

Cambridge  
Centre  
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Finance

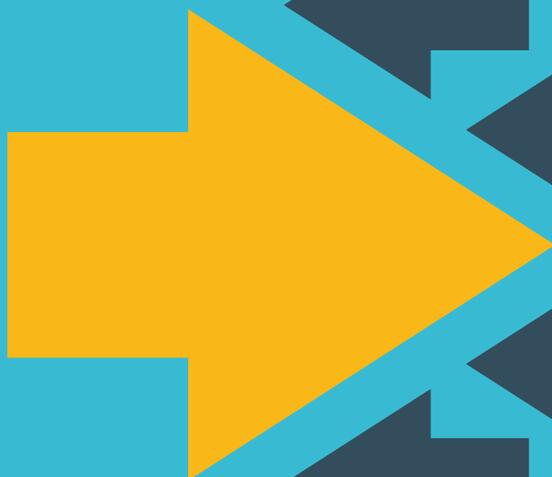


 UNIVERSITY OF AGDER  
SCHOOL OF BUSINESS AND LAW

# SHIFTING PARADIGMS

THE 4<sup>TH</sup> EUROPEAN ALTERNATIVE  
FINANCE BENCHMARKING REPORT

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

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We are extremely grateful to our extensive network of research assistants and fellows for their contribution to the data collection, sanitation and analysis. The data collection would not have been possible without the incredible work of the CCAF research team, in particular Katherine Cloud, Rok Piletič, Pei, and Yi Wu.

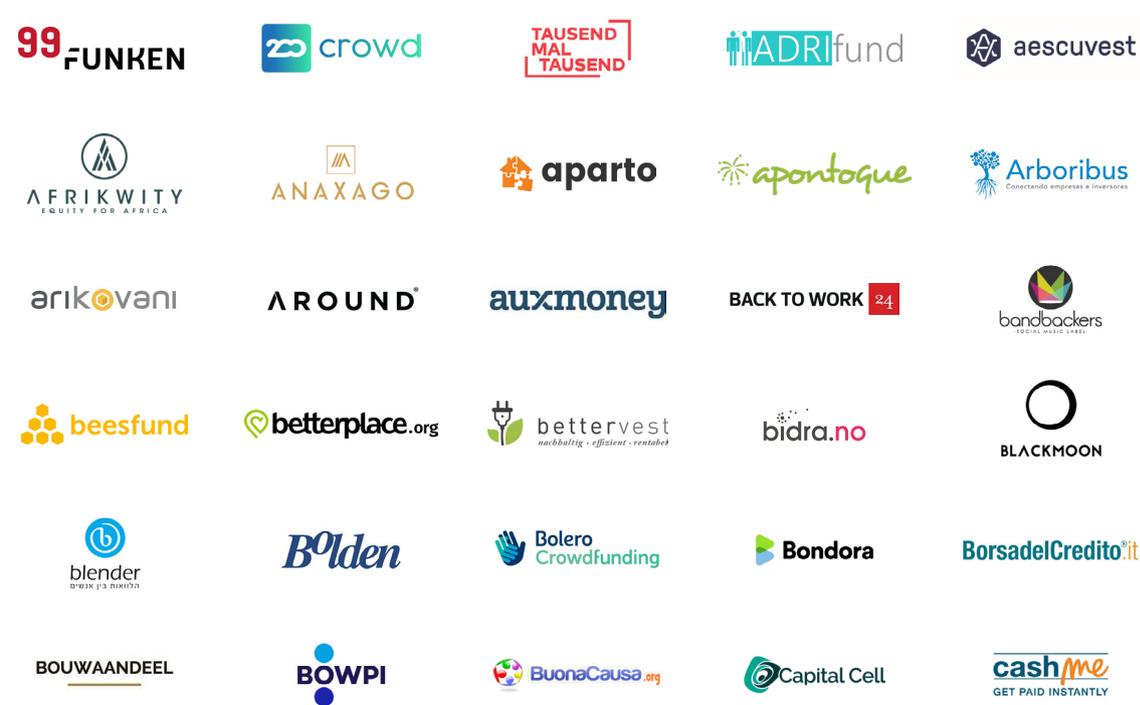
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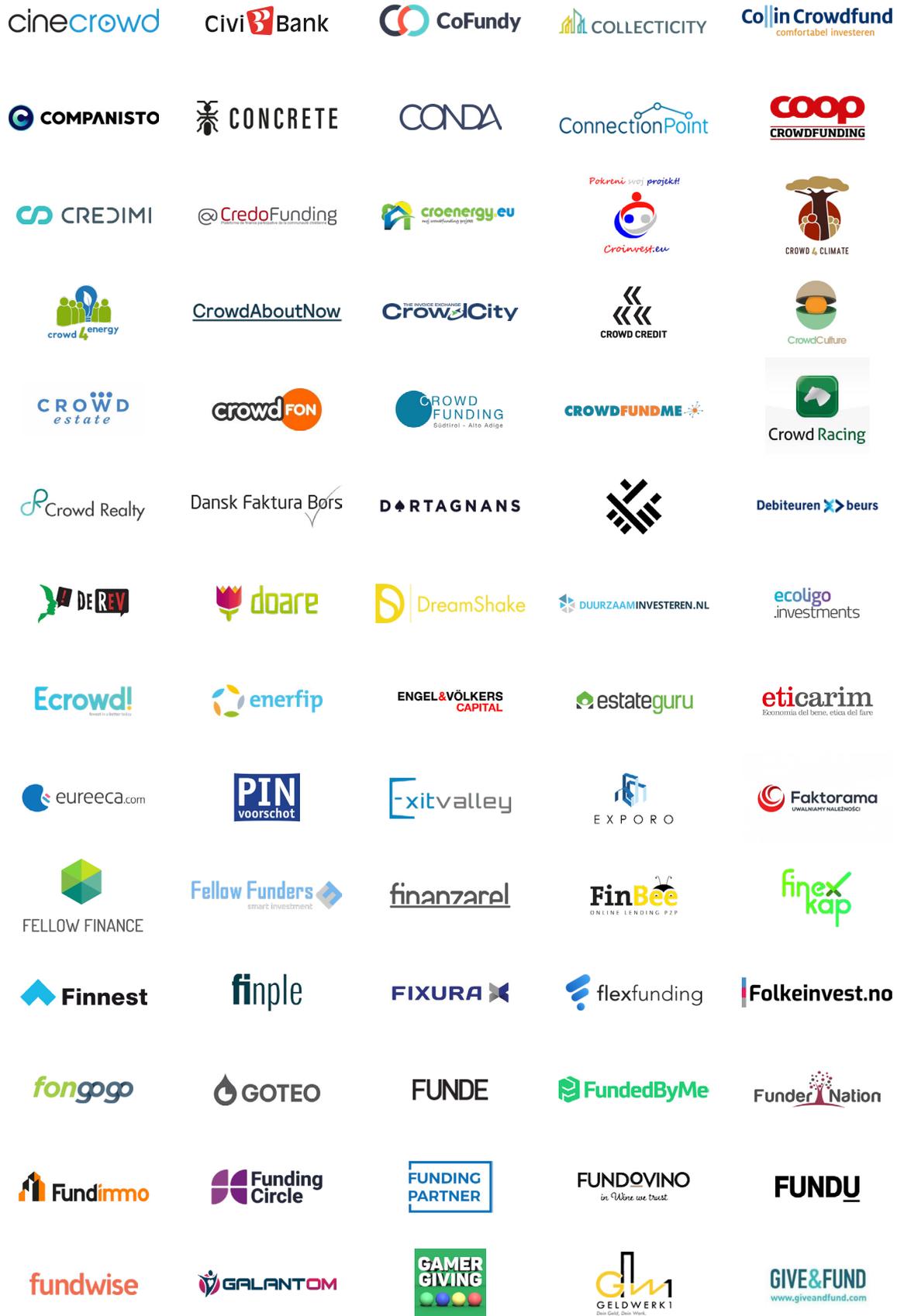
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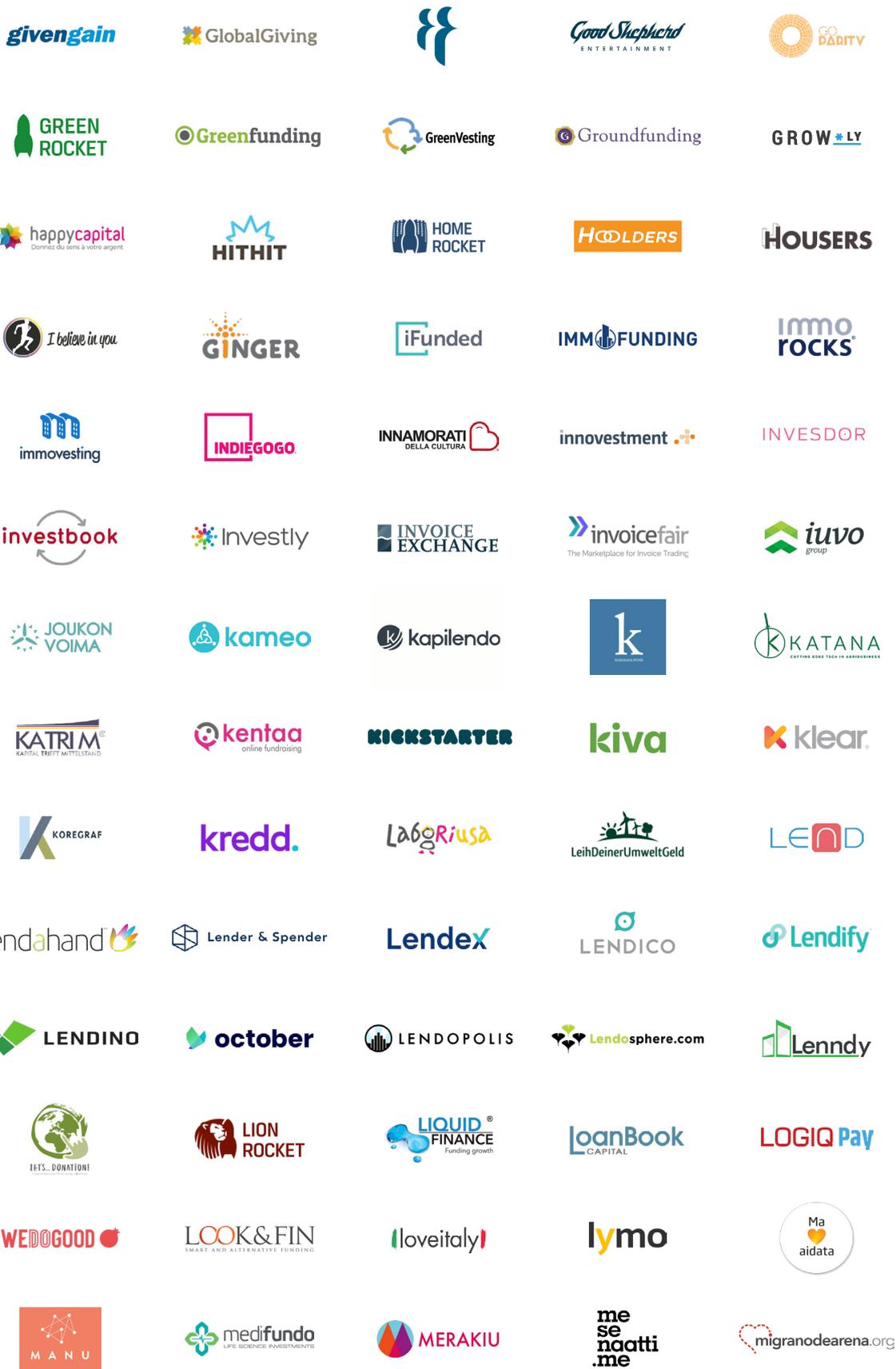
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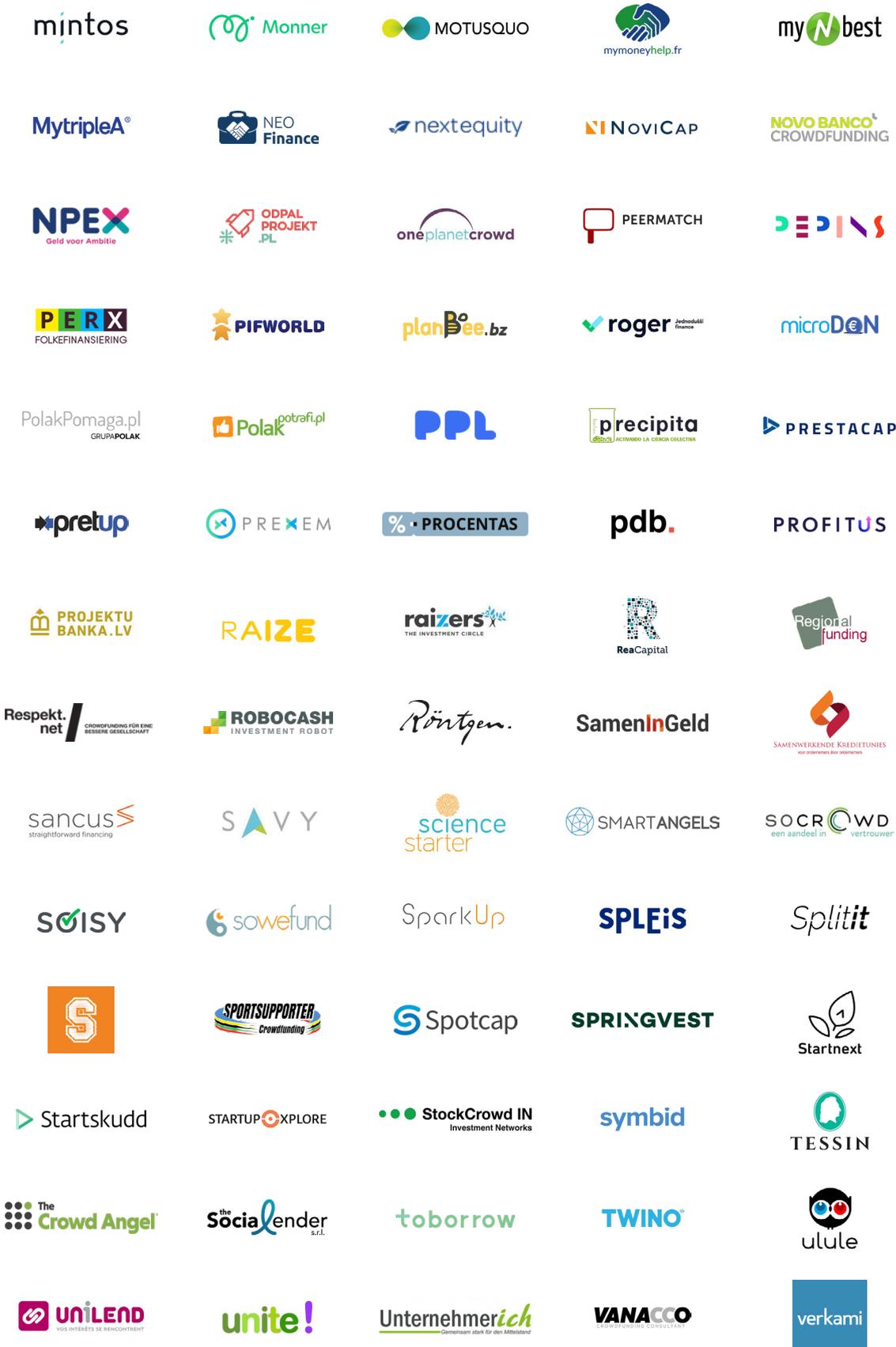


We thank the following alternative finance platforms for participating and contributing to this study:











# FOREWORDS

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Cambridge  
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for Alternative  
Finance**



Since 2015, we have released four reports aimed at understanding the development and growth of the European online alternative finance market. This sector has continued to evolve, creating both new opportunities and challenges. It has, therefore, never been more important to understand its evolution and track the trajectory of its growth.

This year's report is entitled 'Shifting Paradigms' to emphasize the dynamics of this still relatively nascent marketplace, responding to consumer demands as well as recent regulatory changes.

Overall, the lion's share of European volume still originates from the United Kingdom (68%). However, excluding the UK, the European online alternative finance market grew at nearly double the UK's year-on-year growth rate – 63% in comparison to 35%. While this growth was not as strong as in 2016 (101%), there was visible growth in each sub-region of continental Europe. As a whole, the market grew by just over €1,300m to €3,369m in 2017. P2P Consumer Lending remained the largest market segment for the fourth year in a row, nearly doubling in annual transaction volume to €1392.38m.

As in the past, the top three European markets by transaction volume were France, Germany and the Netherlands, respectively. Their share of the overall market has decreased slightly from 46.5% to 45.6%. Bulgaria, Poland, and Latvia were among countries that recorded the fastest year-on-year growth rates at 781%, 677%, and 274%, respectively.

The Cambridge Centre for Alternative Finance is also growing and adapting to address the research needs of the alternative finance sector. In the past year alone, we have published 11 reports covering a wide array of research topics, from regional benchmarking studies, alternative SME financing, and distributed ledger technologies to regulatory innovation initiatives. We will continue to work with our collaborators to collect and analyze empirical data on both financial and regulatory innovation in a globally comparative context. We hope that our research and analysis will inform business decisions as well as evidence-based policymaking and regulation.

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

## **Raghavendra Rau**

Sir Evelyn de Rothschild Professor of Finance  
Academic Director, Cambridge Centre for  
Alternative Finance  
*Cambridge Judge Business School*

The emergence of alternative finance and its fast growth in recent years presents both opportunities and challenges for a wide array of stakeholders. The ability of those to assess and address these developments depends on availability of quality data that may inform policy making, as well as industry growth and development.

The University of Agder's School of Business and Law is one of Europe's leading institutions in taking crowdfunding seriously as an important aspect of financial access and inclusion, as well as a potential driver for entrepreneurial growth. We have committed to better understanding this emerging industry in both words and action. Most recently, this has been through recruiting a team of researchers for a newly launched Crowdfunding Research Center. Such investment is unique on an international scale, allowing us to offer both novel courses while conducting leading research in this field.

We are particularly proud and thankful for the close cooperation achieved with the University of Cambridge Centre for Alternative Finance, and for the close and collaborative relationships established with

all platforms operating in Norway, as well as leading platforms abroad.

In this respect, the current report represents the excellent outcome of intensive research collaborations with important impact potential. The message of "shifting paradigms" is of relevance for the financial sector, business education and research sectors. By focusing on important financial aspects of our ever more digital lives, we actively contribute to more informed decision-making as well as the responsible development of new industries.

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

We are grateful for the opportunity to contribute to this important work and look forward to ever more ambitious research in the area.

**Dr. Kristin Wallevik**

Dean

School of Business and Law

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This report from the Cambridge Centre of Alternative Finance and the University of Agder's School of Business provides a glimpse into the growth and permeation of alternative finance models across European borders after four years of measurement with the European benchmarking report. The report, aptly titled "Shifting Paradigms," looks at 45 European countries and 269 platforms across the continent. Europe is an interesting use case because of the disparity in economies in such a small geographical slice of the world; however, findings show overall strong and steady growth in alternative finance activity in most countries indicating that these new models of raising and distributing capital are experiencing real-world, tangible benefits that are inspiring market movements.

While there was overall growth, the rate of growth seems to have cooled in some more mature markets. Additionally, some European regions beyond the UK and historically stronger European economies have seen explosive rates of growth in the alternative finance space. This finding is also supported by the declining market share in the UK of total alternative finance activities in Europe. The paradigm is shifting in a way that favors technology and models to make capital more accessible beyond the borders of traditional finance.

As tokenization technology moves into more robust testing phases, we are taking notice of trends in how real estate and equity-based crowdfunding models are maturing in European markets. Compared to other methods of alternative finance, the market shares are still small from an overall percentage standpoint, but we think there are opportunities for even greater disruption with tokenization on the horizon. Another area of interest for the

Invesco Technology Strategy Innovation and Planning team in our mission to innovate for investment performance is how platforms are approaching product innovation and applying research and development. The innovation focus reported by many is improving operational efficiency and increasing automation where possible, a mantra that can be heard among businesses large and small, traditional and alternative. With technology changing at such a rapid pace, there are many opportunities for innovation and forming strategic alliances to close capability gaps and enable new operating models.

The ongoing regulation and legislation conversation will continue to influence the impact and outcomes of the alternative finance world. Opinions seem split amidst platform types as to the adequacy and stringency of regulation across Europe, but this is also an area we monitor closely as we push forward on our own strategic path.

We'd like to thank all of the teams and individuals involved in the gathering and analysis of the data and the creation of this report from the Cambridge Centre of Alternative Finance and the University of Agder's School of Business. We look forward to progress in the world of alternative finance, and staying abreast of how trends in alternative finance can impact the decisions we make in the asset management world and how we form our strategies and make best decisions for our clients.

**Dave Dowsett**

Global Head of Technology Strategy,  
Innovation and Planning  
*Invesco*

# EXECUTIVE SUMMARY

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This year's report is titled 'Shifting Paradigms' to, in part, emphasize the continued growth and development of the European Alternative Finance Industry, but also underscore that these patterns of growth can develop and change as the sector continues to develop and mature. Throughout the region, platforms have continued to grow, respond to regulation, and expand operations internationally. In some regions, model prominence has shifted, allowing for others to grow. At times, this has been a response to the development or lack of regulation, or simply a result of competing market forces.

Last year's report, 'Expanding Horizons', sought to exemplify the positive developments in European Alternative Finance in 2016 and foreshadowed future developments in the industry. The sector as a whole has continued to expand, and across the board has grown in volume. As with last year, this study captured market data from 45 European countries, and continued to explore issues with regard to innovation, research and development, as well as internationalization trends.

## Key Conclusions:

- This year's study gathered data from 269 platforms with reported operations in 2017. These 269 platforms were responsible for 519 unique data entries across 45 countries in Europe. The study shows that the total European online alternative finance market (including the UK) grew by 36% to reach €10,436m in 2017. The United Kingdom is still the largest individual alternative finance market, albeit with a declining market share from 73% in 2016 to 68% in 2017. Excluding the UK from overall volume, the European online alternative finance industry grew 63% from €2,063m to €3,369m in 2017. This growth is slower than in previous years, as in 2016 the market grew 102%. Between 2013 and 2017, the average annual growth rate for Europe has been 80%.
- France, Germany and the Netherlands remained the top three national markets for online alternative finance by market volume in Europe, excluding the United Kingdom. The French market reached €661.37m, followed by Germany (€595.41), the Netherlands (€279.93m), Italy (€240.66m), and Finland (€196.76m). The Nordic countries collectively generated €449.0m, making them the third largest regional market in Europe. The next largest markets were the Benelux countries (€371.0m), Italy (€241.0m), the Baltic states (€234.7m), Eastern Europe (€179.2m), Georgia (€173.3m), Iberia (€169.2m), Central Europe (€110.1m), Ireland (€106.8), South Eastern Europe (€45.2m), and European members of the Commonwealth of Independent States (CIS) (€32.8m).
- On a per capita basis France and Germany are ninth and thirteenth, respectively, which is a clear contrast to their position in terms of total volume. Compared with last year, both France and Germany have a higher position (from 12<sup>th</sup> and 14<sup>th</sup>, respectively), potentially as a result of their strong growth. As with last year, considerable shifts in overall rankings between total volume and volume per capita indicate that even countries with smaller online alternative finance volumes may have greater penetration and usage of these models. In almost every instance, a high total volume does not necessarily reflect a strong correlation with per capita distribution rankings.
- For the fourth year in a row P2P Consumer Lending accounted for the largest market share of European Alternative Finance (excluding the UK). This model accounted for 41% of all volume and grew by 99.8% from €697m in 2016 to €1392m in 2017. Other models accounted for the following market shares: Invoice Trading (15.9% of market share), P2P Business Lending (13.8% of market share), Real Estate Crowdfunding (7.7% of market share), and Equity-based Crowdfunding (6.3% of market share).

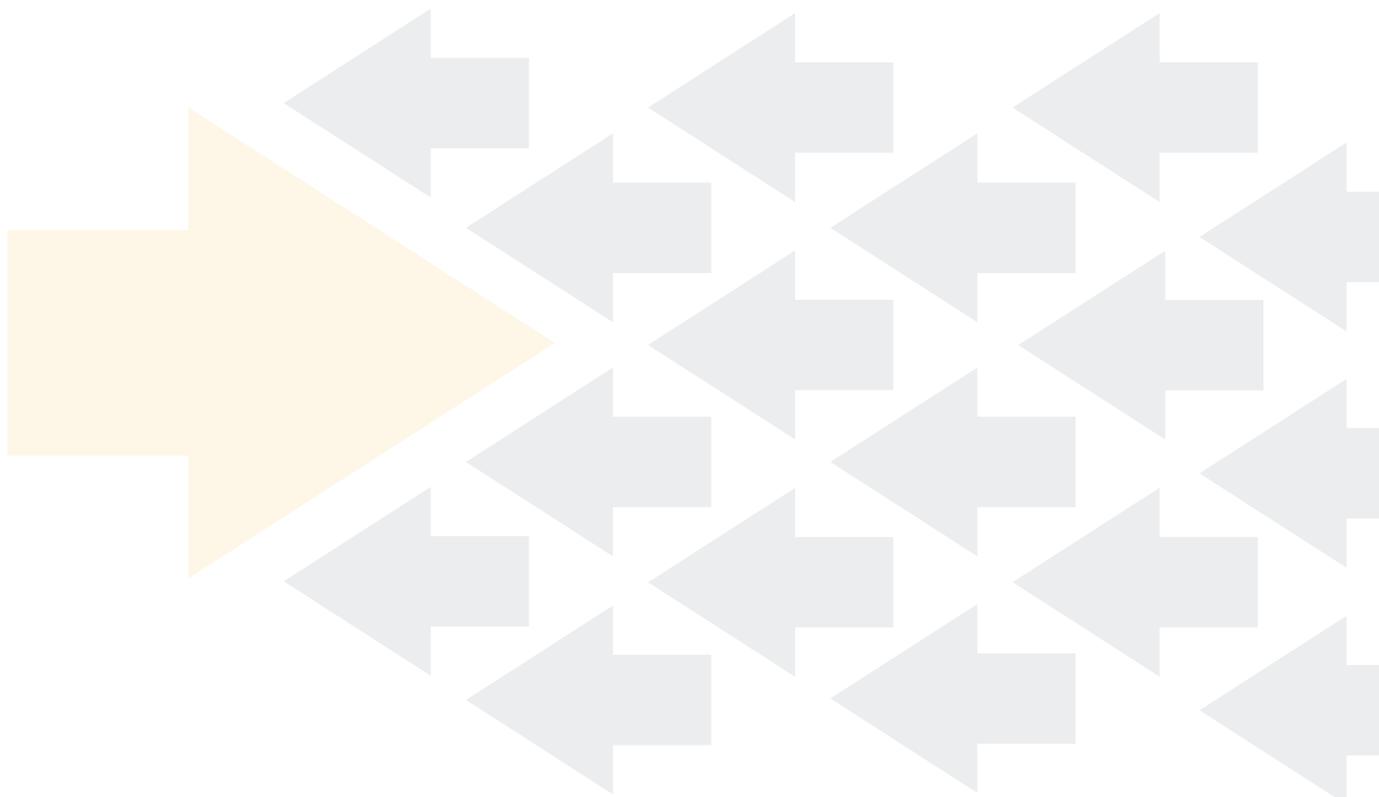
- Institutionalization across all model types decreased considerably between 2016 and 2017. This includes funding from pension funds, mutual funds, asset management firms and banks. For example, the percentage of institutions participating in P2P Consumer Lending decreased from 45% in 2016 to 12% in 2017. Additionally, 24% of P2P Business Lending (down from 29%) was funded by institutions. Invoice Trading saw the overall percentage of institutional funding decrease, falling from 68% in 2016 to 22% in 2017. Additionally, 6% of the investment in Equity-based Crowdfunding (down from 13% in 2016) was funded by institutional investors such as venture capital firms, angels, family offices or funds.
- Online alternative finance for businesses across Europe continued to grow, providing €1,660m to over 24,000 businesses. Overall, European business funding grew by €534m, and raised funds for an additional 9,586 businesses. Debt models (including P2P Business Lending, Invoice Trading, etc.) accounted for 76% of all business finance, while equity models accounted for 21%. The top five countries in terms of business funding were France (€325m), the Netherlands (€264m), Italy (€171m), Sweden (€126m) and Germany (€106m).
- Internationalization of platforms is on the rise. In 2017, 88% of platforms reported some level of cross-border inflows, while 61% reported outflows. This represents a growth of 11% for platforms reporting cross-border inflows, and 17% growth for those reporting cross-border outflows. Despite the increasingly large share of platforms that have reported some level of cross-border transactions, most still indicate low levels of such activities. For instance, 55% of platforms that have reported cross-border inflows state that they only represent up to 30% of their volumes. Similarly, 45% of platforms have reported cross-border outflows representing up to 30% of their volumes. It is important to note, however, that this share has grown because in the previous year most platforms only reported that these inflows and outflows contributed up to 10% of volume.
- Despite growth in international orientation of platforms, the extent of actual localization of services, interface and brand remains limited. The most popular internationalization strategy was having a global website and brand, with 70% of P2P Property Lending platforms, 69% of P2P Consumer Lending platforms, 62% of Donation-based Crowdfunding Platforms, 58% of Reward-based Crowdfunding platforms, and 57% of Equity-based Crowdfunding platforms following such strategy. This represents a relatively low threshold investment based on a globalized view of the market and implies high levels of standardization.
- While in 2016, models that were associated with larger volumes reported a higher level of change to their business model, the opposite trend was observed in 2017. For the top five model types by volume, 50% or more of platforms reported making no changes to their business model. Platforms that had the highest amount of change to their business model were: Donation-based Crowdfunding and Real Estate Crowdfunding. For Donation-based crowdfunding 69% of platforms made slight alterations to their model and 12% made significant changes. For Real Estate Crowdfunding, 43% of platforms made slight changes, and 7% made significant changes. Product innovation, however, was high across the board. With the exception of P2P Consumer Lending, 50% or more of platforms from all model types reported that they had made significant changes to their product offerings. P2P Property Lending (88%), Reward-based Crowdfunding (67%) and Invoice Trading (64%) had the highest amount of significant changes to products in 2017.
- As was observed in the previous year, most innovation focused on improving the operational efficiency of platforms through process streamlining and automation, as well as optimizing payment processing and customer verification. Investments in process streamlining and automation were particularly common in P2P Property Lending (100%), Real Estate Crowdfunding (95%), and Invoice Trading (85%). Payment processing was

reported as an area of focus by 100% of P2P Property Lending platforms, 86% of Donation-based Crowdfunding platforms, and 70% of Invoice Trading platforms. Customer verification was also reported as an area of focus by 95% P2P Property Lending platforms, 77% of P2P Consumer Lending platforms, and 70% of Invoice Trading platforms. Additionally, as with last year, the secondary research focus for platforms in Europe regards investment and development in customer service features, predominantly social media and promotional tools, community management, and CRM systems.

- In 2017, perceptions of risk were split amongst model types, with no one clear risk factor for all platforms. For P2P Consumer Lending and P2P Business Lending, 'Collapse due to Malpractice' was the highest risk – ranked between high and very high by 55% and 34% of model types, respectively. 'Campaign Fraud' was perceived to be the highest risk by Invoice Trading (73% high to very high risk), Debt-based Securities (29%), and Donation-based Crowdfunding (38%) platforms. The risk of a "Cyber-security

Breach" was perceived as the highest risk for Equity-based Crowdfunding (40% high to very high risk), and Reward-based Crowdfunding (44%). "Changes to Regulation" was seen by four model types as the second highest risk, particularly Equity-based Crowdfunding (37%), P2P Consumer Lending (30%), Donation-based Crowdfunding (30%) and Reward-based Crowdfunding (26%).

- As regulatory regimes across Europe continue to develop, so to do the perceptions of platforms on the adequacy of these regulations. In general, while overall views are still divided, it appears that the level of approval has been increasing. A majority of platforms operating P2P Business Lending (71%), Debt-based Securities (67%), P2P Consumer Lending (63%), Real Estate Crowdfunding (56%) and P2P Property Lending (50%) viewed current regulations to be adequate and appropriate. In contrast, a large percentage of Equity-based Crowdfunding (53%), Reward-based Crowdfunding (43%), and P2P Property Lending (42%) platforms viewed regulation to be excessive and too strict.



# INTRODUCTION

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## RESEARCH RATIONALE & OBJECTIVES

The fourth comprehensive European alternative finance benchmarking report examines the growth and development of the European Alternative Finance market at both regional and national levels. As alternative finance models fundamentally change capital raising practices across Europe for funder and fundraiser stakeholders, this report examines platform operability in detail and seeks to identify how business models, innovation directions, and internationalization strategies are evolving to achieve continued success.

## 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 quality control.

### *Data Sources*

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

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

Overall, the data encompassed by this study covered 269 platforms that reported operations across Europe (excluding the UK) for the 2017 calendar year. These 269 platforms were responsible for 519 unique

entries. Each entry is defined as platform-country dyad, as some platforms operate in multiple jurisdictions. This allowed us to better capture volumes from domestic and international platforms operating in each country.

Of the 269 platforms which participated in this study, 259 are headquartered in Europe, while 10 platforms are headquartered outside of Europe. Platforms operating from outside Europe were primarily based in the United States, Canada, Israel, Brazil and Japan, and were predominantly representative of non-investment models (i.e. reward-based crowdfunding). When broken down by country, the dataset covers 45 countries (including the UK). Focus was made to ensure the inclusion of all major actors by model and by country.

The current report was based on the same number of platforms as those covered in our previous report. However, this involved entries from 54 new platforms that did not participate in the previous year's survey, and 54 platforms that participated in the 2017 survey (2016 data), but not in the 2018 survey (2017 data). Seven of these non-participating platforms ceased operations in the past year, and 1 reported activities and volumes only outside of Europe and hence was excluded from the current report. The absolute majority of the remaining 46 non-participating platforms represent very small platforms that carry no significant impact on reported volumes. Nevertheless, in the 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.

Results of campaigns run independently and outside of alternative finance platform activities<sup>1</sup> were not included in the results of this study. Additionally, volumes from European-based campaigns run on non-European based platforms<sup>2</sup>, which are not included in the 10 platforms mentioned above, were also not included.

### *Data Collection*

The survey consisted of 33 questions, including both single and multiple response questions. These questions were instrumental in gathering self-reported aggregate-level data relating to platform operations and performance in 2017. This year's survey consisted of five parts covering questions related to: Fundraisers, Funders, Platform Structure & Strategy, Risks & Regulations, and Financial Inclusion.<sup>3</sup> The structured nature of the survey allowed platforms to provide comprehensive, precise and cohesive data.

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

In an effort to more accurately attribute fundraiser volumes, platforms were able to report model activities and volumes on a per country basis. This way, firms could more accurately describe their operations, especially where activities occurred outside of their home market. The 2017 dataset provides a snapshot of country- and model-level activities by platform as internationalization becomes a more substantial trend throughout the sector. As an example, 40.5% of survey responses came from platforms with two or more countries of operation within Europe.

Invitations for survey participation were sent by members of the research team directly to platforms, published on targeted social media groups, as well as were distributed via research partners through their own independent networks (i.e. industry associations, partner research institutions, etc.). Survey invitations were distributed in the form of personalized email communications, direct messages via social media and telephone to platform management. The research partners were instrumental in identifying appropriate alternative finance platforms across the region, promoting the survey and serving as advisors to the core

research team throughout the research program. The survey was distributed in English, French, Spanish, Portuguese and German. These initial invitations were followed up utilizing repeated multiple reminders in a variety of forms between May 2018 through November 2018.

The survey was hosted on a dedicated site, with submissions accessible only to the principal investigators of this project. To complement the survey, web-scraping was also used to get the most up-to-date transaction volumes for Europe for a limited number of key platforms. This was carried out using widely available Python web-scraping libraries, devised within the research center. Once the data set was collected, any discrepancies such as misattributed volumes and anomalous figures were cross-checked through direct contact with the platforms.

### *Quality Control and Data Handling*

Sanitation and verification were conducted between September 2018 and November 2018. In cases where the survey could not obtain primary data (or where there were discrepancies in reported data), the research team consulted secondary data sets to inform the research and asked for additional or clarifying data directly from the platform. The data used in the previous European report, 'Expanding Horizons,' was also verified and updated where appropriate.

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 enabled to further ensure quality of reporting.

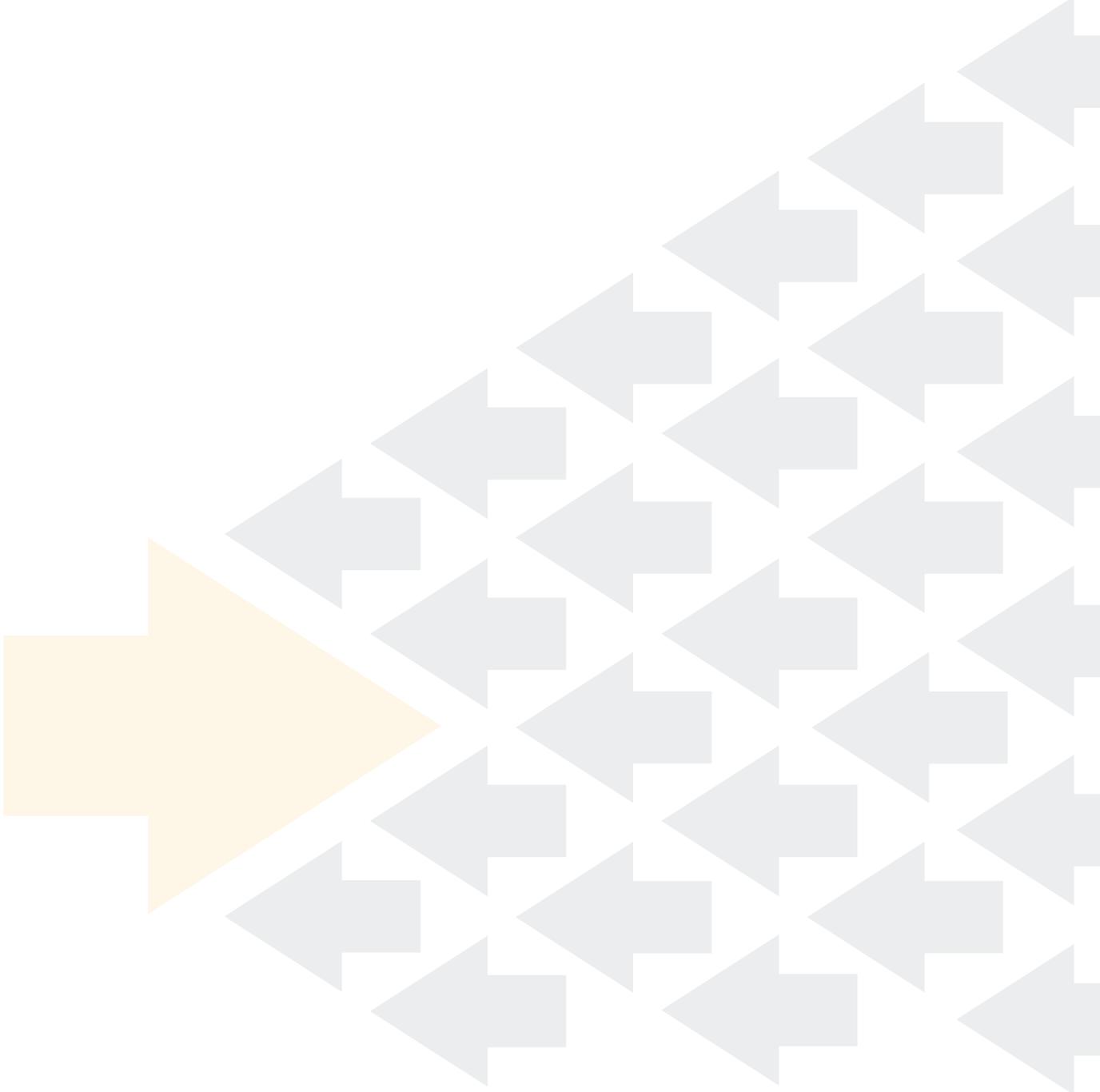
The research team anonymized and sanitized data prior to analysis. All personal data was stripped and securely destroyed from the database. For all average data points the team applied weightings by transaction volume per respondents and significant outliers were removed. At completion, the data was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

Finally, throughout the analysis process, explanations are suggested for identified trends and survey results. Accordingly, and whenever necessary, abnormal deviations in

identified trends vis-à-vis our previous report, were explained by specific platforms that had contributed to last year's research but did not participate again this year. Here, while the current report covers more platforms than in previous years, in a few instances certain critical platforms chose not to participate this year, and resulting outcomes are explained by their non-participation.

***External Contributions of Practitioner Insight Texts***

For further insights, deeper understanding and triangulation across sources, we have 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 unravelling in their respective countries and serve only as supplementary material to the independent research work by the core research team.



# CHAPTER 1: THE SIZE AND GROWTH OF THE ALTERNATIVE FINANCE MARKET ACROSS EUROPE

## TOTAL MARKET VOLUME

In 2017, alternative finance volumes from across Europe grew by 36%, from €7.67 billion to €10.44 billion. This figure included alternative finance volumes from the United Kingdom, which accounted for 68% of the overall figure (€7.06 billion).<sup>4</sup> Though the

United Kingdom (UK) remained the largest single contributor to European over-all volume, it is worth noting that over time the proportion of the UK's market share against the rest of Europe is shrinking. In 2015, for instance, the UK accounted for 81% of all European volumes. By 2016, the UK's market share shrank to 73%.

