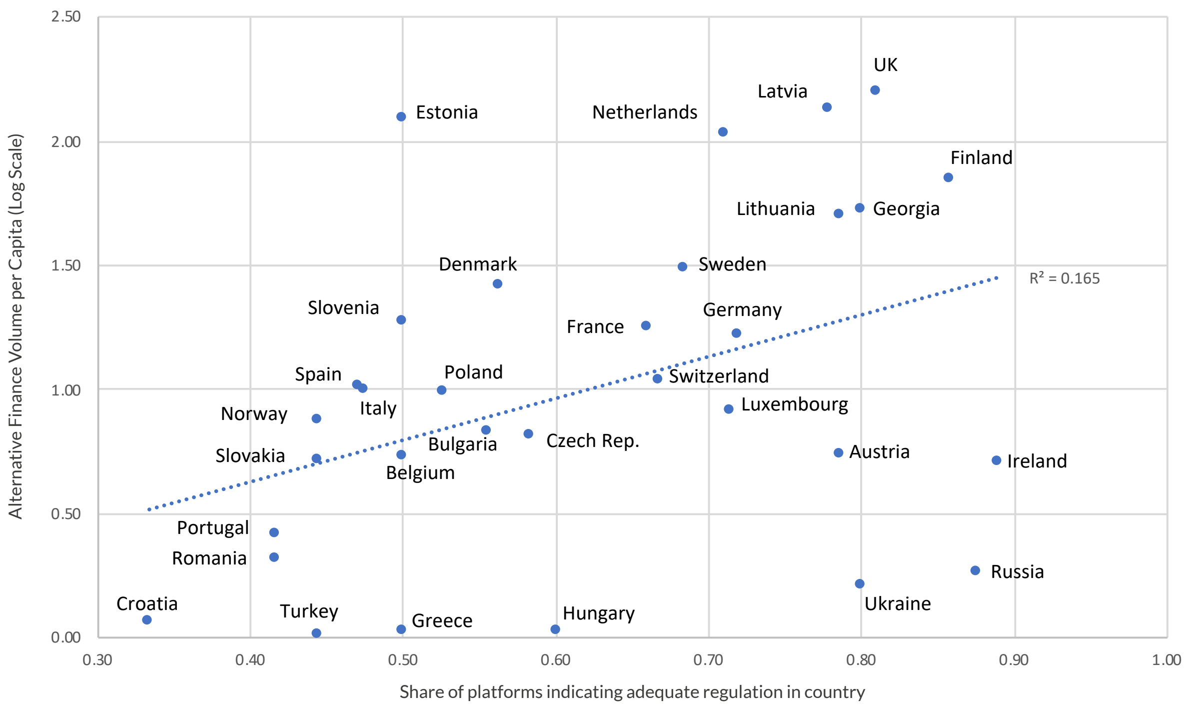
In contrast, Italy is unique in having one-fourth of equity platforms reported having a relationship with another licensed institution.

Regulatory Friendliness and Alternative Finance Volume per Capita

In our analysis of the relationship between perceived regulatory adequacy and volumes per capita in Europe, we have only included countries where at least four platforms answered relevant questions. Accordingly, perceived regulation adequacy represents the relative share of platforms in each country which indicate that regulation is 'adequate and appropriate for my platform activities'.

Our findings show a positive effect, whereby the more adequate national regulation is perceived to be by platforms, the higher the per capita volumes seen in that country.

Figure 2.35: Perceived regulation adequacy versus volume per capita (log scale) – Europe (all models) – 2018



This relationship is stronger in the case of non-investment models and less strong in the case of investment models. This may be explained by the fact that while regulatory requirements in non-investment models may be clearer and uncontroversial, the same cannot be said about investment models. The weaker association evident with respect to investment models may, therefore, reflect a more varied interpretation of what constitutes adequate regulation in different jurisdictions. It may also reflect that some investment models may be adequately regulated, while others may not be. For example, in Denmark business lending is considered to be adequately regulated, while equity and consumer lending are considered not to be properly regulated. In Austria, equity crowdfunding is regulated adequately, while lending is not.

This relationship would be particularly interesting to follow in future, following the forthcoming introduction of harmonised regulation for business investment platforms, known as the European Crowdfunding Service Provider (ECSP) regime.

Figure 2.36: Perceived regulation adequacy versus volume per capita (log scale) – Europe (investment platforms) – 2018

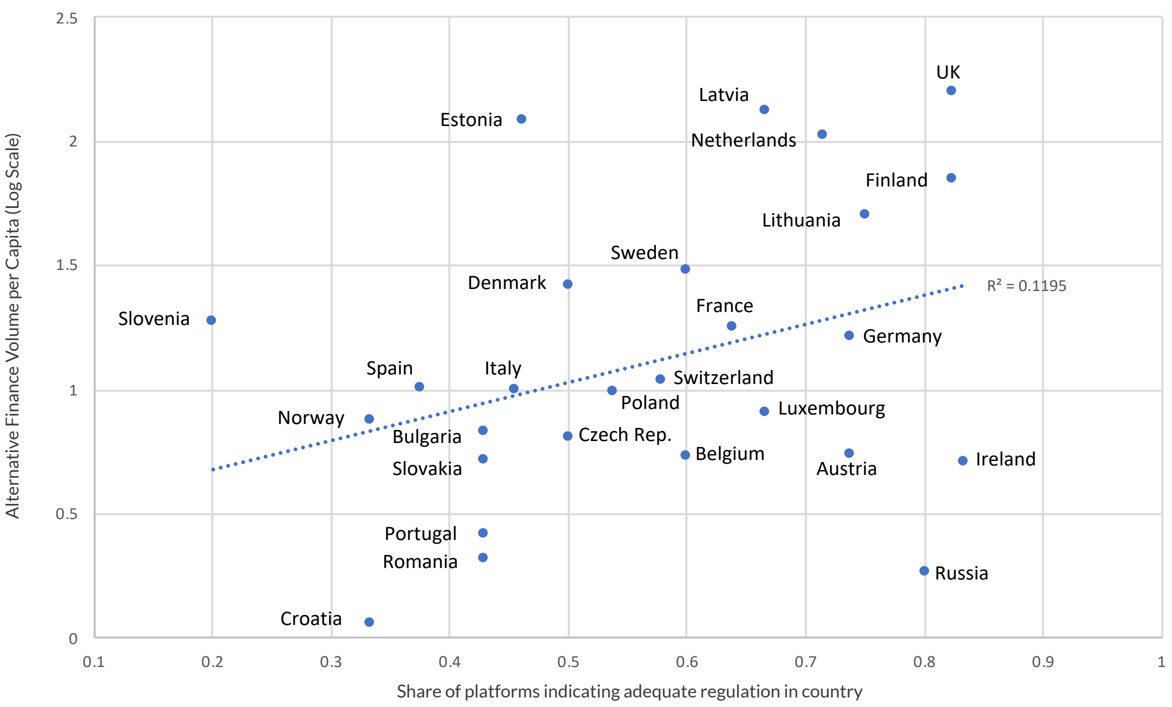
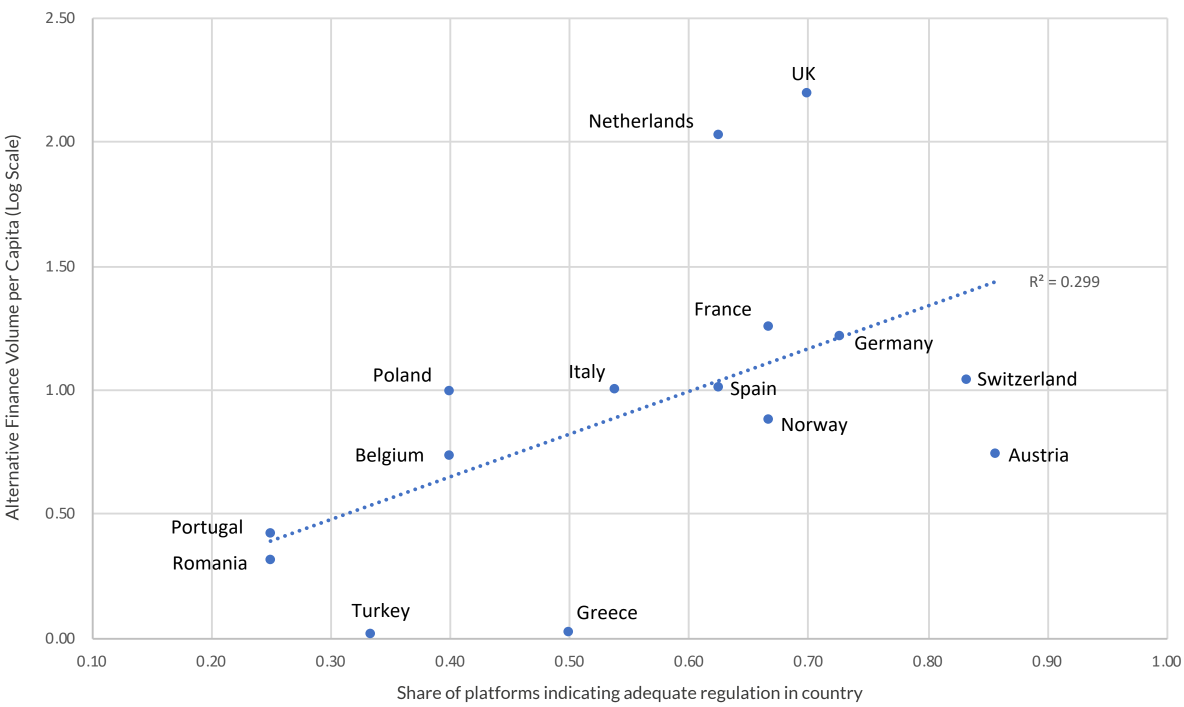


Figure 2.37: Perceived regulation adequacy versus volume per capita (log scale) – Europe (non-investment platforms) – 2018

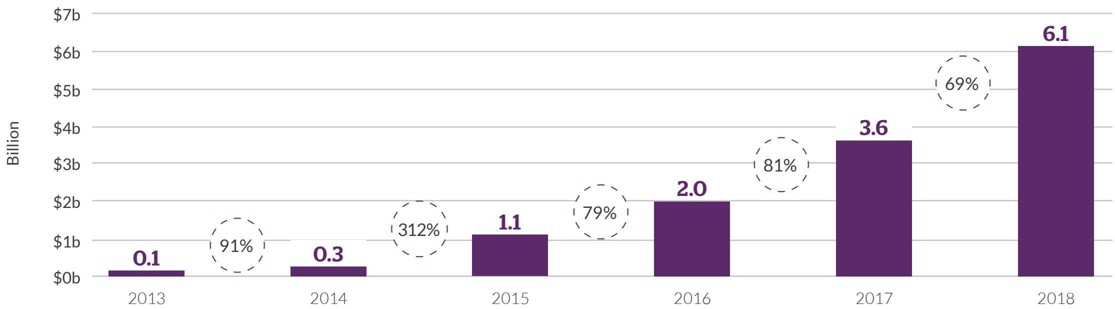


3. A Regional Discussion on Asia-Pacific Region

Chapter 3: A Regional Discussion on Asia-Pacific Region

Total Regional Volume

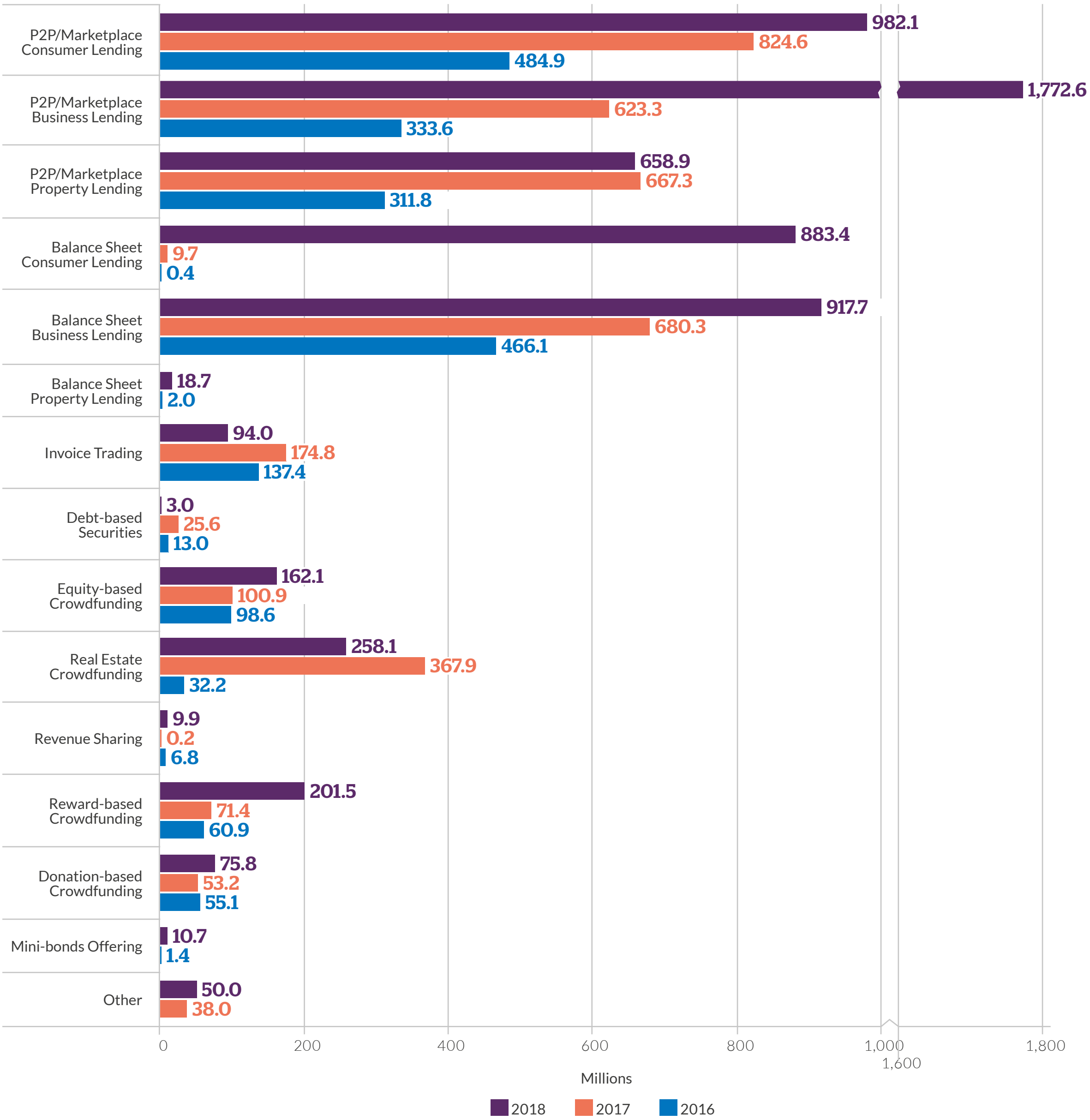
Figure 3.1: APAC Alternative Finance Market Volume (Excl. China), 2013-2018 (USD)



Volume Analysis

Alternative finance volumes across the Asia-Pacific region (excluding China) have exhibited considerable growth from 2017 to 2018. From an estimated market size of $3.64 billion in 2017, the market grew by approximately 70% to an estimated market size of $6.17 billion in 2018. This growth rate is less than the increase seen between 2016 and 2017 (81%), but the Asia-Pacific region (excluding China) remains one of the fastest-growing regions in the world. Over the last five years, it has experienced an average growth rate of 127%. For the last three years, however, the market growth has stabilised at between 70% and 80%, following a reasonably volatile preceding three-year period where market growth reached a peak of 312% before dropping to 79% from 2015 to 2016. This relative consistency could represent a more predictable growth rate for subsequent years in the Asia-Pacific region (excluding China).

Figure 3.2: APAC Alternative Finance Market Volume by Model (Excl. China), 2016-2018 (USD)



As shown in the figure above, this increase in volume varied across the different alternative finance models. P2P Business Lending, P2P Consumer Lending, and Balance Sheet Business Lending were the most significant three models according to volume, accounting for 28.7%, 16.1%, and 15.0% respectively of the total volume in 2018. Balance Sheet Consumer Lending closely follows, accounting for 14.5% of the total volume in 2018.

All models in the Asia-Pacific region (excluding China) demonstrated growth in 2018 except for P2P Property Lending, which shrank by 1.25% from 2017 to 2018. With a growth of 114% from 2016 to 2017, however, a trend of a reduction in market size cannot be expected.

More significant declines were recorded with respect to Invoice Trading falling 46%, and Equity Crowdfunding falling 30% from 2017 levels.

Models demonstrating the highest growth were P2P Business Lending, Balance Sheet Consumer Lending and Revenue Sharing. Balance Sheet Consumer Lending showed significant growth compared to others with a 9039% growth from 2017 to 2018 and Revenue Sharing also saw significant growth with an increase of 5513% from 2017 to 2018.

Table 3.1: Asia-Pacific region (excluding China) vol Model

Asia Pacific Alternative Finance Market Size and Growth Rate according to Model (2016-2018)				
Alternative Finance Model	Market Size (USD)			Annual Market Growth (%)
	2016	2017	2018	2017-2018
P2P/Marketplace Consumer Lending	$484.86m	$824.55m	$982.07m	19%
P2P/Marketplace Business Lending	$333.62m	$623.35m	$1772.64m	184%
P2P/Marketplace Property Lending	$311.77m	$667.25m	$658.90m	-1%
Balance Sheet Consumer Lending	$0.37m	$9.67m	$883.43m	9039%
Balance Sheet Business Lending	$466.08m	$680.31m	$917.71m	35%
Balance Sheet Property Lending	$2.00m	$0.00m	$18.68m	
Invoice Trading	$137.39m	$174.80m	$94.01m	-46%
Debt-based Securities	$13.00m	$25.58m	$2.97m	-88%
Equity Crowdfunding	$98.56m	$100.90m	$162.07m	61%
Real Estate Crowdfunding	$32.20m	$367.91m	$258.13m	-30%
Revenue Sharing	$6.82m	$0.18m	$9.88m	5513%
Reward-based Crowdfunding	$60.85m	$71.44m	$201.50m	182%
Donation-based Crowdfunding	$55.13m	$53.17m	$75.78m	43%
Mini-bonds	$1.41m	$0.00m	$10.67m	
Other		$38.03m	$50.00m	31%

In order to assess growth and volume according to location, the Asia-Pacific region (excluding China) was split into four overarching regions; Oceania, East Asia, South East Asia, and South and Central Asia.

In 2018, the online alternative finance market continued to expand across the Asia-Pacific region (excluding China) with South-East Asia demonstrating the highest overall volume ($2.19 billion). East Asia had a market volume of $1.93 billion, Oceania had a market volume of $1.41 billion, and South and Central Asia had a market volume of $647.2 million in 2018.

Market growth varied significantly across the region from 2017 to 2018 with a range of 574% across the four regions. While Oceania demonstrated no change in market size from 2017 to 2018, East Asia grew by 21%, South and Central Asia grew by 108%, and South East Asia grew by 574%. As a consequence, South East Asia has become the largest regional market in the Asia-Pacific region (excluding China), overtaking East Asia in 2018.

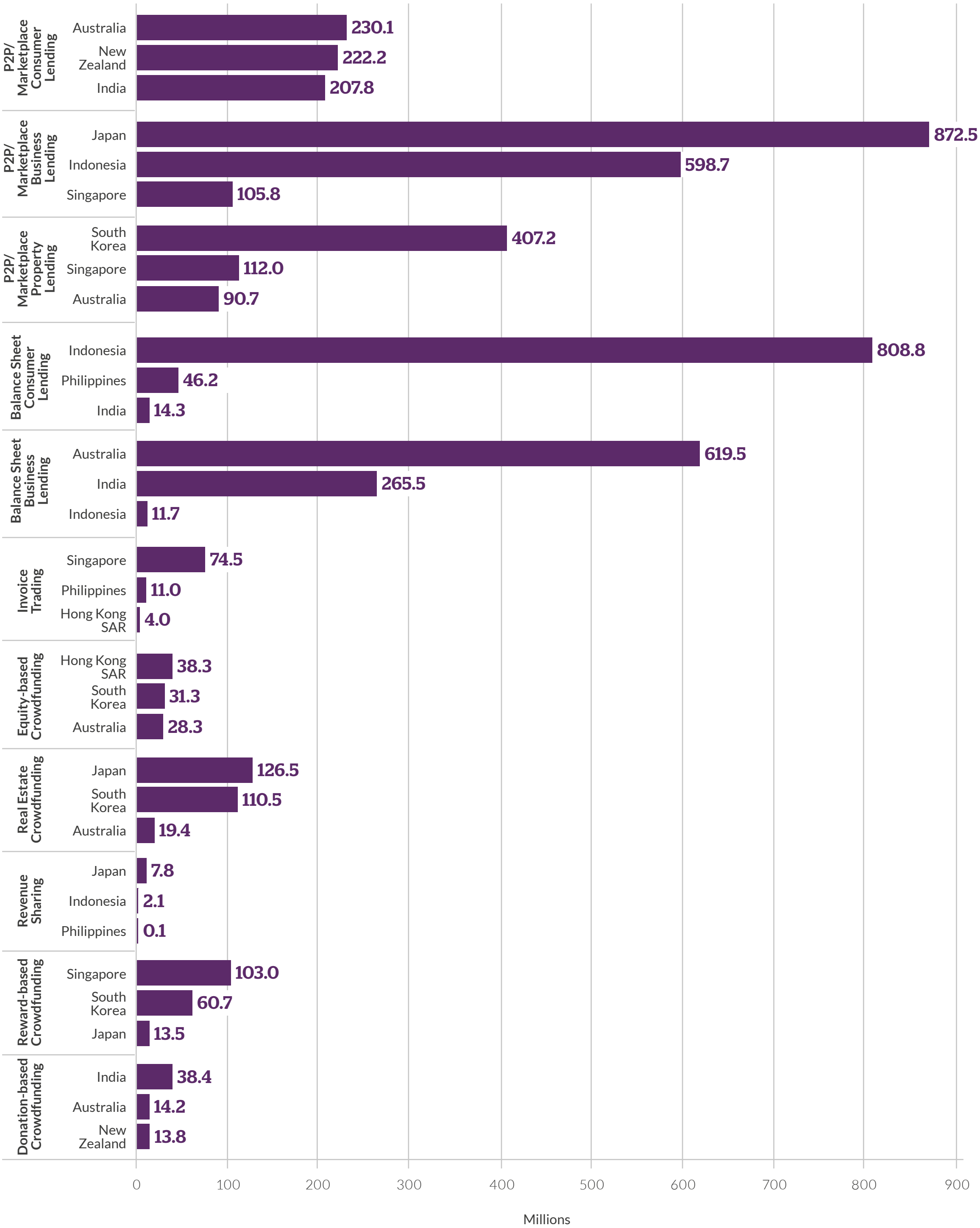
Table 3.2: Asia-Pacific region (excluding China) vol by region

Market Volume ($USD Million) and Growth according to region								
Year	South & Central Asia	Change (%)	Oceania	Change (%)	East Asia	Change (%)	South East Asia	Change (%)
2013	5.1		29.7		97.7		11.0	
2014	12.1	137%	126.3	325%	136.2	39%	26.5	141%
2015	40.1	230%	665.4	427%	424.3	211%	46.6	76%
2016	124.5	211%	832.8	25%	830.9	96%	215.9	363%
2017	311.9	151%	1410.2	69%	1590.3	91%	324.8	50%
2018	647.2	108%	1406.4	0%	1929.5	21%	2190.0	574%

Table 5 shows the value of each alternative finance model market in the top three countries in the Asia-Pacific region (excluding China). Across the models, the top three countries vary significantly. While there are countries such as Indonesia, Australia and Singapore that feature regularly, there is limited consistency on the position and model for which they appear in the top three. This inconsistency extends to the types of alternative finance models. For example, for P2P Lending models, the top three countries are different for P2P Consumer Lending, P2P Business Lending and P2P/Property Lending.

While Japan has a P2P Business Lending market value of 46% higher than the second-place country of Indonesia, it does not appear as a top-three country in any of the other P2P Lending models.

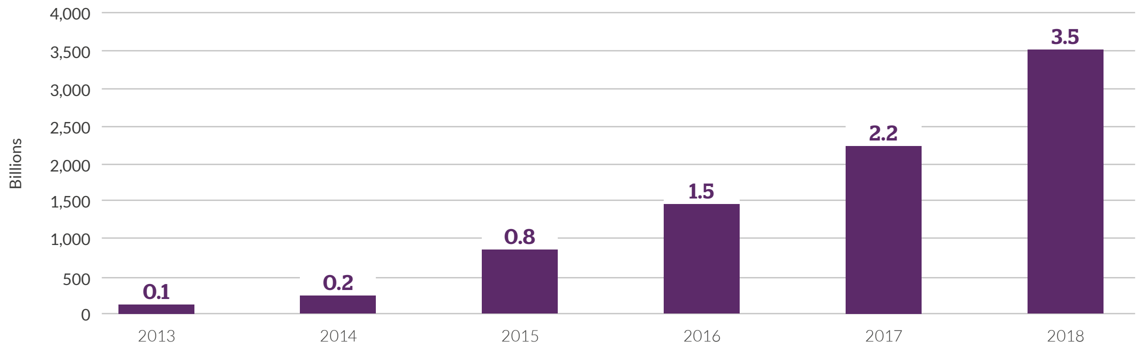
Figure 3.3: Top 3 countries in APAC by model-2018 (USD)



Of the models that have the highest market values overall, the top country also shows a value significantly higher than the second-place country. The models of the highest market value, therefore, show the most uneven distribution of value across the top three countries. Smaller models such as Equity-based Crowdfunding, Reward-based/ Donation-based Crowdfunding and P2P Consumer Lending have a relatively even distribution across the top three countries, with the range between these countries being smaller than the range between the top countries in the larger models.

Interestingly, leading markets in Equity models and property lending tend to be more economically developed countries, while consumer and business lending tend to be lead by both developed and highly populated emerging economies.

Figure 3.4: Total Alternative Business Funding Volume in APAC (Excl. China), 2013-2017 (USD)



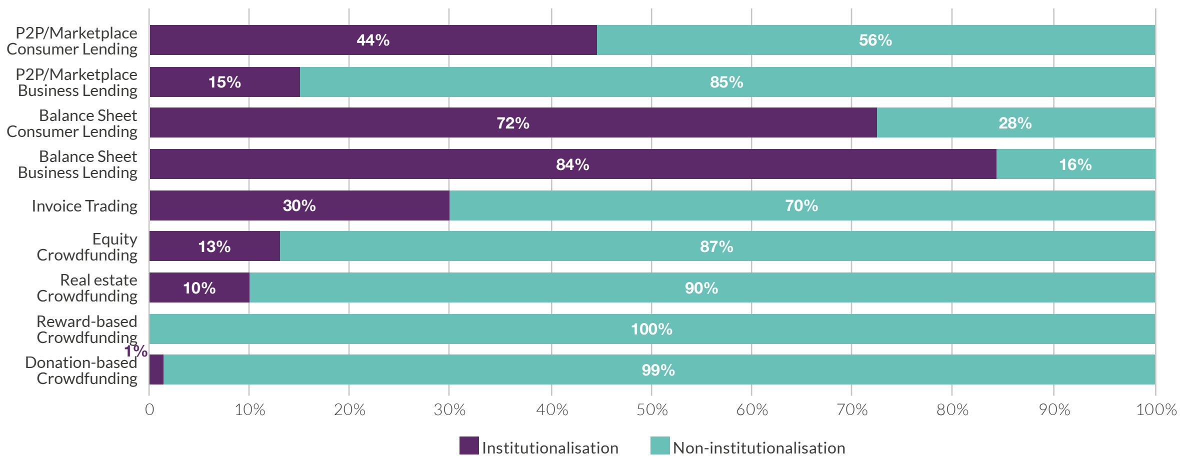
The figure shows the total alternative business funding volume across the Asia-Pacific region (excluding China) for the years between 2013 to 2018. The market value has consistently demonstrated growth over the five-year period and, until 2017, showed an ever-increasing growth rate. Between 2013 and 2014 the Asia-Pacific region (excluding China) alternative finance market grew by 105%, from 2014 to 2015 it grew by 263%, from 2015 to 2016 it grew by 726%, from 2016 to 2017 it grew by 521% and from 2017 to 2018 it grew by 575%. APAC continues its dramatic growth with a decline from 4 digit growth rates in earlier years to three digit growth in recent ones. 2018 represented an all-time high market value of $3506.4 billion, and consistent growth suggests that in 2019 this market value will be exceeded further.

Market Dynamics

Institutionalisation by Model

In the Asia-Pacific region (excluding China) as a whole, most investor activities were driven by individual investors rather than institutional investors. The level of institutionalisation, however, varies significantly between models as is presented in Figure 3.5. This year's study includes a focus on the proportion of volume derived from institutional investors, intending to understand how much interest exists in the alternative finance space from institutional investors.

Figure 3.5: Institutionalisation by model-2018



The total volume of Reward-based Crowdfunding was solely derived from individual investors, while Donation-based Crowdfunding had only 1% of institutional investors. Institutionalisation rates among Equity Crowdfunding and Real Estate Crowdfunding platforms were also low, reaching 13% and 10% respectively in 2018.

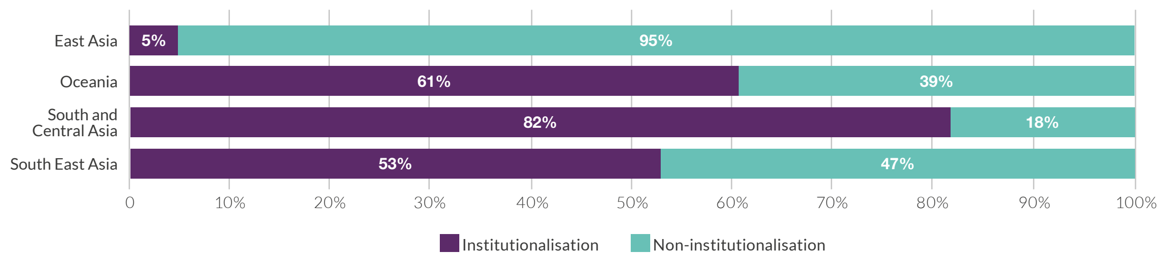
The Balance Sheet Business Lending model had the highest proportion of institutional funding in 2018, with 84% of total funds attributed to institutional investors. This figure represents a reduction from the previous year, which saw 98% of all investment in Balance Sheet Business Lending being attributed to institutional investment. The Balance Sheet Consumer Lending model had the second-highest proportion of institutional funding (72%) in the region, which suggests that institutional investors are more inclined to invest in Balance Sheet Lending as a whole, above other models. This may be explained by the model's resemblance to traditional banking models.

With regards to P2P Lending, P2P Consumer Lending has consistently received approximately half of all volume from institutional investors. P2P Business Lending remains a predominantly non-institutional investment with institutional investment accounting for only 15% of investment into the model.

By Subregion

The level of institutional investment also varies significantly according to region. South and Central Asia have the highest level of institutional investment, which accounts for 82% of the total volume in the region. This significantly larger proportion of institutionalized investment is not twinned with significant growth or market value, and there indeed seems to be no clear correlation between the proportion of institutional investment and market value. For example, South East Asia demonstrates the highest market value and growth despite a lower proportion of 53% dedicated to institutional investors.

Figure 3.6: Institutionalisation by sub-region, 2018



Oceania had the second-largest percentage of institutional investors, at 61%, with South-East Asia following at 53%. East Asia reported a rate of 5%, which is very low relative to other regions, indicating that in East Asian countries individual investors are the primary source of funding for the alternative finance industry.

Market Developments

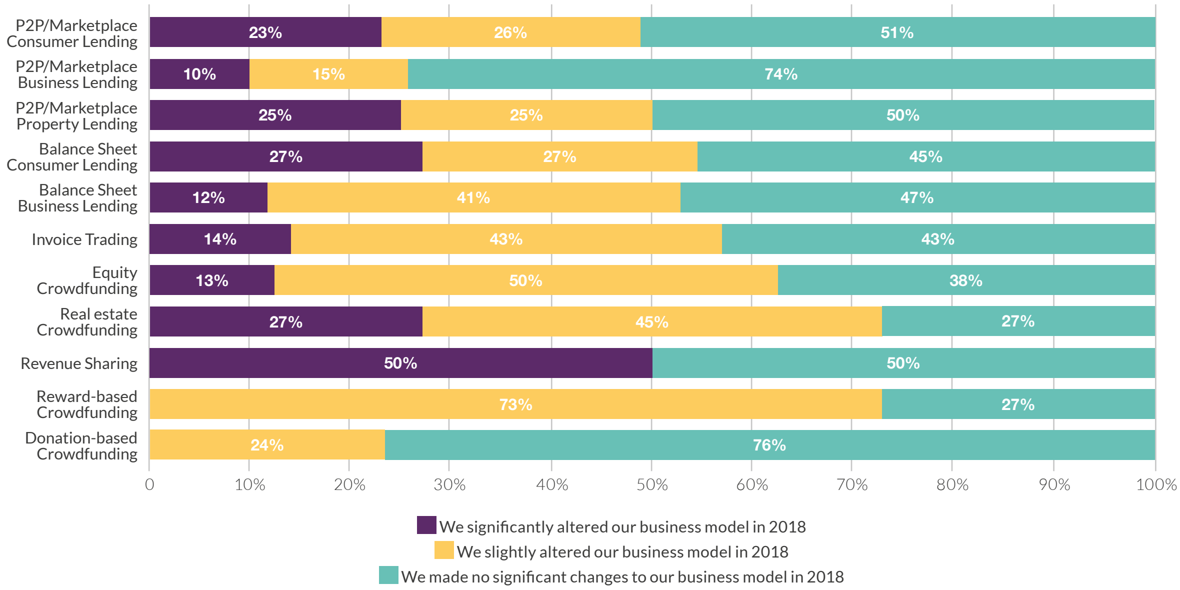
Innovation

Changes to business models, products and services

Platforms were surveyed regarding changes made to their business model, services and products in the last year. In 2018, platforms focused more on the stabilisation of their business model as opposed to making significant or innovative changes. Debt-based business models were particularly risk-averse, with approximately half reporting that they had not changed their business model in 2018.

Real Estate Crowdfunding and Reward-based Crowdfunding were the most active with regards to business model innovation, with 73% stating they had changed their business model in 2018. Furthermore, 27% of Real Estate Crowdfunding platforms and 27% of Balance Sheet Consumer Lending platforms stated they 'significantly altered their business model'.

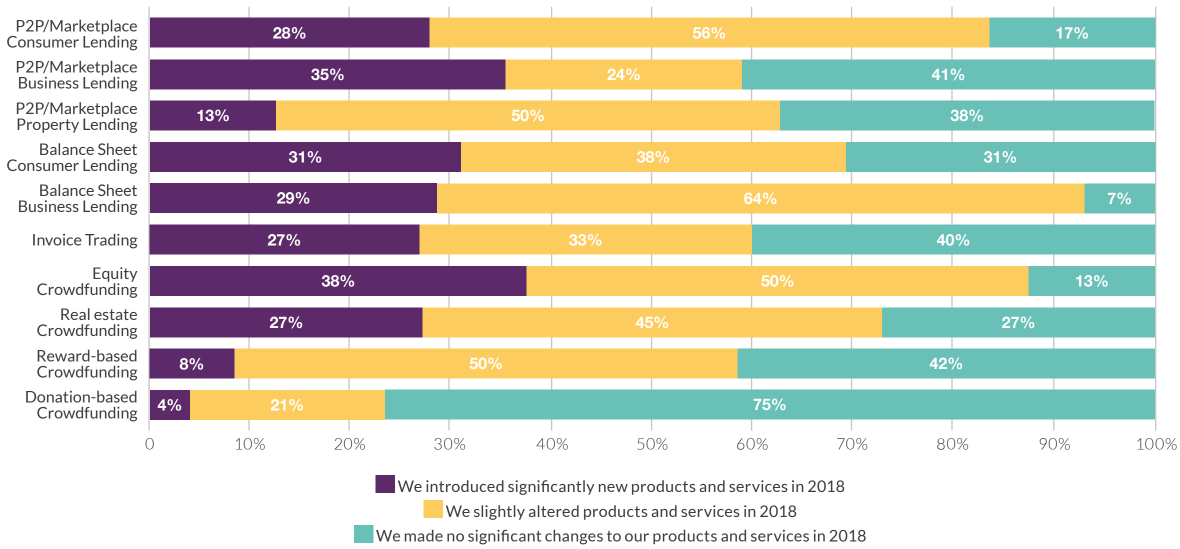
Figure 3.7: Changes to business model by model-2018



Compared to business model innovation, product and service innovation was relatively more prevalent among the surveyed platforms. More than half of the respondents with debt-based business models indicated they had changed their products and services in 2018, with the rates for Balance Sheet Business Lending and P2P Consumer Lending platforms making such changes reaching 93% and 83% respectively. On the other hand, traditional models made few alterations to their business models, mainly focusing their innovation initiatives to products and services.

Balance Sheet Business Lending was the most active business model regarding changes to products and services, with 93% of such respondents having introduced or changed products and services in 2018. Equity Crowdfunding was the second most innovative business model type (87%). By contrast, Donation-based Crowdfunding was most reluctant to change their products and services.

Figure 3.8: Changes in products and services by model-2018



Research & Development

Research and Development (R&D) focus varied among the debt-based models, equity-based models, and non-investment models. In this year's study, findings show that platforms have focused their R&D initiatives on business model innovation. For example, debt-based models invested in R&D areas that streamlined the credit lending process, whereas equity-based models focused on R&D initiatives to entice more fundraisers to their platform.

Platform R&D for debt-based models concentrated on 'payment processing', 'customer verification', and 'process streamlining and automation', while equity-based models put more of an emphasis on 'social media and fundraiser promotional tools' and 'community management features and tools'. In case of non-investment-based models, namely Reward-based and Donation-based Crowdfunding models, the top three areas of R&D focus were 'social media and fundraiser promotional tools', 'payment processing', and 'process streamlining and automation'.

Most alternative finance platforms report actively pursuing 'customer verification' as a priority area for R&D, implying the growing importance of platforms responding to the KYC regulations, which become even more complex for cross-border customer verification. Revenue Sharing Crowdfunding platforms, however, did not report this as a priority area. 'Process streamlining and automation' was also a crucial area where most platforms focused R&D spending. Specifically, Balance Sheet Business Lending (22%) and P2P Consumer Lending (20%) were among the models that spent the most substantial proportion of R&D resource on 'process streamlining and automation'. Across all the business models surveyed, there was little focus on 'e-learning features for users' and 'gamification features for user engagements', with these areas showing the least amount of R&D spend.

Explanation for this may found in platform reluctance to fund a public good such as education that may benefit other platforms as well, and little focus on gamification may reflect priortisation of efficiency over fun elements in service provision.

	Payment Processing	Customer Verification	Process Streamlining and Automation	Artificial intelligence and Performance Enhancement Features	Community Management Features and Tools	Social Media and Fundraiser Promotional Tools	Customer Relationship Management Systems	E-learning Features for Users	Gamification Features for User Engagements
P2P/ Marketplace Consumer Lending	13%	20%	20%	14%	6%	9%	12%	2%	4%
P2P/ Marketplace Business Lending	12%	17%	16%	15%	8%	10%	12%	6%	4%
P2P/Marketplace Property Lending	19%	19%	19%	4%	4%	11%	15%	7%	4%
Balance Sheet Consumer Lending	12%	23%	19%	19%	0%	8%	12%	8%	0%
Balance Sheet Business Lending	14%	19%	22%	17%	3%	11%	11%	0%	3%
Balance Sheet Property Lending	33%	33%	0%	33%	0%	0%	0%	0%	0%
Invoice Trading	14%	24%	16%	11%	11%	3%	14%	3%	5%
Equity Crowdfunding	8%	8%	13%	8%	13%	16%	13%	8%	11%
Real Estate Crowdfunding	12%	16%	16%	4%	12%	24%	8%	4%	4%
Revenue Sharing	0%	0%	7%	13%	13%	20%	20%	7%	20%
Reward Crowdfunding	19%	10%	13%	0%	10%	26%	13%	10%	0%
Donation Crowdfunding	13%	12%	14%	9%	12%	14%	8%	7%	12%

Internationalisation

Cross Border Inflows And Outflows

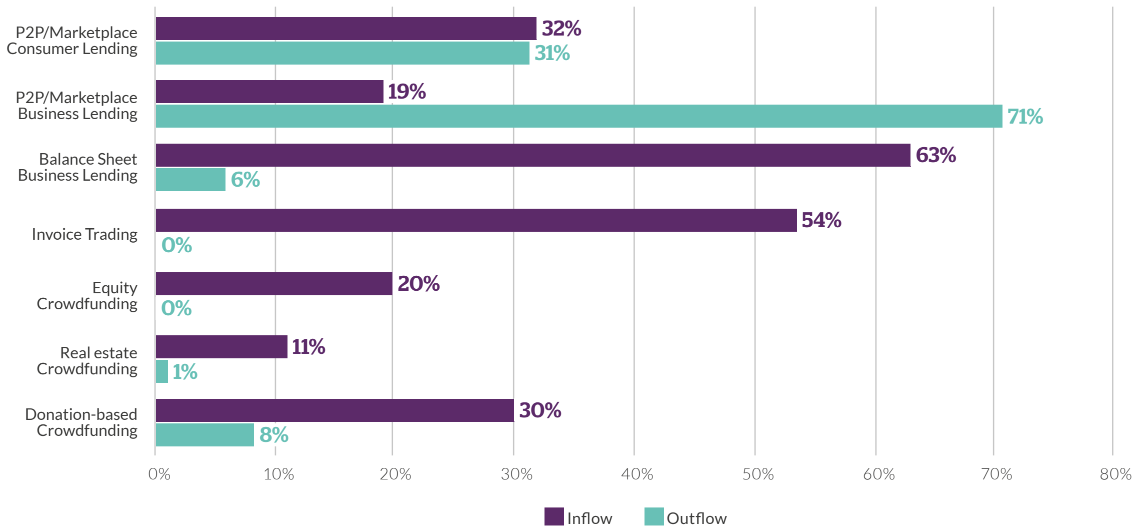
By Model

In 2018, relatively few platforms reported high levels of cross-border inflows (i.e. funds from investors which came from abroad) or outflows (i.e. funds which went to fundraisers abroad) However, there were significant variations between different models in terms of the levels of inflows and outflows. Furthermore, in the case of the Asia-Pacific region (excluding China), cross-border inflows were much more active compared to the cross-border outflows.

Balance Sheet Business Lending and Invoice Trading were the two models with the highest proportion of cross-border inflows (63% and 54%, respectively). This demonstrates the high dependence these models have on cross-border capital flows in the region. On the other hand, Real Estate Crowdfunding and P2P Business lending showed the lowest proportion of cross-border inflows in 2018 (11% and 19% respectively) demonstrating the significant variance across the models.

In the case of cross-border outflows, P2P Business Lending platforms reported a 71% outflow rate, whereas Invoice Trading and Equity Crowdfunding platforms both reported no cross-border outflows. Real Estate Equity Crowdfunding also only showed 1% of outflow rate.

Figure 3.9: Inflow and outflow rate by model



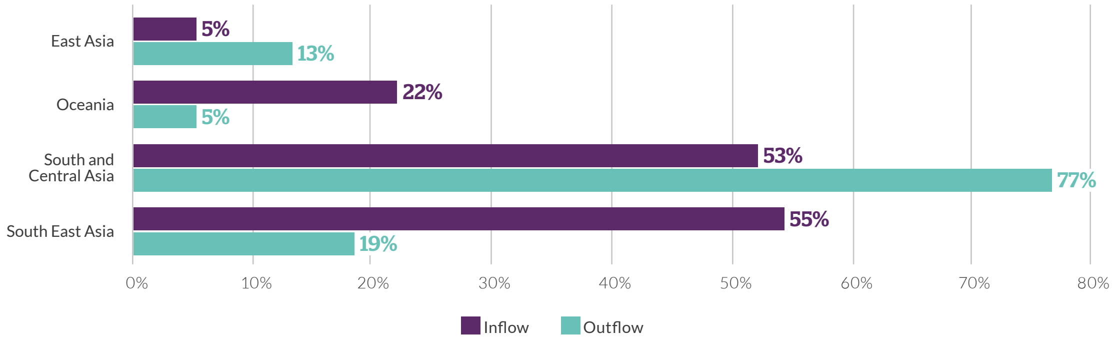
By Region

There was evident variation in cross-border inflows and outflows between different sub-regions in the Asia-Pacific region (excluding China). While Oceania reported a 22% inflow rate and East Asia reported the lowest inflow rate of 5%, both South-East Asia and South and Central Asia showed relatively high inflow rates, reaching 55% and 53% respectively. This suggests that the rapid growth within these regions was driven by foreign capital inflow.

With regards to cross-border outflows, South and Central Asia was the most active region, with a 77% outflow rate. Other regions all showed a relatively low outflow rate of less than 20%. South-East Asia, East Asia, and Oceania reported 19%, 13%, and 5% respectively.

Overall, such results may be explained by the type of economies dominating each region. Japan and South Korea dominating East Asia, and Australia dominating Oceania, may all reflect developed economies with a large domestic market. However, South, East and Central Asia are largely dominated by emerging economies such as Indonesia and India, which may rely on international investment to a larger degree.

Figure 3.10: Inflow and outflow rate by sub-region



Globalization Strategy

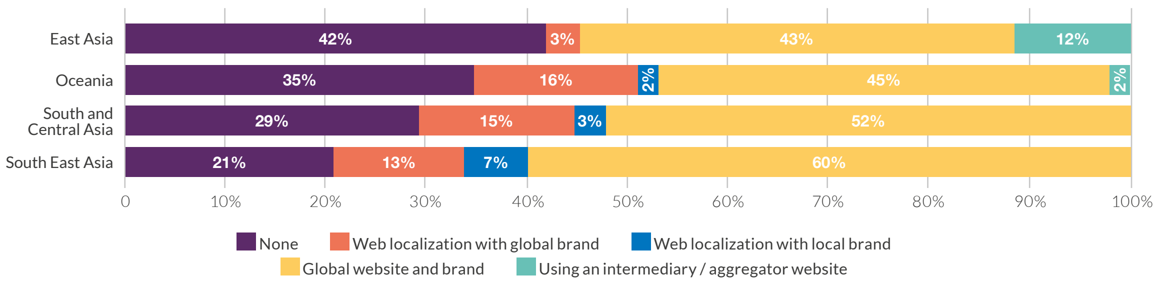
By Region

The digital nature of alternative finance business models results in a minimal cost for platforms to broaden operations to foreign countries. Many platforms have thus adopted an internationalisation strategy, designed to strengthen their global presence and to capture further global market shares.

Internationalisation initiatives varied among the regions. South-East Asian platforms were most active, with 79% of the respondents having an internationalisation strategy in place. East Asian platforms were the least active, with 42% of platforms stating they had no internationalisation strategy in place.

With regards to specific internationalisation strategies, 'global website and brand' was the most dominant internationalisation strategy across all regions. It was used by 60%, 52%, 45% and 43% of platforms in South-East Asia, South and Central Asia, Oceania, and East Asia respectively. The strategy of 'Web localisation' was also adopted by platforms in all regions, while no South and Central Asian or South-East Asian platforms pursued 'using an intermediary or aggregator website'.

Figure 3.11: Internationalisation Strategy by Sub-region, 2018



By Model

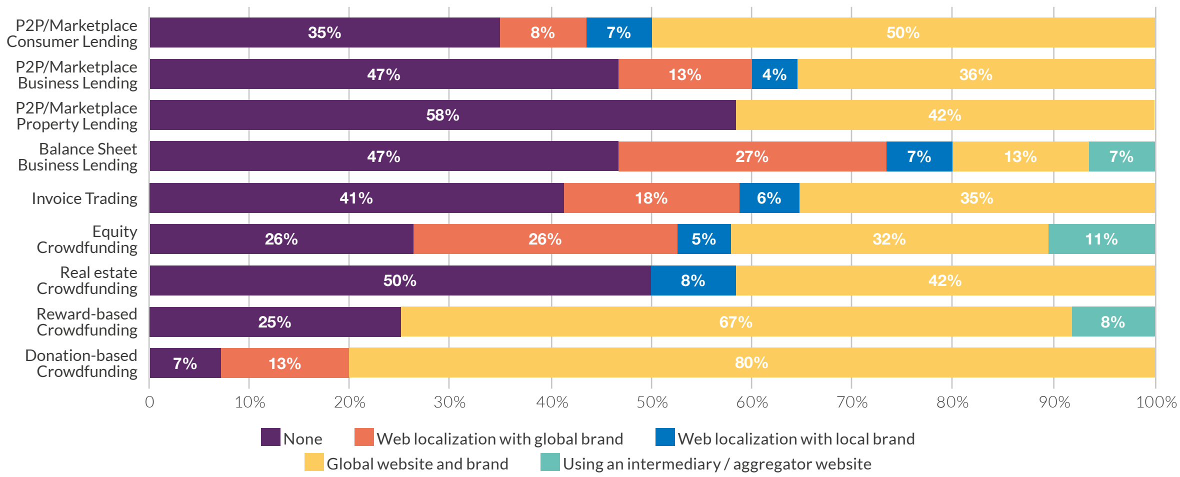
We also see a variation in the internationalisation strategies adopted by platforms when comparing different models. Non-investment-based models were most active in broadening their global presence, with 93% of Donation-based Crowdfunding platforms and 75% of Reward-based Crowdfunding platforms reporting that they were pursuing an internationalisation strategy. On the other hand, a relatively high proportion of respondents with debt-based business models reported to have no internationalisation strategy, with 58%, 47%, and 47% respectively of P2P Property Lending, P2P Business Lending, and Balance-Sheet Business Lending respondents stating that they have no internationalisation strategy at all in place.

Such trends are well in tune with regulatory requirements, which pose greater compliance costs for investment-oriented models than non-investment models when crossing borders.

With regards to specific internationalisation strategies, 'global website and brand' was the most dominant strategy across the models except in the case of Balance Sheet Business Lending, which had 'web localisation with global brand' as their dominant internationalisation strategy.

This corresponds with earlier finding, where higher regulatory compliance demands in investment models translate into greater investment in localization, whereas such investments are much lower for non-investment models.

Figure 3.12: Internationalisation Strategy by Model, 2018



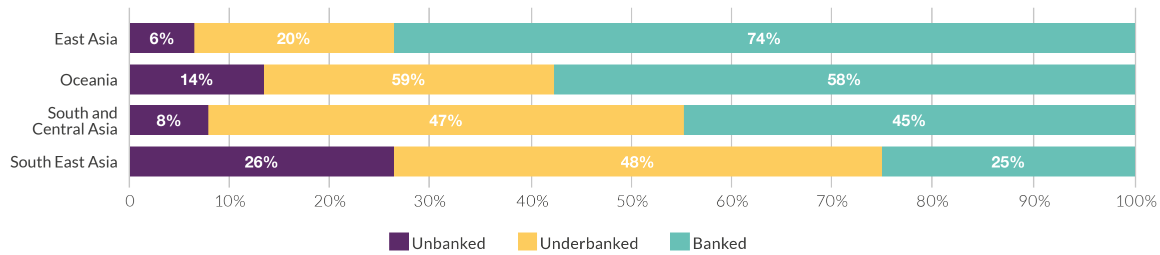
Financial Inclusion

The Banked Status Of Borrowers

Alternative finance models have been promoted as a means to increase financial inclusion, especially debt-based models, which are seen as offering a viable alternative route for individuals and businesses to get access to credit.

In order to assess the extent to which alternative finance models promote financial inclusion, debt-based platform respondents were asked to indicate the banking status of their borrower-customer base; unbanked, underbanked, and banked. Findings show that the banking status varied among the sub-regions in the Asia-Pacific region (excluding China). In the case of East Asia, 74% of the borrowers were banked, while on South-East Asian platforms only 25% of the borrowers were banked. Alternative finance was providing credit to those who had no access to banks (i.e. the 'unbanked' in each of the sub-regions: East Asia (6%), Oceania (14%), South and Central Asia (8%), South-East Asia (26%).

Figure 3.13: Banking Status by Region

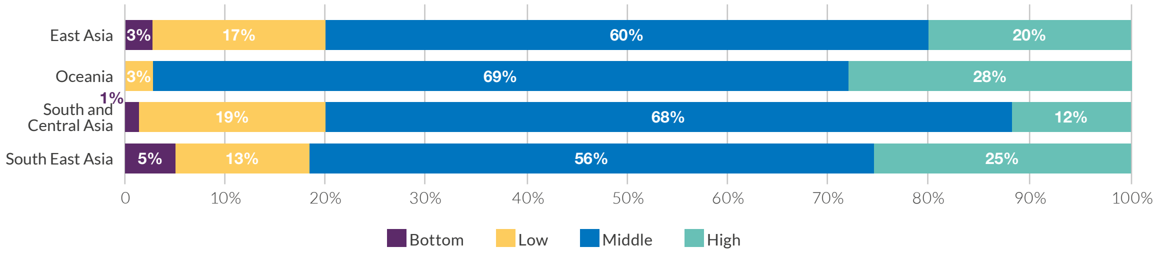


Income Status of Funders

To enable a robust discussion relating to financial inclusion, it is also necessary to examine access to investment vehicles for funders. Therefore, survey respondents were asked to indicate the income status of their customer base or funders (i.e. lenders and investors) as bottom-, low-, middle-, or high-income.

Funders from the middle-income class were most dominant in of the sub-regions, although the overall income status of funders did still vary between them. Funders from bottom- and low-income levels were especially prevalent in East Asia (20%), South and Central Asia (20%), South-East Asia (18%). By way of comparison, funders belonging to the highest income level were shown to be the least prevalent in South and Central Asia (12%) compared to Oceania (28%), South-East Asia (25%), and East Asia (20%).

Figure 3.14: Income Status by Region

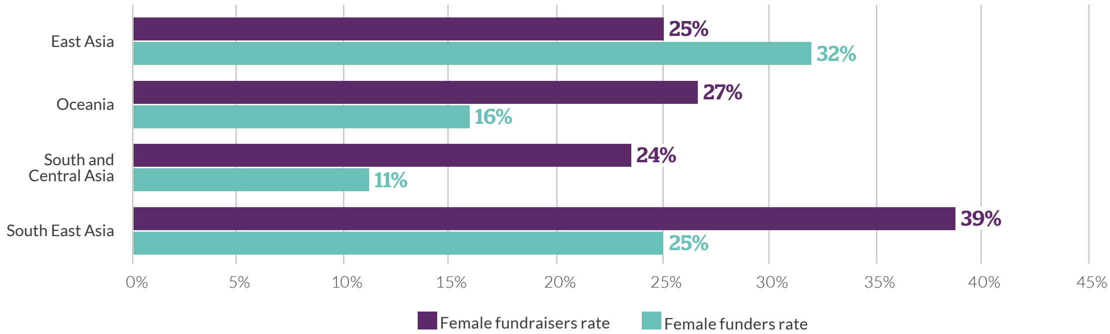


Gender as a Measure of Financial Inclusion

By Region

It has been suggested that alternative finance is playing a role in bridging the investor and fundraiser gender gap. To explore this trend, the respondents were asked about female participation in their business as both funder and fundraiser. In all of the sub-regions, female participation in either category was less than 40%. South-East Asia displayed the highest female fundraiser rate, reaching 39%, followed by Oceania (27%), East Asia (25%), South and Central Asia (24%). By contrast, East Asia showed the highest rate of female funders at 32%, followed by South-East Asia (25%), Oceania (16%), South and Central Asia (11%).

Figure 3.15: Female fundraisers and funders rate by region

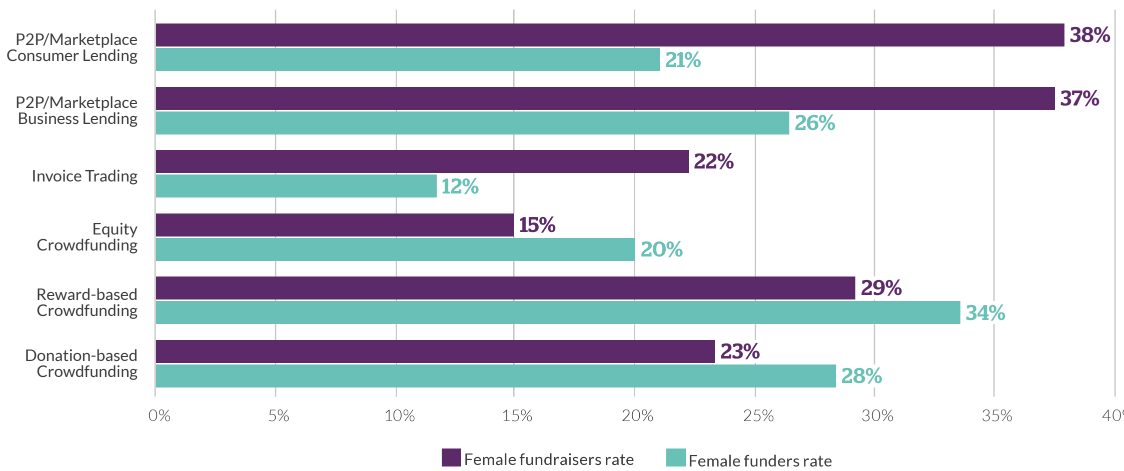


By Model

Female participation also varied significantly between different alternative finance models. P2P Consumer Lending reported the highest female fundraisers rate, at 38%, followed by P2P Business Lending (37%), Reward-based Crowdfunding (29%) and Donation Crowdfunding (23%).