Figure 1: European Online Alternative Finance Market Volumes 2013-2017 in €billions (Including the UK)

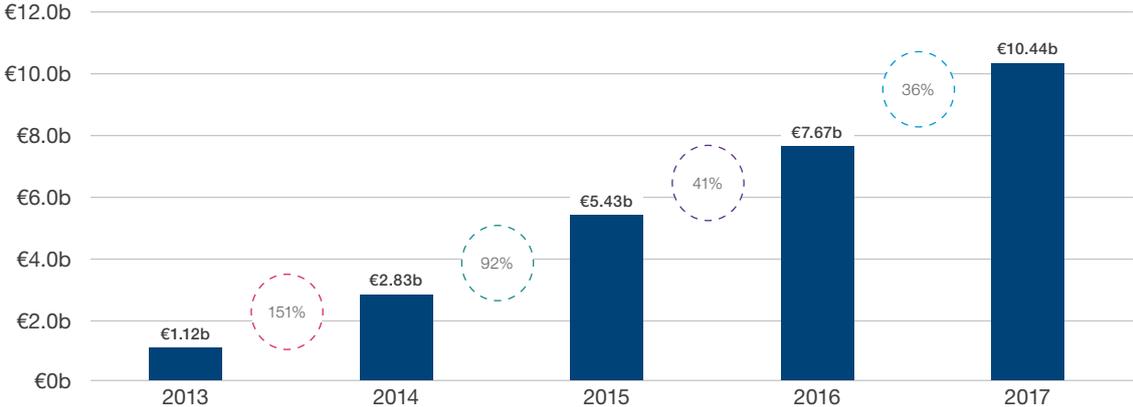
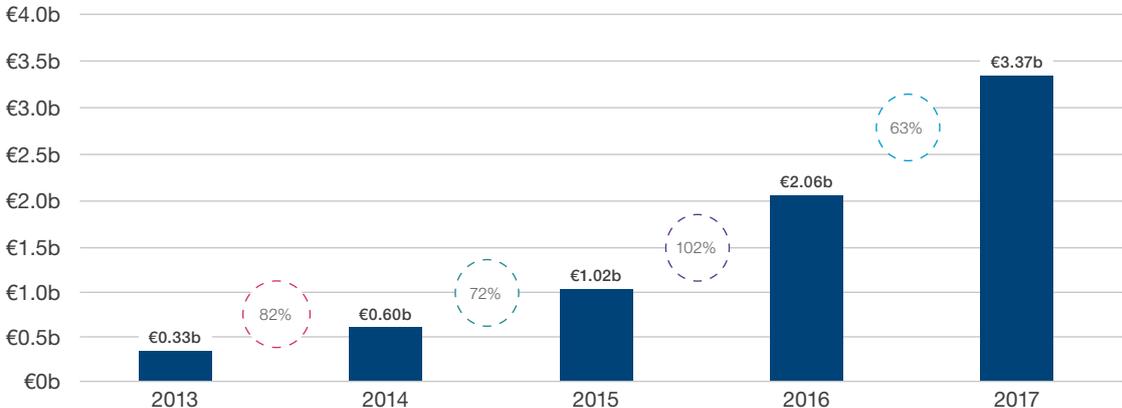


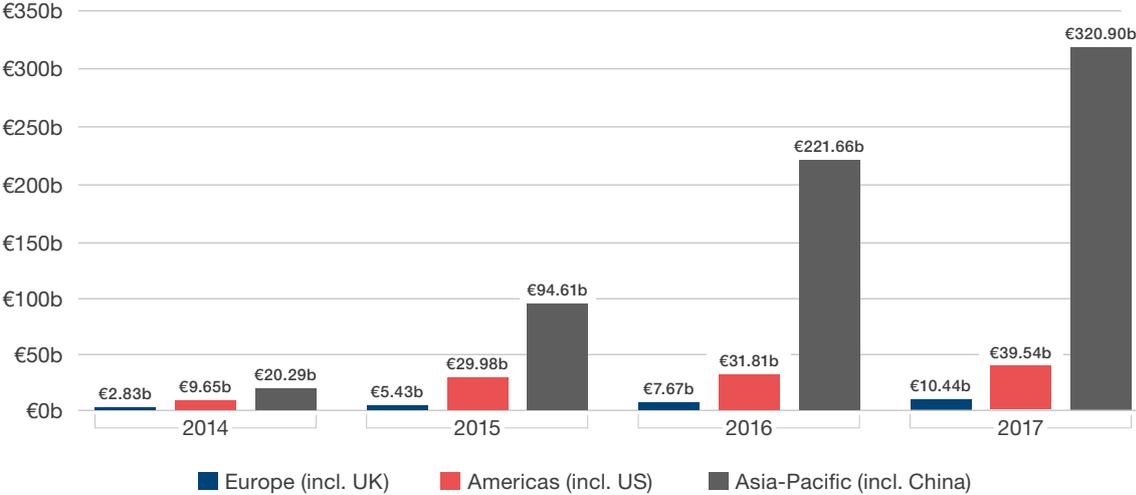
Figure 2: European Online Alternative Finance Market Volumes 2013-2017 in €billions (Excluding the UK)



When examining these figures at national level, France, Germany and the Netherlands have maintained their leading position in mainland Europe. However, 2017 did present a mixed picture, where: some European countries exhibited strong growth either from relatively large earlier volumes (for example - Sweden, Italy, Georgia and Belgium) or from small earlier volumes (for example - Bulgaria, Slovenia, Russia, Latvia and

Poland); some exhibited a healthy though more modest growth (for example - Spain and the Netherlands); while others exhibited stagnation (for example - Estonia) or decline (for example - Czech Republic, Greece, Hungary and Iceland). A more detailed overview of market development at regional and country levels is presented in later sections of this report.

**Figure 3: Regional Online Alternative Finance Market Volumes 2014-2017 (€billions)**



When the total volume figure is adjusted to remove the UK’s contribution, the total alternative finance market volume was €3.3 billion in 2017. Notably, volume increased 63% against 2016’s €2.06 billion. In a global perspective, this growth rate was the highest regional growth rate globally, as the Asia-Pacific grew 48% and the Americas grew 26% during the same period.

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

In this context, China accounted for over 99% of volume within the Asia-Pacific region.

Overall, the Asia-Pacific region experienced a 4-year average annual growth rate of 145%, which was largely driven by the Chinese market; when excluding China, the wider Asia-Pacific grew by 134%.<sup>5</sup>

In the Americas, the United States accounted for 96% of the volume, and grew by a more modest 26% against the previous year, or by a 4-year average growth rate of 89%. In contrast, the Latin America and Caribbean online alternative finance industry grew exponentially (160%) against the previous year, or by a 4-year average growth rate of 146%.<sup>6</sup>

While Europe is the smallest region in comparison to the other two, it is noteworthy that Europe’s per-annum growth has been far steadier, growing 79% annually on average between 2013 and 2017.

### *The Geographic Distribution of Platforms and Market Volumes*

This year's survey captured data on alternative finance activities in 45 European countries (including the UK). In the current report, we captured the growing scope of international flows of alternative finance transactions. Accordingly, our analyses included data from 321 European-based platforms (including the UK) and 10 non-European based platforms operating in various European countries. The table below shows the extent to which international activities are prevalent in Europe, with platforms reporting 276 dedicated operations in European countries (which are not their home-country), putting total number of country level operations of platforms in Europe at 597, when including the UK, or 520, when excluding the UK.

While there were a handful of instances where platforms declined to be re-surveyed, in most instances failure to capture repeat data stemmed from platform closure. This was especially true in already established jurisdictions (i.e. France, Germany) where previously surveyed platforms either had left the marketplace altogether, pivoted into more traditional financial activities or merged with other platforms within their market.

The geographic distribution of participating platforms from Europe (excluding the UK) showed the highest concentration of platforms in Germany (30 local, 16 foreign, 46 in total), France (36 local, 10 foreign, 46 in total), Italy (34 local, 11 foreign, 45 in total), Spain (26 local, 13 foreign, 29 in total) and the Netherlands (24 local, 8 foreign, 32 in total).

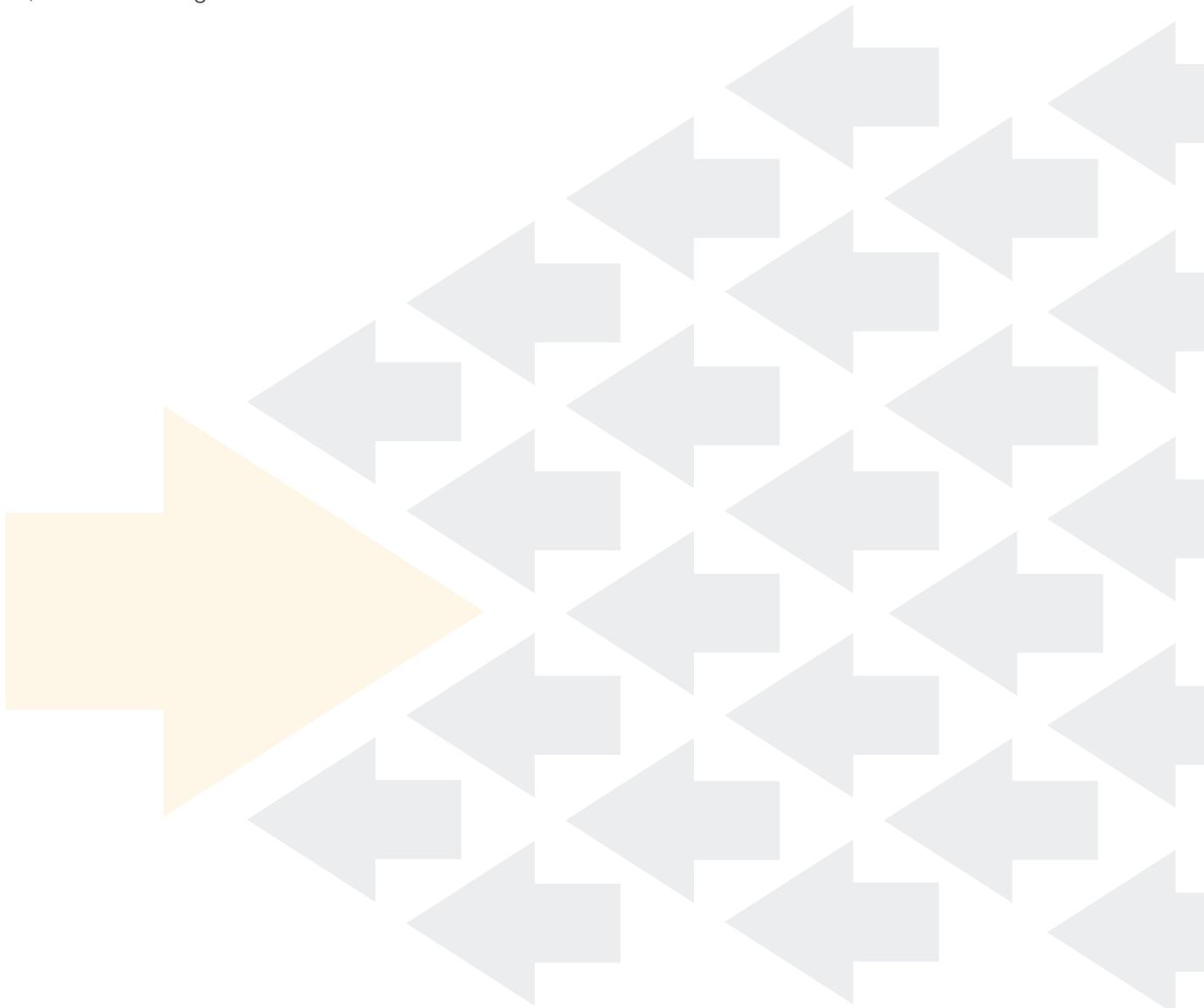
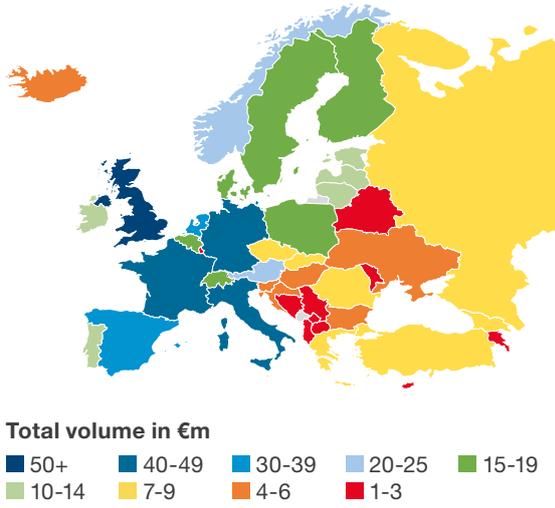


Table 1: Number of platforms operating in European countries

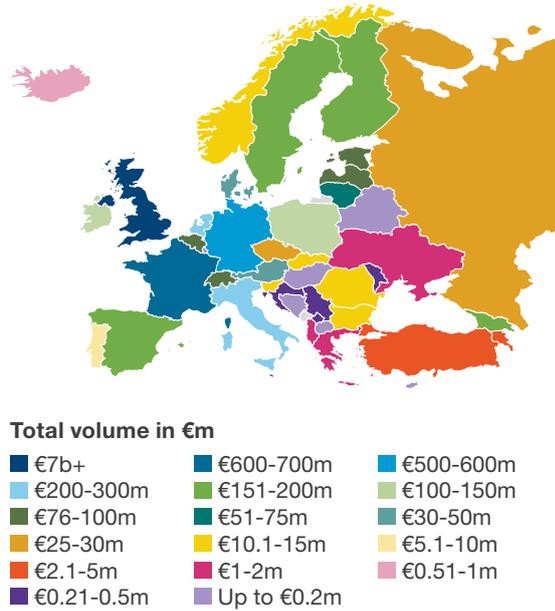
Country	2017		
	Locally-based platform operating in country	Foreign-based platforms operating in country	Total
UK	62	15	77
Germany	30	16	46
France	36	10	46
Italy	34	11	45
Spain	26	13	39
Netherlands	24	8	32
Austria	11	11	22
Norway	14	7	21
Switzerland	6	13	19
Finland	9	8	17
Sweden	8	7	15
Poland	6	9	15
Denmark	4	11	15
Belgium	4	11	15
Estonia	7	6	13
Lithuania	7	6	13
Latvia	4	6	10
Ireland	4	6	10
Portugal	4	6	10
Czech Republic	3	6	9
Slovakia	2	6	8
Romania	1	7	8
Turkey	3	5	8
Greece	3	5	8
Georgia		7	7
Russia	1	6	7
Slovenia	2	4	6
Bulgaria	2	4	6
Ukraine		6	6
Malta	1	5	6
Croatia	2	3	5
Iceland	1	4	5
Hungary		4	4
Albania		3	3
Armenia		3	3
Serbia		3	3
Kosovo		2	2
Macedonia		2	2
Monaco		2	2
Belarus		2	2
Bosnia & Herze- govina		2	2
Moldova		2	2
Cyprus		1	1
Luxembourg		1	1
Liechtenstein		1	1
Total (incl. UK)	321	276	597
Total (excl. UK)	259	261	520

Interestingly, in some countries with annual volumes above €10 million, the majority of platforms were foreign-based, such as – Romania with 87% of platforms being foreign-based, 75% of platforms in Slovakia, 73% of platforms in Belgium and Denmark, as well as 68% of platforms in Switzerland.

**Figure 4: The Geographical Distribution of Surveyed Platforms (2017)**

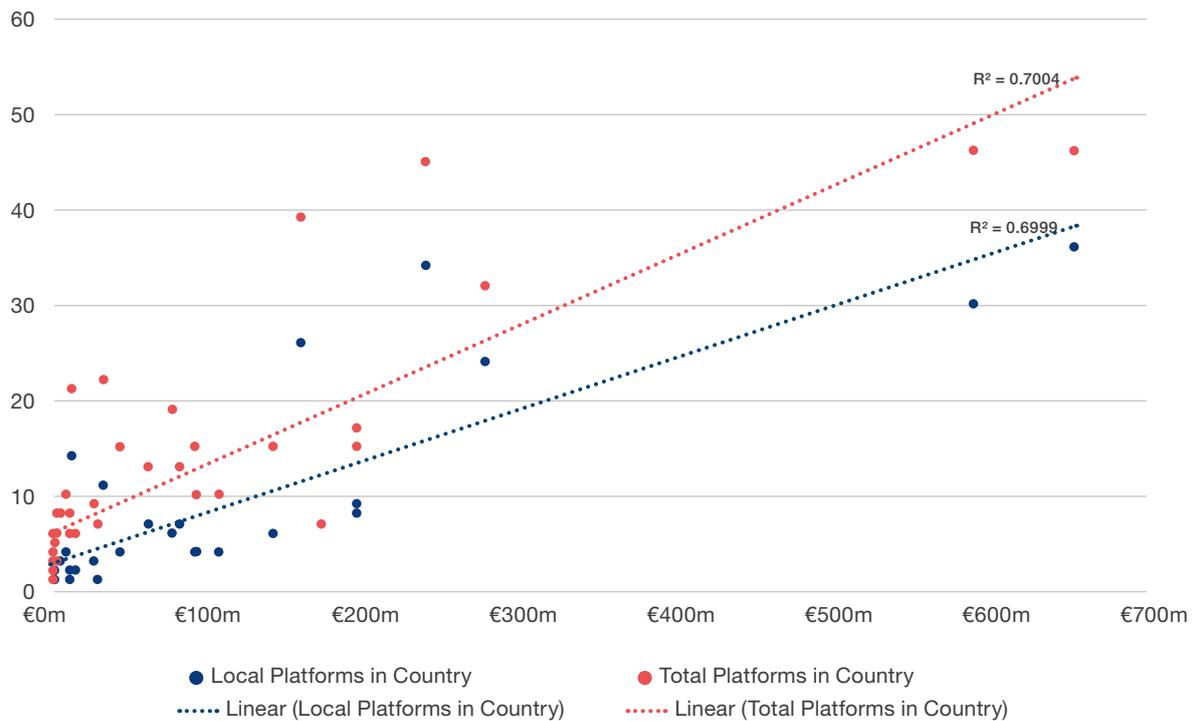


**Figure 5: Comparative Market Volumes of Alternative Finance Transactions in the EU (2017)**



After the United Kingdom, the top five volume-driving countries<sup>7</sup> were France (€661.37m), Germany (€596.81m), the Netherlands (€281.19m), Italy (€240.66m), Finland (€196.76m), and Sweden (€196.38m). (See Appendix 1 for Total Alternative Finance Volume by Country).<sup>8</sup>

**Figure 6: Number of Platforms - Local Platforms vs Total National Volumes - Europe 2017**



Unsurprisingly, alternative finance volumes generated in country significantly correlated with number of platforms operating in country, both in cases of number of locally based-platforms and total number of platforms.

The top three countries by volume (France, Germany and Netherlands) accounted for 46% of the entire region's volume (excluding

the UK). While this remains significant, the same three countries accounted for 47% in 2016<sup>9</sup>, and 70% in 2015<sup>10</sup>. The increase in the number of countries captured in the survey suggests that alternative finance is becoming more commonplace across Europe, which is in turn distributing volumes more widely across the region, especially toward the Nordic, Baltic and Iberian regions.

Figure 7: Online Alternative Finance Volume by Country 2017 (€millions)

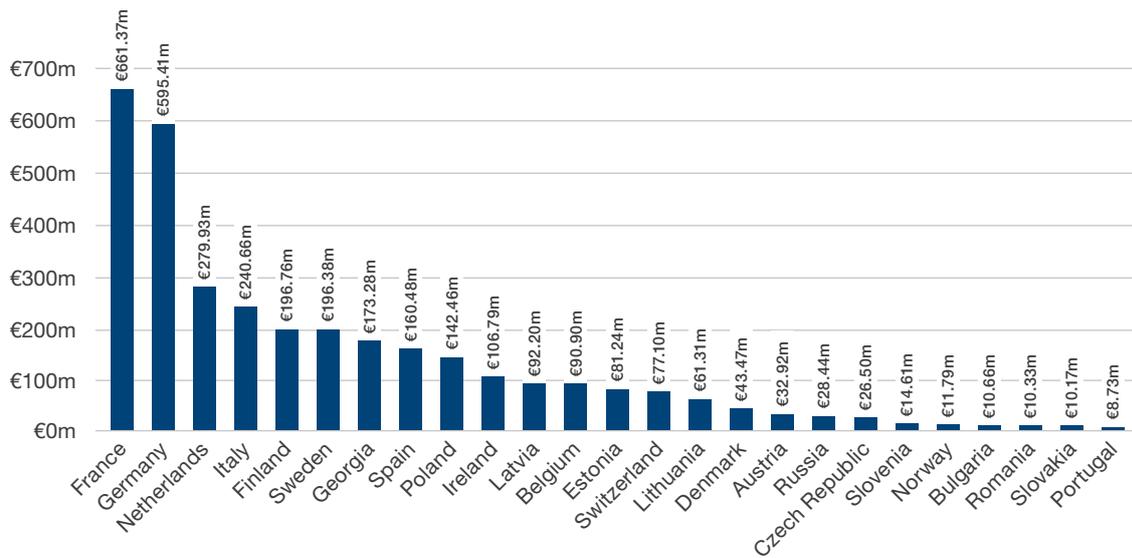
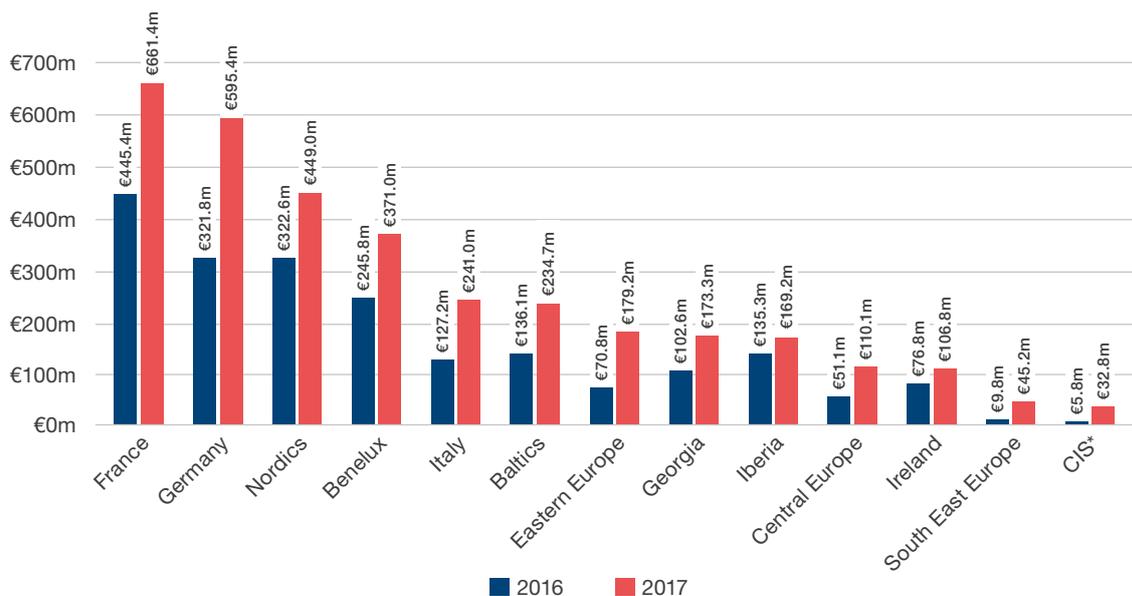


Figure 8: Regional Alternative Finance Volumes 2016 - 2017



\*CIS=Commonwealth of Independent States European members

As a useful analytical framework, this paper also reviews alternative finance volumes grouped by their European geographical regions.<sup>11</sup> For instance, when reviewed together the Nordics (Denmark, Finland, Iceland, Norway and Sweden) accounted for just over €449m, Benelux (Belgium, the Netherlands and Luxembourg) accounted for €371m and the Baltics (Estonia, Latvia and Lithuania) accounted for €234m.

In terms of regional growth, all regions exhibited impressive growth levels when compared to most industries. The fastest

growth was recorded in South Eastern Europe (357.7%) and countries in the Community of Independent States (CIS) (465%), although from very modest volumes of just a few million euros in 2016. Strong growth was also reported in Eastern Europe (153.2%) and Central Europe (115.5%), from base levels of a few dozen million euros in 2016. However, the most impressive growth, when considering base volumes, were associated with the booming markets in Germany (85.5%) and Italy (89.5%).

**Table 2: Regional Definitions and Volumes 2016-2017**

	Region	Countries	2016	2017	Growth
1	France	France, Monaco	€445.4m	€661.4m	48.5%
2	Germany	Germany	€321.8m	€596.8m	85.5%
3	Nordics	Denmark, Finland, Iceland, Norway, Sweden	€322.6m	€448.7m	39.1%
4	Benelux	Belgium, Netherlands, Luxembourg	€245.8m	€372.4m	51.5%
6	Italy	Italy, Malta	€127.2m	€241.0m	89.5%
5	Baltics	Estonia, Latvia, Lithuania	€136.1m	€217.4m	59.8%
9	Eastern Europe	Poland, Czech Rep., Slovakia, Hungary	€70.8m	€179.2m	153.2%
7	Georgia	Georgia	€102.6m	€173.3m	68.9%
8	Iberia	Spain, Portugal, Andorra	€135.3m	€170.5m	26.0%
10	Central Europe	Austria, Switzerland, Liechtenstein	€51.1m	€110.1m	115.5%
11	Ireland	Ireland	€76.8m	€106.8m	39.1%
12	South East Europe	Romania, Bulgaria, Greece, Turkey, Slovenia, Croatia, Bosnia & Herzegovina, Serbia, Montenegro, Macedonia, Albania, Cyprus, Kosovo	€9.8m	€44.9m	357.7%
13	CIS <sup>12</sup>	Russia, Belarus, Ukraine, Moldova, Armenia	€5.8m	€32.8m	465.0%

### *Alternative Finance Volume per Capita*

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

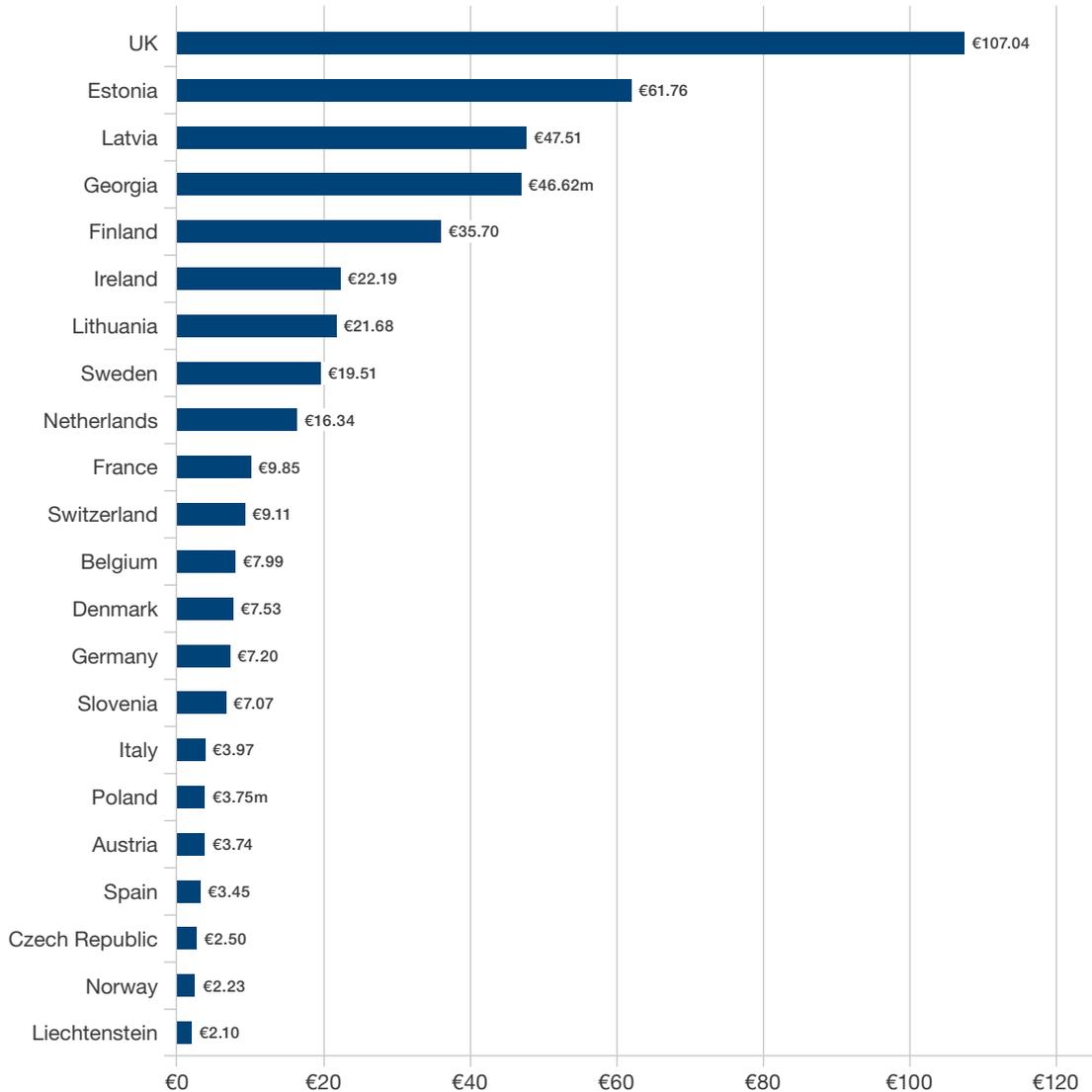
The UK continued to register the highest alternative finance market volume per capita, at €107.04 (up nearly €41 from 2015 levels, and up €21 from 2016<sup>13</sup> levels), indicating greater market penetration across the population.

In mainland Europe, the countries that reported the highest total volume were not

necessarily the leaders in per-capita terms. For instance, France and Germany slipped down to the 9th and 13th spots, respectively, with per capita volumes of €9.85 and €7.20. Nevertheless, these countries both boasted high growth rates, growing 48% in France and 85% in Germany in terms of volumes per capita between 2016 and 2017.

The great reformers of Eastern Europe were also the countries that exhibited some of the highest volumes per capita. Here, Estonia, despite presenting stagnation in total volumes, maintained its second place with close to €62 per capita. Latvia jumped to third place, with €47.51 per capita up 243% from its 2016 volume of €13.86 per capita.

Figure 9: Market Volume Per Capita by Country for Europe (€ EUR) 2017



Georgia maintained its fourth place with €46.62 per capita up 69% on 2016 volumes of €27.58 per capita.

Some countries stuck out with extreme growth rates due to comparative negligible volumes in the previous year. These included Albania up 5960%, Slovakia up 1244%, Moldova up 875%, and Romania up 786%. However, despite exceptionally high growth rates, these still reflected relatively modest per capita volumes of €0.66, €1.87, €0.1, and €0.53 in 2017 respectively.

Impressive growth was also evident with respect to some of the larger markets. Specifically, Sweden grew 123% to €19.51

per capita, Switzerland grew 158% to €9.11, and Italy to €3.97 per capita in 2017.

On the other hand, significant declines were recorded in three countries, including: Iceland down 44% to €1.7 per capita mainly due to limited market size and stringent financial regulations; the Czech Republic down 16% to €2.5 per capita due to the closure of a major local platform; and Denmark down 51% to €7.5' correct to 2.50 and 7.53, respectively. In this sense, the decline in the former two countries represents real decline, while the decline in Denmark is superficial and was a result of missing data.<sup>14</sup>

### Alternative Finance Volume per Capita vs. GDP per Capita

Per capita volumes were plotted against GDP per capita for each country to provide another comparative framework. Countries such as the UK, Estonia, Latvia, Lithuania and Georgia indicated some of the highest contributions of alternative finance per person in contrast to their 2017 GDP (lying well above the line of best fit). Conversely, countries like Cyprus, Hungary, Bosnia & Hercegovina, and Luxembourg all lie well below the line of best fit, a possible indication of an underutilization of alternative finance in these markets versus their potential.

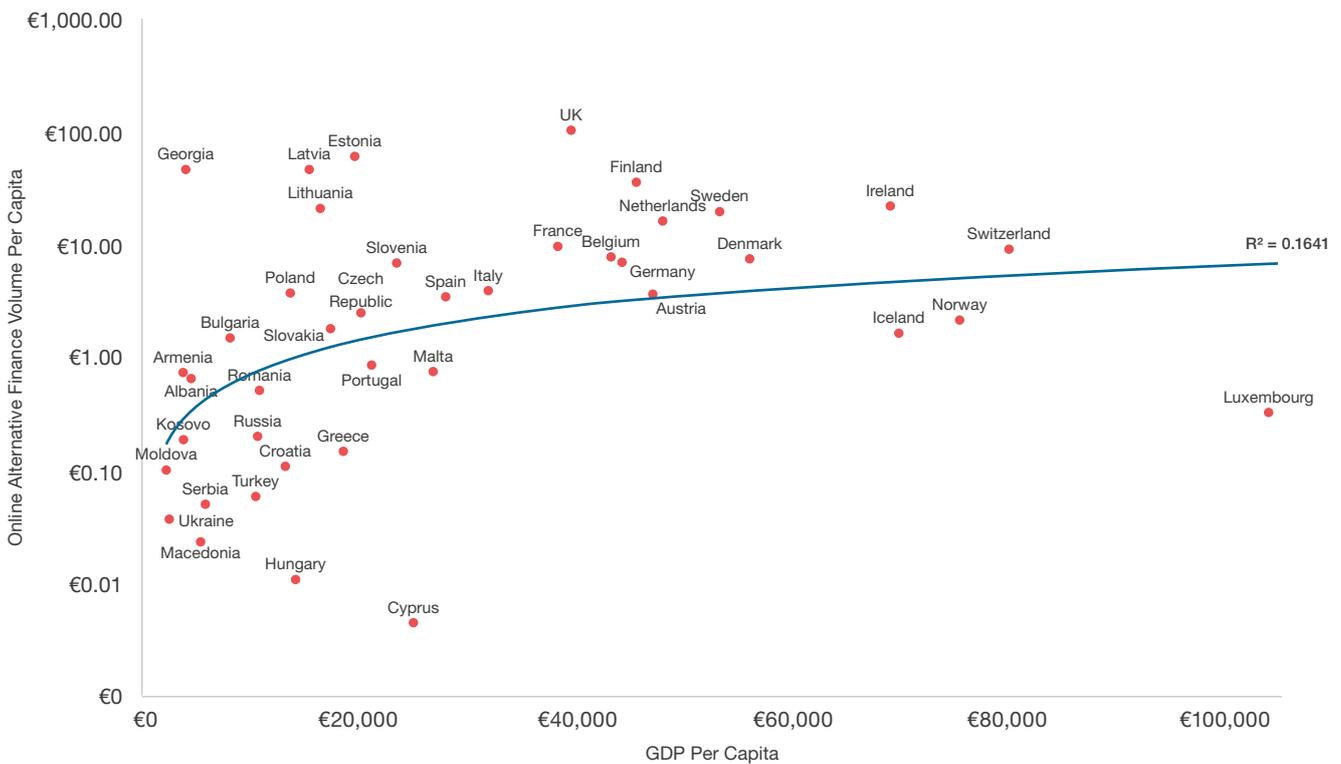
Over the past year, some countries have moved from below the line of best fit to above it. Switzerland, Slovakia and Albania, for instance, have all shifted above this line, implying the development of a more sophisticated alternative finance marketplace in these countries.

It is also interesting to review the make-up of platform activity in the countries that lie just above the line of best fit, as

opposed to those below. Countries with strong P2P Consumer and Business Lending activities tend to outperform (i.e. UK, Georgia, Latvia and Estonia), while countries with strong Non-Investment-based models, such as Reward-based or Donation-based Crowdfunding, tend to underperform (i.e. Norway, Iceland, Malta, Greece, Luxembourg, etc.). This is not altogether surprising, as the contributions per fundraiser/campaign from individual funders will be lower in a non-investment focused model. Additionally, regulatory regimes that might hinder or prohibit investment-based activities (e.g. P2P Lending or Equity-based Crowdfunding) can contribute to underperforming markets. The regulatory impact will be further discussed in subsequent sections.

Overall, a simple logistic regression analysis, suggests that 19.5% of the variance in alternative finance per capita can be explained by GDP per capita, as proxy indicator of economic development in each country. In this respect, our findings can be interpreted as indicative that alternative

Figure 10: Alternative Finance Volume per Capita vs GDP per Capita (€EUR) 2017



finance is only partially delivering on its potential for filling financial gaps in less developed countries versus more developed countries, at least in the European context. Here, while this trend may be evident in Georgia, Albania, Romania and Bulgaria to a certain extent, it is noticeably absent in countries like Bosnia & Hercegovina, Hungary, Macedonia and Ukraine.

## THE DIVERSITY OF EUROPEAN ALTERNATIVE FINANCE MODELS

The European alternative finance market is relatively diverse, with 13 distinct model-types operating across the region. The below table provides a snap-shot of the 2017 working taxonomy, which mirrors that in the previous European industry benchmarking surveys as well as those conducted in other regions.

### Taxonomy and Volume

Table 3: 2017 European Taxonomy

Alternative Finance Model	Definition	2017 Volume	2017 Market Share	2017 Ranking (and Change in Position)
P2P Consumer Lending	Individuals or institutional funders provide a loan to a consumer borrower.	€1,392.38m	41%	1
Invoice Trading	Individuals or institutional funders purchase invoices or receivable notes from a business at a discount.	€535.84m	16%	2 (↑1)
P2P Business Lending	Individuals or institutional funders provide a loan to a business borrower.	€466.60m	14%	3 (↓1)
Real Estate Crowdfunding	Individuals or institutional funders provide equity or subordinated-debt financing for real estate.	€258.75m	8%	4 (↑2)
Equity-based Crowdfunding	Individuals or institutional funders purchase equity issued by a company.	€210.93m	6%	5 (↓1)
Reward-based Crowdfunding	Backers provide funding to individuals, projects or companies in exchange for non-monetary rewards or products.	€158.80m	5%	6 (↓1)
Balance Sheet Business Lending	The platform entity provides a loan directly to a business borrower.	€94.84m	3%	7 (↑1)
Debt-based Securities	Individuals or institutional funders purchase debt-based	€75.20m	2%	8 (↑2)
P2P Property Lending	securities, typically a bond or debenture at a fixed interest rate.	€66.57m	2%	9 (↓2)
Donation-based Crowdfunding	Donors provide funding to individuals, projects or companies based on philanthropic or civic motivations with no expectation of monetary or material	€53.14m	1.6%	10 (↓1)
Minibonds	Individuals or institutions purchase securities from companies in the form of an unsecured retail bonds.	€29.10m	0.9%	11 (↑1)
Profit Sharing	Individuals or institutions purchase securities from a company, such as shares or bonds, and share in the profits or royalties of the business.	€1.57m	0.05%	12 (↑1)
Balance Sheet Consumer Lending	The platform entity provides a loan directly to a consumer borrower.	€3.00m	0.1%	13 (↓1)
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.	€22.42m	0.67%	

In 2017, P2P Consumer Lending accounted for 41% of all European Alternative Finance volumes, followed by Invoice Trading (16%), P2P Business Lending (14%), Real Estate Crowdfunding (8%), Equity-based Crowdfunding (6%) and Reward-based Crowdfunding (5%). Platform activities from these six models accounted for just over 90% of the alternative finance landscape.

Since 2013, the P2P Consumer Lending model has remained the single largest volume driver across Europe. In 2017, this model accounted for a market share of 41%. While most of the other model activities present in Europe have maintained their proportional market share at similar levels year on year, the P2P Consumer Lending model has increased its market share from 34% in 2016 to this year's 41%. It is worth noting that P2P Consumer Lending was the largest alternative finance model globally in 2017, driving volumes in the Asia-Pacific and Americas region. In the case of Asia-Pacific, the models' strong market-share position was driven by P2P Consumer activity in China (63% of the market).

Over the course of 2017, model rankings in terms of overall market-share position have shifted considerably for certain models against the previous year. Invoice Trading, for instance, accounted for 12% of 2016's European volume and was in third position. In 2017, this model accounted for 16% of market share, having nearly doubled against the previous year and moved into second position. While Real Estate Crowdfunding was the sixth largest model type in 2016, its volume more than doubled in 2017, and accounted for 8% of the market. Equity-based Crowdfunding's total volume decreased slightly, reducing its share of the market from 11% in 2016 to 6% in 2017.

An interesting development, countering trends in other models, was the significant decrease in Reward-based Crowdfunding. Total volumes fell 17% between 2016 and 2017 and moved it from being the fifth largest model in 2016, to the sixth in 2017.

Models that did not perfectly fit under any existing model type accounted for €22.42m and were identified as 'other' in the above table.

### *Prevailing Models and Growth in Europe*

In contrast to 2016, where all models experienced positive growth, just over half of all models (eight out of the 13 model types) experienced positive annual growth in 2017.

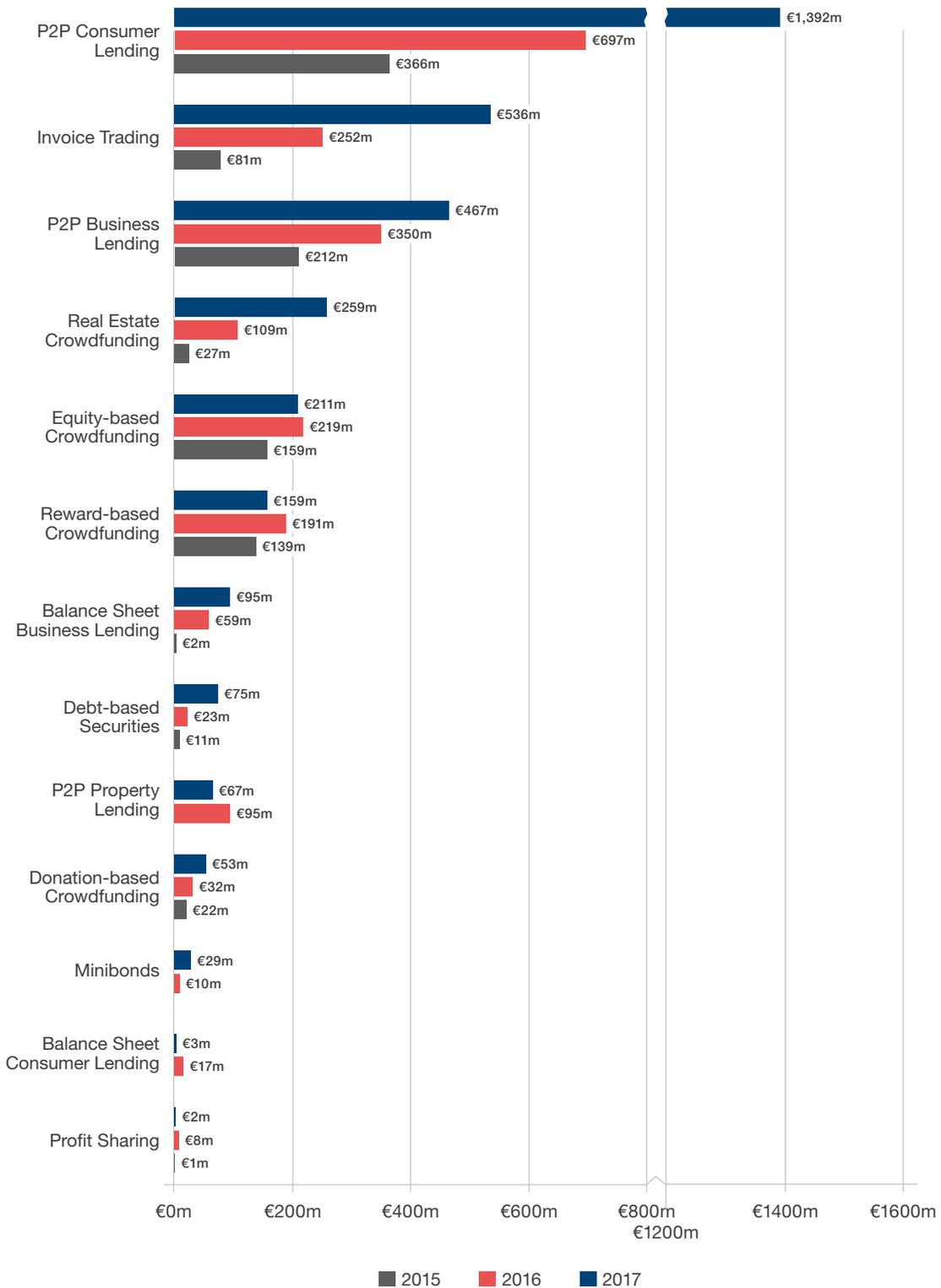
P2P Consumer Lending continued to grow, increasing by 99.8% from €697m in 2016 to €1,392m in 2017. This growth can be attributed to strong incumbent firms that have increased their operations internationally. In 2017, our data set includes 73 distinct P2P Consumer Lending model entries from 35 firms across Europe, nine of which operated in two or more countries (or 26% of firms operating in multiple jurisdictions).

Invoice Trading grew by 113% between 2016 and 2017, increasing from €252m to €536m. In 2017, this model recorded 42 entries from 23 firms, with 4 of these firms operating in 2+ countries. This model is closely linked to that of P2P Business Lending, with six firms actively operating P2P Business Lending activities as well. Half of these multi-model firms are also highly international (2+ country-level operations). Though there are an increasing number of firms that operate multiple models, the firms which are driving volumes in the Invoice Trading segment tend to only operate within that model.

P2P Business Lending grew 33% from €350m to €467m. There were 90 entries from 53 unique firms across Europe. Of these 53 firms, 11 (or 21%) had operations in two or more countries. 69% of firms (37) operated only one model, while the remaining 31% (16 firms) had activities in related models such as Consumer, Property or Invoice lending. In most cases, these 16 firms only operated one other model.

Real Estate Crowdfunding grew 136%, increasing from €109m in 2016 to €259m in 2017, generating the fourth largest volume in Europe. This model recorded thirty-nine entries from 35 distinct firms. Only three firms had operations in more than one country. Despite the impressive growth reported for this model, volumes of Real Estate Crowdfunding may still be underestimated, as some Equity-based Crowdfunding platforms don't distinguish between Real Estate Crowdfunding campaigns and Equity-based Crowdfunding campaigns on their platforms.

Figure 11: Alternative Finance Volume by Model in Europe 2015-2017 (€millions)



In 2017, Balance Sheet Business Lending grew to €95m, up 60% against the previous year. There were ten entries associated with this model, from seven firms, with one

firm operating in several jurisdictions. 71% of these firms only operated one model, while the remaining 29% had P2P Business Lending operations as well.

The Donation-based Crowdfunding model continued to grow, increasing 64% to €53m from 2016's €32m volume. Although this model came in tenth in terms of overall volume rankings, this model has steadily increased its annual growth rate every year since 2014. When we look at how this model has developed outside of Europe, it is interesting to note that while Donation-based activities were growing in Europe, they were declining in almost every other jurisdiction. Some of this growth may be associated with shifting campaigns from Reward-based model to the Donation-based model, as the latter more frequently allows for a "take what you get" fundraising approach versus the "all or nothing" fundraising approach typical of Reward-based Crowdfunding platforms.

The fastest growth observed across all models was in Debt-based Securities, up 229% - from €23m in 2016 to €75m in 2017. There were 18 entries from 14 firms. Though the model has a smaller number of unique firm-operators, all of the firms grew year-on-year. Furthermore, despite this model having limited multi-European operations, with only two firms operating in multiple jurisdictions, it is worth noting that several of these firms had operations outside of Europe. Specifically, several Debt-based Securities firms were servicing fundraisers in Africa. Those volumes have been accounted for in the Middle East and Africa dataset and are reported in the Middle East and Africa alternative finance report.

The second largest annual growth rate was observed in the Minibonds model, which increased by 186% in 2017 - from €10m to €29m. Eleven firms operated within this model, with eight firms operating several alternative finance models. More than half (55%), also reported having Equity-based Crowdfunding activities.

Despite being the fifth largest model across Europe, Equity-based Crowdfunding shrank by 4% in 2017 - from €218.64m to €210.93m. Even with this slight decline, this model had significant platform activity, with 105 unique entries from 66 firms and from 31 countries. Eleven firms (10%) had operations in two or more countries. Though this model shrank in 2017, this does not necessarily mean that this model will not recover in 2018.

Since this model complements traditional angel and seed-level investment activities, it is important to view this model within the broader European VC and PE activities that went on in 2017. In 2017, while deal size was on the rise, the number of early stage deals fell.<sup>15</sup> As such, it is not surprising that early-stage investments across European Equity-based Crowdfunding models followed similar trends for 2017.

Reward-based Crowdfunding's volume declined by €32m (17%), from €191m to €159m. This is the first year that this model has not experienced growth. There were 111 unique entries from 69 firms, with an additional 73 web-scraped entries from 2 platforms. Such development may be explained by a combination of three trends: first, gradual crowding-out by investment model platforms which raise higher sums and have become more clearly regulated in various jurisdictions; gradual crowding-out by Donation-based platforms allowing donation collection for businesses under the "take what you get" versus the "all or nothing" fundraising schemes typical of reward platforms; and, finally, a certain level of closures of "first mover" Reward-based platforms following difficulties to achieve financial sustainability under their current business and revenue model schemes.

P2P Property Lending's total volume decreased by €28m, dropping by 30% to €67m in 2017. There were 33 unique entries from 13 firms in 2017. In previous years, this model was closely related to P2P Business Lending activities, with firms that were primarily P2P Business Lenders also offering property-based loans to business borrowers. In 2017, the number of firms which were operating in both models has dwindled, with those firms re-focusing their activities to unsecured business lending. This move away from property-secured lending by firms that are primarily business lenders helps explain this decrease, at least in part. An alternative explanation is that some platforms operating within the P2P Business Lending sphere don't distinguish between P2P Property Lending and P2P Business Lending in their operations, essentially distorting reported figures for these two models. However, firms that have property-based lending as their primary activity have increased their

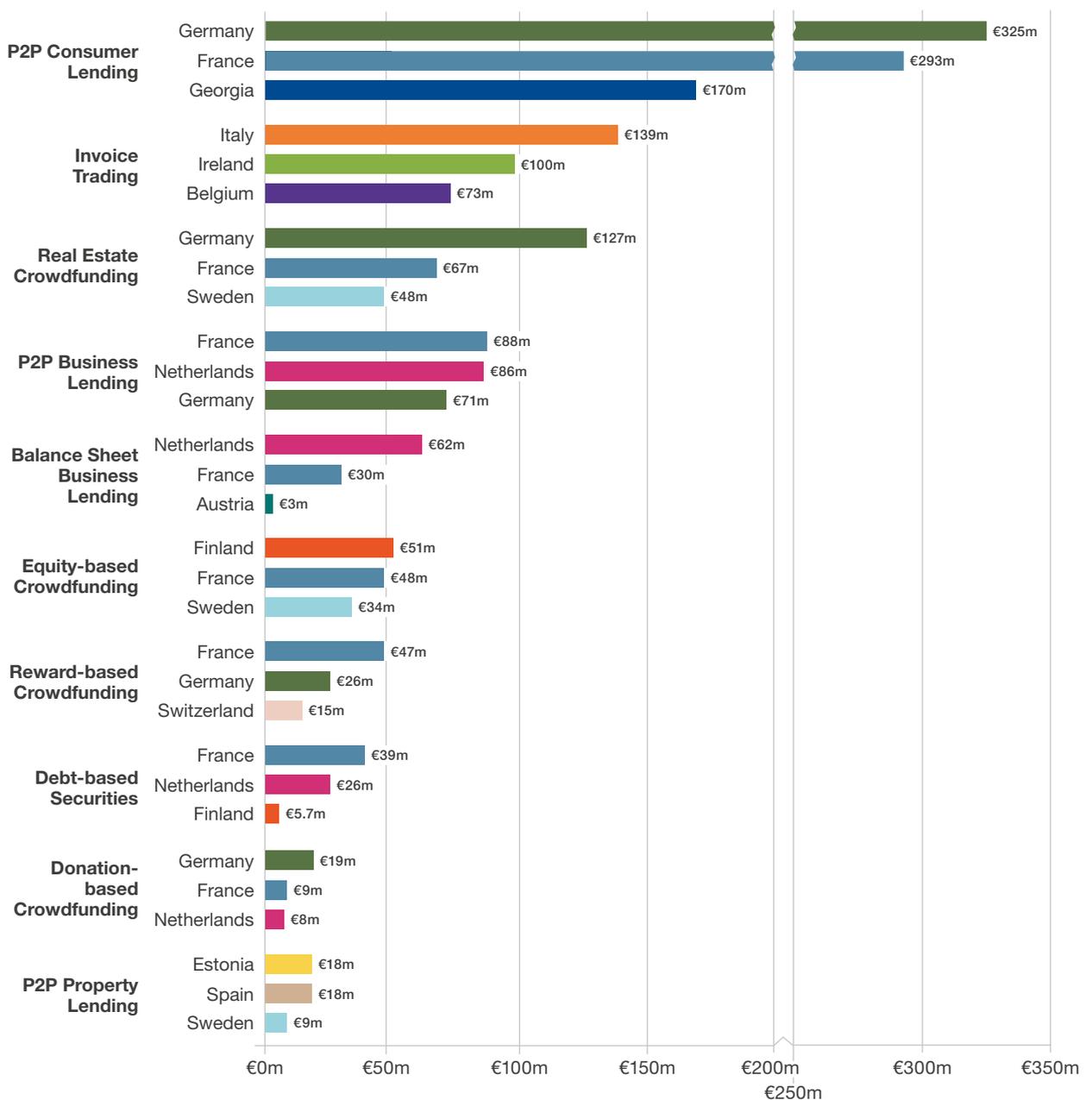
transaction volumes against the previous years. It is likely that the 2018 data set will reflect stable growth, with dedicated property firms continuing to grow.

Balance Sheet Consumer Lending, while first included in this research last year, fell 82%, from €17m in 2016 to €3m in 2017. Firms with balance sheet activities primarily operated as P2P Consumer Lending platforms, with balance sheet activities supplementing their P2P offerings. In this case, there were no

reporting firms that operated only a Balance Sheet Consumer Lending model. Instead, these firms saw a decline in balance sheet driven funding, while their overall lending increased.

Finally, Profit Sharing, which experienced 1449% growth between 2015 and 2016, declined by 81% in 2017 to €2m. However, due to relatively small volumes, no clear trend has yet been identified with respect to this model.

Figure 12: Top Three Countries by Key Models 2017



### Country Contributors to Key Models by Volume

The chart below identifies the top three contributors to each model of the key model types in 2017. Akin to last year, France appears as one of the top three contributors for nine of the eleven models, while Germany appears in five. Additionally, the Netherlands was also present in the top three of five of the eleven models. This result is consistent with their role in the marketplace, as they are key drivers of regional volumes.

France was the market leader for the P2P Business Lending (€88m), Reward-based Crowdfunding (€46.8m), and Debt-based Securities (€9m) models. Additionally, France's volume contributed the second largest amount for P2P Consumer Lending (€293m), Equity-based Crowdfunding (€48m), Real Estate Crowdfunding (€67m), Donation-based Crowdfunding (€9m), Balance Sheet Business Lending (€30m), and Minibonds (€9m).

While Germany was second to France in overall volume, it was the market leader for P2P Consumer Lending (€325m), Real Estate Crowdfunding (€127m), Donation-based Crowdfunding (€19m), and contributed the second highest volume to Reward-based Crowdfunding (€26m).

The Netherlands was also present in the top three for key models five times. It contributed

the greatest amount to both Balance Sheet Business Lending (€62m) and Minibonds (€20m). It was also ranked second for P2P Business Lending (€86m) and Debt-based Securities (€26m), and third for Donation-based Crowdfunding (€8m).

Of the eleven model types, only three did not have France, Germany, or the Netherlands as the top contributor. For these, Italy was the top contributor for Invoice Trading (€139m), Estonia for P2P Property Lending (€18m), and Finland for Equity-based Crowdfunding (€51m).

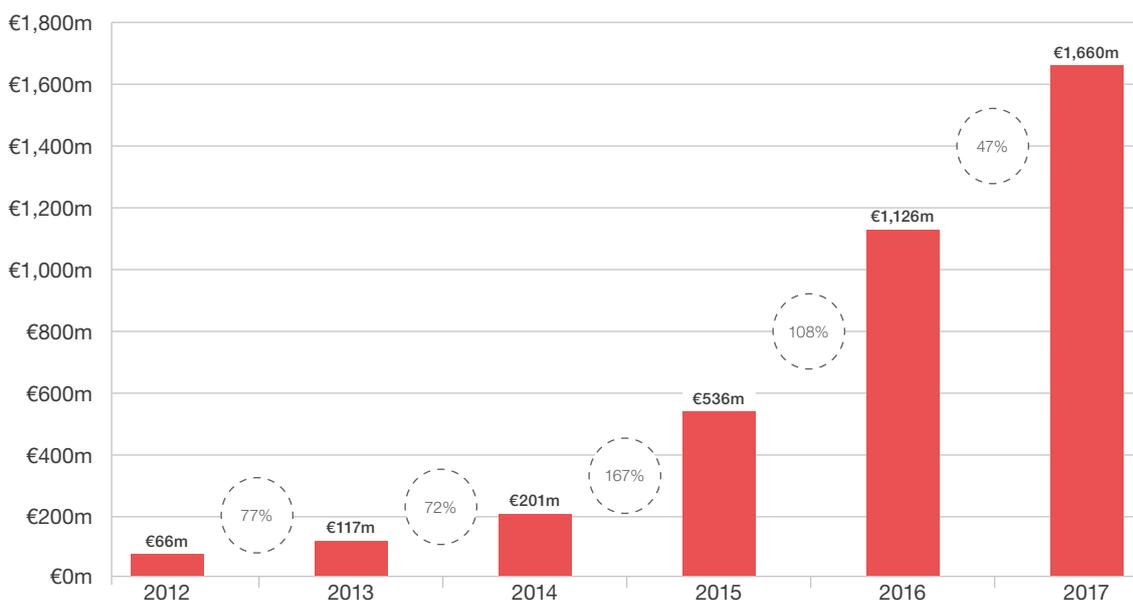
### THE VITALITY OF ALTERNATIVE FINANCE BUSINESS FUNDING

Ensuring the vitality of the European SME sector was viewed as a key priority throughout the region. Even still, the development has often been restricted by the inability to access adequate and appropriate levels of financing. 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 across Europe.

#### Overall SMEs by Volume and Number

In 2017, 24,107 businesses raised roughly €1,660m through an online alternative finance platform.<sup>16</sup> In terms of volume, this figure represented a 47% annual growth compared

Figure 13: Total Online Alternative Business Funding Volumes (Excl. UK) 2012-2017 (€millions)



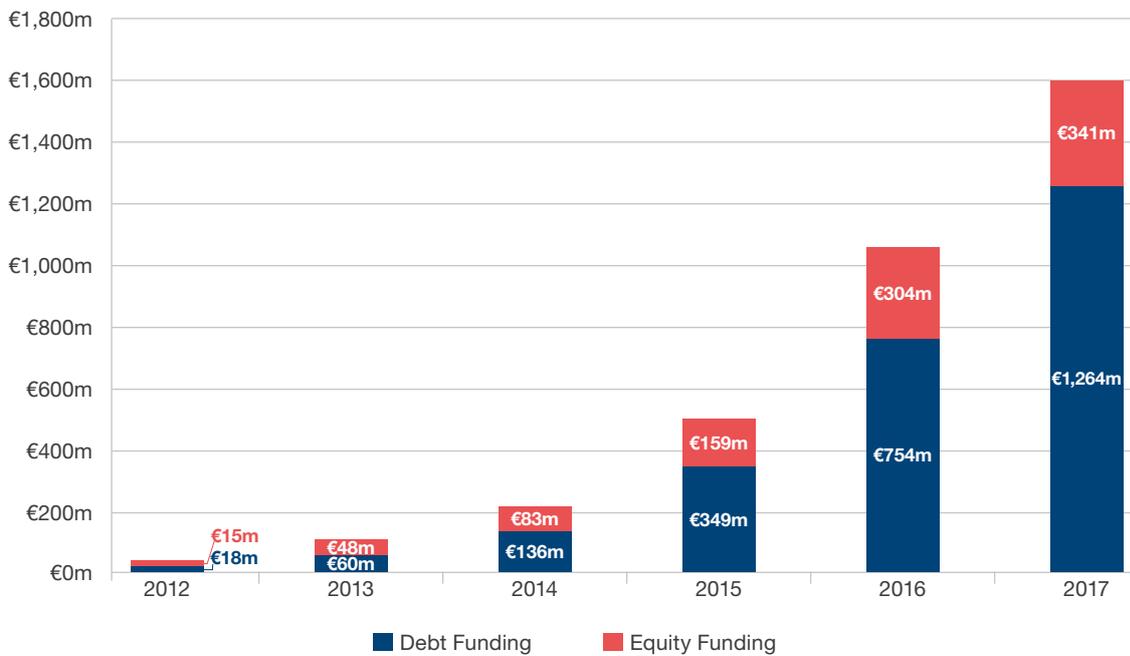
to the 2016 figure. While this is still notable growth, the growth rate has continued to decelerate since 2015. Between 2014 and 2015, the growth rate was 167%, which decreased to 110% in 2016. Overall, the number of businesses utilizing alternative finance grew 66% in 2017 (up from 14,521 in 2016). Nevertheless, it is important to stress that the above figures underestimate the real contribution of the industry to the financing of SMEs, as not all platforms monitored and/or reported these figures.

### Split of Debt, Equity and Non-investment based Models

Platform respondents were able to report business-fundraiser volumes by model and

country. While certain models are inherently used by businesses to raise funds (i.e. P2P Business Lending or Equity-based Crowdfunding), our survey allowed firms to indicate volumes that went to business fundraisers, regardless of the over-arching model type. As such, debt-based business volumes include applicable volumes from the following models: P2P Business Lending, Balance Sheet Business lending, Invoice Trading, Minibonds, and applicable volumes from P2P Consumer Lending, P2P Property Lending, Balance Sheet Consumer Lending and Debt-based Securities. Equity-based business volumes came from the following models: Equity-based Crowdfunding, Real Estate Crowdfunding, and Profit Sharing.

Figure 14: Debt vs Equity Online Alternative Business Finance 2012-2017 (€millions)



A total of €1,605m was generated for businesses across Europe from debt and equity models. The remaining 3% of business funding (€55.26m) came from non-investment models such as Reward-based or Donation-based Crowdfunding. While overall business funding continued to increase in 2017, the portion derived from non-investment models decreased by 18%. Across Europe, lending platforms continued to account for the majority of the volume generated, with 76% of all business funding

coming from debt-based models, up from 67% in 2016. This equated to €1,264m in 2017. From 2016 to 2017, overall business funding from debt-based funding increased by 68%.

21% of all business volumes (€341m) was derived from Equity models in 2017. While the annual growth rate for business funding from equity models between 2014-2016 remained in the 90% range, this fell between 2016-2017 to 12%, while still increasing in absolute terms by €36.5m.

France (20%), the Netherlands (16%), Italy (10%), Sweden (8%), and Germany (6%) accounted for the top five countries whose SMEs utilized alternative finance channels to support their businesses (See Appendix 2 for business volumes by country).

France had the largest amount of equity-based business volumes (€113m) and non-investment-based business volumes (€17m) in 2017. It is worth noting, the Netherlands accounted for the largest country in terms of debt-focused business funding, at €240m in 2017. Ranking third overall, Italy's business volume landscape was predominantly from debt-models (95%), and in particular from Invoice Trading activities. Sweden, ranking fourth overall, had significant Equity-based activities. When we account just for Equity-based activities, Sweden ranks second (with €82m). Rounding out the top five was Germany, with 73% of business activity stemming from debt activities, 19% from equity, and 8% from non-investment models. Ireland, though overall ranked 6<sup>th</sup> in terms of business-focused alternative finance volumes, was the 4<sup>th</sup> largest when looking only at debt-based volumes (€106m).

### **Key Sectors and Industries**

A key characteristic of alternative finance is that fundraising activities are sector agnostic. With the exception of Property and Real Estate-focused models, which have significant and expected concentrations of firms from the 'real estate & housing' sectors, data suggests that alternative finance platforms attract diverse firms from a wide variety of sectors.

Nevertheless, certain models tend to attract a greater share of business fundraisers from certain sectors than others. In the 2017 survey, platforms were asked to rank business sectors as representative of the largest proportion of successful funding on their platform.

High sector concentrations were observed from businesses utilizing the Reward-based Crowdfunding model, with 35% of volumes going to businesses in the 'Cultural and Creative Industries' (including - Arts, Music and Design sectors). This was followed by 'Media & Publishing' (12%) and 'Charity & Philanthropy' (8%) ranking 2<sup>nd</sup> and 3<sup>rd</sup> respectively.

Balance Sheet Business Lending saw 28% of volumes going to firms in the 'Retail & Wholesale' industries, followed by 'Business & Professional Services' (17%) and 'Food & Drink' (10%).

20% of firms that received funding through an Invoice Trading platform came from 'Manufacturing & Engineering', followed by 'Transport & Utilities' (12%).

Equity-based Crowdfunding saw 20% of volumes going to 'Bio/Medical Tech' firms, followed by 12% to 'Environment, Renewable Energy & Clean-Tech', and 11% to 'Technology Software Developers and Service Providers'.

Finally, the most sector agnostic model was P2P Business Lending, with their highest-ranking sector only accounting for 7% of their volume, coming from 'Retail & Wholesale' firms.

### **MARKET DYNAMICS BY MODEL**

The following pages will focus on how key stakeholders, funders and fundraisers, utilize alternative finance.

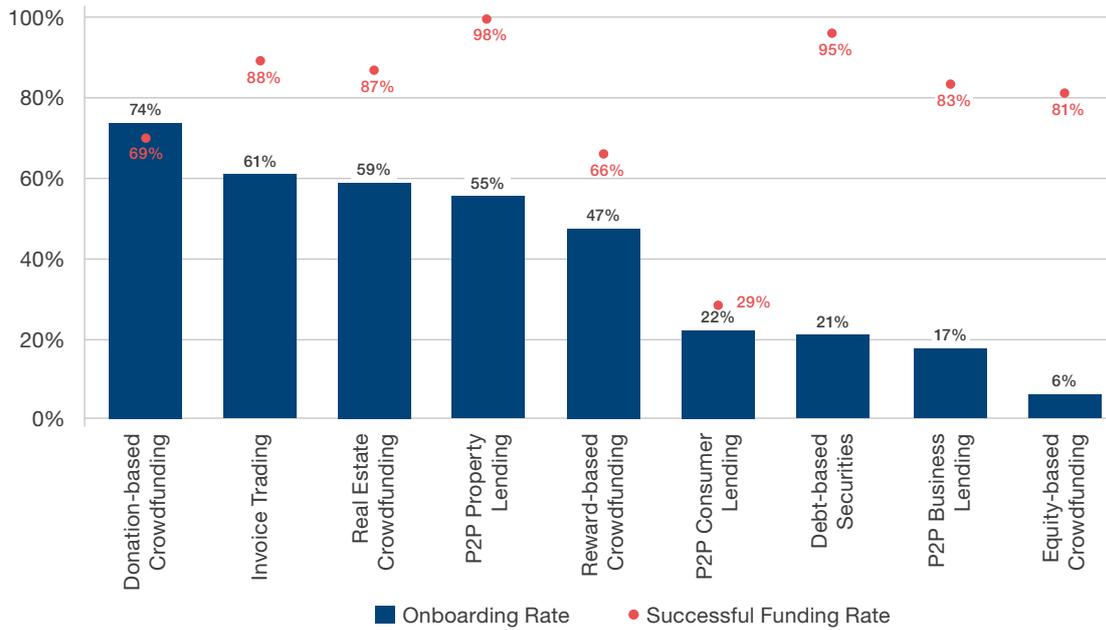
#### ***Onboarding, Successful Funding and Repeat Rates***

Prior to raising funds on an alternative finance platform, a fundraiser must first go through a series of checks and assessments to determine their suitability. While the process varies from platform to platform, onboarding and successful funding<sup>17</sup> rates across the key models provide some insight into how this first checkpoint impacts fundraiser success. The chart provides these data points wherever data was sufficiently robust for analysis.

The Equity-based Crowdfunding model had the lowest recorded on-boarding rate, with only 6% of fundraisers able to go on to the platform to raise funds. Of the 6% that were onboarded, a staggering 81% were successful. This suggests that the more stringent the onboarding process, the likelihood of fundraiser success increases. The average campaign size was €214,690.

Real Estate Crowdfunding, another 'equity-based' model also saw high levels of successful funding (87%) yet onboarding rates were also quite significant (59%). This

Figure 15: Onboarding and Successful Funding Rates 2017 by Model



may be due, in part, to the fact that most Real Estate Crowdfunding platforms function as a SPV (Special Purpose Vehicle/Entity), doing much of their own deal origination. As such, their own 'onboarding' will be higher, as these are opportunities which they have actively sought, in many cases. The average deal size was €388,608.

Turning to lending models, the onboarding rate for P2P Business Lending activities was 17%, with a follow-on 83% successful funding rate achieved by borrowers. In coming years, our survey will ask for an onboarding and successful funding breakdown as related to secured and unsecured lending. The average deal size in 2017 was €66,445.

For P2P Consumer Lending, the onboarding rate was 22% and the successful funding rate was 29%. When compared to last year, the onboarding rate decreased (from 25%) and the successful funding rate increased (from 19%). Interestingly, as this model relies more on significant levels of investor auto-selection, this lower success rate may be reflective of insufficient investment to support deal-flow. The average deal size for a P2P Consumer loan was €8,079 in 2017.

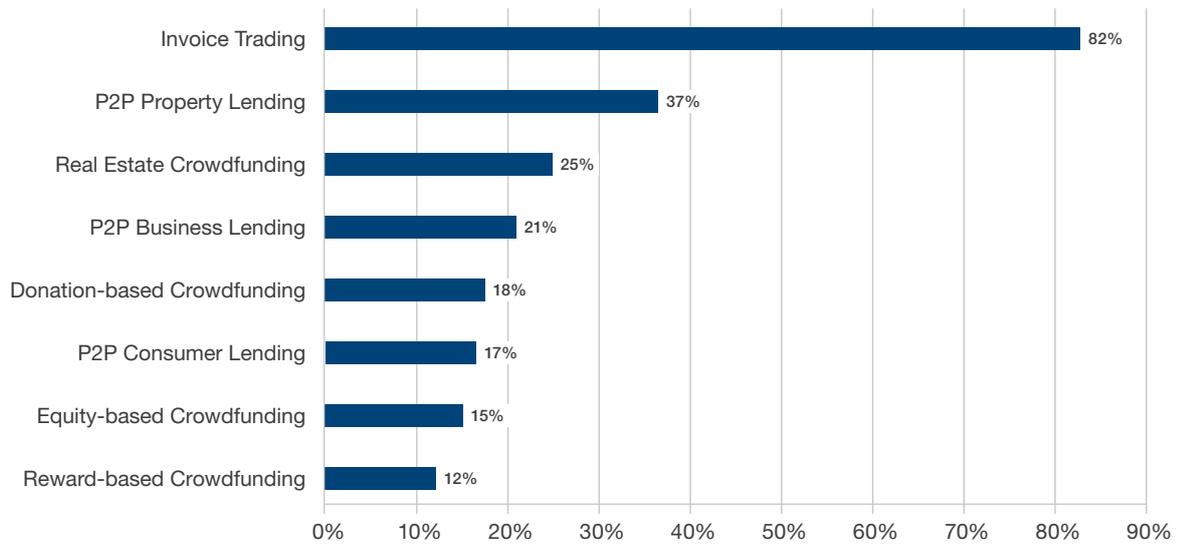
P2P Property Lending denoted an onboarding rate of 55%, with successful funding at 98%. This figure is quite

interesting, as overall, the volume driven by this model has decreased. As platforms operating this model now tend to be solely focused on property-based lending (where as last year, platforms were operating hybrid models), the deal origination and property specific due diligence has improved with greater platform specialization. So, while the model has contracted, specific deals funded through this model tend to be larger ticket deal sizes, albeit fewer overall deals, with an average deal size of €85,066.

The Invoice Trading model recorded an onboarding rate of 61%, with a successful funding rate of 88%. It is worth noting that the proportion of repeat borrowers to this model is quite high, impacting their 'onboarding' rate as firms apply for follow-on credit. This model also relies heavily on institutional-led investment, which helps explain the high success rate.

With respect to Reward-based (47%) and Donation-based Crowdfunding (74%), both models noted that their onboarding rate related more to 'fundraiser fit', in cases where a platform was specifically targeted at an industry or sector. While the onboarding rate for Reward-based and Donation-based models were not similar, the success rates were much closer - at 66% and 69%, respectively.

**Figure 16: Repeat Funding Rate Across Models (2017)**



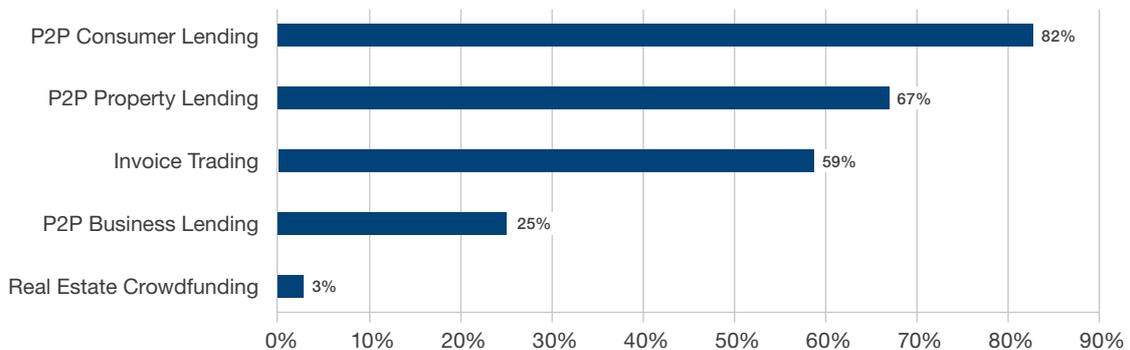
With few exceptions, it appears that non-investment model platforms (i.e. Reward and Donation Crowdfunding), also enjoy less regulatory limitations and lower ticket campaigns, and apply a less rigid filtration mechanism than investment model platforms (i.e. Equity, P2P Business Lending, etc.) that are more heavily regulated and involve relatively high-ticket campaigns. However, this practice translates into lower success rates for non-investment models, which may be indicative of a certain level of crowd-wisdom able to differentiate between varying campaign quality in Reward-based and Donation-based campaigns.

Another good measurement of fundraiser alternative finance adoption is the repeat fundraiser rate. The survey asked firms to identify the proportion of fundraisers that

were repeat users within a calendar year. Overall, 82% of the borrowers that utilized the Invoice Trading model were repeat borrowers. Compared to last year, the number of repeat borrowers has continued to increase (up from 60%). Borrowers are using this model more akin to a revolving line of credit, and as a tool for managing cashflows, than one-off invoice factoring. This higher repeat rate also helps explain the higher 'onboarding-rate' for this model.

37% of P2P Property Lending borrowers were repeat users, while only 21% of P2P Business Lending borrowers and 17% of P2P Consumer Lending borrowers were repeats. Repeat fundraisers accounted for 25% of all Real Estate Crowdfunding issuers, and 15% of Equity-based Crowdfunding issuers.

**Figure 17: Proportion of Auto-Selection by Models (2017)**



Turning now to funder dynamics, our survey also probed platform respondents to indicate the proportion of investors or lenders who used auto-bid or auto-selection mechanisms to facilitate their investments. Auto-bid or auto-selection is a function offered by many alternative finance platforms, where individual lenders or investors specify investment amount, duration and risk appetite and the platform allocates funds across available investment options based upon the pre-set preferences, effectively auto-diversifying against the available portfolio. However, since such services are heavily regulated only a subsample of properly authorized platforms employ such a model.

In 2017, P2P Consumer Lending utilized auto-bid or auto-selection functions the most, at 82%. One of the key reasons for platforms offering this investment option is to improve market efficiencies regarding fulfilment. In this case, both the lender and borrower know their applicable interest rate with greater certainty, leading to a quick fulfilment and draw-down of the desired loan. Yet, as noted in a previous section, 29% of borrowers are successful on such platforms. This may suggest that there is insufficient funding to support borrower demand.

P2P Property Lending (67%) also registered a high-level of auto-selection usage, followed by Invoice Trading (59%). Unlike previous years, P2P Business Lending saw auto-selection drop to 25%, from last year's 49%. The Real Estate Crowdfunding model had very low usage of auto-selection (3%).

### *Institutionalization and Institutional Agreements*

As alternative finance becomes more mainstream, it is not surprising that institutional investors (including pension funds, mutual funds, asset management firms, family offices and banks) have taken greater interest in capital raising fintech solutions to support their own investment strategies or support their clients. In 2017, €452 million originated from institutional investors, representing roughly 13% of all European Alternative Finance volumes for the year.

Though the nominal value of institution-led investment has increased in 2017, when we observe the proportions of institutional vs retail investment by model, 2017 is actually

characterized by retail-led volumes. In fact, across every observed model, the proportion of investment from an institution fell, in some cases quite dramatically.

The proportion of institutional investment in the P2P Consumer Lending model dropped from 45% to 12%, accounting for €161.84m of its total volume. For P2P Business Lending, institutional investment accounted for €110.27m its volume, representing 24% of its total. This represents a smaller decrease of 5% from 2016's 29%. Institutional participation in Invoice Trading also decreased considerably in 2017, from 63% to 46% and accounted for €248.89m of the model's volume.

Institutional investment fell in the Equity-based Crowdfunding model by over 50%, from 13% in 2016 to just 6% in 2017. Overall, institutions contributed €12.17m in comparison to the €198.75m raised through non-institutional investors.

While 9% of funding for Real Estate Crowdfunding came from institutional investors in 2016, this fell to 2% in 2017. P2P Property Lending's share of volume derived from institutional investors experienced an even sharper decrease, falling from 46% to 1%.

This development may suggest that, at least in the European context in 2017, alternative finance indeed lives up to its name as an alternative channel for finance, enlarging the circle of participants in investment and startup support activities, which have been underserved by more traditional channels.

Proportions of institution-driven volumes were more prominent in certain jurisdictions. 45% of Italy's alternative finance volume (€109.6m) came from institutional investors, followed by Ireland with 43% of volumes (€45.5m) derived from institutional investors. This was predominantly from the Invoice Trading model.

The Nordics (21%) and Benelux (20%) also saw considerable volume driven by institutional investors, predominantly in debt-based models. Even though the Nordics came in third in terms of proportion of institutional investment, it was the second largest overall volume driver after Italy, at €96m.

Figure 18: Percentage of Institutional Funding Across Key Models in 2017 (Weighted)

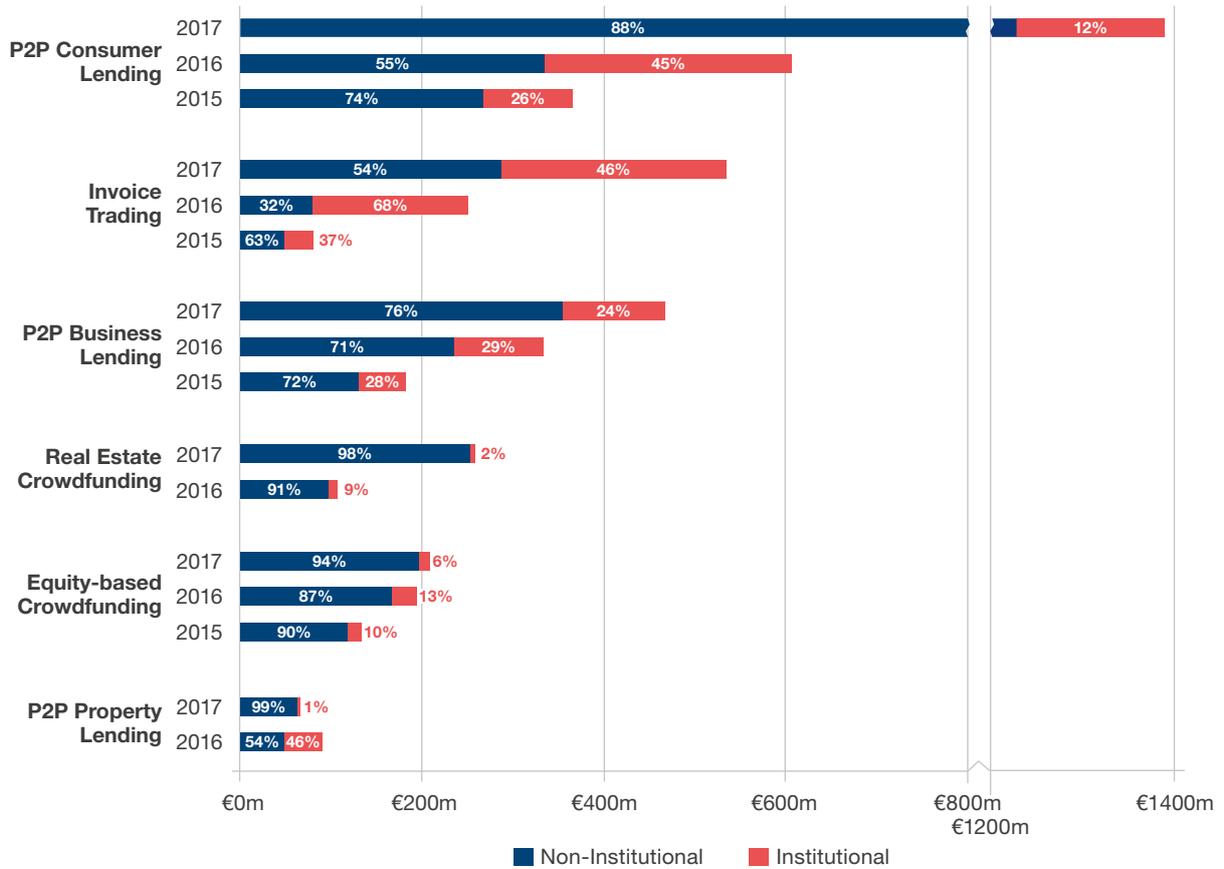
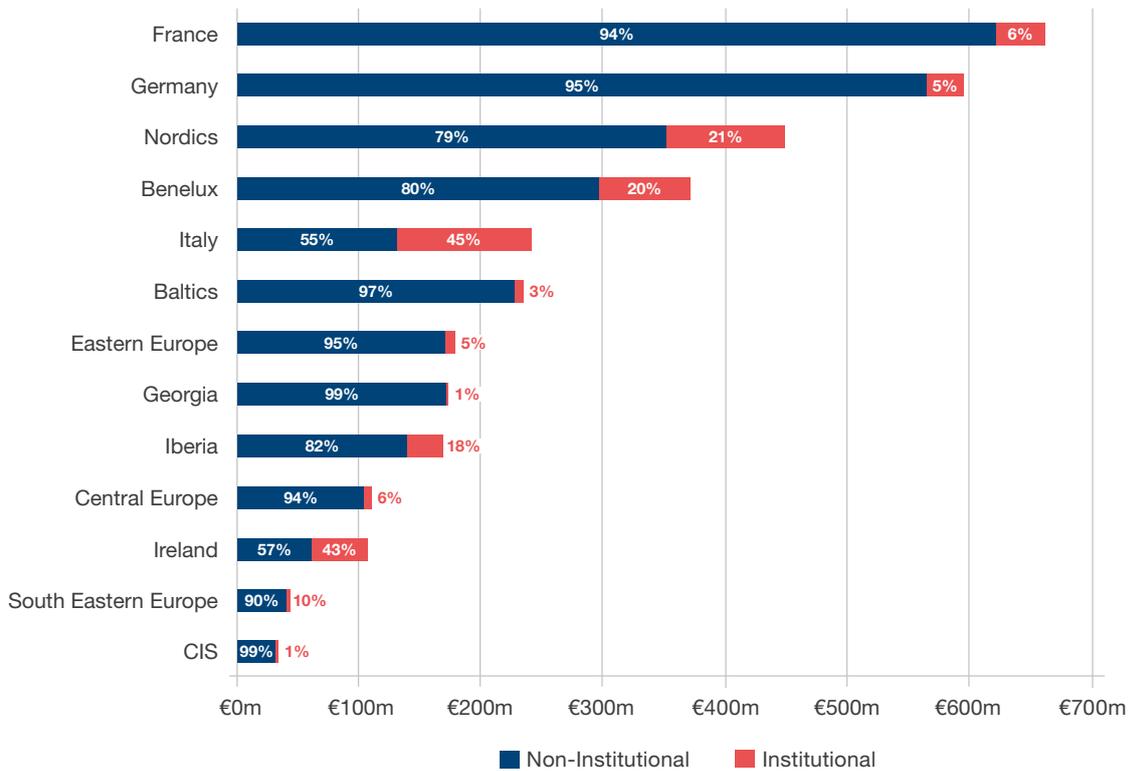


Figure 19: Percentage of Institutional Funding by Regions in 2017 (Weighted)



Iberia, and in particular Spain, registered 18% institutional volume, followed by South Eastern Europe at 10%.

France and Germany, the lead countries, registered considerably lower proportions of institutionalization in 2017, at 6% and 5% respectively. Just under €40m was attributed to France's alternative finance volumes from institutional investors, while Germany's institutional investment was €30m. The remaining seven regions had even lower levels of institutional involvement – all reporting 6% or lower.

### 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.

Platforms in every model indicated having referral agreements in place, with the highest instances of this from the Balance Sheet Business Lending model (86% of platforms). 34% of firms from P2P Business Lending also indicated having referral agreements in place, followed by 23% of Invoice Trading firms, 14% from P2P Consumer Lending and 12% from P2P Property Lending. Qualitative remarks indicate that these referral agreements were predominantly between the alternative finance platform and a partner bank. Furthermore, 35% of Equity-based Crowdfunding platforms also indicated having referral agreements in place, though these were predominantly between the platform and a traditional VC or Angel Network.

In light of PSD2 and the continuing conversation around open banking, it was suspected that more platforms would have data-exchange arrangements in place in 2017. Yet, instances of such agreements

were quite varied across models. For instance, only 6% of platforms from the P2P Business Lending model indicated having a data-exchange collaboration or arrangement in place. This was even less for P2P Consumer Lending (3%) and P2P Property Lending (4%). In contrast, 11% of Equity-based Crowdfunding firms indicated having such arrangements in place.

Platform ownership was most prevalent in the Reward-based crowdfunding model, where 30% of platforms answering this question indicated ownership by institutional partners. No institutional partner ownership was seen in P2P Consumer or P2P Property models, this may indicate that such organizations view platforms more as a competitor than a potential collaborator. Nevertheless, 15% of platforms in the P2P Business lending and 30% of platforms in the Debt-based Securities spheres, indicated that institutional partners consider alternative finance platforms as a channel for them to engage in such segments, which may represent higher risk than they have followed in recent years, without fully incorporating such risk under their corporate brands and organization.