Crowdfunding models also tended to have the highest rate of female funders, with Reward-based Crowdfunding having the highest rate (34%), followed by Donation Crowdfunding (28%), P2P Business Lending (26%), and P2P Consumer Lending (21%).

Figure 3.16: Female fundraisers and funders rate by model



Risk and Regulations

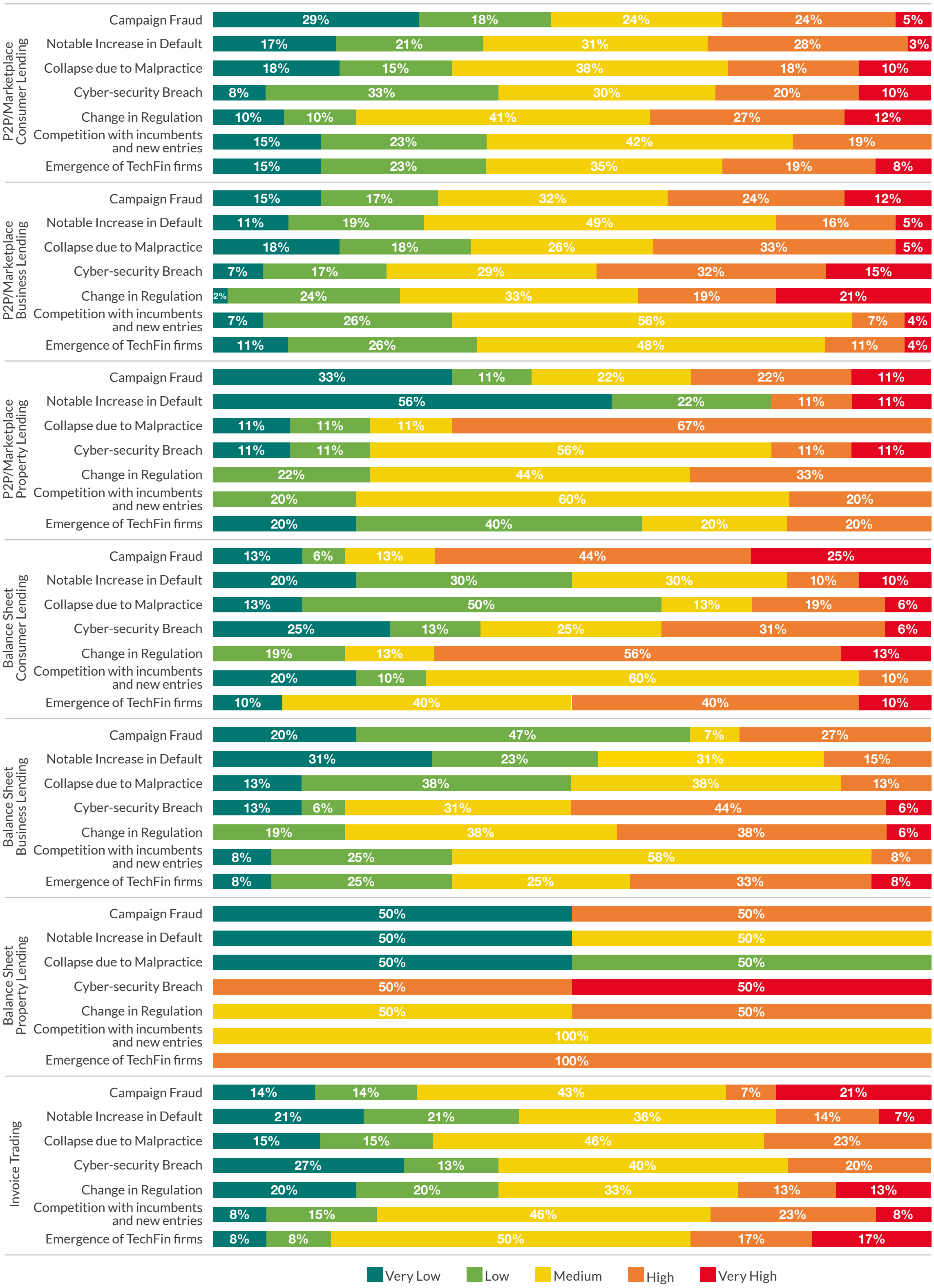
Perceptions Towards Key Risk Factors

By Model

Platforms were asked to rate various factors according to the level of risk they represented to their firm. These factors included campaign fraud, a notable increase in defaults, collapse due to malpractice, cybersecurity breach, change in regulation, competition with incumbents and new entries, and the emergence of TechFin firms (i.e. organisations such as Amazon and Google).

Debt-based platforms reported several different risk factors as being highest in terms of perceived risk. For example, 'Change in regulation' was perceived to be the top risk factor for P2P Consumer Lending and Balance Sheet Consumer Lending while 'Cybersecurity breach' was perceived to be the top risk factor for P2P Business Lending and Balance Sheet Business Lending. 'Emergence of TechFin firms' was found to be the top risk factor according to Invoice Trading platforms.

Figure 3.17: Perceived risks of platforms by Debt models-2018

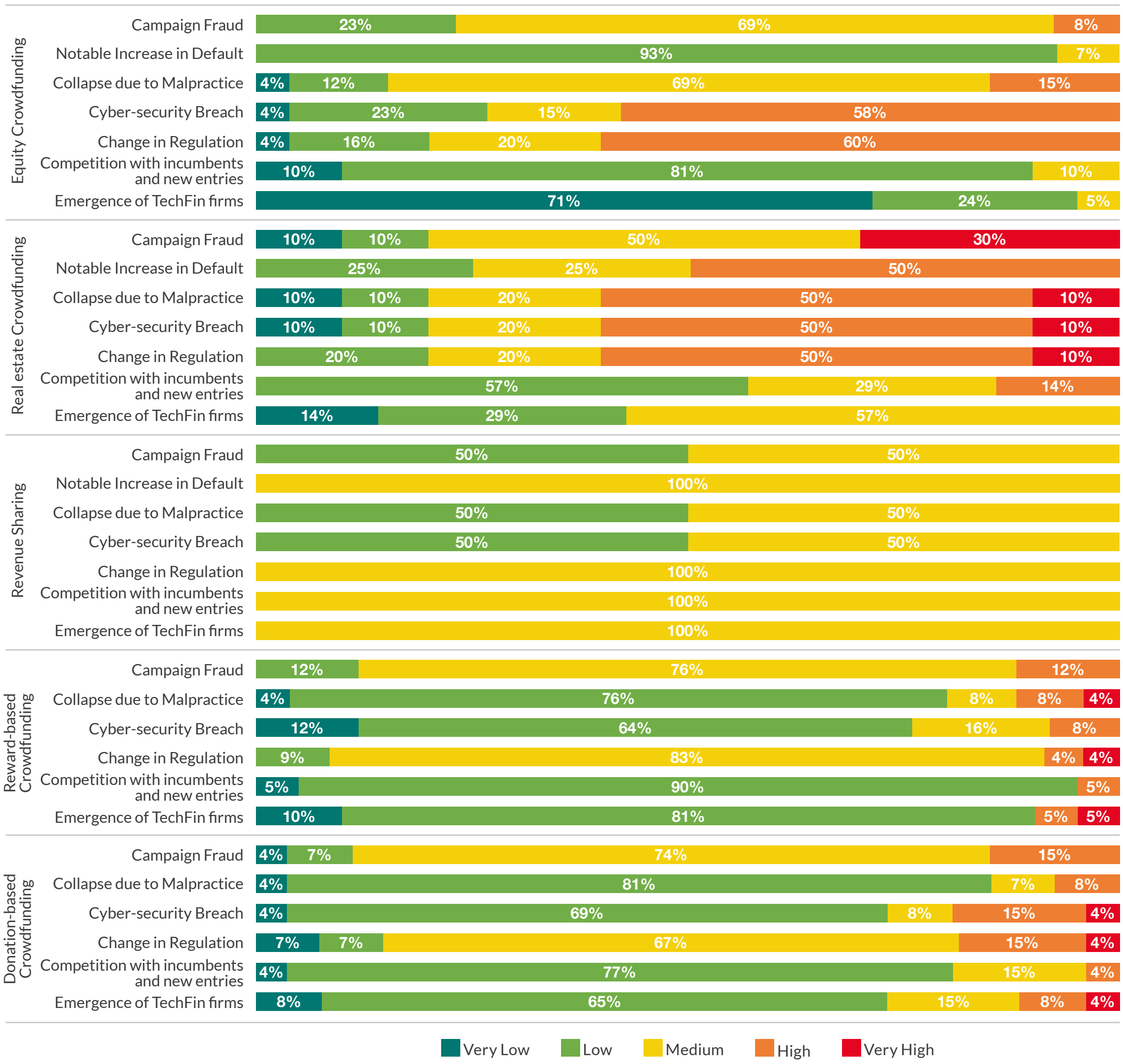


By contrast, equity-based platforms showed similar perceptions between different models towards key risk factors. Equity Crowdfunding and Real Estate Crowdfunding both reported 'Change in regulation' and 'Cybersecurity breach' as their top risk factors.

For non-investment models, both Reward-based

Crowdfunding and Donation-based Crowdfunding showed relatively high tolerance over the key risk factors, reporting mostly low or very low as their risk perception. Less than 20% of the Reward-based Crowdfunding and Donation-based Crowdfunding respondents answered high or very high risk to all the key risk factors.

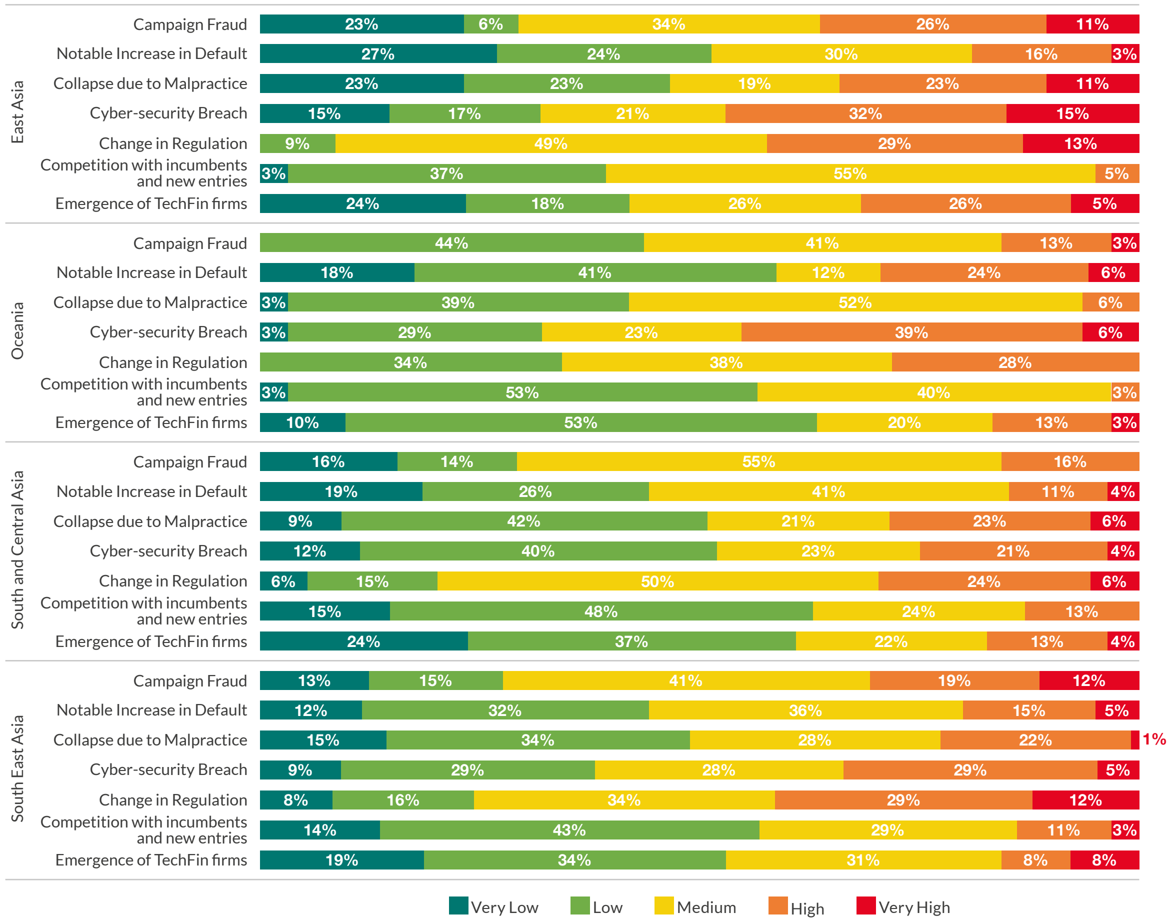
Figure 3.18: Perceived risks of platforms by Equity and Non-investment models-2018



By Region

Similar perspectives on key risks to the industry were seen across all sub-regions. 'Cybersecurity breach' was reported as the top risk for East Asia, where 47% of the respondents reported the risk level as high or very high, followed by Oceania (45%) and South-East Asia (34%). 'Change in regulation' was another top risk, where 42% of the respondents reported the risk level as high or very high in East Asia and South-East Asia, followed by South and Central Asia (30%). This analysis indicates that decreasing the uncertainties associated with regulation and cybersecurity could be a key driver to further growth of the Asia-Pacific region (excluding China) alternative finance industry.

Figure 3.19: Perceived risks of platforms by region-2018



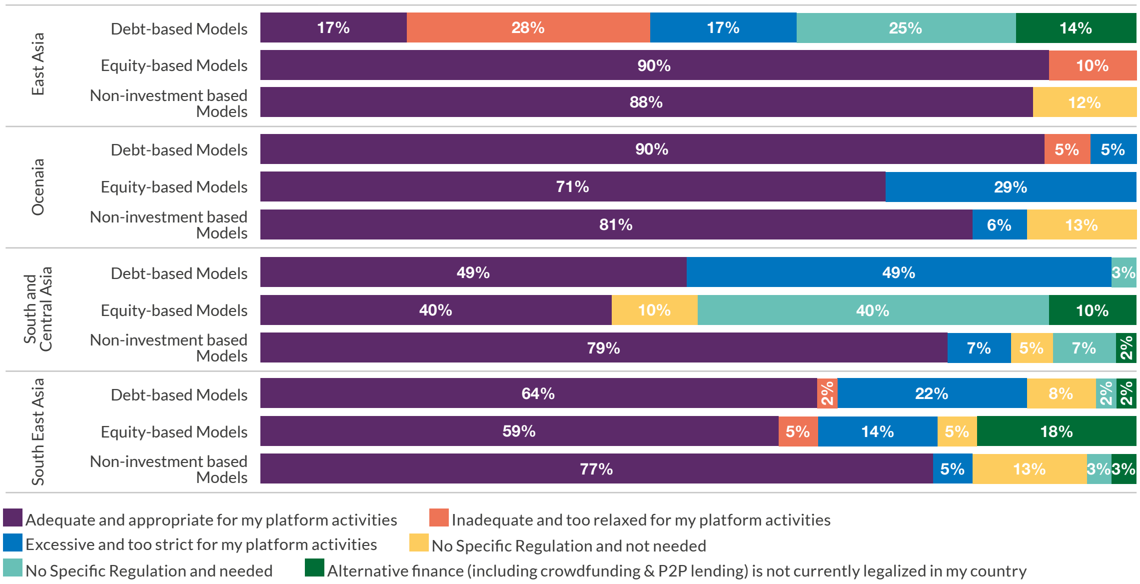
Perceptions towards existing regulation

platforms were also asked to comment on the extent of existing regulation. Most platforms in all subregions stated that the current regulation was 'adequate and appropriate for (their) platform activities'. However, in the case of debt-based models in East Asia, 28% of respondents stated that existing regulation was 'inadequate and too relaxed for (their) platform activities' showed the highest proportion. For South and Central Asian platforms, many stated that the current regulation was either 'too strict or non-existent' and 49% of the respondents representing a debt-based model stated that the current regulation is 'excessive and too strict for my platform activities'. 50% of the respondents representing equity-based models reported that there is 'no specific regulation' and, in addition, the majority of these respondents indicated that further regulation is needed (40%).

These observations suggest that while East Asian and South and Central Asian platforms both report 'change in regulation' as their key risk factor, their reasoning for stating this risk differs. For East Asian platforms, a change in regulation would most likely result in stricter regulation while for South and Central Asian platforms, any change would result in the implementation of the regulation.

18% of platforms with equity business models in South-East Asia stated that 'alternative finance is not currently legalized in my country'. This statement was also selected by 14% of debt-based models in East Asia and 10% of the equity-based model in South and Central Asia. This indicates that institutional loopholes for specific business models exist in specific subregions of Asia-Pacific (excluding China).

Figure 3.20: Perception towards existing regulation-2018



Extent of being regulated

In the survey, platforms were asked to indicate their current authorisation status. Most of the models in all regions answered, 'My platform is authorised in my jurisdiction'. There were, however, varying answers between different models and regions. 60% of equity-based models in South and Central Asia, 39% of East Asian platforms and, 31% of platforms in Oceania stated 'Regulatory authorisation is not required for my business activities'. Furthermore, 34% of South-East Asian non-investment models, 29% of South and Central Asian non-investment models, 25% of non-investment models in Oceania and 24% of East Asian non-investment models reported having interim permission to operate.

Figure 3.21: The extent of existing regulation-2018

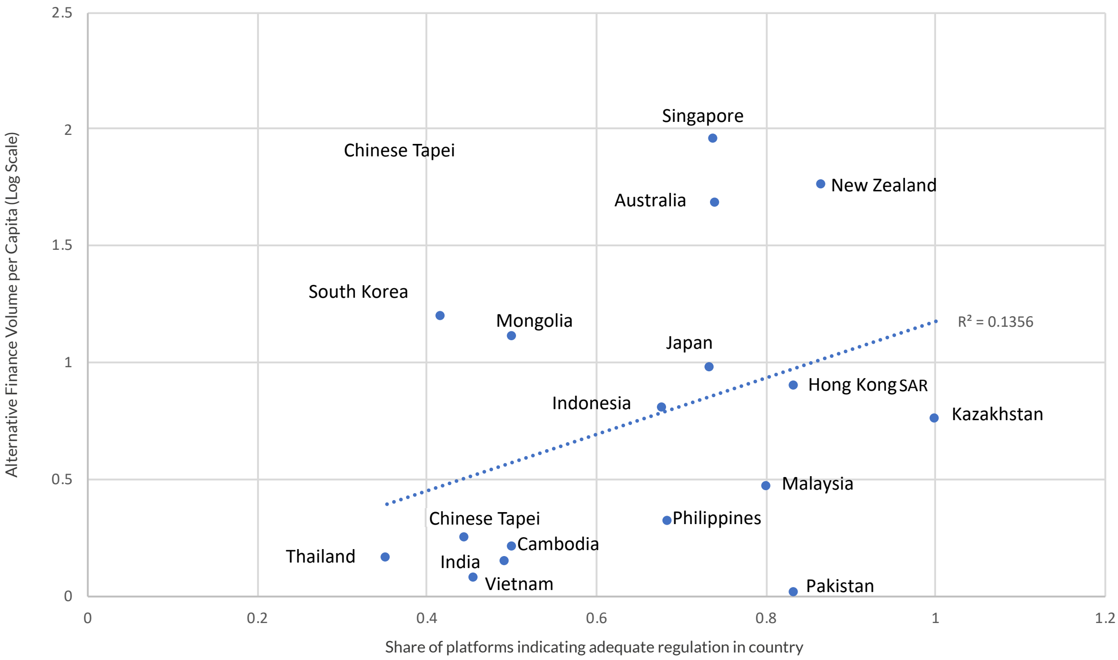
Regulatory Friendliness and Alternative Finance Volume per Capita

In our analysis of the relationship between perceived regulatory adequacy and volumes of transactions per capita in the Asia-Pacific region (excluding China), we have only included countries where at least four platforms answered related questions.

Perceived regulation adequacy represents the relative share of platforms in the country indicating regulation is 'adequate and appropriate for my platform activities'.

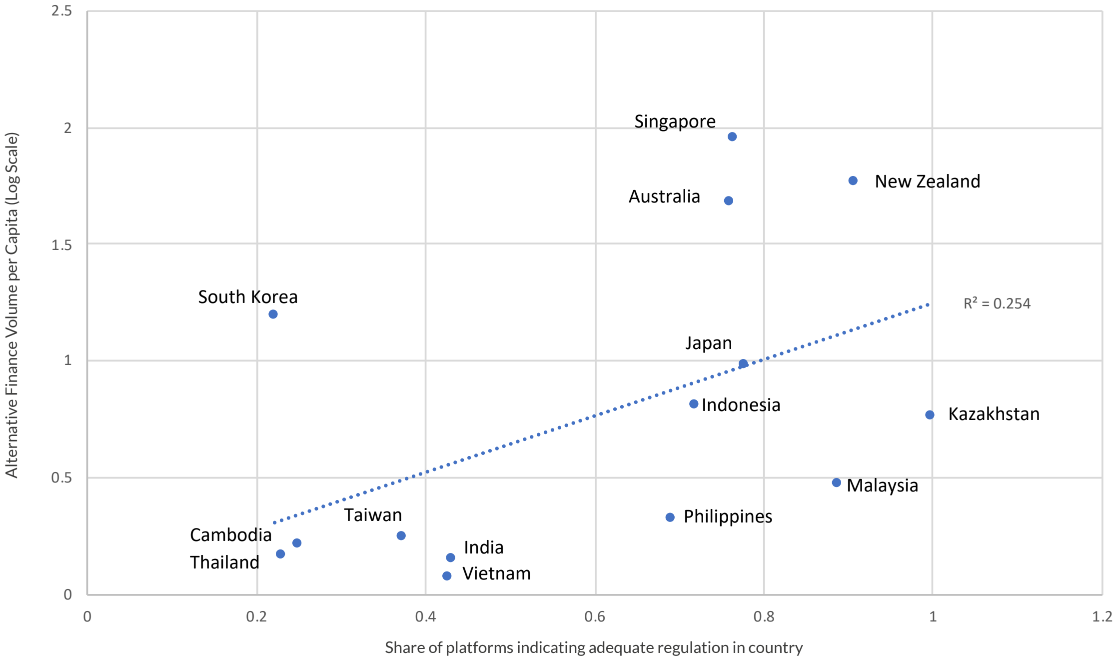
Our findings show a positive effect, where the more adequate national regulation is perceived to be, the higher the per capita volumes in the same country.

Figure 3.22: Perceived Regulation Adequacy vs. Volume per Capita 2018 (Log Scale)
Asia Pacific - All Platforms



This relationship is stronger when examining investment models only, highlighting that for these firms adequate regulations, implying a good balance between investor protection requirements and industry growth facilitation, overall, encourage higher volumes of investments.

Figure 3.23: Perceived Regulation Adequacy vs. Volume per Capita 2018 (Log Scale)
Asia Pacific - Investment Platforms



4. A Discussion on China

Chapter 4: A Discussion on China

Total Regional volume

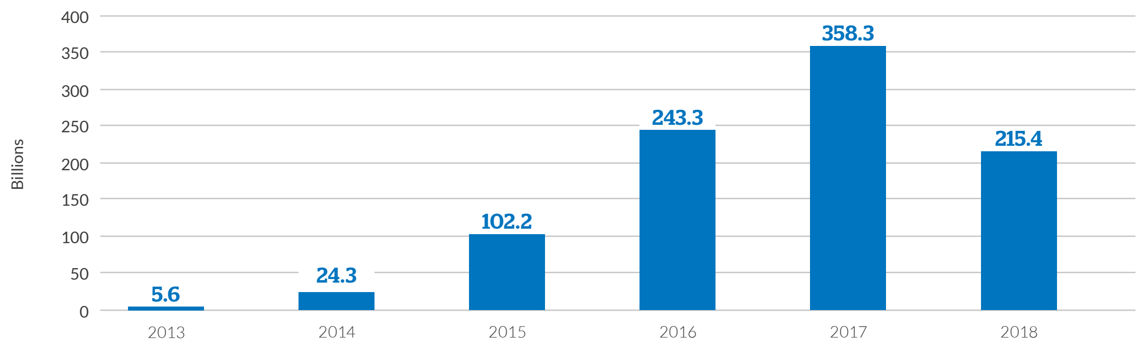
Total volume by year

In 2018, China's alternative finance market volume totaled $215.4 billion. This represents a significant 40% decrease, from 2017's volume of $358 billion, and a break in the previously continuous trend of growth. The main reason for this decrease was the introduction of stricter regulation around P2P lending, which led to bankruptcy and closures of numerous P2P lending platforms.

By contrast, the alternative finance market in the wider Asia-Pacific region, excluding China, maintained a high growth rate of 71% in 2018, although the the volume of other countries in the region is only 2.74% of that of China.

Despite this sudden and dramatic decrease in 2018, China still remains the global market leader for alternative finance, with its platforms accounting for 58.6% of the total volume of global alternative finance.

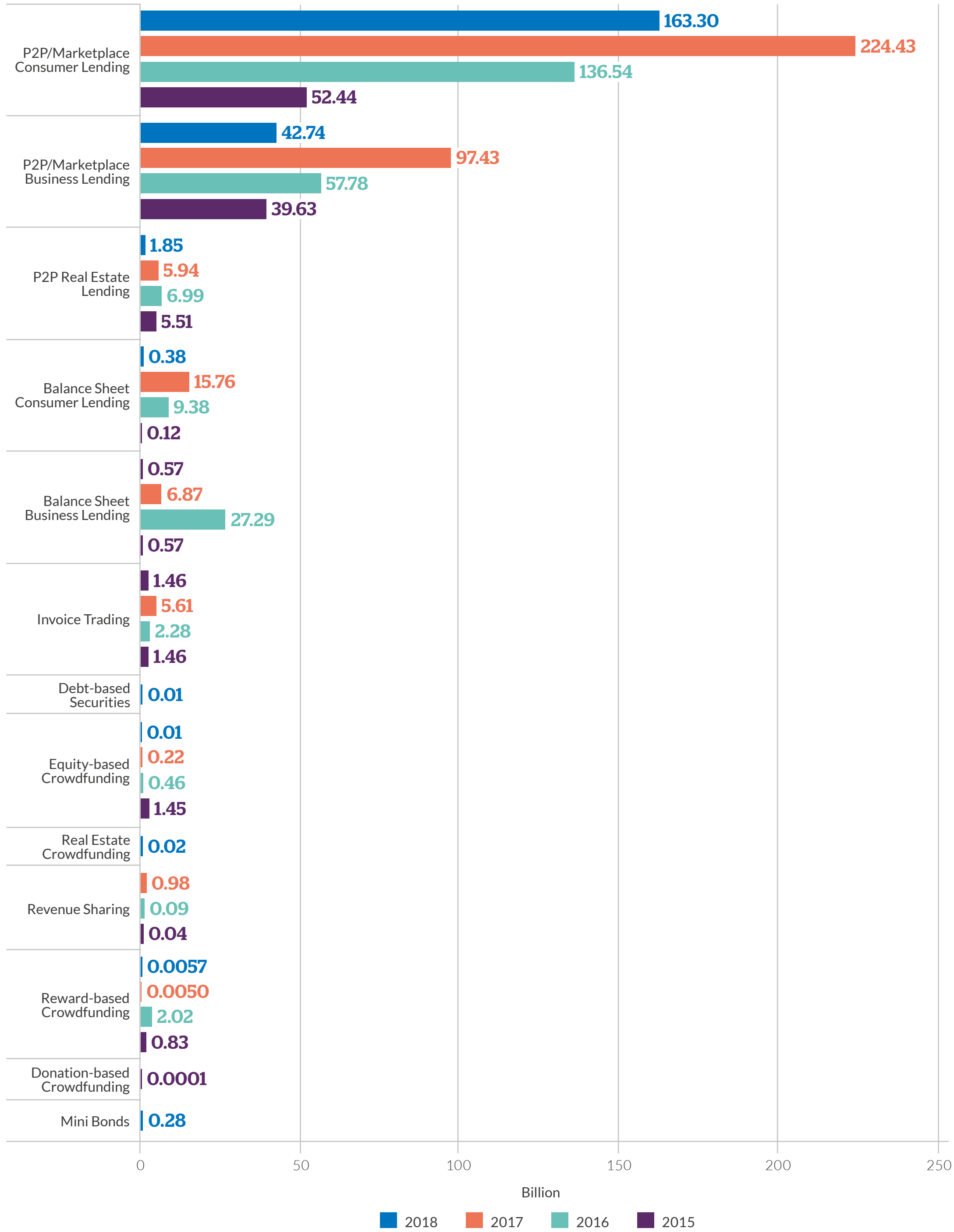
Figure 4.1: Chinese Alternative Finance Market Volume 2013-18 (USD)



Total volume by model (2016-2018)

In 2018, the survey captured activities from 12 distinct alternative finance models in China. With the exception of Profit Sharing, which was not included in 2018, these models are the same as those surveyed in 2017, with the addition for the first time of Donation-based Crowdfunding, Debt-based Securities, Real Estate Crowdfunding and Mini Bonds. All business models showed a significant decline from 2017 to 2018. Donation-based Crowdfunding, Debt-based Securities, Real Estate Crowdfunding and Mini Bonds were not included in the 2017 study, and thus we cannot examine whether their volumes decreased between 2017 and 2018.

Figure 4.2: Total Alternative Finance Market Volume by models- China 2015-2018 ($Billion)



The two models with the highest volumes were P2P Consumer Lending and P2P Business Lending, which both showed a significant decrease in trading volume between 2017 and 2018. The total volume of P2P Consumer Lending in 2018 was $163 billion, 75.8% of the total volume in China, a decrease by 27% compared to 2017. P2P Business Lending generated $42.7 billion in total volume in 2018, representing 19.8% of the alternative finance market in China. These two main models account for 95% of market volume in 2018.

In case of P2P Real Estate Lending, the total volume decreased to $1.8 billion in 2018, a 69% decline compared to 2017. Balance Sheet Consumer Lending platforms experienced an even more significant decline of 98%, dropping to a mere $0.38 billion in 2018, with their market share correspondingly decreasing from 4.4% in 2017 to

0.18% in 2018. Although Balance Sheet Business Lending platforms saw an 11% decline in volume to $6.1 billion, steeper declines amongst other business models saw their market share increase by 0.9% to 2.8% in 2018 (2017: 1.9%).

Platforms conducing Invoice Trading model saw a significant 88% decline in volume, dropping significantly from $5.6 billion in 2017 to $0.7 billion in 2018, with a resulting decrease in their market share from 1.6% in 2017 to 0.3% in 2018. Equity-based Crowdfunding experienced a decline of 97% in 2018, which is similar to that of the Balance Sheet Consumer Lending (98%).

Reward-based Crowdfunding was the only model that experienced an increase in volume, rising to $5.7 million in 2018- a 13% increase compared to 2017.

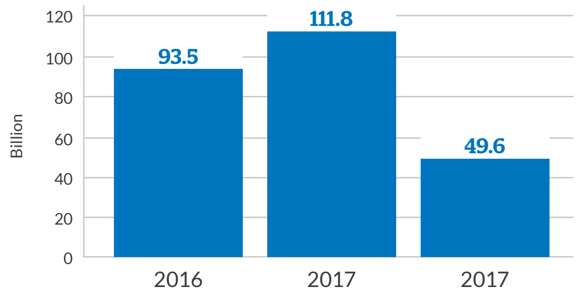
The four models that were surveyed for the first time in 2018 (Mini Bonds, Real Estate Crowdfunding, Debt-based Securities, and Donation-based Crowdfunding), reported volumes of $278.8 million, $16.4 million, $7.1 million, and $5.7 million respectively. These four models together accounted for 0.14% of the total alternative finance market volume in China in 2018.

Market Dynamics

The vitality of alternative finance business funding

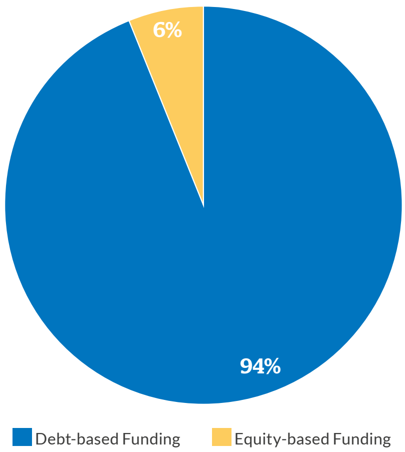
In recent years, the alternative finance market in China has become an important funding option for entrepreneurs, start-ups, and small and medium sized businesses. The total volume of business funding in China was $49.6 billion in 2018, which is less than half of that reported in 2017. Such drop is due to the dramatic decline in total volume of the Chinese alternative finance market in 2018, as outlined earlier, which has resulted in a decrease in credit supply to businesses.

Figure 4.3: Total Alternative Finance Funding for Businesses in China (2016-2018)



Debt-based platforms dominate the supply of the alternative finance market for businesses. 94% of funding came from debt-based platforms, whereas equity-based funding accounted for only 6%. This also reflects the overall dominance of debt-based platforms in the wider Chinese alternative finance space, with P2P Consumer Lending and P2P Business Lending being the top two models by volume. Non-investment model account for just 0.001% of the market in 2018.

Figure 4.4: Composition of Business Finance by number of SMEs in China (2018)



Lessons from the P2P industry in China

Paul Shi, Co-founder & CEO of wdzj.com

Over the span of 12 years, China's P2P lending industry has experienced a rapid rise and a dramatic fall, and now the industry has entered what it seems to be its final phase. At this stage, the main impetus of the regulator is to ensure that firms implement effective wind-down plans, to mitigate risk associated with liquidation and platform transformation.

Even with the novel coronavirus crisis affecting the economy, and a large number of private enterprises in need of financial services and access to finance, the regulatory policy on P2P lending looks to remain unchanged. As stated by the director of Inclusive Finance Department of CBIRC, "We will keep the direction and pace unchanged, and continue to implement the established policies firmly and thoroughly." As such, it is almost impossible to expect that P2P lending platforms will obtain new licensing or authorization as no regulatory pivot is expected.

Since the government started examining the 'Internet Finance' sector more closely in 2016, the P2P sector has undergone dramatic changes. A significant number of firms have exited the marketplace, in many cases the exits were not orderly and often involves the sudden collapses of platforms. Many platform owners have been sentenced and jailed. Many retail investors have suffered financial losses while some borrowers have taken the opportunity to avoid debts maliciously. Regulators around China have also paid a heavy price and learned lessons.

It is not an exaggeration to say that P2P lending in China, as we know it, has largely been a failure with key stakeholders incurring painful losses. So what can we learn from this experience?

1. The P2P lending model intrinsically was not flawed but most of China's platforms deviated from the orthodox model (e.g. with the creation of a capital pool).

2. In hindsight, regulatory intervention should have come earlier. When China's regulators began to intervene and rightly so, the sector had already reached a considerable and unsustainable scale. It was then quite difficult to regulate and supervise the sector when the majority of the platforms have already evolved beyond recognition.

3. RegTech and SupTech solutions should have been adopted early to support regulatory and supervisory efforts, given the size, dynamics and complexity of the online alternative finance market in China.

4. Regulatory policy should be consistent and provide more certainty.

5. Socio-economic infrastructure needs to be improved, including social credit system, industry standard and best practices, regulatory capability and necessary judicial reforms etc.

6. More education and training for the practitioners, platform owners and regulators as well as financial literacy programs for retail investors and consumers need to be in place and emphasised.

Finally, I believe that China's huge and complex demand for access to finance cannot be fully satisfied by the current financial system. We still need a large number of diverse institutions to provide more effective, accessible and affordable financial products and services. And I also believe that the nature of the P2P industry is good as proven by examples from other countries. P2P lending and other technology-enabled financial innovations may take on the responsibility of providing Inclusive Finance in China again in the near future, in a more mature form and perhaps with a new name. We look forward to that day.

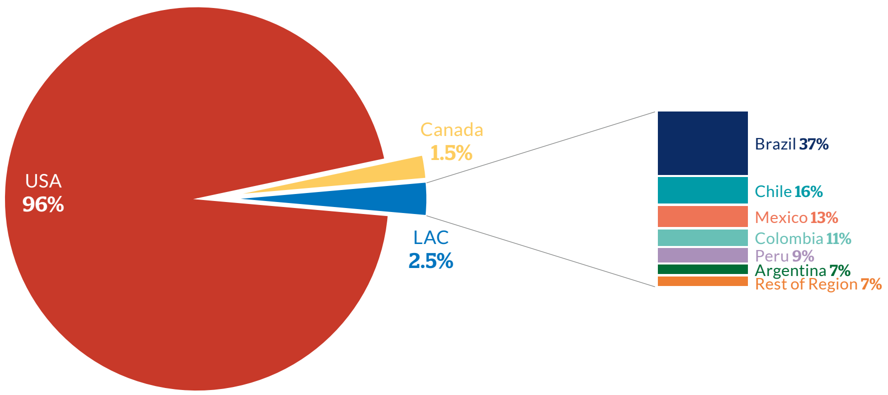
5. A Regional Discussion on the Americas

Chapter 5: A Regional Discussion on The Americas

This chapter will discuss the alternative finance activities as related to the key jurisdictions within the Americas region, including the United States and Canada, and Latin America and the Caribbean. Overall, this region accounted for $63.9 billion in 2018, an increase of 44% against the previous year.

Due to the unique local characteristics of how the alternative finance market has developed across the region, this chapter is divided into two over-arching sections: The United States and Canada, and Latin America and the Caribbean.

Figure 5.1: Total Alternative Finance Volume Market share by Key Country (2018)



A discussion on the United States & Canada

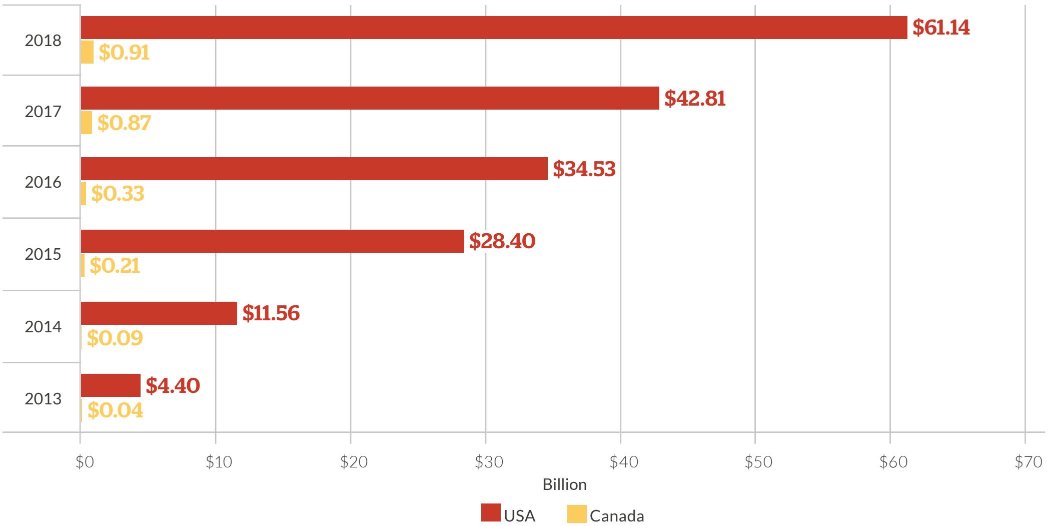
The United States (US) remains the leading alternative finance market in the region, as well as the second largest global market following China. In 2018, the US market reached $61.1 billion in overall volume, accounting for 96% of overall regional activity. This represented a 43% annual growth rate, a significant year-on-year increase when compared to previous years. In 2016, the US market grew by 22% from $28.6 billion to $34.86 billion, and by 24% in 2017 to $43.8. The US market is predominantly made up of firms that are geographically headquartered within the country, with 84 firms indicating their headquarters within the United States, and 16 as foreign-based firms. In terms of volume, domestic firms were responsible for $57.9 billion (or 95%) of the volumes that went to US based fundraisers. It is worth noting that this figure does not capture the volume of funds derived from US-based firms that went to fundraisers outside of the United States. In fact, in addition to the US operations, 24 US-based firms are currently operating in other countries and are responsible for over $2 billion of funds that went to fundraisers in other countries.

Canada, in contrast, grew by 5% representing a total alternative finance volume of $908 million in 2018. Though Canada's year-on-year growth was significantly smaller than that of previous years, it is our belief that this slower growth rate is likely due to a handful of Canadian firms that have opted not to report their activity in 2018 but will be reporting volumes in 2019. As volumes increased modestly to $908 million, from $867 million in the previous year, the Canadian alternative finance market reduced its share of regional volumes, accounting for 1% of the Americas market in 2018. Interestingly, though the overall annual growth of the country was far smaller than expected, the growth of a handful of key platforms was far more significant. It is expected that 2019's volumes will return to growth-rates observed in previous years.

When observing activity within the Canadian market, our survey captured 24 domestically based firms and 15 foreign firms. It is worth noting that

90% of volumes came from Canadian-based firms ($817.7m) while 10% came from foreign-based firms ($90.5 million), almost exclusively based in the United States and operating P2P Consumer and Business Lending models.

Figure 5.2: Americas Total Volume by Region 2013-2018



Key Models – US & Canada

USA

	P2P/Marketplace Consumer Lending	Balance Sheet Business Lending	Balance Sheet Property Lending	Balance Sheet Consumer Lending	P2P/Marketplace Business Lending	Real Estate Crowdfunding	P2P/Marketplace Property Lending	Equity-based Crowdfunding	Reward-based Crowdfunding	Donation-based Crowdfunding	Revenue Sharing	Other[22]	Invoice Trading	Debt-based Securities
2014	$7.64b	$1.11b	*	$0.69b	$0.98b	$0.13b	$0.13b	$0.27b	$0.46b	$0.15b	*		*	*
2015	$17.92b	$2.25b	*	$3.07b	$2.58b	$0.47b	$0.78b	$0.59b	$0.60b	$0.14b	*		*	*
2016	$21.05b	$6.00b	*	$2.94b	$1.33b	$0.81b	$1.04b	$0.55b	$0.55b	$0.22b	$0.02b		*	$0.03b
2017	$14.66b	$6.73b	$0.67b	$15.20b	$1.45b	$1.85b	$1.23b	$0.24b	$0.41b	$0.18b	$0.01b	$0.07b	$0.11b	$0.00b
2018	$25.39b	$12.39b	$9.53b	$7.52b	$2.03b	$1.79b	$0.66b	$0.51b	$0.38b	$0.31b	$0.25b	$0.23b	$0.14b	$0.01b
% 2017-2018 growth	73%	84%	1334%	-51%	40%	-3%	-47%	115%	-5%	73%	2442%	221%	21%	138%
% proportion of 2018 total	41.5%	20.3%	15.6%	12.3%	3.3%	2.9%	1.1%	0.8%	0.6%	0.5%	0.4%	0.4%	0.2%	0.0%

In 2018, volumes from the P2P/Marketplace Consumer Lending model accounted for 41.5% of the US market, becoming the largest model for the year. , growing 73% from 2017 levels. Interestingly, the Balance Sheet Consumer Lending model was the largest model in 2017, accounting for $15.2b, but dropped to 4th position in 2018, with a total volume of $7.52b. Given the close nature of these two models, it is important to review the number of firms that operate both models. Of the 17 firms with a focus on consumer lending, 55% of firms were operating both models. Interestingly, in previous years these firms reported greater volumes deriving from their balance-sheet based activities, with this shifting dramatically in 2018. This may be an example of further refining needed to more accurately interpret how firms are defining their own activity, especially as key firms begin to morph into *digital banks* or explore new models as related to the consumer lending space.

The second largest model in the US is that of Balance Sheet Business Lending, amounting to $12.39billion. This is an annual increase of 84% and accounted for 20.3% of the US market. The P2P/ Marketplace Business Lending model, conversely, accounted for $2 billion in 2018, a 40% increase against the previous year but only representing 3.3% of the US market. Similarly, to the consumer lending platforms, firms focused on financing businesses tended to overlap considerably across the Balance Sheet and P2P/Marketplace lending models. In this case, the emphasis of activity skews towards the balance sheet model.

In 2018, Balance Sheet Property Lending ranked third in terms of volume, accounting for $9.5b and just shy of 16% of the marketplace. This model saw the largest over-all annual growth rate (1334%). Conversely, the P2P/Marketplace Property Lending model saw an annual decrease, accounting for a 47% drop from $1.23b in 2017 to $.66b in 2018. In this instance, this drop seems to relate from two firms that exited the Property Lending market in 2018.

Turning to the Equity models, the Real Estate Crowdfunding ranked 6th and accounted for $1.79 billion, a 3% decline against the previous year. In contrast, the Equity Crowdfunding and Profit/ Revenue Sharing models gained pace in 2018 after sluggish or negative growth in the previous year. Equity Crowdfunding reached $507 million, growing at 115% against the previous year. In 2017, this model had actually declined by nearly 57% from 2016's $.55b to 2017's $.24b. As such, this increase brings the 2018 volumes back nearly to their height in 2016. Profit/Revenue Sharing grew by a considerable 2442% and reached $254 million in volume. This model also saw the most new firm entrants than any other model in the US, so it is likely that this model will continue to develop and grow into 2019.

Non-investment models accounted for just over 1% of the US market. The donation-based Crowdfunding model grew by 73% in 2018, recovering from a 20% reduction the previous year. The model reached $307 million in 2018. Reward-based Crowdfunding saw 5% decline, amounting to $384 million.

Canada

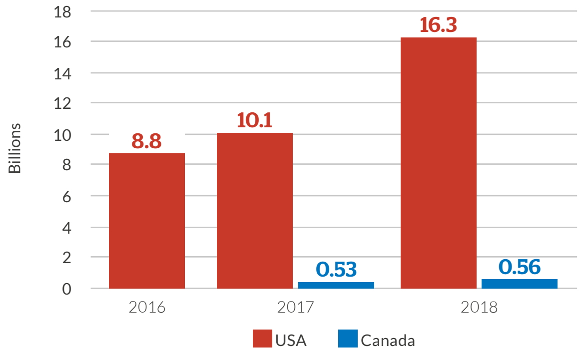
	Balance Sheet Business Lending	Donation-based Crowdfunding	Balance Sheet Consumer Lending	P2P/Marketplace Property Lending	Invoice Trading	P2P/Marketplace Business Lending	P2P/Marketplace Consumer Lending	Reward-based Crowdfunding	Revenue Sharing	Equity-based Crowdfunding	Balance Sheet Property Lending	Real Estate Crowdfunding
2014	$13.53m	$25.48m	$2.50m	*	*	$1.60m	$0.50m	$42.14m	*	$0.06m	*	*
2015	$27.02m	$70.69m	$15.50m	*	*	$15.55m	$28.00m	$44.36m	*	$5.10m	*	$0.75m
2016	$103.30m	$105.92m	*	$5.00m	*	$22.50m	$25.00m	$35.27m	$8.40m	$13.11m	*	$11.00m
2017	$494.26m	$88.59m	$11.57m	$6.00m	*	$9.10m	$94.12m	$22.94m	*	$13.83m	$115.67m	$11.50m
2018	$391.36m	$136.09m	$117.18m	$58.08m	$53.04m	$50.80m	$29.80m	$22.85m	$22.11m	$19.91m	$5.44m	$1.50m

Though the over-all Canadian alternative finance market saw a small over-all decline, it is worth noting that five of the twelve key models observed in 2018 saw growth. The largest model in Canada was that of Balance Sheet Business Lending, accounting for $391m and 43% of the Canadian market. The P2P/Marketplace Business Lending model, though only 6% of the market, grew by 458% from $9m to 50.8m.

The second largest model was the Donation-based Crowdfunding model, which grew by 54% from $88.6m to $136m in 2018. This is one of the few countries where a non-investment model ranked so high. Balance Sheet Consumer Lending, ranking third with $117m, saw a 913% increase and accounted for 13% of the Canadian market. P2P/ Marketplace Property Lending also saw exponential annual growth (868%), accounting for $58m in 2018. For the first time, the research captured sufficient observations from the Invoice Trading model, amounting to $53m. Finally, the Equity-based Crowdfunding model grew by 44% and accounted for $19.9m.

Business Finance in the US & Canada

Figure 5.3: Total Alternative Business Finance - US & Canada 2016-2018 (USD)



** No data available for Canada in 2016*

In 2018, approximately 343,000 businesses across the US raised $16.25 billion through online alternative finance platforms, having grown by 61% against the previous year. Business-based alternative finance volume accounted for 27% of the US market, increasing in terms of market share against previous years (24% of 2017 alternative finance volume). Though the US alternative finance marketplace is predominantly geared towards consumer finance, the proportion of activity towards businesses has grown every year. When looking at the composition of finance-type, 93% of business volumes came from debt-based models, or $15.2 billion. Not surprisingly, the P2P/Marketplace and Balance Sheet Business Lending models are responsible for the lion's share of this activity, but it is worth noting that Property-based lending models had a high proportion of SME or Business borrowers and contributed significantly to the business-lending volumes. In fact, 12% (approximately $1.8b) of debt-based business funding went to businesses in the Construction industry. In this instance, these businesses used Property-based lending platforms for bridging-loans, mortgages, etc. Businesses coming from the Retail & Wholesale sector were the next largest industry (10%) to utilize debt-based alternative finance.

Furthermore, it is likely that these figures underestimate actual lending to SMEs, as a portion of loans reported as consumer loans by the platforms, were used by entrepreneurs for investment in their ventures.

Five percent of the US Business finance market came from equity models, to the tune of $841.5m. The Real Estate Crowdfunding model contributed 95% of this volume ($800m), so it is not surprising that 42% of businesses that used equity finance came from the Real Estate & Housing industry. The second largest industry using equity-finance were firms from the Finance sector, predominantly B2B businesses (6%). Finally, though only a small proportion of total business volume (1%), non-investment models (in particular Reward Crowdfunding) saw $244 million raised for 17% of US businesses that utilized alternative finance for their funding needs in 2018. The most represented industries were Education & Research (38%), Retail & Wholesale (19%) and Technology & Hardware (14%).

Figure 5.4: Composition of Business Finance - Proportion of Category, Canada 2018

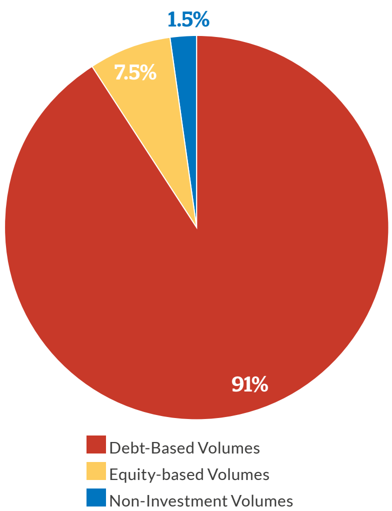
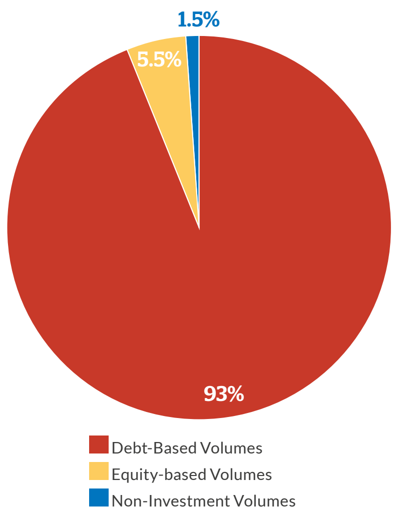


Figure 5.5: Composition of Business Finance - Proportion of Category, US 2018



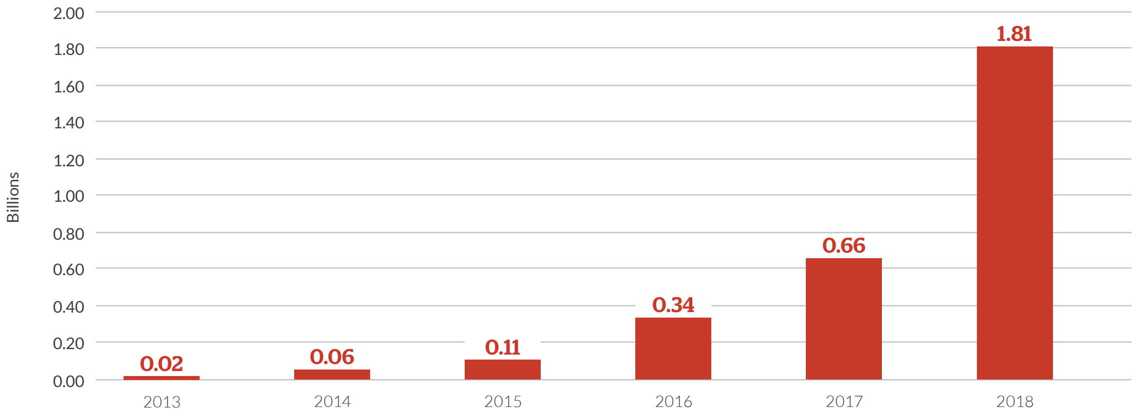
Turning to the Canadian market, approximately 62% of Canadian alternative finance went to 15,000 business fundraisers. In 2018, business-focused alternative finance accounted for $560 million, a 6% increase against the previous year. The bulk of this volume (91%) derived from debt-based models, some $510 million. Firms from the Leisure & Hospitality (7%) and Manufacturing & Engineering (6%) industries represented the largest industries utilizing debt-based finance, predominantly from P2P Business Lending platforms.

Equity models, in this instance predominantly from the Equity Crowdfunding model, accounted for 7% of the Canadian business finance. 55% of these businesses were in the Technology (software) sector, while 16% came from Finance and 11% from Energy & Mining.

Finally, the Non-investment based activity accounted for just over $9 million, with 83% of activity identified as Charity & Philanthropy. Not surprisingly, the bulk of this activity came from the Donation-based Crowdfunding model.

A discussion on Latin America & the Caribbean

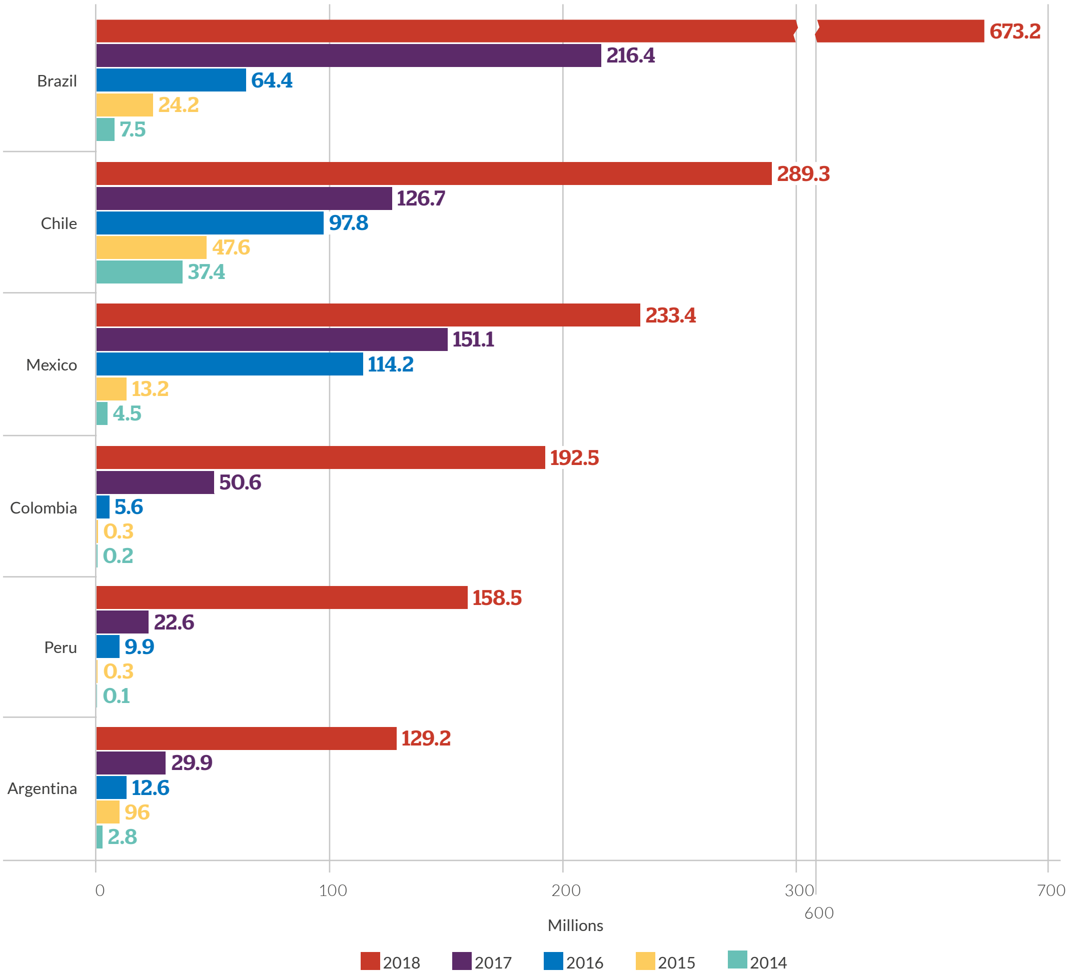
Figure 5.6: Alternative Finance Total Volume by sub-region in Americas, 2013-2018 (USD)



For the first time, the Latin American & Caribbean (LAC) region surpassed the $1 billion threshold, generating alternative finance volumes of $1.81 billion to consumers, businesses and other project holders across the region. Representing an annual growth rate of 173% against the previous year's $663 million in 2017, exponential growth has been a consistent trend for this region since 2013, with an average annual growth rate of 147% across the 6 years of alternative finance observations.