When we review institutional collaborations by country, platforms from Ireland (67%), Belgium (62%) and Switzerland (62%) had the most instances of Referral Agreements in place with an institutional partner. France and Germany, despite low levels of institutional investment (as proportion of their volume), saw significant instances of institutional partnership in the form of referral agreements, at 48% and 37% respectively. Italy, whose institutional investment volumes were quite significant, saw 47% of firms engaging in referral agreements with institutions.

With respect to platform ownership by institutional partners, we see that 15-20% of platforms operating in Western Europe report such ownership, while the same is only reported by 4-8% of platforms in Baltic, Central and South East Europe. No platform operating in Eastern Europe and the CIS reported ownership by institutional partners.

## EUROPEAN ALTERNATIVE FINANCE DEVELOPMENTS

### Innovation

#### Changes to Business Model and Products

The extent to which new business models and products have been introduced by platforms varied considerably by model during 2017. Overall, most models indicated low instances of having undergone significant changes to their business model.

The models with the highest percentage of significant change were P2P Business Lending (14%), Donation-based Crowdfunding (12%), and Invoice Trading (11%). A slightly higher share of platforms

made moderate changes, with 69% of Donation-based Crowdfunding platforms, 43% of Real Estate Crowdfunding platforms, and 39% of both Equity-based and Reward-based platforms. P2P Property Lending (89%), P2P Consumer Lending (88%), and Invoice Trading (83%) had the highest percentage of platforms that had made no significant changes.

Regionally, the highest share of platforms in Italy (15%), Eastern Europe (14%) and Germany (12%) noted that they had significantly changed their business model. Again, a slightly higher share made moderate changes to their model – with 63% of countries in the CIS, 47% in France, and 46% in both Benelux and South Eastern Europe.

Figure 20: Changes to Business Models - By Region 2017

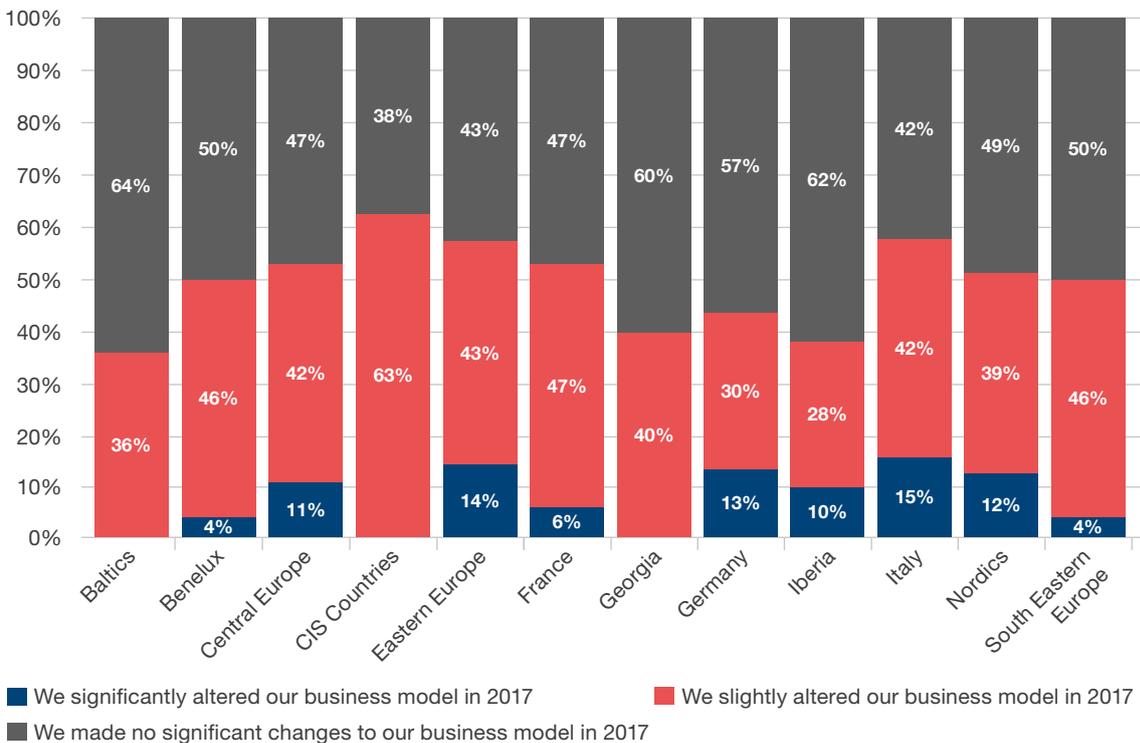
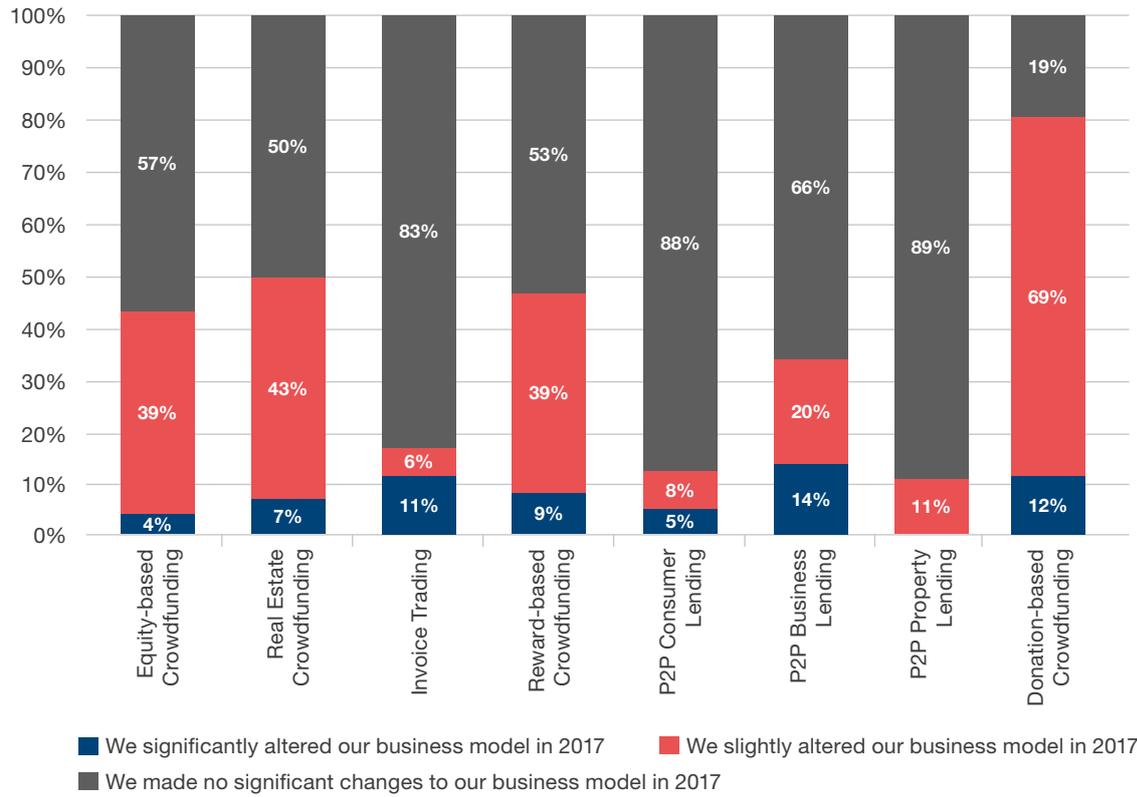


Figure 21: Changes to Business Models - By Model 2017



With regard to changes in product offerings, there were clear differences when compared to changes in business model. With the exception of P2P Consumer Lending (17%), 50% or greater of all models introduced

significantly new products. Among these, the model types with the greatest amount of change were seen in P2P Property Lending (88%), Reward-Based Crowdfunding (67%), and Invoice Trading (64%).

Figure 22: Innovation to Products - By Region 2017

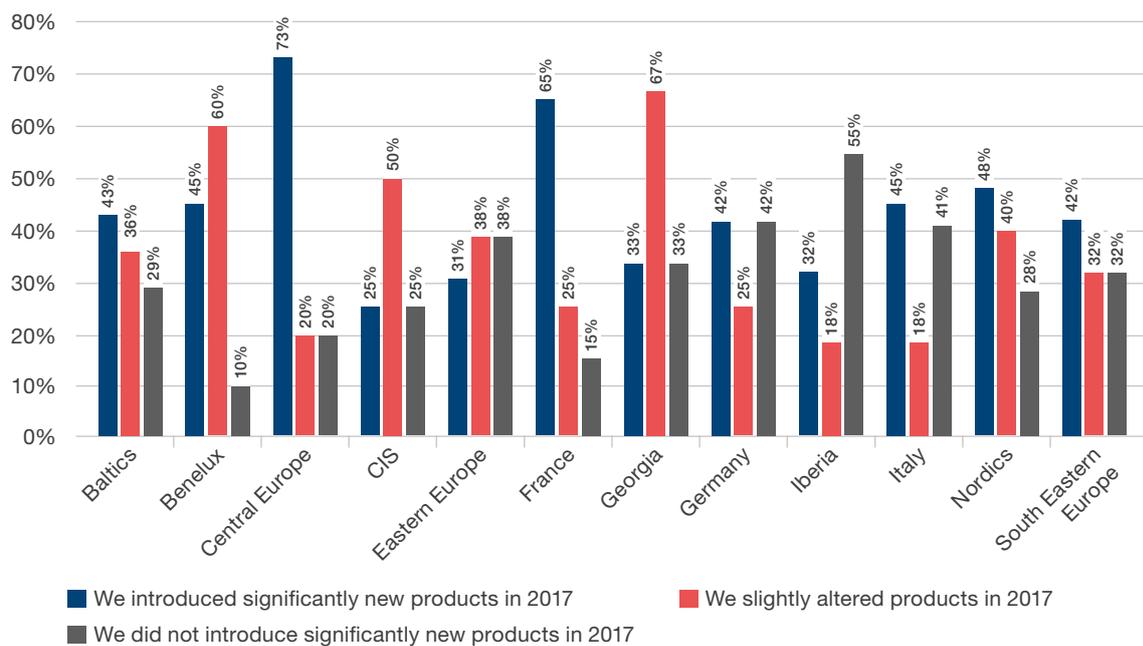
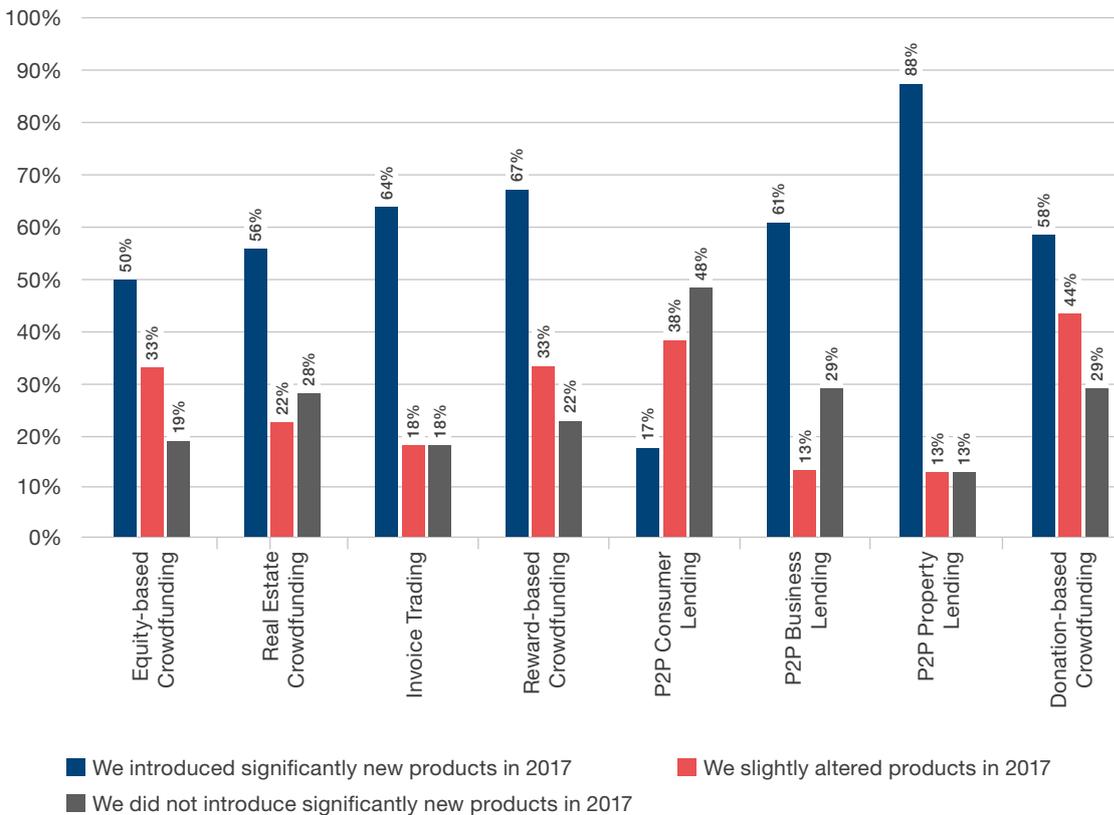


Figure 23: Innovation to Products - By Model (2017)



Innovation to products on a regional level were much more divided between significant, moderate and no change. The regions with the greatest amount of innovation were Central Europe (73%), France (65%), and the Nordics (48%). The remaining regions had between 31-45% of platforms responding with high levels of change to platform product offerings. Iberia (55%), Germany (42%), and Italy (41%) had the highest number of platforms that did not have any significant changes to their product offerings.

### Research and Development

In 2017, platforms were asked to identify key Research and Development (R&D) focus areas. Akin to previous year's findings, firms prioritized their R&D into three over-arching areas – Efficiency Enhancements, Customer Service, and Customer Experience.<sup>18</sup>

Overall, we were able to track R&D prioritization for eight key models. For five of the eight models, R&D efforts focused primarily on Process Streamlining & Automation. The models which reported

the highest levels of R&D focus into this area were P2P Property Lending (with all firms responding indicating R&D activities related to this focus-area), 95% of Real Estate Crowdfunding firms, 90% of P2P Consumer Lending firms, 86% of P2P Business Lending firms and 85% of Invoice Trading firms. In the case of the first two models, which depend heavily on the quality of the underlying property asset, it is not surprising that an emphasis is being placed on streamlining processes which might make asset assessments easier and faster. It is also not surprising to see an emphasis on automation, when we consider the use of auto-selection and auto-bid mechanisms by retail investors across models. When considering these two factors, process streamlining certainly will impact speed of deal origination and investment-matching. For the remaining three models, this R&D focus area ranked second for Donation-based Crowdfunding (72%) and Equity-based Crowdfunding (51%), and sixth for Reward-based Crowdfunding (37%).

Respondents were also asked to indicate how their R&D activities took place. In the case of P2P Property Lending, 86% of firms were developing R&D in an internal department or in-house, while 14% were utilizing of both in-house operations and an external contractor. For the Real Estate Crowdfunding model, 61% of R&D development came from an in-house department, while 39% had both in-house

operations and an external contractor. With respect to P2P Consumer Lending, 44% of firms relied on an in-house team, while 52% used a combination of internal and external teams, and a final 4% relied upon external contractors. Finally, P2P Business Lending firms also saw instances of sole reliance on an external contractor (3%), with 69% relying upon an in-house team, and 29% on a mix of in-house and external teams.

**Table 4: Actively Pursued R&D Initiatives in 2017 by Platforms (by Model)**

	Process Streamlining and Automation	Payment Processing	Customer Verification	Community Management	CRM	Social Media & Promotional Tools	Gamification	E-learning	AI and Performance Enhancement Features
P2P Property Lending	100%	100%	95%	33%	10%	33%	0%	10%	0%
Real Estate Crowdfunding	95%	64%	59%	32%	64%	64%	18%	14%	14%
P2P Consumer Lending	90%	60%	77%	10%	29%	15%	17%	4%	25%
P2P Business Lending	86%	67%	65%	29%	35%	35%	5%	6%	25%
Invoice Trading	85%	70%	70%	9%	27%	15%	3%	3%	30%
Donation-based Crowdfunding	72%	86%	38%	84%	53%	93%	54%	64%	59%
Equity-based Crowdfunding	51%	30%	32%	52%	51%	41%	28%	16%	14%
Reward-based Crowdfunding	37%	55%	48%	67%	48%	66%	16%	34%	34%

Payment Processing and Customer Verification were R&D focuses that were also highly prioritized by firms across almost all models. Payment processing was a reported focus for 100% of P2P Property Lending respondents, 86% of Donation-based Crowdfunding platforms, 70% of Invoice Trading platforms and 67% of P2P Business Lending firms. This focus ranked third for P2P Consumer Lending firms (60%). For P2P Consumer Lending firms, Customer verification was the second highest ranked focus, with 77% of firms indicating this as a high priority area. For P2P Property Lending, Invoice Trading and P2P Business Lending firms, this ranked as third.

Payment Processing was predominantly carried out by in-house teams for all Invoice Trading firms, 80% of P2P Business Lending firms and 53% of P2P Consumer Lending firms. Real Estate Crowdfunding firms, however, relied heavily upon external

contractors (50%), or a combination of in-house and external teams (21%).

Customer Verification had higher instances of external-contractor use, mostly in conjunction with in-house teams. For instance, 73% of P2P Consumer Lending firms and 71% of Invoice Trading firms made use of a combination of internal and external teams, while some 43% of P2P Business Lending firms used entirely external teams, and 30% used a combination of internal and external R&D teams.

Community management features were heavily focused on by 84% of Donation-based Crowdfunding platforms, 67% of Reward-based Crowdfunding platforms, and 52% of Equity-based Crowdfunding platforms. In the case of these three models, this was their highest ranked priority as well. Customer Relationship Management (CRM) innovations were also mostly focused on

by these models, with 64% of Real Estate Crowdfunding platforms, 53% of Donation-based Crowdfunding platforms, and 51% of Equity-based Crowdfunding platforms noting this as a second or third ranking R&D area. This may be linked to campaign promotional dynamics, where Reward, Donation and Equity are more heavily reliant on social media shares of campaigns, in comparison to the various lending and Invoice Trading models.

### Internationalization

#### Cross-border Flows

In last year's "Expanding Horizons" Report, we highlighted the growing levels of cross-border transactions, alongside greater instances of internationalization from platforms within and beyond Europe. These transactions continued to grow throughout 2017.

Figure 24: Cross-Border Inflows and Outflows in 2017

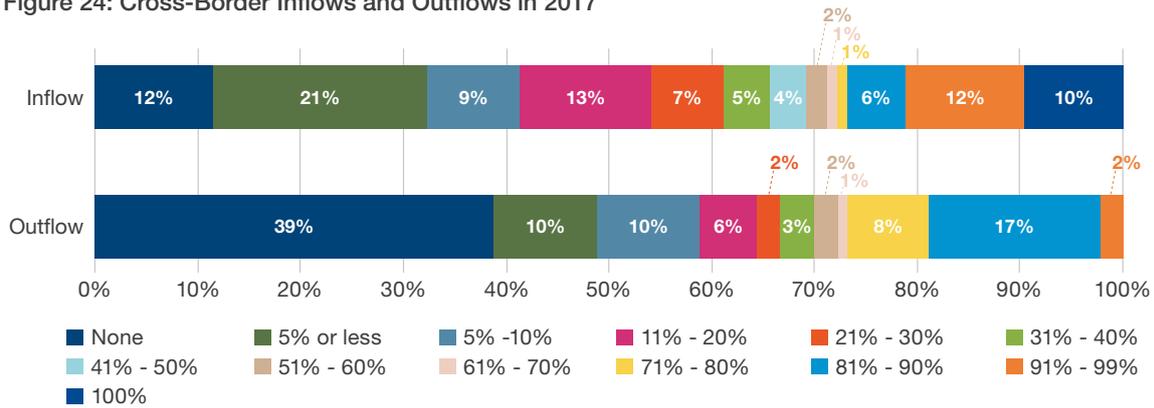
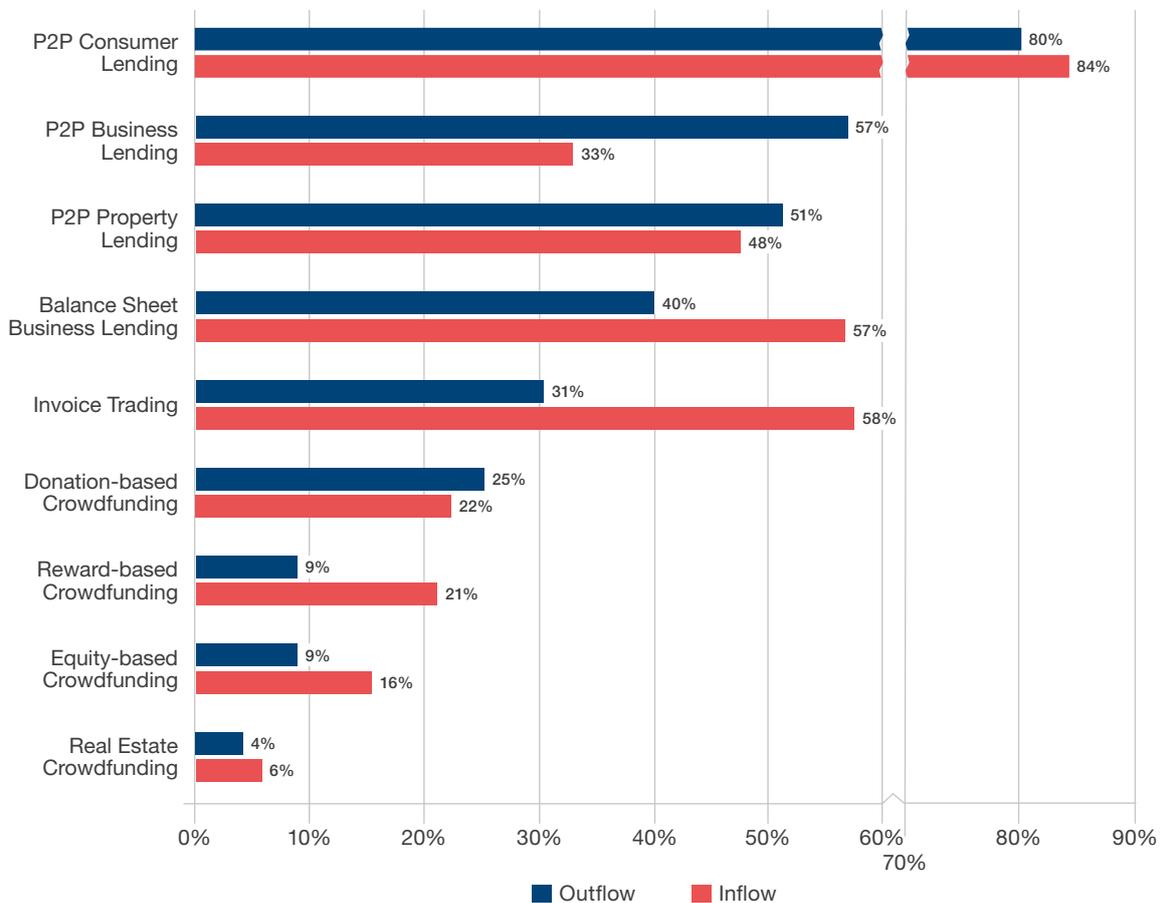


Figure 25: Europe Cross-border Inflows and Outflows by Proportion of Volume (by Model)



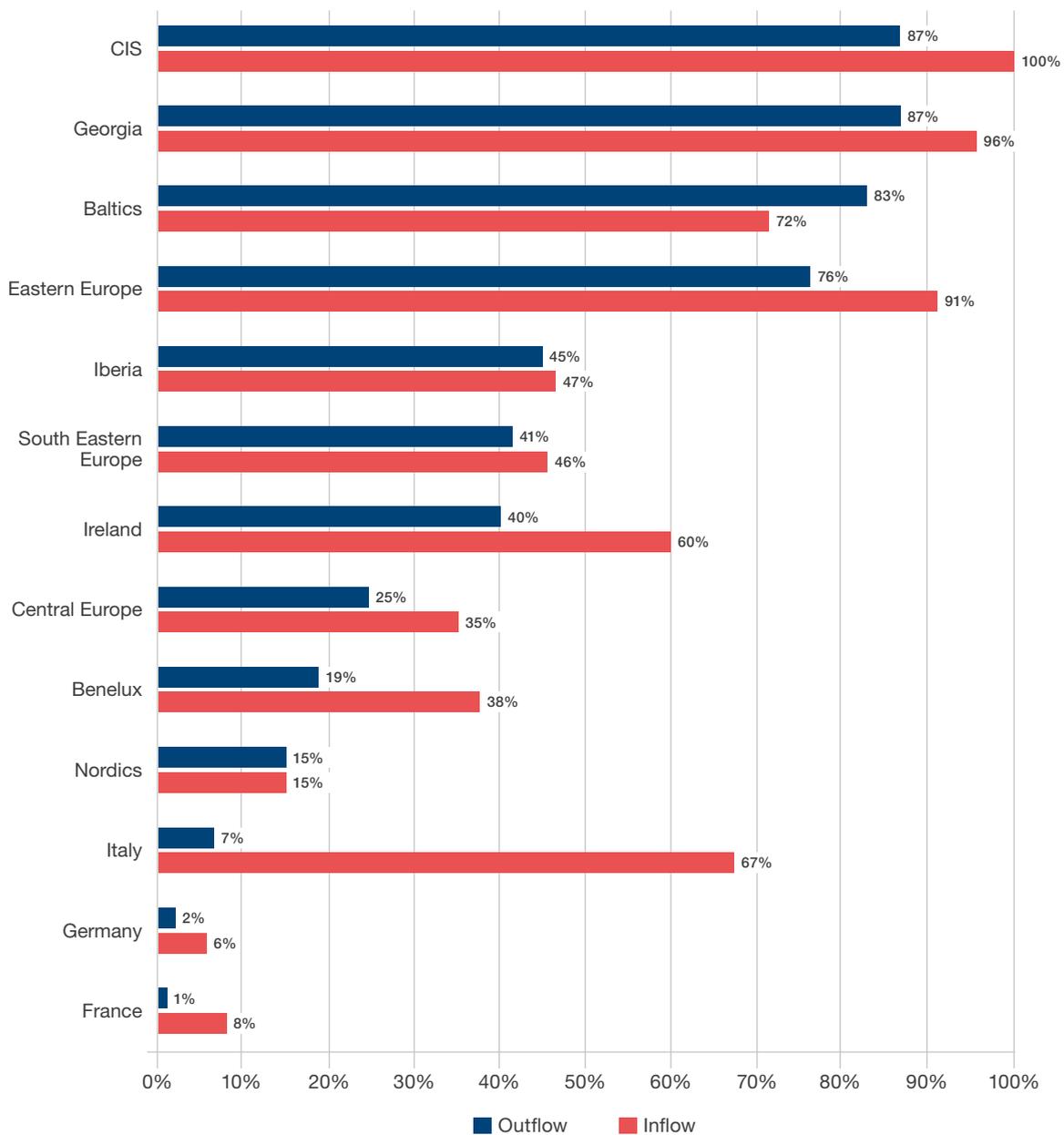
198 distinct platforms across the dataset<sup>19</sup> responded to a series of questions related to the proportion of their transactions which could be considered cross-border flows. In particular, we wanted to understand the instances of inflows (i.e. funds from investors which came from abroad) and outflows (i.e. funds which went to fundraisers abroad).

In 2017, 88% of platforms reported some level of cross-border inflows that supported local campaigns, while 61% of platforms had seen outflows of funds from local users to support campaigns abroad.

This shows a continued increase in share of platforms that were internationally active on some level. Between 2015 and 2016, the number of platforms that facilitated cross-border inflows to support a local campaign grew from 54% to 77%. Similarly, the level of cross-border outflows increased from 24% in 2015 to 44% in 2016.

Turning now to model-specific cross-border volumes, when we consider the actual proportion of overall volumes, the share of funds coming from cross-border inflows and outflows is increasing, indicating that

**Figure 26: Europe Cross-border Inflows and Outflows by Proportion of Volume (by Region)**



platforms are increasingly diversified outside their headquarters country to cater to investors and fundraisers abroad.

P2P Consumer Lending emerges as the most cross-border dependent model with 84% of volumes comprised of cross-border inflows and 80% of volumes made up of cross-border outflows. Cross-border flows accounted for over €1 billion of this model's overall European volume, with inflows reaching €1.175 billion, and €1.116 billion in outflows. Invoice Trading ranked second in terms of dependency on cross-border transactions, with 58% of volumes associated with cross-border inflows (€309 million), and 31% of outflows (€164 million).

Reward-based Crowdfunding, Real Estate Crowdfunding and Equity-based Crowdfunding were the three models which had the lowest levels of cross-border funding flows. For both Reward-based and Equity-based Crowdfunding, 9% of the model's volume can be attributed to outward flows. In contrast, 21% of Reward-based Crowdfunding and 16% of Equity-based Crowdfunding were associated with funding inflows.

A greater sense of cross-border activity can be gleaned when we consider the proportion of cross-border inflow and outflows by overarching region.

Although a small amount in terms of actual volume, CIS countries had the greatest proportion of inflow (96%) and outflow (87%) funding as a function of their region's volume. This is not altogether surprising as many platforms catering to fundraisers based in CIS countries enable investment from retail investors from abroad. Georgia and Eastern Europe also had significant inflows, with over 90% of volumes attributed to cross-border inflows. Common to both the CIS and Eastern Europe are modest volumes overall, which here are also clarified to involve cross-border flows.

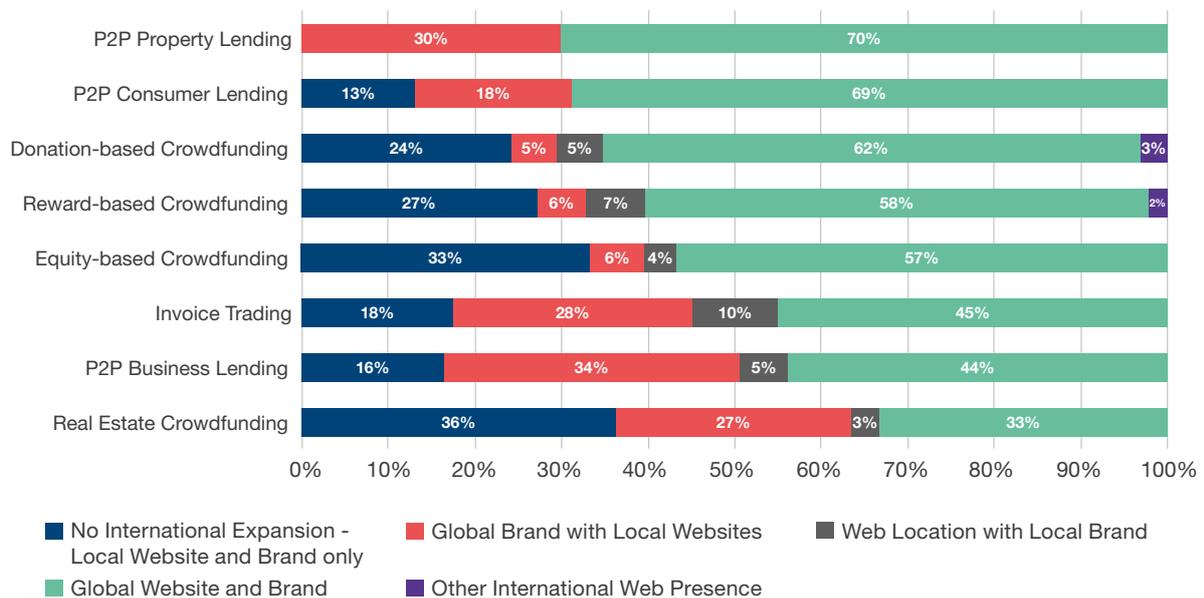
The most impressive international growth is associated with star reforming countries of the Baltic region, which despite small home market size, have seen the emergence of large international alternative finance platforms facilitating significant cross-border transactions.

When considering both volumes, and relative share of foreign funding, the clear winners in terms of attracting foreign funding are platforms in Italy, Benelux and Ireland.

Overall, platforms operating from small open economies seem to be benefiting from international operations, while platforms operating in relatively large home markets (i.e. France and Germany) seem to mostly rely on domestic growth.

## Internationalization Strategy

Figure 27: Platform Internationalization Strategy by Model - 2017



As cross-border flows become a more critical volume-driver across Europe, it is important to understand how platforms engage with both investors and fundraisers outside of their home-country. For a second year, our survey tracked the international and global strategies undertaken by platforms across Europe. The European alternative finance sector, in general, is very internationally focused, with the lion's share of platforms in each model reporting that they maintain a global website and brand, or a global brand with a local website.

Overall, the most popular internationalization strategy was having a global website and brand, with 70% of P2P Property Lending platforms, 69% of P2P Consumer Lending platforms, 62% of Donation-based Crowdfunding Platforms, 58% of Reward-based Crowdfunding platforms, and 57% of Equity-based Crowdfunding platforms maintaining a global website and brand. This represents a relatively low threshold investment based on a globalized view of the market. It implies high levels of standardization, while not adjusting services and promotional efforts to specific foreign target markets.

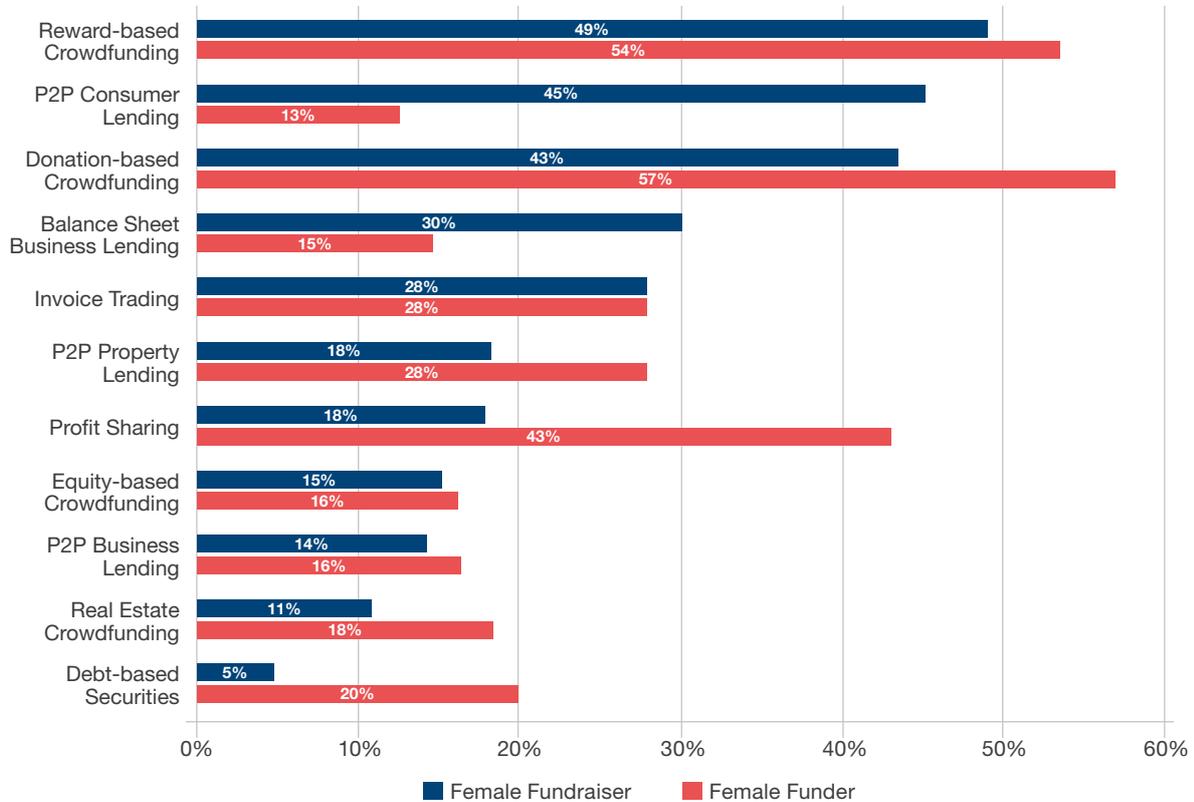
The next most popular strategy utilized by platforms was that of utilizing a global brand name but localizing the website and content for a particular market. This was utilized by 34% of P2P Business Lending platforms, 30% of P2P Property Lending platforms, 28% of Invoice Trading platforms, 27% of Real Estate Crowdfunding platforms, and 18% of P2P Consumer Lending platforms. Such strategy reflects operations of internationally-orientated platforms based on understanding that certain levels of localization is required for serving foreign markets. Such an approach is especially relevant with investment model platforms, as those are also likely to be influenced by local institutional, regulatory and cultural environments.

Some platforms also reported that they only had local operations, with both their brand and website only focused on a single market. This was the case for 36% of Real Estate Crowdfunding platforms, 33% of Equity-based Crowdfunding platforms, 27% of Reward-based Crowdfunding platforms, 24% of Donation-based Crowdfunding platforms, and 18% of Invoice Trading platforms.

## Financial Inclusion

### Gender

Figure 28: Female Funders and Fundraisers by Alternative Finance Model (Excluding UK) 2017



In recent years, there has been much debate centered on the role alternative finance might have on women's financial inclusion, as part of a broader promise of the industry to democratize access to finance in general. As such, platforms were asked to indicate the proportion of female stakeholders using their firms' services in order to assess the current state of female market participation and access to online alternative finance across Europe. Responses were then weighted by each platform's reported volume and broken down by alternative finance model.

In 2017, Donation-based Crowdfunding had the highest proportion of female funders (57%). This model has consistently recorded the highest levels of female funder activity, having also ranked first in 2016 with 52%. Interestingly, while the proportion of female investment continues to increase annually, there was a significant decline in female fundraiser activity. In 2016, female-led

projects accounted for 49% of model activity. In 2017, this dropped to 43%.

Reward-based Crowdfunding had the highest proportion of successful female fundraisers (49%), and second highest number of female funders (54%).

P2P Consumer Lending had the second highest level of female fundraisers – at 45%, up considerably against 2016's 28%. While female borrowing increased significantly, the proportion of female lenders has remained considerably low, at 13% in 2017.

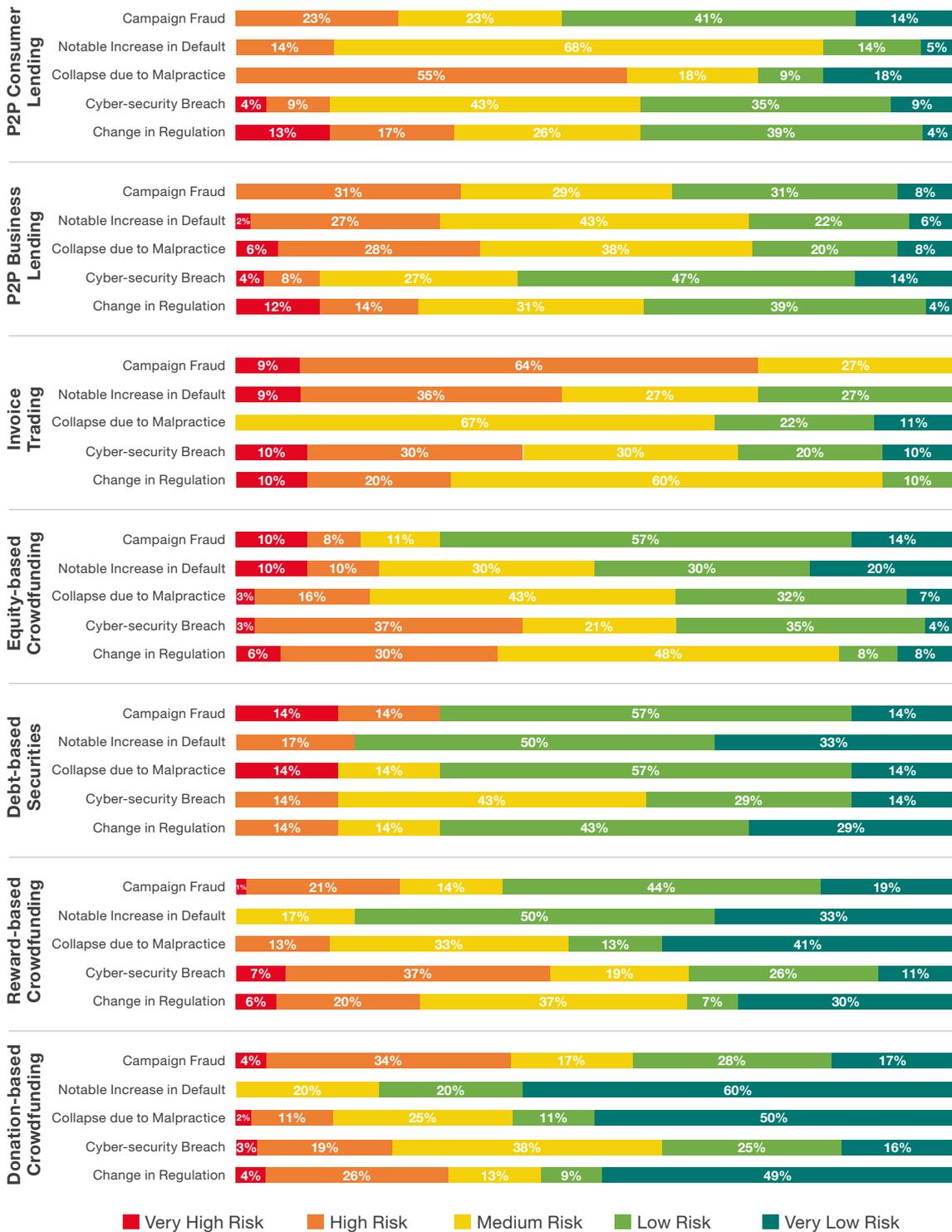
With respect to business-focused models, though 2017 saw more female-led business borrowers or campaigners than in previous years, considerable imbalance persists. When we review the key debt-focused models, the proportion of female borrowers was 30% for Balance Sheet Business Lending, followed by 28% of Invoice Trading borrowers and 14% of P2P Business Lending

borrowers. When reviewing equity-based models, the proportion of female-led campaigns was 15% for Equity-based Crowdfunding, up considerably from 2016's 8%. The Profit Sharing model also had one of the largest increases in terms of female-led

campaigns, accounting for 18% of fundraisers in 2017 compared to 3% in 2016. Interestingly, this model also saw a considerable increase in the levels of female-driven investment, accounting for 43% of retail investment activity.

### Perceived Risks

Figure 29: Perceived Risks of Platforms by Model



Respondents were asked to rank five risk-factors<sup>20</sup> as related to their platform's operations.<sup>21</sup>

Looking first at key debt-focused models (P2P Consumer Lending, P2P Business Lending, Invoice Trading and Debt-based Securities), the top risk factors were 'Collapse due to Malpractice' for both P2P Consumer Lending (viewed by 55% of firms as High and Very High Risks) and P2P Business Lending (viewed by 34% of firms as High and Very High Risks). 'Campaign Fraud' was the highest risk factor for Invoice Trading firms (73% Very High and High risk) and Debt-based Securities firms (29%). This factor ranked second for P2P Business Lending firms as well. One other key risk factor was 'Changes to Regulation', which tracked as the second most significant risk for P2P Consumer Lending platforms (30%).

When observing equity-focused models (Equity-based Crowdfunding and Profit-sharing), 'Changes to Regulation' were viewed as significant risk for both models – with 67% of Profit-sharing platforms and 37% of Equity-based Crowdfunding platforms viewing this risk as High to Very High. The most significant risk factor for Equity-based Crowdfunding was 'Cyber-Security Breach', with 40% of firms tracking this as a High or Very High risk.

Finally, turning to non-investment models (Reward-based and Donation-based Crowdfunding), a Cyber-Security Breach was viewed as a significant risk factor, ranking highest for Reward-based Crowdfunding firms (44%) and third for Donation-based Crowdfunding platforms (22%). The highest perceived risk for Donation-based Crowdfunding platforms was Campaign Fraud (38%), which was the third highest risk for Reward-based platforms (22%). Changes to Regulation was ranked as the second highest risk for both the Donation-based Crowdfunding Model (30%) and Reward-based Crowdfunding (26%).

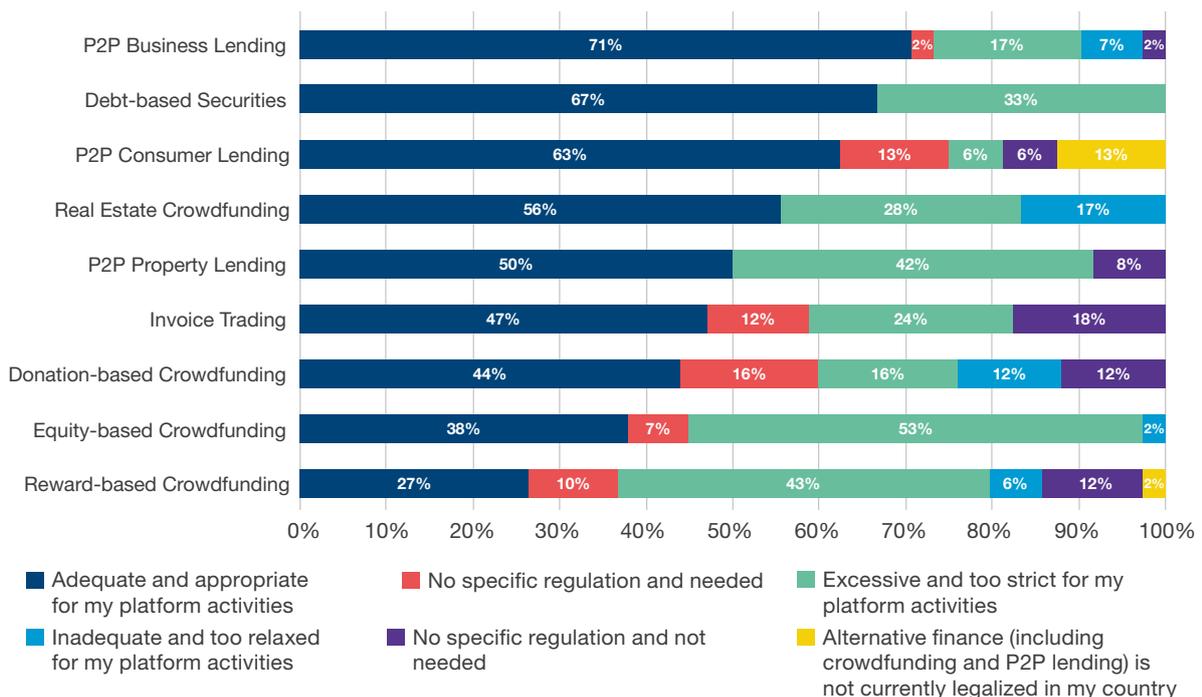
### Perceptions Towards Existing Regulation

#### By Model

Overall, regulation is still a key challenge for the continued development of the European alternative finance sector. As noted in the Risk section above, for 6 out of 8 model types, 'changes to regulation' was presented as a significant risk, ranking within the top-three risk factors for debt, equity and non-investment models.

In this section, we will examine how platforms have perceived regulation in their jurisdictions across Europe. We will also highlight the association between perceptions of national regulatory frameworks and performance indicators at national level.

Figure 30: Perceptions Towards Existing Regulation by Model 2017



When assessing how platforms across Europe perceive the adequacy of the regulations that pertain to them, it must be noted that regulatory conditions vary significantly across countries, and that our findings are limited to those that participated in the 2017 European Benchmark survey. Still, with this in mind, the insights resulting from this data can inform future regulatory efforts.

While, in general, a large share of platforms view regulation to be adequate, there is still a considerable number of platforms that view existing regulation as unsuitable. Similar to 2016, in 2017 the model type with the highest amount of dissatisfaction with existing regulation was Equity-based Crowdfunding. Over half of platforms from this model viewed regulation as either excessive (53%) or lacking and needed (7%).

With regard to lending models, P2P Property Lending was again the model that viewed regulation the harshest - with 42% of relevant platforms stating that regulation was excessive. For P2P Business Lending platforms, 17% consider existing regulation as excessive, and 2% consider

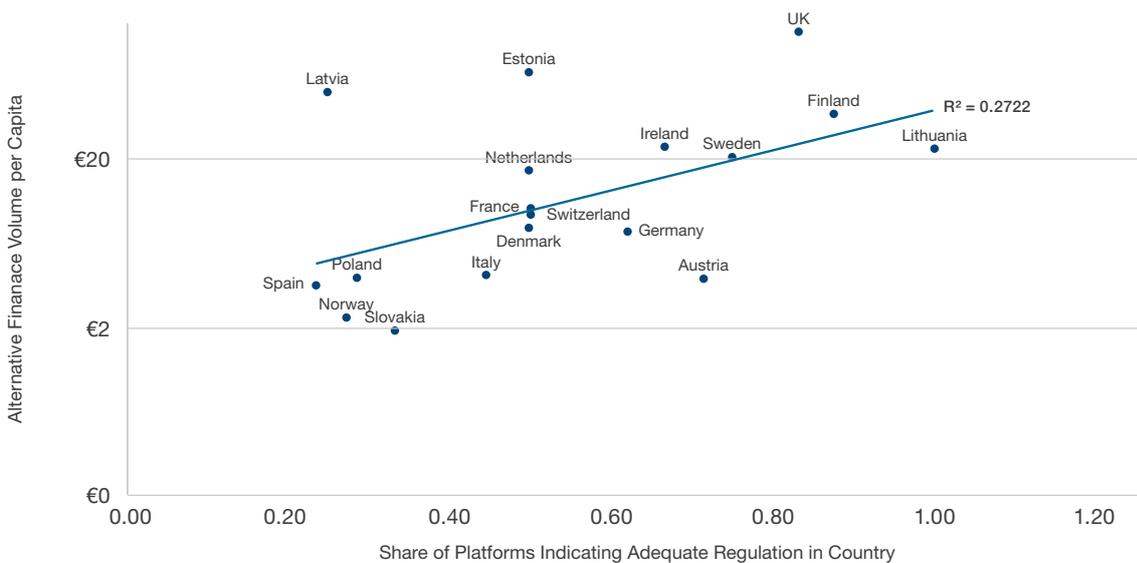
it lacking and needed. In the case of P2P Consumer Lending, 6% view existing regulation as excessive and 13% as lacking and needed. However, P2P Business Lending, P2P Consumer Lending, and P2P Property Lending all also had large numbers of platforms that viewed regulation to be adequate – at 71%, 63% and 50%, respectively.

The largest share of Invoice Trading platforms (47%) viewed existing regulation to be adequate. However, 24% viewed it to be excessive, 12% as needed, and 18% as not needed.

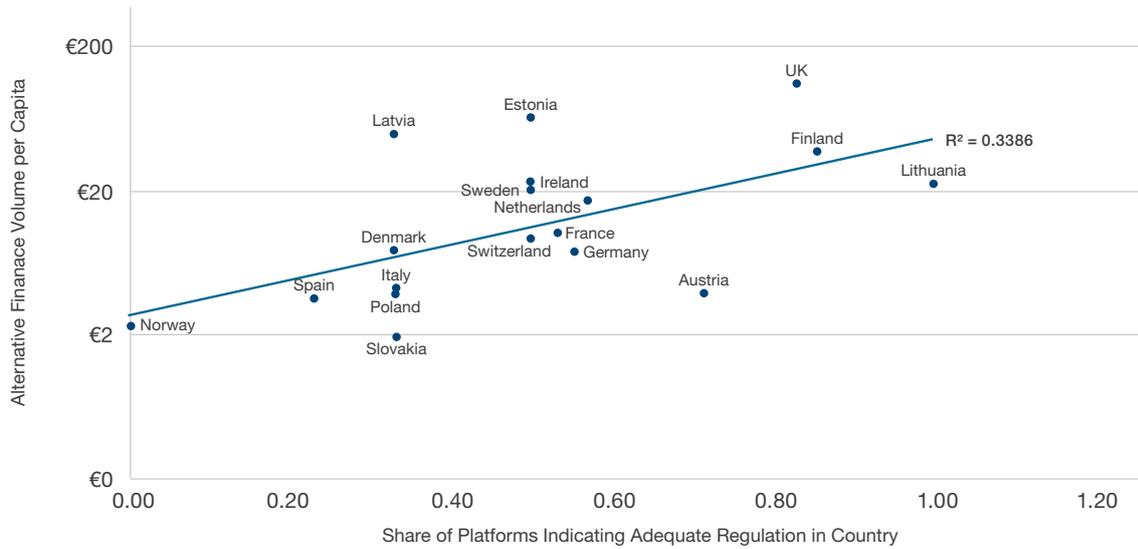
Additionally, while last year most Reward-based Crowdfunding and Donation-based Crowdfunding platforms viewed regulation as adequate, opinions were more varied in 2017. For Reward-based Crowdfunding, 43% of platforms viewed regulation as excessive, and 10% as needed. A total of 27% of platforms viewed it to be adequate. With regard to Donation-based Crowdfunding, 44% of platforms viewed regulation to be adequate, and 32% viewed it to be either excessive (16%) or needed (16%).

### Regulatory Friendliness and Alternative Finance Volume per Capita

Figure 31: Perceived Adequacy of Existing Local Regulations vs. Volume Per Capita 2017 (Log Scale) - All Platforms



**Figure 32: Perceived Adequacy of Existing Local Regulations vs. Volume Per Capita 2017 (Log Scale) - Investment Model Platforms**



Two thirds of Debt-based Securities (67%) platforms found regulation to be adequate, however 33% viewed it to be excessive.

In an attempt to display the effects of existing regulation on alternative finance activity on a national level, the above chart plotted the share of platforms (within a country) that indicated existing regulations were adequate (across all models) against the country's Alternative Finance Volume as a per-capita function. Only countries that had at least four platform-responses relating to regulatory adequacy were included in this analysis, leading to 16 overall observations on a national level.

This analysis hopes to shed light on the ongoing question that debates whether regulation should be amended only when volumes require it, or that it should be amended to facilitate growth towards larger volumes. The plots suggest that regulation facilitates or inhibits growth, rather than the other way around. This finding is even stronger when considering that answering platforms are those that are already able to operate under existing regulation and excludes those that were never established because of regulation challenges.

When considering total alternative finance volumes per capita, the scatterplot suggests that the greater the share of platforms indicating adequate existing national-level regulatory frameworks, the higher the likelihood for the country to exhibit high levels of alternative finance per capita. Here, we find that 27% of variance in alternative finance per capita volumes can be associated with the perceived adequacy of national regulations. As noted, countries above the plot are suitable examples that show how existing regulatory-frameworks encourage higher levels of alternative finance penetration on a national level. In contrast, countries which lack bespoke fintech regulation or where current frameworks are viewed as partial, inadequate or excessive dampens the further development of alternative finance activities.

Furthermore, when examining this association with respect to total volumes only from investment-based models (i.e. debt or equity-based models, excluding non-investment activities such as Donation-based and Reward-based Crowdfunding), we find a stronger correlation suggesting that 34% of the variance in volumes is associated with perceived adequacy of national regulations.

# CHAPTER 2: MARKET SNAPSHOTS

In the following section we report data and findings for subregions within Europe. Since many platforms operate in multiple countries, “platform” is used throughout the chapter to capture “platform in country X”. Platform operations in each country is counted as a new platform. Hence, for example, Kickstarter in Sweden and Kickstarter in Norway were counted as two separated platforms in our analysis. This allows for data analysis at country level. Additionally, the sections within each regional analysis clearly indicate the number of platforms that answered each question in order to provide a better understanding of the percentages presented.

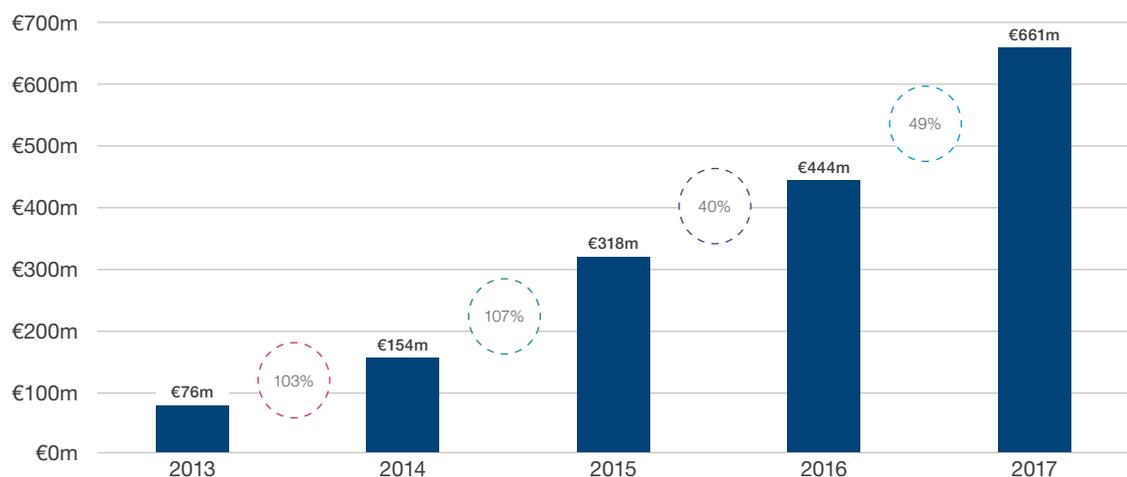
## FRANCE

### Market Volume

France safeguarded its position as the industry leader in continental Europe for the fifth consecutive year, accounting for 20% of total 2017 volumes. The French

alternative finance market grew to €661m in 2017, increasing 49% from the previous year maintaining both its strong growth and substantial volume. However, French alternative finance volumes remained modest in comparison to the UK, which, despite a moderate growth rate in the last year (26%), exceeded French volumes by more than ten times (€7,066m). Additionally, in 2018 France may be overtaken by Germany - should Germany maintain its relatively high growth rate (85% in 2017). In comparison to other European countries, a fairly large number of platforms operate in the French market, characterized by low regulatory barriers to entry in combination with well-defined licensing requirements. In all, 46 of these platforms contributed their data for this report (11 platforms more than previous year).<sup>22</sup> Our survey also captured the presence of foreign platform activity (21%). In comparison, this was 19% in the UK and 34% in Germany. Foreign platforms in France may still face some regulatory constraints, which differ among model types.

Figure 33: France Online Alternative Finance Market Volumes 2013-2017 (€millions)

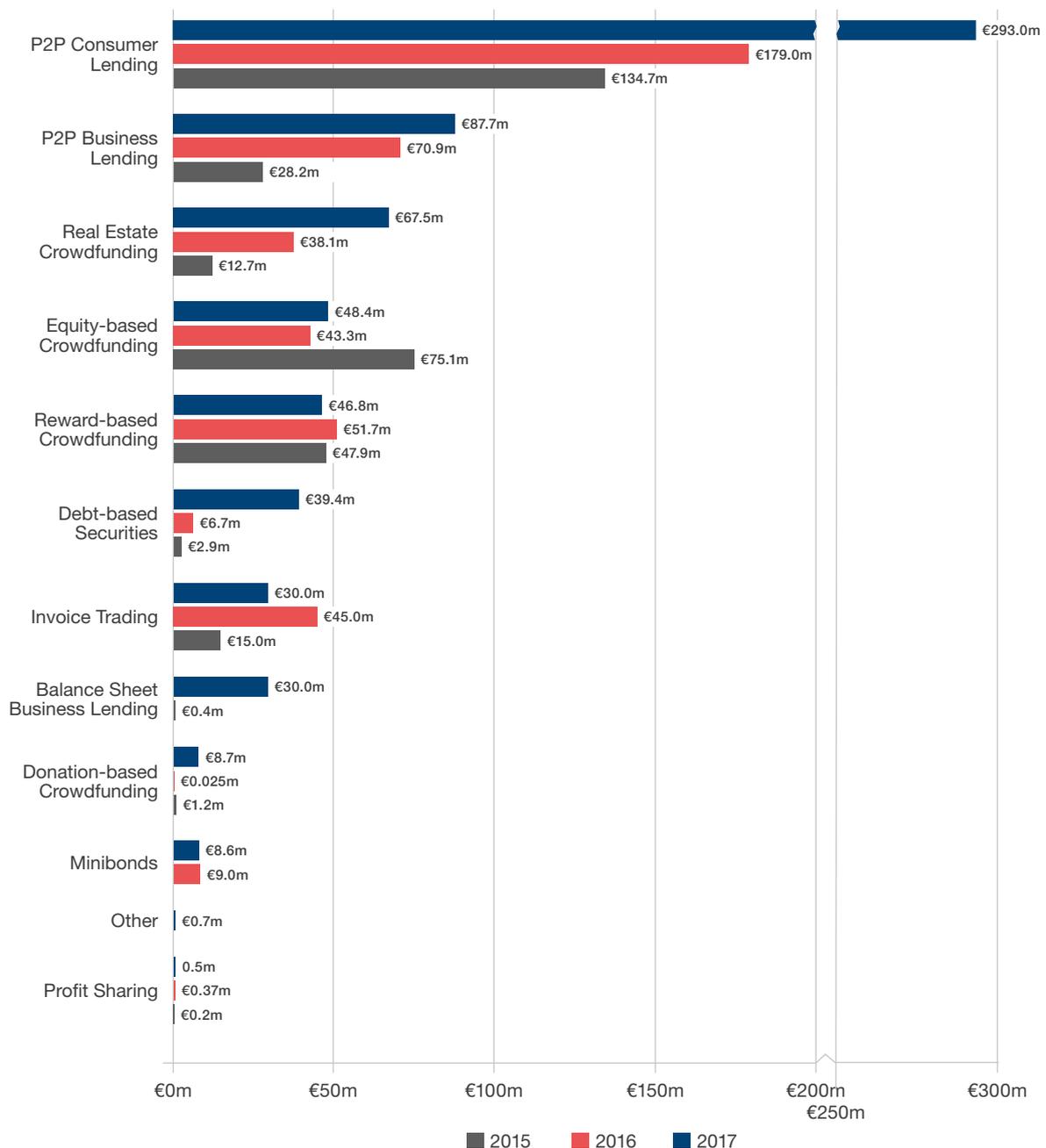


### Volume by Model

The high volumes of the French alternative finance market can primarily be attributed to P2P Consumer Lending, which amounted to €293.0m in 2017. This represented 44% of total volumes, growing at a faster rate in comparison to the previous year (64% in 2017 as compared to 33% in 2016). These positive developments could be linked to the changes in local regulation in October 2016, which increased the threshold for individual lenders per project both with respect to interest-bearing and interest-free loans.

Another debt-based model, P2P Business Lending, accounted for the second largest share of the alternative finance market in France (13%) and raised €87.7m in 2017. However, its most recent growth rate (24%) represents a sharp decline in comparison with the three or even four-digit growth rate in previous years (152% in 2016, 248% in 2015, and 3950% in 2014). This could be partially explained by a gap in the data due to the non-response of four platforms (both minor and major) that had participated in 2016 but did not in the 2017 survey.<sup>23</sup>

Figure 34: Total Alternative Finance Volume by Model in France 2015-2017 (€millions)



Despite this, France has remained the leader in continental Europe in terms of total volume of P2P Business Lending. Industry data also captured significant volume for Balance Sheet Business Lending, amounting to €30.0m in 2017. Since platforms surveyed in 2016 did not report sufficient data on the size of this model at the time, this year's volume could only be compared to 2015's data (€0.4m), a growth of 7400% between 2015 and 2017.

Apart from straight loans, it seems that business finance is gradually diversifying into Debt-based Securities, which generated €39.4m in 2017, growing by 491% from 2016. Such a rapid growth could be a result of a more lenient approach by the French regulator, who finally allowed convertible bonds to be issued on French platforms in addition to ordinary bonds. As a result of this speedy growth, France was the largest market for Debt-based Securities in Europe.

In contrast, the growth of other investment-based models experienced lower or even negative growth rates in 2017. Equity-based Crowdfunding saw a modest growth of 12% from €43.3m in 2016 to €48.4m in 2017. This was a moderate recovery from the 42% decline in volume between 2015 and 2016. The speed of this recovery, however, did not meet the high expectations created by the introduction of: a higher prospectus requirement exemption threshold for issuers (€2.5m instead of €1m); and the ability for online intermediaries to offer preferred shares. Additionally, Invoice Trading reported lower volumes in 2017 leading to 33% decline, down from €45.0m in 2016 to €30.0m

in 2017. A small decline of 4% was also observed with respect to Minibonds, with a volume of €8.6m.

Real Estate Crowdfunding grew by 77% between 2016 and 2017, reaching €67.5m.<sup>24</sup> As the third largest model type in terms of total volume, it is used for three different purposes: property development, fix-and-flip and buy-to-let. While Real Estate Crowdfunding can imply selling both debt and equity financial instruments, bonds appear to be the preferred choice by investors.<sup>25</sup>

2017 saw a small decline in Reward-based Crowdfunding volumes from €51.7m to €46.8m, 7% lower than 2016's figure. However, it is assumed that this result is superficially low due to the non-participation of a major platform in our 2017 survey.<sup>26</sup> Upon closer inspection, the research team expects that the sector actually experienced modest growth in 2017. Through an examination of the volumes reported on the platform's website, the overall volume of French reward-based platforms likely reached €62m in 2017, a growth of 20%. Nevertheless, even when using our more conservative figures, Reward-based Crowdfunding accounts for an important share of alternative finance in France (7%). In addition, France remained the leader in Europe in terms of total volume for this model. In contrast, Donation-based Crowdfunding, which experienced negative growth rates in 2015 and 2016, grew significantly in 2017. The growth rate was 34,506% from €0.03m to €8.7m.

### **Real Estate Crowdfunding in France has Increased its Scope**

*By: David Charlet, President of ANACOFI & ANACOFI-Assurances*

The number of platforms has continued to increase since the end of 2014, growing from 5 in 2014 to more than 60 today. We are also observing the first mergers and acquisitions in the sector.

Real Estate Crowdfunding, in particular, has considerably widened its scope. Amounts collected by platforms grew significantly (Real Estate alternative finance alone accounted for €185 million in 2018.). Although it lags behind the UK market, French Real Estate Crowdfunding has gained new opportunities, in particular, thanks to the implementation of a new legal status known as the "broad CIP" (the Crowdfunding investment advisor – a platform operating investment-based models). This status allows CIP platforms to offer, under certain conditions, crowdinvestments in rental property.

Real Estate Crowdfunding used to focus solely on property development. However, the scope of Real Estate Crowdfunding projects has become increasingly broad over time. It now includes projects in the areas of commercial property, hotels, residential property, renovation, purchase for resale, financing of entrepreneurial promoters, and rental property.

The Real Estate Crowdfunding market is still young. It is undeniable that exit options for investors remain limited. However, less than 3% of projects are late with their deliverables. Platforms are heterogeneous with regard to localization and types of projects financed, as well as their operational practices. Moreover, the industry is relatively concentrated: very few actors account for the majority of the amount raised.

## Regulation

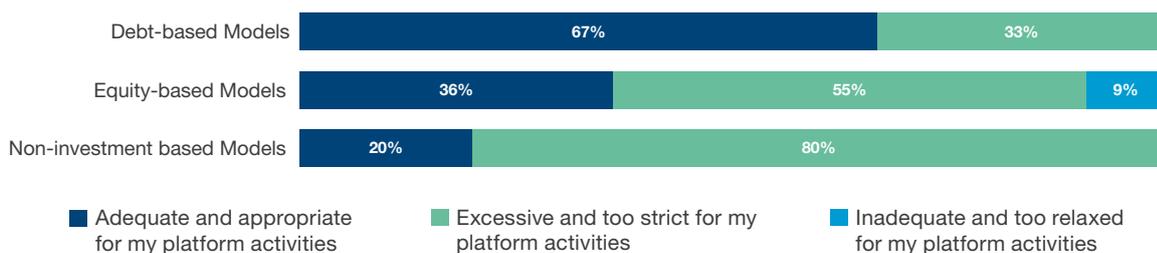
The French regulator was among the first in Europe to tailor a bespoke crowdfunding regulatory regime. Since 2014, when the first derogations from rules on public offerings and banking monopolies were introduced,<sup>27</sup> the industry has matured enough for the regulator to revise certain regulatory solutions, which led to amendments to French law in 2016 and 2017.<sup>28</sup> French regulatory framework implies a clear distinction between two regimes depending on the status of the intermediary. The first regime, associated with platforms facilitating loan agreements, donations, and rewards (IFP – *intermédiaire en financement participatif*), with certain exceptions, creates a unique set of rules for lending-based, donation-based and reward-based crowdfunding. The second regime, tailored to platforms intermediating the offer of shares and some debt instruments and securities (CIP – *conseil en investissement participatif*) adapted the rules on public offerings to the needs of early stage firms, on the one hand, and protection of retail investors, on the other. This distinction is useful to interpret how platforms perceive the existing regulatory frameworks, and notably, licensing requirements.

Overall, there seems to be almost no legal uncertainty as to whether platforms need an authorization to operate across all three business models. 100% of debt, 82% of equity, and 86% of non-investment platforms in France report being authorized to operate their business. In addition, 6% of equity-based platforms report that they are not authorized but have interim permission to operate in their jurisdiction. Finally, 12% of equity and 14% of non-investment

platforms report that authorization is not required for their activities. A portion of equity platforms that claimed that they do not need authorization may be referring to a registration obligation in France, which does not necessarily qualify as licensing regime given the light-touch pre-registration requirements. With regard to non-investment platforms, in December 2016 the French regulator introduced mandatory registration for platforms operating Donation- and Reward-based models, thus curtailing the opt out option, which had existed under the previous regime.

Eighteen platforms operating in France provided insights into their perceptions of regulation. Here, survey data on adequacy of the regulatory regime captured an interesting change in platforms' perception from the previous year. The exception was Debt-based platforms where 67%, nearly the same percentage of platforms as in 2016, considered existing rules to be adequate and appropriate for their activities and one third perceived them as excessive and too strict. Equity-based and Non-investment platforms expressed a higher level of dissatisfaction with regulatory framework in comparison to the previous year. Only 36% of Equity and 20% of Non-investment platforms described the regulation in place as adequate and appropriate, in contrast to 55% of Equity and 80% of Non-investment platforms that claimed that the regulatory regime was excessive and too strict. While not mentioned by surveyed platforms, this could stand as a signal to the French regulator that some of the legal amendments passed in the last quarter of 2016 and in 2017 have proven to be too burdensome for some parts of the alternative finance ecosystem.

Figure 35: Perception Towards Existing National Regulation - France



## Regulatory Developments Channel Crowdfunding Investments in France

By: David Charlet, President of ANACOFI & ANACOFI-Assurances

The traditional players (institutional investors, banks, etc.) are now very interested in crowdfunding and thus contribute, through capital investment or buyouts, to the development and sustainability of this alternative financing. However, it is necessary to recognize that the abolition of the ISF PME (Wealth Tax) concession has significantly reduced the volumes invested in some CIP (Crowdfunding investment advisor) platforms, which only used to collect funds through equity issues. Subscriptions in bonds issues, on the other hand, showed a good progression. It should be noted, however, that marketing channels are partly “constrained”. The CIP platforms cannot remunerate Financial Advisors (CIF) or Corporate Finance Advisors (CFE) in proportion of the amounts invested (if the client is a retail investor) or in proportion to the amount raised (if the client is the project holder). IFP – lending-based platforms can no longer remunerate the “IOBSP” (Intermediary in banking operations and payment services).

Fortunately, lawmakers and regulators have recently seized the issue, and seek to encourage the development of crowdfunding. The PACTE law has made PEA PME new securities: fixed rate bonds, minibonds and equity securities, eligible. In addition, the same law has a positive effect on another aspect of crowdfunding — it offers institutional investors the possibility of investing a reasonable share of the money entrusted by their retail clients (via savings plans for example) in crowdfunding. Moreover, the law aims at reinforcing crowdlending. An amendment adapted the IOBSP and IFP statutes and, in particular, improved the connection between these actors in order to increase the possible financing options of entrepreneurs.

Future developments of the regulatory framework are likely to take place both at European and national level.

- The Committee on Economic and Monetary Affairs of the European Parliament is expected to take a position on the European Crowdfunding Services Providers (ECSP) regime. In order to promote cross-border crowdfunding, several measures are proposed including: an exclusive national status; a fund-raising ceiling increased to € 8 million over a 12-month period; the production and presentation of a DIC (Key Information Document), and an authorization by the national authority.
- French regulator is expected to implement a special status for the PSAN (service provider in crypto-assets). Its role is to facilitate the creation of crypto-assets (ICO) and the transfer of such assets on the secondary market (converted into FIAT currencies or other digital assets). However, it remains an open question whether the combination of this status with the status of a crowdfunding intermediary will be allowed.

## Risk

Twenty-five platforms operating in France provided insight into their perceptions of risks. The perception of risk is fairly divergent across different alternative finance models in France. A risk factor of significant importance for both investment and non-investment platforms is the potential of changes to current regulation. This was indicated as “very high” or “high” risk by 40% of debt-based, 46% equity-based, and 57% of non-investment models. Concerns about possible amendments to current regulation are associated with how platforms perceive the adequacy of existing regulations, potentially indicating that platforms fear that already burdensome regulation could become even more disproportionate in the future.

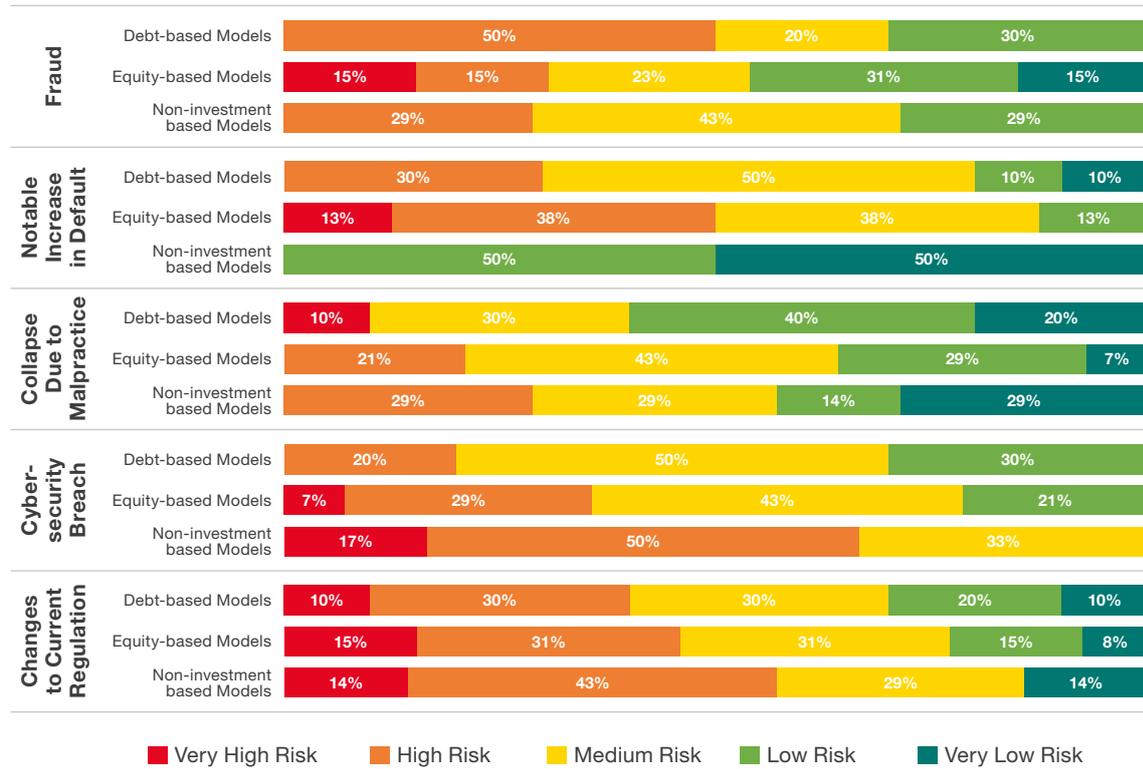
With respect to other risk factors, debt models viewed the risk of fraud as their major concern, with half of platforms describing it as “high” risk. One third of platforms also viewed that the risk of a notable increase in default was of “high” significance to their operations. Collapse due to malpractice of

one or more platforms and cyber-security breach seemed to represent risks factors that were less substantive to the operations of debt models, with 20% or less platforms viewing it as “very high” or “high” risk.

Equity models ranked the risk of a notable increase in default as their highest concern, with 13% of platforms viewing it as “very high” and 38% as “high” risk. Not surprisingly, almost one third of platforms also perceived the risk of fraud as a “high” threat to their operations (split equally across “very high” and “high” risk). Unlike their debt counterparts, a substantial part of equity platforms (36%) also thought that a cyber-security breach was a “very high” or “high” risk. The risk of collapse due to malpractice came last in the risk factor ranking, with, nevertheless, with 21% of platforms expressing a “high” level of concern.

In contrast to debt and equity models, non-investment platforms were not preoccupied with the risk of default, which is self-explanatory regarding donation-based

Figure 36: Perceptions towards Risk Factors - France



models. Instead, the risk of a cyber-security breach was prominently mentioned by the majority of platforms. Here, 17% of platforms described it as “very high” and 50% as “high” risk. The risk of fraud and the risk of collapse of a well-known platform were evaluated in a similar manner, viewed as a “high” risk by 29% of platforms.

**Innovation**

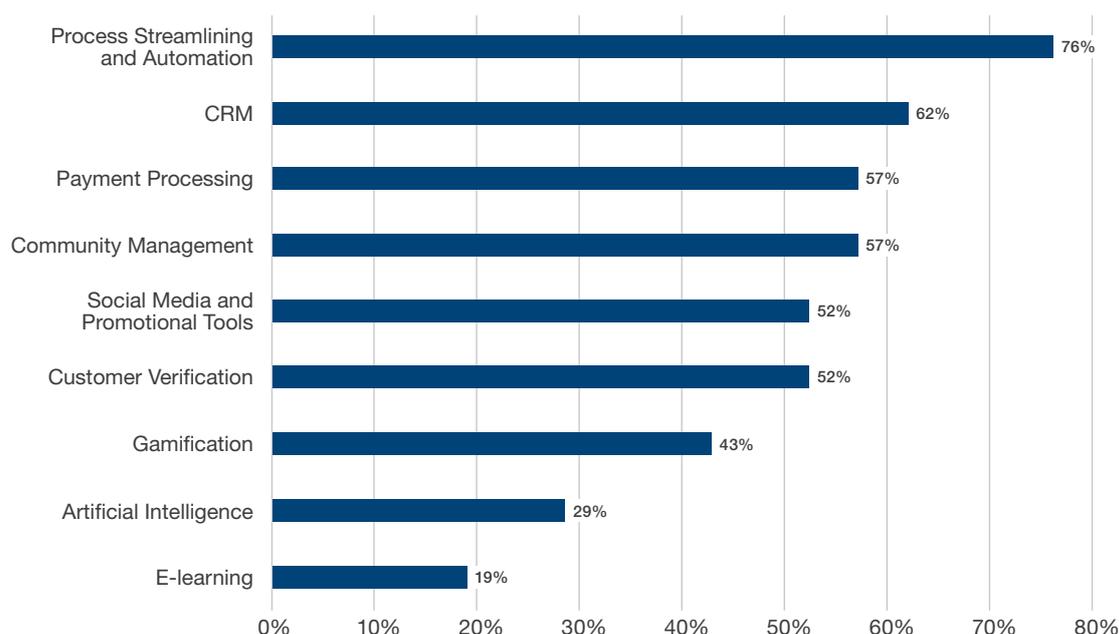
To spur the discussion on innovation, platforms were asked to describe their innovative efforts concerning three distinct areas: business models, alternative finance products and R&D. Seventeen platforms operating in France provided insight into the extent to which they have changed their business model. According to our survey data, French platforms already reached a consolidation stage in which they experiment with their business models to a much lesser extent than in previous years. Overall, only 6% of platforms introduced a significant change to their business model, and the remaining platforms reported only a slight alteration or no changes of it during 2017, split equally at 47% each. The lack of

changes in business model might as well be explained by regulatory uncertainty that a new way of operating a platform would entail, especially given the extensiveness of regulatory requirements in this jurisdiction. Instead, platforms seem to be focusing on growth and extending their customer reach within existing models.

In contrast, strong competitive pressure in a market with relatively low barriers to entry creates incentives for platforms to innovate in the products they offer. Here, twenty French platforms have provided insights into the extent to which they have changed their product offerings. Over half of all platforms (65%) indicated that they had introduced significantly new products in 2017, and 25% reported that they had introduced slightly new products. Thus, 90% reported some changes to their products in 2017.

In addition, survey participants were asked to describe the importance of their R&D initiatives across three different areas. Overall, twenty-one platforms operating in France provided insights into their R&D priorities. Substantial R&D efforts were put

Figure 37: Actively Pursued R&D Initiatives in 2017 - France



### The French Crowdfunding Market is Entering a Consolidation Stage with Several “In-house Developments”

By: Florence de Maupeou, Director of the Financement Participatif France (FPF)

The French crowdfunding market continues to grow, with a 20% increase in volumes in 2018 in comparison to 2017. This is thanks to further strengthening of principles of accessibility, transparency and traceability. Since the implementation of regulation in October 2014, the sector has acquired credibility as an alternative or complementary tool for financing a huge variety of projects. Now, the market is entering a consolidation phase illustrated by several interesting movements.

#### Emergence of new activities

The development of crowdfunding has seen the emergence of an ecosystem around platforms and the creation of new businesses in which new roles and activities emerge: communication agencies or “coaches” are specialized in crowdfunding campaigns; enterprises create aggregators for individuals to have a unique interface gathering the projects they financed on different crowdfunding platforms; bloggers became “crowdfunding experts” and give advice; robot-advisors guide private individuals in managing their savings; and white-label crowdfunding platforms and blockchain solutions are evolving.

#### Changes in market structure

Even though the sector entered a consolidation stage two years ago - the liquidation of Unilend, one of the crowdlending pioneers, in the end of 2018, followed by the cease of crowdequity activity by SmartAngels, were seen by some people and journalists as signals of a weakening sector. However, professionals consider these phenomena as a healthy evolution of a market that needs to mature and in which a few actors strengthened their position. The consolidation was also driven by several mergers following the acquisition of Unilend by PretUp.

#### Diversification of business models

To strengthen their position and their business model, crowdfunding platforms are going through a transformation in different ways. Some are establishing connections with big institutional partners like banks or trust companies, some are developing new sectors such as real estate and renewable energy to expand their client base, while others are proposing different types of financing (reward, loan, and equity) to address the different needs of project owners or introduce institutional financing to support private investments.

#### The role of associations

Financement Participatif France (FPF) is devoted to the creation of a professional and reliable sector. In addition to the legislation which is already very strict in France, crowdlending platforms that are members of the FPF have to comply with additional requirements. For instance, they are required to publish indicators of performance on their website, calculated in a standardized way, enabling a comparison between platforms. These actions are essential to reinforce the confidence in the sector and enable good business practices. FPF and French crowdfunding platforms are actively involved in the discussions regarding the European Crowdfunding Service Provider regime and contribute to their proposals.

into performance enhancement technologies. Process streamlining and automation represented the most widely mentioned focus of R&D, with 76% of platforms reporting that they devoted resources to this area. More than half of platforms also mentioned that they had initiated R&D with respect to payment processing, one of the key aspects of successful financial intermediation. Additionally, a bit less than one third of platforms (29%) had experimented with artificial intelligence.

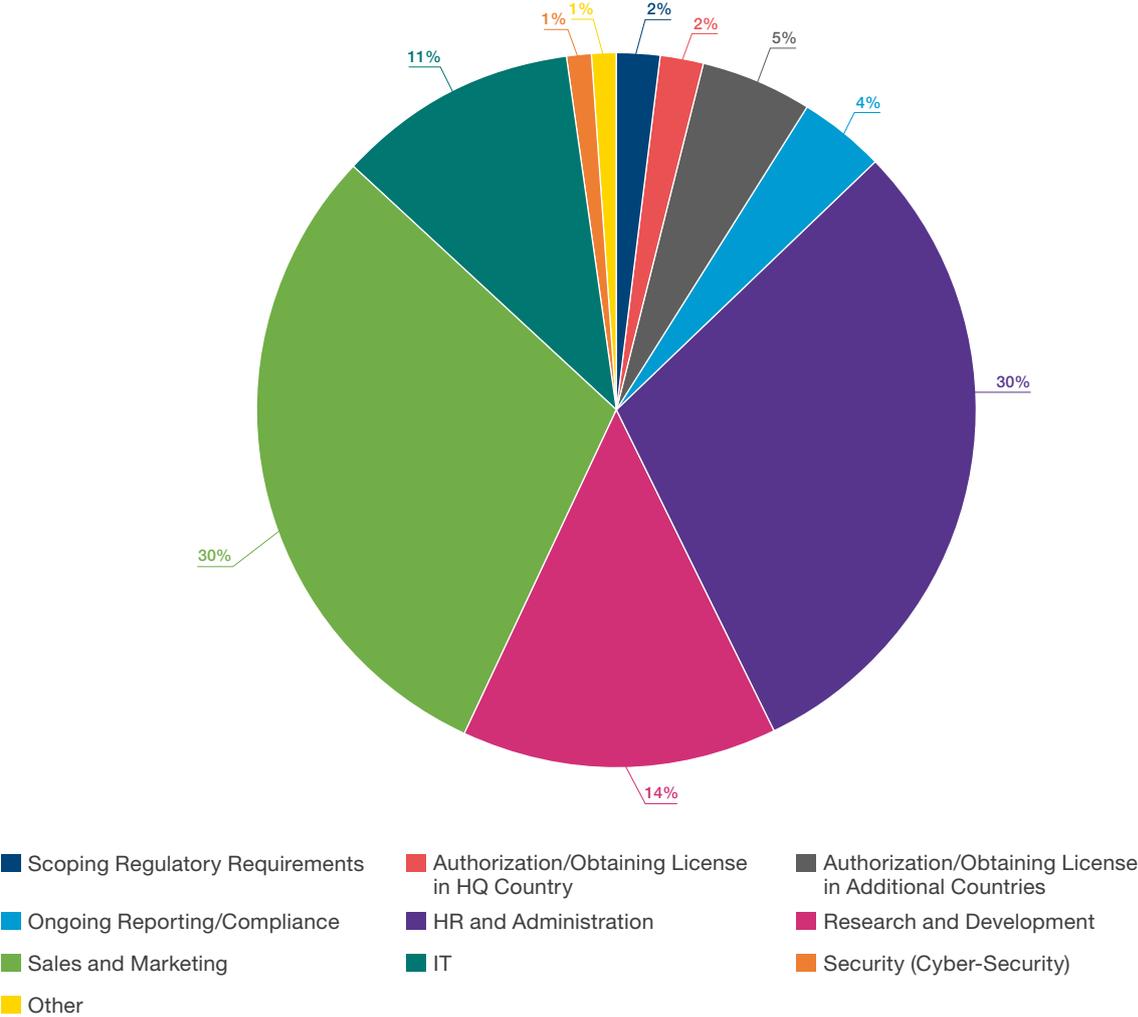
Considerable R&D resources were also allocated to the area of customer service and management systems. Here, 57% of platforms reported efforts towards the creation of community management features, 52% towards customer verification, and 62% towards customer relationship management systems.