This region includes alternative finance volumes from 34 countries and territories, though it is worth mentioning that 93% of the region's volume comes from six key countries: Brazil (37%), Chile (16%), Mexico (13%), Colombia (11%), Peru(9%) and Argentina(7%). The remaining 7% comes from the Bahamas, Barbados, Belize, Bermuda, Bolivia, the Cayman Islands, Costa Rica, Cuba, Curacao, the Dominican Republic, Ecuador, El Salvador, the Falkland Islands, Guadeloupe, Guatemala, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Puerto Rico, Saint Lucia, Sint Maarten, Suriname, Trinidad and Tobago, Uruguay, Venezuela and the Virgin Islands.[24]

Figure 5.7: Total Alternative Finance Volume of Leading LAC Countries (2013-2018), USD Million



When considering the top 6 countries, five of the six have experienced triple digit annual growth. For a second year, Brazil is the leading country driving alternative finance volumes. Having grown by 211%, 2018's volumes rose to $666.85 million. Chile, having surpassed Mexico for second place, grew by 128% and generated $289.26 million for the year. Mexico, now third position, grew by 54% to $233.39 million. Though this is a smaller growth rate when compared to the other leader countries, it is worth noting that the growth rate for 2017 had been 32%. As such, Mexico's pace is hastening and preliminary observations for 2019 suggest that the country is on track for near triple digit growth once again.

Colombia, with annual growth of 280%, reached $192.47 million in 2018. This is the second year Colombia ranked fourth. Peru, having surpassed Argentina, saw the most significant annual growth, with a whopping 600% increase against the previous year. Peru's 2018 volume was $158.46, having grown from a relatively low base of $22.65 million the previous year. Peru's impressive growth relates to a quickly emerging yet nascent ecosystem, with much attention from LAC firm's based outside of the country.

Finally, Argentina is the 6th largest market, having grown by 332% against the previous year, and accounting for $129.2 million. After Peru, this country experienced the most significant annual growth.

Geographic Distribution of Firms:

In 2018, this research observed 301 alternative finance firms active across the region. It is not surprising that the lead volume driving country, Brazil, also ranks highest in terms of actual number of firms. This research captured firm-level observations from 44 domestic firms and 12 foreign firms, with a total of 56 platforms with operations within the country. When considering key volume drivers, 92.5% of the countries volume derives from alternative finance firms that are headquartered within Brazil.

Though Mexico garnered third ranking in terms of absolute volume, there were 51 firms present in the country, with 31 domestic firms and 20 foreign firms. In this instance, 77.9% of Mexico's alternative finance volume came from domestic firms, with a significant proportion of activity from firms headquartered outside of the country. In this instance, a number of US-based firms had ample activity in Mexico. It is also worth noting that at present, there are only a handful of Mexican platforms actively looking outside of it's borders. When reviewing qualitative responses, only 4 platforms indicated that they would be actively starting operations outside of Mexico in 2019.

Chile, also with a predominantly localized marketplace, had 99.4% of it's volume derived from 12 domestic firms. Though there were an additional 8 foreign firms present, volumes were minimal. Interestingly, of the six largest countries, Chile had the least number of firms active within its borders. This suggests that a handful of domestic leaders carry a significant proportion of Chile's alternative finance marketplace.

Colombia had 36 active firms, with 23 domestic and 13 foreign-based firms present. Domestic firms were responsible for 91.8% of all Colombian activity.

Peru, with 21 total firms, had the most extensive foreign-based influence than any of the other leader countries, with 32.8% of activity stemming from the 5 domestically base firms. The remaining 67% stemmed from 16 foreign-based firms. They predominantly came from the United States (8 firms), with 2 firms from Chile and 2 firms from Argentina (all with a business finance focus) taking interest in the emerging Peruvian market.

Finally, Argentina with 16 firms (9 domestic and 7 foreign) saw 99.5% of activity stemming from it's domestic market. The foreign-based firms predominantly came from the non-investment-based models. Interestingly, though Argentina has almost singularly localized volumes, Argentinian firms are some of the most outward looking, with 5 domestic firms with activity in Bolivia, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay and Venezuela.

Overall, 83% ($1.51 billion) of LAC regional volumes came from 135 domestically based firms. The remaining activity came from 166 foreign-firms, though only accounting for 17% of the region's volume.

Table 5.1: Volumes Derived from Foreign-based Firms vs. Domestic-based Firms

	Foreign Firm	Domestic Firm	of which domestic
Brazil	$50.39m	$622.80m	92.5%
Chile	$01.69m	$287.57m	99.4%
Mexico	$51.66m	$181.73m	77.9%
Colombia	$15.87m	$176.60m	91.8%
Peru	$106.51m	$51.95m	32.8%
Argentina	$00.60m	$128.60m	99.5%

In 2018, activity from 15 models was observed. The most significant model was that of P2P/ Marketplace Consumer Lending, with $432.75 million, taking 24% of the market share. This model grew by a whopping 142%, stemming in large part from activity based in Brazil ($298.5m) and Mexico (53.7m). Interestingly, although this model is the largest across the region (and globally) it is only the largest model for Brazil. The rest of the key countries have models that are specifically focused on business finance as their largest model type. Associated with this model is Balance Sheet Consumer Lending. Though ranking 5th in terms of volume driver in the region, this model accounted for $138.7m, it is worth noting that most of the firms operating this model also indicated P2P/ Marketplace Consumer Lending activities. This was particularly prevalent in Brazil (59.8m), Colombia ($30.25m) and Argentina ($24.67m). Interestingly, the balance sheet model also saw much of its activity deriving from US and EU based firms.

Ranking second is that of Invoice Trading, with a total $398.4 million in 2018. This model grew by 157%, with significant activity coming from 5 of the 6 key LAC countries. Led by Chile (with $229 million), this model accounted for 79% of the Chilean alternative finance market. This model was also the leading volume driver in Colombia (with $117.3 million, 61%) and Argentina ($70.58 million). Of note, this model accounted for 20% of the Peruvian market, having grown by 359% to $30.4m in 2018.

Table 5.2: Key Models – LAC

	Marketplace/P2P Consumer Lending	Invoice Trading	Marketplace/P2P Business Lending	Balance Sheet Business Lending	Balance Sheet Consumer Lending	Debt-based Securities	Marketplace/P2P Property Lending	Donation-based Crowdfunding	Other	Real Estate Crowdfunding	Equity-based Crowdfunding	Reward-based Crowdfunding	Balance Sheet Property Lending
2014	$2.97m	*	$39.88m	*	*	*	*	$2.21m	*	$3.20m	$0.15m	$7.76m	*
2015	$19.43m	*	$55.67m	*	*	*	$0.60m	$5.18m	*	$14.86m	$2.05m	$12.79m	*
2016	$18.22m	$0.00m	$188.54m	$22.57m	$73.91m	$6.30m	$2.72m	$9.67m	*	$3.40m	$7.30m	$9.29m	*
2017	$178.56m	$155.18m	$71.06m	$37.12m	$121.91m	$2.08m	$8.07m	$26.63m	$4.26m	$12.50m	$11.08m	$11.59m	*
2018	$432.75m	$398.40m	$274.81m	$264.98m	$138.71m	$125.94m	$49.11m	$26.62m	$27.30m	$25.35m	$19.16m	$12.42m	$11.37m
% 2017-2018 growth	142%	157%	287%	614%	14%	5953%	509%	0%	541%	103%	73%	7%	
% proportion of 2018 total	24%	22%	15%	15%	8%	7%	3%	1%	2%	1%	1%	1%	1%

Marketplace/P2P Business Lending accounted for $71.1 million, having grown by 287% and accounting for 15% of the LAC region. Chile ($32.5 million) and Brazil ($31.1m) were the market leaders for this model within the region. Closely associated to this model is the Balance Sheet Business Lending model. With $100.3m, this model was Mexico's leading volume driver and accounted for 43% of its market. The model grew by a staggering 518% from 2017's $16.22m. This model ranked number one in Peru as well, with $68.61m, 43% of the entire marketplace. While Mexico's balance sheet activity was hyper localized, Peru's stemmed mostly from foreign based firms.

Debt-based Securities, though small in absolute terms, is growing quickly across the region. This was the second largest model in Brazil ($102m), having grown by 5330% from $1.88m in 2017. Peru ($20.2m) and Paraguay ($3.4m) ranked as second and third in terms of volume drivers for this model.

Paraguay makes a notable appearance again when discussing the Balance Sheet Property model. After Brazil's $9.6m, Paraguay accounted for the second largest market for this model with $1.7m. Linked closely to P2P/Marketplace Property Lending ($49.11m and 509% annual growth), property-focused lending activities, though smaller at present, are on track to grow considerably in 2019.

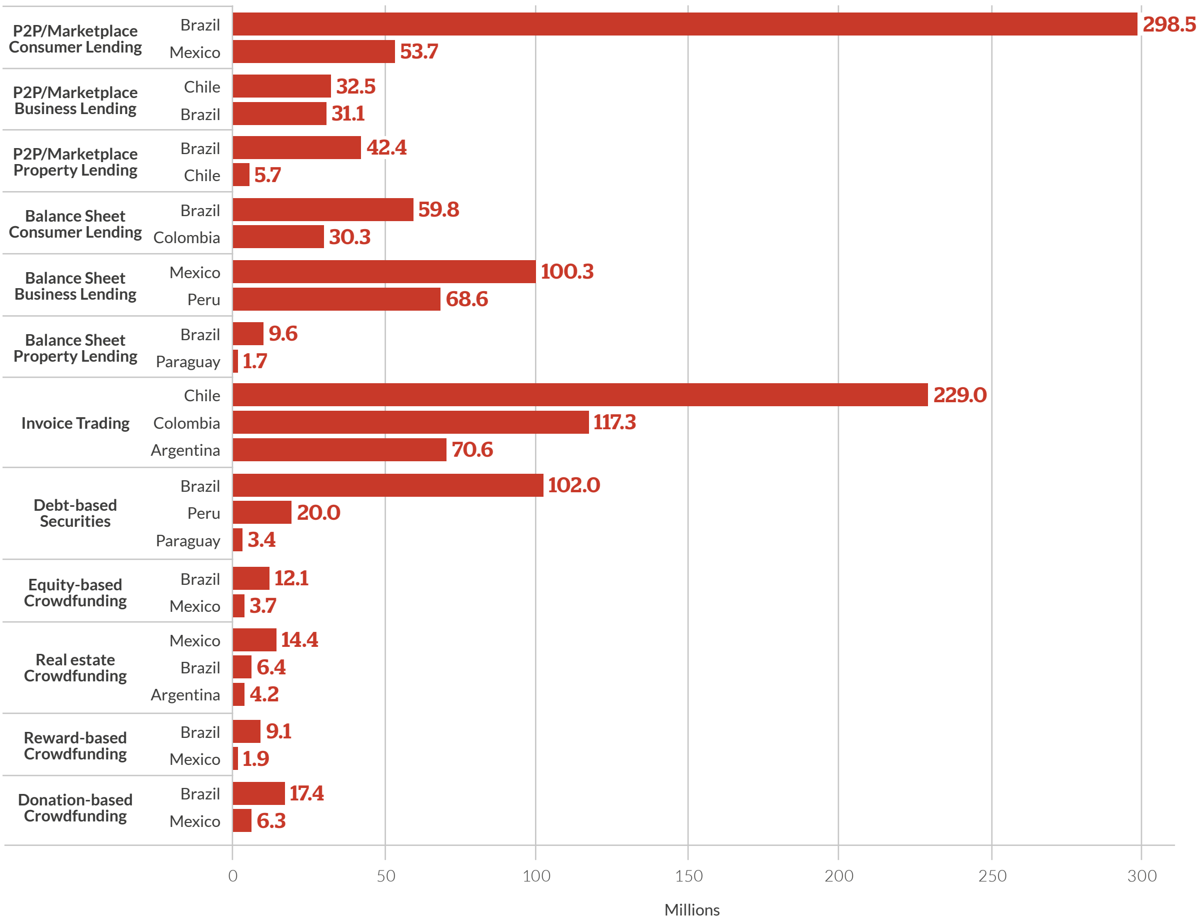
Turning to the equity models, Real Estate Crowdfunding ($25.35m) grew by 103% and was led by Mexico ($14.4m), Brazil ($6.4m) and Argentina ($4.2m). Equity Crowdfunding, accounting for $19.16m, grew by 73% in 2018. Brazil ($12.1m), Mexico ($3.7) and Chile ($2.63m) accounted for the top three markets for this model.

Table 5.3: Alternative Finance Volumes by Model 2018 - Key LAC Countries

	P2P/Marketplace Consumer Lending	Invoice Trading	P2P/Marketplace Business Lending	Balance Sheet Business Lending	Balance Sheet Consumer Lending	Debt-based Securities	P2P/Marketplace Property Lending	Donation-based Crowdfunding
Brazil market share of brazilian market	$298.52m 44%	$58.98m 9%	$31.12m 5%	$19.24m 3%	$59.80m 9%	$102.04m 15%	$42.44m 6%	$17.38m 3%
Chile market share of chilean market		$229.00m 79.2%	$32.54m 11.2%	$18.73m 6.5%		$0.23m 0.1%	$5.67m 2.0%	$0.08m 0.0%
Mexico market share of mexican market	$53.70m 23%	$20.67m 8.9%	$11.20m 5%	$100.26m 43.0%	$18.81m 8.1%	$0.20m 0.1%		$6.26m 2.7%
Colombia market share of Colombian market	$19.38m 10%	$117.28m 61%	$8.60m 4%	$15.77m 8%	$30.25m 16%			$0.53m 0%
Peru market share of peruvian market	$12.58m 7.9%	$30.40m 19.2%	$25.61m 16.2%	$68.61m 43.3%	$0.66m 0.4%	$20.02m 12.6%		$0.36m 0.2%
Argentina market share of argentian market	$15.31m 11.9%	$70.58m 54.6%	$3.89m 3.0%	$9.28m 7.2%	$24.67m 19.1%			$0.53m 0.4%
Total Region (Leading 6 + Others)	$432.75m	$398.40m	$274.81m	$264.98m	$138.71m	$125.94m	$49.11m	$26.62m

It is worth noting that several LAC countries, are approaching or superseding Canadian model-level activity. With respect to the over-all Americas region, Canada's market has often out-paced LAC. In 2018, Latin American countries are now taking over the leader-boards for a number of key models and pushing Canada into a secondary position. This is the case for the P2P/Marketplace Consumer Lending market ($29.m), with Brazil and Mexico both surpassing Canada´s 2018 volumes. This is also the case for Balance Sheet Property Lending, with Brazil surpassing Canada's $5.4 million.

Figure 5.8: Top countries in volume by key model type (2018), USD



Other[23]	Real Estate Crowdfunding	Equity-based Crowdfunding	Reward-based Crowdfunding	Balance Sheet Property Lending	Revenue Sharing	TOTAL
$6.34m 1%	$6.43m 1%	$12.09m 2%	$9.09m 1%	$9.65m 1%	$0.07m 0%	$673.19m
	$0.17m 0.1%	$2.63m 0.9%	$0.20m 0.1%			$289.26m
$1.56m 0.7%	$14.36m 6.2%	$3.66m 1.6%	$1.93m 1%		$0.78m 0.3%	$233.39m
	$0.05m 0%	$0.24m 0%	$0.35m 0%			$192.47m
	$0.02m 0.0%		$0.05m 0.0%		$0.15m 0.1%	$158.46m
	$4.24m 3.3%	$0.21m 0.2%	$0.48m 0.4%			$129.20m
$26.30m	$25.35m	$19.16m	$12.42m	$11.37m	$1.00m	$1806.94m

Business Finance in Latin America & the Caribbean:

Figure 5.9: Total Alternative Business Funding Volume in LAC (2016-2018), USD

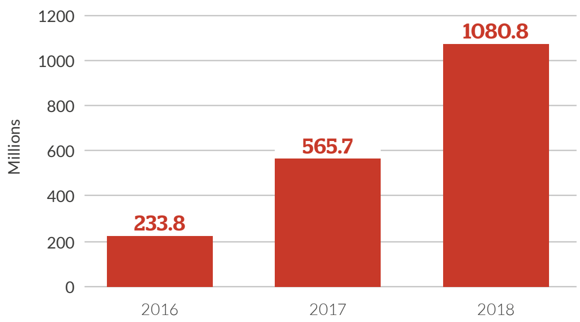
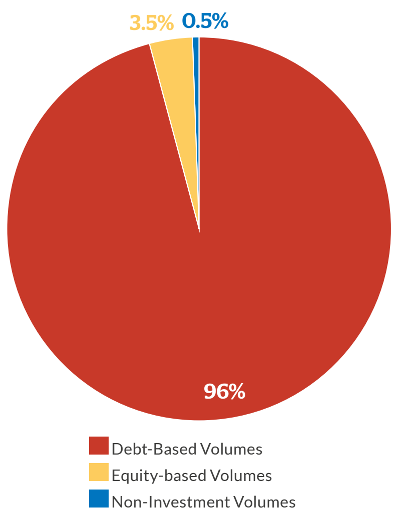


Figure 5.10: Composition of Business Finance - Proportion of Category, LAC 2018



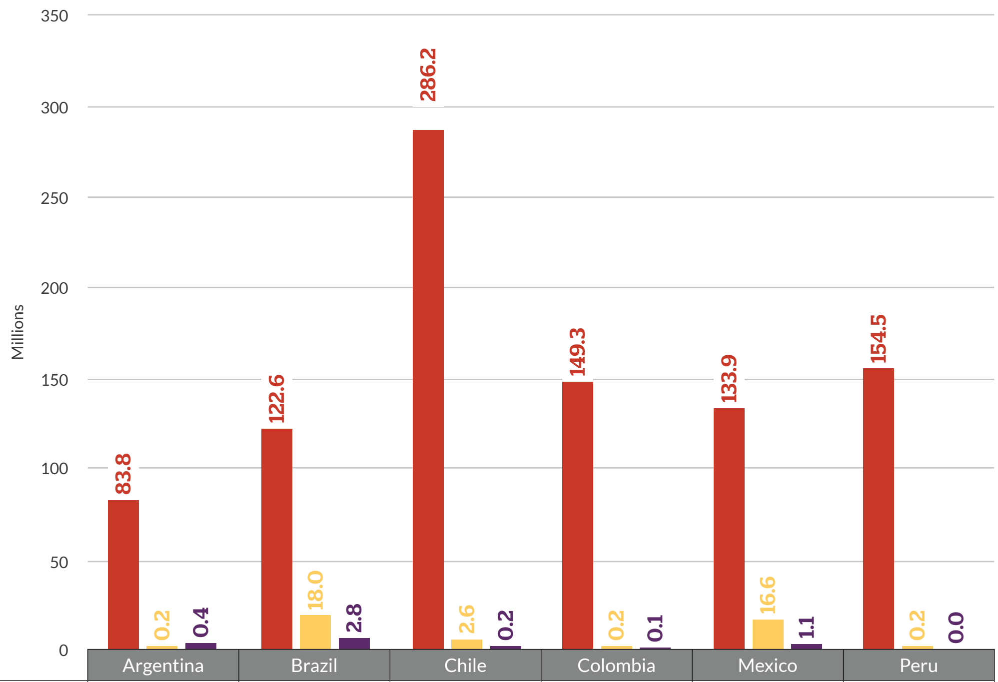
In 2018, 60% of alternative finance market activity in LAC went to fund a business. This region has some of the highest proportions of business focused activity, marking the emphasis placed on the small business sector across the region. Amounting to $1.08 billion, this is the first time that business-specific alternative finance volumes in the region surpassed the billion-dollar threshold. Having grown exponentially from a relatively low base in previous years, this region has exhibited fast year-on-year growth. Against 2017's volume, the region's alternative finance business volumes have grown by 142%. In comparison to last year, where approximately 26,000 businesses were served by alternative finance firms, this year 217,000 business successfully received capital to fund their business activity.

Not surprisingly, debt-based models account for 96% of all business activity, amounting to $1.04billion to just over 213,000 business fundraisers, with Invoice Trading and P2P/Marketplace Business Lending as the two largest models contributing to debt activities. For a third consecutive year, Chile ($286.18m) is the leader in SME-focused alternative finance. Peru ($154.47m) and Colombia ($149.27m), however, have leap frogged both Brazil and Mexico to take second and third spots for debt-based business finance. Approximately 20% of all debt activity went to businesses in the Retail & Wholesale sector, with 11% towards Construction (a nod to the quickly growing Property Lending models) and Manufacturing & Engineering with 9%.

When considering equity-based models, though smaller in terms of both volume proportion (3.5%) and number of firms served (approximately 329), $38.31 million was raised for start-ups across the region in 2018. Brazil and Mexico led the charge, as previously noted when discussing the equity-based crowdfunding model. When looking at sector distribution, 42% went to firms in the Construction industry, 12% to Food & Drink, and 9% to Finance (B2B) firms.

Non Investment-based activity, mostly from Rewards-based Crowdfunding models, accounted for less than 1% of total volume ($5 million), though serving over 3,350 firms.

Figure 5.11: Business Finance in LAC key countries by finance category, 2018 USD Million



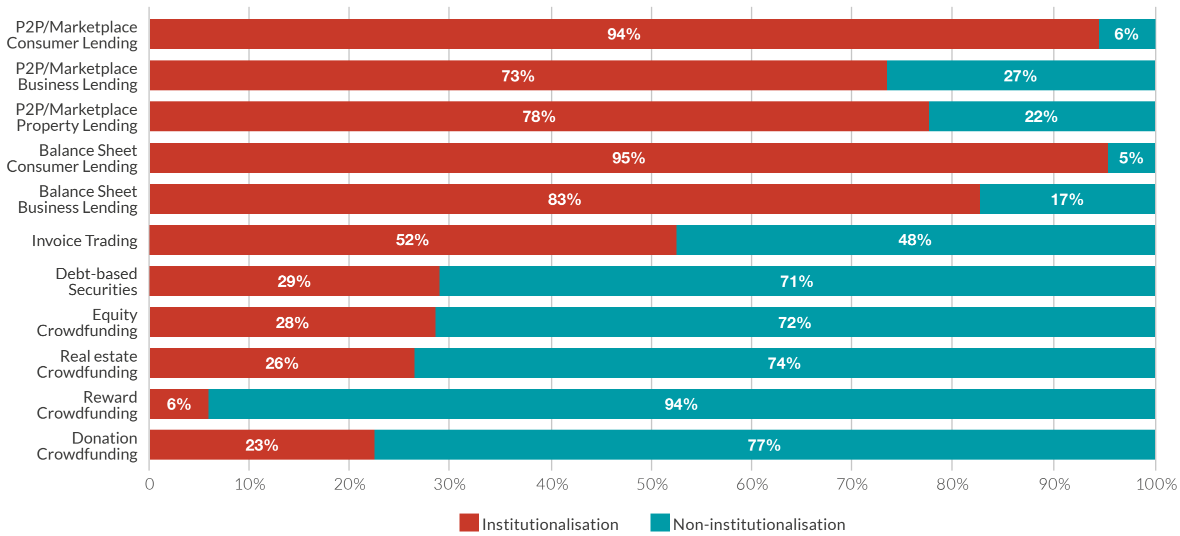
	Argentina	Brazil	Chile	Colombia	Mexico	Peru
Total Debt Models	$83.75m	$122.60m	$286.18m	$149.27m	$133.89m	$154.47m
Total Equity Models	$0.21m	$18.04m	$2.63m	$0.24m	$16.61m	$0.15m
Total Non-investment Models	$0.45m	$2.76m	$0.18m	$0.09m	$1.09m	$0.02m

Sum of country_debt   Sum of country_equity   Sum of country_noninvestment

Market Dynamics

Institutionalisation across the region

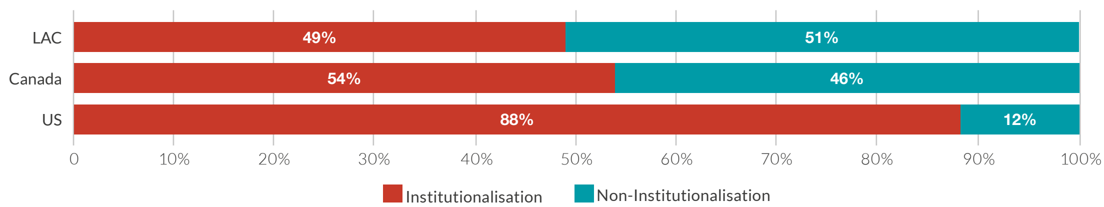
Figure 5.12: Institutionalisation by model-2018



Institutional funders continue to drive alternative finance volume throughout the industry, with overall high levels of institutionalization observed across the Americas. When looking at key models from the entire Americas (US, Canada & LAC), we note that the vast majority of P2P/Marketplace Lending investors are institutions, with 94% of activity from the P2P/Marketplace Consumer Lending stemming from institutional investors. This is marginally smaller when turning to P2P/Marketplace Property Lending (78%) and P2P/Marketplace Business Lending (73%).

The Balance Sheet Lending models also present higher instances of institutional investment, with Consumer Lending reaching 95% and Business Lending at 83%. Invoice Trading, which is dominated by platforms in Latin America, has a more even ratio of retail to institutional investor activity, with only 52% coming from institutional investors. Not surprisingly, non-investment models have the highest non-institutionalization rates, as 94% of investors for Rewards-based and 77% for Donation-based Crowdfunding are not institutions. Debt-based Securities, Equity Crowdfunding and Real Estate Crowdfunding remain with a high levels of retail investors, with institutionalization rates between 26% and 29%.

Figure 5.13: Institutionalisation by region-2018



In Latin America and the Caribbean, alternative finance is, in general, funded more by the retail investors. Roughly half (51%) of the market is driven by retail investors, leaving $878.7m derived by institutional investors.

When observing institutional volumes at a country level, 12 LAC countries recorded alternative finance volumes. Uruguay, though relatively small, saw a record 99% of its volumes coming from institutional investors. Colombia and Mexico also saw significant levels of institutional activity, at 75% and 68% respectively, indicating that the majority of the market is driven not by retail investors but by institutional players. The remaining countries placed a greater emphasis on retail funding.

LAC Countries With Institutional Volumes:

Country	Institutional Investor Rate	Volumes Driven by Institutional Investors
Uruguay	99%	$5.59 m
Colombia	75%	$144.50 m
Mexico	68%	$159.45 m
Costa Rica	65%	$11.66 m
Peru	49%	$77.58 m
Chile	47%	$134.66 m
Brazil	38%	$253.94 m
Argentina	29%	$37.82 m
Paraguay	27%	$5.88 m
US	25%	$2.20 m
Nicaragua	24%	$3.85 m
Guatemala	6%	$1.59 m

Most model-types in LAC had less than 50% of their market share derived from Institutional investors, though with some notable exceptions: Balance Sheet Business Lending (99%), Balance Sheet Property Lending (89%) and Balance Sheet Consumer Lending (74%).

Institutional Volumes in LAC by Key Models

Model Type	Institutional Rate	Volumes Driven by Institutional Investors
Balance Sheet Business Lending	99%	$261.04m
Balance Sheet Property Lending	89%	$10.08m
Balance Sheet Consumer Lending	74%	$102.75m
Invoice Trading	49%	$267.39m
P2P/Marketplace Consumer Lending	36%	$156.28m
Revenue Sharing	35%	$0.35m
P2P/Marketplace Business Lending	30%	$37.80m
Debt-based Securities	28%	$35.06m
P2P/Marketplace Property Lending	11%	$5.42m
Reward-based Crowdfunding	8%	$0.99m
Equity-based Crowdfunding	3%	$0.61m
Donation-based Crowdfunding	1%	$0.36m
Real Estate Crowdfunding	1%	$0.15m

Platforms were also asked about other potential collaborations with institutional partners. These included referral agreements, data exchange, agent banking, platform ownership and custodianship. Across LAC, platform operators indicated the pervasiveness of referral agreements, with a bank or other traditional provider, particularly from the Balance Sheet Property Lending (90%), Marketplace/P2P Consumer Lending (57%) and Marketplace/P2P Business Lending (56%). Data exchange deals were also prevalent, with nearly 65% of all debt-based models, and Invoice Trading and P2P Business Lending, having such an arrangement in play with a traditional finance provider. It is likely that this will rise further with the advent of open finance regulation and API's emerging across the region.

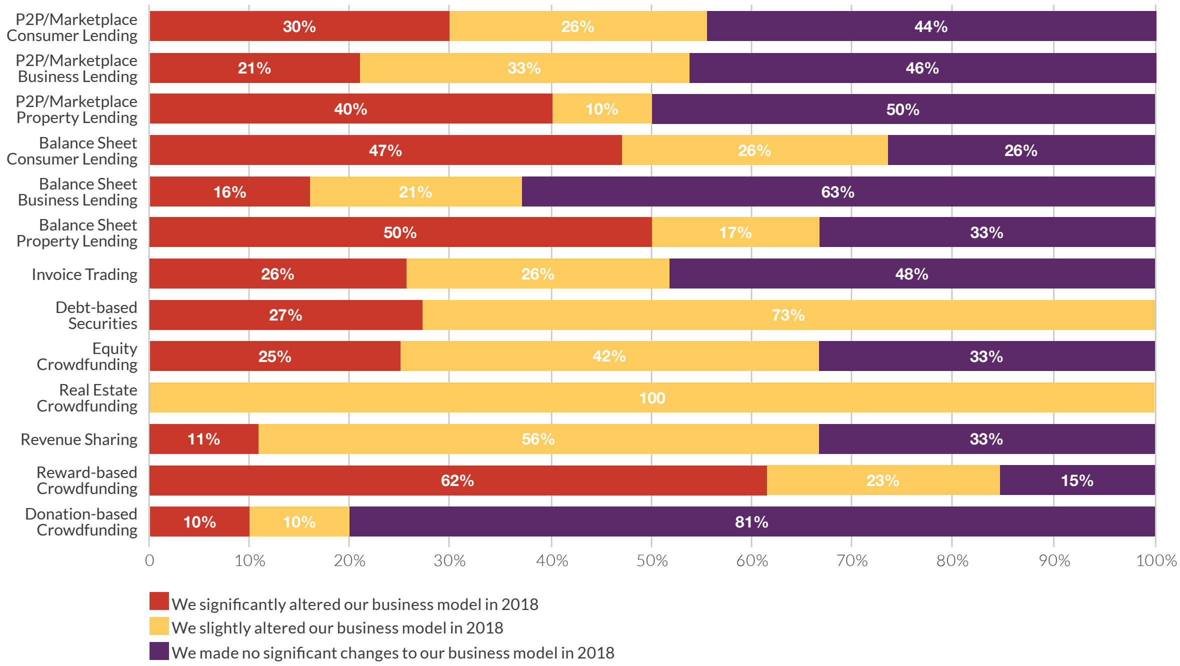
Finally, there were a handful of examples where a native LAC firms had some level of institutional ownership. This was particularly relevant to P2P/Marketplace and Balance Sheet Business Lending firms (20%), and Balance Sheet Consumer Lending platforms (38%).

Canada, with 54% of activity derived from institutional investors, saw $489.9m raised across all models. When compared, however, to 2017's 70%, the Canadian market has become far more retail oriented. When looking to the US, 88% of overall funding generated came from institutional investors, amounting to $54.01 billion for the year.

Innovation Across the Region

Changes to Business Models:

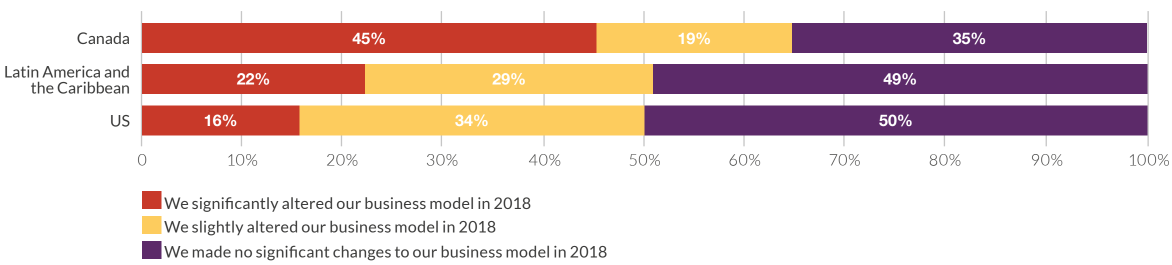
Figure 5.14: Changes to business model by model-2018



Adaptation to technological and market evolution still largely dominates the online alternative finance landscape in the Americas. Over 2018, for the majority of models, platforms operating in the region reported having altered their business models. Only for Donation-based Crowdfunding and Balance Sheet Business Lending, more than half of platforms went through the year without changes in their business models.

Half of P2P/Marketplace platforms in the Americas have altered their business models, where 40% firms in the Property Lending. Still in debt-based models, 74% of platforms in the Balance Sheet Consumer Lending and 67% of platforms in the Balance Sheet Property Lending market have undergone significant or slight changes in their business model. It is worth noting that 100% of firms within Debt-based securities and Real Estate Crowdfunding segments in the Americas altered their business model. Reward-based Crowdfunding account for a high rate of change, with 62% significant and 23% slight changes reported, demonstrating that firms in this market segment needed to readapt their business model.

Figure 5.15: Changes to business model by sub-region-2018



When analyzed by sub-region, half of firms in the US and LAC showed more stable business models in 2018. 16% of platforms in the US reported significant changes and 34% slight changes, whereas 22% of platforms in LAC reported significant changes, while 29% slightly adapted their business models. Canadian platforms deserve to be highlighted because by 45% significantly altered and 19% reported having slightly altered their business model.

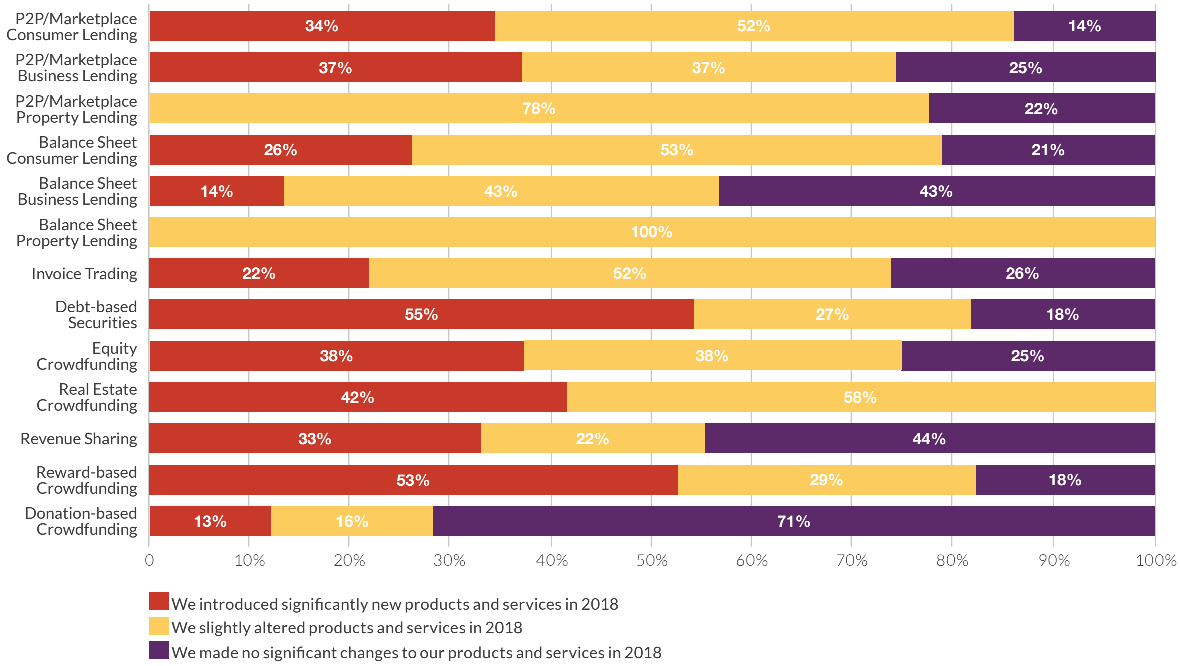
Looking specifically at LAC, of the six key volume driving countries, four saw model-level changes greater than 50%. For the most part, more than half of all firms operating within Brazil, Chile, Colombia and Peru indicated slight to significant changes to their business model. Interestingly, with 53% of the market indicating changes, 40% of Chilean firms noted significant changes. Mexico and Argentina were the only countries that noted higher instances of 'no change' though there were still significant instances of firms indicating model-level change.

Overall, one can conclude that across sub-regions of the Americas, the alternative finance industry remains in flux, where business models continue to be fine-tuned in line with both regulatory changes, as well as market demands.

Country	Changes to Business Model	%
Argentina	No Significant Changes	56%
	Slightly Changed	11%
	Significantly Changed	33%
Brazil	No Significant Changes	38%
	Slightly Changed	29%
	Significantly Changed	34%
Chile	No Significant Changes	47%
	Slightly Changed	13%
	Significantly Changed	40%
Colombia	No Significant Changes	41%
	Slightly Changed	24%
	Significantly Changed	34%
Mexico	No Significant Changes	52%
	Slightly Changed	29%
	Significantly Changed	19%
Peru	No Significant Changes	38%
	Slightly Changed	54%
	Significantly Changed	8%

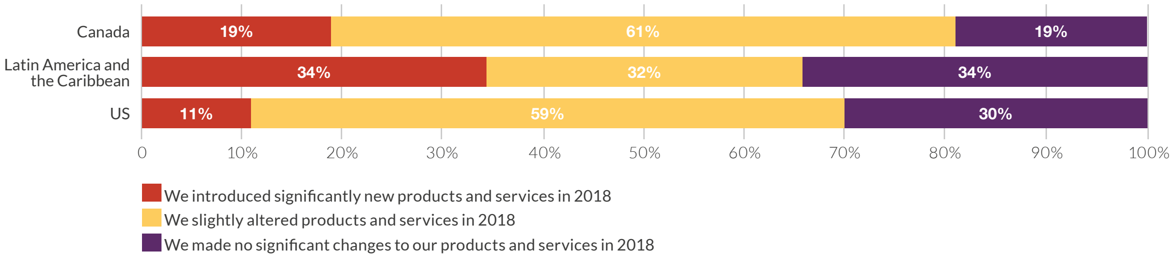
Changes to Products & Services

Figure 5.16: Changes in products and services by model- 2018



Changes in products and services are as prevalent as changes in business models among platforms. Rates of change in products and services are, as would be expected, more frequent than those in the business itself. In 2018, 81% of Donation-based Crowdfunding platforms kept their business models unaltered, but only 71% of them did not change a product or a service. Following that model, Profit/Revenue Sharing and Balance-sheet Lending were the segments where least change was observed, and 44% and 43% of platforms respectively, kept their products and services unaltered. P2P/Marketplace platforms have high rates of change for all segments served. Over a third of platforms attending business and consumers have introduced a new product or service in 2018. Finally, more than 50% of platforms in Reward-based Crowdfunding as well as in Debt-based Securities models launched a new product or service.

Figure 5.17: Changes in products and services by sub-region- 2018



Canada saw some of the highest rates of change, while platforms from LAC and the US were relatively more stable. In this instance, significant alterations to Canadian firms have resulted in a softer year, while having the opposite effect in Latin America and the US. In the US, only 11% of platforms introduced new products or services, and a third kept the same portfolio as the previous year. Nonetheless, 59% of the platforms introduced slight adaptations in their products or services. In Canada, 61% of platforms slightly modified their product or service, 19%introduced new products and 19% did not make any changes through 2018.

In LAC, around a third of platforms innovated with new products and services, a third made slight changes in their portfolio and a third operated with the same products and services.

Country	Changes to Business Model	%
Argentina	No Significant Changes	22%
	Slightly Changed	44%
	Significantly Changed	33%
Brazil	No Significant Changes	16%
	Slightly Changed	55%
	Significantly Changed	29%
Chile	No Significant Changes	24%
	Slightly Changed	24%
	Significantly Changed	53%
Colombia	No Significant Changes	39%
	Slightly Changed	19%
	Significantly Changed	42%
Mexico	No Significant Changes	36%
	Slightly Changed	23%
	Significantly Changed	41%
Peru	No Significant Changes	17%
	Slightly Changed	22%
	Significantly Changed	61%

R&D initiatives:

	Payment Processing	Customer Verification	Process Streamlining and Automation	Artificial intelligence and Performance Enhancement Features	Community Management Features and Tools	Social Media and Fundraiser Promotional Tools	Customer Relationship Management Systems	E-learning Features for Users	Gamification Features for User Engagements
P2P/Marketplace Consumer Lending	9%	22%	20%	21%	3%	3%	10%	6%	6%
P2P/Marketplace Business Lending	9%	16%	22%	18%	3%	8%	13%	6%	4%
P2P/Marketplace Property Lending	9%	12%	29%	26%	3%	0%	12%	6%	3%
Balance Sheet Consumer Lending	8%	18%	21%	15%	6%	5%	14%	4%	9%
Balance Sheet Business Lending	6%	15%	23%	17%	6%	11%	14%	5%	3%
Balance Sheet Property Lending	0%	8%	23%	46%	8%	8%	8%	0%	0%
Invoice Trading	8%	21%	27%	18%	6%	5%	10%	3%	3%
Debt-based Securities	7%	18%	22%	16%	4%	11%	9%	7%	7%
Equity-based Crowdfunding	8%	14%	25%	5%	6%	11%	15%	12%	6%
Real Estate Crowdfunding	18%	14%	18%	12%	4%	13%	17%	4%	2%
Revenue Sharing	6%	15%	21%	9%	15%	15%	9%	3%	6%
Reward-based Crowdfunding	9%	9%	18%	4%	7%	22%	15%	10%	4%
Donation-based Crowdfunding	11%	12%	12%	8%	13%	13%	9%	9%	12%

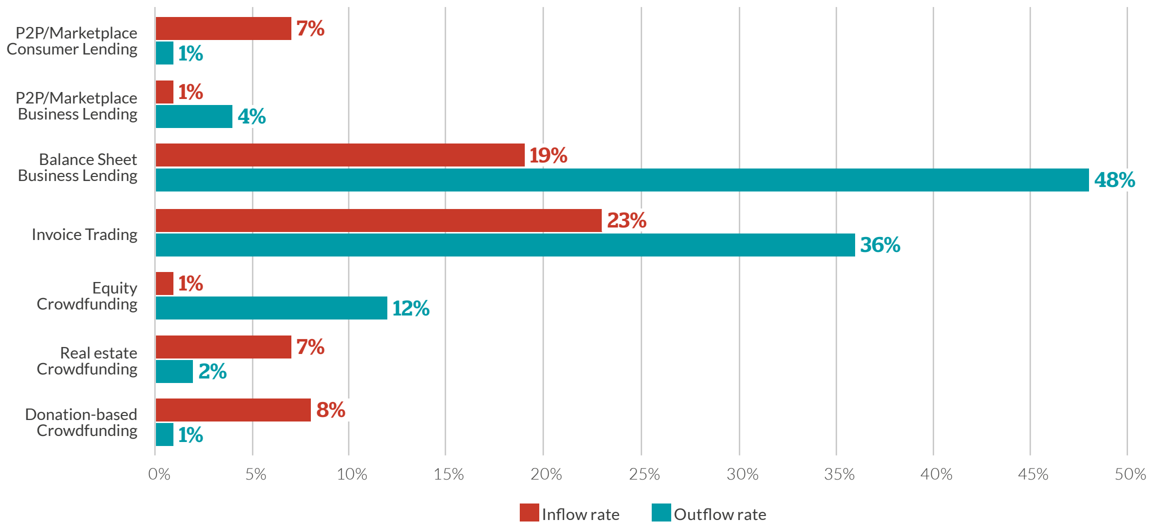
Research & Development is a critically vital business strategy for firms across the region, allowing for platforms to continuously evolve and improve the services they provide.

In 2018, investments in 'process streamlining & automation' and 'customer verification' led as the main objectives of R&D for almost all models.

Other initiatives which investments have also been considerable were *AI and Performance enhancement*. 46% of Balance Sheet Property Lending platforms have reported investing in this domain. Furthermore, 22% of R&D investments from Reward-based Crowdfunding platforms aimed at improvements in *social media and fundraiser promotion*.

Internationalization – Inflow & Outflow

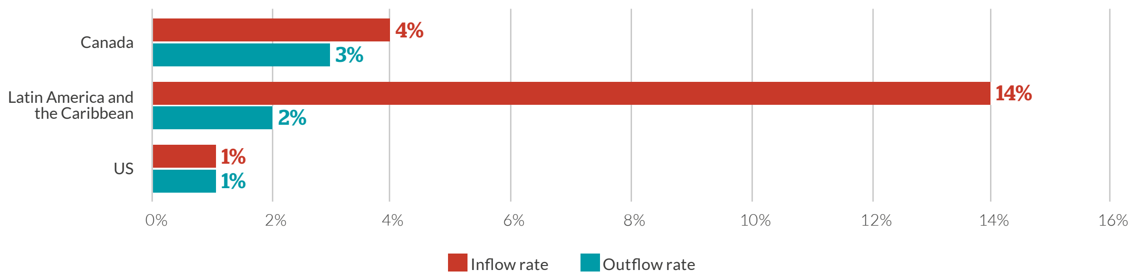
Figure 5.18: Inflow rate and Outflow rate by model



Across the region, certain models lend themselves best for cross-border activity. Platforms that service business customers tend to have some of the highest outflow rates, with customers outside of their borders. This is most prevalent for Balance Sheet Business Lending models, with 48% of outflows going to fundraisers outside of the country. Invoice Trading (at 36%) and Equity Crowdfunding (12%) also saw high levels of outflow funding.

In contrast to the rest of the world, P2P/ Marketplace Consumer Lending platforms in the Americas are majority operating within their own borders, and cross border transactions remain at low levers, with only 7% of inbound and 1% of outbound flows. Balance-Sheet Business Lending and Invoice Trading are the most internationalized models in the region, receiving funding for cross-border in 19% and 23% of transactions, and serving clients in other countries in 48% and 36% of operations. Non-investment based crowdfunding also operated across borders more often, especially receiving funds from abroad with reward-based models having an inflow rate of 7% and donation-based 8%.

Figure 5.19: Inflow rate and Outflow rate by region



When considering cross border flows at a regional level, it is clear that LAC has the highest instances of activity. This is not all together surprising, given the increasing amount of internationalization from firms within the LAC regions. With a growing number of firms expanding their international presence, it is not all together surprising that some 14% of funding came from retail or institutional investors from outside of the fundraiser's country. This inflow rate shows that there is increasing interest from non-domestic investors in the LAC market. Outflow, at 2%, is much smaller, with fewer instances of retail investors from within the region to look abroad or outside their country borders.

At a model level, LAC inflow is most prevalent from Balance Sheet Property Lending (76%) Debt-based Crowdfunding (63%) and P2P Consumer Lending (53%). For almost all other models, inflow rates were considerably lower, indicating that demand for new asset classes is prevalent from domestic retail and institutional investors alike

Inflow Rates of Key Models within LAC

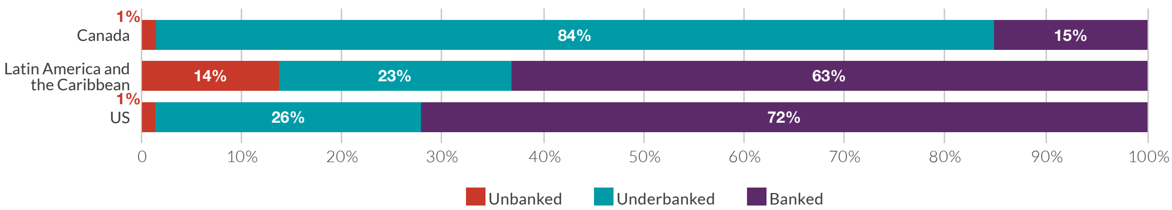
LAC Model	Inflow Rate
Balance Sheet Property Lending	76%
Debt-based Crowdfunding	63%
P2P Consumer Lending	53%
Balance Sheet Consumer Lending	29%
Invoice Trading	18%
Reward Crowdfunding	7%
Real Estate Crowdfunding	3%
P2P Property Lending	3%
Equity Crowdfunding	3%
P2P Business Lending	2%
Donation Crowdfunding	2%
Revenue Sharing	2%

Financial Inclusion

Financial inclusion is an increasingly important topic when discussing stakeholders of alternative finance. Throughout the Americas, the demographic information on both the funders and fundraisers indicate that both women and men are utilizing alternative finance. However, women for the most part tend to participate at a lower proportion than their male counterparts. Additionally, this research also sought to understand the banked status of debt-based borrowers. This gives a general overview of the reach of the existing financial market in the region, as well as where online alternative finance complements or fills a gap in services. The survey also looked at the income status of funders to understand the levels of participation at various income levels. This will show a clearer demographic distribution of how various income level individuals participate across the region.

Banking Status of Borrowers

Figure 5.20: Banking Status by Region

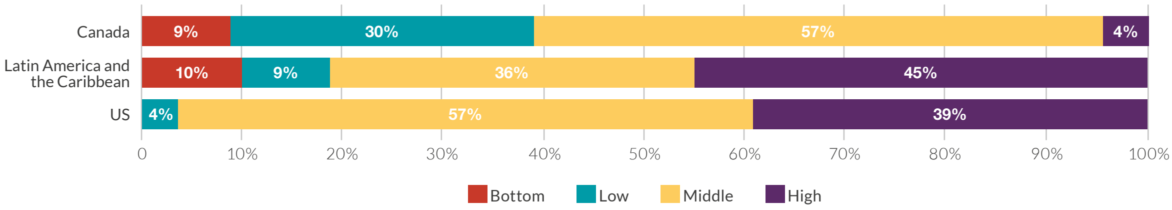


Canada saw the majority of its platform user-base (84%) consist of underbanked individuals, which indicates online alternative finance might be offering financial services to consumers that are traditionally underserved by traditional banking or service providers. Only 15% of users were identified as banked, whereas 1% were unbanked.

Both in LAC and US markets, online alternative finance platforms identify the majority of users as banked individuals. In LAC, 63% of platform users were identified as banked individuals, while 23% were underbanked and 14% as unbanked. In the US, the highest rate of banked users is noted, with 72%, while 26% are considered underbanked and just 1% unbanked. This may suggest platforms are serving consumers that, despite being able to acquire a banking product or service, would opt for an online platform for reasons other than lack of access, such as quality of service or price advantages. Nonetheless, in both sub-regions around a quarter of users served by platforms are considered underbanked, and these alternative services potentially enhance the financial inclusion of these consumers.

Income Status by Region

Figure 5.21: Income Status by Region

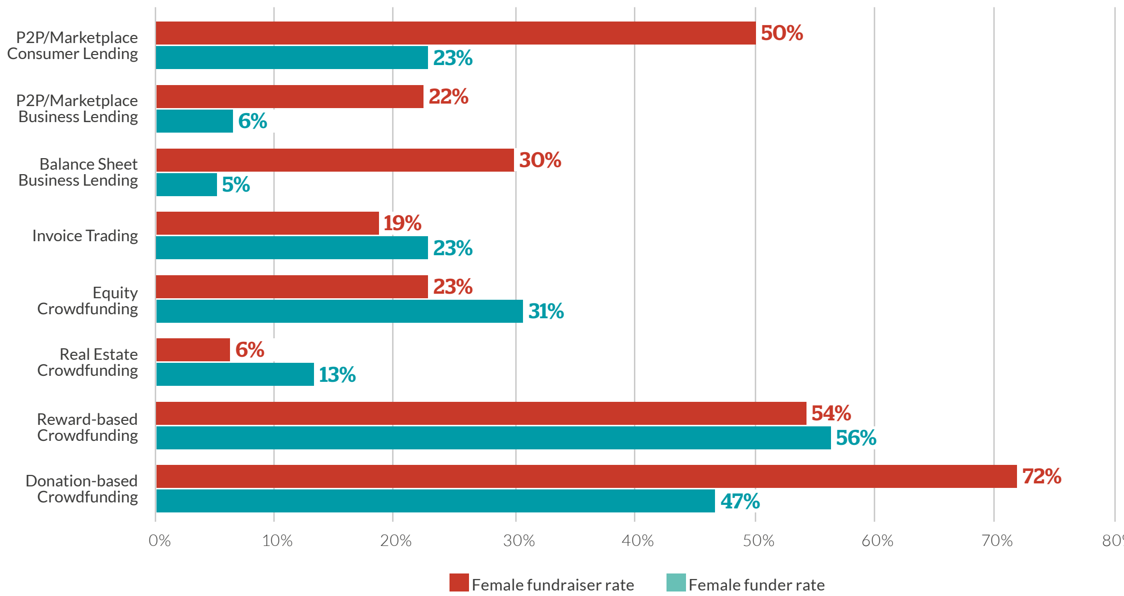


In Canada and in the US, the largest share of investors are identified as middle income, with 57% of the total. Contrastingly, in Canada, only 4% of funders were identified as high income, while in the US, they are the second largest share of funders, with 39%. Finally, 30% of Canada´s funders are considered low income, and 9% as bottom or lowest income. In the US, these respond to only 4% of funders.

In LAC, 45% of investors were identified as high income, 36% as middle income, 9% as low income and 10% as bottom or lowest income.

Gender

Figure 5.22: Female Funder and Fundraiser Rates, Over-all Americas



When observing the entire Americas region, women remain most active in non-investment based models, but are becoming more active in other markets in the online alternative finance landscape. Women are the majority of fundraisers in Reward-based Crowdfunding, having increased their participation from 47% in 2017 to 54% in 2018. They are also the majority of funders, with a rise in their rate of participation from 53% in 2017 to 56% in 2018. The female fundraiser rate in Donation-based Crowdfunding increased from 61% in 2017 to 72% in 2018, while among funders, the rate of females increased from 46% in 2017 to 47% in 2018.

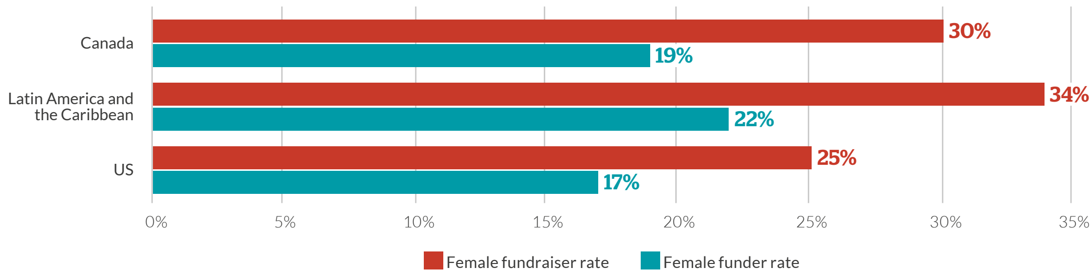
In P2P/Marketplace Consumer Lending, women have enlarged their participation among fundraisers from 38% in 2017 to 50% in 2018. Among funders, the gender rate also increased significantly, albeit from a smaller baseline, from 14% to 23%. P2P/Marketplace Business Lending also had the rate of female fundraisers rising from 18% in 2017 to 22% in 2018. However, for that model, the female funder rate dropped from the previous year, from 26% to 6%.

Balance Sheet Business Lending saw a reduction in female rate among fundraisers from 37% in 2017 to 30% in 2018, while female funder rate in this model was as small as 5%. With respect to Invoice Trading, female participation increased both among fundraisers from 17% to 19%, and funders, from 22% to 23% in 2018.

Equity-based Crowdfunding saw an increase in the female fundraiser rate, from 21% in 2017 to 23% in 2018. The female funder rate in this model dropped, from 34% to 31%.