Finally, some innovation efforts were oriented towards user support tools, the most important being Social Media and Promotional Tools (52%), followed by Gamification elements (43%), and E-learning features (19%). Overall, innovation rates in France seem to be among the highest in Europe.

**Platform Costs and Budget**

Fifteen platforms operating in France provided insight into their cost structure and budget allocations. Sales and marketing accounted for almost one third of all expenses (30%). The same portion of expenses were devoted to HR and Administration. Platforms also allocated significant resources to Research and Development activities within a firm (14%) and IT (11%).

**Figure 38: Platform Operating Costs and Budget Allocation (%) France**



Other expenses, such as those related to security (cyber-security), ongoing reporting (compliance), authorization of the platform, and scoping Regulatory Requirements, each accounted for 5% or less. However, when aggregated, 13% of budget is allocated to costs associated with compliance, authorization, and regulation, representing a significant cost element overall.

Overall, platforms mainly focused on activities that allow them to position themselves in the rapidly growing market with new entrants and offer an uninterrupted and reliable service to their clients on both sides of the market.

### Internationalization

To further understand cross-border competition and the emergence of a European alternative finance market, platforms operating different models were asked to provide information about their internationalization strategies. Thirty-one platforms operating in France provided insights into their international strategy and activities.

About two thirds of platforms reported having made efforts to cater to international customers, although their internationalization strategies vary. The most common strategy for international expansion indicated by 39% of platforms in France is the use of a global brand and website. Around one quarter of all platforms reported actively serving local markets by creating a local website, either under the global brand (19%), or by localizing the brand itself (6%). The fact that only a limited number of platforms opted for creating both a local brand and website as their internationalization strategy is not

surprising, given the fragmented regulatory landscape across Europe, and costs savings that could be achieved by not having to apply for additional licenses, being subject to supervision of multiple authorities, as well as those associated with developing market-specific service formats and their constant update.

Internationalization efforts were far from uniform across different alternative finance models. Non-investment platforms had the highest number of platforms with an international focus, with around 80% pursuing an internationalization strategy, predominately by creating a global brand and website (58%), and to a lesser extent by tailoring the website to the local language and preferences (25%). Similarly, among equity platforms with an international expansion strategy (67%), reliance on a global website and brand is the preferred method (47%), followed by localizing the website of a global brand (13%).

In contrast, more than half of debt-based platforms in France (55%) indicated that they only operate a local website and brand. Nevertheless, among those that cater to an international client base, a considerable number of platforms opted for creating both a local brand and website (18%), which was not as common among in other models. This could be due to the fact that regulators in many jurisdictions limit the access of foreign intermediaries in their markets or apply their rules on an extraterritorial basis, incentivizing foreign platforms to establish a subsidiary in the host country. Overall, the fact that international strategies were much more common among non-investment models has to do with tight regulatory

Figure 39: Platform Internationalization Strategy - France 2017



constraints that investment platforms face when marketing their services to nationals of other jurisdictions. A passporting option similar to the MiFID regime for investment firms, in line with current legislative efforts at the European level, seems to be a potentially promising solution to the problem at hand.

**Financial Inclusion**

Fourteen debt-based platforms operating in France provided information about the status of their borrowers. These platforms reported that 100% of their borrowers are banked.

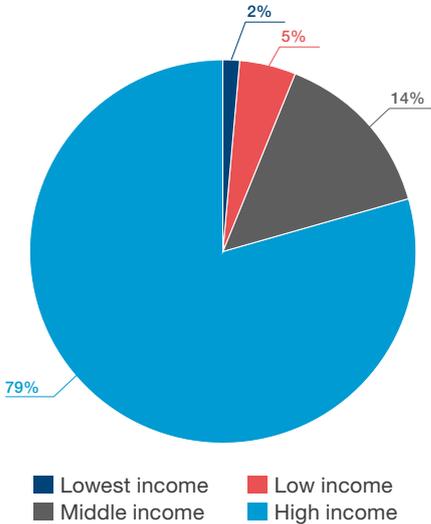
In addition, nine platforms operating in France provided information on the income of their customer base. Here, 79% of funders fell into high-income, 14% middle-income, 5% low-income, and 2% lowest income groups. While underrepresentation of low-income funders is common among European countries, distribution of funders in France is even more skewed towards high-income funders in comparison with other European markets.

**Institutionalization**

Twenty-one French platforms provided information about the extent to which they collaborate with institutional partners. More than half of platforms (57%) reported that such arrangements were not applicable to them.

However, among those that indicated a certain level of institutionalization, 47% of platforms indicated having referral arrangements with institutional partners, about 10% of platforms used an external partner as a bank agent (4.76%) or exchanged data with them (4.76%). Additionally, 19% of platforms reported partial ownership by an institution.

**Figure 40: National Income Categorization by Funder Customerbase (%) France**



## GERMANY

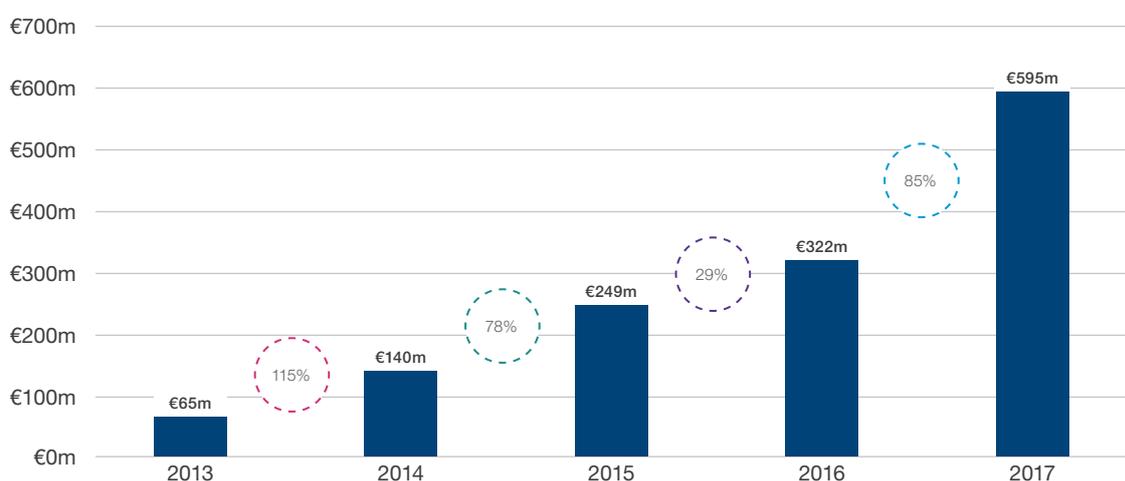
### Market Volume

The German Alternative Finance Market saw strong growth in 2017. Overall, Germany had a total volume of €595m in 2017, a growth of 85% in comparison to €322m in 2016. As a result, it remained the third largest Alternative Finance Market in Europe, after the UK and France. After a slower growth rate of 26% in 2016 (2014: 115%, 2013: 78%), overall market development has been reinvigorated.

Germany represented 18% of the total volume of the Alternative Finance Market in Europe in 2017. Compared with other regions

in Europe, Germany has managed to grow faster than the United Kingdom, France, the Netherlands and the Nordic region. The strong growth in 2017 can in part be attributed to the growth of P2P Consumer Lending and Real Estate Crowdfunding. Additionally, growth was encouraged by the introduction of a positive regulatory framework, in which the platforms were able to sustain their growth without introducing drastic changes to their underlying business model. In total, 46 platforms from Germany participated in the Benchmarking Study for 2017, an increase of 11 platforms from the previous report.<sup>29</sup>

Figure 41: Germany Online Alternative Finance Market Volumes 2013-2017 (€millions)



### Volume by Model

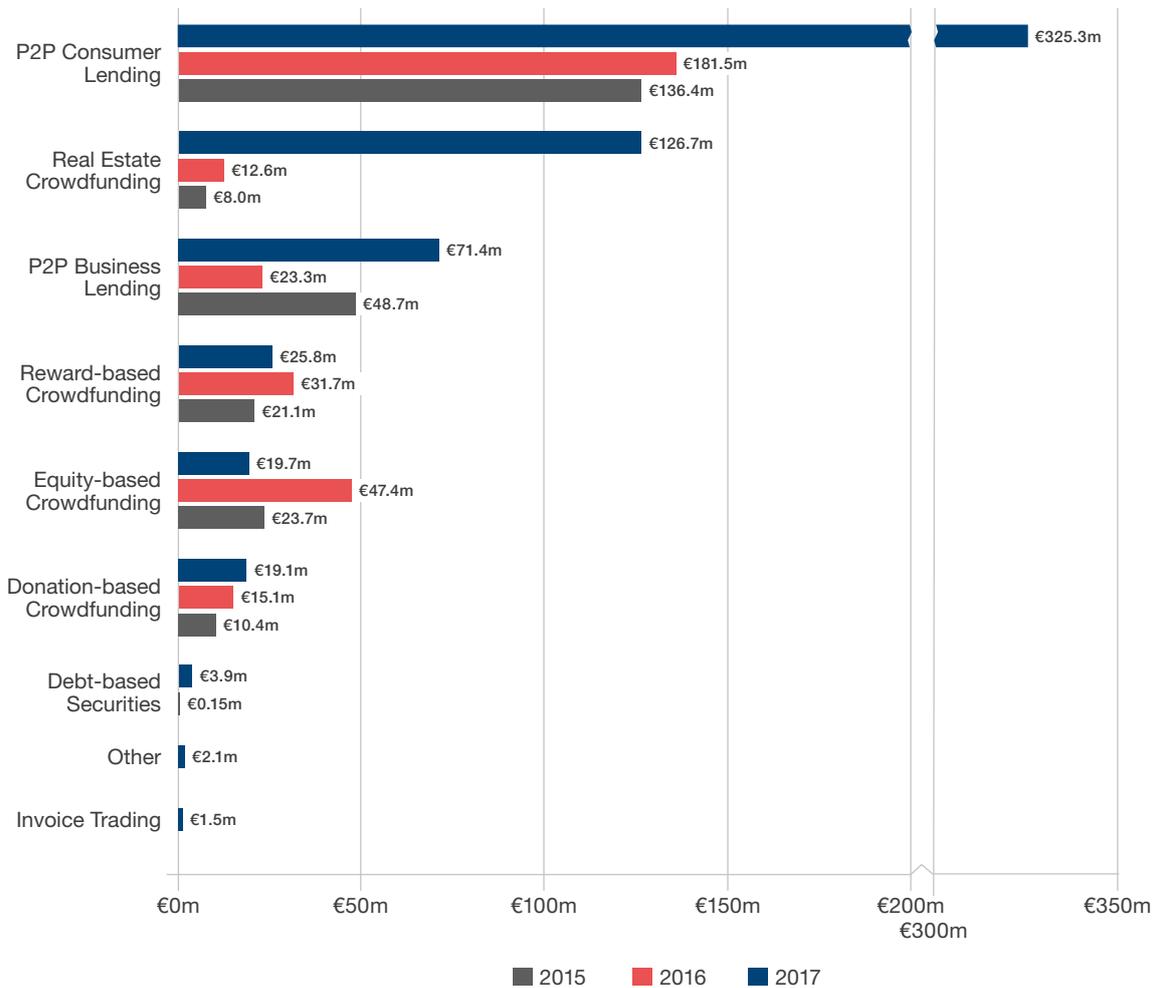
P2P Consumer Lending has been the largest sector in the German Alternative Finance Market since 2013. In 2017, this model grew by 79% from €181.5m in 2016 to €325.3m in 2017. This was mostly the result of the activity of one platform. Overall, this sector represents 54% of the German Alternative Finance Market. Across Europe, the largest market for P2P Consumer Lending was in Germany, followed by France.

2017 saw the emergence of a number of P2P Business Lending platforms in Germany. Together with international P2P Business Lending platforms active in Germany, the total Business Lending volume reached €71.4m, which constituted 12% of the market. In 2016, total volume was €23.3m,

an increase of 207%. Overall, the German P2P Business Lending Markets ranked third in Continental Europe, behind France and the Netherlands.

Equity-based Crowdfunding declined in 2017 to a volume of €19.7m, from an earlier volume of €47.4m in 2016. While a small portion of this decline can be explained by the lack of a response from one platform,<sup>30</sup> the majority of it can be attributed to a number of developments. First, Equity-based Crowdfunding for Renewable Energy had to undergo transitions due to new Consumer Protection Laws enacted in 2017, which forced platform operators to separate the business activity of operating a platform from the business activity of developing the energy projects. Second, investor behavior

Figure 42: Total Alternative Finance Volume by Model in Germany 2015-2017 (€millions)



changed drastically after a chain of start-up insolvencies in 2017, leading them to become more cautious vis á vis start-up Equity-based Crowdfunding, and shifting their funds to the real estate sector.

Indeed, Real Estate Crowdfunding surpassed Equity-based Crowdfunding as the second largest sector in Germany. Real Estate Crowdfunding had a market volume of €126.7m in 2017, up from €12.6m in 2016. The German Real Estate Crowdfunding Market ranks first in the European Real Estate Crowdfunding Market, with countries like France following with total volumes half the size of Germany's. The growth rate of 908% can be attributed to a number of new platforms entering the Real Estate Crowdfunding Market in 2017. For 2018, a volume of more than €220m is expected.<sup>31</sup>

Reward-based Crowdfunding has stagnated in recent years. The overall market has been consolidated, with only a handful of local platforms competing with the large US reward-based Crowdfunding platforms operating in Germany. The market was valued at €25.8m in 2017, down from €31.7m in 2016. While most of the decline seemed to follow trends evident in other large European markets, a small proportion can be explained by the non-response of two local platforms.<sup>32</sup> Nevertheless, Germany ranked second in the European reward-based Crowdfunding Market, following France with €46.8m.

Donation-based Crowdfunding has seen a slight increase, from €15.1m in 2016 to €19.1m in 2017, growing 26% year on year. The German Donation-based Crowdfunding market ranked first in the European donation-

based Crowdfunding market. The growth can be attributed to more Donation-based Crowdfunding platforms operating in cooperation with local banks, yet individual volumes of these platforms remain relatively small.

**Regulation**

Since 2015, there has been a Crowdfunding regulatory regime created for the intermediation of profit-participating loans, subordinated loans, and comparable investment products on a crowdfunding platform.<sup>33</sup> The regulatory framework in place is in part composed of amended capital market laws and consumer protection laws.<sup>34</sup> P2P lending models can, under certain conditions, trigger the application of the German Banking Act (Kreditwesengesetz - KWG). This is the reason why P2P models usually involve the intermediation of a licensed bank. Twenty-one platforms operating in Germany providing insights into their perception of regulation.

Overall, 82% of debt-platforms were authorized and licensed to operate in Germany and 18% of platforms claimed that no local regulatory authorization was needed. P2P lending platforms need to be authorized for brokering of loans under the Trade, Commerce and Industry Regulation Act (Gewerbeordnung - GewO). Some platforms may be passporting their license from another EU member-state.

Equity-based Crowdfunding platforms had a local license in 91% of cases and 9% of platforms had no local license in Germany. Equity-based Crowdfunding platforms also need to be authorized for the brokering of loans under the Trade, Commerce and Industry Regulation Act (Gewerbeordnung - GewO).

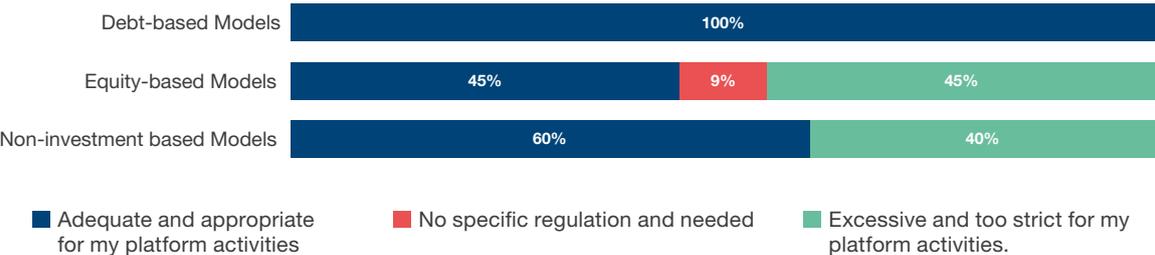
The licensing requirements for equity and other investment-based models in Germany depend on the type of financial instruments. However, most platforms intermediate profit-participating loans for which they only need an authorization from a local authority, usually a trade office.<sup>35</sup> 80% of non-investment platforms claimed to have authorization from their local authority, although no specific authorization was needed to run a Reward-based or Donation-based platform in Germany.

Equity-based Crowdfunding regulation in Germany was amended in 2017 to further strengthen investor protection, with conflict of interest rules and regulation of information sheet for investors as the key changes.

For Real Estate platforms, the threat to withdraw their business model from the Prospectus Exemption loomed in 2017 but was averted, as platforms successfully lobbied the German government. Additionally, legislative changes meant that platforms focused exclusively on crowdfunding renewable energy projects had to change dramatically, as they were no longer allowed to operate a Crowdfunding platform and own the projects on the platform. Therefore, it is no surprise that equity-based platforms are split between the assessment that the regulation is adequate (45%) and that the regulation is excessive (45%).

For non-investment platforms, we have seen a number of Reward-platforms go out of business in 2017, particularly due to a low volume of projects on their platforms. This might have been caused by excessive regulation in eCommerce law, as perceived by 40% of the platforms. The remaining platforms found that regulation is adequate.

**Figure 43: Perception Towards Existing National Regulation - Germany**



## Risk

The perception of various risk factors underscored the different views of the various model types that dominate the Alternative Finance Ecosystem in Germany.

Twenty-seven platforms operating in Germany provided insights into their perceptions of risk.

Lending-based Crowdfunding platforms, for instance, saw fraud as a “low” risk, given the

Figure 44: Perceptions towards Risk Factors - Germany



requirement to partner with a bank or obtain a banking license for their business model. Equity-based Crowdfunding platforms still overwhelmingly considered fraud a “low” risk, given the supervision of the German Financial Market authority. Non-investment Crowdfunding platforms predominantly regarded fraud as a “very low” risk.

The collapse of the market due to malpractice, was seen as a “high” risk by lending-based Crowdfunding platforms (75%) and a “medium” risk by Equity-based Crowdfunding platforms (38%). Again, non-investment crowdfunding platforms viewed this risk as almost non-existent for their business models.

Risks associated with cybersecurity issues were viewed as “medium” to “high” risk for Equity-based Crowdfunding platforms (61% combined). Both lending-based and non-investment crowdfunding platforms perceived this risk to be of lower risk, with the majority of platforms assigning the risk a “low” or “very low” value (75% and 60%, respectively).

The same was true with respect to changes to the current regulation. Non-investment platforms did not see a “high” risk of changes in the current legislation, since most of the proposals announced by the government targeted equity and lending-based Crowdfunding platforms.

### Innovation

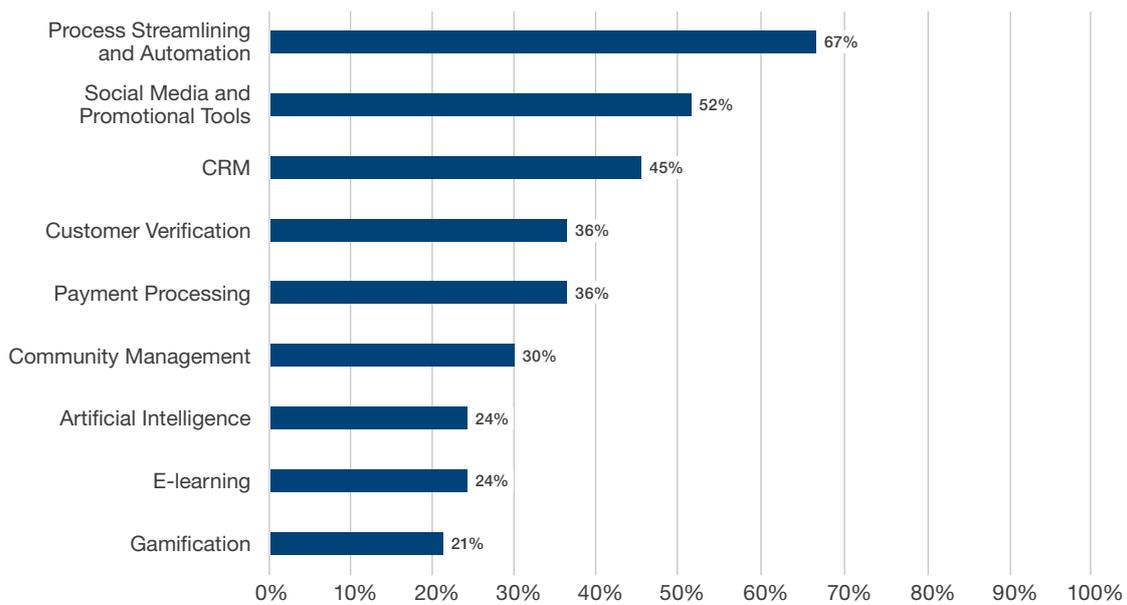
Twenty-three platforms operating in Germany provided information on the extent to which they have changed their business model. Overall, the German Alternative Finance Ecosystem continued to foster innovation with respect to underlying business models. However, with the consolidation of the market the focus of platforms has been to expand their existing operations and increase their revenues. Overall, 57% of platforms made no changes to their business model, 30% slightly changed their business model, and a minority of 13% significantly altered their business model of the platform.

Additionally, twenty-four platforms operating in Germany provided information on the

extent to which they have changed their product offerings, essentially telling a different story. Here, 42% of platforms introduced new products, and 25% have altered existing products in 2017. The remaining 42% made no changes to their products.

Furthermore, thirty-three platforms operating in Germany provided information on their R&D focus and activities. Our findings showed that German platforms focused on Process Streamlining and Automation (67%), Social Media and Promotional Tools (52%) and CRM tools (45%). Nevertheless, platforms also indicated investing in other R&D activities such as Customer Verification (36%).

Figure 45: Actively Pursued R&D Initiatives in 2017 - Germany

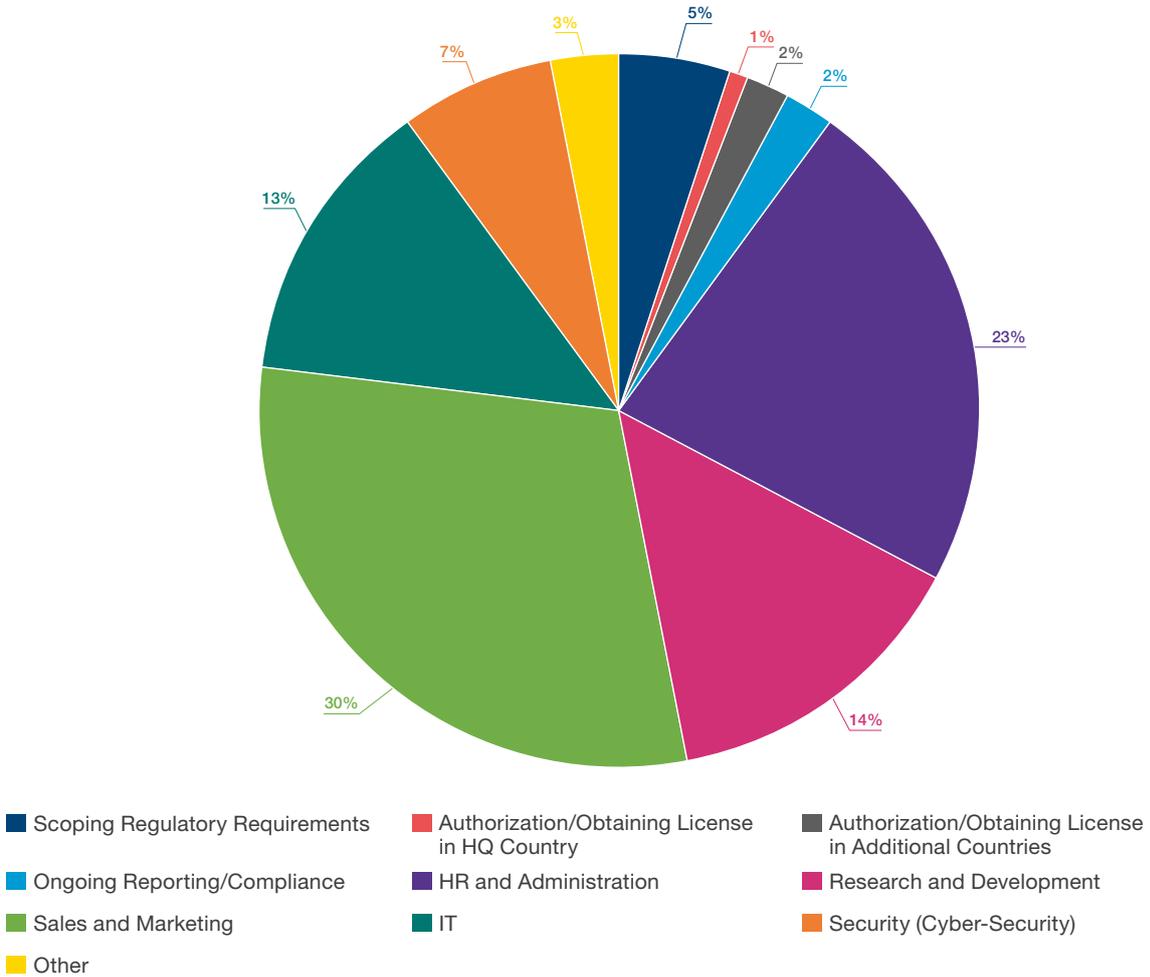


### Platform Costs and Budget

Fourteen platforms operating in Germany provided information on their cost structure and budget allocations. Here, figures show that Research and Development represented only 14% on average of a total budget of platforms in Germany. Sales and Marketing activities accounted for 30% of the activities

of the platforms, followed by 23% spent on Human Resources and 13% on IT%. Security and cyber-security activities only made up 7% of the budget of platforms in Germany. Authorization, compliance and regulatory scoping combined capture 10% of platforms budget.

Figure 46: Platform Operating Costs and Budget Allocation (%) Germany

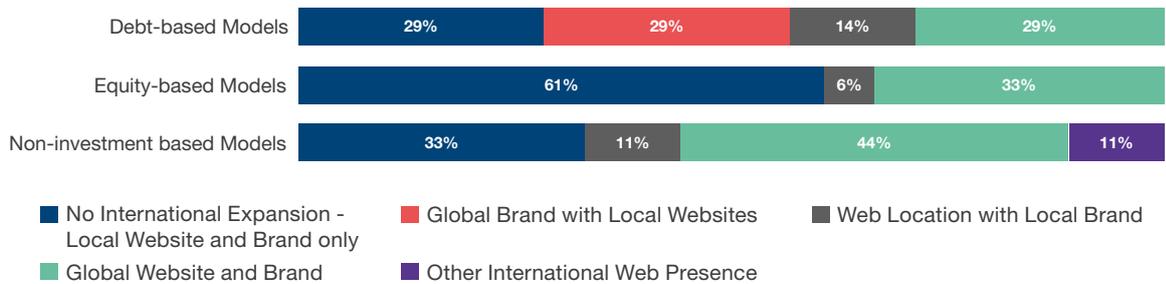


**Internationalization**

We found that platforms in the German Alternative Finance Market only used 5% of their budget to scope new regulations. Additionally, most platforms maintained

their current business model and only innovated their products. These findings were consistent with the internationalization strategies of platforms in Germany.

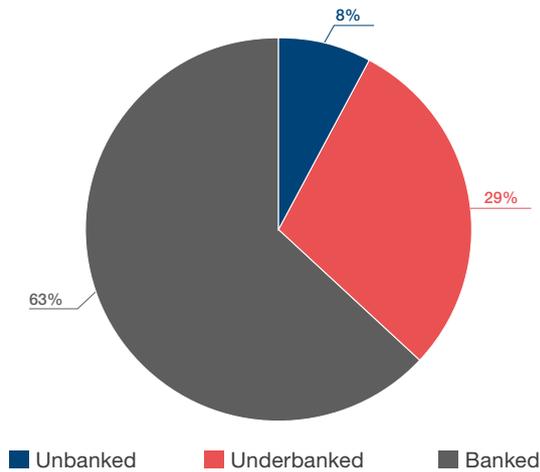
Figure 47: Platform Internationalization Strategy - Germany 2017



Twenty-four platforms operating in Germany provided information on their international strategies. The majority of Equity-based Crowdfunding platforms did not seek international expansion (61%). Their regulatory model does not allow the passporting of their business model to other European countries, as some of their investment assets, such as subordinated loans, fall outside of the MiFID regime. Lending-based Crowdfunding platforms either have an international strategy in place, are planning an expansion, or are part of a global brand. Overall, 44% of non-investment platforms in Germany address foreign markets via a standard global platform brand.

### Financial Inclusion

**Figure 48: Banked Status of Borrowers (%) Germany**

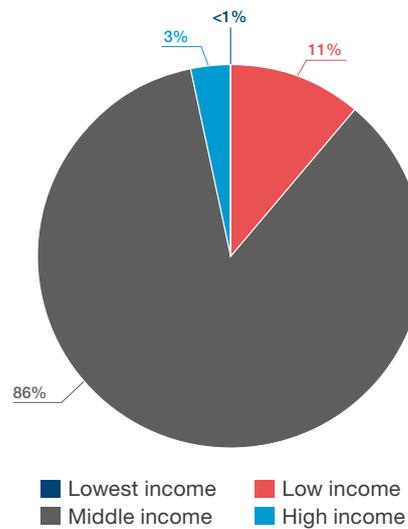


Nineteen German debt-based platforms provided information about the status of their borrowers. 63% of all borrowers in Germany are banked, 29% are underbanked, and 8% are unbanked.

Twelve German debt-based platforms provided information about the income of their funder customer-base. The income

categorization of funders reflects the regulatory regime in Germany. Lending-based and equity-based contributions are only possible up to a threshold of €10,000. Therefore, it is no surprise that 86% of funders are from the middle-income category. Only 3.1% of German funders are categorized as high-income in Germany – in contrast to 79.2% of high-income funders in France.

**Figure 49: National Income Categorization by Funder Customerbase (%) Germany**



### Institutionalization

Thirty-two platforms operating in Germany provided information about the ways in which they cooperated with institutional partners. 43% of platforms in Germany indicated that they are working with an institutional partner. An additional 37% of platforms reported that they have a referral agreement with an external partner, while 15% of platforms are owned at least in part by an external institutional partner. Next, 12% utilized the external partner as a bank agent, and 6% of exchange data with an external partner.

### New Potential from Crowdfunding Using Securities

By: Jamal El Mallouki, Head of the Board of the German Crowdfunding Association

In 2018, the German Government raised the Prospectus Threshold for Securities to 8 Million Euro annually. This has motivated platforms to move their business models from intermediating investment assets (Vermögensanlagen) to securities (Wertpapiere). At the same time, SMEs especially face the problem of being able to issue securities, since the most common form of SME shares are considered investment assets and not securities in Germany. We also have seen a number of new market players, such as Banks and Family Offices.

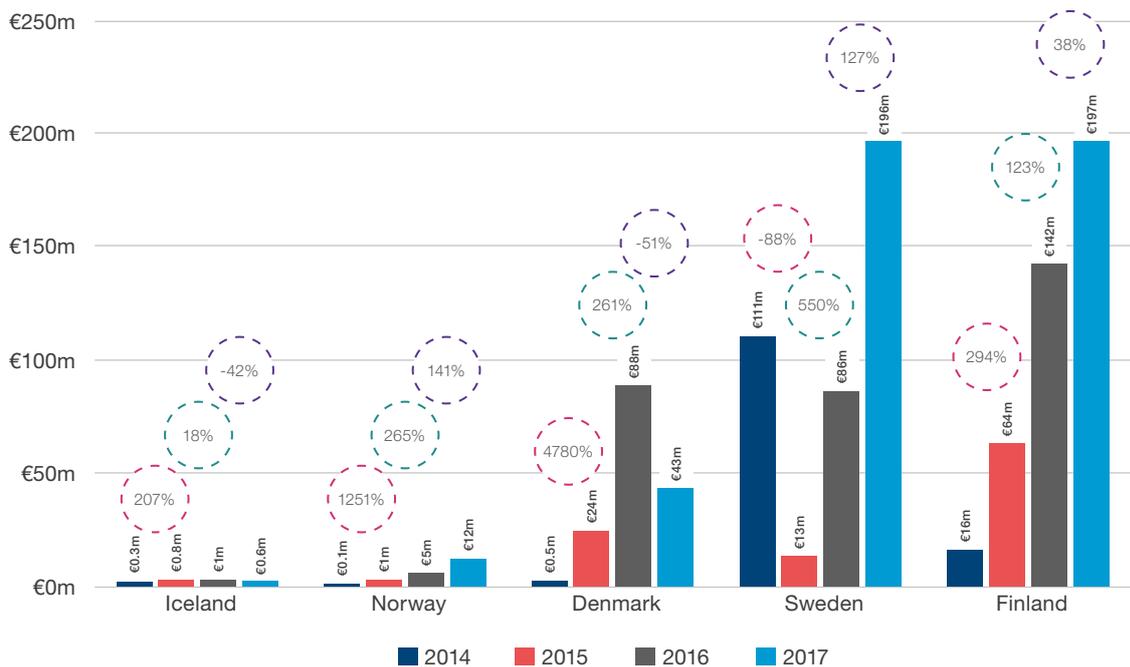
## THE NORDICS

### Market Volume

The Nordic market, including Denmark, Finland, Iceland, Norway and Sweden, continued to grow in 2017, increasing 39% from 2016. Overall, this represents an average four-year growth rate of 67%.<sup>36</sup> In 2017, the alternative finance market volume grew by nearly €126m, placing the Nordic

region as the 3<sup>rd</sup> largest market for alternative finance in mainland Europe, following France and Germany, with a total volume of €449m. Jointly, the Nordic Countries accounted for 13.3% of total 2017 volume in Europe excluding the UK, and 4.3% of volume in Europe including the UK. The analyses presented in this section are based on data from 73 platforms operating in the Nordic region.<sup>37</sup>

Figure 50: The Nordics Online Alternative Finance Market Volumes 2013-2017 (€millions)



### Volume by Model and Country

When examining this by model, the greatest growth was evident with respect P2P Consumer Lending which raised €171.2m, a growth of 156% from 2016. This accounted for 38% of regional volume in 2017. This growth was mostly based on activities in Finland (59% of regional volumes) and in Sweden (39% of regional volumes). Regulatory challenges in 2017 prevented the development of P2P Consumer Lending in Denmark, Iceland and Norway. In Norway, the first concessions for P2P Consumer Lending platforms were only provided by the Norwegian Financial Authorities in 2018.

Invoice Trading continued to grow in importance, and raised €65.2m in 2017,

growing 252% from 2016. This represented 14.5% of regional alternative finance volumes. This growth was mostly a result of activities in Sweden (48% of regional volumes) and in Denmark (41% of regional volumes).

Equity-based Crowdfunding continued its regional growth, increasing 14.3% between 2016 and 2017. However, this figure camouflages a mixed and inconsistent dynamic on a country level among the region's heavy weights. On the one hand, Finland continued to experience strong growth (76%). Its 2017 volume, €50.7m, was a €21.9m increase from 2016. On the other hand, while Equity-based Crowdfunding in Sweden raised €34.0m in 2017, this was €12m less than 2016, a decline of 26%. This may be explained by a combination of

regulatory uncertainty and relatively high formal entry barriers for those following existing regulation. Denmark's equity crowdfunding market has been limited by entry barriers like those in Sweden. Norway has only recently opened for Equity-based Crowdfunding, approving concessions for a few players. And an equity market in Iceland hasn't developed yet, due to a combination of strict capital market regulations, limitations on cross-border transaction and foreign ownership, as well as a relatively small home market.

P2P Business Lending saw high growth rates from relatively small levels in 2016 in Denmark and Sweden, up €2.1m and €1.9m respectively. With respect to Finland, we assume our data shows a superficial decline of €22m due to missing data from two critical platforms in this category. Here, similar data provided by the Finnish Ministry of Finance presents a growth of €21.2m for the same period.<sup>38</sup> It is here assumed that the ministry's data is more complete than the one at our disposal.

Real Estate Crowdfunding also continued its healthy growth. The model was up 103% between 2016 and 2017 and raised €52.9m. This accounted for 12% of regional alternative finance volumes. Here, the absolute leader was Sweden, capturing 90% of regional volumes and exhibiting a strong growth of 84% between 2016 and 2017.

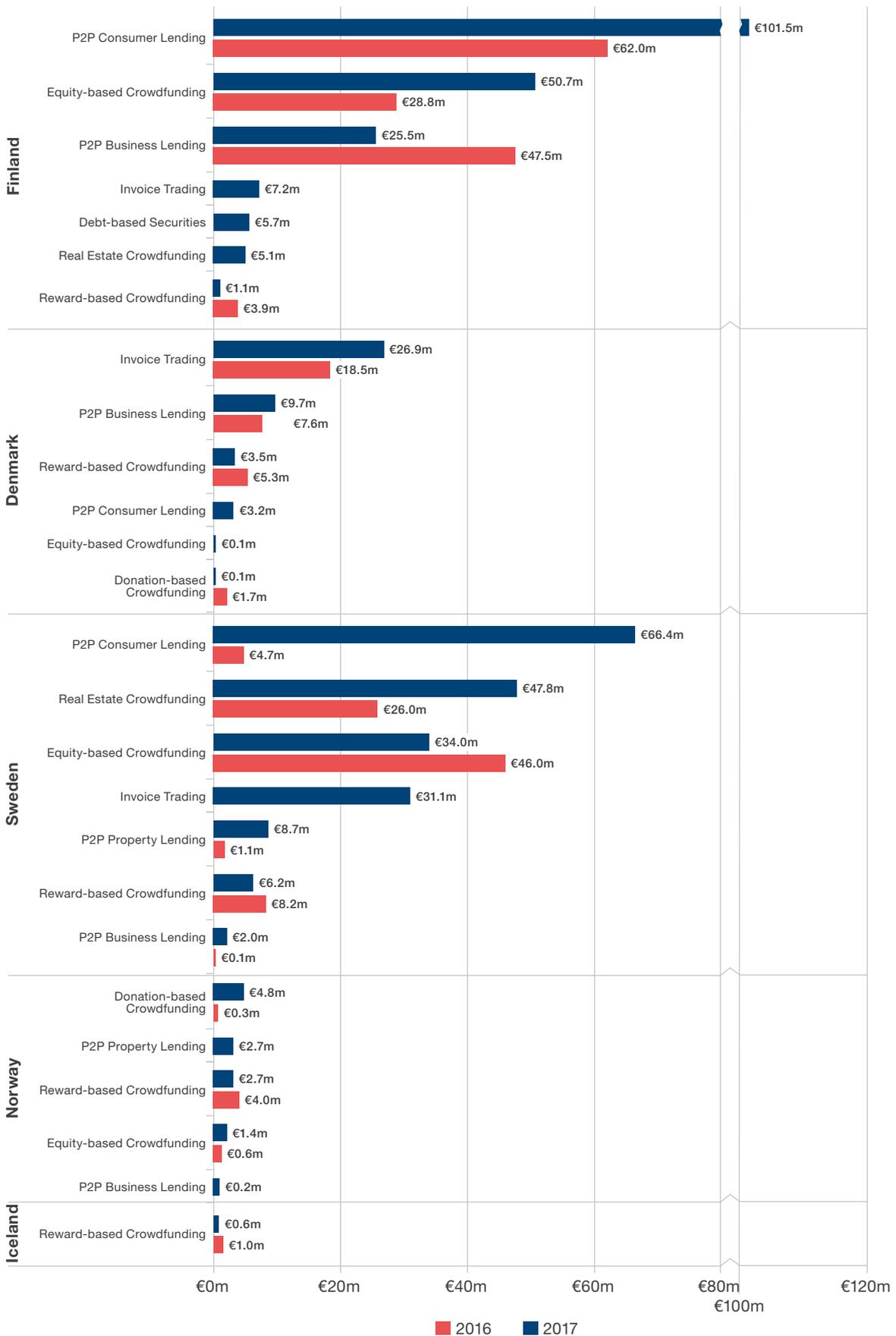
Furthermore, when considering P2P Property Lending, our analysis showed a superficial decline resulting from the non-participation of a major Denmark-based platform. Hence, when excluding Denmark, regional P2P Property Lending showed strong growth, up €10.3m from just €1.1m in 2016.

Reward-based Crowdfunding continued to be the only major model with a presence in all Nordic countries. However, this model exhibited a decline of 37% from 2016 levels, raising €14m in 2017. This amounts to just

3% of regional alternative finance volumes. This fall was consistent in all countries across the region: falling 72% in Finland, 35% in Denmark, 24% in Sweden, 34% in Norway and 42% in Iceland. This may reflect a combination of two developments. First, there may be a certain level of exhaustion of efforts by local platforms in face of struggling to achieve profitability and scale with small commissions on relatively small sum campaigns. Second, there may have been a transition for some of the stronger campaigns towards investment models, as these become more clearly regulated, and offer greater financial gains on successful campaigning efforts on average.

Finally, while Donation crowdfunding still accounted for the smallest share of regional alternative finance volumes (1%), it grew 145% between 2016 and 2017. This is in contrast to a 21% decline between 2015 and 2016. A mixed and inconsistent dynamic is evident at a country level. The full growth is explained by a dramatic increase in Norway, up €4.5m between 2016 and 2017. This accounted for 98% of regional donation volumes. This growth can be explained by the entrance of two new platforms with strong financial backing from local banks as co-owners, as well as the successful transfer of popular national donation collection schemes in schools and television towards crowdfunding platforms. On the other hand, a decline of already small initial volumes was evident in Denmark and Finland. Both countries require campaigners to apply for formal permission from authorities to run donation crowdfunding campaigns, which is relatively time demanding and costly. As such, such requirements limit the attractiveness of Donation-based Crowdfunding for relatively small and sporadic fundraisers (when considering campaign costs, formal application fees, and platform commissions).

Figure 51: Total Alternative Finance Volume by Model in The Nordics 2016-2017 (€millions)



In 2017, Finland maintained its position as the regional leader with a total annual volume of €196.8m by a small margin compared to Sweden's total volume of €196.4m.<sup>39</sup> Finland was ranked 5<sup>th</sup> in Europe in terms of total volume, and 4<sup>th</sup> in terms of volume per capita with €35.7 per capita. Sweden ranked 6<sup>th</sup> in Europe in terms of total volume, and 11<sup>th</sup> in terms of volume per capita with €19.5 per capita. However, Sweden more than doubled its market volume (127%) between 2016 and 2017. Finland, in comparison, grew by 39% in the same period. Growth in both countries was mostly fueled by growth in P2P Consumer Lending, as well as Equity-based Crowdfunding in Finland, and Real Estate Crowdfunding in Sweden.

The fastest growth rate was evident with respect to Norway, growing 141% between 2016 and 2017. However, Norway's market remained relatively small, raising €11.8m in 2017. This represented just 2.6% of the regional market. Norway's growth is fueled by both the market entry of Non-investment platforms partially owned by banks, as well as the gradual entry of Equity and P2P Lending platforms, as the first concessions for such platforms were granted by financial authorities.

Our ability to present the Danish market was somewhat limited this year as a major P2P Property Lending platform did not participate in our survey this year. Hence, when excluding this specific model, which was also the largest in 2016, Denmark exhibited a 31% growth to a total of €43.5m for 2017.

Finally, Iceland declined significantly between 2016 and 2017 falling 42%. Overall, its volumes were only linked to non-investment models, primarily Reward-based Crowdfunding. Thus far, investment models have failed to develop in Iceland, as a result of a combination of strict capital market regulations, limitations on cross-border transaction and foreign ownership, as well as a relatively small home market for both investment and non-investment alternative finance models.

### **Regulation**

Since there is no common legal framework in the Nordic that oversees investment and non-investment fundraising, one must

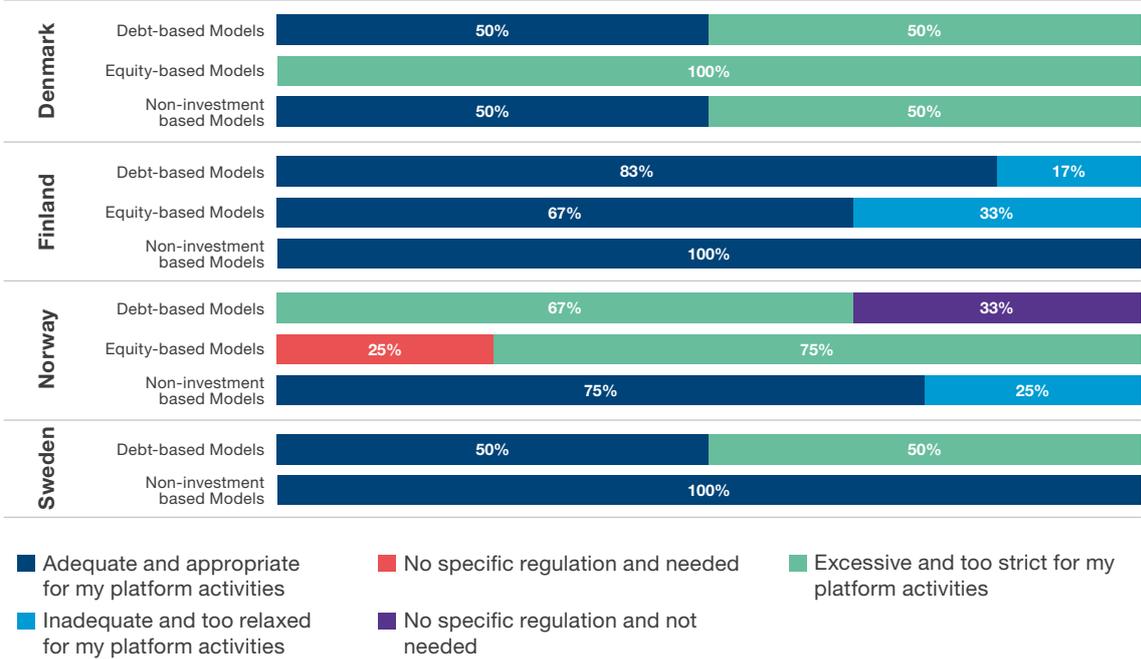
examine such issues at a national level. Here, when interpreting our findings with respect to platform perception of regulation in each country, one must acknowledge that few platforms operate in each market, and those operating are unlikely to be the ones limited by regulation. Nevertheless, our findings seem to highlight a few important aspects.

Overall, 71% of debt, 60% of equity, and 58% of non-investment model platforms in the region report being authorized to operate within their respective territories. In addition, 4% of debt-based and 13% of equity-based platforms report not being authorized themselves but that they operate under formal relations with another licensed institution. Finally, 25% of debt, 27% of equity, and 42% of non-investment platforms report that authorization was not required for their activities. With the exception of non-investment models, it is likely that platforms taking such positions are currently challenging legal interpretations of their activities, but frequently do operate with the knowledge and observation of national financial authorities.

First, friendly crowdfunding regulation in Finland has been the result of long productive dialogues between authorities and industry players in the country, culminating with the Crowdfunding Act that was ratified by parliament in 2015. This removed many obstacles to Equity Crowdfunding. Existing regulation already facilitated crowd-lending and Reward-based Crowdfunding in a satisfactory manner. Finland is the de-facto market leader both by volume and per capita contributions. While not mentioned by surveyed platforms, a remaining issue is that of Donation-based Crowdfunding, which requires an expensive, lengthy registration with authorities that hampers the development of this non-investment model.

Second, Sweden has begun several processes for the evaluation of the suitability of existing regulation, and is reviewing proposals for changes, which creates a certain level of uncertainty that can be seen by a number of non-response regarding these questions by equity platforms<sup>40</sup>, as well as the mixed viewpoints about debt models expressed by the few platforms that did respond to the question.

Figure 52: Perception Towards Existing National Regulation - The Nordics



Third, in Denmark, satisfactory regulation is in place for P2P Business Lending and Reward-based Crowdfunding. However, regulatory challenges remain with respect to P2P Consumer Lending, Equity-based and Donation-based Crowdfunding. When considering Equity-based Crowdfunding, current laws make it extremely expensive for young startups to engage, leading to very little activity. To the best of our knowledge, only a single equity case was reported in Denmark thus far. With respect to Donation-based Crowdfunding, such fundraising requires a relatively expensive authorization from the authorities, which render such activities futile unless raising large sums. With respect to P2P Consumer Lending, actors have not yet been fully successful in applying a similar interpretation of the laws used for P2P Business Lending.

Fourth, in Norway a hearing about the need for regulatory revision was held by the finance committee of the parliament only in Spring 2018, which led to the instruction of the financial authorities to initiate a sandbox process with industry players. First concessions for P2P Lending and Equity platforms were only granted in late 2017. As a result, the relative dissatisfaction with existing regulatory frameworks, as expressed in our survey, was not entirely unexpected.

Finally, Iceland continues to suffer from both challenges of some of the strictest post-crisis financial regulations in combination with a small home market. Here, investment models have not yet emerged, especially due to a combination of foreign investment restrictions, dependence on foreign investment due to a small home market, and a looming public suspicion of credit providers.

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

## Risk

Concerns with regard to the risk of cybersecurity breaches were the only risk common across all countries and model types in the Nordics. It was reported to be of “high” or “very high” risk by 50% of platforms in Denmark, 25% of platforms in Sweden, 25% of platforms in Finland, and 23% of platforms in Norway.

Next, with the exception of Iceland all countries viewed potential changes to regulation to be a concern. This was most prominent with investment platforms operating on a debt- or equity-based model. Here, platforms were already operating under tight oversight by national authorities. Nations where progressive regulation was passed were less concerned and were mostly wary of a reversal to a more challenging regulatory environment, as was reported by 13% of Finnish platforms. 40% of platforms in Denmark also expressed this concern. In Denmark, P2P Business Lending was made possible through more facilitating regulation, while Equity-based Crowdfunding and P2P Consumer Lending remain a challenge, where 40% of platforms were concerned with changes to regulations. Half of Norwegian platforms were concerned with the risk that changing regulation would make a rough regulatory environment even rougher. In Sweden, 40% of platforms view a

change in regulation as a concern. Platforms had enjoyed a period of relatively flexible regulation, but now the future direction is uncertain. No such concerns were evident in Iceland, which already had the strictest regulatory framework in place, and any change would likely be for the better.

The risk of fraud involving high profile platforms, was most prominently mentioned by non-investment platforms. This risk was viewed to be of “high” or “very high” risk by 67% of platforms in Denmark, 27% of platforms in Norway and 20% of platforms in Sweden. A related risk most prominent among investment-based platforms related to the risk of collapse of one or more platforms due to malpractice. Here, 20% of Swedish, 20% of Danish and 29% of Norwegian platforms saw this risk to be “high” or “very high”. Interestingly, this risk was not mentioned as a concern for platforms in Finland or Iceland.

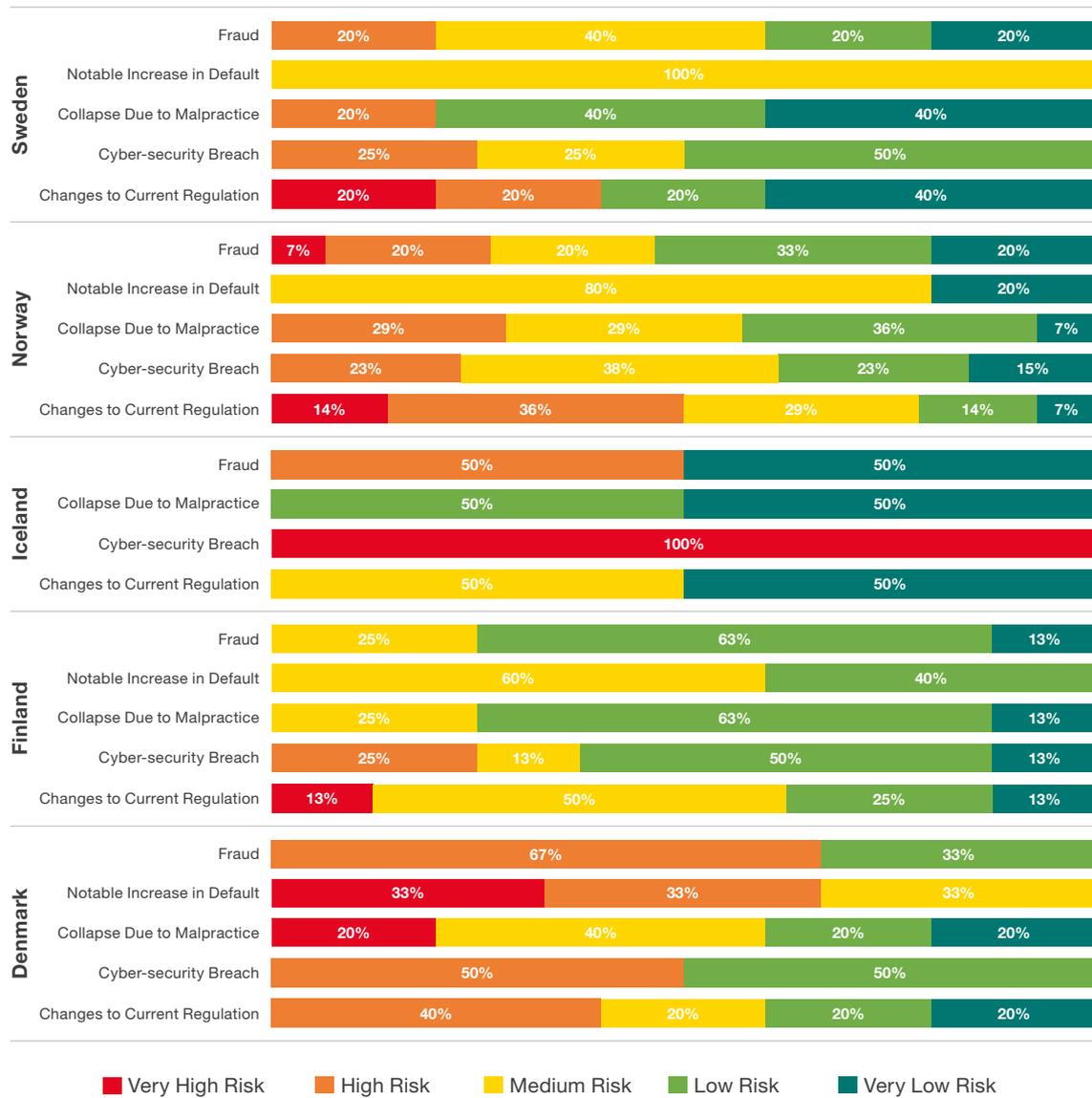
Finally, the risk of a notable increase in defaults was only seen by Debt-based platforms as a concern. This was seen predominantly in Denmark, where 67% of platforms saw it as a “high” or “very high” (67%) risk. Additionally, this risk was seen as a “medium” risk by 60% of debt-based platforms in Finland, 80% in Norway, and 100% in Sweden.

### **Uncertainties Prevail over Swedish Alternative Finance Regulation**

*By: Michal Gromek, Phd Candidate, Stockholm School of Economics*

The Financial Supervision Authorities of Sweden (Finansinspektionen - FI) has launched a FinTech Innovation Center. Moreover, FI performed an inquiry into the field of adjustment towards FinTech. In parallel, the Ministry of Finance has conducted an inquiry into the field of Crowdfunding. These initiatives have resulted in new regulatory proposals that are currently being reviewed. Since the publication of the proposed changes, it remains unclear which part of the regulation might be implemented. This lack of clarity is unlikely to be resolved quickly, due to the national parliament election period. The FinTech Innovation Center, as well as Financial Supervision Authorities, both remain too understaffed and under-financed to proactively compete as an alternative to a Regulatory Sandbox.

Figure 53: Perceptions Towards Risk Factors - Nordics 2017



**Innovation**

Forty-one platforms operating in the Nordics provided information about the status of their business models. Overall, 49% of platforms reported no significant changes to their business model, and 39% reported only slight alterations throughout 2017. The majority of those reporting a slight change to their business model were from non-investment models (i.e. Donation- and Reward-based Crowdfunding). Such changes were mostly associated with offering white label and software as service solutions, as well as strategic partnerships with public and financial institutions.

Only 12% of platforms reported significant changes to their business model in this period. This group, however, was not associated with any specific alternative finance model and included a mix of platforms from a variety of models such as Reward-based Crowdfunding, Equity-based Crowdfunding, P2P Lending and Invoice Trading.

Twenty-five platforms operating in the Nordics provided information about the status of their products and services. Here, 48% of platforms reported introducing significantly new products 40% reported introducing slightly new products. Overall,

this amounts to 88% of platforms reporting some changes to their existing products during 2017. Out of those reporting significant changes to products 50% were non-investment platforms, and 50% debt-based platforms.

Only 12% of platforms reported no changes to their products in 2017. This included a mixture of platforms from debt, equity and non-investment models.

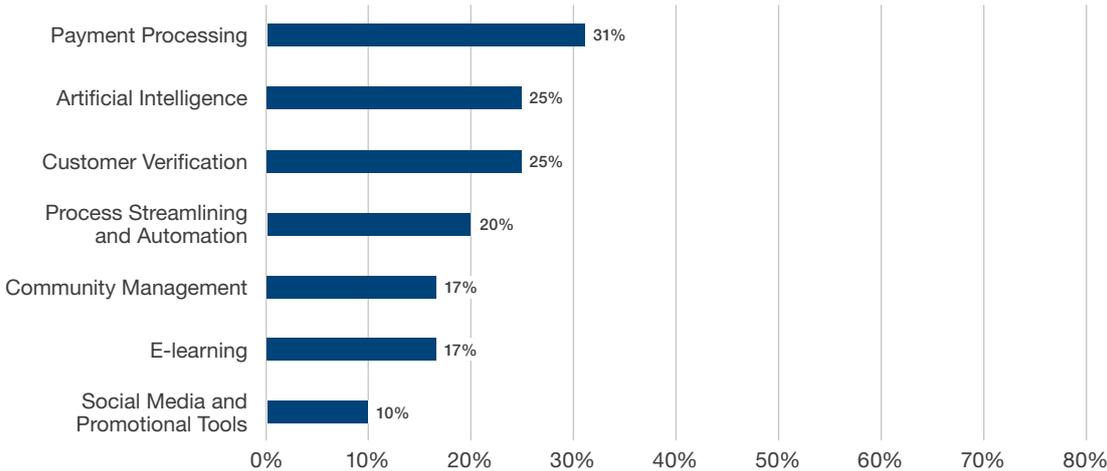
Forty-five platforms operating in the Nordics provided information about their R&D efforts, with a majority reporting investment into more than one area of focus. Current efforts mainly targeted performance enhancement technologies. In particular, 20% of platforms reported efforts on Process Streamlining

and Automation, 25% reported efforts in Payment Processing, and 25% reported efforts in developing AI and performance enhancement features.

A second major grouping of R&D efforts focused on customer service and management systems. Here, 25% of platforms reported development of Customer Verification, CRM systems (27%), and Community Management features (17%).

The third grouping of innovations that platforms focused on included various user support tools, including investment in the development of Social Media and Promotional Tools (10%), E-learning features (17%), and Gamification elements (16%).

Figure 54: Actively Pursued R&D Initiatives in 2017 - Nordics



When examining these investments by model, it becomes clear that the only R&D effort that was emphasized by both investment and non-investment models to the same degree was Payment Processing. Overall, 89% of non-investment platforms and 87% of investment platforms reported some R&D efforts into Payment Processing and have indicated that this has particularly emphasized payment systems.

Greater discrepancy was evident with respect to R&D efforts for AI and performance enhancement systems, Social Media and Promotional Tools, as well as E-learning features. Here, non-investment model platforms seemed to invest to a

greater degree than investment platforms with 94%, 83% and 72% of non-investment platforms reporting investment in these areas, respectively. This stands in contrast to the mere 30%, 43% and 4% of investment platforms reporting such investments, respectively.

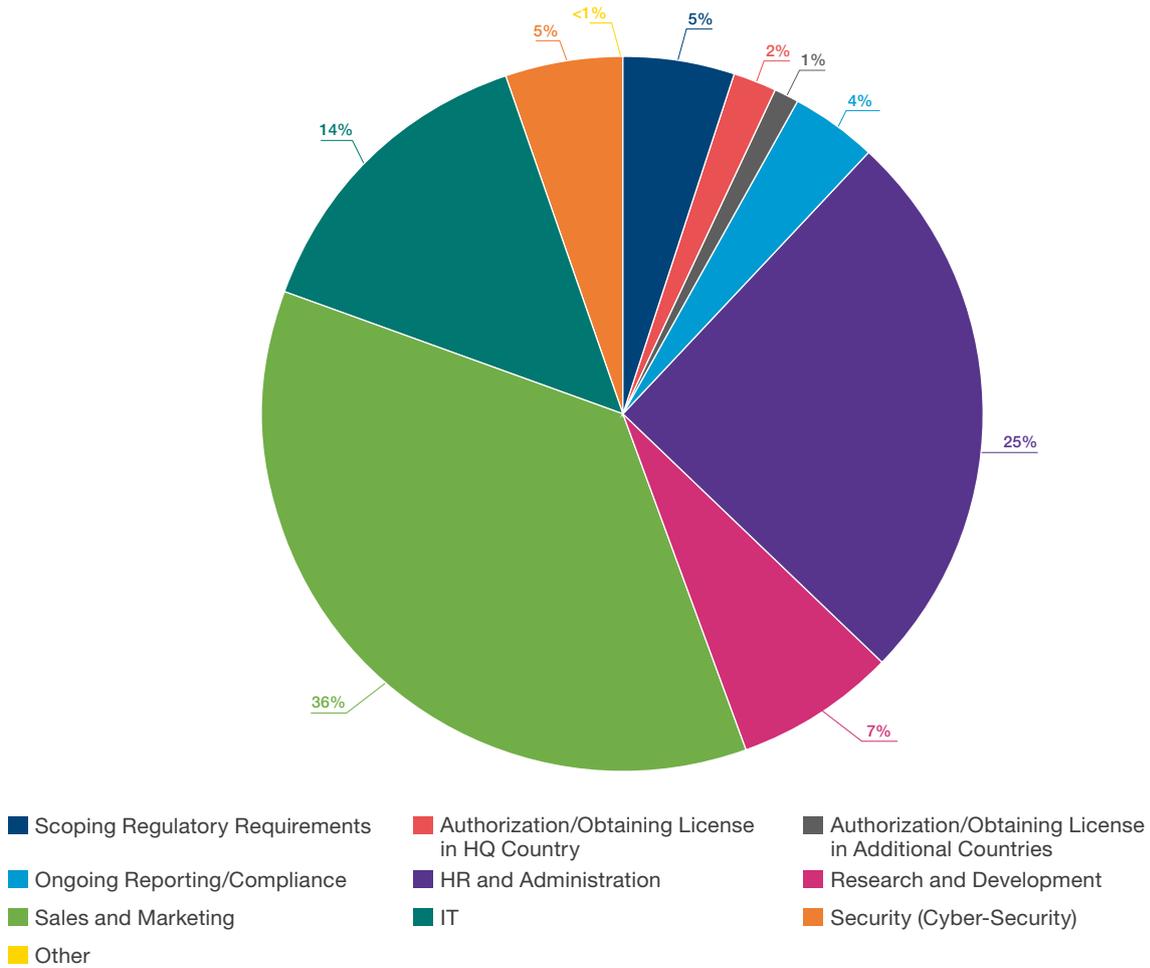
Finally, areas where investment platforms seemed to invest more in comparison to non-investment platforms with regard to Customer Verification and Process Streamlining and Automation. Here, 78% and 83% of investment platforms reported such R&D efforts, respectively. Non-investment platforms had lower levels of investment, at 56% and 67%, respectively.

### Platform Costs and Budget

Seventeen platforms operating in the Nordics provided insight into their budget structure. The main cost element was associated with sales and marketing costs, representing an average of 36% of platform budgets. Next, human resources accounted for 25% of the

budget on average. Additionally, 14% of their budgets were allocated for IT maintenance, with an additional 7% allocated for covering R&D costs. Finally, regulatory scoping, compliance and licensing-related costs, jointly accounted for 11% of platform budgets on average.

Figure 55: Platform Operating Costs and Budget Allocation (%) Nordics



### Internationalization

Thirty platforms operating in the Nordic region provided information about their international strategies and efforts. 35% indicated no plans for international expansion, while 65% indicated various strategies for catering to international customers. This was to be expected as it is likely that platforms from small domestic markets will increasingly depend on international expansion for achieving scale and profitability in the long-term.

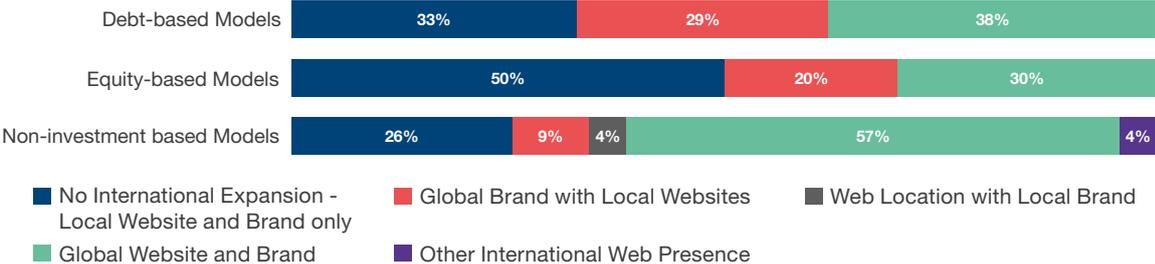
The most popular strategy for platforms that

had expanded internationally was the use of a global brand and website (42%). The second most common strategy was the use of a global brand with a localized website (19%). Only a small minority reported going fully local with a local brand and local website (2%). This can be related to constrained budgets under which most platforms still operate, as well as the experimental nature of their activities in exploring different international markets before fully committing to these markets. Both issues probably contribute to the more generic global service orientation and limited localization efforts.

However, differences were evident by model type, where the more sensitive operations were to local regulations, the more likely they were to be constrained in their internationalization efforts. Here, non-investment models reported higher levels of international activity overall, with 74% of platforms employing some sort of international strategy, versus 50% of equity-based and 67% of debt-based platforms.

Non-investment models relied more heavily on a global website and brand for achieving scale across markets, where regulation does not differ significantly in most cases. On the other hand, investment-based platforms reported more localization efforts (while maintaining a global brand). This was done most likely to adjust to local regulations. Overall, 29% of lending platforms and 20% of equity platforms use localized sites.

**Figure 56: Platform Internationalization Strategy - Nordics 2017**



**Financial Inclusion**

Twelve debt-based platforms operating in the Nordic region provided information about the status of their borrowers. Overall, these platforms reported that, on average, 84% of their borrowers were banked, 15% were underbanked, and 2% were unbanked.

Additionally, eight debt-based platforms operating in the Nordic region provided information about the income level of their funders or loan sponsors. Here, 67% were high income individuals and 33% were middle income individuals. This indicates Nordic platforms, thus far, have not catered to potential funders from lower incomes.

**Institutionalization**

Forty-three platforms operating in the Nordic

region provided information about the extent to which they collaborate with institutional partners. Here, a majority of platforms (58%) indicated that such arrangements were not applicable to them.

However, 35% of platforms did report having referral arrangements with institutional partners. 11% reported that an institutional partner provides financial services to their customers, but does not provide finance per se. A total of 9% of platforms reported that a bank serves as a custodian bank for their platform.

Interestingly, 18% of platforms also reported that institutions have invested directly into their platform as shareholders. Of these 63% were non-investment model platforms, 25% were debt-based platforms, and 12% were equity-based models.

**Finnish Crowdfunding Market Still Growing Strong Despite Regulatory Challenges**  
*By: Aki Kallio, Managing Compliance Officer, Danske Bank Finland*

Based on a survey by the Bank of Finland (published March 2018), the crowdfunding market in 2017 was EUR 246.7 million, showing an impressive 61 per cent growth rate compared to 2016. Factors contributing to this growth include the Crowdfunding Act, which came into force in late 2016. The Crowdfunding Act placed loan-based and investment-based crowdfunding within the sphere of regulated financial markets. Due to transposition of MiFIR and MIFID II to Finnish legislation and a strengthened focus on investor protection related thereto, it is somewhat unclear whether the growth of the crowdfunding market will continue to maintain its strong growth, even though market sentiment remains positive. Finnish crowdfunding platforms have so far not utilized blockchain technology nor virtual currencies.

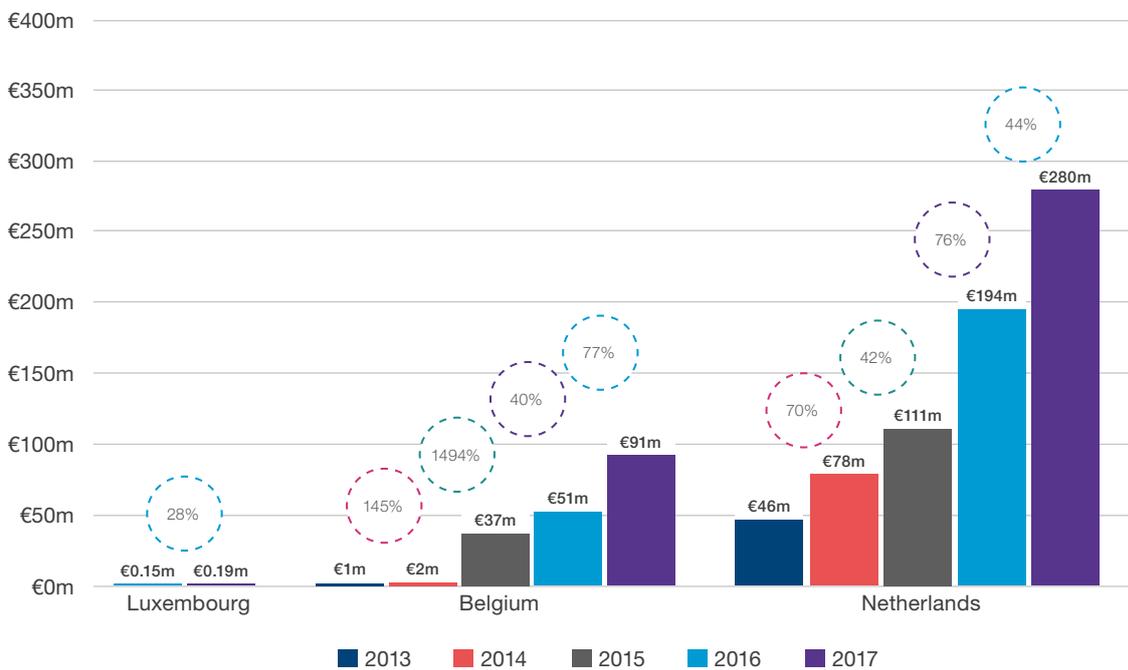
## BENELUX

### Market Volume

The Benelux market, including Belgium, the Netherlands and Luxembourg, continued its strong growth in 2017, growing 51% – an average four-year growth rate of 68%.<sup>41</sup> In 2017, regional alternative finance market volume grew by close to €125m, making the Benelux region the 4<sup>th</sup> largest market for alternative finance in mainland Europe after France, Germany and the Nordic countries

with a total volume of €371m. Jointly, Benelux countries accounted for 11% of total 2017 alternative finance volume in Europe excluding the UK, and 3.6% of volume in Europe including the UK. The Netherlands is by far the region's heavy weight accounting for 75% of the regions' volume, followed by Belgium (24.5%) and Luxembourg with less than 0.5%. The analyses presented in this section are based on data from 47 platforms operating in the region.<sup>42</sup>

Figure 57: Benelux Online Alternative Finance Market Volumes 2013-2017 (€millions)



### Volume by Model and Country

When examining this growth by model, the greatest growth was evident with respect to Invoice Trading and Balance Sheet Business Lending. First, Invoice Trading volumes in 2017 reached €102.7m, representing 28% of total regional alternative finance volume in 2017, growing 115% from 2016. This growth was based on activities in both Belgium (72%) and the Netherlands (28%). Second, Balance Sheet Business Lending grew from just €4.0m in 2016 to €61.8m in 2017, all raised in the Netherlands, representing 17.6% of regional volume.

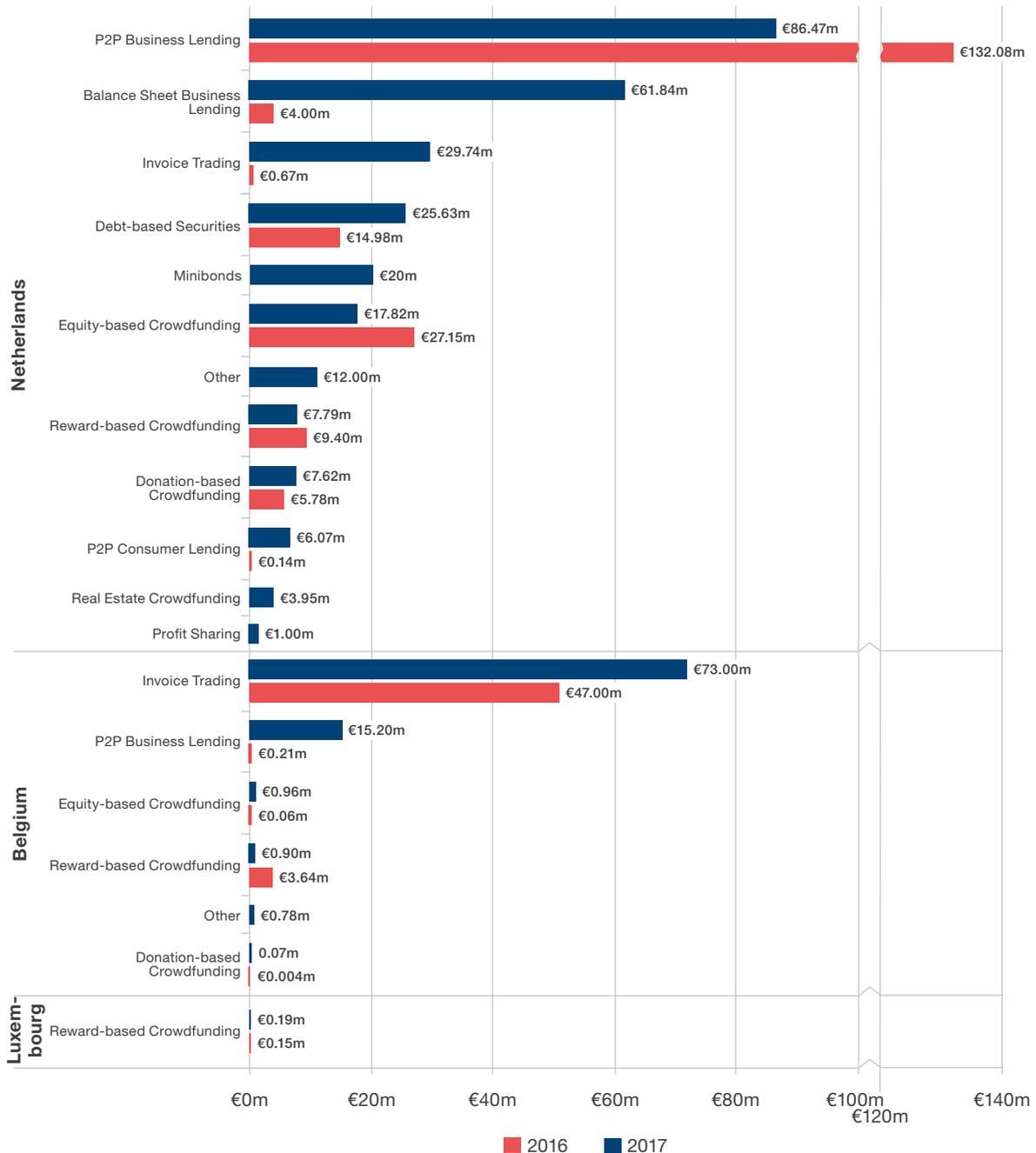
Healthy growth trajectories were also evident with respect to Debt-based Securities and Mini-bonds, albeit from relatively low volumes in 2016 and almost completely associated with activities in the Netherlands. Here, volumes of debt-based securities grew 71% between 2016 and 2017 to €25.6m. Volumes associated with Mini-bonds grew from €0.59m in 2016 to €20m in 2017.

P2P Business Lending was also one of the leading models and accounted for 28% of regional volumes. It saw high growth in Belgium, up €15m in 2017 from just €0.2m in 2016. However, with respect to the

Netherlands, our data depicted a decline of €45.6m. This is partially superficial due to the non-participation of three platforms from this category<sup>43</sup> in our 2017 survey. Here, assuming these platforms maintained the same levels they reported in 2016, 2017 volumes would still be €9m below their 2016 levels, suggesting some negative growth in this sector in 2017.

Other lending models reported growth, all from the Netherlands. First, Positive Social Impact Lending (falling under “Other” in current survey) raised nearly €12m in 2017. P2P Consumer Lending also grew from just €0.14m in 2016 to €6.1m in 2017.

Figure 58: Total Alternative Finance Volume by Model in Benelux 2016-2017 (€millions)



Equity-based Crowdfunding declined 31% between 2016 and 2017, down €8.4m to €18.8m. Some of this may be explained by the non-participation of a single equity platform from the Netherlands in the 2017 survey.<sup>44</sup> Here, even assuming this platform maintained the same levels they reported in 2016, volumes in 2017 would have remained far below their 2016 levels. This, in combination with the fact that five new equity platforms participated in the current survey, seems to suggest that a decline indeed took place in 2017. On a country level, all of the negative growth occurred in the Netherlands. In comparison, Belgium experienced modest growth, growing nearly €1m.

Additionally, one model type that had no perceived volume in 2016 were reported in 2017. In particular, platforms in Real Estate Crowdfunding raised €4.0m. This was associated solely with activities in the Netherlands.

Finally, with regard to non-investment models, while Reward-based Crowdfunding declined, Donation-based Crowdfunding grew. Reward-based Crowdfunding fell €4.3m, or 33% between 2016 and 2017 to €8.9m. This fall was recorded in both the Netherlands and Belgium, -€1.61m and -€2.74m respectively. The exception was Luxembourg, which registered modest growth from €0.15m to €0.19m. The decline in Belgium's volume can be partially explained by the non-participation

of one reward platform.<sup>45</sup> Here, even if this platform maintained its volume from 2016, total regional volume would remain well below their 2016 levels. Nevertheless, it is unclear whether this was a temporary fall or an indication of fatigue in a model that has suffered from intense competition and difficult cashflows, challenging platforms in this category.

On the other hand, Donation-based Crowdfunding, while still accounting for a small share of overall regional volume (2%), grew 33% between 2016 and 2017. While growth was evident in both Belgium and the Netherlands, 96% of it was recorded in the Netherlands. Overall, regional volumes were €7.7m, with €7.6m from the Netherlands.

In 2017, the Netherlands maintained its position as the regional leader with a total annual volume of €279.9m by a large margin, as the second largest regional volume was from Belgium, with €90.9m. It ranked 4<sup>th</sup> in Europe in terms of total volume, and 9<sup>th</sup> in terms of volumes per capita with €16.34 per capita. Belgium ranked 13<sup>th</sup> in Europe in terms of total volumes, and 12<sup>th</sup> in terms of volumes per capita with €7.99 per capita. However, Belgium grew by 77% between 2016 and 2017, while the Netherlands grew by 44% in the same period. Growth in both countries was mostly fueled by growth in P2P Business Lending and Invoice Trading, while Balance Sheet Business Lending drove growth in solely the Netherlands.

### Professional Centers for Alternative Finance Practice and Research Emerging in the Netherlands

*By: Ronald Kleverlaan, Managing Director, CrowdfundingHub*

Two new initiatives are set to advance the professionalization of Alternative Finance in the Netherlands. First, a public-private Alternative Finance Hub was launched by several leading alternative finance platforms. This hub (**Stichting MKB Financiering**) will, with support of the Dutch government, invest in the growth of the industry over the next three years by: educating SME advisors and entrepreneurs (through the leading SME associations); lobbying for a level-playing field for SME finance; and professionalizing the industry by launching a strong code of conduct for providing funding to SMEs.

In addition, Utrecht University has launched the **European Center for Alternative Finance** as a center that will combine all knowledge and research on alternative finance in the Netherlands and provide academic research and independent insight for policymakers. This network of researchers is building the largest dataset of loan and investment data from alternative finance platforms and is sharing insight and research data with international researchers. The Center also collaborates with alternative finance researchers internationally and has already organized two international research conferences on alternative finance.

## Alternative Finance is a Real Alternative for Traditional SME Financing in the Netherlands

By: Ronald Kleverlaan, Managing Director, CrowdfundingHub

The Alternative Finance industry in the Netherlands is maturing and is becoming a real alternative to traditional financing for SMEs. In recent years, alternative finance providers in the Netherlands have raised €1 billion in funding for over five thousand SMEs. For Dutch industry this means we are at a turning point. While Alternative Finance is still not mainstream and used by all companies, at this moment roughly 10% of all new loans to SMEs are provided by alternative finance providers. This will grow in the next 3 years to at least 20% and for specific industries, or for small funding rounds (<€250k) this will most likely be larger than traditional bank financing.

Alternative finance in Luxembourg remained marginal and was predominantly associated with low volumes of Reward-based Crowdfunding raised on international platforms. This may be explained by a small local market with a high concentration of traditional financial institutions. Nevertheless, it was unclear whether this is a result of underperformance in the alternative finance sector, or if traditional finance channels sufficiently satisfy local funding needs.

### Regulation

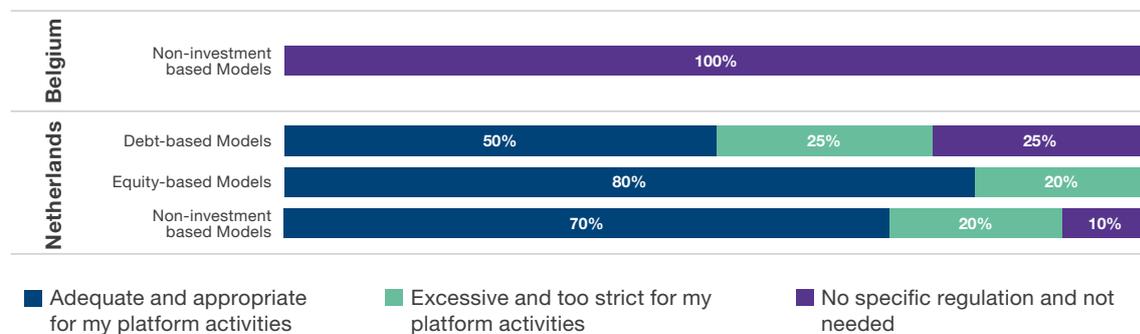
Since there is no common legal framework in the Benelux countries that oversees investment and non-investment fundraising, one must examine such issues at the national level. Here, when interpreting our findings with respect to platform's perception of regulation in each country, one must acknowledge that only few platforms both operate in each market and responded to this question. Furthermore, those operating are unlikely to be the ones limited by regulation. Nevertheless, our findings seem to highlight a few important aspects.

Overall, 80% of debt, 82% of equity, and 73% of non-investment model platforms

in the region reported being authorized to operate within their respective territories. Unlike platforms in other regions, none of the Benelux platforms reported not being authorized. Finally, 20% of debt, 18% of equity, and 27% of non-investment model platforms report that authorization was not required for their activities. With the exception of non-investment models, it is likely that platforms taking such positions are currently challenging the legal interpretation of their activities.

While regulatory reviews continue, amendments to existing frameworks appear to have been well received in the Netherlands. For both Equity and Debt models, most platforms (80% and 70% respectively) view regulations to be adequate and appropriate for their activities. In Belgium, while a "Crowdfunding Platform Act" was enacted in 2017, it remained on the restrictive side, despite easing some earlier limitations. Interestingly, 100% of Non-investment platforms in Belgium view there to be no specific regulations pertaining to their model, and that regulation is not needed.