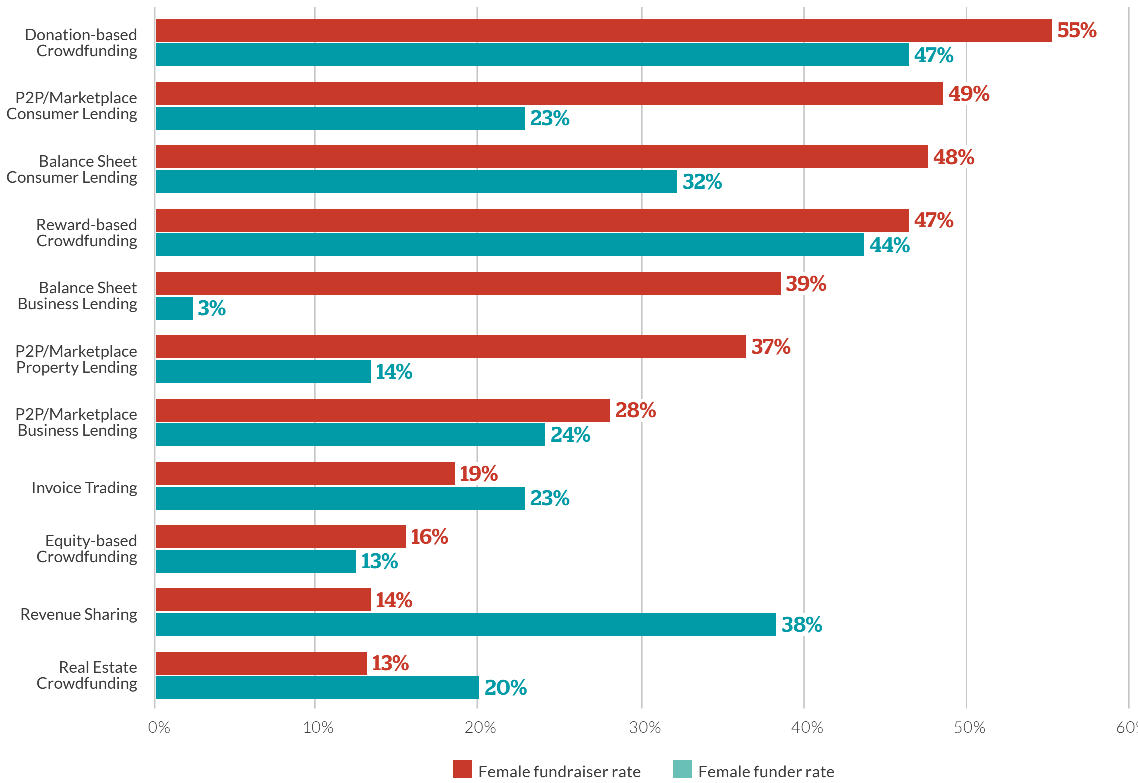
For Real Estate Crowdfunding, female rate dropped significantly for fundraisers, from 13% to 6%, as well as for funders, from 22% in 2017 to 13% in 2018.

Figure 5.23: Female Funder and Fundraiser Rates by Sub-region



LAC leads both the female fundraisers and funders rate, with 34% and 22% respectively. It is followed by Canada, with a 30% female fundraisers rate and a 19% female funder rate. In the US the female fundraiser rate is 25% and the female funder rate 17%.

Figure 5.24: Female Participation Rate by Key Models in LAC



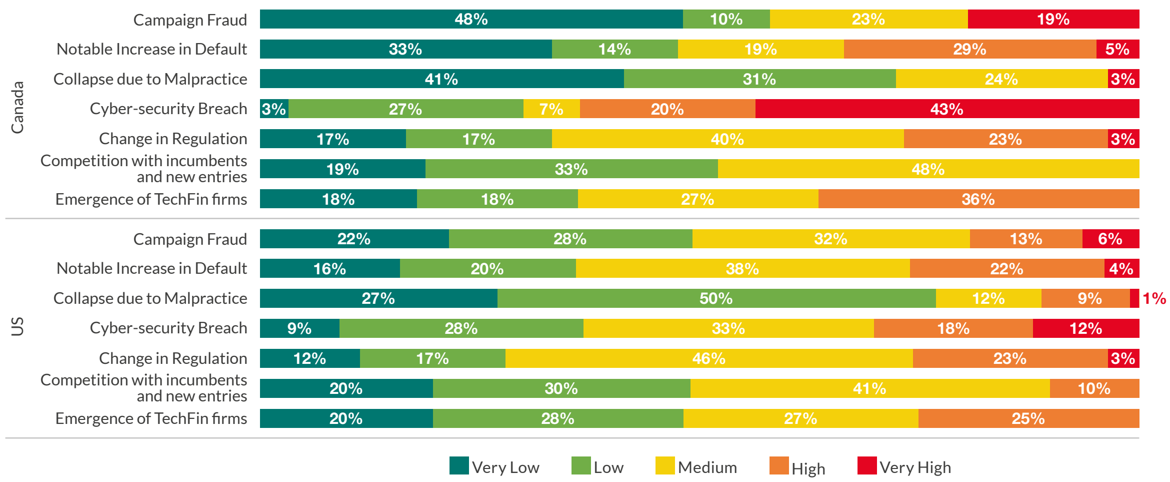
When we look specifically at female participation from key models just in LAC, we see considerably high rates of female fundraiser participation in certain models. Donation Crowdfunding, as per the over-all regional trend, has the highest rate of female fundraisers (55%). This was also the case for P2P Consumer Lending (49%) and Balance Sheet Consumer Lending (48%). High participation of female fundraisers was also observed in most Business focused models.

Interestingly, female investor or funder rates diverged more significantly across models, with only Revenue Sharing and Real Estate Crowdfunding having a higher proportion of female funders than that of fundraisers. Though over-all female funder rates were lower than those observed from fundraisers within most models, LAC has quite high levels of female participation when compared to the rest of the region, and against Europe and Asia.

Risk & Regulations in the US & Canada

Perception towards Risk

Figure 5.25: Perceived risks of platforms by region - 2018

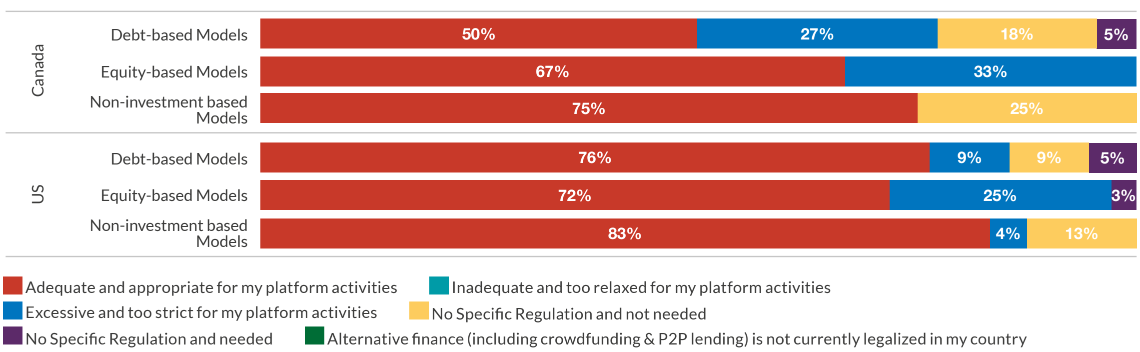


In Canada, firms are most concerned with Cyber-security risk (63% ranking this as a high to very high risk), followed by the Emergence of TechFins (36%), Notable Increase in defaults (33%) and Changes in Regulation (27%). Over-all, most Canadian firms registered relatively low levels of concern for most risk-factors.

US firms were most concerned with Cyber-security risk (30%), and Change in Regulation and Notable Increases in Default both ranked the same, with 26% of firms indicating these as High to Very High risks. A quarter for firms also noted the Emergence of TechFins as a high risk consideration.

Perception towards existing Regulation

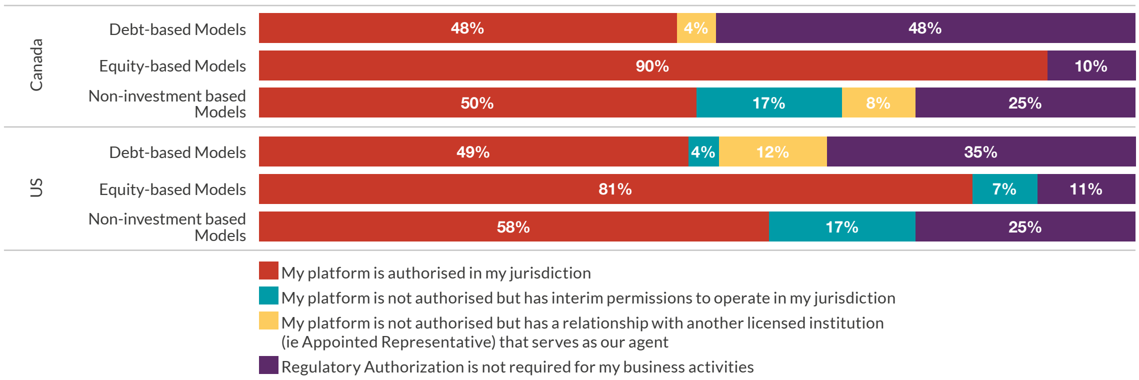
Figure 5.26: Perception towards existing regulation-2018



In the US, firms overwhelmingly viewed existing regulations favorably, with 76% of Debt-models, 72% of Equity-models and 83% of Non Investment-models noting regulation as 'adequate and appropriate'. A quarter of Equity-model firms viewed the existing regulation as 'excessive and too strict'.

Turning to Canada, there was a bit more divergence across model-categories, though on the whole firms seem to view existing regualtion favorably. Debt-models saw the most considerable divergence, with 50% indicating regualtion as 'adequate and appropraite', 27% as 'excessive and too strict', 18% noting 'no specific regulation and not needed' and a final 5% indicating that their activites fell under 'no specific regulation but was needed'. Equity firms also tended to view regulation favorably, with 67% noting it as 'adequate and appropraite' while 33% noted 'excessive and too strict'. 75% of Non Investment models noted regulation as 'adequate and appropraite' while a further 25% indicated that 'no specific regulation existed and was not needed'.

Figure 5.27: The extent of existing regulation-2018



When considering the extent to which firms are regulated, we note that a significant divide exists in how debt-models exist within Canada. Debt-models in Canada tend to be either formally authorised (48%), not authorised and not required to be (48%) or not authorised but working with an appointed representative (4%). This is less the case with Equity models, that almost unanimously tend to be authorised (90%).

In the US, Debt-models tend to have a similar authorization experience, with 49% noting that they are authorised, 4% noting interim permissions, 12% not authorised but with an appointed represenative in place and 35% not authorised with no need for authorisation. For Equity models, 81% are authorised, 7% have interim permissions and 11% operate without authorisation.

A Case Study on the CFPB's No Action Letter to Upstart Network

On September 14th 2017, the Consumer Financial Protection Bureau (CFPB) issued a no-action letter to Upstart Network Inc[24]. Upstart Network is an online lending platform for consumers to apply for personal loans, credit card and refinancing, student loans and debt consolidation. The key differentiation in their offering, for which they sought the no-action letter (NAL), is the use of alternative data to complement traditional factors for approval of credit[25]. By expanding the number and type of data sources used to assess credit history, Upstart's underwriting model has the potential lower the cost of credit and to expand access to credit for underserved consumer segments[26].

The use of alternative data for credit approval does carry potential risks, most significantly use of alternative data and emerging technologies such as machine learning, could cause the model to violate anti-discrimination laws. As a consequence, over the last 22 months the CFPB have worked to answer several key questions related to access to credit and fair lending including:

1. Does Upstart Network's use of alternative data and machine learning expand access to credit and reduce cost of credit compared to the traditional model?

2. Does Upstart Network's underwriting model result in greater disparities than the traditional model with respect to race, ethnicity, sex, or age?[25]

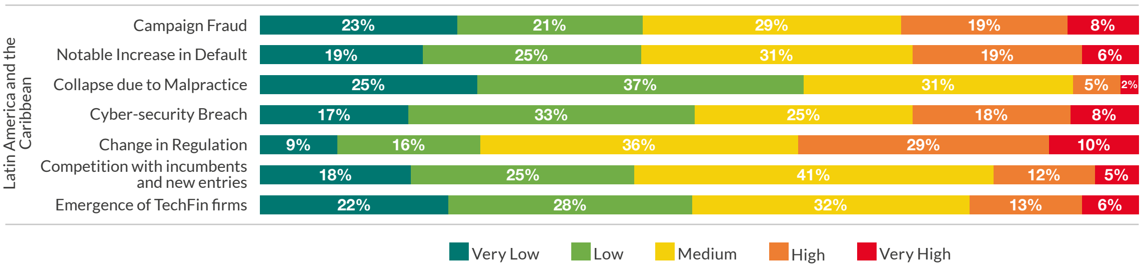
On consideration of these questions the CFPB yielded results that showed that the tested model approves 27% more applicants than the traditional model and yields 16% lower average APRs for approved loans[26]. The expansion of credit access was also reflected across segments of differing races, ethnicities and sexes. Furthermore, benefits for those usually approved by traditional methods were also found with "near prime" consumers with FICO scores from 620 to 660 approved twice as frequently. Other results show that applicants under 25 years of age are 32% more likely to be improved and consumers with incomes under $50,000 are 13% more likely to be approved.

These results demonstrate that Upstart's underwriting model has the ability to identify differences in risk between applicants with no or limited credit history. This enables Upstart and its bank partner to expand credit access and offer better loan terms to promising individuals with limited credit history. By complementing (not replacing) traditional underwriting signals with other variables that are correlated with financial capacity and repayment propensity, Upstart's model understands and quantifies risk associated with all borrowers—both those with credit history and those without[26].

The Upstart Network platform aligns with the CFPB's wider intention to explore ways that alternative data may be used to improve access and cost of credit[24]. The CFPB estimates that 26 million Americans are "credit invisible" meaning that they have no credit history. Another estimated 19 million have credit history that is insufficient to produce a credit score under most scoring models[24]. Alternative data could allow data sources such as bill payments, electronic transactions, and other information that may be less closely tied to a person's financial conduct and literacy to provide new insights and improve decisions in the credit process. The issuing of the NAL for Upstart demonstrates the potential of alternative data and emerging technologies in supporting communities underserved and disadvantaged by the traditional model. Further innovation could revolutionise credit scoring methods and support 45 million Americans in achieving financial stability and security.

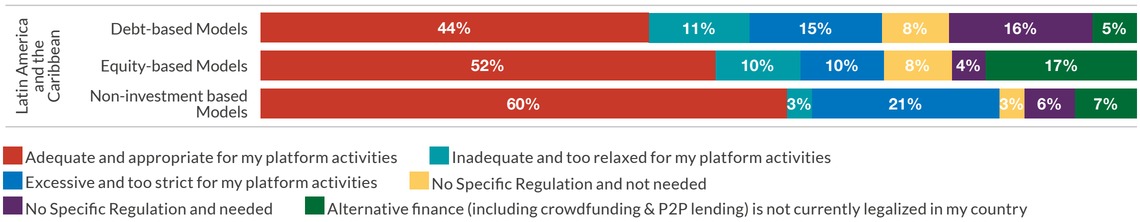
Risk & Regulations in LAC

Figure 5.28: Perceived risks of platforms by region - 2018



In LAC, '*Changes to regulation*' was the most prevalent concern for platforms, with 39% of respondents classifying this risk factor as high or very high. Campaign Fraud was also observed as high or very high risk by 27% of firms, and notable increase in defaults and cybersecurity breaches appeared as the third most significant risk factors.

Figure 5.29: Perception towards existing regulation-2018



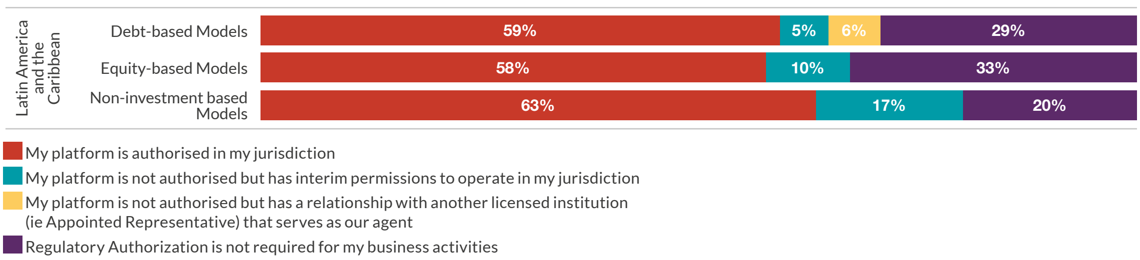
Across the region, regulatory adequacy is quite divergent. In the case of Debt-based model firms, 44% considered existing regulation as 'adequate and appropriate', 11% considered it 'inadequate and too relaxed', 15% 'excessive and too strict', 8% noted that there was 'no specific regulation and that it is not needed', 16% that there was 'no regulation but it was needed' and 5% claimed that alternative finance is currently not legalized in their country.

52% of Equity-based Platforms indicated existing regulation as 'adequate and appropriate', 10% consider it 'inadequate and too relaxed', 10% consider it 'excessive and too strict', 8% claim there is 'no specific regulation and it is not needed', 4% claim there is 'no specific regulation and it is needed', 17% claim alternative finance is not legalized in their country.

60% of Non-Investment Platforms considered existing regulation as 'adequate and appropriate', 3% considered it 'inadequate and too relaxed', 21% considered it 'excessive and too strict', 3% claim there is 'no specific regulation and it is not needed', 6% claim there is no specific regulation and it is needed while 7% claim alternative finance is not legalized in their country.

Extent of being regulated

Figure 5.30: The extent of existing regulation-2018



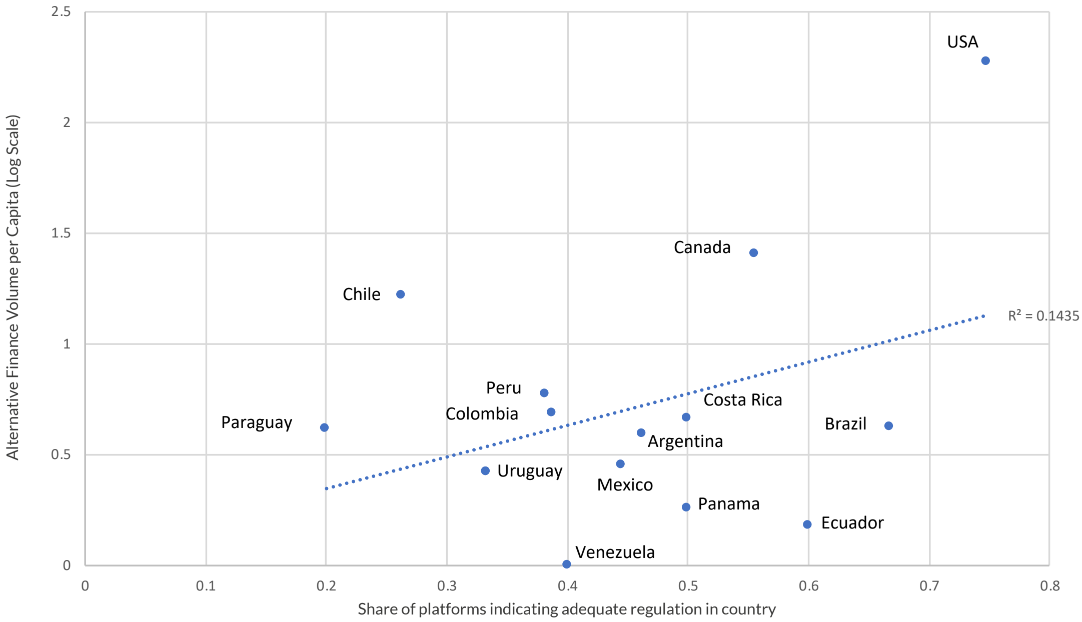
Given the divergent perceptions towards existing regulation across LAC, it is not surprising that the authorisation status of firms would also diverge significantly. When looking at debt-models, 59% were authorised within their jurisdiction, while a further 29% noted no authorisation needed for their operations. 5% were operating under interim permissions and 6% were utilising an appointed representative relationship. For Equity models, 58% were authorised, 33% were not and denoted that authorisation was not needed, and 10% were functioning with interim permissions. Finally, 63% of non-investment models had authorisation within their jurisdiction, 20% did not and 17% had interim permissions.

Regulatory Friendliness and Alternative Finance Volume per Capita

In our analysis of the relationship between perceived regulatory adequacy and volumes per capita in the Americas, we have only included countries where at least 4 platforms answered related questions. Accordingly, perceived regulation adequacy represents the relative share of platforms in country indicating regulation is "adequate and appropriate for my platform activities".

Similar to other regions, our findings show a positive effect, where the more adequate national regulation is perceived to be by platforms the higher the per capita volumes in the same country.

Figure 5.27: Perceived Regulation Adequacy vs. Volume per Capita 2018 (Log Scale)
Americas - All Platforms



6. A Regional Discussion on The Middle East

Chapter 6: A Regional Discussion on The Middle East

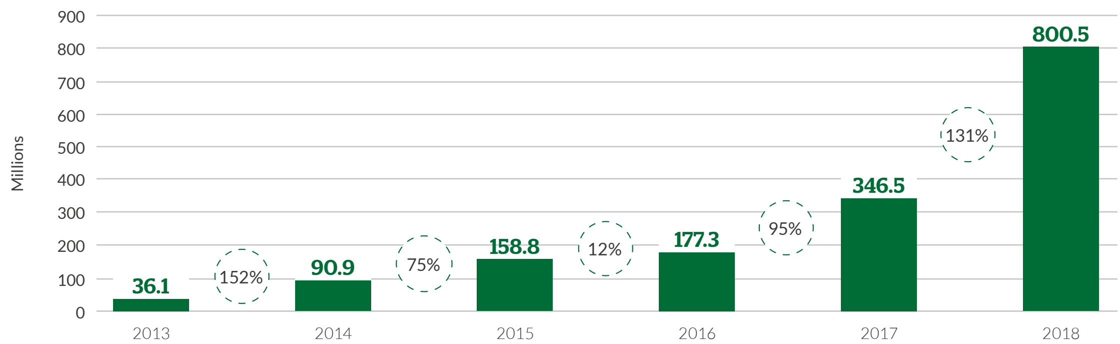
Total Regional volume

The online alternative finance industry in the Middle East has experienced substantial growth, a trend which has accelerated rapidly in the last few years. Between 2013 and 2018, over $1.61 billion was raised through these channels. Nearly half of this total figure was raised in 2018, when a total of $800.5 million was recorded, more than doubling the volume raised in 2017 (see figure 1). The average annual growth in the Middle East alternative finance sector over the last six years was 93%, showing relatively stable growth year on year.

In 2018, all 13[29] countries included in our sample saw impressive growth. The vast majority of volume came from domestically based firms, accounting for $771 million (96%) of the region's total volume. This is a significant shift from 2017, when only 66% of activity stemmed from domestic firms.

It is worth noting here that, with the exception of Israel, most Middle Eastern markets have seen relatively small volumes in recent years, making reporting more prone to relative strong year-on-year fluctuations in absolute figures and percentage terms for these countries.

Figure 6.1: Total Online Alternative Finance Volume in the Middle East (2013-2018)



Total volume by model (2016-2018)

As seen in figure 2, five different models dominated the alternative finance space in the Middle East in 2018- P2P Property Lending; P2P Consumer Lending; P2P Business Lending; Invoice Trading and Equity Crowdfunding. Combined, these top five models accounted for 97% of the Middle East's total online alternative finance volume in 2018.

The largest model by volume in the Middle East was P2P Property Lending. This model, which only reported regional volumes for the first time 2017, saw an exponential growth of 827% for 2018, the highest year on year growth rate for 2017-18. Volumes increased from $60 million in 2017 to $556.46 million in 2018. It accounted for 70% of total regional volumes in 2018, thus emerging as the leading model in the region.

P2P Consumer Lending was the second leading model, with $97.12 million in market volumes in 2018, accounting for 12% of total volumes. The model has raised over $256 million between 2014 and 2018, with an annual average growth rate of 286% over this period. However, the model experienced a decline of 17% in activities for 2017-18, after reporting growth rates of 596%, 313% and 254% during 2014-15, 2015-16 and 2016-17, respectively.

Next, P2P Business Lending raised $47.22 million in 2018, with a year on year growth rate of 95% since 2017. Over the last five years, this model has reported $92.37 million in transaction volumes in the Middle East, 51% of which came in in 2018. Invoice Trading, which first reported volumes in

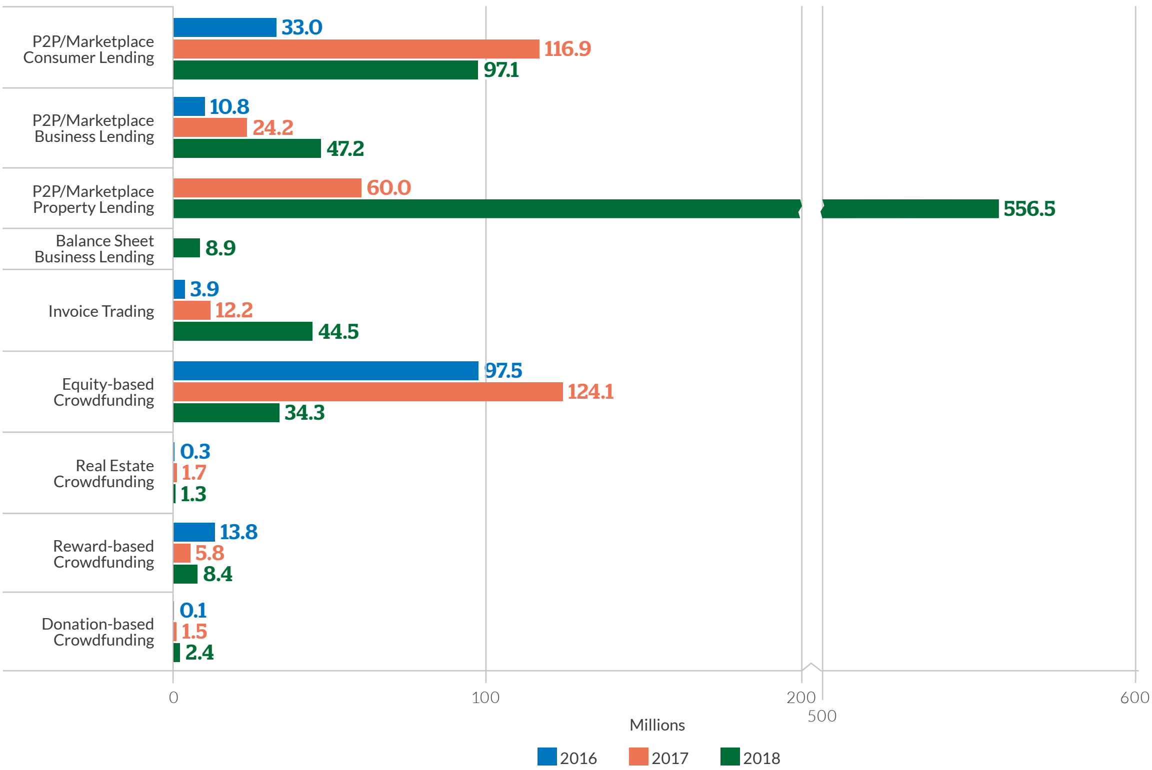
2016, has seen a tremendous growth in the last two years- increasing from $3.86 million in 2016 to $44.46 million in 2018, at an annual average growth of 240%. Each of these models contributed for 6% of year's volume.

Equity-based Crowdfunding was the key exception to this otherwise consistent trend of increase across models. Although it was the leading driver of volume in 2017 (at $124.14 million), its volume fell by 72% to $34.29million for 2018. The model accounted for mere 4% of total transaction volume in 2018, compared to 36% in 2017. Interestingly, this was the first double digit decline for the model since its inception. Over the last six years, the model has raised $448.45 million from platforms throughout the Middle East.

Outside this top five models, various other alternative finance firms operated in the Middle East in 2018. Of these smaller models, Balance Sheet Business Lending was the largest- it reported regional volumes of $8.87 million in 2018, the first year for which they reported. Real Estate Crowdfunding accounted for $1.34 million volumes in 2018, a decrease of 20% from its 2017 figure of $1.67 million.

Non-financial models gained back their momentum in 2018, following a period of general decline. Combined, these non-financial models accounted for 1.3% of total volumes in the region for 2018. Reward-based Crowdfunding grew by 45% year on year between 2017 and 2018, rising to $8.41million- an increase which came after they experienced a decline in activities and fell 58% in 2016-17. Over the last six years, this model has raised nearly $50 million, at an annual average growth of 58%. Donation-based Crowdfunding saw a similar increase in its activities in 2018, growing by 59% to raise $2.37 million in 2018. The model had previously lost nearly all of its volume during 2015-16, falling by 99% from $7.28 million to $0.07 million.

Figure 6.2: Online Alternative Finance by Model for the Middle East (2013-2018)



Top 3 countries by each model type

To examine in more granular detail the state of alternative finance in the Middle East, Figure 3 identifies the top three countries by volume for key model types in 2018. Israel continued to dominate the alternative finance industry in the Middle East, with the highest volume for six out of nine models in the region. The United Arab Emirates led in volumes for two other models, and was second to Israel in a further two. Additionally, Lebanon, Palestine, Kuwait and Jordan made up the top 3 contributors for the models.

Israel was the market leader for the P2P Property Lending sphere, with a total volume of $556.46 million in 2018. It was also the market leader in P2P Consumer Lending ($85.89 million), Equity-based Crowdfunding ($29.30 million), P2P Business Lending ($28.38 million), Reward-based Crowdfunding ($8.17 million) and Donation-based Crowdfunding ($0.92 million). Notably, the country accounted for all the Middle Eastern volumes for P2P Property Lending and over 85% of total regional volumes for P2P Consumer Lending, Equity-based Crowdfunding and Reward-based Crowdfunding. Additionally, Israel's volume contributed the second largest amount for Invoice Trading ($16.69 million).

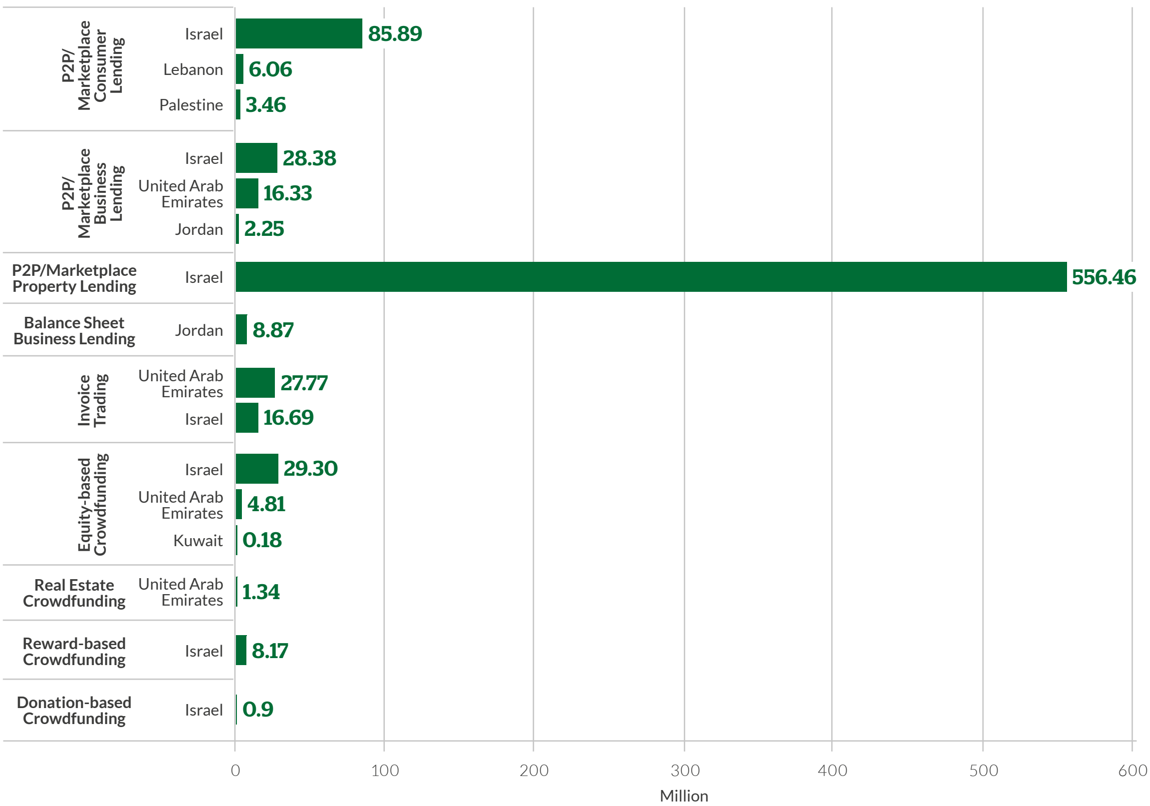
The United Arab Emirates was second to Israel in overall volume, it was the market leader for Invoice Trading ($27.77 million), contributing 62% of the model's total volume. It also led for Real Estate Crowdfunding ($1.34 million), accounting for all the model's volume for 2018. The UAE also contributed the second highest volume to Equity-based Crowdfunding ($4.81 million) and Business Lending ($16.33 million).

Jordan was the market leader for Balance Sheet Business Lending, contributing for the model's entire volume ($8.87 million) for the Middle East in 2018. Additionally, Jordan had the third highest volume of P2P Business Lending ($2.25 million).

Lebanon and Palestine were the second and third top contributors for P2P Consumer Lending with volumes of $6.06 million and $3.46 million respectively. Kuwait was the third highest market by volume for Equity-based Crowdfunding, with a volume of $0.18 million.

When excluding Israel as regional outlier, it becomes apparent that the Middle East exhibits some of the lowest regional volumes of alternative finance globally, and some of the largest unfulfilled potentials. This can be explained by the dichotomy between rich economies with limited needs for such services (e.g. most Gulf States) and developing Middle Income economies with greater needs (e.g. Jordan, Lebanon, and Iraq). However, it is possible that adherence to Islamic finance practices, may constrain developments in the lending sphere. While some lending activities are recorded in middle income economies such as Jordan, Lebanon and Palestine, these are mostly associated with pro-social lending rather than profit oriented investments. The UAE represents the only exception in the Arab world with respect to its experiments with other investment models such as Invoice Trading and Equity Crowdfunding.

Figure 6.3: Top 3 Countries by Model - 2018



The vitality of alternative finance business funding

Ensuring the strength and vitality of the SME sector is seen as a priority for policymakers throughout the Middle East. As has been shown over the last few years, particularly in our reports, the online alternative finance sector has grown to become a key funding mechanism for entrepreneurs, start-ups, as well as micro, small and medium-sized businesses globally.

To be able to continue to track the development of business focused finance in the region, the research team calculated the total online alternative funding attributed to business through aggregating the 2018 volumes from: P2P Business Lending, Balance Sheet Business Lending, Invoice Trading, Equity-based Crowdfunding, Debt-based Securities, and Revenue/Profit Sharing. Relevant volumes that were specifically attributed to businesses by P2P/Markeplace Consumer and Property Lending, Real Estate Crowdfunding, as well as Donation-based and Reward-based Crowdfunding models were also included. 35% of web scraped reward-based crowdfunding volume was attributed to business funding. Fundraising for projects unrelated to a business were excluded from this figure.

Business specific alternative finance volume was $759.78 million in 2018, accounting for nearly 95% of the Middle East's overall alternative finance volume. This is a significant growth of 243% from the 2017 business volume of $221.56 million. Much of this growth can be attributed to P2P Property Lending, which reported an exponential growth of 827% between 2017 and 2018.

Of the total volume which businesses raised through alternative finance in the Middle East in 2018, 95.3% ($724.1 million) was generated through Debt-based models, as seen in figure 5. Interestingly, the dominance of lending models remains even when excluding Israel, implying that debt also dominates in majority Muslim countries. 4.51% ($34.3 million) was through Equity-based models and the remaining 0.18% came from non-investment models such as Reward-based or Donation-based Crowdfunding. This dominance of debt-based models markets a significant change from previous years, with the portion derived from Equity-based models having declined considerably from 56% in 2017 to 4.51% in 2018.

Figure 6.4: Overall SME finance annual volume by year

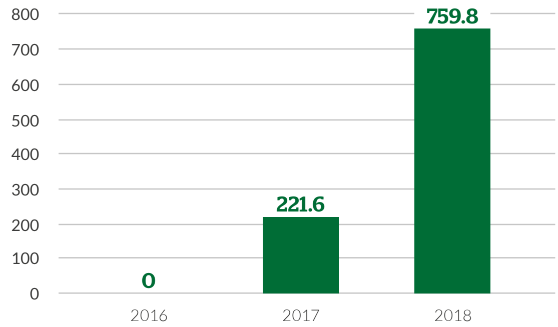
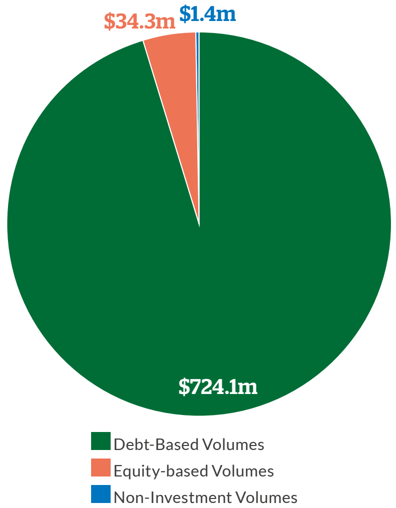


Figure 6.5: Debt vs Equity vs Non-investment models Online Alternative Business Finance - 2018



Institutionalisation

To truly understand the alternative finance market across the continent, we need to understand who is making use of it. We thus observed how institutions interacted with alternative finance platforms. In tracking the proportion of volume that had originated from these institutional investors, we hope to shed light on the different ways that institutions have engaged and collaborated with alternative finance platforms.

In the Middle East, investor activity was by and large driven by individuals rather than institutions. The overall percentage of institutionalisation was at 11.8% for the region.

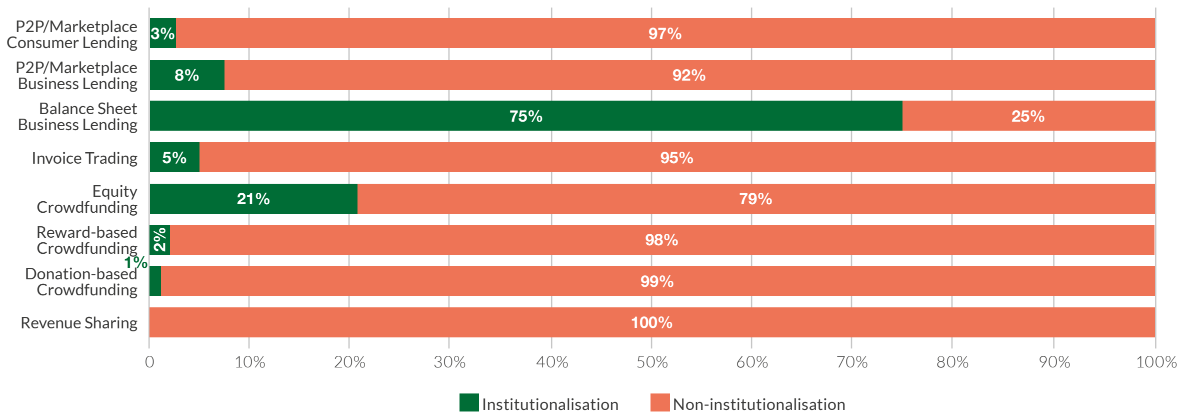
Balance Sheet Business Lending, which reported regional volumes for the first time in 2018, had the highest proportion of institutional funding

(75%), which contributed to $6.70 million to their total volume. Equity-based Crowdfunding had the second highest proportion of institutional investment, drawing 21% of their funding, $7.18 million, from this source. Although this figure marks an increase of 8% compared to 2017, a greater increase in non-institutional funding meant that the total volume of institutional funding for this model actually declined from a 2017 peak of $10.04 million.

The volume of funding which P2P Business Lending and Invoice Trading firms derive from institutional investors has increased both in terms of volumes and proportion for 2018. Nearly 8% of P2P Business Lending volumes ($3.64 million) came from institutional investors, compared to 1.8% ($0.44 million) during 2017. Similarly, Invoice Trading raised 4.7% ($2.08 million) of funds from institutional investors, compared to 2.5% ($0.31 million) in 2017.

The remaining alternative finance models had much lower levels of institutional participation. For instance, P2P Consumer Lending ($2.43 million) and Reward-based Crowdfunding ($0.21 million) each had 2.5% of their funds coming from institutions in 2018- a proportion which had decreased from 7% and 9% respectively in 2017. Donation-based Crowdfunding had the lowest proportion of institutional funding, at 1.4% ($0.03 million) of total funding received.

Figure 6.6: Percentage of Institutional Funding across Key Models in 2018



Innovation

Changes to Business Model and Products

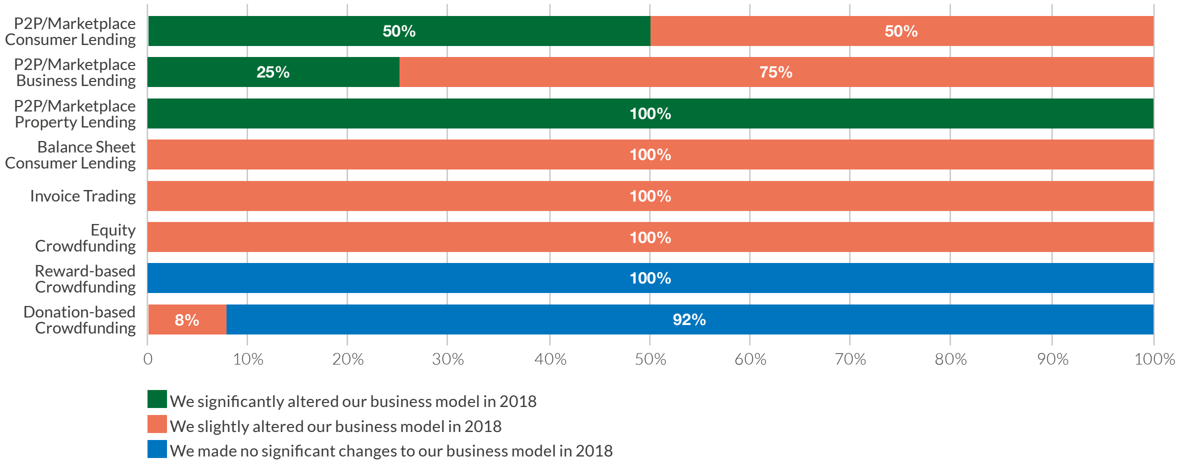
As a new and evolving market, firms operating in the alternative finance space frequently make changes to their model. To better understand the degree of evolution among firms, platforms across the region were asked whether they had made any changes to their business model in 2018. In particular, the research team wanted to understand if platforms were modifying the operations of their business through new practices or from moving into new models within the taxonomy, catering to different investors or different income streams.

Overall, in the Middle East, almost all the platforms other than non-financial models indicated that they had either significantly or slightly altered their business model in 2018.

As indicated, all the platforms operating under the P2P Property Lending model in the region have had major changes to their business model during 2018. Similarly, Balance Sheet Business Lending, Invoice Trading and Equity-based Crowdfunding platforms all indicated they made moderate changes to their business model. The platforms conducting P2P Consumer Lending all made changes to their business model, with an even split between whether they had made significant or slight changes. The majority (75%) of the P2P Business Lending platforms specified moderate changes to their model.

By contrast, almost all the platforms operating under non-financial models (ie Reward-based and Donation-based crowdfunding) noted that they had made no significant changes to their business model during 2018.

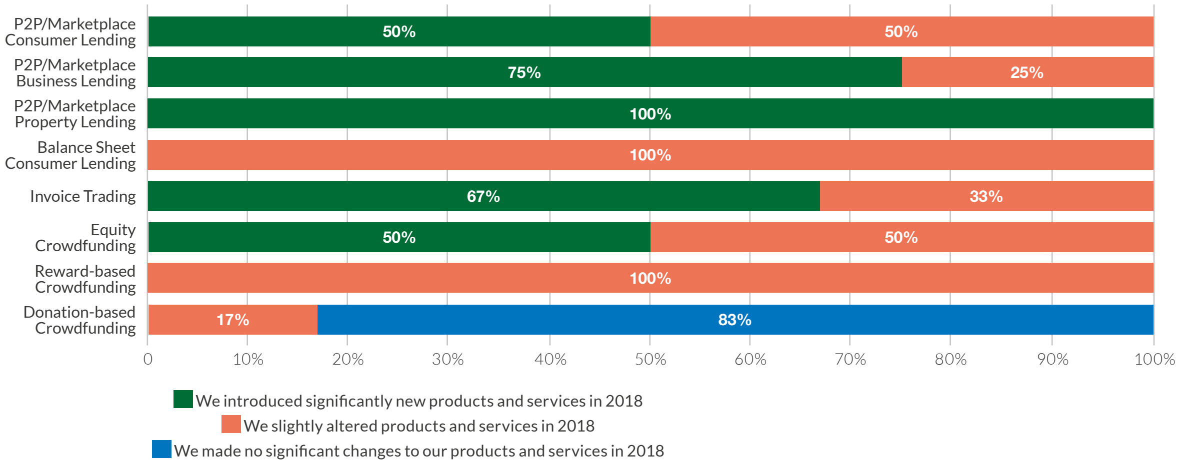
Figure 6.7: Changes to business model by model-2018



With regard to changes in product and service offerings, there were some differences when compared to which firms made changes to their business model. With the exception of Balance Sheet Business Lending and non-financial models, 50% or more of all models introduced significantly new products and services during 2018. Model types which introduced a significant degree of new products and services in 2018 included P2P Property Lending (where 100% of platforms did so), P2P Business Lending (75%), Invoice Trading (67%), P2P Consumer Lending (50%) and Equity-based Crowdfunding (50%).

By contrast, Balance Sheet Business Lending and Reward-based Crowdfunding platforms indicated that only slight changes were made to their existing products and services in 2018. A majority (83%) of the Donation-based Crowdfunding platforms specified no significant changes to their products and services during the year.

Figure 6.8: Changes to products and services by model-2018



Research and Development Initiatives

Platforms were asked to indicate the research and development priorities that they were actively pursuing. Platforms in the Middle East tended to focus on three overarching areas of R&D – Efficiency Enhancements, Customer Service, and Customer Experience. For most of the models, R&D efforts were not too focused on any particular initiative. Overall, Payment Processing was reported as the leading area of focus, followed by Community Management Features and Tools and Customer Verification.

P2P Business and Property Lending platforms tended to devote resources to developing Payment Processing, Customer Verification and Community

Management Features and Tools. Notably, all Invoice Trading platforms reported that they had focused their R&D efforts on the development of Payment Processing only.

For the remaining models, R&D initiatives were noted in several areas but at relatively low levels. P2P Consumer Lending platforms reported that they had R&D initiatives in all the areas examined except that of Gamification Features for User Engagements, with their highest level of R&D focus being Customer Verification and Community Management Features and Tools (at 20% each).

Similarly, Equity-based Crowdfunding and Donation-based Crowdfunding had R&D initiatives in all the areas examined. The highest share of these platforms focused on the development of Community Management Features and Tools, Social Media and Fundraiser Promotional Tools, Customer Relationship Management Systems and Gamification Features for User Engagements, at 15% each for Equity-based Crowdfunding, while 14% of Donation-based Crowdfunding platforms noted efforts in Process Streamlining and Automation.

Across all business models, the initiatives with the least amount of interest were E-learning and Gamification Features for Users.

Figure 6.9: R&D Initiatives by model-2018

	Payment Processing	Customer Verification	Process Streamlining and Automation	Artificial intelligence and Performance Enhancement Features	Community Management Features and Tools	Social Media and Fundraiser Promotional Tools	Customer Relationship Management Systems	E-learning Features for Users	Gamification Features for User Engagements
P2P/Marketplace Consumer Lending	10%	20%	10%	10%	20%	10%	10%	10%	0%
P2P/Marketplace Business Lending	50%	25%	0%	0%	25%	0%	0%	0%	0%
P2P/Marketplace Property Lending	33%	33%	0%	0%	33%	0%	0%	0%	0%
Balance Sheet Consumer Lending	0%	14%	14%	14%	14%	14%	14%	14%	0%
Invoice Trading	100%	0%	0%	0%	0%	0%	0%	0%	0%
Equity-based Crowdfunding	8%	8%	8%	8%	15%	15%	15%	8%	15%
Revenue Sharing	0%	0%	17%	17%	17%	17%	17%	0%	17%
Donation-based Crowdfunding	13%	13%	14%	7%	13%	13%	7%	7%	13%

Internationalisation

Platforms responded to a series of questions related to the proportion of their transactions which could be considered cross-border flows. In particular, the research team wanted to understand the proportion of funds which could be considered inflows (i.e. funds from investors which came from abroad) and outflows (i.e. funds which went to fundraisers abroad).

Figures 6.10 and 6.11 show that alternative finance platforms in the Middle East tend to rely more on domestic volumes rather than cross-border transactions. In 2018, nearly 10% of the region's volumes were attributed to cross-border inflows, while the cross-border outflows were less than 1% of total volumes.

Equity-based Crowdfunding had the highest cross-border activity in 2018, with 73% of its transaction volume attributed to cross-border inflows. The increase in international presence is largely driven by greater interest in Israel from American- and European-based firms, in particular regarding SME finance. Donation-based Crowdfunding had the second highest percentage of cross-border inflows, at 17% of total volumes. This is followed by P2P Business Lending and Invoice Trading, with 11% and 9% of their respective volumes coming from outside the region. However, these models, with the exception of donation-based crowdfunding, each had 1% of their total volumes associated with cross-border outflows.

Inflow and outflow by proportion of volume

Figure 6.10: Funding Inflow and Outflow rate by Region -2018

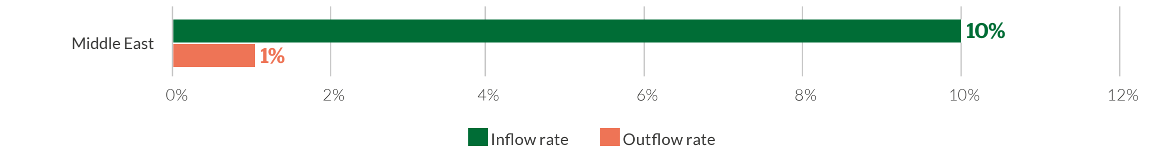
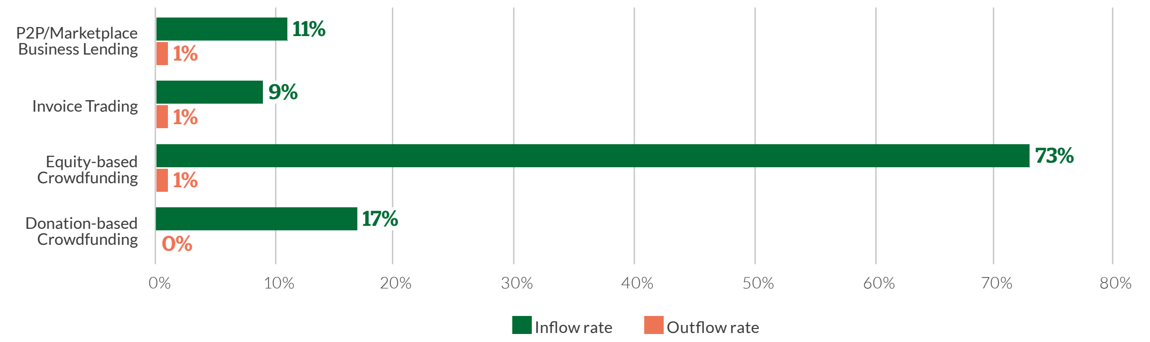


Figure 6.11: Funding Inflow and Outflow rate by Models -2018



Internationalisation Strategy

In general, the Middle East alternative finance sector is more domestically focused than internationally focused. The most popular Internationalisation strategy across the region was having a global website and brand, with 74% of platforms opting for this approach. This strategy was utilized by all Real Estate Crowdfunding platforms, 86% of Donation-based Crowdfunding platforms, 83% of P2P Consumer Lending platforms, 80% of Reward-based Crowdfunding platforms, and 33% of Equity-based Crowdfunding and P2P Business Lending platforms.

The next popular strategy utilized by platforms, with 19% of firms opting for it, was that of utilizing a global brand but localizing the website to the particular market. This was used by all Invoice Trading and P2P Property Lending platforms, 67% of P2P Business Lending platforms, 33% of Equity-based Crowdfunding platforms, 17% of P2P Consumer Lending platforms, and 10% of Donation-based Crowdfunding platforms.

Another 5% of platforms indicated no international expansion strategy and mainly relied on local website and brand only. This was especially the case for platforms with non-financial models, as seen in 20% of Reward-based Crowdfunding and 3% of Donation-based Crowdfunding platforms. Finally, the remaining 2% of platforms were using intermediary/aggregator website for institutionalisation- a trend mainly seen in Equity-based Crowdfunding platforms, where it was adopted by 33% of firms.

Figure 6.12: Internationalisation Strategy by Region-2018

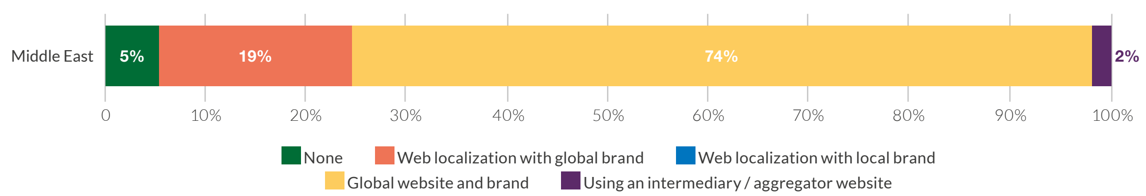
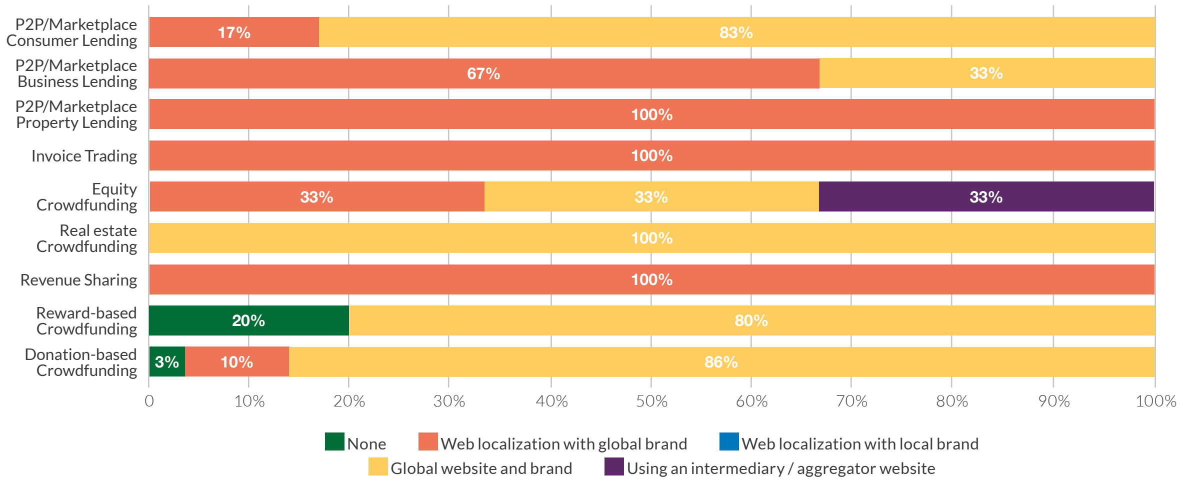


Figure 6.13: Internationalisation Strategy by Model -2018



Financial Inclusion

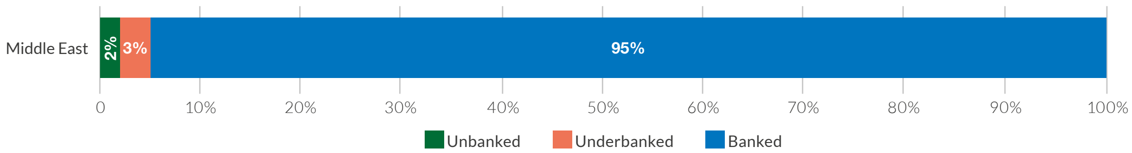
The Banked Status of Borrowers

To have a more complete understanding of the impact of online alternative finance on financial inclusiveness, it is important to understand the banked status of individuals utilizing the platforms. To do this, platforms were asked to identify the proportion of their platform users that were 'unbanked' (were not served by or do not have access to any traditional financial service), 'underbanked' (users that have access to some basic financial services/a bank account, but do not have access to a complete suite) and 'banked' (users that have access to a full suite of financial services).

In the Middle East, the borrower userbase primarily consisted of banked individuals, with a total of 95% of users defined as banked. Underbanked and unbanked accounted for the remaining 3% and 2% of borrowers respectively. This could signify that borrowers are utilizing these online alternative channels mainly as an additional means of finance to the existing sources.

In this sense, so far, alternative finance has not served as a force for democratization of access to finance in the Middle East.

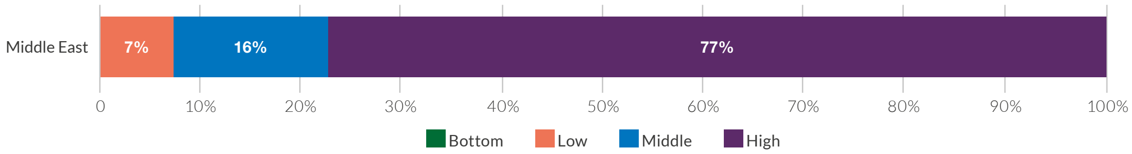
Figure 6.14: Banking Status of Borrowers -2018



It is also important to examine the income status of funders involved in online alternative finance. In the Middle East, the majority of the funders on alternative finance channels were identified as High-Income individuals, at 77% of the total.

Middle-Income category funders were the next largest group of funders, at 16%, and the remaining 7% of funders base were classed Low-Income individuals. There was no participation from the lowest income groups.

Figure 6.15: Income Status of Funders -2018



Gender Dynamics

Understanding whether and to what extent alternative finance plays a role in increasing financial inclusion and in bridging systemic gender gaps for both funders and fundraisers deserves greater attention. However, there is currently only limited evidence-based research. Over the past few years, the CCAF has sought to track female participation in order to better understand the demographics of alternative finance on a regional and global level.

At 42%, the female funder rate in the Middle East was higher compared to the fundraiser rate (36%). In the Middle East, like in other regions, non-investment models continue to attract highest proportion of female participation.

In 2018, Donation-based Crowdfunding had the highest levels of female market participation as both fundraisers and funders, accounting for 78% and 35% respectively. Compared to 2017, the proportion of female fundraisers increased from 36%, while the proportion of female funders dropped from 46%.

Equity-based Crowdfunding had the second highest level of female fundraisers, at 67%, up considerably from 2017's rate of 17%. However, this model continued to have the lowest levels of female funders across all the models, at 13% (up from 7% in 2017).

Nevertheless, such share of female equity fundraisers may provide an indication that alternative finance may serve as a channel for circumventing gender biases that are even more prevalent in the Middle East than most other regions

P2P Lending models (Consumer and Business Lending) had very similar levels of female funder participation, at 35% and 37%, respectively. However, at 44% P2P Consumer Lending had more than twice the rate the women fundraisers than P2P Business Lending, which had only 20%. This represented an increase from 2017 levels, where P2P Business Lending had 11% of female fundraisers and 22% of funders.

Interestingly, there was an equal level of female participation (funders and fundraisers) for Invoice Trading, at 20%, an increase from 2017, when 10% of fundraisers and 15% of funders were female.

Figure 6.16: Percentage of Female Participation in the Middle East -2018

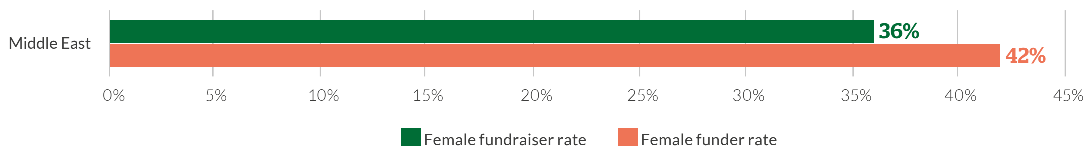
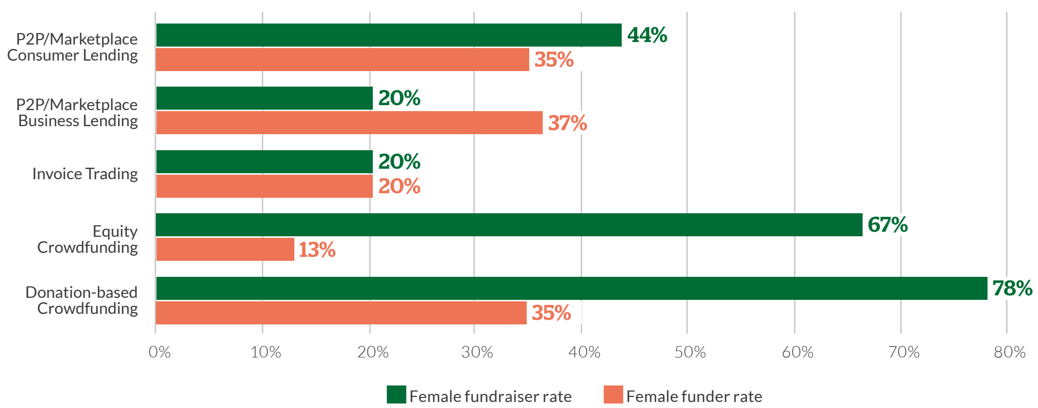


Figure 6.17: Female Participation by Model Type in the Middle East -2018



Risks and Regulation

The Extent and Perception towards Existing Regulation

Overall perceptions towards existing regulation in the Middle East have changed notably over the last year. Significant positive and negative shifts were seen, with clear differences between different business models. In general, the proportion of platforms considering existing regulation as adequate and appropriate increased significantly for equity-based and non-investment models, while the proportion declined for debt-based models.

In 2018, 46% of debt-based platforms viewed existing regulation to be adequate and appropriate, compared with 100% in 2017. Additionally, 38% of respondents felt regulation to be excessive and too strict, indicating a clear change in opinion from the last year. The remaining 15% of firms thought there was no specific regulation and that this was needed. 69% of debt-based platforms operating in the region indicated that their platform was authorised to operate in their jurisdiction, while the remaining 31% stated they were not authorised but carried an interim permission to operate.

The majority (90%) of the equity-based platforms surveyed viewed regulation to be adequate and appropriate, an increase from 50% in 2017. Those platforms who perceived regulation to be excessive and too strict dropped from 25% in 2017 to 10% for 2018. Notably, in 2017, a quarter of equity-based platforms indicated that there was no specific regulation covering their activities, but that this was needed. 90% of equity-based platforms operating in the region stated they were authorised to operate in their jurisdiction, however the remaining 10% mentioned that the regulatory authorisation was not required for their business activities.

There is a clear positive shift in the perception of regulation among non-investment platforms. In 2018, 76% of these platforms considered existing regulation as being adequate and appropriate, as compared to none in 2017, while the share of responses stating that no specific regulation was in place and was needed shrank from 50% to 9%. None of the non-investment platforms surveyed indicated that alternative finance was not yet legalized- a clear change from 2017 where 50% of firms did. Finally, 3% of the platforms viewed regulation as inadequate and too relaxed or excessive and too strict, whereas another 9% of platforms indicated no specific regulation and not needed.

The majority (55%) of the non-investment platforms operating in the region indicated they were not authorised to operate in their jurisdiction but carried an interim permission, while 36% of firms stated they were authorised to operate. Out of the remaining platforms, 6% stated that the regulatory authorisation was not required for their business activities and, 3% indicated they were not authorised but had a relationship with another licensed institution (i.e. an appointed representative) that serves as their agent.

Figure 6.18: Perception of Regulation by Model Type -2018

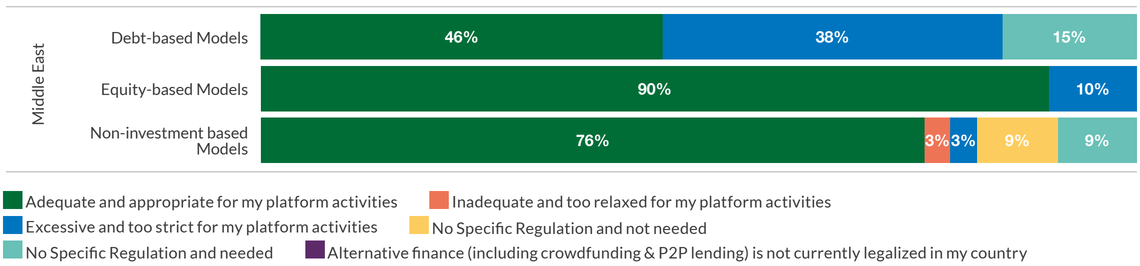
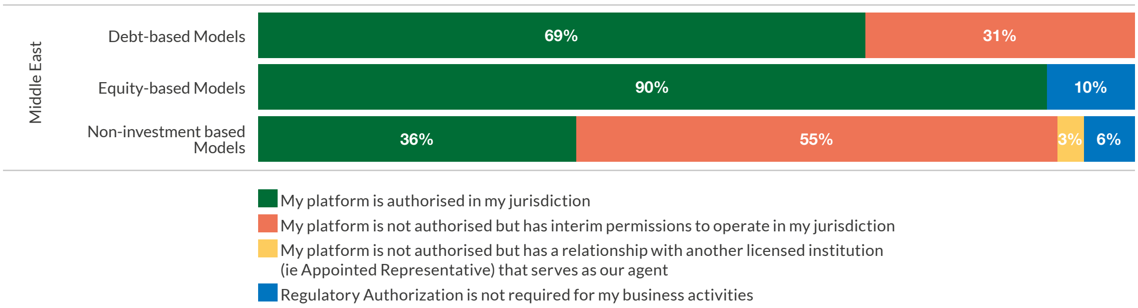


Figure 6.19: Extent of Existing Regulation by Model Type -2018



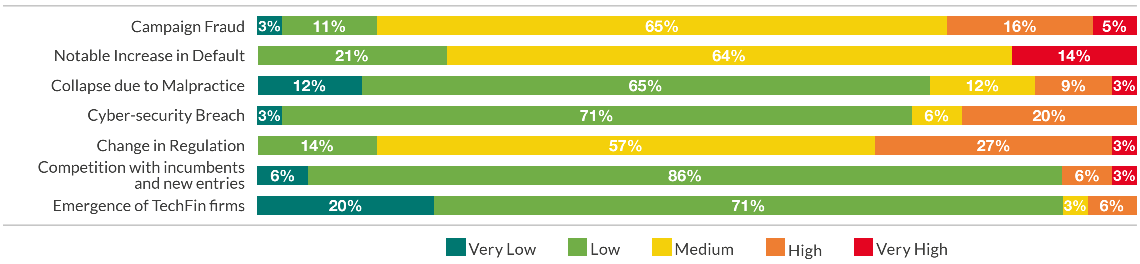
Perception towards Key Risk Factors

Respondents in the Middle East were asked to rank five risk-factors as they related to their platform's operations. Overall, most risks were viewed as 'medium' to 'low' risk by platforms, with the largest share of platforms viewing most of the risks as 'low.'

Changes to Regulation was seen as a 'medium' to 'high' risk by 84% of platforms. With regard to Campaign Fraud, 81% of platforms indicated it to be a 'medium' to 'high' risk. The perceived risk of a 'cyber-security breach', was considered 'low' by 71% of platforms, while another 20% viewed it as 'high.' Notable Increase in Default was viewed as 'moderate risk' with 86% of platforms associate it to 'medium' to 'low' risk. However, another 14% perceive it to be a 'very high' risk, highest among all the risk factors.

The risk of Collapse due to Malpractice, was viewed to be 'Medium' to 'very low' risk by 88% of respondents. Finally, the emergence of TechFin Firms and Competition with incumbents and new entries, were seen as 'low' to 'very low' risk by more than 90% of platforms.

Figure 6.20: Perceived risks of platforms by region - 2018



7. A Regional Discussion on Africa

Chapter 7: A Regional Discussion on Africa

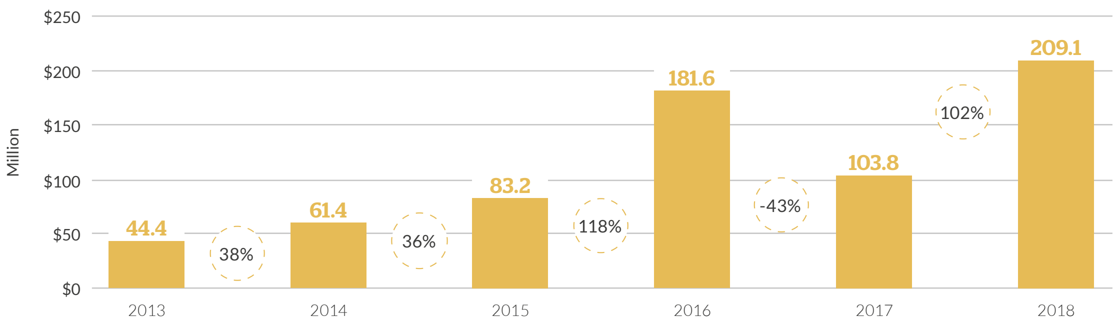
Total Regional Volume

Total volume by year

Overall, the alternative finance market across Continental Africa raised $209.1 million in 2018. This represents a substantial increase of 102% from the 2017 volume of $103.8 million. This increase marks a return to the previous trend of continued growth in Africa, a trend which has seen its volume increase from $44.4 million in 2013 to $209.1 million in 2018. As seen in chart 7.1, this increase has been due to continuous year on year growth, with the exception of 2017.

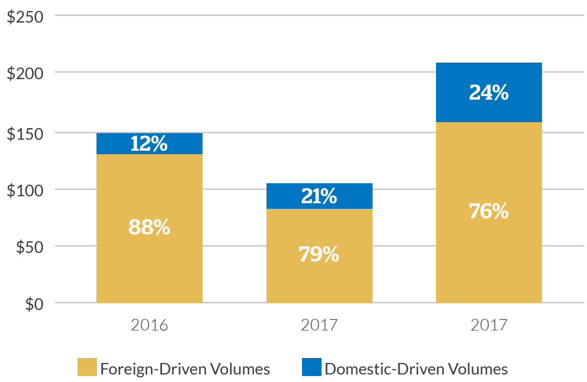
Figures cover 38 African countries and territories, and excludes 15 countries and territories for which no alternative finance activity was reported[30].

Figure 7.1: Total Online Alternative Finance Volume in Africa (2013-2018) USD



This continuing increase can be partially attributed to the continued growth of African-based platforms. Although platforms based outside the Continent continue to dominate the market, and are responsible for the majority of African alternative finance volumes, this dominance is gradually weakening. Domestic firms' share of the market has increased from 21% in 2017 to 24% in 2018, capturing almost a quarter of the market, and double their 12% market share in 2016. This increase can be at least partially attributed to recent regulatory changes. By making the regulatory environment more enabling, these changes have contributed to the growth of domestic FinTech ecosystems as new firms are established and, more crucially, existing firms are better able to grow and expand. As the impact of these changes continues to be felt, and further reforms continue to be enacted, domestic platforms look likely to continue to increase their market share in the future.

Figure 7.2: Proportion of Volume Derived from Domestic vs. Foreign Firms, Africa, 2016-2018, USD



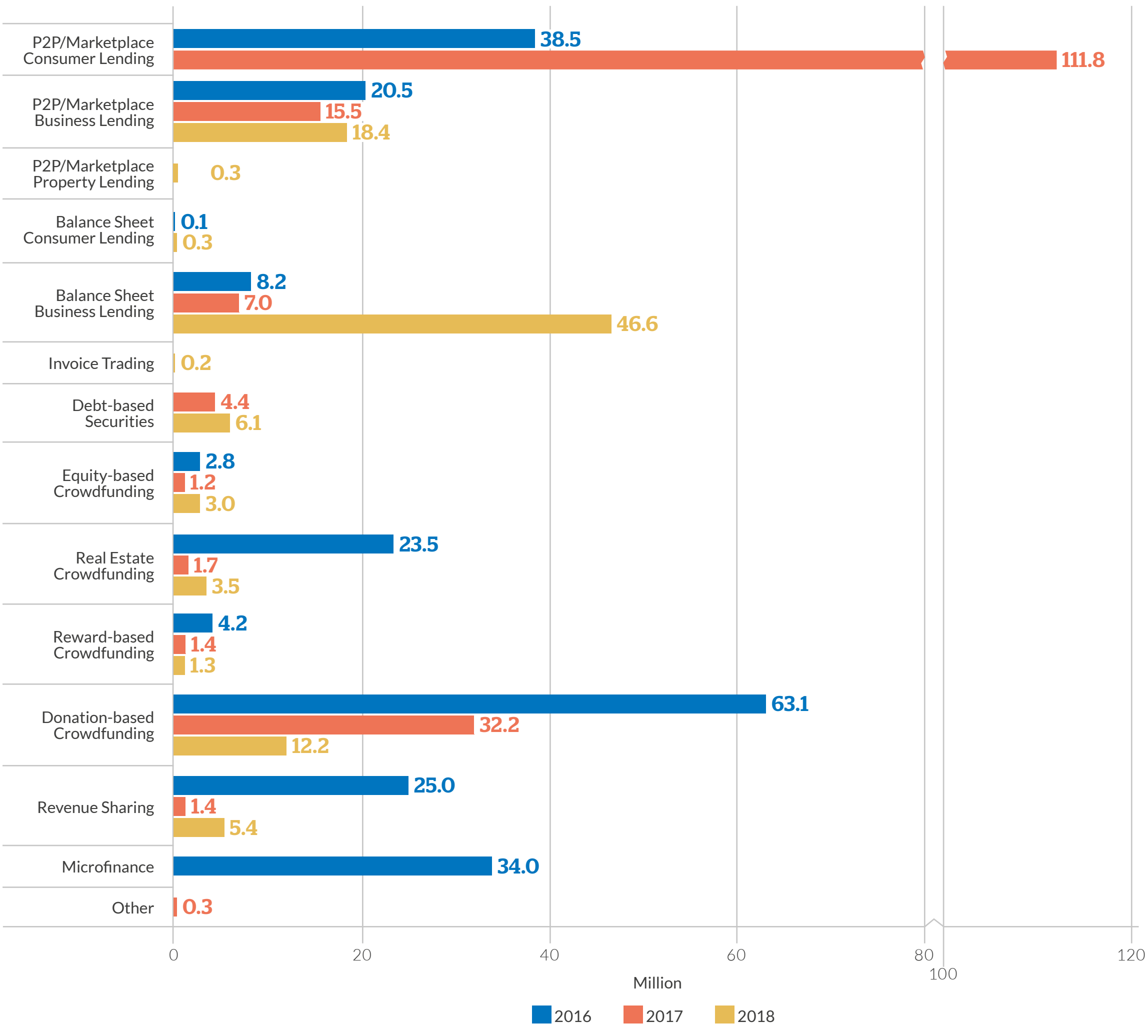
However, these figures should be treated with a certain degree of caution, as recent research shows that domestic volumes frequently occur via means other than formalised platforms, and the rates of domestically-driven volumes may therefore be underestimated in the above figures. Evidence suggests that Africans haven't fully adopted the use of formalised crowdfunding platforms, due to costs and trust issues. Instead, fundraisers frequently create funding groups on regular freely available social media applications (e.g. WhatsApp, Viber) in combination with mobile money transfers, and operate via public recording of contributions in these groups' communication channels. Our report is based on information provided by platforms. We are unable to capture and estimate this informal variant of crowdfunding executed outside formalised platforms, despite its growing popularity, as it constitutes private content on private social media accounts. Accordingly, we believe our figures underestimate alternative finance in Africa due to omission of informal fundraisers via social media applications.

Total volume by model (2016-2018)

In 2018, P2P Consumer Lending was the dominant model across the African continent, with 53% of market share compared to other platform types. This represents a substantial increase from its 37% market share in 2017, and demonstrates an increasingly imbalanced market. The second most commonly used model in 2018, by market volume, was Balance Sheet Business Lending, whose $47 million volume represents a 22% market share.

This growth has come as other models have declined. While P2P business lending has retained roughly similar funding volumes over the last three years, non-investment models in particular have seen a general decline. This is most notable in Donation-based Crowdfunding, which has declined from its 2016 peak of $63 million to a volume of only $12 million in 2018- where it now has a mere 6% market share. One again, it is here assumed that much donation crowdfunding activities takes place informally via private social media accounts and outside formal platforms. Other platform types, such as Equity-based and Reward-based Crowdfunding, have seen their volumes remain low and constant during the period in question.

Figure 7.3: Online Alternatvie Finance Volume by key models in Africa (2016-2018), USD

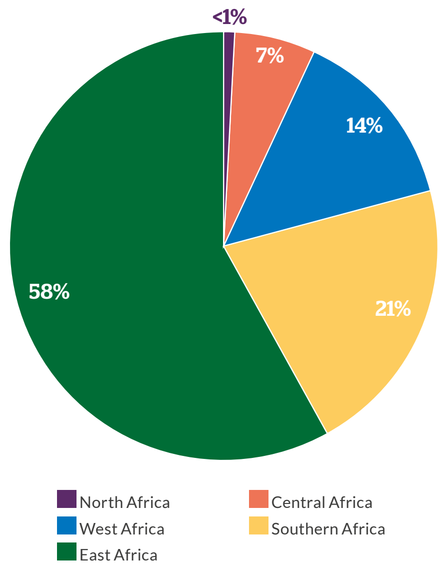


Total volume by internal regions and model

Given the size and diversity of markets throughout the continent, understanding alternative finance market activities on a regional level is particularly useful. For the purposes of this study, countries were allocated to different regions based on the United Nations definition of each region: East Africa, West Africa, Southern Africa, Central Africa and North Africa[31].

The overall regional leader by market share was East Africa. At $121 million, this region had a 58% market share in 2018- an 18% increase from their 40% market share of $42 million in 2017. Southern Africa is the next largest, with a 21% market share ($43 million), followed by West Africa at 14% ($29 million). By contrast, Central Africa had a mere 7% market share, with a negligible volume of only $1 million reported in North Africa.

Figure 7.4: Proportion by Region - Africa 2018

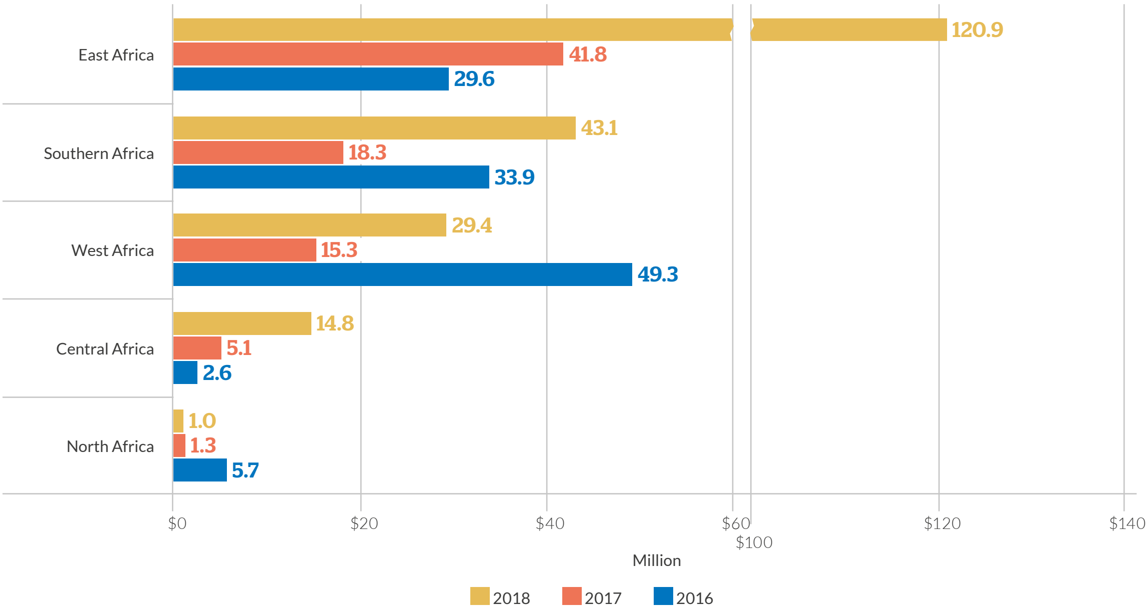


This continues the broad trends that we have seen since we first began to collect data in 2013. As seen in Chart 7.5, with the exception of 2016 East Africa has had the largest market share in every year since 2013- a trend that looks likely to continue, with Kenya as the primary engine for regional growth. Southern Africa led by South Africa and West Africa led by Nigeria. Surprisingly, Zambia has emerged as the regional heavyweight in 2018 ranked 1st in Africa, while being followed by Kenya and South Africa, each falling to second and third place respectively.

Despite year-on-year fluctuations, market volumes reported in all regions of the African Continent except North Africa have continued to broadly increase. By contrast to the other areas, market volume in North Africa has declined over the last two years from its $5.7 million peak in 2016, reaching $1.3 million in 2017 and just under $1 million in 2018. This may be explained by declining volumes of reward and donation crowdfunding, a trend which has occurred globally, in addition to the limited prospect for lending to emerge in this region due to certain religious prohibitions in the Muslim dominant countries of North Africa.

Here, while low level activity was recorded in Egypt, Tunisia and Morocco, no activity was recorded in Algeria and Libya, likely following the political upheavals experienced by these countries in this period

Figure 7.5: Total Online Alternative Finance Market Volume by Region in Africa 2013-2018 ($USD)



Key Countries

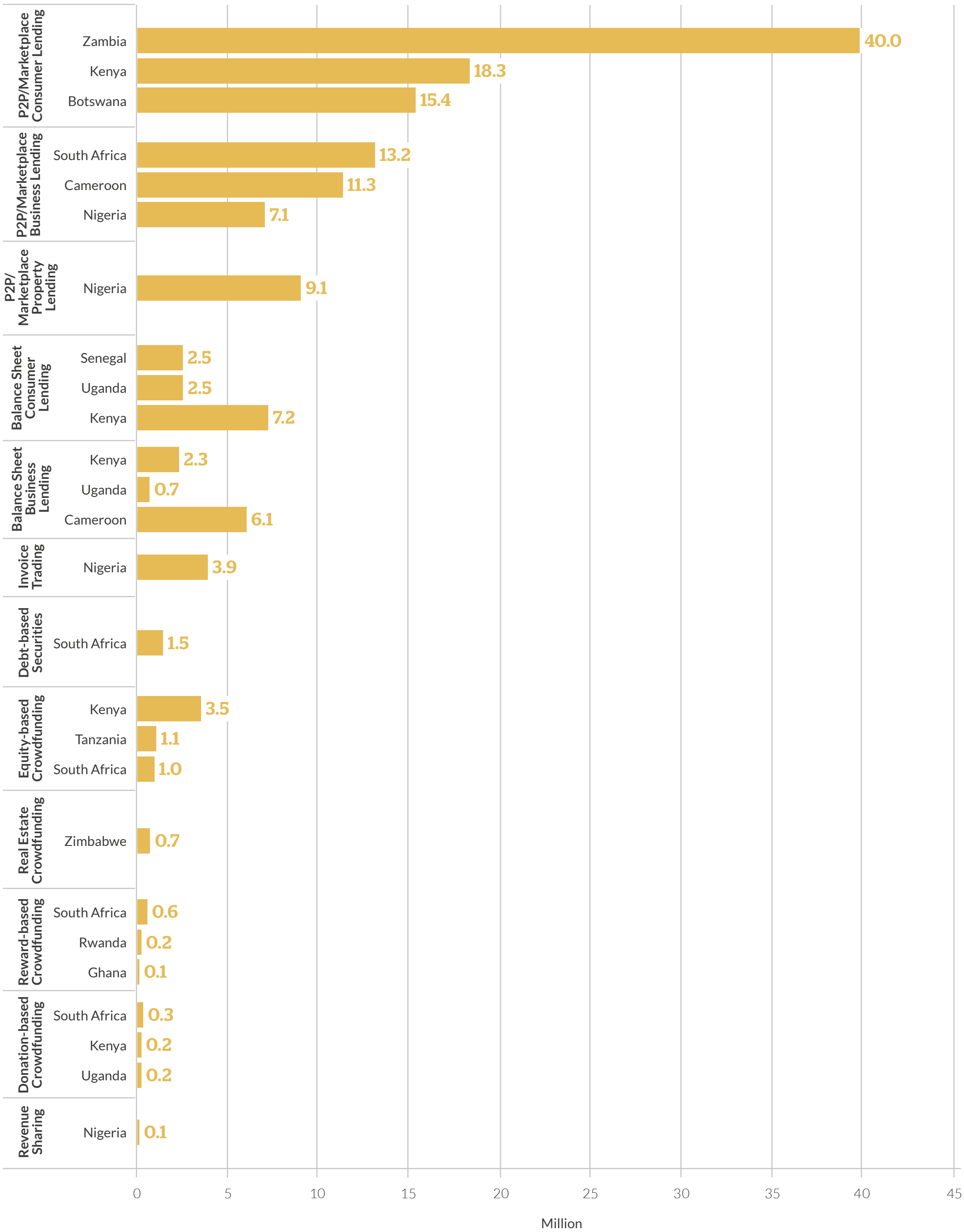
The previous section denoted the regional volumes of the online alternative finance market in the African Continent. This is useful on an aggregate level, but to truly understand the drivers of the market, it is essential to analyse the data on a more granular level to compare both countries and platform types.

In absolute terms, Africa's largest alternative finance markets include Zambia, Kenya and South Africa with $40 million, $35 million, and $27 million in total volumes respectively. However, in terms of volume per capita the region's two top performers are Botswana and Zambia, with $6.8 and $2.4 per capital volumes respectively, well ahead of Kenya's $0.7 and South Africa's $0.5.

Kenya's alternative finance industry appears to be the most comprehensively developed in Continental Africa, and ranks within the top three countries by volume in most model categories. As seen in Chart 7.6, these include P2P Consumer Lending, Balance Sheet Business Lending, Donation-based Crowdfunding, Equity-based crowdfunding and Balance Sheet Consumer Lending. Nigeria, Uganda and South Africa also frequently appeared among the top three countries across different models.

Another significant point to note is the widespread variation across models and countries., which demonstrates how some markets are significantly skewed towards particular models. This can be seen most clearly in the case of Zambia, which has by far the largest volume of P2P consumer lending. At $40 million its volume in this model is over twice that of Kenya, the country with the next highest volume for this model. However, Zambia does not appear as one of the top three countries by volume for any other model.

Figure 7.6: Top 3 countries in volume by model-2018, USD

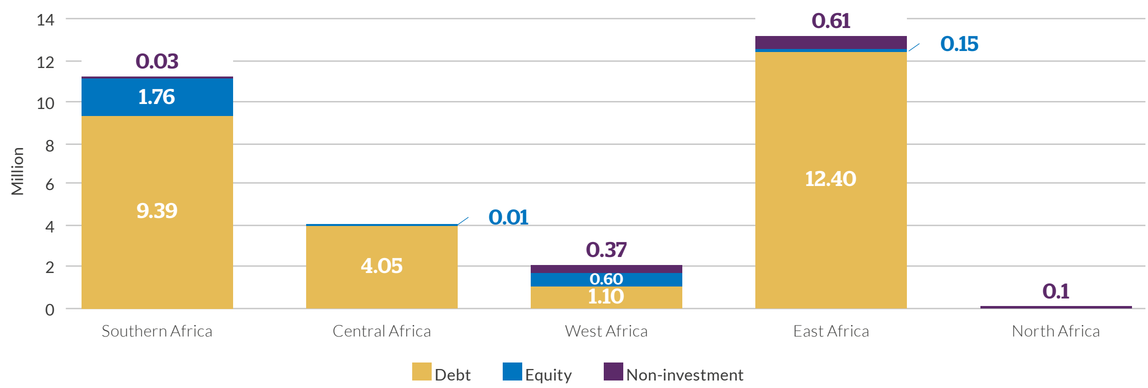


Alternative Business Funding in Africa

Ensuring the strength and vitality of the SME sector is frequently seen as a priority for policymakers throughout the African Continent. As has been shown over the last few years, particularly in our reports, the alternative finance sector has grown to become a key funding mechanism for entrepreneurs and start-ups, as well as micro, small and medium-sized businesses globally. To be able to continue to track the development of business focused finance in the region, the research team calculated the total online alternative funding attributed to business through aggregating the 2018 volumes across different models.

Across sub-regions, debt-based models emerge as the main source of business funding in Africa, accounting for more than half of business funding in all regions except North Africa, where only non-investment models are recorded. In addition, Equity Crowdfunding captured a notable share of business funding in South Africa (16%), as well as West Africa (29%) albeit from a much smaller total volume.

Figure 7.7: Business Funding - Africa by Sub Region 2017 USD

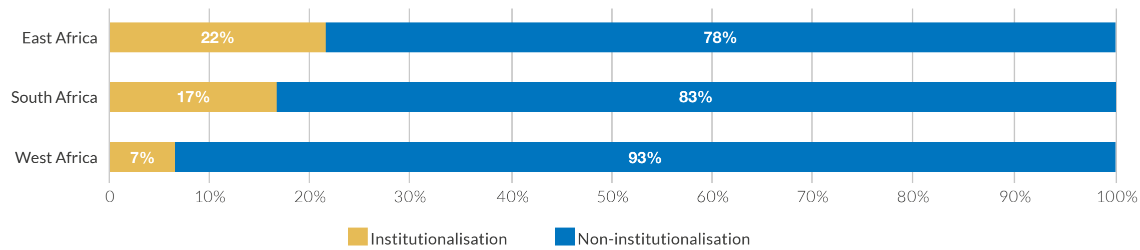


Institutionalisation by key regions

To truly understand the alternative finance market across the continent, we need to understand who is making use of it. As part of this, we observed how institutions interacted with alternative finance platforms. In addition to tracking the proportion of volume that has originated from these institutional investors, we hope to shed light on the different ways that institutions have engaged and collaborated with alternative finance platforms.

As a whole, the continent has fairly low proportions of insitutional investors, as seen in chart 7.8. At 22%, East African platforms take the highest proportion of their finance volumes from insitutional investors compared to other regions. This reflects the fact that the alternative finance market in this region is more developed, as demonstrated by the fact that East Africa also leads in terms of overall volumes of alternative finance. Southern Africa, at 17%, and West Africa, at 7%, both have lower levels of institutional finance.

Figure 7.8: Institutionalisation by region-2018



Market Developments

Changes to business model

The alternative finance market is still relatively new, and is in a state of rapid development and growth. To better understand the evolution of this market, we ask firms to describe what changes they made to their business model in 2018. Firms were asked whether they had altered their business model at all in 2018- and if they did alter their business model, what the extent of that alteration was. Chart 7.9 shows the overall results of answers given by firms across the African Continent, split by business model.

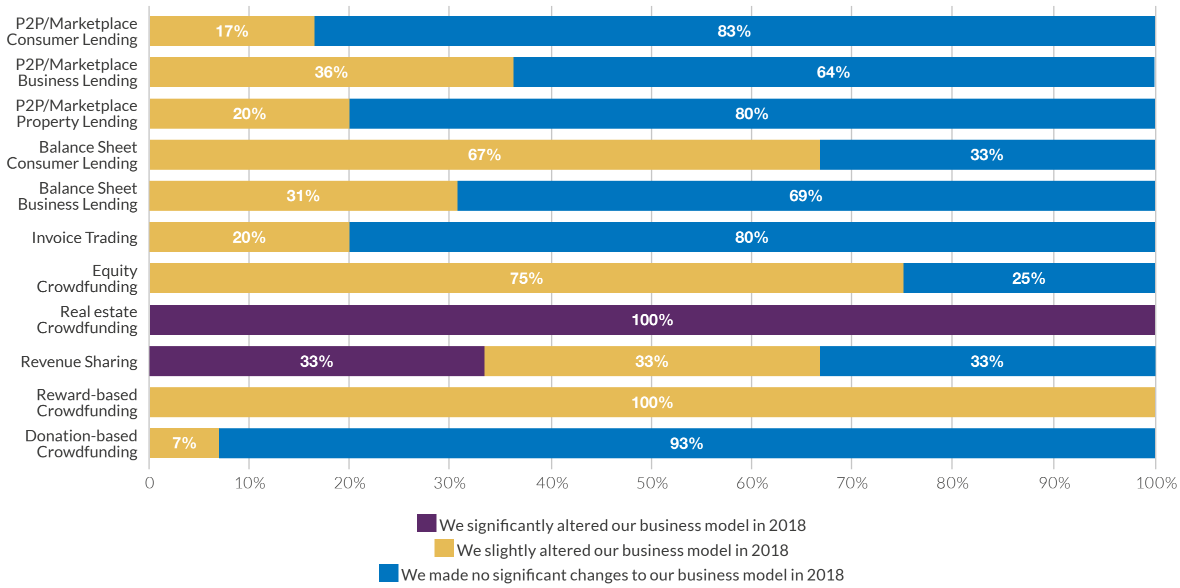
There is a significant variation between different business models, in terms of whether firms changed their business model in 2018. 11 business models were analysed- for 6 of these business models, the majority of firms did not make any changes to their business model in 2018. These more stable business models were P2P Consumer Lending; P2P Business Lending; P2P Property Lending; Balance Sheet Business Lending; Invoice Trading; and Donation-based Crowdfunding.

Among areas where the majority of firms changed their business model to a certain extent, there is still a significant degree of variation between different models. Only two types of platforms contained firms who *significantly* changed their business model in 2018- Real Estate Crowdfunding, where 100% of firms significantly changed their business model, and Revenue Sharing, where 33% of firms did so.

The majority of firms operating in the areas of Balance Sheet Consumer Lending, Equity-based Crowdfunding and Reward-based Crowdfunding also made changes to their business model- albeit only making *slight* alterations.

This can be explained by the fact most African markets represent early stage developments, where any model is considered an innovation. Accordingly, business model modifications are likely to increase as the market grows, and local platforms have greater experience in serving local users under unique local conditions.

Figure 7.9: Changes to business model by model-2018



Research and development initiatives

Platforms were also asked to indicate the research and development priorities that they were actively pursuing. Where we received at least ten responses per different model in the African Continent, the results were analysed and weighted, and can be seen in chart 7.10.

We can see a significant degree of variation in the research and development priorities between different firms within each of the various business models. Across all the business models analysed, no one area of research received a weighting greater than 31%- demonstrating that no one area of research significantly dominates the priorities of all the surveyed firms in a business model.

This variation can also be seen, though to a lesser degree, when comparing the research priorities between different business models- although there are a number of recurring trends.

In a number of business models, 75% or more of firms' priorities were focused on more process driven areas of research, namely Payment Processing, Customer Verification and Process Streamlining and Performance Enhancing Features. This can be seen across all three P2P lending categories, as well as Invoice Trading. Those same three areas of focus were also significant, although to a lesser extent, amongst all the different types of non-investment platforms.

By contrast, other areas of research focus show a significant degree of variation between different business models. AI and Performance Enhancement Features had a priority level of 21% among consumer lending firms, but less than 10% for all other business models. Similarly, Social Media and

Fundraiser Promotional Tools is another outlier, with a priority rating 26% among Balance Sheet Business Lending firms, but of no priority among P2P Property Lending, Balance Sheet Consumer Lending, and Invoice Trading platforms.

Figure 7.10: Actively Pursued R&D Initiatives in 2018 by Platforms (by Model)

	Payment processing	Customer verification	Process streamlining and automation	Artificial intelligence and performance enhancement features	Community management features and tools	Social media and fundraiser promotional tools	Customer relationship management systems	E-learning features for users	Gamification features for user engagements
P2P/Marketplace Consumer Lending	21%	28%	24%	7%	3%	7%	10%	0%	0%
P2P/Marketplace Business Lending	28%	31%	22%	3%	0%	6%	11%	0%	0%
P2P/Marketplace Property Lending	25%	31%	31%	6%	0%	0%	6%	0%	0%
Balance Sheet Consumer Lending	0%	21%	14%	21%	7%	0%	14%	7%	14%
Balance Sheet Business Lending	3%	15%	29%	9%	0%	26%	6%	9%	3%
Invoice Trading	25%	31%	31%	6%	0%	0%	6%	0%	0%
Equity Crowdfunding	18%	14%	18%	5%	5%	14%	18%	5%	5%
Revenue Sharing	18%	18%	18%	0%	6%	12%	12%	12%	6%
Reward-based Crowdfunding	15%	15%	15%	0%	10%	15%	25%	5%	0%
Donation-based Crowdfunding	13%	13%	13%	7%	13%	13%	8%	7%	13%

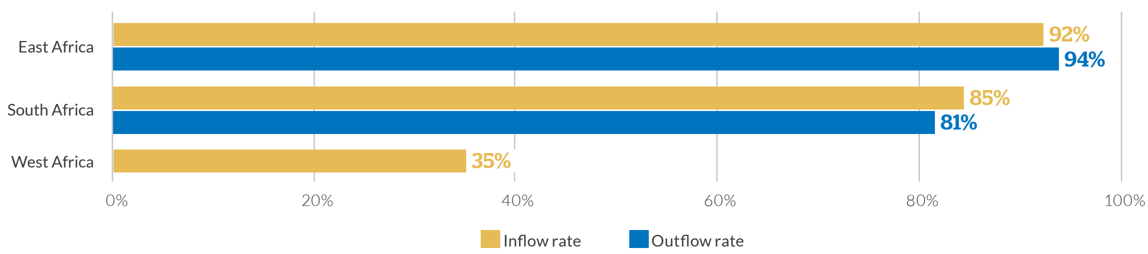
Internationalization

As the provision of finance, and especially alternative finance activities, becomes increasingly international, with firms setting up operations in multiple countries, it is not surprising that their clients are also becoming increasingly international. To analyse the impact of cross-border transactions, we analysed inflows of funds (i.e. funds from investors which came from abroad) and outflows of funds (i.e. funds which went to fundraisers abroad) across the Continent.

There is a significant degree in variation regarding inflow and outflow rates between different regions. In both East Africa and Southern Africa, over 80% of funds are international. East Africa has the highest levels of internationalisation, at 92% and 94% respectively for inflow and outflow rates, closely followed by Southern Africa which has an 85% inflow rate and an 81% outflow rate.

By contrast, the majority of funds in West Africa come from domestic investors, with a mere 35% inflow rate, and no funds are reported as going to fundraisers based abroad.

Figure 7.11: Inflow rate and Outflow rate by sub region-2018



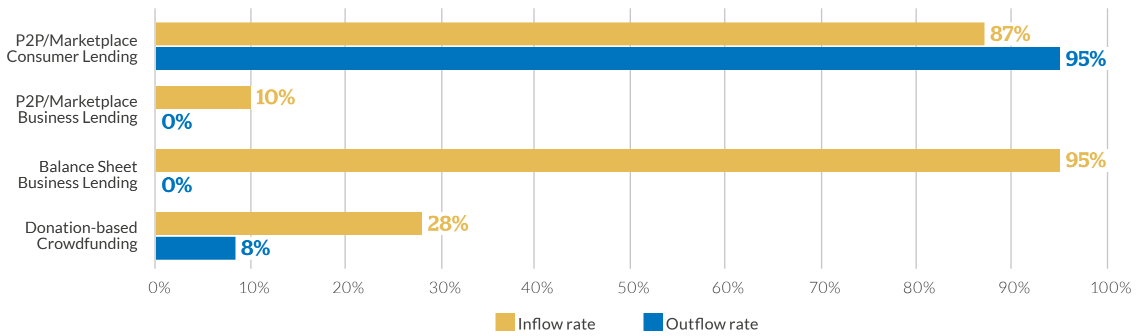
A more significant degree of variation in inflow and outflow rates is seen when comparing different models- and even when comparing inflow and outflow rates in the same business model.

P2P Consumer Lending was by far the most internationalised of the models studied, with an 87% inflow rate and a 95% outflow rate.

Amongst other business models, inflow rates were consistently higher than outflow rates. Firms conducting Balance Sheet Business Lending and P2P Business Lending reported no international outflow of funds, although their inflow rates were 95% and 10% respectively. Inflow rates also exceeded outflow rates in the Donation-based Crowdfunding sphere, at 28% compared to 8%.

Much of this dynamic can be explained by the large proportion of foreign based firms operating in Africa, and hence channeling international funding (i.e. inflows) into projects in African countries.

Figure 7.12: Inflow rate and Outflow rate by model- 2018

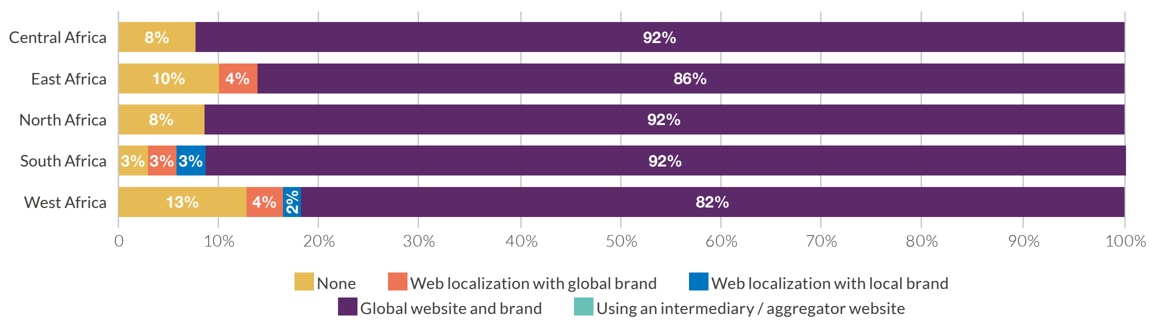


Internationalisation Strategies

To examine the reasons behind this internationalisation of funds, we asked firms what strategies they employed, if any, in 2018 to promote the internationalisation of their business.

As seen in chart 7.13, the degree of adoption of various internationalisation strategies remained broadly consistent across all regions analysed. The use of a global website and brand was by far the most common strategy, with adoption rates of 82% among West African firms, and even higher rates, of up to 92%, across all the other regions. Other than this, it was most common for firms to have no internationalisation strategy- as seen in 13% of West African firms. These two options (no internationalisation strategy or a global website and brand) were the only methods used in both Central Africa and North Africa- and were the strategies used by 94% or more of platforms in other regions.

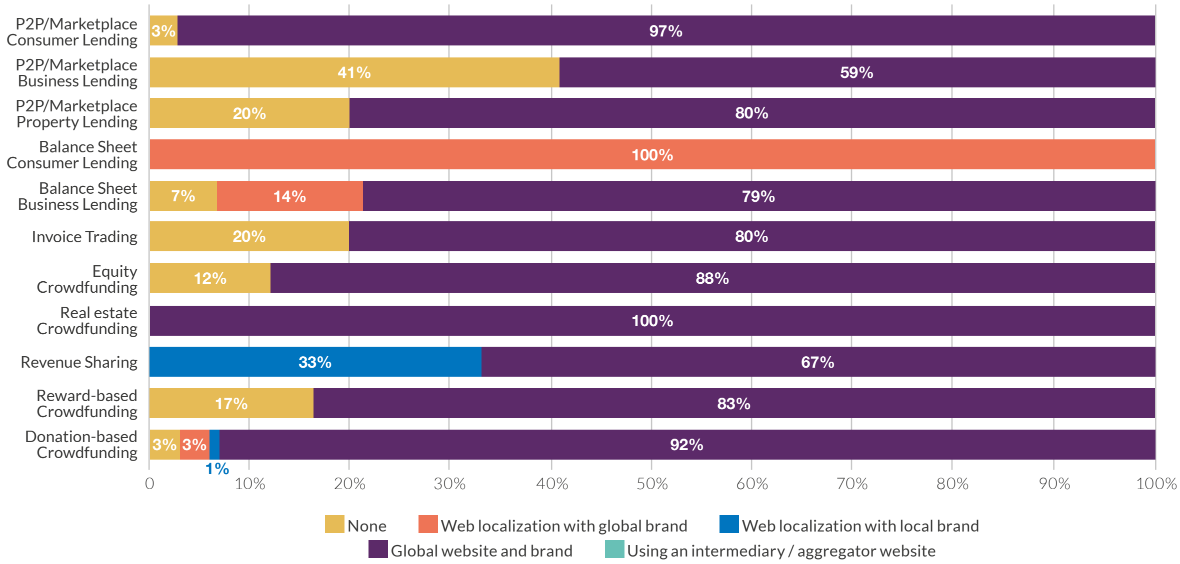
Figure 7.13: Internationalization Strategy by region-2018



We also compared the internationalisation strategies used by different business models. With the notable exception of Balance Sheet Consumer lending, where all firms used web localisation with a global brand, the majority of firms across all other platform types adopted a global website and brand as their internationalization strategy.

The main other significant variation between business models was whether firms had an internationalisation strategy at all. All firms working in the areas of Real Estate Crowdfunding, Revenue Sharing Crowdfunding, and Balance Sheet Consumer Lending had some form of internationalisation strategy. Amongst other business models, however, some firms lacked an internationalisation strategy- ranging from 3% of Donation-based Crowdfunding and P2P Consumer Lending firms to 41% of P2P Business Lending firms.

Figure 7.14: Internationalisation Strategy by model-2018



Financial Inclusion

Financial inclusion is a key area of focus for regulators and governments worldwide. It is of particular importance on the African Continent, which has historically had relatively low levels of financial inclusion.

Banking status of fundraisers

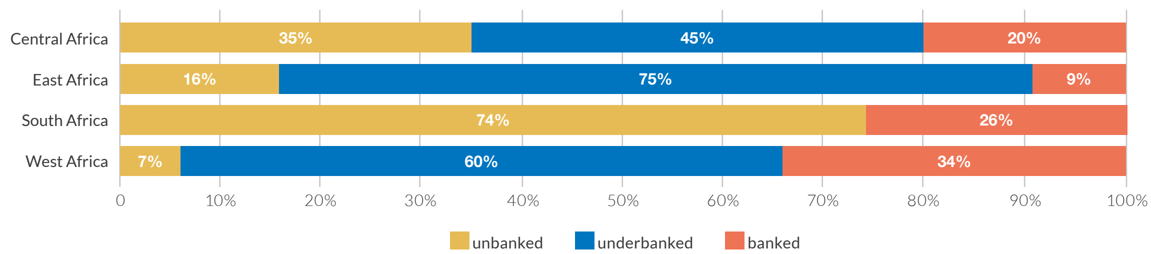
An important measure of financial inclusion is banking status. Respondents were asked to indicate the proportion of their customer base who were 'unbanked' (not served by or without access to any traditional financial service), 'underbanked' (with access to some basic financial services, but not a complete suite), and 'banked' (users that have access to a full suite of financial services).

Across three out of the four regions analysed, the majority of firms' customers were underbanked, ranging from 60% in West Africa through to 74% of customers in Southern Africa and 75% of customers in East Africa. The exception to this was Central Africa, where only 45% of customers were underbanked- a rate that can be attributed to their high rate of unbanked customers. At 35%, this region has the highest rate of unbanked customers- significantly higher than East Africa (16%), West Africa (7%) and most notably Southern Africa, where firms reported no unbanked customers.

Although Southern Africa had the lowest levels of unbanked customers, its 26% rate of banked customers was not the highest across Africa. Although Central and East Africa had lower proportions of banked customers, at 20% and 9% respectively, West Africa had the highest level of banked customers at 34%

Our findings seem to suggest that, for the time being, alternative finance in Africa is indeed helping democratize access to finance for various groups in the continent. And while much of it is driven by foreign-based platforms, the need of filling funding gaps in these markets is addressed, although at still modest volumes.

Figure 7.15: Banking Status by Region



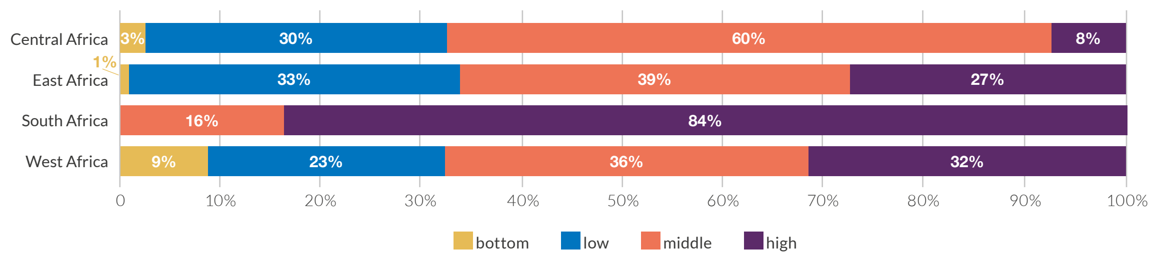
The Income Status of Investors

Examining the income status of funders and investors lets us better understand the level of participation at different income levels. Respondents divided the income status of their funders into four categories- 'bottom income', 'low income', 'middle income' and 'high income'.

When comparing the income status of funders across different regions we can see a number of similar trends. In all of the regions, less than 10% of funders came from the lowest income bracket- ranging from 0% of funders in Southern Africa to 9% in West Africa. Likewise, more than 60% of funders came from middle or high-income brackets across the Continent- though this figure ranges from 68% in both Central Africa and West Africa to almost 100% of funders in Southern Africa.

As seen from this, Southern African funders have the highest income levels to a significant degree. 84% of them have a high-income level, a proportion which is over fifty per cent higher than the region with the next highest number of high-income status funders (West Africa, at 32%).

Figure 7.16: Income Status by Region



Gender

Gender is a key topic when discussing financial inclusion. Participating firms provided information on the gender of both their funders and their fundraisers. This information indicates that while both women are utilizing alternative finance across the African Continent to a significant degree, they remain underrepresented in a number of areas.

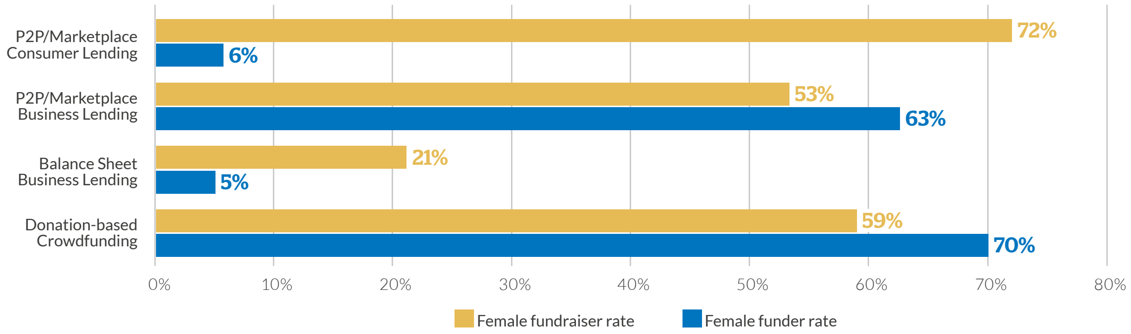
Female participation by model

At a broad level, female participation is reasonably high across models, suggesting that alternative finance may play an important role in improving financial inclusion rates for women in Africa. However, significant differences can be found both between models, and between the proportions of female funders and fundraisers within the same model.

With the notable exception of Balance Sheet Business Lending (BSBL), where only 21% of fundraisers are female, more than 50% of fundraisers are female across all the models studied- rising to 72% of fundraisers for P2P Consumer Lending (P2PC). The proportion of female funders is less consistent between models- with a mere 6% participation rate for P2PC and 5% for BSBL, rising to 63% for P2P Business Lending (P2PB), and 70% for Donation-based Crowdfunding.

Examining forms of female participation within models, there seems to be a broad level of correlation between female participation as funders and as fundraisers- for example, BSBL has a low level of both female funders and fundraisers, while P2PB has a high level of both female funders and fundraisers. P2PC acts as the main exception to this- with a 66% gap in its levels of female funders (6%) and female fundraisers (72%). The high rate of 72% female fundraisers across P2PC platforms may provide evidence for the benefits of alternative finance in increasing women's access to credit, an access that has often been restricted in traditional platforms due to gender biases.

Figure 7.17: Female fundraisers and funders rate by model

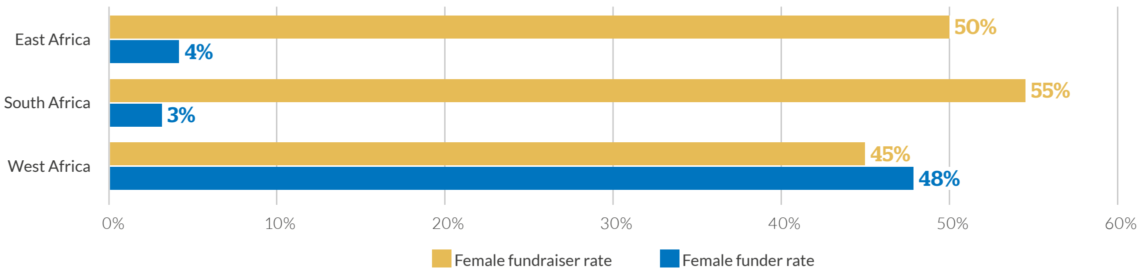


Female participation by region

Regionally, there is a high level of female participation as fundraisers- rising from 45% in West Africa to 55% in Southern Africa. The proportion of female funders is both lower than the proportion of female fundraisers, and is also more inconsistent between regions. West Africa's proportion of female funders, at 48% is both fairly high and even higher than its 45% of female fundraisers. By contrast, only 3% of fundraisers in Southern Africa, and 4% in East Africa are female- a rate which is well over forty per cent lower than their respective rates of female funders.

One explanation for greater female participation in West Africa, maybe associated with the higher proportion of non-investment models in this region versus East and South Africa.

Figure 7.18: Female fundraisers and funders rate by region



Risk & Regulations

Perception of risk by region and model

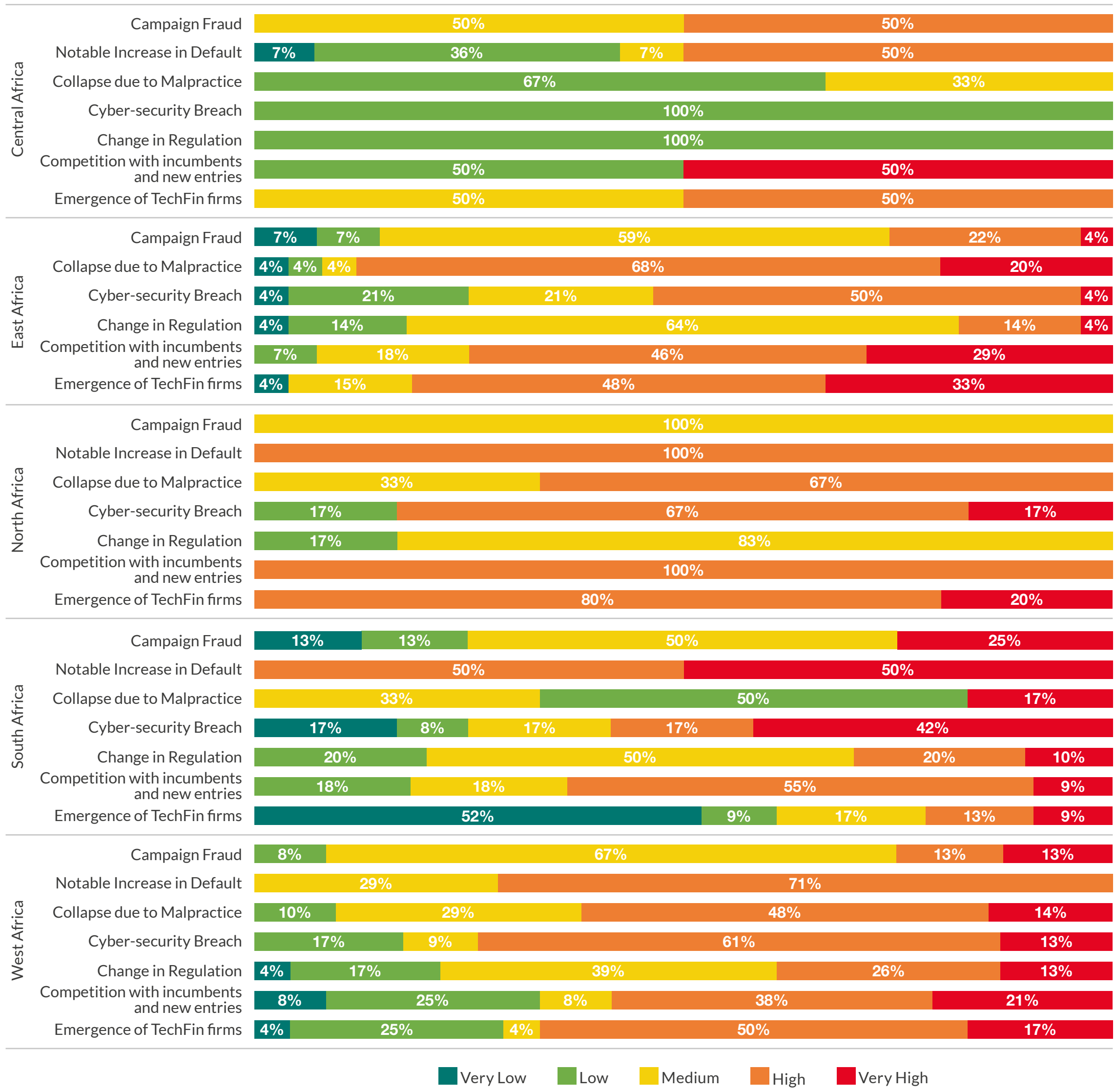
Respondents were asked about their perception of various different risks that could potentially affect their platform. These risks were campaign fraud; notable increase in defaults; collapse due to malpractice; cyber-security breach; change in regulation; competition with incumbents and new entries; and the emergence of TechFin firms (such as Google/Amazon). This section of the report should be viewed critically, as it represents responses from new, young and optimistic actors with limited experience and volumes, who may underestimate risks.

Moreover, since very few platforms both operate in each of these markets and reported this information, some of our findings are by definition biased to a very small set of platforms

Examining responses regionally, Central African firms had by a significant degree the highest perception of risks, compared to firms based in other locations. For example, all surveyed platforms operating in Central Africa considered both cyber security and potential changes to regulation to constitute high risks.

By contrast, firms based in West Africa and North Africa tended to have much lower perceptions of risk than firms based in other regions- most notably in North Africa, where 100% of firms perceived three out of the seven listed risks (risk of defaults, competition with incumbents, and emergence of TechFin firms), as being very low or low.

Figure 7.19: Perceived risks of platforms by region-2018



Perception of existing regulation

Globally, regulation is still a key challenge for the alternative finance sector. As seen in Chart 7.19, the majority of firms across all regions see possible changes to regulation as being a medium, high or very high risk- demonstrating that firms see changes to regulation as being one their most significant potential threats. To examine this particular trend further, we asked firms about their perception of regulation.

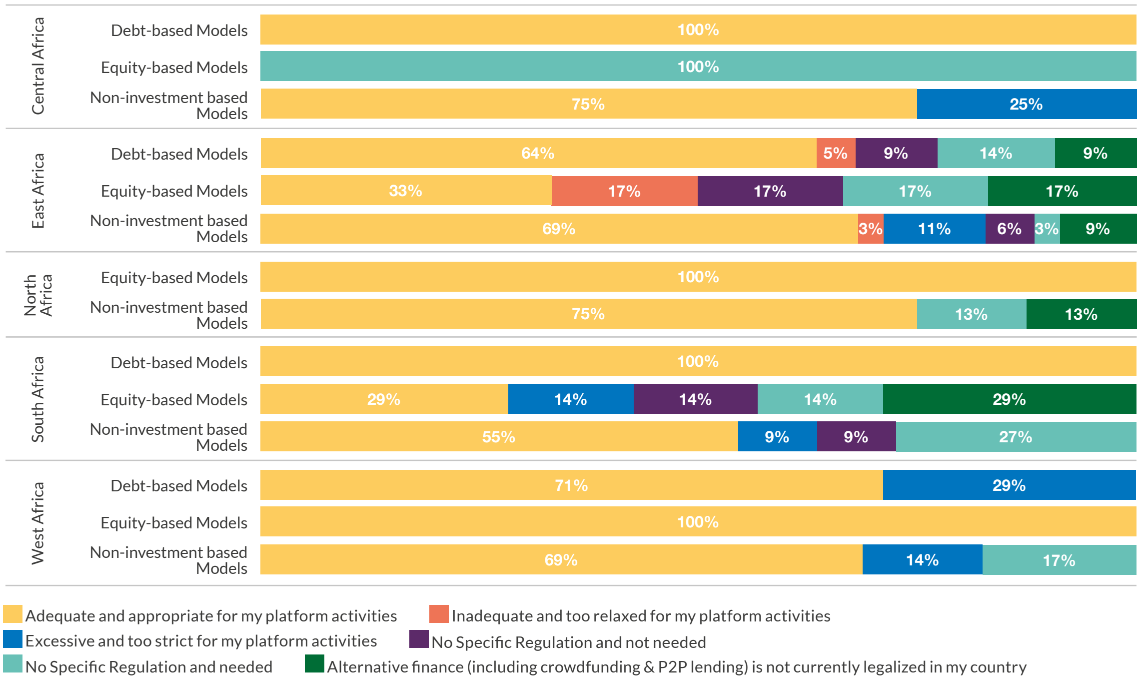
Perceptions of regulations were generally positive in 2018, with the majority of firms across most different regions considering that existing regulation was adequate and appropriate for their models. However, there exist some differences when comparing different regions and models.

Comparing responses regionally, West African and North African platforms both have the most positive perception of existing regulations overall. 69% of West African firms operating in the non-investment space consider existing regulation to be adequate and appropriate- rising to 100% of equity firms in both West and North Africa.

Firms operating in East Africa tended to have the poorest perception of existing regulation across all business models. This was also the region which got the highest level of responses indicating that alternative finance was not yet legal in their country.

Echoing the geo-locked nature of regulation, trends in perception of regulation can be far more readily seen when comparing different models within the same region than by comparing the same model across different regions. The most notable example of this is firms working in the equity space. A mere 29% of Southern African equity firms, 33% of East African firms and no Central African equity firms considered existing regulation to be both adequate and appropriate- contrasting sharply with the 100% approval rates described earlier in North Africa and West Africa.

Figure 7.20: Perception towards existing regulation-2018



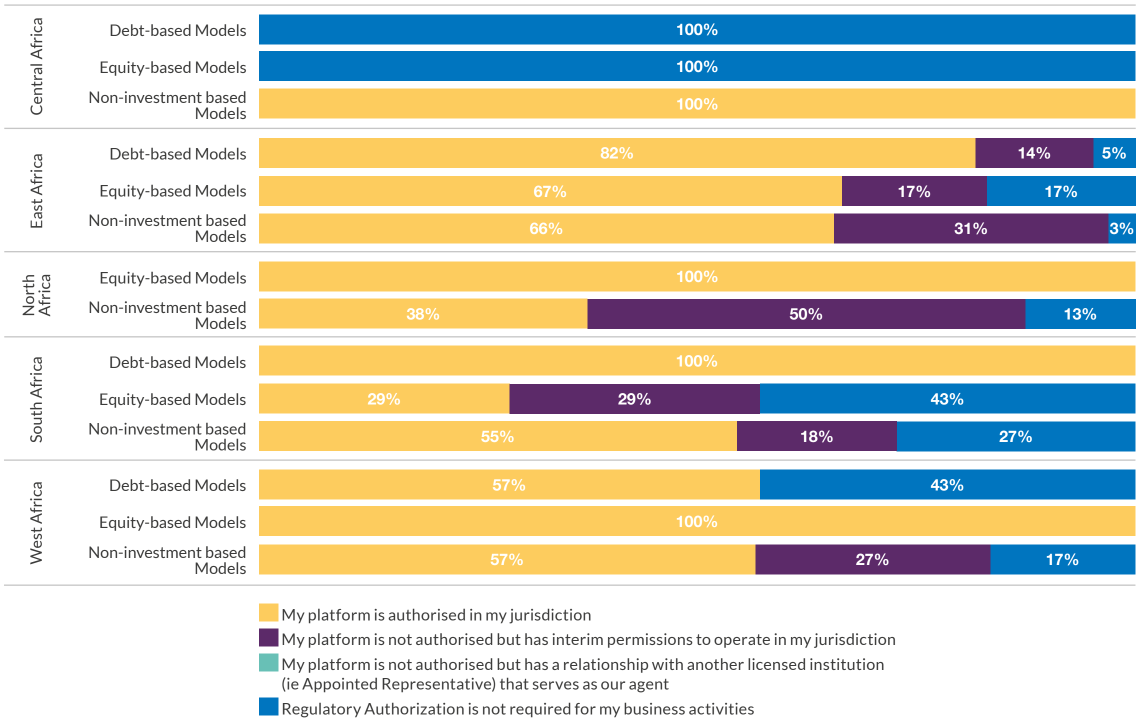
Extent of regulation

Platforms' opinions on regulation are partially shaped by their relationship with the regulator in their jurisdiction. As seen in the above chart, in some jurisdictions there is no specific regulation covering platforms' activities, notably for equity-based models. To explore this further, respondents were asked about the legal basis under which they operate.

The extent to which platforms are required to be registered, and the nature of what relationship, if any, they have with the relevant authorities varies significantly depending on both the region and the model in question. Central Africa shows the greatest degree of variation between model types, with no debt or equity firms requiring regulation, while all non-investment firms need to be authorised. By contrast, all equity firms and 87% of non-equity firms in North Africa have either authorisation or interim permissions from the relevant body in their jurisdiction.

As with the previous section on firms' perception on regulation, the extent of existing regulation is very much area specific, and there is a great degree of variation between similar business models in different geographic areas. This geographic disparity in current regulation is present across all business models, but is most evident for debt platforms. All surveyed debt platforms in Southern and East Africa are authorised, while no debt models in Central Africa require authorisation and West Africa sits in the middle, with 43% of platforms not requiring authorisation in this jurisdiction.

Figure 7.21: The extent of existing regulation-2018

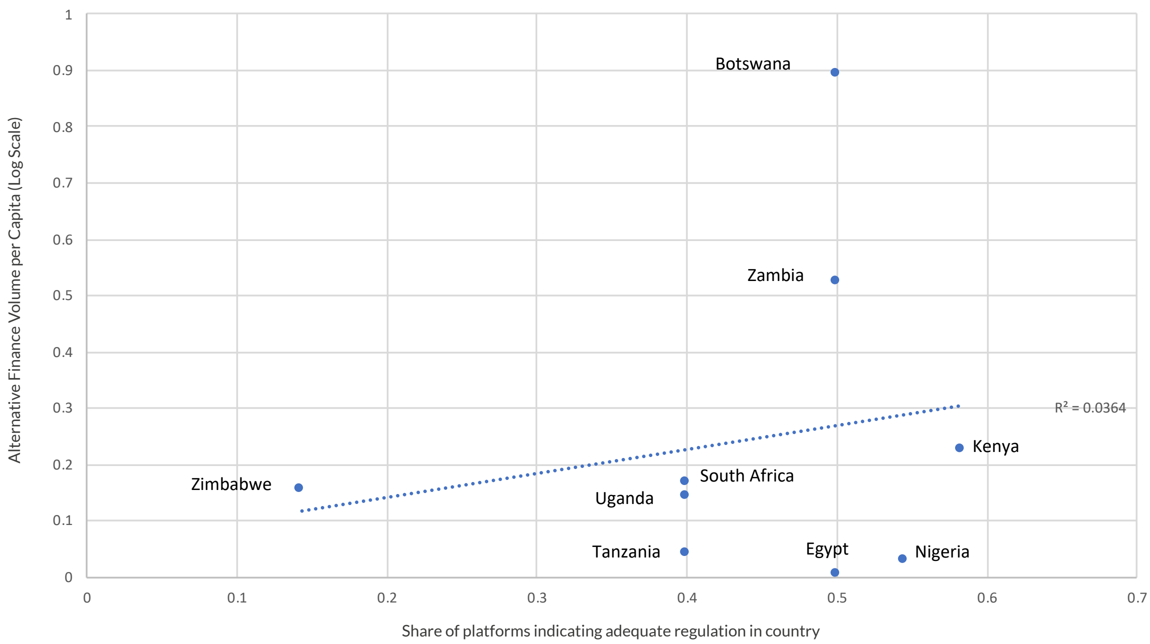


Regulatory Friendliness and Alternative Finance Volume per Capita

In our analysis of the relationship between perceived regulatory adequacy and volumes per capita in Africa, we have only included countries where at least 4 platforms answered related questions. In the African Continent, there are too few observations to make a conclusive observation.

Nevertheless, the trend emerging seems to follow other regions, where a positive effect is identified, and more adequate national regulation is associated with higher per capita volumes in the same country. Perceived regulation adequacy represents the relative share of platforms in country indicating regulation is "adequate and appropriate for my platform activities".

Figure 7.22: Perceived Regulation Adequacy vs. Volume per Capita 2018 (Log Scale)
Africa - All Platforms



8. Country Fact Sheets

Botswana

AFRICA

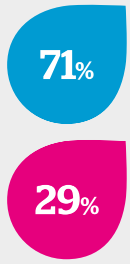
Botswana was the fifth largest country by total volumes in Africa for 2018. The market grew exponentially, from $2.4 million in 2017 to $15.4 million in 2018, a growth rate of 545%. Their global ranking by volume improved to 66th (2017 : 76th), with their regional ranking rising to 5th (2017 : 10th). Surprisingly, all the volumes raised in 2018 by these platforms were consumer focused rather that business focused, with P2P Consumer Lending composing all the total volume of Botswana. The volume derived from institutional investors was 3% of total volumes ($0.4 million).

The Extent of Existing Regulation

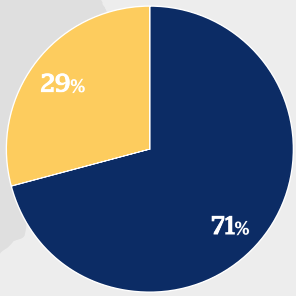
Debt & Equity

My platform is authorized in my jurisdiction

My platform is not authorized but has interim permissions to operate in my jurisdiction



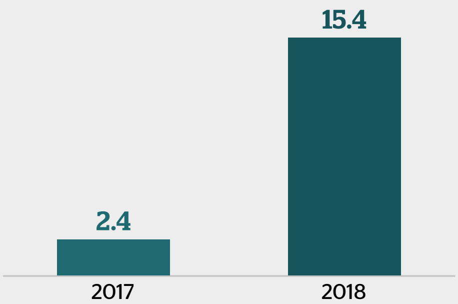
Perception towards Existing Regulation from Debt & Equity Models



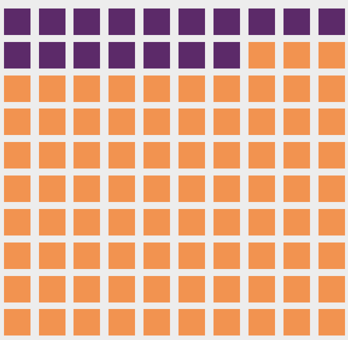
Adequate and appropriate for my platform activities

Alternative finance (including crowdfunding & P2P lending) is not currently legalized in my country

Alternative Finance Market Volumes 2015-2018 (USD Millions)



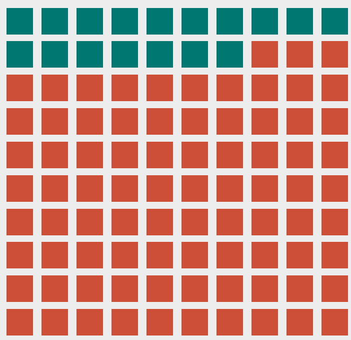
Changes in Business models (%)



We significantly altered our business model in 2018

We made no significant changes to our business model in 2018

Changes in products and services (%)



We introduced significantly new products and services in 2018

We made no significant changes to our products and services in 2018

Kenya

Kenya was the second largest country by volume in Africa in 2018. At $35 million, it generated nearly 17% of the total African online alternative finance industry, experiencing its highest year-on-year growth yet of 78%. However, the country lost the top regional position it had held in 2017, and dropped to 49th position globally in terms of volume (2017:41st). P2P Consumer Lending and Balance Sheet Consumer Lending business models were the main drivers of the total volume, accounting for 52.4% ($18.3 million) and 37.7% ($13.2 million) in volumes respectively over 2018. The total business funding volume was $25.1 million (71.7% of the total country's volume) and the overall percentage of institutionalisation was at 19% ($6.5 million).

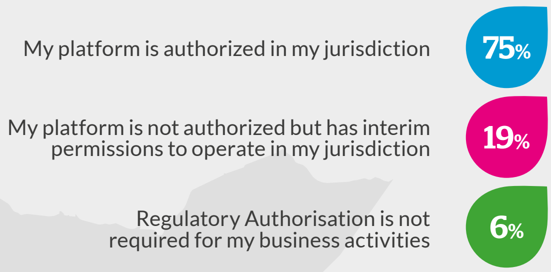
OVERVIEW OF REGULATORY CHANGES

Among the responses from platforms operating in Kenya, a majority were authorised to operate in their jurisdiction (75%) and perceived existing regulation to be adequate and appropriate for their platform's activities (69%). Additionally, 19% of them had an interim permission for their operations and 13% viewed existing regulations either as inadequate and too relaxed, r believed that there was no specific regulation but that it was needed.

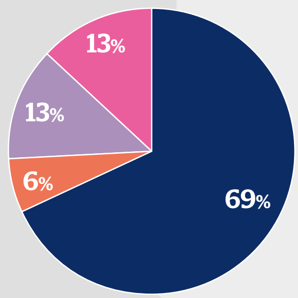
There are no specific regulations concerning crowdfunding in Kenya, with the overarching laws and regulations by institutions including the Kenyan Capital Markets Authority and the Central Bank of Kenya governing the development of alternative finance industry in the country.[32] The Kenyan Capital Markets Authority's regulatory sandbox initiative is expected to spur further FinTech innovation in the country.[33]

The Extent of Existing Regulation

Debt & Equity

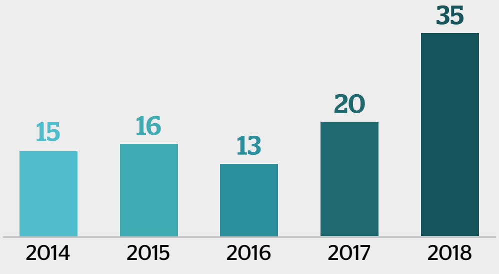


Perception towards Existing Regulation from Debt & Equity Models

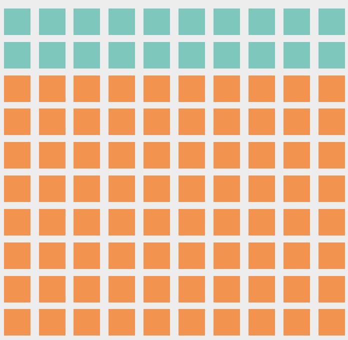


- Adequate and appropriate for my platform activities
- Excessive and too strict for my platform activities
- No Specific Regulation and needed
- Inadequate and too relaxed for my platform activities

Alternative Finance Market Volumes 2015-2018 (USD Millions)

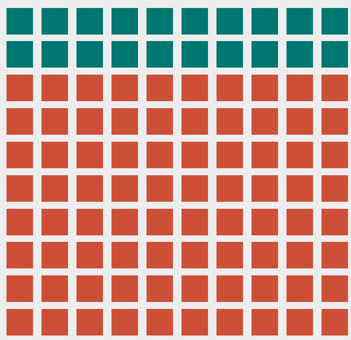


Changes in Business models (%)



- We slightly altered our business model in 2018
- We made no significant changes to our business model in 2018

Changes in products and services (%)



- We introduced significantly new products and services in 2018
- We made no significant changes to our products and services in 2018

South Africa

In 2018, the total alternative finance transaction volume in South Africa was $27.5 million, the 3rd largest in the continent (2017 : 2nd), accounting for 13% of Africa's volume. Despite following a 54% decline in volume during 2016-17, the country then experienced a year on year growth rate of 78% during 2018. South Africa ranked 53rd globally (2017 : 44th) in terms of total market volumes. P2P Business Lending and Donation-based Crowdfunding were the main drivers of the total volume, accounting for 33.2% ($9.1 million) and 26.2% ($7.2 million) respectively. In 2018, nearly half of country's volumes were business specific, amounted to $13.2 million and the overall percentage of institutionalisation was at 18% ($4.9 million).

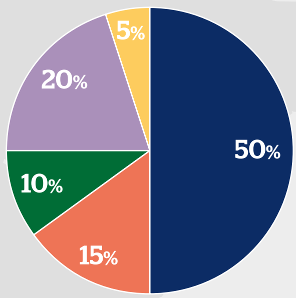
OVERVIEW OF REGULATORY CHANGES

Half of the responding platforms in South Africa indicated they were authorised to operate in their jurisdiction, with a similar proportion viewing existing regulation to be adequate and appropriate for their business activities. 30% of the platforms mentioned regulatory authorisation was not required for their business and 10% believed there was no specific regulation but that it was not needed, with 20% believing that there was no specific regulation but it was needed. In line with this opinion, crowdfunding is not yet explicitly regulated in South Africa, however draft regulation could be expected soon from the regulator (FSCA).[34] Additionally, during July 2019, the African Crowdfunding Association (ACfA) has launched the '*ACfA label Framework*,' a regulatory framework for securities-based crowdfunding in Africa.[35]

The Extent of Existing Regulation

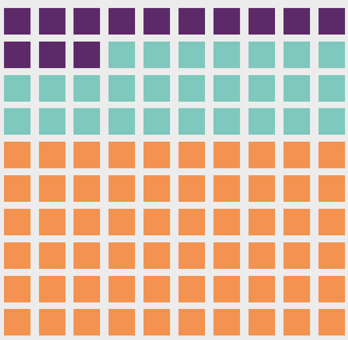
	Debt & Equity
My platform is authorized in my jurisdiction	50%
My platform is not authorized but has interim permissions to operate in my jurisdiction	20%
Regulatory Authorisation is not required for my business activities	30%

Perception towards Existing Regulation from Debt & Equity Models



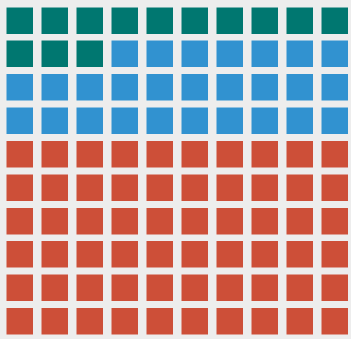
- Adequate and appropriate for my platform activities
- Excessive and too strict for my platform activities
- No Specific Regulation and not needed
- No Specific Regulation and needed
- Alternative finance (including crowdfunding & P2P lending) is not currently legalized in my country

Changes in Business models (%)



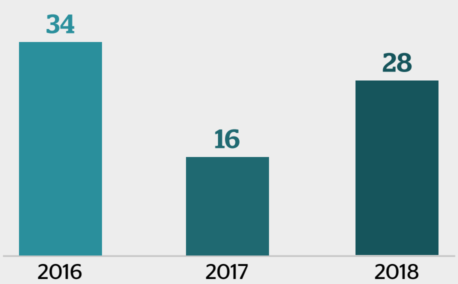
- We significantly altered our business model in 2018
- We slightly altered our business model in 2018
- We made no significant changes to our business model in 2018

Changes in products and services (%)



- We introduced significantly new products and services in 2018
- We slightly altered products and services in 2018
- We made no significant changes to our products and services in 2018

Alternative Finance Market Volumes 2015-2018 (USD Millions)



Uganda

Uganda generated $16.8 million in online alternative finance volume in 2018, and thereby became the 4th highest contributor to the Africa region (as they were in 2017) and the 63rd highest globally (2017 : 60th). The market saw an increase of 183% in volumes compared to $6 million in 2017. Balance Sheet Business Lending accounted for 67.3% ($11.3 million) of the total volume, followed by P2P Consumer Lending ($4.6 million). During the year, over 95% of country's volumes went for businesses, amounted to $16 million and the overall percentage of institutionalisation was relatively high at 58% ($9.7 million).

OVERVIEW OF REGULATORY CHANGES

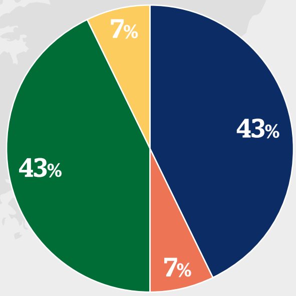
71% of the respondents reported that they were authorised to operate in their jurisdiction and another 21% were not authorised but carried an interim permission for their business operations. Interestingly, an equal percent (43%) of these platforms viewed existing regulation to be adequate (or) felt there was no specific regulation and were not needed. 7% of them thought that regulation was excessive and too strict, and a similar percentage stated that alternative finance was not legalised in their country during 2018. FinTech firms in Uganda had been growing at a rate of 35% over the past couple of years[36] and it appears that the country is in the planning stages for a regulatory sandbox, which would further foster innovation.[37]

The Extent of Existing Regulation

Debt & Equity

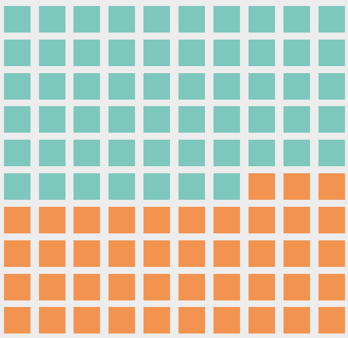
My platform is authorized in my jurisdiction	71%
My platform is not authorized but has interim permissions to operate in my jurisdiction	21%
Regulatory Authorisation is not required for my business activities	7%

Perception towards Existing Regulation from Debt & Equity Models



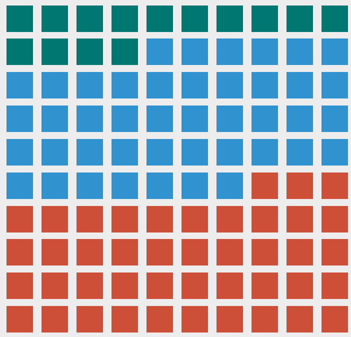
- Adequate and appropriate for my platform activities
- Excessive and too strict for my platform activities
- No Specific Regulation and not needed
- Alternative finance (including crowdfunding & P2P lending) is not currently legalized in my country

Changes in Business models (%)



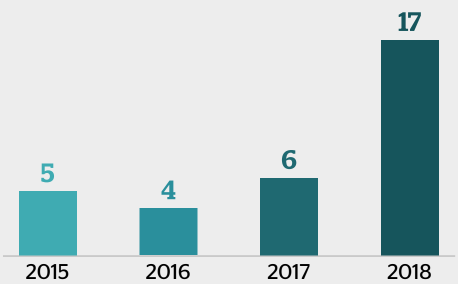
- We slightly altered our business model in 2018
- We made no significant changes to our business model in 2018

Changes in products and services (%)



- We introduced significantly new products and services in 2018
- We slightly altered products and services in 2018
- We made no significant changes to our products and services in 2018

Alternative Finance Market Volumes 2015-2018 (USD Millions)



Zambia

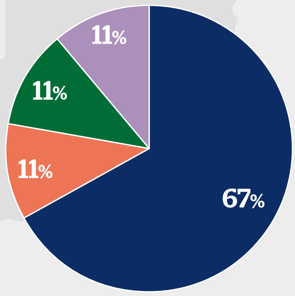
In 2018, Zambia emerged as the largest alternative finance market within Continental Africa, having grown from a significantly low base of $1.8 million in 2017 to $40.8 million in 2018, an increase of 2116%. P2P Consumer Lending activities were responsible for 96% ($39 million) of the Zambian alternative finance market, stemming from international platforms with foreign investors providing funding to local borrowers. In 2018, 2.6% of Zambian alternative finance went towards business fundraisers, with sole-traders and micro-SMEs using P2P consumer lending as a way to fill funding gaps for their business needs. Only 2% of all volumes were funded by institutional investors ($1.1 million), showing that the Zambian market is almost entirely a retail investor market. Zambia was the 44th largest market globally in terms of volume, up from 85th in 2017, and was the largest market regionally, rising from 15th position in 2017.

The FinTech space in Zambia grew rapidly in 2018, supporting the country's first National Financial Inclusion Strategy (2017-2022), which was introduced in November 2017.[38]

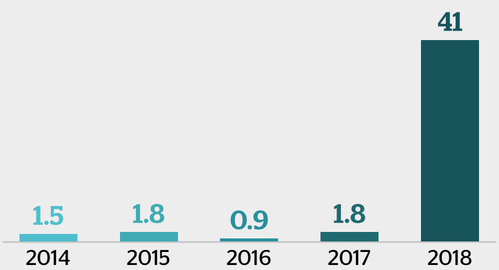
The Extent of Existing Regulation

	Debt & Equity
My platform is authorized in my jurisdiction	78%
My platform is not authorized but has interim permissions to operate in my jurisdiction	11%
Regulatory Authorisation is not required for my business activities	11%

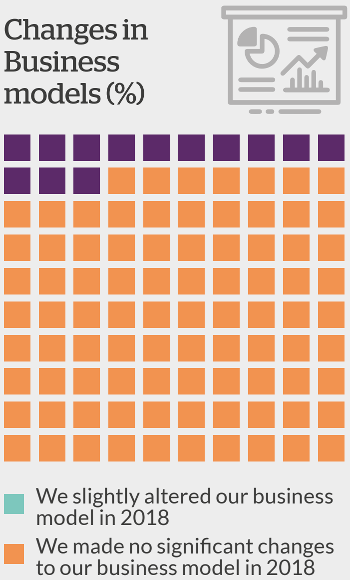
Perception towards Existing Regulation from Debt & Equity Models



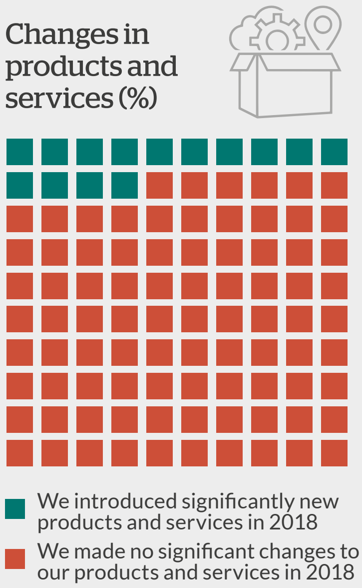
Alternative Finance Market Volumes 2015-2018 (USD Millions)



Changes in Business models (%)



Changes in products and services (%)



Australia

In 2018, the total market volume in Australia was $1127 million, making it the 2nd largest in the Asia-Pacific region in 2018. Its global ranking decreased to 7th place (2017 : 4th). While our data suggests volumes falling 2% from 2017 levels, such results are mostly driven by non-response from very few platforms in the 2018 survey. Indeed, at the model level significant growth has been recorded with respect to Community Shares, Equity Crowdfunding, Balance Sheet Business Lending, and P2P/ Marketplace Business Lending. Balance Sheet Business Lending (55%, $619.5 million) comprised the majority of the volume, followed by P2P Consumer Lending (20.4%, $230 million). More specifically, the total business funding volume was $858 million, and volume derived from institutional investors was $648.4 million (58%). Along with the funding provided from institutional investors, Australian platforms showed active partnership activities with institutional investors, who were mainly focused on referral agreement (36%) and platform ownership (28%).

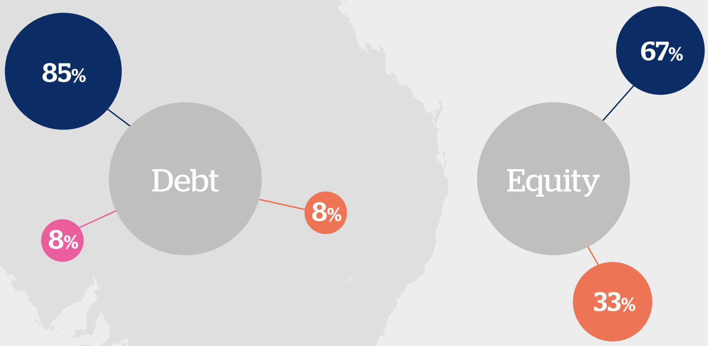
OVERVIEW OF REGULATORY CHANGES

85% of Australian debt-based platforms responded that the current regulation was adequate and appropriate, though 8% found regulation to be excessive. A third of equity-based platforms considered regulation to be excessive, with 33% of equity-based platforms also reported that regulatory authorisation was not required for their business operation. During 2018, the federal parliament passed legislation instructing the regulator to expand the regime to allow for proprietary companies to raise funds in addition to the existing allowance for public companies.[39]

The Extent of Existing Regulation

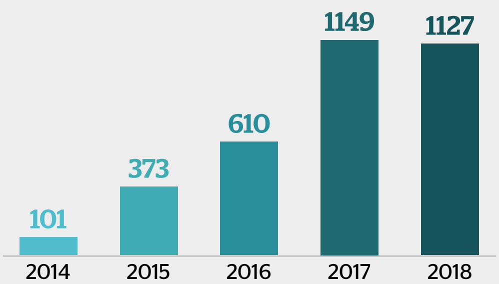
	Debt	Equity
My platform is authorized in my jurisdiction	92%	67%
Regulatory Authorisation is not required for my business activities	8%	33%

Perception towards Existing Regulation

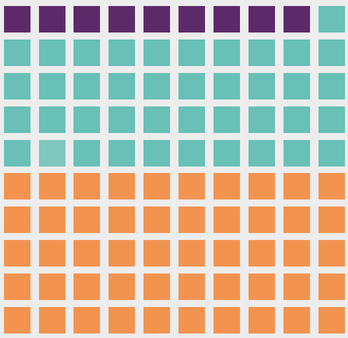


Adequate and appropriate for my platform activities
Excessive and too strict for my platform activities
Inadequate and too relaxed for my platform activities

Alternative Finance Market Volumes 2015-2018 (USD Millions)

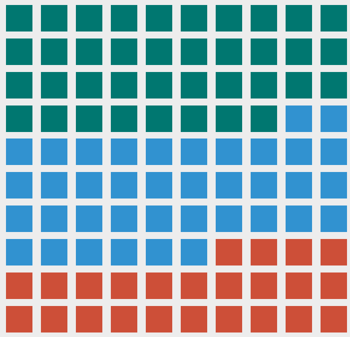


Changes in Business models (%)



We significantly altered our business model in 2018
We slightly altered our business model in 2018
We made no significant changes to our business model in 2018

Changes in products and services (%)



We introduced significantly new products and services in 2018
We slightly altered products and services in 2018
We made no significant changes to our products and services in 2018

India

India continued to lead the online alternative finance industry in South & Central Asia, with a total volume of $547 million in 2018, more than doubling their volume from last year. India ranked 14th (2017 : 13th) globally in terms of market volumes, with a regional ranking at 5th (2017 : 4th). Balance sheet Business Lending and P2P Consumer Lending were the two main drivers of the total volume, each accounting for 48.5% ($265.5 million) and 38% ($207.8 million) respectively. The total business funding volume was $311 million and the overall percentage of institutionalisation was 83% ($454.5 million).

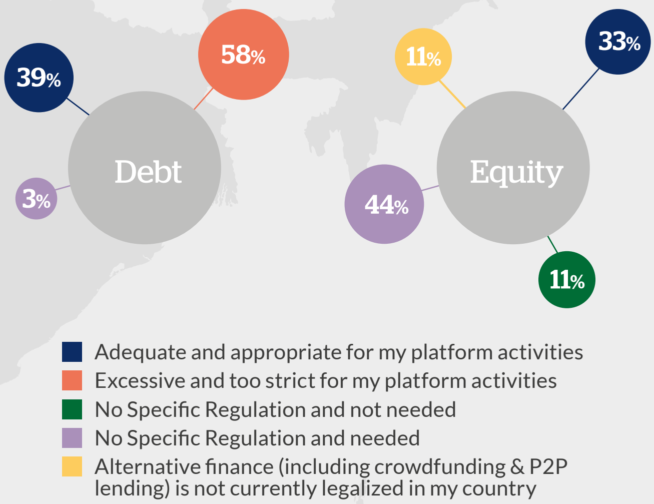
OVERVIEW OF REGULATORY CHANGE

In terms of the regulatory environment, the majority (82%) of debt-based platforms reported that they were authorised to operate in their jurisdiction, whereas only 33% of equity-based platforms reported that they were authorised. Regarding perception towards current regulation, a majority (58%) of the debt-based platforms reported that it was excessive and too strict, whereas 44% of equity-based platforms reported that there was no specific regulation and that it was needed. Regulations on Equity-based Crowdfunding have remained a grey area in the country, and await further inputs from the regulator, after their initial consultation paper on crowdfunding in 2014. According to qualitative comments, P2P platforms believe, P2P platforms believe that the existing aggregate exposure limit of INR 1 million for both borrowers and lenders across all P2P platforms, is hurting the growth prospects of the industry.[40]

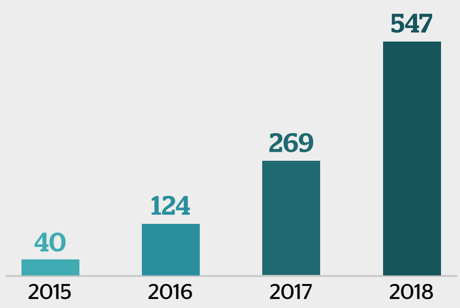
The Extent of Existing Regulation

	Debt	Equity
My platform is authorized in my jurisdiction	85%	33%
My platform is not authorized but has interim permissions to operate in my jurisdiction	6%	
Regulatory Authorisation is not required for my business activities	6%	
My platform is not authorized but has a relationship with another licensed institution (ie Appointed Representative) that serves as our agent.	6%	67%

Perception towards Existing Regulation

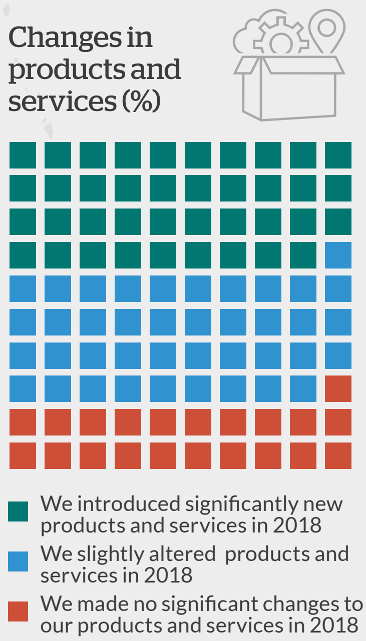


Alternative Finance Market Volumes 2015-2018 (USD Millions)



Changes in Business models (%)

Changes in products and services (%)



Indonesia

In 2018, Indonesia emerged as the largest alternative finance market within the Asia-Pacific region, thanks to a considerable increase in volume from $80 million in 2017 to $1451 million. Balance Sheet Consumer Lending (57%, $808.8 million) and P2P Business Lending (41.3%, $598.7 million) were the main model types. It is also notable that these volumes were driven not only by local firms (17 platforms) but also foreign based platforms (16 platforms). The global ranking by volume for Indonesia increased to 5th (2017 : 30th), with its regional ranking rising to 1st (2017 : 8th). Total business funding volume was $60.4 million, and the volume from institutional investors was $767.2 million (53%), with Balance Sheet Consumer Lending model showing the highest institutionalisation rate of 72%.

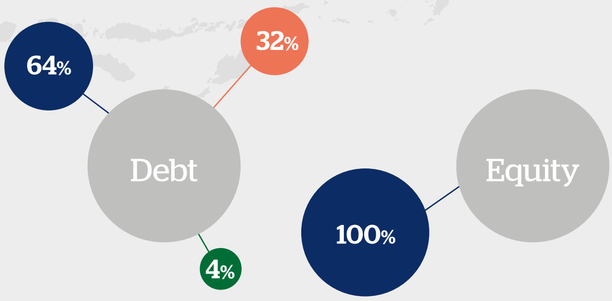
OVERVIEW OF REGULATORY CHANGES

The majority of Indonesian respondents (25 Debt based platforms, 3 Equity based platforms) reported that they were authorised or had interim permission to operate. However, many debt-based platforms reported that the current regulation was either excessive (32%) or not needed (4%). On the regulators side, the Financial Services Authority of Indonesia (OJK) has implemented an overarching regulation governing the development of the alternative finance sector and the establishment of the regulatory sandbox regime, which entered into effect on August 2018.[41]

The Extent of Existing Regulation

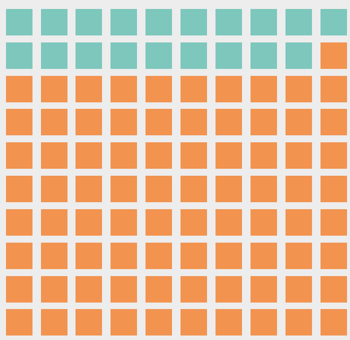
	Debt	Equity
My platform is authorized in my jurisdiction	82%	67%
My platform is not authorized but has interim permissions to operate in my jurisdiction	7%	33%
Regulatory Authorisation is not required for my business activities	7%	
My platform is not authorized but has a relationship with another licensed institution (ie Appointed Representative) that serves as our agent.	4%	

Perception towards Existing Regulation



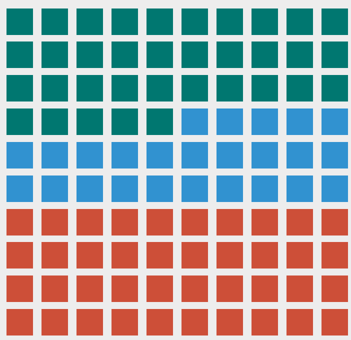
Adequate and appropriate for my platform activities
Excessive and too strict for my platform activities
No Specific Regulation and not needed

Changes in Business models (%)



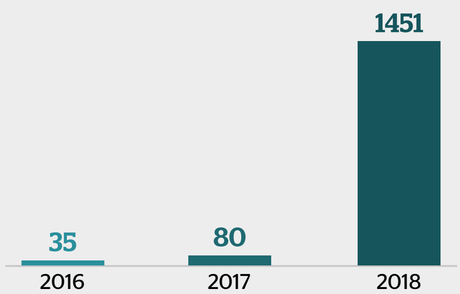
We slightly altered our business model in 2018
We made no significant changes to our business model in 2018

Changes in products and services (%)



We introduced significantly new products and services in 2018
We slightly altered products and services in 2018
We made no significant changes to our products and services in 2018

Alternative Finance Market Volumes 2015-2018 (USD Millions)



Japan

Japan maintains its position as one of the largest alternative finance markets, ranked at 3rd in the Asia-Pacific region and 9th worldwide, the same rankings as that of 2017. P2P Business Lending was the main driver of volume, accounting for 81.6% ($872.5 million), followed by Real Estate Crowdfunding at 11.9% ($126.5 million). The total market volume tripled during 2018 from $349 million to $1,069 million. More specifically, Japanese market in 2018 was marked by an emphasis on retail-led Investment with a total business funding volume of $966 million.

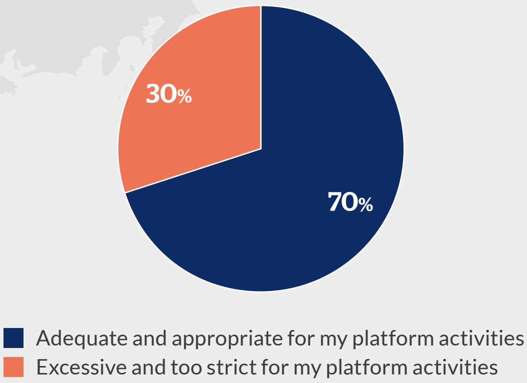
OVERVIEW OF REGULATORY CHANGES

Among Japanese respondents, the majority of the platforms were authorised to operate in their jurisdiction (80%). Although 70% of the respondents answered that the current regulation was adequate and appropriate, some (30%) considered it to be excessive and too strict. On the regulator's side, the Financial Service Agency (FSA) further progressed its moves to engage more closely with practitioners. For example, the FSA has issued eleven key finance digitalisation strategies in "Assessments and Strategic Priorities 2018", including the launch of a "FinTech Innovation Hub". The FSA also conducted interviews with 100 financial institutions and start-ups to integrate market trends into its policy making and promote financial innovation.[42]

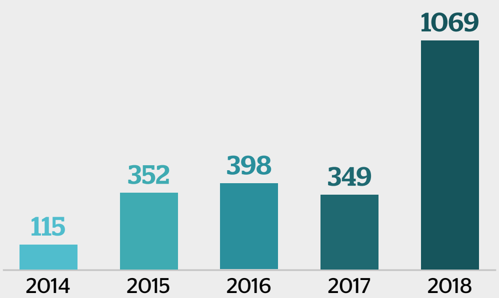
The Extent of Existing Regulation

Debt & Equity

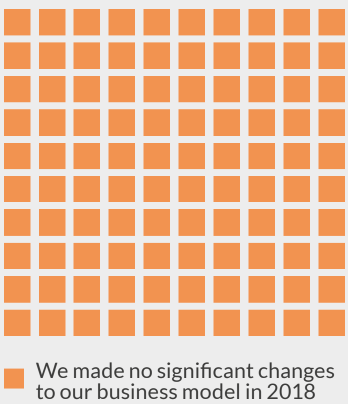
Perception towards Existing Regulation from Debt & Equity Models



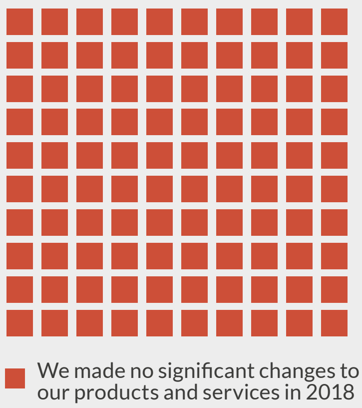
Alternative Finance Market Volumes 2015-2018 (USD Millions)



Changes in Business models (%)



Changes in products and services (%)



Malaysia

ALTERNATIVE FINANCE MARKET

In 2018, Malaysia showed a significant increase in total volume to $62 million, from $28 million in 2017. The regional ranking for Malaysia increased slightly to 10th (2017 : 11th), with the global ranking also increasing to 38th (2017 : 45th). More specifically, total business funding volume was $60.4 million, and the volume from institutional investors was $6.4 million (10%), which indicates that majority of funding comes from retail investors. It is notable that alternative finance in Malaysia has become an important credit option for businesses, with P2P Business Lending model accounting for 88.8% ($54.7 million) of the total volume.

OVERVIEW OF REGULATORY CHANGE

Regarding the regulatory environment in Malaysia, the majority (80%) of platforms reported that the current regulation was adequate and appropriate, whereas a few (20%) reported that it was excessive and too strict. All of the respondents were authorised (80%) or had interim permissions (20%) to operate in their jurisdiction. On the regulator's side, the Central Bank of Malaysia (Bank Negara Malaysia) announced official cryptocurrency regulation in Feb 2018.[43] The Securities Commission Malaysia also announced that it will be regulating ICOs in 2019.[44] Notably, most of the regulatory changes were towards crypto-assets and ICO in 2018.

INNOVATION

Most of the Malaysian platforms responded that they were not pursuing any innovation initiatives. 82% of the platforms reported that they made no significant changes to their business models, and 50% also reported they made no changes to their products and services in 2018.

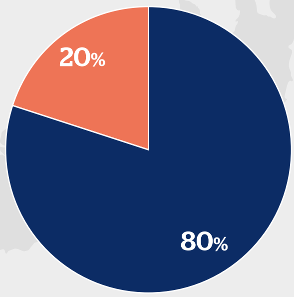
The Extent of Existing Regulation

Debt & Equity

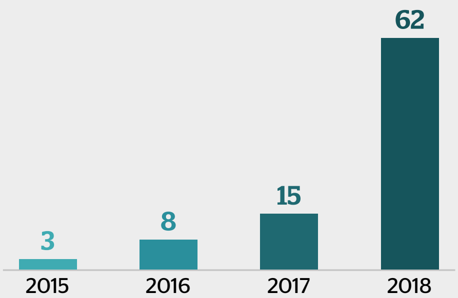
My platform is authorized in my jurisdiction: 80%

My platform is not authorized but has interim permissions to operate in my jurisdiction: 20%

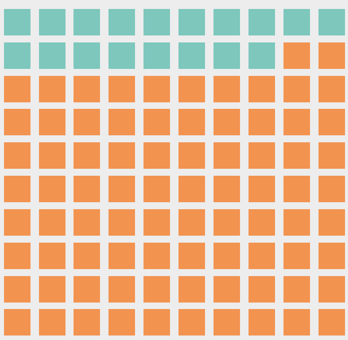
Perception towards Existing Regulation from Debt & Equity Models



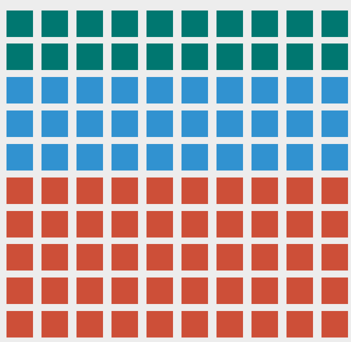
Alternative Finance Market Volumes 2015-2018 (USD Millions)



Changes in Business models (%)



Changes in products and services (%)



New Zealand

New Zealand generated $276 million in alternative finance volume, reporting the 7th highest contribution in the Asia-Pacific region (2017 : 5th) and 22nd highest globally (2017 : 14th). P2P Consumer Lending comprised the majority of the total volume, accounting for 80.5% ($222.2 million), followed by Donation-based Crowdfunding (5%, $13.8 million). More specifically, the total business funding was $38.5 million, and the volume derived from institutional investor was $76.3 million (28%).

OVERVIEW OF REGULATORY CHANGES

91% of respondents reported that they were authorised to operate in their jurisdiction and 91% of the platforms responded that the current regulation was adequate and appropriate. 9% of the platforms, however, did respond that the current regulation was excessive and too strict. This may be because authorities in New Zealand have significantly restricted the entry of intermediaries into the market to prevent oversaturation, compared to the close counterpart of Australia.

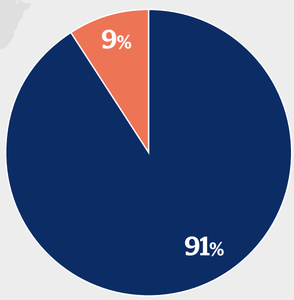
The Extent of Existing Regulation

Debt & Equity

My platform is authorized in my jurisdiction — 91%

Regulatory Authorisation is not required for my business activities — 9%

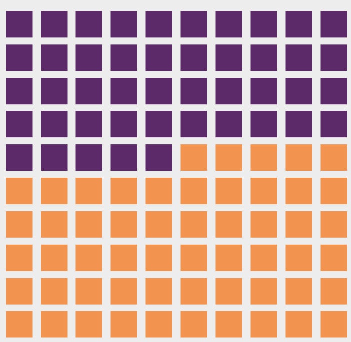
Perception towards Existing Regulation from Debt & Equity Models



Adequate and appropriate for my platform activities

Excessive and too strict for my platform activities

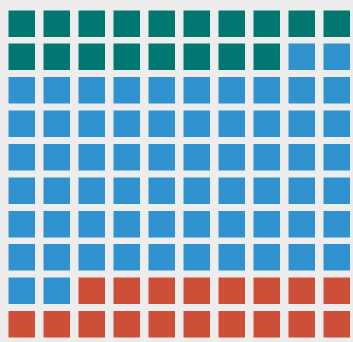
Changes in Business models (%)



We significantly altered our business model in 2018

We made no significant changes to our business model in 2018

Changes in products and services (%)

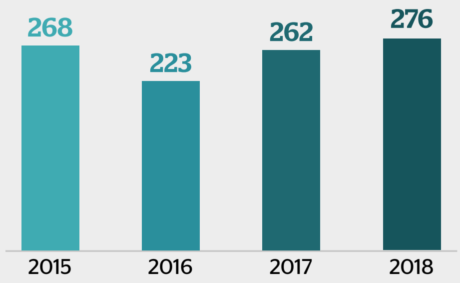


We introduced significantly new products and services in 2018

We slightly altered products and services in 2018

We made no significant changes to our products and services in 2018

Alternative Finance Market Volumes 2015-2018 (USD Millions)



Philippines

In 2018, the Philippines showed an increase in total volume to $117 million (2017: $19 million). Philippines ranked 34th globally and 8th in the Asia-Pacific region in terms of volume, which is the same as its ranking in 2017. More specifically, total business funding volume was $65.7 million and the volume from institutional investors was $60.1 million (52%). Balance Sheet Consumer Lending and P2P Business Lending were the two main models, accounting for 39.7% ($46.2 million) and 33.2% ($38.7 million) respectively.

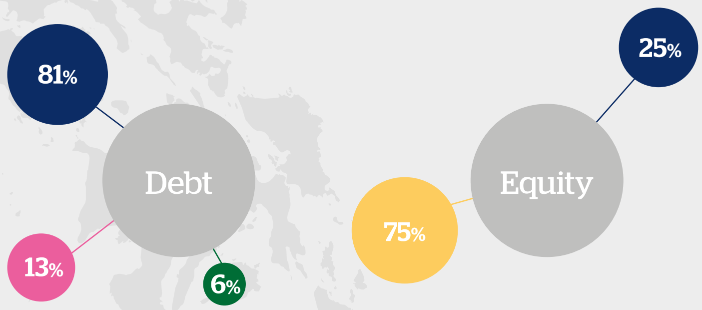
OVERVIEW OF REGULATORY CHANGE

It was notable that majority (75%) of equity-based platforms responded that alternative finance was not currently legalized in the Philippines. On the other hand, debt-based platforms were mostly authorised to operate in the Philippines (94%) and they tended to indicate that the regulation was adequate and appropriate (81%). Alternative finance in the Philippines has been recognized as improving financial inclusion, but the Central Bank of Philippines acknowledges the lack of FinTech-focused regulations and has indicated policy change to deal with cybersecurity threats and risks to FinTech.[45]

The Extent of Existing Regulation

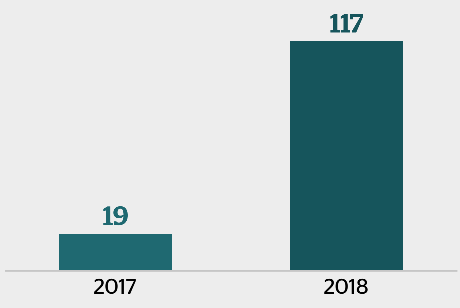
	Debt	Equity
My platform is authorized in my jurisdiction	94%	25%
Regulatory Authorisation is not required for my business activities	6%	
My platform is not authorized but has a relationship with another licensed institution (ie Appointed Representative) that serves as our agent.		75%

Perception towards Existing Regulation

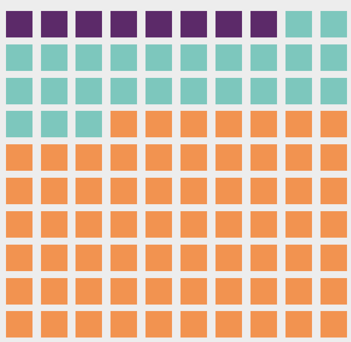


Adequate and appropriate for my platform activities
No Specific Regulation and not needed
Alternative finance (including crowdfunding & P2P lending) is not currently legalized in my country
Inadequate and too relaxed for my platform activities

Alternative Finance Market Volumes 2015-2018 (USD Millions)

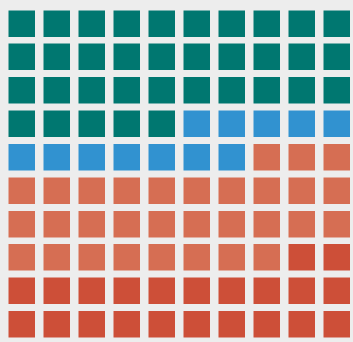


Changes in Business models (%)



We significantly altered our business model in 2018
We slightly altered our business model in 2018
We made no significant changes to our business model in 2018

Changes in products and services (%)



We introduced significantly new products and services in 2018
We slightly altered products and services in 2018
We made no significant changes to our products and services in 2018

Singapore

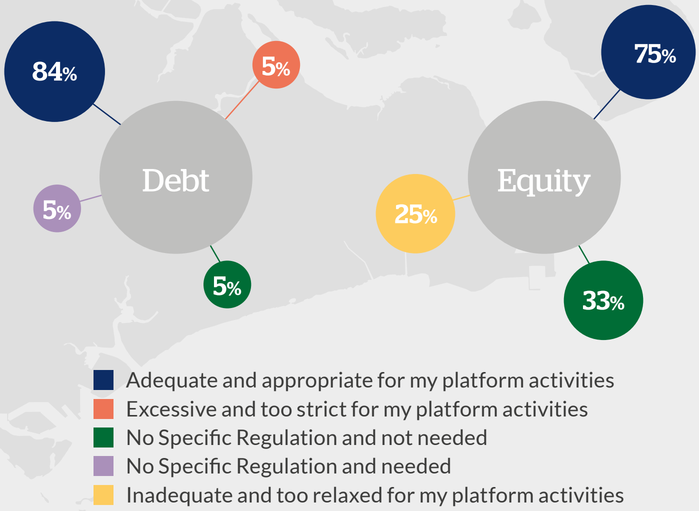
Singapore remained the market leader in the South-East Asian region, ranked at 6th in the Asia-Pacific region (2017 : 6th) and 16th globally (2017 : 19th). The total market volume was $500 million, a remarkable increase from $191 million in 2017. P2P Property Lending (22.4%, $112 million), P2P Business Lending (21.2%, $105.8 million), and Reward-based Crowdfunding (20.6%, $103 million) were the top models composing the total volume. More specifically, total business funding volume was $207 million and the volume derived from institutional investors was $49.3 million(10%).

OVERVIEW OF REGULATORY CHANGES

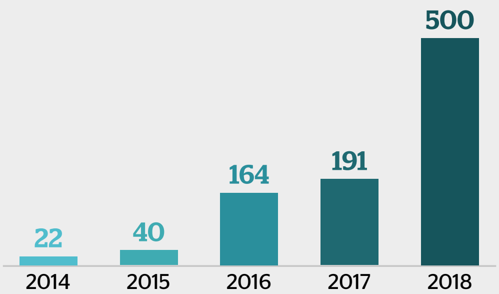
In terms of the regulatory environment, a majority of the platforms were authorised among both debt-based platforms (79%) and equity-based platforms (100%). 84% of debt-based platforms and 75% of equity-based platforms responded that the current regulation was adequate and appropriate, but 25% of equity-based platforms reported that it was inadequate and too relaxed. In 2018 the Monetary Authority of Singapore (MAS) signed a MOU with the Inter-American Development Bank (IDB) Group, led by IDB Lab[46], along with signing a tripartite Cooperation Agreement with the Astana Financial Services Authority (AFSA) and Astana International Financial Centre Authority (AIFCA).[47]

The Extent of Existing Regulation

Perception towards Existing Regulation

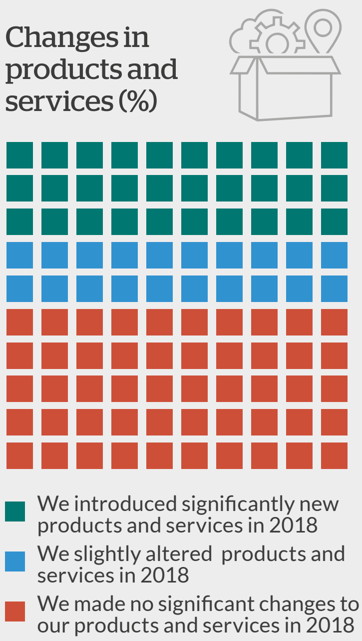


Alternative Finance Market Volumes 2015-2018 (USD Millions)



Changes in Business models (%)

Changes in products and services (%)



South Korea

In 2018, South Korea showed a drop in total volume reported to $753 million (2017 : $1130 million). Such a drop is partially due to a handful of major platforms not participating in this year's survey. South Korea's market volume ranks 11th (2017 : 5th) globally and 4th in the Asia-Pacific region (2017 : 2nd). P2P Property Lending (54.1%, $407.2 million) comprised the majority of the volume, followed by P2P Consumer Lending (15.1%, $114 million) and Real Estate Crowdfunding (14.7%, $110.5 million). More specifically, total business funding volume was $141.9 million and the volume from institutional investors was $40.1 million (5%).

OVERVIEW OF REGULATORY CHANGE

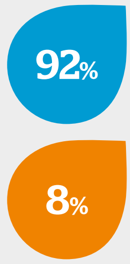
Among the South Korean respondents, a majority of the platforms were authorised to operate in their jurisdiction (92%). However, only 17% of the respondents were satisfied with the existing regulation, with some (25%) viewing it is inadequate whereas a few (8%) viewing the regulation as excessive. Other than that, South Korea has reviewed its strong regulatory stance on Crypto currency to foster growth of blockchain technology.[48] Also, the Marketplace Finance Association was founded in October 2018, with an emphasis on self-regulation with the member platforms related to risky assets such as project financing assets.[49]

The Extent of Existing Regulation

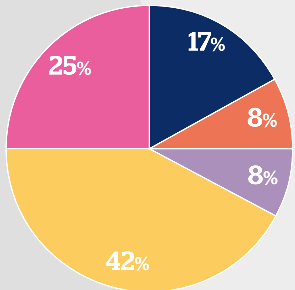
Debt & Equity

My platform is authorized in my jurisdiction

My platform is not authorized but has a relationship with another licensed institution (ie Appointed Representative) that serves as our agent.

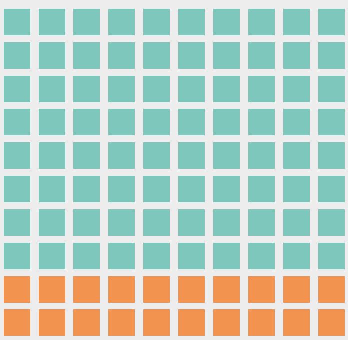


Perception towards Existing Regulation from Debt & Equity Models



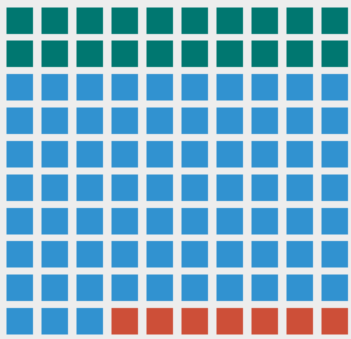
- Adequate and appropriate for my platform activities
- Excessive and too strict for my platform activities
- No Specific Regulation and needed
- Alternative finance (including crowdfunding & P2P lending) is not currently legalized in my country
- Inadequate and too relaxed for my platform activities

Changes in Business models (%)



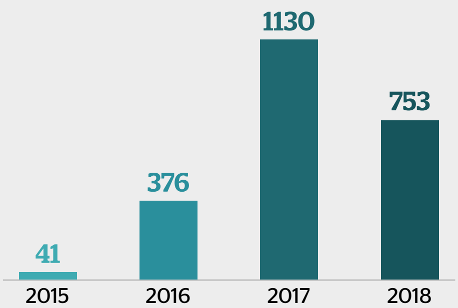
- We slightly altered our business model in 2018
- We made no significant changes to our business model in 2018

Changes in products and services (%)



- We introduced significantly new products and services in 2018
- We slightly altered products and services in 2018
- We made no significant changes to our products and services in 2018

Alternative Finance Market Volumes 2015-2018 (USD Millions)



Finland

In 2018, the alternative finance market in Finland significantly increased from $379 million (2017 : $222 million). However, its ranking dropped from 6th to 7th in Europe and 15th to 18th globally in 2018. More specifically, the total volume for SME financing was $164.4 million and the volume from institutional investors was $173.5 million (19%). The amount for business funding was $164M, and the volume from institutional investors was $20.6M (5%), which suggests that most funding comes from retail investors. P2P Consumer Lending comprised the majority of the total volume, accounting for 56.6% ($214.5 million), followed by P2P Business Lending (21.2%, $80.5 million) and Equity-based Crowdfunding (17.3%, $67.9 million)

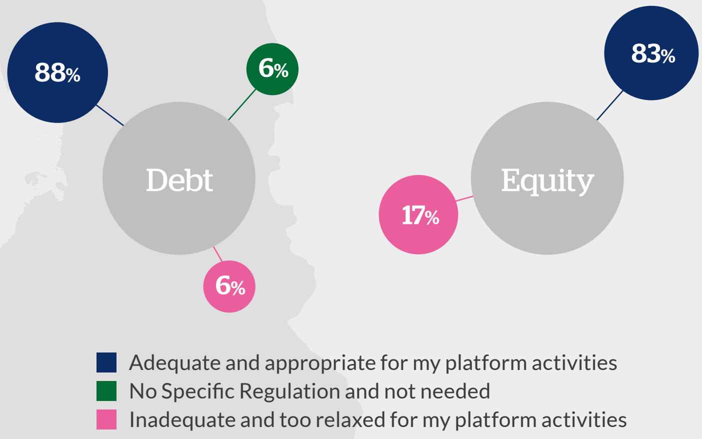
OVERVIEW OF REGULATORY CHANGES

Most of the respondents (88% of the debt-based platforms and 83% of the equity-based platforms) believed that current regulations were adequate and appropriate. Comparing to debt-based platforms, more equity-based platforms (17% vs 6%) suggested that exising regulations were too relaxed. Comparing to other countries, a relatively lower propotion of platforms (72% of debt-based platforms and 86% of equity-based platforms) were authorised in Finland.

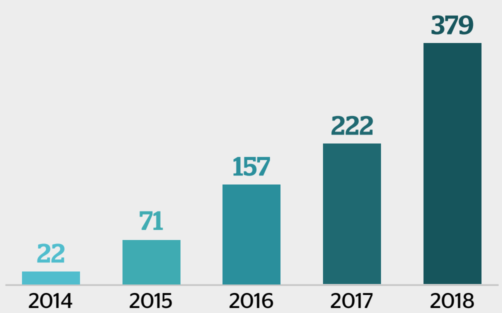
Finland was one of few European pioneers introducing crowdfunding-specific regulations with the Crowdfunding Act that was passed in parliament in 2016 mostly clarifying and easing Equity Crowdfunding. Future adjustment are likely to follow the ECSP pan-European regulation framework. In December 2017, FIN-FSA started using the Lausuntopalvelu.fi statement service, which allows all organziations and citizens to request and submit opinions electronically[50]. To promote innovation, the FIN-FSA Innovation Help Desk provide advices to start-ups and established enterprises that are planning to introduce a new type of product.[51]

The Extent of Existing Regulation

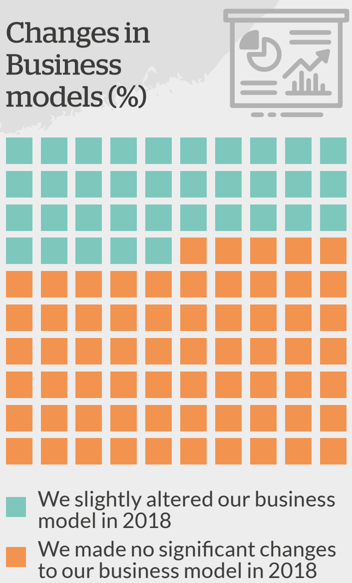
Perception towards Existing Regulation



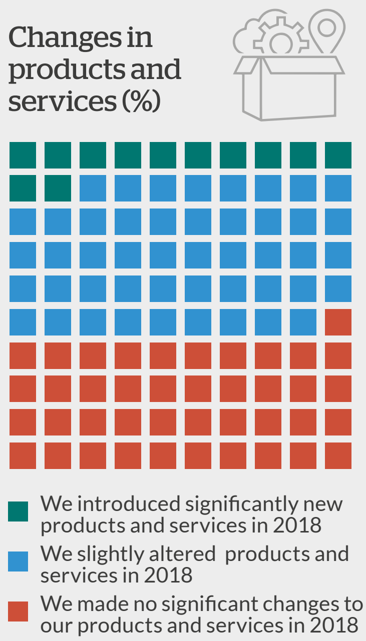
Alternative Finance Market Volumes 2015-2018 (USD Millions)



Changes in Business models (%)



Changes in products and services (%)



France

In 2018, France was exceeded by the Netherlands and Germany in total alternative finance volume in Europe. Its ranking dropped from 2nd to 4th in the European market, and from 7th to 8th in the global market, although its total volume increased from $747 million to $933 million. P2P Consumer Lending was the main driver of volume, accounting for 37% ($346.1 million), followed by Real Estate Crowdfunding (20.3%, $189.2 million) and P2P Business Lending (15.9%, $148.1 million). More specifically, the total volume for SMEs was $489.5 million and the volume from institutional investors was $173.5 million (19%).

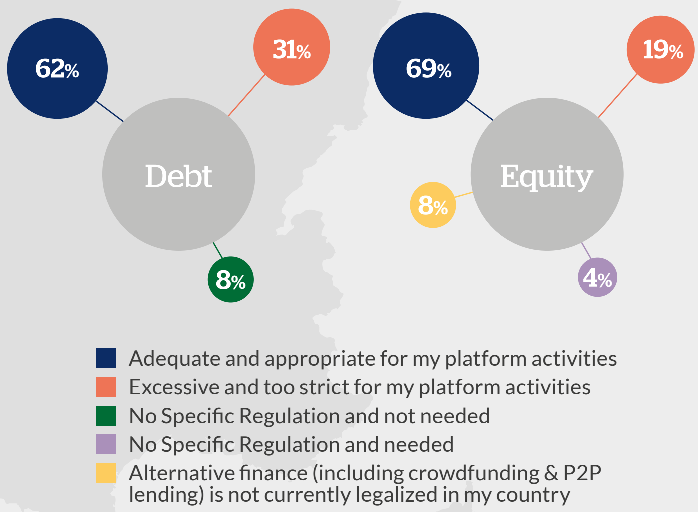
OVERVIEW OF REGULATORY CHANGES

Among French respondents, a majority of the platforms (62% of the debt-based platforms and 69% of the equity-based platforms) believed that existing regulations were adequate and appropriate. 19% of the debt-based platforms were not required to be authorised. By contrast, only 4% of the equity-based platforms were not authorised. On the regulator side, Autorité de Contrôle Prudentiel et de Résolution (ACPR) implemented PSD2 in Jan 2018. The French KYC framework for remote on-boarding was revised based on the eIDAS regulation. The data protection regulation, GDPR entered into force in May.[52] As elsewhere in the EU, the new pan-European ECSP regime is expected to be implemented in France, both enabling and opening its investment crowdfunding market.

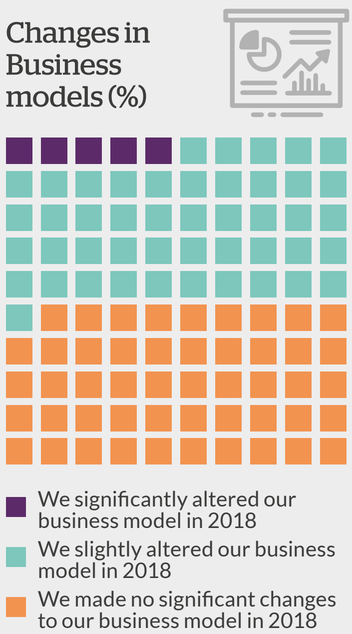
The Extent of Existing Regulation

	Debt	Equity
My platform is authorized in my jurisdiction	77%	96%
My platform is not authorized but has interim permissions to operate in my jurisdiction	4%	
Regulatory Authorisation is not required for my business activities	19%	4%

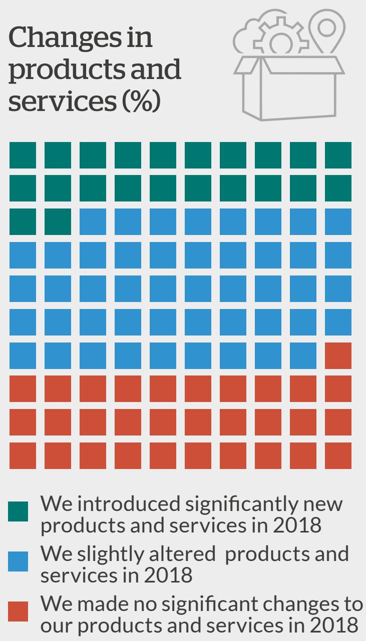
Perception towards Existing Regulation



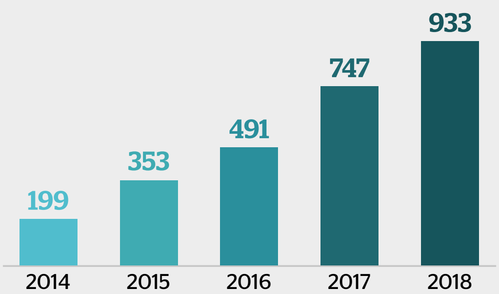
Changes in Business models (%)



Changes in products and services (%)



Alternative Finance Market Volumes 2015-2018 (USD Millions)



Germany

In 2018, German alternative finance market volume reached $1,276 million, which is an 89.6% increase compared to that of 2017. The regional ranking of Germany remained 3rd, as in 2017, but its global ranking increased to 6th (2017 : 8th). P2P Consumer Lending comprised the majority of the total volume, accounting for 51% ($651.3 million), followed by Real Estate Crowdfunding (24.6%, $313.9 million). More specifically, total business funding volume was $218.9 million and the volume derived from institutional investors reached $620.8 million (49%). Institutional investors were one of the main sources of funding in Germany, accounting for almost half of the total volume.

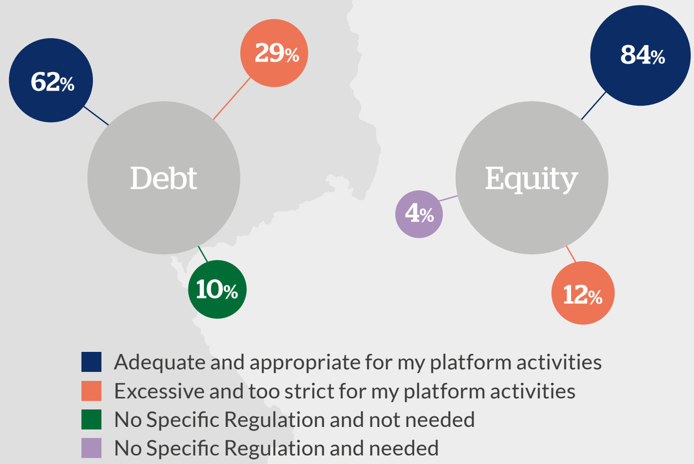
OVERVIEW OF REGULATORY CHANGES

The majority of equity-based platforms (96%) and debt-based platforms (67%) were authorised to operate in Germany. A similar portion of platforms among equity-based business models (84%) and debt-based business models (62%) answered that the current regulation was adequate and appropriate. However, it is notable that quite a few debt-based platforms (29%) indicated that the existing regulation was excessive and too strict. In 2018, the German Government liberalized the prospectus regime for equity offers, raising the threshold from EUR 1 million to EUR 8 million per year. Individual investments limits were set at EUR 10 million. These regulatory changes incentivized platforms in Germany to move from intermediating sub-ordinated loans (which were not classified as securities, but as investment assets) to securities.[53] Furthermore, as elsewhere in the EU, the new pan-European ECSP regime is expected to be implemented in Germany, both enabling and opening its investment crowdfunding market further.

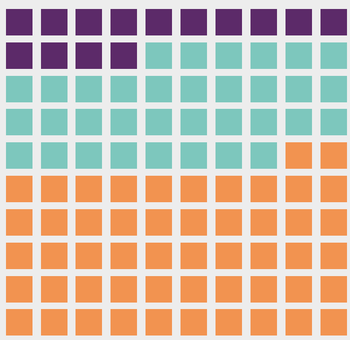
The Extent of Existing Regulation

	Debt	Equity
My platform is authorized in my jurisdiction	67%	96%
My platform is not authorized but has interim permissions to operate in my jurisdiction	5%	
Regulatory Authorisation is not required for my business activities	29%	4%

Perception towards Existing Regulation



Changes in Business models (%)

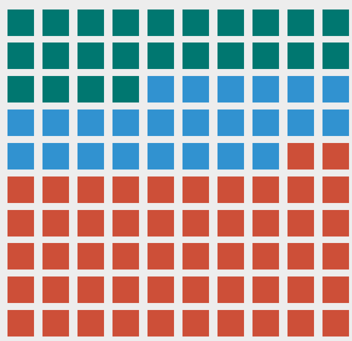


We significantly altered our business model in 2018

We slightly altered our business model in 2018

We made no significant changes to our business model in 2018

Changes in products and services (%)

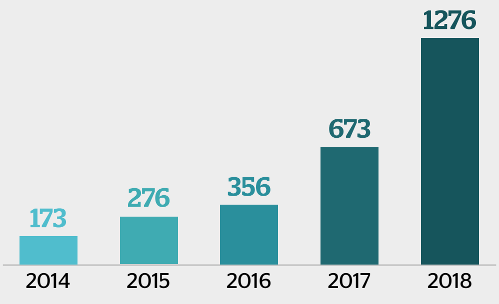


We introduced significantly new products and services in 2018

We slightly altered products and services in 2018

We made no significant changes to our products and services in 2018

Alternative Finance Market Volumes 2015-2018 (USD Millions)



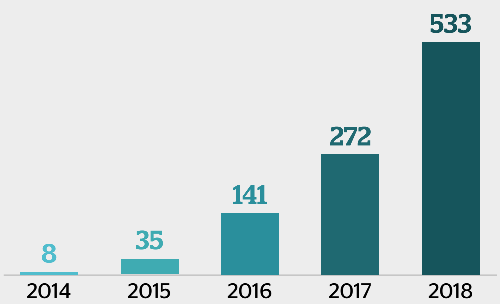
Italy

In 2018, Italy kept its position as the fifth largest alternative finance market in Europe, with an increase in volume to $533 million (2017: $272 million). Despite this growth of 99%, Italy dropped from 12th to 15th place in terms of volume globally. Invoice Trading was the main driver of the total volume, accounting for 65% ($346.2 million), followed by P2P Business Lending (14.3%, $75.9 million) and P2P Consumer Lending (13.5%, $71.8 million). Alternative finance continues to be an important source of finance for SMEs, with total business funding volumes reaching $449.5 million. The volume derived from institutional investors was $385.6 million, accounting for 72% of the total volume, which is second highest proportion in Europe after the Netherlands.

OVERVIEW OF REGULATORY CHANGES

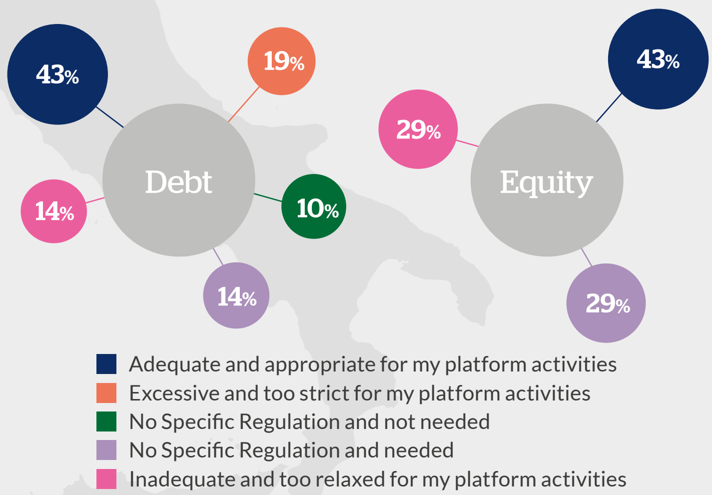
In 2018, it is notable that less than half (43%) of both debt-based platforms and equity-based platforms indicated that the current regulation was adequate and appropriate and quite a few platforms indicated that regulation was needed. (debt-based platforms: 14%, equity-based platforms: 29%). Such perception towards the current regulation can be partially explained by the fact that 48% of debt-based platforms and 14% of equity-based platforms do not require regulatory authorisation to operate. In 2018, rules on conflict of interest, deposit of funds, conditions relative to offers on the platform, and sanctions and precautionary measures were strengthened by Consob.[54] More clarity was also provided concerning cybersecurity requirements (Legislative Decree No. 65/2018)[55]. Finally, the new Budget Law adopted in December 2018 introduced the possibility of offering debt instruments via crowdfunding portals.[56] In the near future, Italy is expected to implement the new pan-European ECSP regime, further enabling and opening its investment crowdfunding market.

Alternative Finance Market Volumes 2015-2018 (USD Millions)

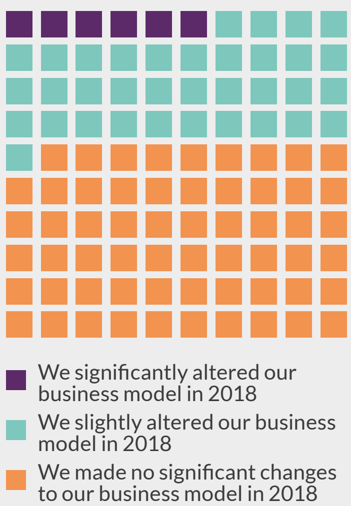


The Extent of Existing Regulation

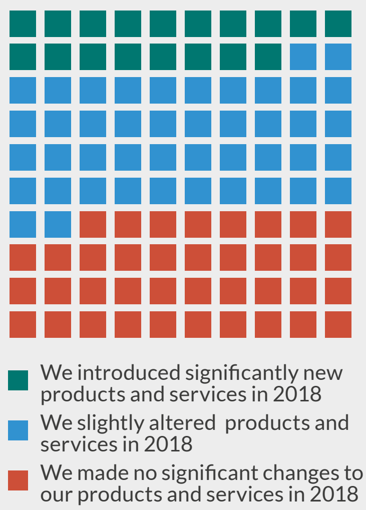
Perception towards Existing Regulation



Changes in Business models (%)



Changes in products and services (%)



Latvia

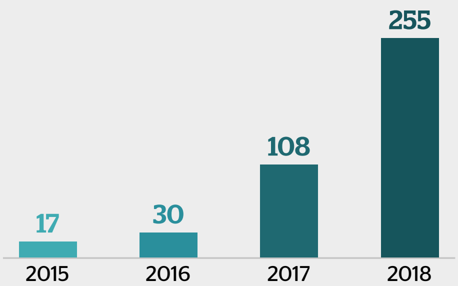
In 2018, the Latvian alternative finance platforms raised $255 million, continuing the strong growth seen in the previous year. The regional ranking of Latvia increased slightly to 10th (2017 : 12th), with the global ranking also increasing to 23rd (2017 : 25th). More specifically, the total business funding volume reached $22.3 million and the volume derived from institutional investors was $8.9 million (3%), which is the lowest proportion among key European countries. The alternative finance volume was mainly driven by consumer lending, with P2P Consumer Lending accounting for 90.5% ($230.3 million) of the total volume.

While not affecting Latvian volumes, it is worth noting, that Latvian-based platforms are some of the most prolific international platforms taking up large market shares of P2P Consumer and Business Lending in countries in Eastern Europe and the Caucasus.

OVERVIEW OF REGULATORY CHANGES

In this year's study there were no Latvian equity-based platforms that participated in the survey, so we only had data related to debt-based platforms. 50% of the debt-based platforms were currently authorised to operate in Latvia, with 42% of platforms not requiring regulatory authorisation. Moreover, a majority (75%) of the platforms answered that the current regulation is adequate and appropriate. The Ministry of Finance of Latvia established a regulatory framework for lending-based crowdfunding in 2017 which came into effect in 2018. The framework is widely considered as positive, and has resulted in widespread growth of the industry, especially with two large lending-platforms operating from Latvia across Europe and globally[57]. In the near future, Latvia is expected to implement the new pan-European ECSP regime, further enabling and opening its investment crowdfunding market.

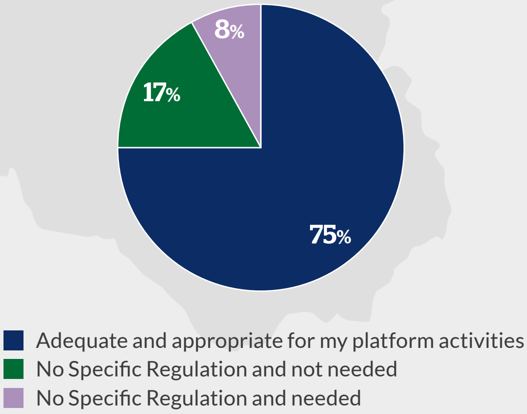
Alternative Finance Market Volumes 2015-2018 (USD Millions)



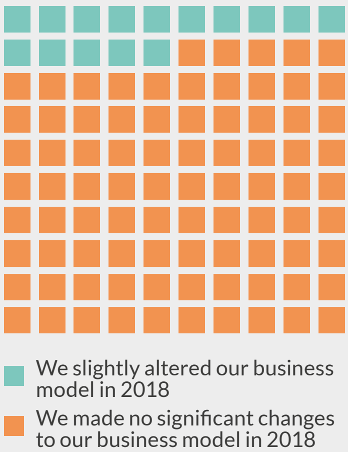
The Extent of Existing Regulation

	Debt & Equity
My platform is authorized in my jurisdiction	50%
My platform is not authorized but has interim permissions to operate in my jurisdiction	8%
Regulatory Authorisation is not required for my business activities	42%

Perception towards Existing Regulation from Debt & Equity Models



Changes in Business models (%)



Changes in products and services (%)

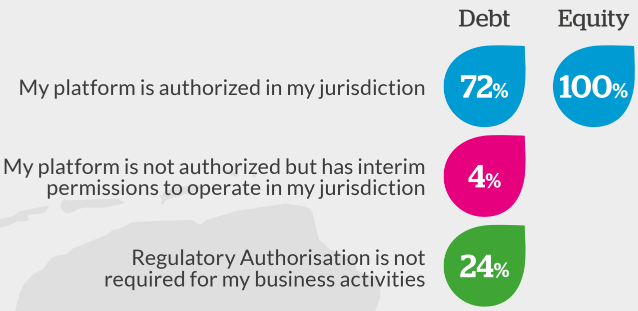
Netherlands

In 2018, three European countries, the Netherlands, Germany, and France, exceeded the one billion dollar threshold, with the Netherlands becoming the second largest alternative finance market in Europe. Its global ranking also increased to 4th (2017 : 10th). Balance Sheet Property Lending was the main driver of the total volume, accounting for 76.3% ($1.4 billion) of the total volume, followed by P2P Business Lending (8.2%, $147.5 million).

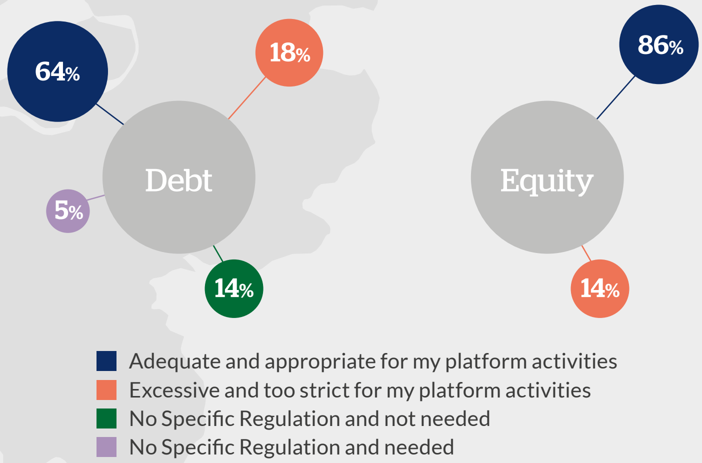
OVERVIEW OF REGULATORY CHANGES

For the extent of existing regulations, all equity-based platforms were authorised in the Netherlands, while 24% debt-based based platforms did not need regulatory authorisation and 4% debt-based platforms were not authorised but had interim permission to operate. As for the perception of existing regulations, 18% of debt-based platforms and 14% of equity-based platforms suggested that regulations were too strict. More equity-based platforms (86%) than debt-based platforms (64%) indicated that current regulations were adequate and appropriate. On April 2018, the AFM published recommendations for the provision of information to crowdfunding projects.[58] The AFM and DNB have launched an Innovation Hub and Regulatory Sandbox in 2016 to provide suggestions to alternative finance firms.[59] In the near future, the Netherlands is expected to implement the new pan-European ECSP regime, further enabling and opening its investment crowdfunding market.

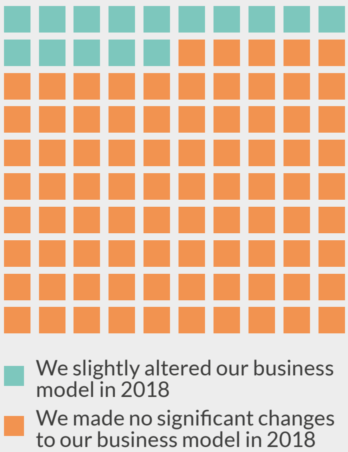
The Extent of Existing Regulation



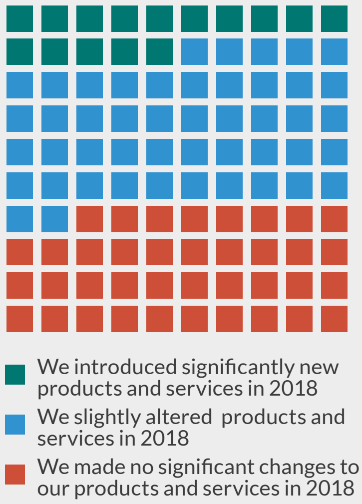
Perception towards Existing Regulation



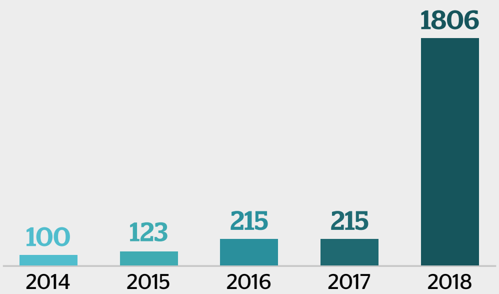
Changes in Business models (%)



Changes in products and services (%)



Alternative Finance Market Volumes 2015-2018 (USD Millions)



Poland

The total alternative finance volume in Poland was $333 million in 2018, ranking 8th in Europe (2017 : 10th). The global ranking for Poland was 19th, ascending from 21st position in 2017. Of note, total business funding volume amounted to $41 million, with the vast majority of this funding raised by debt instruments ($34 million). The volume derived from institutional investors reached $11.2 million (3%), the lowest proportion among key Euro-zone countries. P2P Consumer Lending was the main driver of volume, accounting for 84.4% ($281.4 million).

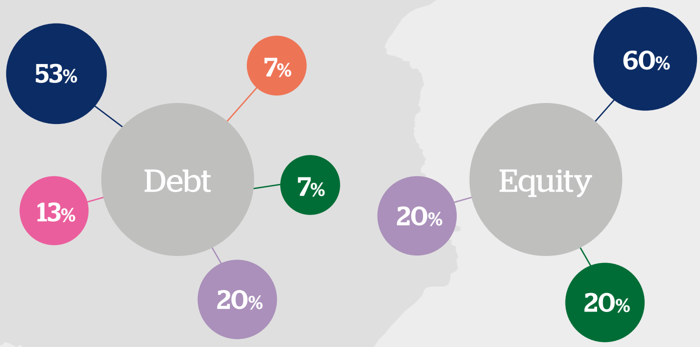
OVERVIEW OF REGULATORY CHANGES

In 2018, a majority of equity-based platforms (60%) did not require a regulatory authorisation, and a similar proportion (47%) of debt-based platforms also did not require authorisation. However, 20% of both debt-based platforms and equity-based platforms answered that there was no specific regulation but that it was needed. Such results may be because most crowdfunding platforms in Poland are Donation and Reward-based, which do not require a license. Regarding the regulatory change, prospectus-free emissions on equity-based models were allowed up to 2.5 million Euro in 2018, which is small compared to other Western European countries, but large in comparison to other Eastern European countries.[60] In the near future, Poland is expected to implement the new pan-European ECSP regime, further enabling and opening its crowdfunding market.

The Extent of Existing Regulation

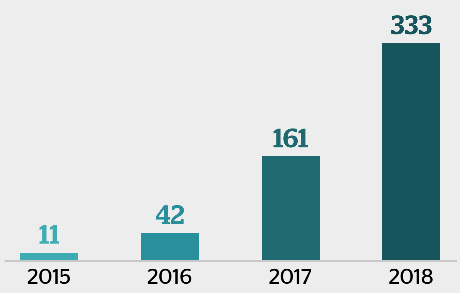
	Debt	Equity
My platform is authorized in my jurisdiction	53%	40%
Regulatory Authorisation is not required for my business activities	47%	60%

Perception towards Existing Regulation

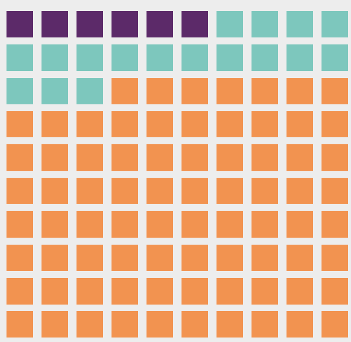


- Adequate and appropriate for my platform activities
- Excessive and too strict for my platform activities
- No Specific Regulation and not needed
- No Specific Regulation and needed
- Inadequate and too relaxed for my platform activities

Alternative Finance Market Volumes 2015-2018 (USD Millions)

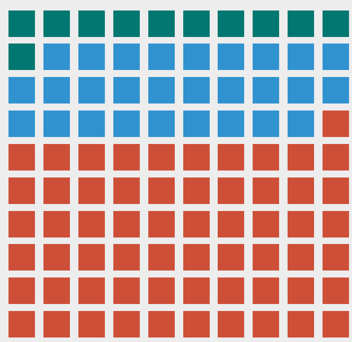


Changes in Business models (%)



- We significantly altered our business model in 2018
- We slightly altered our business model in 2018
- We made no significant changes to our business model in 2018

Changes in products and services (%)



- We introduced significantly new products and services in 2018
- We slightly altered products and services in 2018
- We made no significant changes to our products and services in 2018

Spain

With a total volume of $419 million, Spain remains the 7th largest alternative finance market in Europe in 2018, having increased by more than 130% as compared to its 2017 volume ($182 million). P2P Consumer Lending, Invoice Trading, and P2P Business Lending are the main drivers of the total volume, accounting for 29.6% ($124.1 million), 25.7% ($107.8 million), and 22.3% ($93.5 million) respectively. Its global ranking increased slightly to 16th (2017 : 19th). More specifically, the total business funding volume was $259 million and the volume derived from institutional investors was $112.5 million (27%). Invoice Trading platforms showed the highest institutionalisation rate (70%).

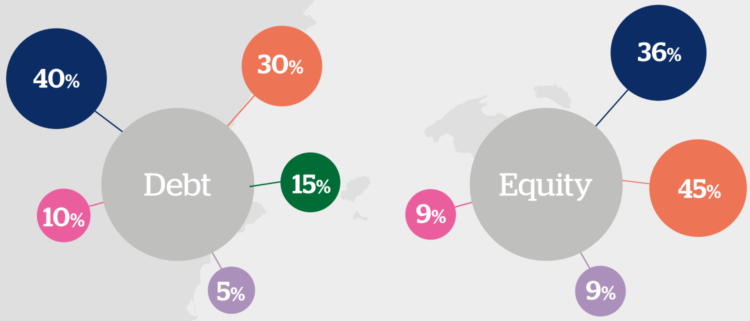
OVERVIEW OF REGULATORY CHANGES

A majority of investment platforms operating in Spain were authorised by the regulator. However, around one third of both debt-based and equity platforms reported that authorisation was not a regulatory requirement. Platforms' perceptions of the existing regulation varied considerably. Among debt-based platforms the most common views are that the existing regulation is adequate (40%) or excessive (30%). Similarly, 36% of equity-based platforms reported their satisfaction with the existing regime, whereas 45% expressed their dissatisfaction about how strict the regime was. The Spanish regulator has not changed crowdfunding-bespoke regime since 2015 (The Promotion of Business Financing Act)[61]. However, transposition of directives PSD2 and "NIS Directive" governing cybersecurity issues in 2018 is likely to bear consequences for the operation of platforms.[62] Nevertheless, as elsewhere in the EU, Spain is expected to implement the new pan-European ECSP regime, further enabling and opening its investment crowdfunding market.

The Extent of Existing Regulation

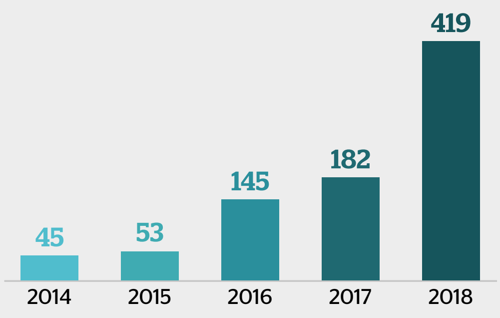
	Debt	Equity
My platform is authorized in my jurisdiction	61%	69%
My platform is not authorized but has interim permissions to operate in my jurisdiction	4%	
Regulatory Authorisation is not required for my business activities	35%	31%

Perception towards Existing Regulation

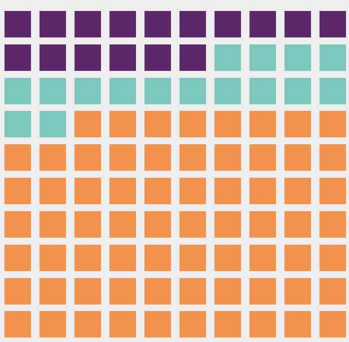


- Adequate and appropriate for my platform activities
- Excessive and too strict for my platform activities
- No Specific Regulation and not needed
- No Specific Regulation and needed
- Inadequate and too relaxed for my platform activities

Alternative Finance Market Volumes 2015-2018 (USD Millions)

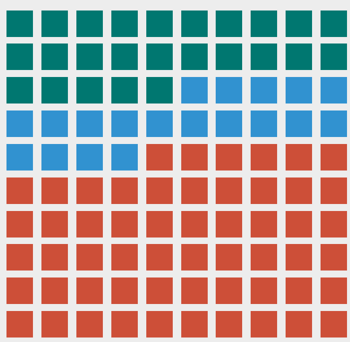


Changes in Business models (%)



- We significantly altered our business model in 2018
- We slightly altered our business model in 2018
- We made no significant changes to our business model in 2018

Changes in products and services (%)



- We introduced significantly new products and services in 2018
- We slightly altered products and services in 2018
- We made no significant changes to our products and services in 2018

Sweden

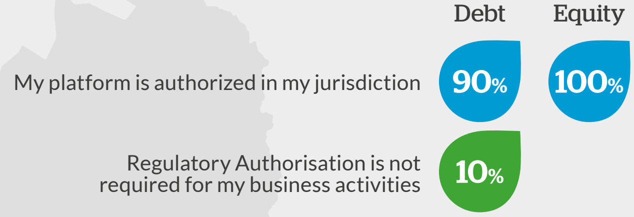
In 2018, Sweden had a steady increase in the total volume to $268 million (2017: $222 million). Historically, the Swedish market has shown fluctuations in market volume, albeit with a constant increase from 2015. Its ranking in Europe dropped to 9th (2017: 7th) and 20th in the globe (2017: 16th). More specifically, the total business funding volume was $66.7 million and the volume derived from institutional investors was $81.9 million (31%). Balance Sheet Consumer Lending, Real Estate Crowdfunding, and P2P Consumer Lending were the main drivers of the total volume, accounting for 34.4% ($91.9 million), 20.3% ($54.3 million), 18.7% ($50.1 million) respectively.

OVERVIEW OF REGULATORY CHANGES

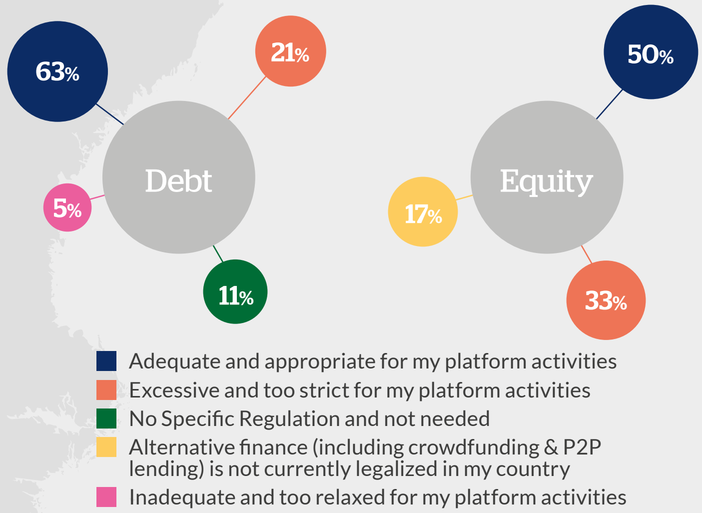
In this year's study, almost all Swedish platforms were authorised to operate in their jurisdiction (debt-based platforms: 90%, equity-based platforms: 100%). However, the perception towards current regulation varied: 21% of debt-based platforms and 33% of equity-based platforms indicated that it was excessive and too strict, whereas 5% of debt-based platforms answered that it was inadequate and too relaxed. On the regulator's side, FSA has established a FinTech regulatory sandbox in Stockholm to facilitate innovation.[63] Together with the rest of the EU, Sweden is expected to implement the new pan-European ECSP regime, further enabling and opening its investment crowdfunding market.

The Riksbank, Sweden's Central Bank, is looking at launching a national cryptocurrency called the e-Krona, which would make it the first economy to introduce their own cryptocurrency.[64]

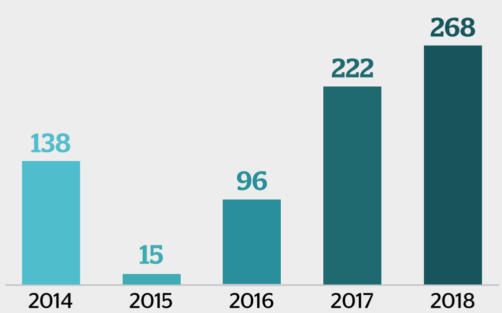
The Extent of Existing Regulation



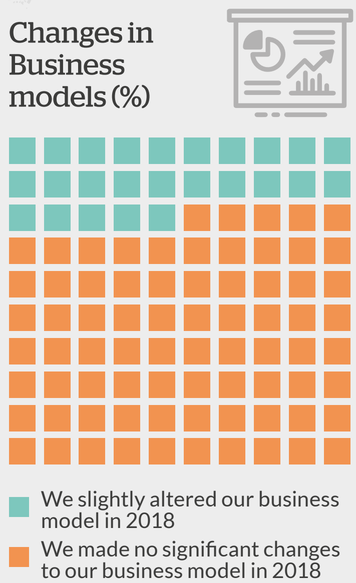
Perception towards Existing Regulation



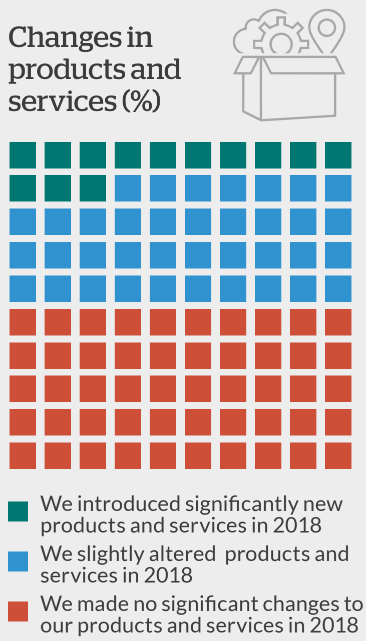
Alternative Finance Market Volumes 2015-2018 (USD Millions)



Changes in Business models (%)



Changes in products and services (%)



United Kingdom

EUROPE

The United Kingdom was the largest country by volume in Europe in 2018, generating 57% of the total European alternative finance volume. The total volume of UK platforms reached $10,368 million, with its global ranking remaining at 3rd in 2018, the same as that of 2017. P2P Lending models were the main components of the total volume, with P2P Business Lending, P2P Property Lending, P2P Consumer Lending accounting for 24.5% ($2.5 billion), 19.8% ($2.1 billion), and 17% ($1.8 billion) respectively. More specifically, total business funding volume was $5,957 million and the volume from investors was $5,230 million (50%), with the Balance Sheet Business Lending business model showing the highest institutionalisation rate, with all its funding coming from institutional investors.

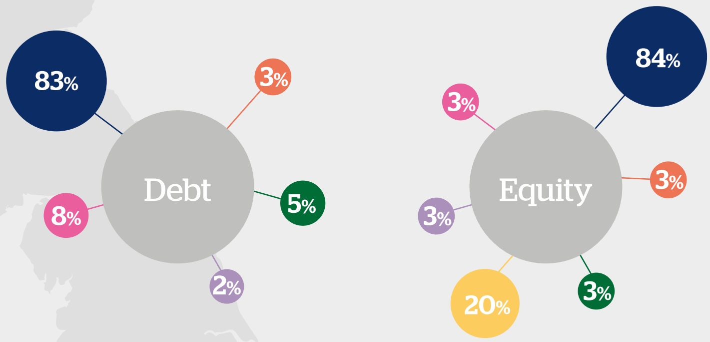
OVERVIEW OF REGULATORY CHANGES

Most UK platforms reported that they were authorised or had interim permission to operate, regardless of their model type. Conversely, authorisation was not required by regulators for 19% of equity-based platforms and 15% of debt-based platforms. Regarding the perception towards existing regulation, over 80% of platforms considered regulation as adequate and appropriate. Only 3% of platforms perceived regulation as too strict and excessive for their activities. In 2018, FCA proposed tougher rules for P2P lending, in a consultation paper published in 2018.[65]

The Extent of Existing Regulation

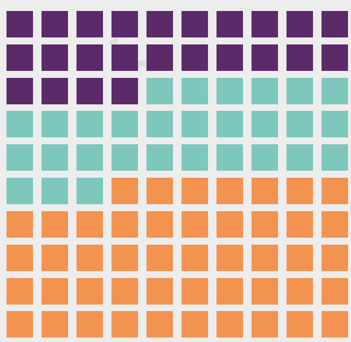
	Debt	Equity
My platform is authorized in my jurisdiction	79%	72%
My platform is not authorized but has interim permissions to operate in my jurisdiction	2%	
Regulatory Authorisation is not required for my business activities	15%	19%
My platform is not authorized but has a relationship with another licensed institution (ie Appointed Representative) that serves as our agent.	5%	9%

Perception towards Existing Regulation



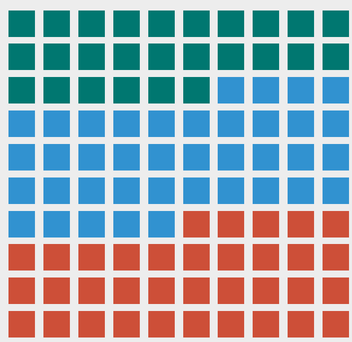
- Adequate and appropriate for my platform activities
- Excessive and too strict for my platform activities
- No Specific Regulation and not needed
- No Specific Regulation and needed
- Alternative finance (including crowdfunding & P2P lending) is not currently legalized in my country
- Inadequate and too relaxed for my platform activities

Changes in Business models (%)



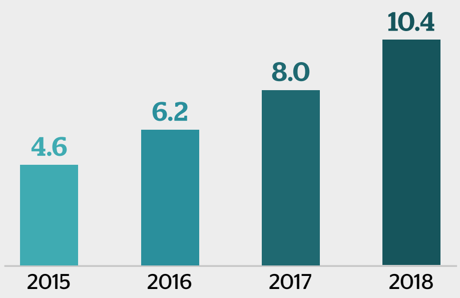
- We significantly altered our business model in 2018
- We slightly altered our business model in 2018
- We made no significant changes to our business model in 2018

Changes in products and services (%)



- We introduced significantly new products and services in 2018
- We slightly altered products and services in 2018
- We made no significant changes to our products and services in 2018

Alternative Finance Market Volumes 2015-2018 (USD Billions)



Argentina

ALTERNATIVE FINANCE MARKET

In 2018, the alternative finance market in Argentina continued growing and reached $129 million. This resulted in Argentina climbing up the global ranking. In 2018 it became the 32nd largest market globally, in 2017, it was the 38th, however regionally it dropped to 6th place from 5th. More specifically, the total business funding volume was $84.4 million and the volume derived from institutional investors was $58.2 million (45%). The majority of the volume was derived from Invoice Trading, which accounted for 54.6% ($70.6 million), followed by Balance Sheet Consumer Lending (19.1%, $24.7 million) and P2P Consumer Lending (11.9%, $15.3 million).

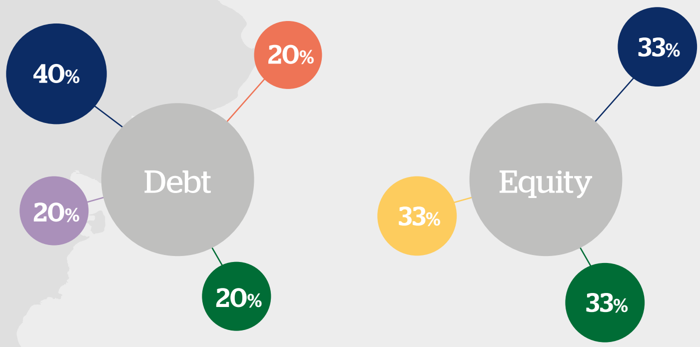
OVERVIEW OF REGULATORY CHANGES

More than half of the debt-based platforms (69%) had authorisation for their activities, 15% had interim permission and the remaining 15% did not require authorisation. The majority of equity-based platforms (67%) did not require authorisation. 40% of debt-based platforms and 33% of equity-based platforms claimed there is no specific regulation and it is needed, 40% of debt-based platforms and 33% of equity-based platforms deemed regulation appropriate, 20% of debt-based platforms deemed it excessive, 20% of debt-based platforms and 33% of equity-based platforms responded there is no regulation and it is not needed. Authorities have decided to let the ecosystem grow before setting up regulatory frameworks.[66]

The Extent of Existing Regulation

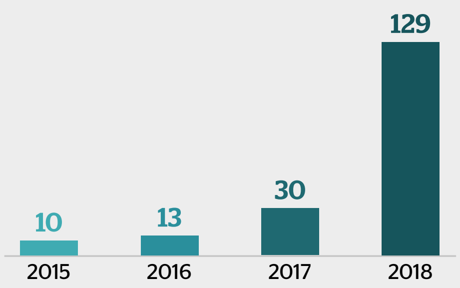
	Debt	Equity
My platform is authorized in my jurisdiction	69%	33%
My platform is not authorized but has interim permissions to operate in my jurisdiction	15%	
Regulatory Authorisation is not required for my business activities	15%	67%

Perception towards Existing Regulation

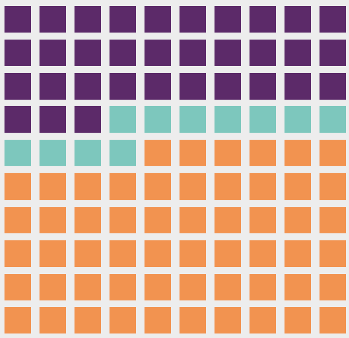


- Adequate and appropriate for my platform activities
- Excessive and too strict for my platform activities
- No Specific Regulation and not needed
- No Specific Regulation and needed
- Alternative finance (including crowdfunding & P2P lending) is not currently legalized in my country

Alternative Finance Market Volumes 2015-2018 (USD Millions)

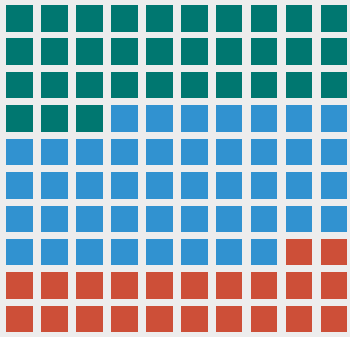


Changes in Business models (%)



- We significantly altered our business model in 2018
- We slightly altered our business model in 2018
- We made no significant changes to our business model in 2018

Changes in products and services (%)



- We introduced significantly new products and services in 2018
- We slightly altered products and services in 2018
- We made no significant changes to our products and services in 2018

Brazil

The Brazilian online alternative finance market grew exponentially from $216 million to $673 million in 2018, achieving the 13th position in the world rankings and keeping its 1st position in the region. It highlights Brazil as the main regional player, a country which is increasingly staking its place among the strongest global alternative finance markets. More specifically, total business funding was $143.4 million and the funding derived from institutional investors was $258.9 million (38%). P2P Consumer Lending was the main driver of the total volume, accounting for 44.3% ($298.5 million), followed by Debt-based Securities (15.1%, $102 million) and Balance Sheet Consumer Lending (8.9%, $59.8 million).

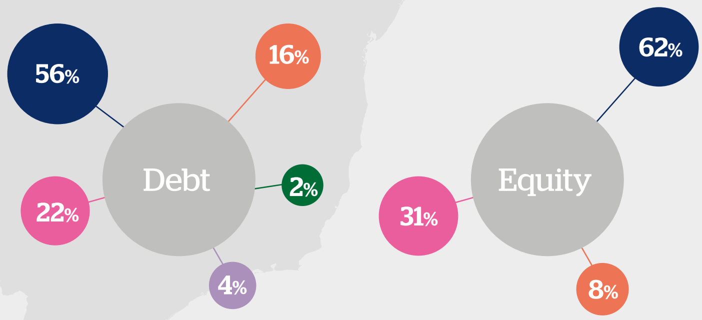
OVERVIEW OF REGULATORY CHANGE

Among the Brazilian respondents more than half of the platforms showed a positive perception across platform types, with 56% of debt-based platforms considering there to be adequate regulation, 16% saying that there is no specific regulation and it is not needed, and 22% believing there to be an inadequate and too relaxed regulatory framework. Among the equity-based respondents, 62% considered the regulation as adequate, on the other hand 31% consider it inadequate and 8% that it was excessive. In 2018, the Brazilian Central Bank launched a regulation allowing P2P lending platforms to act freely, without the need to be backed by a traditional banking institution.[67]

The Extent of Existing Regulation

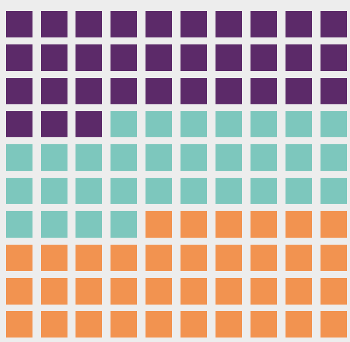
	Debt	Equity
My platform is authorized in my jurisdiction	52%	92%
My platform is not authorized but has interim permissions to operate in my jurisdiction	4%	
Regulatory Authorisation is not required for my business activities	26%	8%
My platform is not authorized but has a relationship with another licensed institution (ie Appointed Representative) that serves as our agent.	18%	

Perception towards Existing Regulation



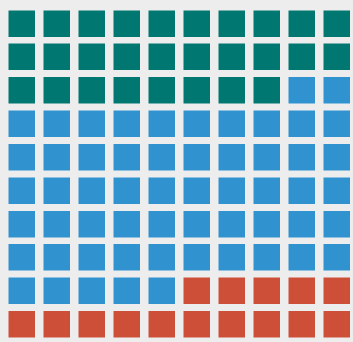
- Adequate and appropriate for my platform activities
- Excessive and too strict for my platform activities
- No Specific Regulation and not needed
- No Specific Regulation and needed
- Inadequate and too relaxed for my platform activities

Changes in Business models (%)



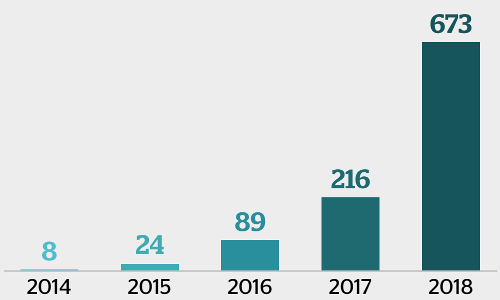
- We significantly altered our business model in 2018
- We slightly altered our business model in 2018
- We made no significant changes to our business model in 2018

Changes in products and services (%)



- We introduced significantly new products and services in 2018
- We slightly altered products and services in 2018
- We made no significant changes to our products and services in 2018

Alternative Finance Market Volumes 2015-2018 (USD Millions)



Canada

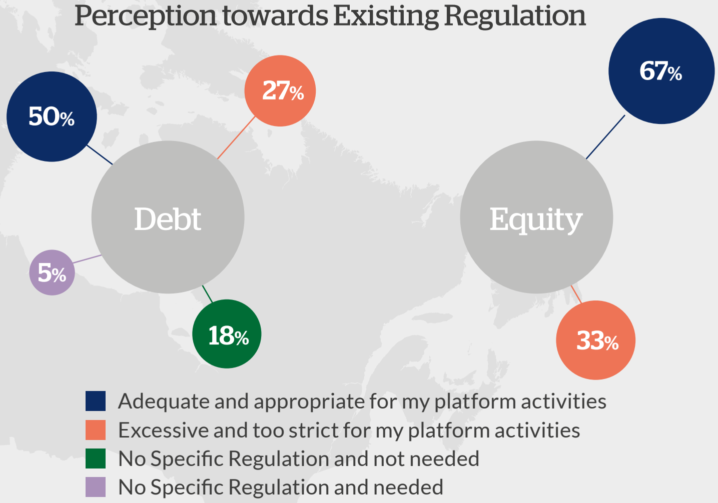
Canada ranked 2nd regionally and 10th globally, keeping its position from last year. The model that generated most volume was P2P/Marketplace Consumer Lending, with a 36% share on the overall market volume, it is followed by Balance Sheet Business Lending (17%) and Balance Sheet Property Lending (13%). The total SME business funding volume was $561M and the volume derived from institutional investors was $490M (54%).

OVERVIEW OF REGULATORY CHANGES

In 2018, 48% of debt-based platforms and the majority (90%) of equity-based platforms are authorized to operate in their jurisdiction. 50% of debt platforms, and 67% of equity platforms responded that c regulation is adequate and appropriate for their business activities, 27% of debt-based and 33% of equity-based platforms consider regulation to be excessive and too strict. The Competition Bureau in Canada published a study arguing that to encourage growth in FinTech, a flexible regulatory environment is needed[68]. In addition, further harmonization of related regulations across the provinces may also help unlock further potential.

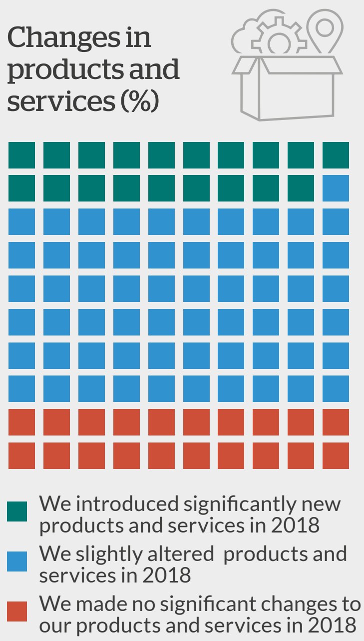
The Extent of Existing Regulation

Perception towards Existing Regulation

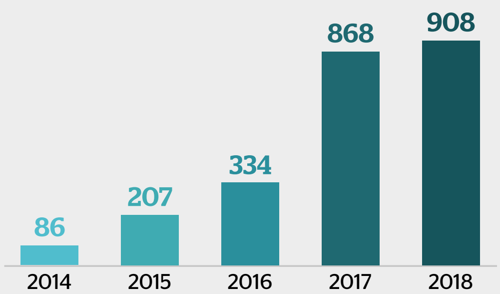


Changes in Business models (%)

Changes in products and services (%)



Alternative Finance Market Volumes 2015-2018 (USD Millions)



Chile

In 2018 the alternative finance market in Chile kept growing, reaching $289 million. This resulted in Chile climbing up the rankings, in 2018 it became 21st largest market globally, in 2017 it was 23rd and regionally it ranked 2nd in 2018, climbing up from being the 3rd in 2017. The majority of the volume generated was for business funding, reaching $289 million. The volume derived from institutional investors was $134.5 million (47%). It is notable that Invoice Trading is the main driver of the total volume, accounting for 79.2% ($229 million), followed by P2P Business Funding (11.3%, $32.5 million).

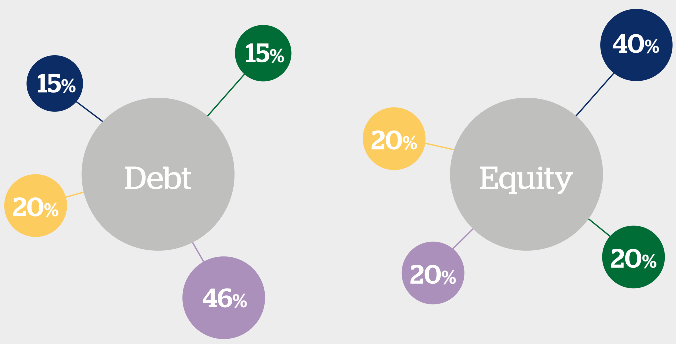
OVERVIEW OF REGULATORY CHANGES

Half of the debt-based platforms have authorisation for their activities, whilst the other half does not require it. The majority of equity-based platforms have authorisation (40%) or interim permission (20%) to operate and the remaining 40% do not need it. The majority of debt-based platforms claim there is no specific regulation and it is not needed, 23% responded that alternative finance is not currently legalized in the country. The Chilean Treasury department is working on a FinTech Bill, that would cover debt and equity-based models, as well as other areas, such as cryptocurrencies.[69]

The Extent of Existing Regulation

	Debt	Equity
My platform is authorized in my jurisdiction	50%	40%
My platform is not authorized but has interim permissions to operate in my jurisdiction		20%
Regulatory Authorisation is not required for my business activities	50%	40%

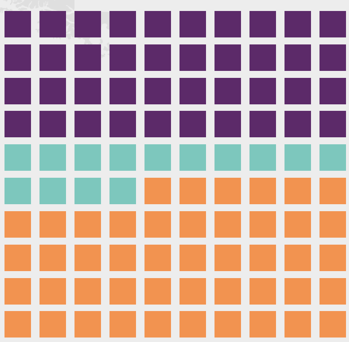
Perception towards Existing Regulation



- Adequate and appropriate for my platform activities
- No Specific Regulation and not needed
- No Specific Regulation and needed
- Alternative finance (including crowdfunding & P2P lending) is not currently legalized in my country

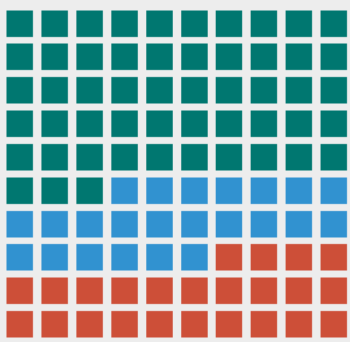
Alternative Finance Market Volumes 2015-2018 (USD Millions)

Changes in Business models (%)



- We significantly altered our business model in 2018
- We slightly altered our business model in 2018
- We made no significant changes to our business model in 2018

Changes in products and services (%)



- We introduced significantly new products and services in 2018
- We slightly altered products and services in 2018
- We made no significant changes to our products and services in 2018

Colombia

ALTERNATIVE FINANCE MARKET

After a drop in 2017, the alternative finance market in Colombia saw an increase in volume in 2018, reaching $192 million. This resulted in Colombia climbing up the global ranking, in 2018 it became the 26th largest market globally, in 2017, it was the 32nd, and regionally it remained 4th. The majority of the volume generated was for business funding, reaching $149.6 million. The volume derived from institutional investors was $144.7 million (75%). Most of the total volume derived from Invoice Trading, accounting for 60.9% ($117.3 million), followed by Balance Sheet Consumer Lending (15.7%, $30.3 million) and P2P Consumer Lending (10.1%, $19.4 million).

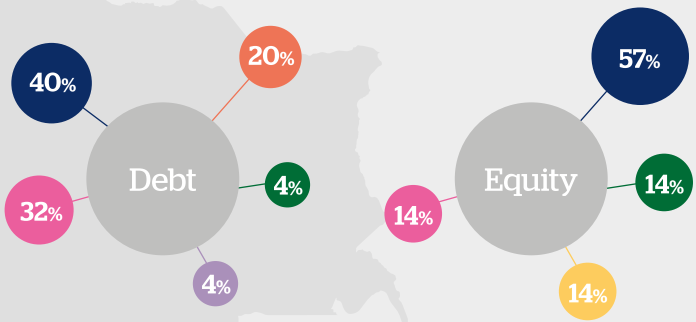
OVERVIEW OF REGULATORY CHANGES

More than half of the debt-based platforms have authorisation for their activities, whilst 39% do not require it. The majority of equity-based platforms have authorisation (43%) or interim permission (14%) to operate and the remaining 43% do not need it. 40% of debt-based platforms and 57% of equity-based platforms claim there is no specific regulation and it is needed, 32% of debt-based platforms and 14% of equity-based platforms responded that regulation is inadequate and too relaxed, whilst 20% of debt-based platforms deemed it excessive and too strict and 14% of equity-based platforms responded there is no specific regulation and it is not needed. The Financial Regulation Unit (URF) of the Ministry of Finance issued a series of decrees in 2018 to establish regulatory frameworks for crowdfunding, and is working on regulation for other models.[70]

The Extent of Existing Regulation

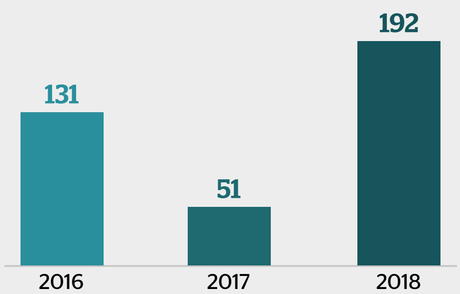
	Debt	Equity
My platform is authorized in my jurisdiction	61%	43%
My platform is not authorized but has interim permissions to operate in my jurisdiction		14%
Regulatory Authorisation is not required for my business activities	39%	43%

Perception towards Existing Regulation

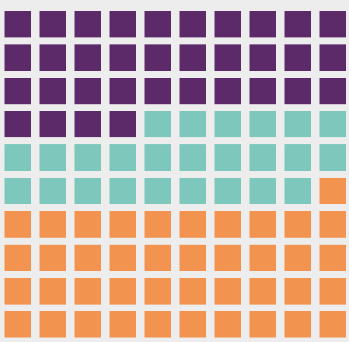


- Adequate and appropriate for my platform activities
- Excessive and too strict for my platform activities
- No Specific Regulation and not needed
- No Specific Regulation and needed
- Alternative finance (including crowdfunding & P2P lending) is not currently legalized in my country
- Inadequate and too relaxed for my platform activities

Alternative Finance Market Volumes 2015-2018 (USD Millions)

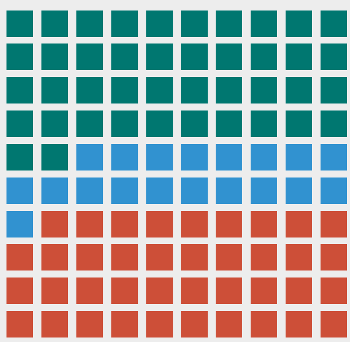


Changes in Business models (%)



- We significantly altered our business model in 2018
- We slightly altered our business model in 2018
- We made no significant changes to our business model in 2018

Changes in products and services (%)



- We introduced significantly new products and services in 2018
- We slightly altered products and services in 2018
- We made no significant changes to our products and services in 2018

Mexico

ALTERNATIVE FINANCE MARKET

The Mexican market volume for alternative finance has grown to $233 million in 2018, however, its position in the region dropped from 2nd to 3rd and globally dropped from 22nd to 24th, despite its growth rate of 52% throughout the period. The total business funding reached $151.6 million, with the volume derived from institutional investors reaching $165.1 million (71%). Balance Sheet Business Lending was the main driver of the total volume, accounting for 43% ($100.3 million), followed by P2P Consumer Lending (23%, $53.7 million)

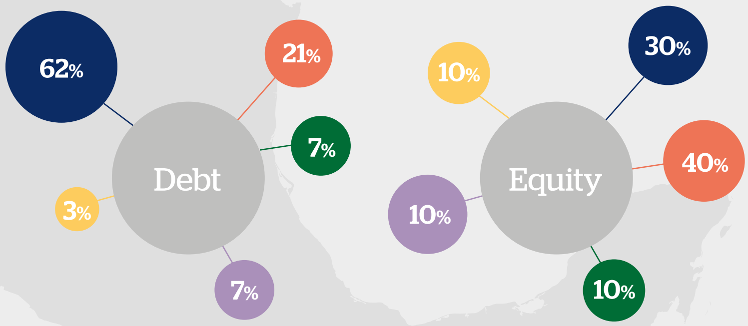
OVERVIEW OF REGULATORY CHANGES

Within the debt segment, platforms had a positive perception towards regulation. 62% considered the regulation as adequate and appropriate for their activities, and 7% responded that there was no specific regulation and that it was not needed. However, 21% said the regulation is excessive and too strict, while 7% considered that a regulation is needed. Among equity-based platforms, 40% considered the regulation as too strict and excessive, and 10% said it is not needed. The Mexican government has put into force the FinTech Law in 2018, whose thresholds for investors have been seen as restrictive by the market, according to the specialized press.[71]

The Extent of Existing Regulation

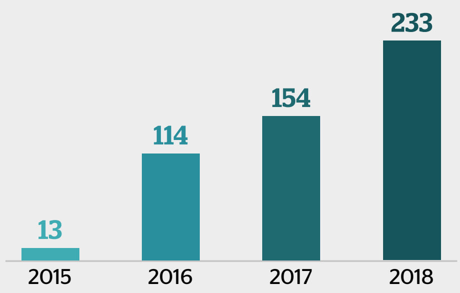
	Debt	Equity
My platform is authorized in my jurisdiction	73%	40%
My platform is not authorized but has interim permissions to operate in my jurisdiction	16%	30%
Regulatory Authorisation is not required for my business activities	8%	30%
My platform is not authorized but has a relationship with another licensed institution (ie Appointed Representative) that serves as our agent.	3%	

Perception towards Existing Regulation

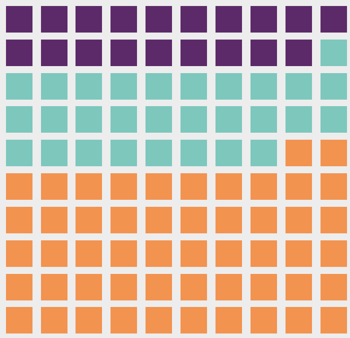


- Adequate and appropriate for my platform activities
- Excessive and too strict for my platform activities
- No Specific Regulation and not needed
- No Specific Regulation and needed
- Alternative finance (including crowdfunding & P2P lending) is not currently legalized in my country

Alternative Finance Market Volumes 2015-2018 (USD Millions)

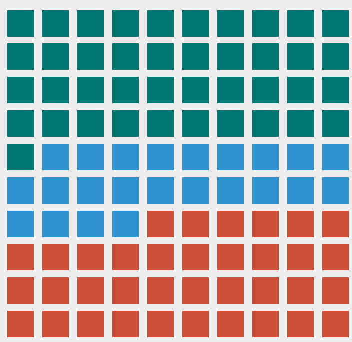


Changes in Business models (%)



- We significantly altered our business model in 2018
- We slightly altered our business model in 2018
- We made no significant changes to our business model in 2018

Changes in products and services (%)



- We introduced significantly new products and services in 2018
- We slightly altered products and services in 2018
- We made no significant changes to our products and services in 2018

Peru

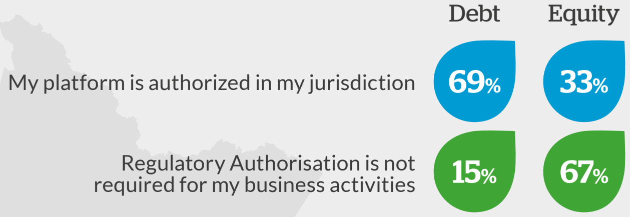
ALTERNATIVE FINANCE MARKET

The volume for the Peruvian alternative finance market has strongly grown from $29 million to $158 million in one year, a growth rate of 441% in 2018. This growth is reflected in an ascent in the regional and global alternative finance market ranking, increasing from 6th to 5th place regionally and from 39th to 34th globally. More specifically, the total business funding volume was $154.6 million and the volume derived from institutional investors was $86.5 million (55%). Balance Sheet Business Lending was the main driver of the total volume, accounting for 43.3% ($68.6 million), followed by Invoice Trading (19.2%, $30.4 million) and P2P Business Lending (16.2%, $25.6 million).

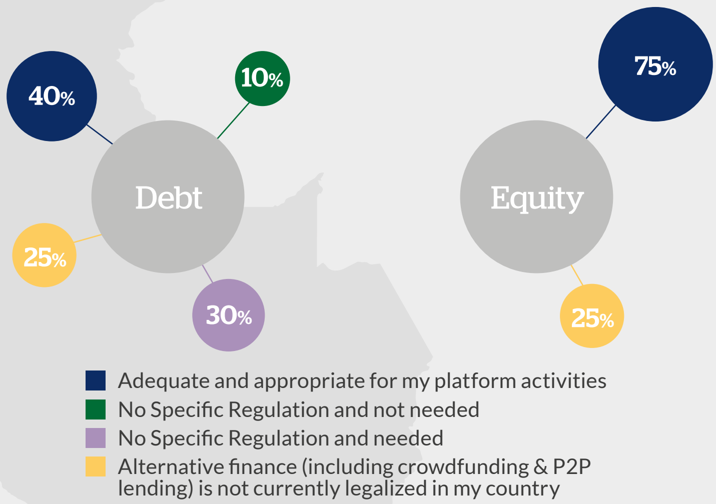
OVERVIEW OF REGULATORY CHANGES

Within the debt-based platforms, 40% of them considered the current regulation as adequate and appropriate for their activities, 30% of them stated there is no specific regulation and it is needed, and 20% of respondents said that their activities within alternative finance market were not legalized. Among equity-based platforms, 75% saw the existing regulation as adequate and appropriate for their activities, whereas 25% said their activities within the alternative finance market were not legalized. In this vein, 55% of debt-based platforms were authorised to operate in their jurisdiction, whereas 45% of them were not. 75% of equity-based respondents mentioned that they were authorised to operate and for 25% authorisation was not required. In 2018 platforms have operated under no specific FinTech regulation, nevertheless they may operate under the rules of the four Peruvian authorities.

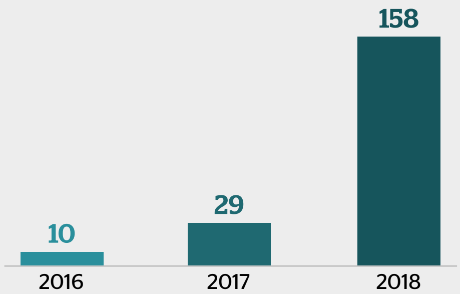
The Extent of Existing Regulation



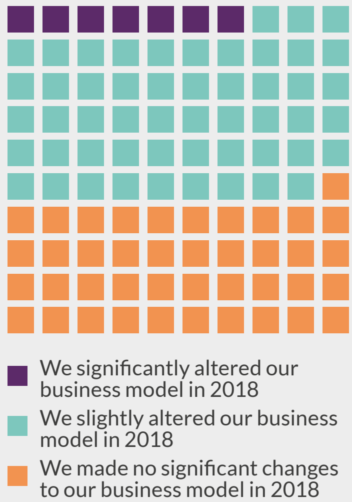
Perception towards Existing Regulation



Alternative Finance Market Volumes 2015-2018 (USD Millions)



Changes in Business models (%)



Changes in products and services (%)

USA

The US ranked 1st regionally and 2nd globally, keeping its positions from last year. The model that generated most volume was P2P/ Marketplace Consumer Lending, with a 42% share on the overall market volume, it is followed by Balance Sheet Business Lending (20%) and Balance Sheet Property Lending (16%). The total SME business funding volume was $16,248M and the volume derived from institutional investor was $54,014M (88%).

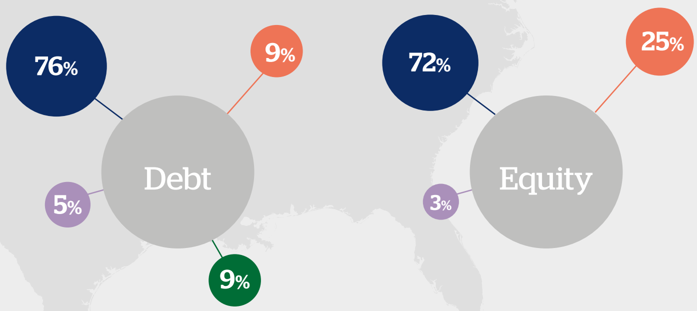
OVERVIEW OF REGULATORY CHANGES

Almost half (49%) of debt-based platforms and the majority (81%) of equity-based platforms are authorized to operate in their jurisdiction, whilst 35% of debt-based platforms answered they do not require a regulatory authorization for their activities. Majority of respondents, 76% of debt platforms and 72% of equity platforms answered that current regulation is adequate and appropriate, 25% of equity-based platforms deem it excessive and too strict. Regarding the US platforms' responses to the JOBS Act, majority (86%) of debt platforms operated under Title II Regulation D, whereas more than half (68%) of the investment platforms operated under Title III Regulation Crowdfunding. Non-investment platforms' responses varied where 50% indicated that they operate under Title III Regulation Crowdfunding and 44% answered Title IV Regulation A+ Tier 1.

The Extent of Existing Regulation

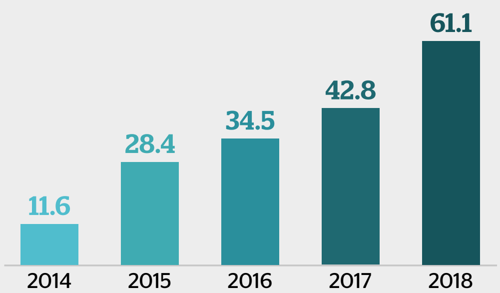
	Debt	Equity
My platform is authorized in my jurisdiction	49%	81%
My platform is not authorized but has interim permissions to operate in my jurisdiction	4%	7%
Regulatory Authorisation is not required for my business activities	35%	11%
My platform is not authorized but has a relationship with another licensed institution (ie Appointed Representative) that serves as our agent.	35%	11%

Perception towards Existing Regulation

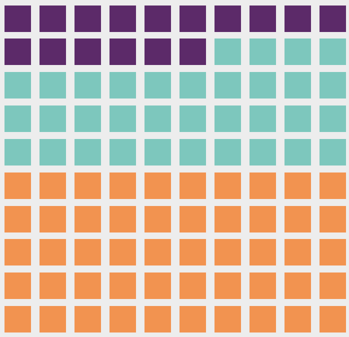


- Adequate and appropriate for my platform activities
- Excessive and too strict for my platform activities
- No Specific Regulation and not needed
- No Specific Regulation and needed

Alternative Finance Market Volumes 2015-2018 (USD Billions)

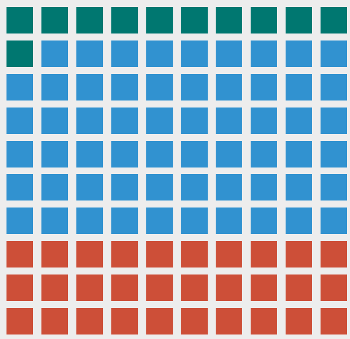


Changes in Business models (%)



- We significantly altered our business model in 2018
- We slightly altered our business model in 2018
- We made no significant changes to our business model in 2018

Changes in products and services (%)



- We introduced significantly new products and services in 2018
- We slightly altered products and services in 2018
- We made no significant changes to our products and services in 2018

Israel

Israel continued to dominate the online alternative finance market in the Middle East (regionally ranked 1st), representing over 90% of the region's market volumes in 2018 ($725.8M). The volumes grew 146% year on year compared to 2017, primarily driven by the exponential growth in P2P Property Lending. The country ranked 12th globally (2017 : 11th) in terms of total market volumes. In 2018, nearly 95% of the country's volumes were business specific, amounting to $688M and the overall percentage of institutionalization was at 6% ($45.9M). P2P/Marketplace Property Lending was the main driver of total volume, accounting for 76.7% ($556.5), followed by P2P/Marketplace Consumer Lending (11.8%, $85.9M).

OVERVIEW OF REGULATORY CHANGE

Among the Israel respondents, 62% of the platforms were authorized to operate in their jurisdiction, while 31% stated they were not authorized but carry an interim permission to operate in the country. Interestingly, an equal percent (46%) of these platforms viewed existing regulation to be adequate and appropriate (or) excessive and too strict for their business activities.

INNOVATION

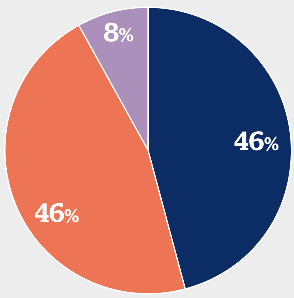
During 2018, 88% of platforms stated they either made substantial or slight changes to their products and services. While, majority of the platforms (56%) said to have moderate changes to their business models, with additional 33% making significant changes. During 2018, the Israel Innovation Authority has accelerated in promoting innovation through extensive government cooperation and is planning to open a new fintech innovation lab with the Ministry of Finance in 2019.[72]

The Extent of Existing Regulation

Debt & Equity

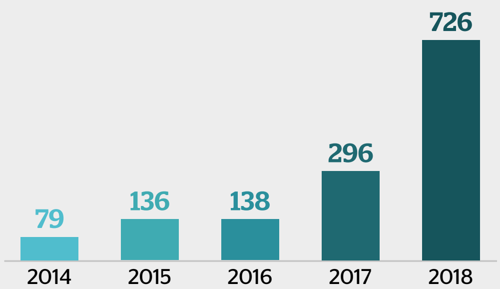
My platform is authorized in my jurisdiction	62%
My platform is not authorized but has interim permissions to operate in my jurisdiction	31%
Regulatory Authorisation is not required for my business activities	8%

Perception towards Existing Regulation from Debt & Equity Models

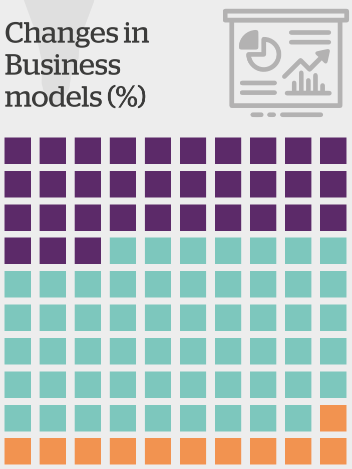


Adequate and appropriate for my platform activities
Excessive and too strict for my platform activities
No Specific Regulation and needed

Alternative Finance Market Volumes 2015-2018 (USD Millions)

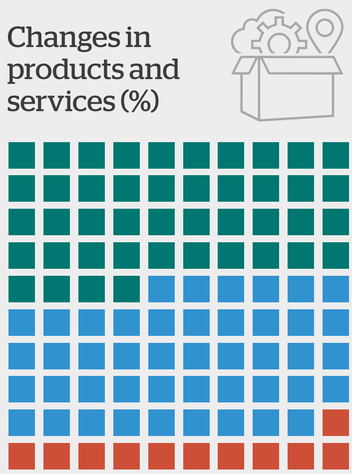


Changes in Business models (%)



We significantly altered our business model in 2018
We slightly altered our business model in 2018
We made no significant changes to our business model in 2018

Changes in products and services (%)



We introduced significantly new products and services in 2018
We slightly altered products and services in 2018
We made no significant changes to our products and services in 2018

Jordan

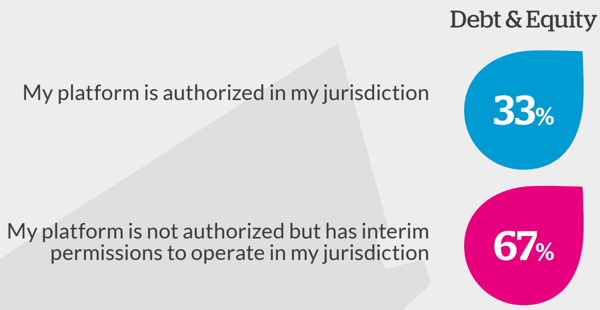
Jordan was the third largest (same as that of 2017) online alternative finance market in the Middle East, with a total transaction volume of $12.8M in 2018, grew at the rate of 91% compared to 2017 ($6.7M). The global ranking by volume for Jordan dropped to 68th (2017 : 57th). Notably, similar to Israel and UAE, majority (99.89%) of the funds raised in the country were for businesses. These sums reached $12.8M, indicating a strong presence of online alternative finance for SMEs in the Middle East. The country also had the highest levels of institutionalization at 75% ($9.7M) for the region. Majority of the volume was derived from Balance Sheet Business Lending, accounting for 69.2% ($8.9M), followed by P2P/Marketplace Business Lending (17.6%, $2.3M) and P2P/Marketplace Consumer Lending (13.2%, $1.7M).

OVERVIEW OF REGULATORY CHANGE

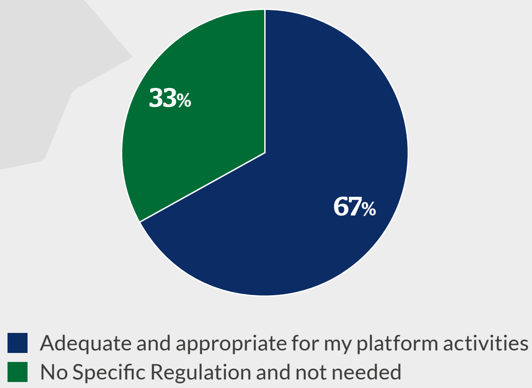
With reference to the regulatory environment in the country, 67% of the responding platforms were not authorized to operate in their jurisdiction but carry an interim permission for their operations and, same percentage of respondents considered regulation as adequate and appropriate for their platform activities. Remaining 33% of respondents were authorized to operate in the country and, indicated that there was no specific regulation and needed. In line with their opinion, so far, there are no specific regulations for crowdfunding in Jordan, however the platform requires a registration from the Ministry of Industry, Trade & Supply, under the Jordanian Companies law, for operating in the country. ("Companies Control Department")

During April 2018, the Central Bank of Jordan launched its 'FinTech Regulatory Sandbox' which is expected to foster innovation in the country.[73]

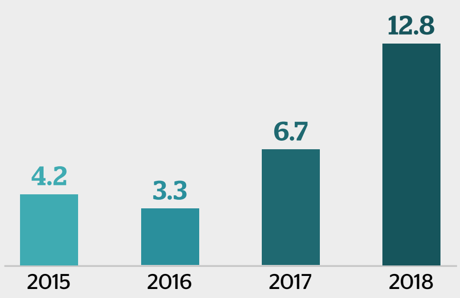
The Extent of Existing Regulation



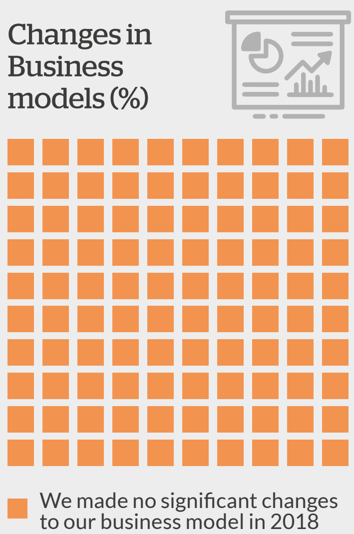
Perception towards Existing Regulation from Debt & Equity Models



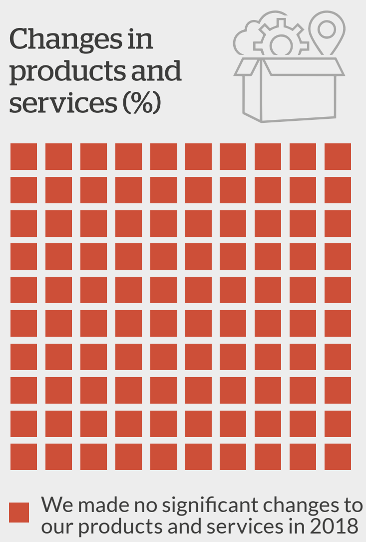
Alternative Finance Market Volumes 2015-2018 (USD Millions)



Changes in Business models (%)



Changes in products and services (%)



United Arab Emirates

In 2018, the total market volume in the United Arab Emirates (UAE) was $50.6M, the 2nd largest in the Middle East region, with the global ranking of 42nd, dropped from 35th in 2017. The country experienced the highest year on year growth of 56% in volumes, during 2018. Similar to Israel, nearly 97% of the country's online alternative finance volumes raised by the platforms went for businesses ($48.9M). Additionally, the volume derived from institutional investors was at 10% of total volumes ($5.1M). Invoice Trading was the main driver of the total volume, accounting for 54.8% ($27.8M), followed by P2P/ Marketplace Business Lending (32.3%, $16.3M).

OVERVIEW OF REGULATORY CHANGE

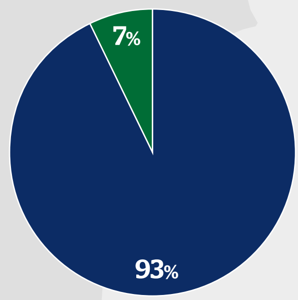
The majority of the platforms operating in the country stated they were authorized to operate in their jurisdiction (79%) and viewed existing regulation to be adequate and appropriate for their business activities (93%). Additionally, 14% of platforms indicated they were not authorized but had an interim permission to operate in their jurisdiction. Notably, the crowdfunding platforms need to have an authorization from the Dubai Financial Services Authority (DFSA) for their operations in the country.[74]

The Extent of Existing Regulation

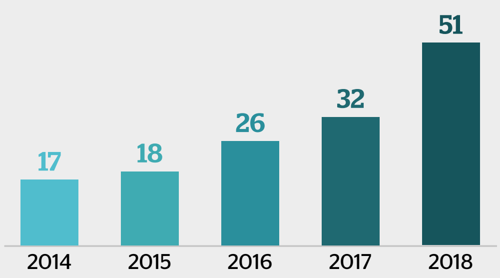
Debt & Equity

My platform is authorized in my jurisdiction	79%
My platform is not authorized but has interim permissions to operate in my jurisdiction	14%
Regulatory Authorisation is not required for my business activities	7%

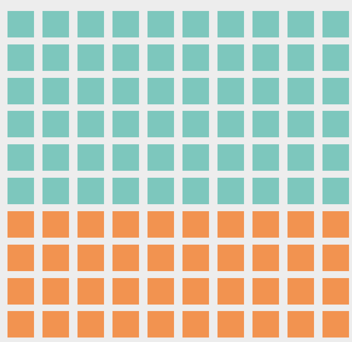
Perception towards Existing Regulation from Debt & Equity Models



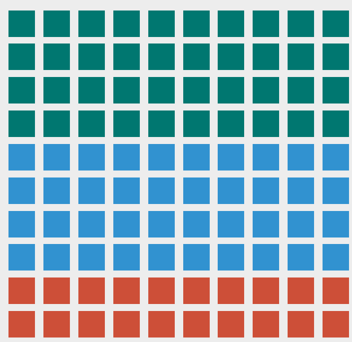
Alternative Finance Market Volumes 2015-2018 (USD Millions)



Changes in Business models (%)



Changes in products and services (%)



Endnotes

1. Peer-to-peer (P2P) Lending: A group of individual or institutional investors provide a loan (secured or unsecured) to a consumer or business borrower. In its most orthodox form, the P2P lending platform acts as a marketplace that connects the borrower and investor(s) such that the risk of financial loss if the loan is not repaid is with the investor and not with the platform. Depending upon the jurisdiction, this model may be referred to as Loan-based Crowdfunding, Marketplace Lending, Collaborative Financing or Crowdlending.
2. Balance Sheet Lending: A digital lending platform directly retains consumer or business loans (either whole loans or partial loans), using funds from the platform operator's balance-sheet. These platforms therefore function as more than just intermediaries, originating and actively funding loans, so the risk of financial loss if the loan is not repaid is with the platform operator. In this respect, the platform operator looks more like a non-bank credit intermediary.
3. Increasingly, Invoice Trading models are expanding into Supply-Chain finance activities. At present, this subset activity is too small to categorize as its own model. It is possible that further refining of this model will be necessary in subsequent years.
4. 4 Mini-bonds are not always transferable, either because the issue size is too small to provide secondary market liquidity or because prospectus exemptions require investors to hold the bond until maturity. Other terms can be very similar to traditional corporate bonds, such as being subject to early call provisions allowing the issuer to repay prior to maturity if its prospects improve
5. Results of campaigns run independently and outside of alternative finance platform activities were not included in the results of this study.
6. **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 2017.
   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 2017.
   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.
7. The CCAF utilizes 'The OANDA Historical Currency Converter'.
8. Countries and territories included in the European Analysis: Albania, Andorra, Armenia, Austria, Belarus, Belgium, Bosnia & Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Faroe Islands, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, Ireland, Isle of Man, Italy, Kosovo, Latvia, Liechtenstein, Lithuania, Luxembourg, Macedonia, Malta, Moldova, Monaco, Montenegro, Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia, Slovakia, Slovenia, Spain, Svalbard and Jan Mayen, Sweden, Switzerland, Turkey, Ukraine. Though the UK is included in this region, volumes associated with this country are usually presented separately and indicated as such.
9. Countries and territories included in the APAC analysis: Australia, Azerbaijan, Bangladesh, Bhutan, Cambodia, Fiji, Guam, Hong Kong, India, Indonesia, Japan, Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic, Macao, Malaysia, Mongolia, Myanmar, Nepal, New Caledonia, New Zealand, Northern Mariana Islands, Pakistan, Papua New Guinea, Philippines, Samoa, Singapore, Solomon Islands, South Korea, Sri Lanka, Chinese Tapei, Tajikistan, Thailand, Timor-Leste, Tonga, Vanuatu, Vietnam. Though China is included in this region, volumes associated with this country are usually presented separately and indicated as such.

10. Countries and territories included in the Americas analysis include the US, Canada and the Latin American and Caribbean countries (LAC). Countries designated to LAC include: Argentina, Bahamas, The, Barbados, Belize, Bermuda, Bolivia, Brazil, Cayman Islands, Chile, Colombia, Costa Rica, Cuba, Curacao, Dominica Republic, Ecuador, El Salvador, Falkland Islands, Guadeloupe, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Saint Lucia, Sint Maarten, Suriname, Trinidad and Tobago, Uruguay, Venezuela, Virgin Islands.

11. Countries included in the African Analysis: Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Central African Republic, Congo Dem. Rep., Congo Rep., Cote d'Ivoire, Egypt, Ethiopia, Gambia, Ghana, Guinea, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritius, Morocco, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, South Sudan, Swaziland, Tanzania, Togo, Tunisia, Uganda, Zambia, Zimbabwe

12. Countries included in Middle East analysis: Afghanistan, Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Saudi Arabia, Syria, United Arab Emirates, Yemen

13. APPENDIX 1 - Distribution of Domestic & Foreign Firms by Country

Country	Domestic/ locally firms operating in country	Foreign-based platforms operating in country	TOTAL
China	429	9	438
US	84	16	100
UK	63	27	90
Germany	41	22	63
India	49	9	58
Brazil	44	12	56
France	37	14	51
Italy	33	18	51
Mexico	31	20	51
Netherlands	25	20	45
Canada	24	15	39
Spain	20	19	39
Colombia	23	13	36
Indonesia	17	16	33
Australia	18	14	32
Switzerland	14	17	31
Austria	11	16	27
Singapore	17	10	27
Poland	7	17	24
Finland	11	12	23
Philippines	8	15	23
Sweden	8	15	23
Norway	12	10	22
Peru	5	16	21
Chile	12	8	20
Denmark	5	14	19
Estonia	9	10	19
South Africa	8	11	19
Thailand	9	10	19
Belgium	6	12	18
New Zealand	6	12	18
Kenya	4	13	17
Lithuania	7	10	17
Malaysia	9	8	17
Portugal	5	12	17
Argentina	9	7	16
Japan	10	6	16
Nigeria	5	10	15
Czech Republic	6	8	14
Latvia	7	7	14
South Korea	9	5	14
Vietnam	5	9	14
Zimbabwe	1	5	6
Romania	2	11	13
Uganda	3	10	13
Ireland	1	11	12
Israel	6	6	12
Chinese Tapei	5	7	12
Turkey	3	9	12
United Arab Emirates	2	10	12
Bulgaria	1	10	11
Cambodia		11	11
Greece	1	10	11
Russia		11	11
Slovakia	2	9	11
Slovenia	2	9	11
Costa Rica	1	8	9
Croatia	3	6	9
Ecuador		9	9
Guatemala	3	6	9
Hong Kong SAR	1	8	9
Hungary	2	7	9
Luxembourg		9	9
Senegal		9	9
Tanzania	1	8	9
Ukraine		9	9
Ghana		8	8
Jordan		8	8
Pakistan	2	6	8
Panama	1	7	8
Rwanda		8	8
Cameroon	1	6	7
Egypt	1	6	7
Lebanon	1	6	7
Zambia		7	7
Congo Dem. Rep.		6	6
Georgia		6	6
Kazakhstan	1	5	6
Malta	1	5	6
Palestine		6	6
Paraguay	3	3	6
Puerto Rico	1	5	6
Sri Lanka		6	6
Uruguay	2	4	6
Venezuela		6	6
Gambia		2	2

Country	Domestic/ locally firms operating in country	Foreign-based platforms operating in country	TOTAL
Albania		5	5
Armenia		5	5
Bangladesh		5	5
Bolivia		5	5
Cyprus		5	5
Honduras		5	5
Malawi		5	5
Mauritius	1	4	5
Mongolia	2	3	5
Morocco	1	4	5
Nepal		5	5
Nicaragua		5	5
Sierra Leone		5	5
Bosnia & Herzegovina		4	4
Cote d'Ivoire		4	4
Dominica Republic		4	4
Ethiopia		4	4
Iran	3	1	4
Kosovo		4	4
Liberia		4	4
Macedonia		4	4
Mali		4	4
Moldova		4	4
Mozambique		4	4
Yemen		4	4
Afghanistan		3	3
Belize		3	3
Benin		3	3
Botswana	1	2	3
Fiji		3	3
Guam		3	3
Haiti		3	3
Iceland	1	2	3
Kyrgyzstan		3	3
Lesotho		3	3
Myanmar	1	2	3
Namibia		3	3
Saudi Arabia		3	3
Serbia		3	3
Togo		3	3
Bahamas, The		2	2
Bahrain		2	2
Barbados		2	2
Bermuda		2	2
Burkina Faso		2	2
Cayman Islands		2	2
Cuba		2	2
El Salvador		2	2
Iraq		2	2
Jamaica		2	2
Kuwait		2	2
Lao People's Democratic Republic		2	2
Macao		2	2
Madagascar		2	2
Monaco	1	1	2
Papua New Guinea		2	2
Qatar		2	2
Swaziland		2	2
Tajikistan		2	2
Timor-Leste		2	2
Tonga		2	2
Trinidad and Tobago		2	2
Tunisia		2	2
Virgin Islands		2	2
Andorra		1	1
Angola		1	1
Antarctica (USA)		1	1
Azerbaijan		1	1
Belarus		1	1
Bhutan		1	1
Burundi		1	1
Central African Republic		1	1
Congo Rep.		1	1
Curacao		1	1
Falkland Islands		1	1
Faroe Islands		1	1
Guadeloupe		1	1
Guinea		1	1
Liechtenstein		1	1
Montenegro		1	1
New Caledonia		1	1
Niger		1	1
Northern Mariana Islands		1	1
Oman		1	1
Other		1	1
Saint Lucia		1	1
Samoa		1	1
Seychelles		1	1
Sint Maarten		1	1
Solomon Islands		1	1
Somalia		1	1
South Sudan		1	1
Suriname		1	1
Svalbard and Jan Mayen		1	1
Syria		1	1
Vanuatu		1	1

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15. To calculate the total online alternative funding attributed to business, the CCAF research team reviewed 2018 volumes from the following models: P2P business lending, balance-sheet business lending, invoice trading, equity crowdfunding, debt-based securities, profit-sharing crowdfunding and minibonds 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. It is worth adding a word of caution when interpreting the figures presented. While these figures present trends reliably, the actual volumes are assumed to be substantially underestimated as not all platforms that reported total volumes, also reported its divisions between business and non-business volumes. Hence, the above figures are taken only from the sub-sample of platforms reporting these figures.

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21. This model saw significant growth against the previous year, due largely to several firms headquartered outside of the United Kingdom. 68% of this model's volume came from institutional investors ($363 million).
22. This figure includes the UK P2P and Balance Sheet Business Lending volumes in 2018.
23. An additional $.37b was raised by US-based alternative finance volumes across several additional models, including Invoice Trading, Debt-based Securities, Minibonds and Other. We are unable to report these models individually in this report due to a small number of observations within the country.
24. No volumes were reported for the following countries and territories, most of which representing micro-states in the Caribbean: Anguilla, Aruba, Bonaire, British Virgin Islands, Dominica, Grenada, Guyana, Martinique, Montserrat, Saba, St. Barts, St. Kitts & Nevis, St. Vincent & the Grenadines, and Turks & Caicos.
25. An additional $27m was raised within the LAC region across several additional models, including Minibonds, Revenue Sharing, Community Shares and Other. We are unable to report these models individually in this report due to a small number of observations within the country.
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27. https://www.consumerfinance.gov/about-us/blog/update-credit-access-and-no-action-letter/
28. https://files.consumerfinance.gov/f/documents/201709_cfpb_upstart-no-action-letter-request.pdf
29. Middle East: Jordan, Bahrain, Syria, United Arab Emirates, Lebanon, Palestine, Kuwait, Saudi Arabia, Lebanon, Qatar, Iran, Israel, Yemen, Iraq.
30. Countries and territories for which no alternative finance activity was reported include : Algeria, Angola, Cape Verde, Chad, Djibouti, Eritrea, Gabon, Guinea Bissau, Libya, Mayotte, Reunion, St. Helena, Sao Tome & Principe, Seychelles, and Sudan.

31. This categorization was: Southern Africa: Lesotho, Angola, Swaziland, South Africa, Botswana, Namibia. Central Africa: Democratic Republic of the Congo, Equatorial Guinea, Cameroon, Central African Republic, Republic of the Congo, Gabon. West Africa: Liberia, Cote d'Ivoire, Guinea, Nigeria, Mali, Gambia, Cabo Verde, Niger, Togo, Benin, Burkina Faso, Ghana, Guinea-Bissau, Sierra Leone, Mauritania, Senegal. East Africa: Somalia, Mauritius, Burundi, Comoros, Mozambique, Kenya, Tanzania, Ethiopia, Seychelles, Madagascar, Rwanda, Uganda, Zimbabwe, Zambia, Malawi, Eritrea, South Sudan. North Africa: Chad, Sudan, Egypt, Algeria, Morocco, Tunisia.

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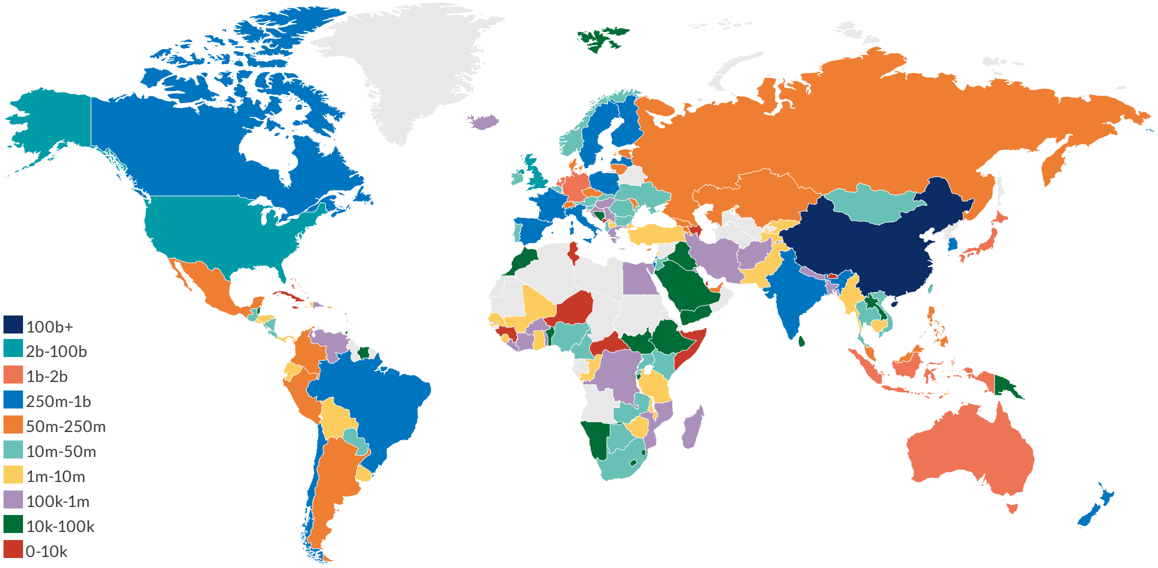
Appendix

Appendix 2:



China	$215,396,387,848.40
United States	$61,134,356,480.00
United Kingdom	$10,367,889,408.00
Netherlands	$1,806,298,624.00
Indonesia	$1,451,228,928.00
Germany	$1,276,201,472.00
Australia	$1,166,546,048.00
Japan	$1,074,756,864.00
France	$933,132,928.00
Canada	$909,255,296.00
South Korea	$753,380,992.00
Israel	$725,827,200.00
Brazil	$673,192,768.00
India	$547,428,160.00
Italy	$532,583,424.00
Singapore	$499,653,248.00
Spain	$419,040,224.00
Finland	$379,191,520.00
Poland	$333,293,184.00
Sweden	$298,038,528.00
Chile	$289,255,456.00
New Zealand	$276,205,248.00
Latvia	$254,535,808.00
Mexico	$233,390,656.00
Georgia	$193,016,992.00
Colombia	$192,467,200.00
Armenia	$184,032,032.00
Estonia	$159,526,080.00
Peru	$158,461,440.00
Denmark	$144,745,360.00
Lithuania	$136,458,928.00
Argentina	$129,200,504.00
Russia	$118,258,936.00
Philippines	$116,544,120.00
Kazakhstan	$86,972,728.00
Switzerland	$83,993,232.00
Cyprus	$63,415,464.00
Malaysia	$61,643,304.00
Moldova	$59,067,440.00
Czech Republic	$57,647,396.00
Hong Kong SAR	$51,395,464.00
United Arab Emirates	$50,647,812.00
Belgium	$49,974,036.00
Zambia	$40,764,320.00
Bulgaria	$40,388,056.00
Austria	$39,338,112.00
Mongolia	$37,754,616.00
Slovenia	$36,679,812.00
Kenya	$35,013,200.00
Norway	$34,396,224.00
Thailand	$30,990,744.00
Guatemala	$28,335,972.00
South Africa	$27,481,046.00
Ukraine	$26,893,774.00
Slovakia	$22,686,374.00
Paraguay	$21,924,022.00
Romania	$20,648,130.00
Ireland	$19,887,376.00
Costa Rica	$18,022,244.00
Chinese Tapei	$17,977,488.00
Albania	$17,911,740.00
Vietnam	$17,463,460.00
Uganda	$16,769,466.00
Portugal	$16,522,692.00
Nicaragua	$16,333,773.00
Botswana	$15,424,389.00
Nigeria	$14,429,964.00
Jordan	$12,833,170.00
Rwanda	$11,397,149.00
Cameroon	$10,017,387.00
Cambodia	$9,989,206.00
Honduras	$9,113,525.00
Ecuador	$8,884,973.00
Virgin Islands (U.K.)	$8,636,083.00
Zimbabwe	$6,271,710.50
Lebanon	$6,234,400.50
Uruguay	$5,664,332.50
Tanzania	$5,579,176.00
Pakistan	$5,488,906.50
Ghana	$5,190,226.50
Congo Dem. Rep.	$4,744,575.50
Tajikistan	$4,726,448.00
El Salvador	$4,669,504.50
Luxembourg	$4,300,513.50
Palestine	$4,090,685.75
Macedonia	$4,033,058.75
Senegal	$3,646,727.25
Panama	$3,420,564.25
Bolivia	$3,368,415.75
Puerto Rico	$3,347,092.75
Malawi	$2,279,633.75
Turkey	$1,961,320.50
Samoa	$1,753,800.00
Kyrgyzstan	$1,700,249.00
Monaco	$1,570,929.50
Kosovo	$1,569,305.00
Sierra Leone	$1,346,358.38
Mauritius	$1,278,022.25
Mali	$1,268,085.50
Myanmar	$1,246,200.75
Timor-Leste	$1,202,790.38
Virgin Islands (U.S.)	$1,183,935.25
Haiti	$1,102,650.38
Dominica Republic	$962,430.50
Cote d'Ivoire	$947,144.75
Egypt	$889,912.69
Fiji	$885,114.13
Madagascar	$861,980.50
Togo	$858,455.00
Liberia	$849,181.06
Burkina Faso	$745,401.38
Tonga	$680,136.00
Croatia	$597,282.56
Greece	$581,254.13
Mozambique	$566,602.19
Iceland	$564,412.63
Hungary	$558,200.81
Iran	$442,570.34
Malta	$411,836.03
Bangladesh	$389,635.81
Nepal	$379,428.38
Venezuela	$347,674.50
Solomon Islands	$332,200.00
Afghanistan	$184,478.97
Kuwait	$180,000.00
Serbia	$162,248.63
Morocco	$99,643.33
Sri Lanka	$98,865.92
Lesotho	$83,329.64
Namibia	$82,408.74
Faroe Islands	$79,227.50
Ethiopia	$73,820.77
Bosnia & Herzegovina	$69,127.19
Cayman Islands	$66,737.34
Benin	$60,151.22
Lao People's Democratic Republic	$52,525.00
Swaziland	$46,800.74
Yemen	$43,810.74
Iraq	$43,140.06
Burundi	$42,073.51
Belize	$39,880.55
Trinidad and Tobago	$27,156.61
Papua New Guinea	$26,644.26
Guam	$23,036.00
Svalbard and Jan Mayen	$21,337.42
Suriname	$19,214.81
South Sudan	$18,086.41
Saudi Arabia	$15,311.00
Barbados	$9,812.89
Gambia	$7,604.34
Cuba	$6,881.00
Bahamas, The	$6,491.61
Vanuatu	$6,099.57
Niger	$5,761.22
Macao	$5,717.45
New Caledonia	$5,411.91
Curacao	$4,721.36
Qatar	$2,722.00
Azerbaijan	$2,222.00
Guadeloupe	$1,647.70
Jamaica	$1,413.80
Montenegro	$1,400.00
Tunisia	$1,376.04
Bermuda	$1,297.00
Northern Mariana Islands	$735.00
Somalia	$694.43
Bhutan	$325.00
Guinea	$140.00
Central African Republic	$105.55
Saint Lucia	$32.91

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