Figure 59: Perception Towards Existing National Regulation - Benelux

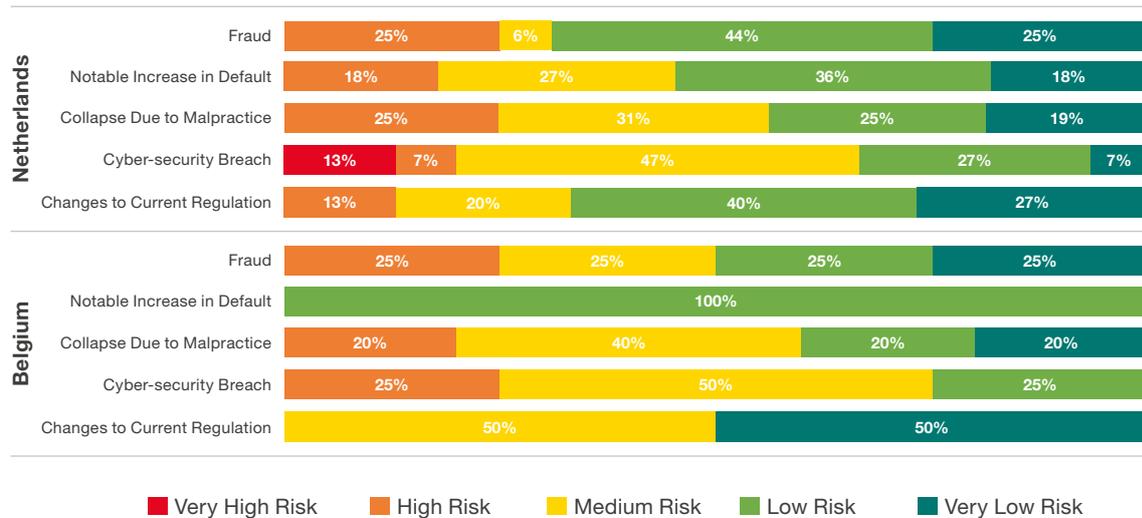


## Risk

The risk of fraud involving high profile platforms and the risk of collapse of a platform due to malpractice were the most prominently mentioned risks. In the Netherlands, 25% of platforms indicated both as “high” risk. Similarly, in Belgium 25% of platforms reported fraud “high” risk and 20%

reported collapse as “high” risk. More specifically, in the Netherlands, concerns with platform collapse due to malpractice was more pronounced in investment model platforms (mentioned by 40% of debt-based platforms and 33% of equity platforms) than non-investment (mentioned by 17% of non-investment platforms).

Figure 60: Overall Perceptions towards Risk Factors - Benelux



Concerns with risks of cyber-security breaches were seen as being either “very high” or “high” risk by 20% of Dutch and 25% of Belgian platforms. In the Netherlands such concerns were expressed by a similar share of both investment and non-investment platforms, but in Belgium this was only mentioned by equity-based models.

Concerns about changes to current regulation were only reported by Dutch platforms, with 20% of debt-and equity-based platforms as well as 17% of non-investment platforms considering it of “high” risk. No such concerns were recorded in Belgium, probably as regulatory changes there are more likely to result in further easing rather than limiting of operations.

Finally, concerns with a notable increase in default rates, was only mentioned by Dutch investment-model platforms. Here, 10% of debt-based and 25% of equity-based platforms viewed it as a “high” risk.

## Innovation

Twenty-four platforms operating in the Benelux provided information about the status of their business models. Overall, 50% of platforms reported no significant changes to their business model, and 46% reported only a slight alteration in 2017. The majority of those that reported a slight change in their business model were from non-investment platforms (83% reported such changes). In comparison, 33% of investment-based models reported similar minor changes to business model.

Twenty platforms operating in the Benelux provided information about the status of their products and services. Here 45% of platforms reported introducing significantly new products and 60% reported introducing slightly new products in 2017. Those reporting significant changes to products accounted for 88% of non-investment platforms, and 17% of investment-based

platforms. Product developments mostly included software as service, white label solutions, advanced visualizations of campaign performance, and development of training formats and materials.

Only 10% of platforms reported no changes to their products in 2017 and included investment model platforms only.

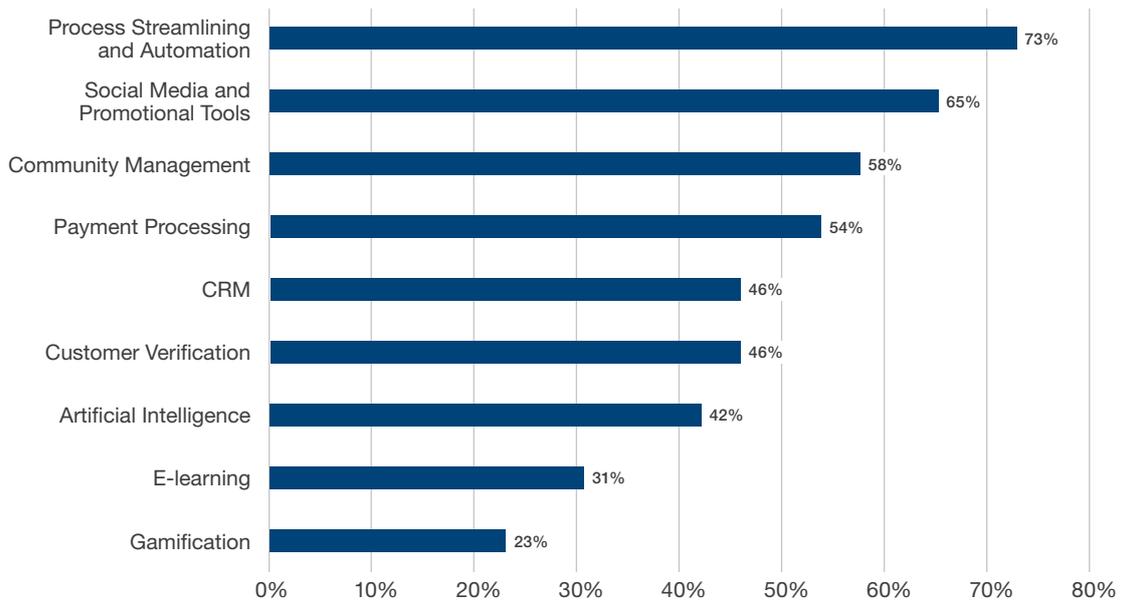
Twenty-six platforms operating in the Benelux provided information about their R&D efforts, a majority of which reported investments in more than one area. Current efforts were mainly focused on performance enhancement technologies. Within this, 73% of platforms reported efforts in Process Streamlining and Automation, 54% in

Payment Processing, and 42% in AI and performance enhancement features.

A second area of focus for Benelux R&D efforts was with regard to the development of customer service and management systems. Here, 46% of platforms reported efforts to develop Customer Verification, 46% for CRM systems, and 58% for Community Management features.

The third type of innovations that were focused on included various user support tools including the development of Social Media and Promotional Tools (65%), E-learning features (31%), and Gamification elements (23%).

**Figure 61: Actively Pursued R&D Initiatives in 2017 - Benelux**



Investment and non-investment models both focused on several R&D initiatives to a similar degree. In particular, this included Process Streamlining and Automation, with 78% of non-investment platforms and 71% of investment platforms reported research into this area. Second, 44% of non-investment platforms and 47% of investment platforms reported R&D efforts directed towards Customer Verification. Finally, 44% of non-investment platforms and 41% of investment platforms reporting R&D in AI and performance enhancements.

There were also clear differences in the R&D

focuses of non-investment and investment platforms. All non-investment platforms noted research into Community Management systems and Social Media and Promotional Tools. Additionally, non-investment platforms also had a higher share of platforms that devoted resources to developing E-learning (77%), Gamification (56%) and Payment Processing (67%). Investment-based platforms reported lower levels of investment in Community Management (35%), Social Media and Promotional Tools (47%), E-learning (6%), Gamification (6%), and Payment Processing (47%).

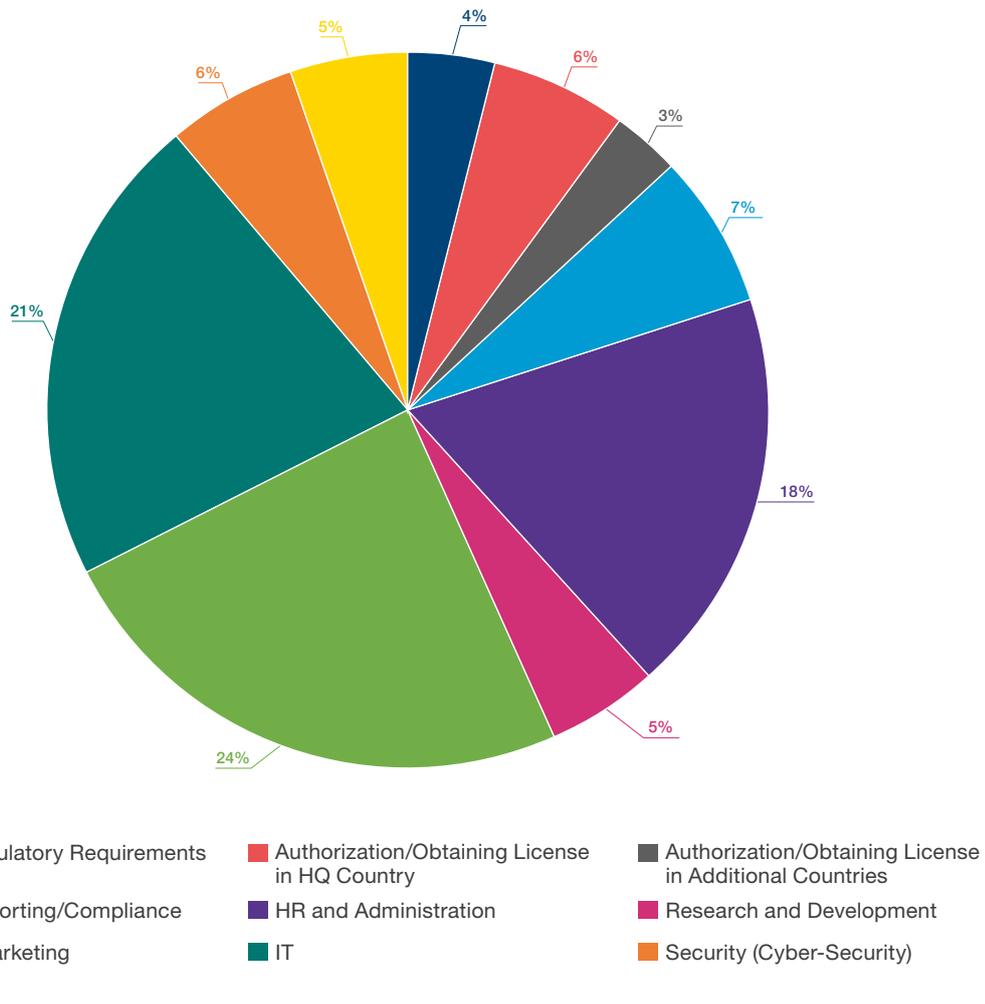
Finally, investment platforms (53%) invested more than non-investment platforms (33%) in CRM systems.

**Platform Costs and Budget**

Eleven platforms operating in the Benelux countries provided insight into their budget structure. The main cost element was associated with sales and marketing costs,

representing on average, 24% of platform budgets. Next, 21% is allocated for IT maintenance. An additional 5% is dedicated for covering R&D costs. Human Resources account for 18% of the budget. Finally, regulatory scoping, compliance and licensing related costs, jointly account for 13% of platform budgets.

**Figure 62: Platform Operating Costs and Budget Allocation (%) Benelux**



**Internationalization**

Thirty-one platforms operating in the Benelux countries provided information about their international strategies and efforts. 38% of these indicated no plans for international expansion, while 62% indicated various strategies for catering to international customers. This is expected, as platforms

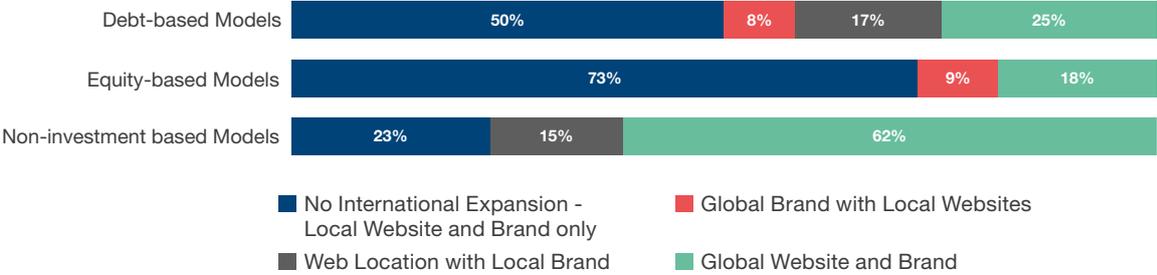
from smaller domestic markets will need to depend on international expansion to achieve scale and profitability in the long-term.

The most popular strategy for platforms with an international presence was the use of a global brand and website (39%). The second most frequent strategy, as reported by 13% of the platforms, was the use of a

local brand with a localized website. Only a small minority (6%) used a global brand and a localized website. This could be related to the constrained budgets under

which most platforms still operate, as well as the experimental nature of their activities in exploring different international markets before full commitment to these markets.

**Figure 63: Platform Internationalization Strategy - Benelux 2017**



Differences however were clearly evident by model type, where operations that were more sensitive to local regulation were more constrained in their internationalization efforts. Here, non-investment models reported higher levels of international activity overall, with 77% of platforms employing some sort of international strategy, versus 27% of equity-based and 50% of debt-based platforms. Non-investment models, for whom regulation does not differ significantly in most cases, relied more heavily on a global website and brand for achieving scale across markets. On the other hand, while investment-model platforms also attempted to expand internationally, they reported a greater share of localization efforts most likely due to the need to adjustment for local regulations. Here, 25% of debt-based platforms and 9% of equity platforms used localized sites (with a local or global brand).

**Financial Inclusion**

Eleven debt-based platforms operating in the Benelux provided information about the banked status of their borrowers. Overall, these platforms reported that, on average, 63% of their borrowers are banked, 27% are underbanked, and 9% are unbanked.

In addition, ten debt-based platforms operating in the Benelux provided information about the income level of their funders or

loan sponsors. Here, on average, 73% were high income individuals, 17% were middle income individuals, 9% were low income individuals, and 1% were individuals with the lowest income level.

**Institutionalization**

Twenty-four platforms operating in the Benelux provided information about the extent to which they collaborate with institutional partners. Nearly 42% of platforms in the region indicated such arrangements were not applicable to them.

54% of platforms reported having referral arrangements with institutional partners. Interestingly, 80% of non-investment platforms and 36% of investment-based platforms reported this type of an institutional relationship.

Next, 21% of platforms reported data exchanges with institutional partners. This was evident for both investment and non-investment platforms.

Additionally, 17% of platforms reported that an institutional partner provided financial services to their customers, but does not provide finance per se. Finally, 12% of platforms, both investment and non-investment, reported that institutions directly invested in their platform as shareholders.

## ITALY

### Market Volume

The Italian market continued its strong growth, growing 90% in 2017. Over the last four years, the average growth rate has been 306%. In 2017, alternative finance market volume grew by nearly €114m, which is in absolute terms its largest growth since 2013. This places Italy as the 4th largest market for alternative finance in continental Europe

following France, Germany and the Netherlands. Overall, the Italian market's total volume was €241m. Italian alternative finance volume accounted for 7% of total 2017 volumes of alternative finance in Europe excluding the UK, and 2.3% of volumes in Europe including the UK. Overall, 45 platforms operating in Italy participated in our survey,<sup>46</sup> a quarter of which were international platforms catering to the Italian market.

Figure 64: Italy Online Alternative Finance Market Volumes 2013-2017 (€millions)



### Volume by Model

The expansion of the Italian alternative finance market was primarily driven by the exponential growth of the Invoice Trading model. This model represented 57% of the Italian market in 2017 and grew 313% from 2016. Alone, this model raised almost €140m for the Italian SMEs sector, which made Italy the largest market in continental Europe in terms of total volumes for this model. The struggle that SMEs have had attempting to obtain sufficient funding from conventional lenders seems to have also spurred the growth of P2P Business Lending, which increased 293% in comparison to 2016. Interestingly, Balance Sheet Business Lending, the leading alternative finance model by volume in 2016, was not reported by relevant platforms in the most recent industry survey data.

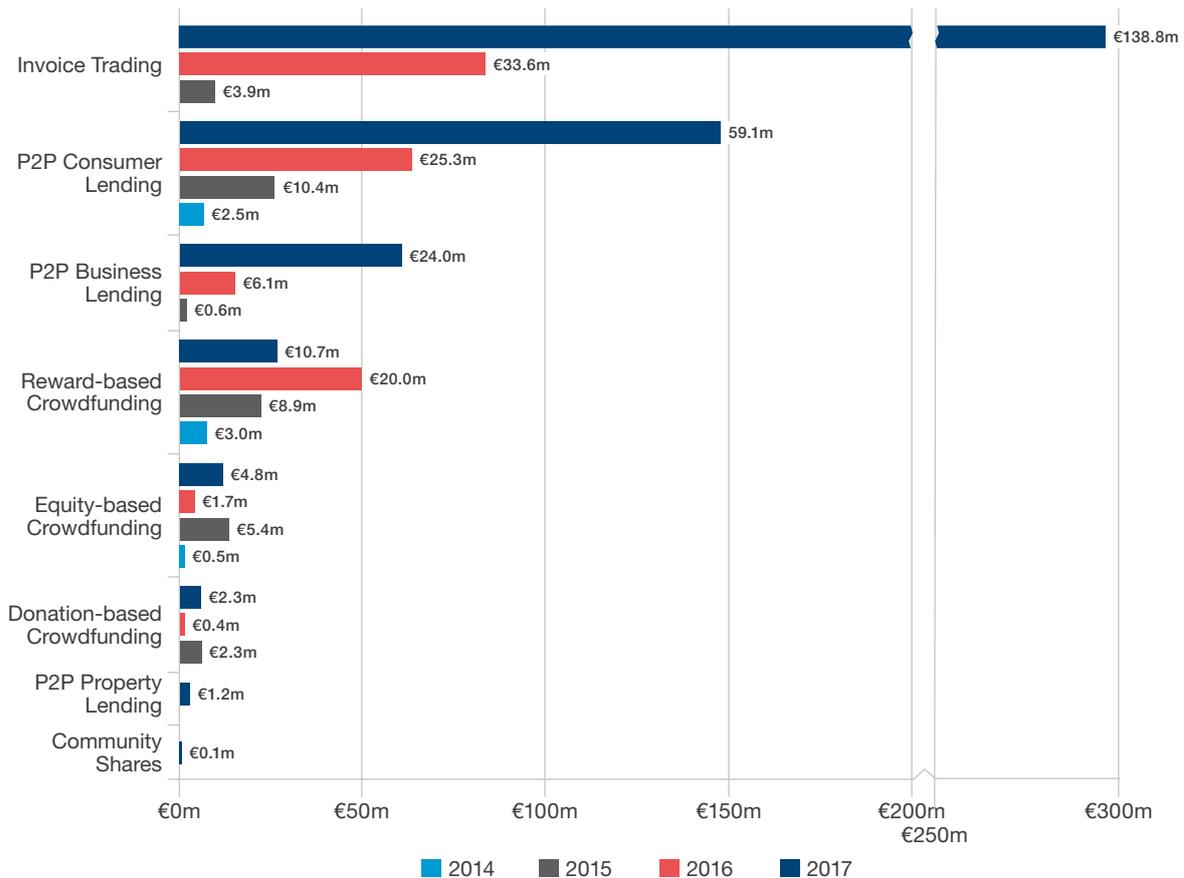
P2P Consumer Lending ranked second in terms of total volume by model, growing from €25.3m in 2016 to €59.1m in 2017. This model continued its triple digit growth from

previous years and accounted for 24.5% of Italian alternative finance volumes in 2017.

Equity-based Crowdfunding significantly recovered from a decline in its total volume in 2016, generating €4.8m and growing 180% in 2017. However, this strong growth was still insufficient to reach the volumes it had in 2015. The moderate volumes of this model in Italy may be explained by the regulatory framework, which until recently<sup>47</sup> only allowed “innovative startups” and “innovative SMEs”, rather than all small and medium enterprises, to utilize this funding source.

Reward-based Crowdfunding, while still accounting for a larger share of alternative finance volumes in comparison to Equity-based Crowdfunding, exhibited a decline of 46% from its 2016 levels and was valued at €10.7m in 2017. This might be due to a high level of uncertainty concerning the taxation of funds raised through a crowdfunding campaign, in particular with respect to the application of VAT on preordered products.<sup>48</sup> In addition, the regulator has not taken a

Figure 65: Total Alternative Finance Volume by Model in Italy 2014-2017 (€millions)



clear stance on the question to what extent consumer rights protection is applicable in this context.

In contrast, Donation-based Crowdfunding represented an alternative finance model that was growing in importance, increasing in volume by 482% between 2016 and 2017. However, despite this remarkable growth rate, the model accounted for a small share of total volume (1%). Similarly, P2P Property Lending and Community Shares, which were captured for the first time by our industry data, still exhibited very low volumes of €1.2m and €0.1m, respectively.

### Regulation

Regulatory solutions applicable to investment and non-investment fundraising in Italy are quite distinct. Unlike investment fundraising, there is no bespoke regulatory framework overseeing Reward-based and Donation-based Crowdfunding. While Italy was the first country in Europe that introduced a bespoke regime for Equity-based crowdfunding in 2012,<sup>49</sup> it was only in November 2016

that the Bank of Italy adopted a resolution which recognized P2P Lending and P2B Lending Crowdfunding activity.<sup>50</sup> Thus, when interpreting our findings regarding platform perception of adequacy of regulation, one must acknowledge the differences between alternative finance models.

Overall, eighteen platforms operating in Italy provided insights as to their perceptions on regulation. 69% of debt, 56% of equity, and 43% of non-investment model platforms in Italy reported being authorized to operate their business activities. In addition, 8% of debt-based and 13% of equity-based platforms reported not being authorized themselves but that they operate under formal relations with another licensed institution. Finally, 23% of debt, 33% of equity, and 57% of non-investment platforms reported that authorization was not required for their activities. With regard to these debt and equity platforms, they are most likely experimenting with their business models, which entail unclear interpretations of the existing rules. According to the Bank of

Italy's resolution applicable to debt-based models, platforms need to apply for the Payment Service Provider or Electronic Money Issuer license if they engage in opening and managing payment accounts. Alternatively, they could rely on services offered by authorized institutions. A license is also needed for operating an equity-based platform, although the Italian Consolidated Law on Banking<sup>51</sup> allows for three types of authorized entities to engage in crowdfunding activities: platform managers authorized by the CONSOB, banks, and investment firms. Our findings seem to highlight that there was much less legal uncertainty with respect to authorization of non-investment models, which predominantly operate under no specific licensing regime.

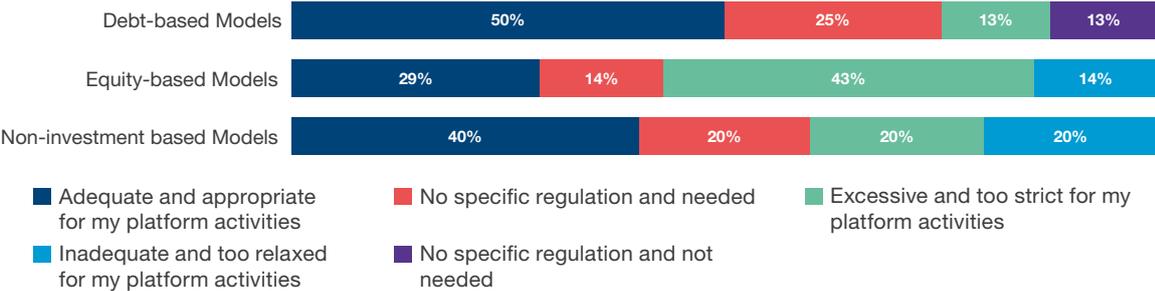
Interestingly, the degree of clarity regarding the licensing regime did not overlap with platforms' perception towards existing national regulation more generally. There seems to be a lack of consensus concerning the adequacy of the regulatory framework overseeing non-investment models. While 40% of market players viewed regulation as adequate and appropriate for their activities, the opinion of others range from excessive and too strict (20%), inadequate and too relaxed (20%), and that there is no specific regulation even though it is needed (20%). While not mentioned by surveyed platforms, such diverse attitudes towards existing regulations might stem from the fact there are still many open questions concerning the applicability and interpretation of rules which are not tailored to alternative finance, such as issues of taxation and consumer rights protection.

The sentiment towards regulation applicable to debt-based models was mainly positive as 50% of platforms expressed their satisfaction

regarding adequacy of existing rules. The second most widely held opinion is that there is no specific regulation in place although it is needed (25%), most likely suggesting that additional rules would increase the trust of investors in this market. This is hardly surprising given that it was only in November 2016 that the Italian regulator introduced a light-touch regulatory framework for P2P Consumer and Business Lending, leaving many relevant issues unaddressed or subject to imprecise legal standards. One such provision stated that lending activity via P2P platforms was allowed if the amount of funds is not significant, while the text of the law is silent on the threshold which would define what falls under this standard.

In contrast to debt, Equity-based platforms expressed their relative dissatisfaction with existing regulatory framework, since 43% of platforms considered it to be excessive and too strict for their activities, while less than a third of market players found it to be satisfactory (29%). Though not mentioned by surveyed platforms, some specific regulatory solutions may account for such perceptions. The Italian legislator, being a pioneer in Europe with respect to creating a bespoke crowdfunding regime, unduly limited the use of equity-based crowdfunding to "innovative startups" and, subsequently, opened it up to "innovative SMEs".<sup>52</sup> This not only limited the pool of potential projects for which this could be a viable source of financing but also created a regulatory burden for startups and small and medium enterprises to demonstrate their innovative capacities. The dialogue between the regulator and the industry finally resulted in a regulatory revision in 2017,<sup>53</sup> which allowed all SMEs to rely on equity models, and results of which are likely to be captured by future industry survey data.

**Figure 66: Perception Towards Existing National Regulation - Italy**



## Risk

Platforms in Italy were asked to state how concerned they were with regard to several risk factors. Twenty platforms operating in Italy provided such input. The risk of fraud was the only concern prominently expressed by platforms across all three models. It was indicated as a “very high” risk by 17% equity platforms, and as “high” risk by 38% debt and 22% non-investment platforms.

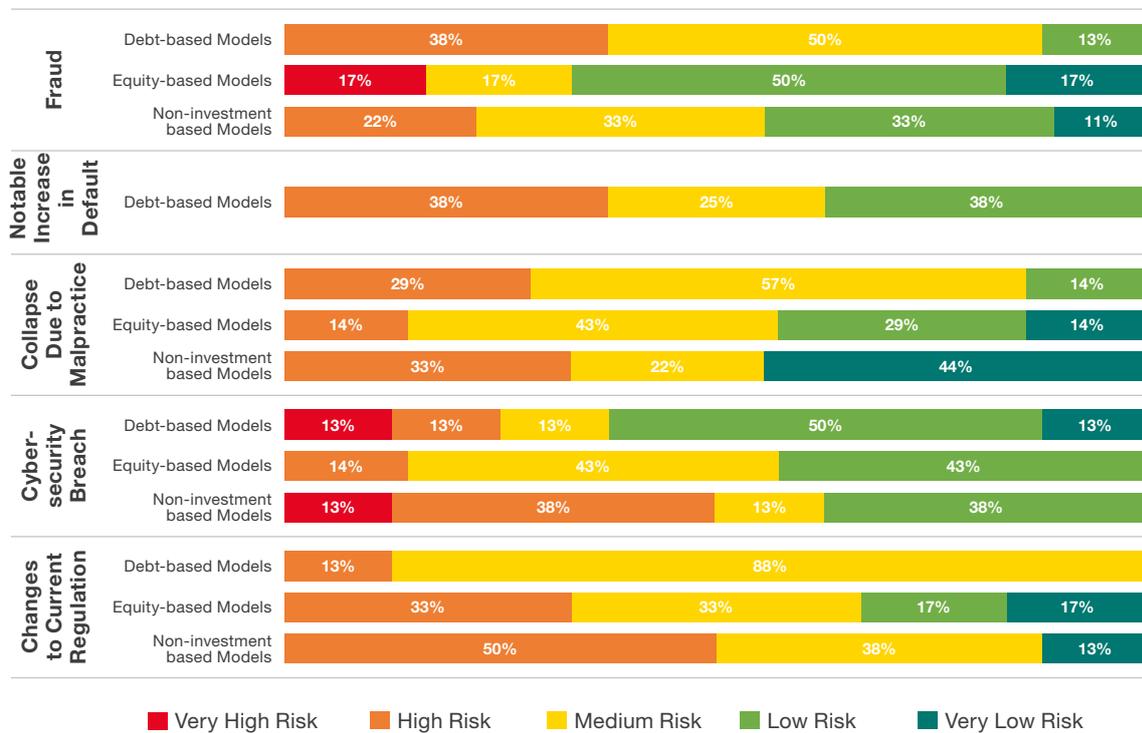
Non-investment platforms appeared to be much more perturbed by other risks factors than their investment counterparts. They perceived a cyber-security breach as the biggest threat, with 13% of platforms stating it was a “very high” risk and 38% as “high” risk. Half of the platforms also feared that changes to current regulation could affect their business, probably due to the fact that there was no specific regulatory framework overseeing their activities. They were a bit less concerned with the risk of collapse of

a well-known platform due to malpractice, although still one third of all market players described it as “high” risk.

Platforms operating debt models were primarily troubled with the risk of a notable increase in default, denoted as “high” risk by 38% of platforms. They expressed moderate concern regarding a cyber-security breach and a collapse of a prominent platform due to malpractice, which a bit less than 30% of platforms described both as “very high” to “high” risk. Debt-based platforms appeared not to be alarmed by potential changes to current regulation.

Equity-based models were the least concerned by potential risks, although there is a modest concern that changes to current regulation could disrupt their operations (33% of platforms indicated it as “high” risk). This might be explained by relatively frequent changes in the regulatory framework applicable to this alternative finance model.

Figure 67: Perceptions towards Risk Factors - Italy



### Innovation

Twenty-four platforms operating in Italy provided information about the extent to which they have changed their business models in the past year, and twenty platforms provided information about changes to their product offerings. Our data suggests that, as the alternative finance market matures, platforms operating in Italy tend to introduce less changes to their business models but continue to develop new products. Overall, 42% of platforms reported no significant changes to their business model, and the same percentage of platforms reported only a slight alteration of it during 2017. The remaining 15% made significant changes to their business model.

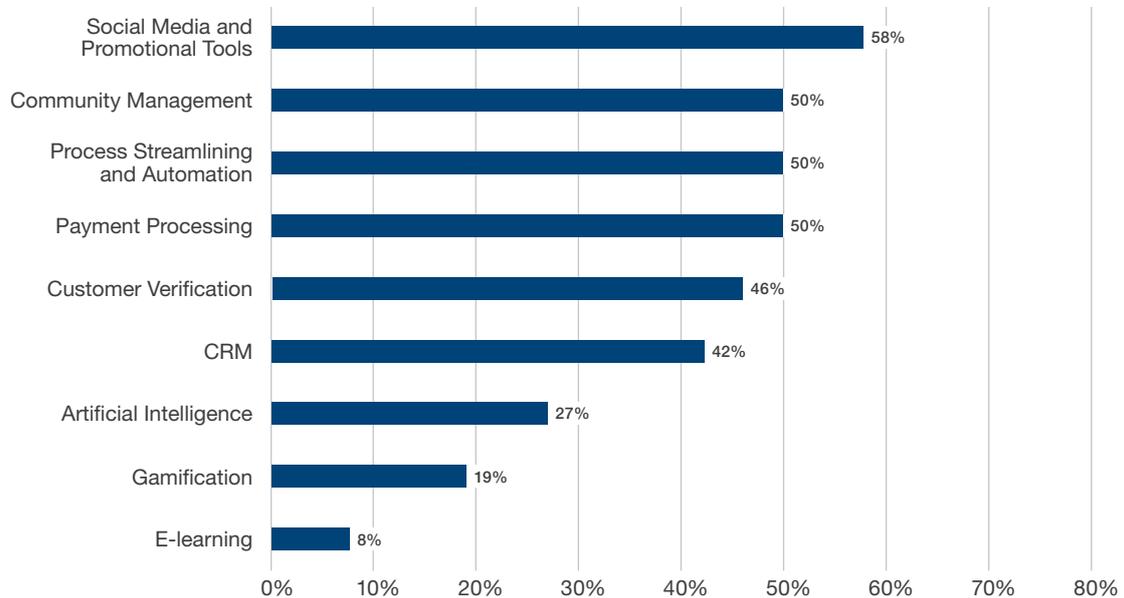
In contrast, almost half of all platforms in Italy (45%) indicated introducing significantly new products, and 18% reported introducing slightly new products. Thus, 63% of them reported making some changes to their existing products.

Platform operators were asked about the focus of their R&D initiatives. Twenty-three platforms operating in Italy provided information about their R&D focus and activities. Their innovative efforts were spread across three different areas. The significant R&D efforts were geared towards performance enhancement technologies. Half of the platforms have reported efforts in Process Streamlining and Automation as well as in Payment Processing, and 27% reported efforts in AI.

Platforms also devoted considerable R&D resources to customer service and management systems. Here, 50% of platforms reported efforts towards Community Management features, 46% towards Customer Verification, and 42% towards CRM systems.

Finally, innovations of platforms were also oriented towards various user support tools such as Social Media and Promotional Tools, which is the most common R&D activity (58%), Gamification elements (19%), and E-learning features (8%).

Figure 68: Actively Pursued R&D Initiatives in 2017 - Italy

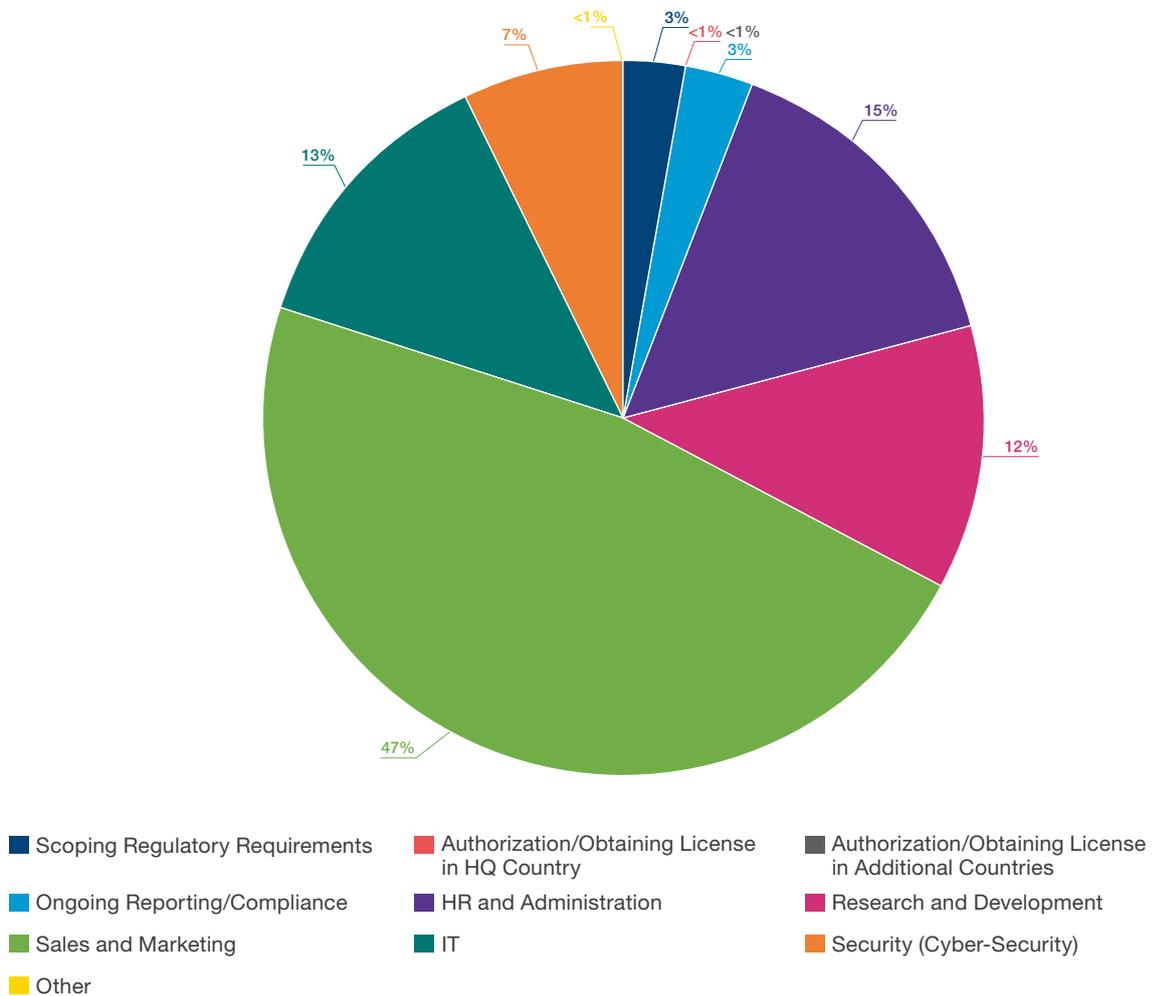


### Platform Costs and Budget

Sixteen platforms operating in Italy provided information about their cost structure and budget allocations. Sales and marketing accounted for almost a half of total expenses (47%). Moderate expenses were devoted to ensuring the operations of HR & Administration (15%), IT (13%) and Research and Development within a firm (12%). Other expenses, such as those related to Security (Cyber-security), Ongoing Reporting

(Compliance) and Scoping Regulatory Requirements accounted for less than 10% each. When considered jointly, authorization, compliance and regulation scoping accounted for 6% of platform budgets, which was significantly lower than elsewhere in most major European markets, where such costs are two times as large. These budgetary priorities could be an indicator of fierce competition among incumbents as well as strategies to deter the entry of newcomers.

Figure 69: Platform Operating Costs and Budget Allocation (%) Italy



### Internationalization

Platform operators in Italy were asked to describe their internationalization strategies. Thirty-one platforms operating in Italy provided information about their international strategies. While 53% platforms indicated

that they had no internationalization strategy, several platforms made efforts to cater to international customers in a variety of ways. The most common strategy for international expansion, was the use of a global brand and website (26%). Around one fifth of

all platforms indicated actively serving local markets by creating a local website, either under the global brand (9%), or by localizing the brand itself (9%). Fairly limited localization efforts are justifiable given the economies of scale that could be captured by operating under a global brand, as well as the minimization of compliance costs which increase with a variety of regulations across different jurisdictions.

Internationalization efforts differ among alternative finance models. Non-investment platforms predominantly took the lead with 58% pursuing an internationalization strategy, predominately through the use of a global website and brand (37%). Similarly, among the 50% of equity platforms that reported

any internationalization effort (50%), reliance on a global website and brand was the most preferred method (38%). In contrast, the majority of debt-based platforms in Italy (67%) indicated that they had no international expansion and only maintained a local website and brand. This is most likely a result of the light regulatory regime in place for this alternative finance model in Italy, in comparison with other EU countries as well as any associated regulatory compliance expenses. Thus, the internationalization efforts by platforms appear to largely depend on the extent to which their operations are subject to multiple regulatory frameworks and the magnitude of differences among them.

**Figure 70: Platform Internationalization Strategy - Italy 2017**

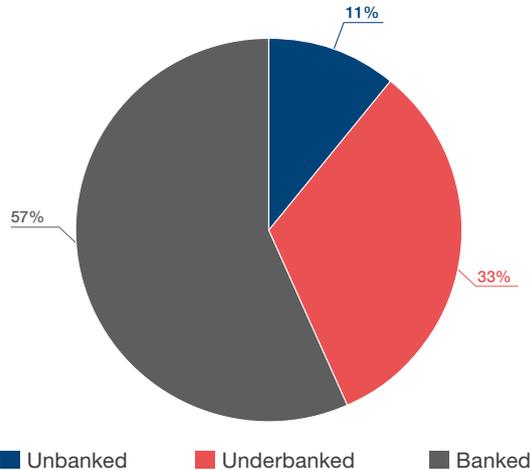


**Financial Inclusion**

Thirteen Italian debt-based platforms provided information about the status of their borrowers. Overall, platforms report that,

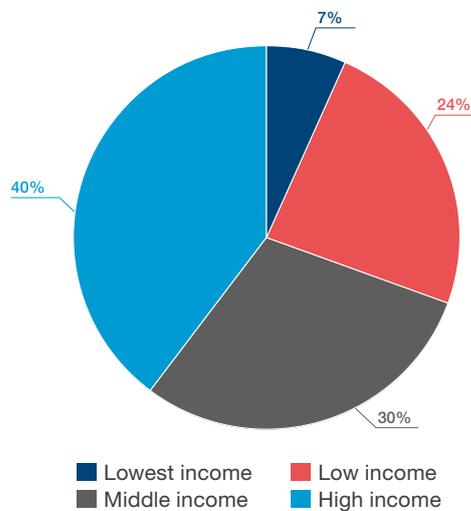
on average 57% of their borrowers were banked, 33% were underbanked, and 11% were unbanked. This represents a relatively high level of financial inclusion among the underbanked and unbanked, given that most regions, except for South Eastern Europe, reported lower financial inclusion rates.

**Figure 71: Banked Status of Borrowers (%) Italy**



In addition, platforms provided information about the income of their customer-base. Here, on average, 39% of the funders fell into the high-income range, 29% were middle-income, 24% low-income, and 6% lowest income. This indicated a fairly uniform distribution of income of funders, with the exception of the high-income group which was slightly overrepresented. Similarly, Italian platforms have not yet been successful at attracting the lowest income funders, although this was an expected result given their low savings rate.

**Figure 72: National Income Categorization by Funder Customerbase (%) Italy**



### *Institutionalization*

Seventeen platforms operating different business models in Italy provided information about the extent to which they collaborate with institutional partners. Half of all platforms stated that such arrangements were not applicable to them.

For those that reported certain level of institutionalization, 40% of platforms indicated having referral arrangements with institutional partners, 20% of platforms utilize the external partner as a bank agent, and 5% of platforms exchanged data with them. Overall, 15% of platform operators stated that institutions had invested directly into their platform as shareholders.

### **Italian Crowdfunding Market Opened up to all SMEs; Favorable Tax Regime Spurs Growth**

*By: Dr. Giancarlo Giudici, Director of the Observatory on Crowdfunding and Associate professor of Corporate Finance at Politecnico di Milano - School of Management*

The volume of Equity Crowdfunding in 2018 increased considerably, three times when compared to 2017. This growth has been driven by the opening of the market to all SMEs (previously only innovative start-ups and innovative SMEs were allowed to raise capital), which allowed for the establishment of platforms specializing in real estate projects. Although 40 Equity Crowdfunding platforms are authorized, most of the capital was raised on just a handful of platforms. Innovative start-ups continue to dominate the market, and in 2019 the Government increased the tax relief to 40% for equity investments in such companies. From 2019, Equity-based Crowdfunding platforms will be allowed to place minibonds on their platforms, although for professional investors only.

The growth of P2P Business Lending in Italy has been driven by foreign firms (from France and Spain) operating within Italy, though the emergence of strong domestic firms has also increasingly driven P2P business activities. Domestic P2P Lending firms have also integrated institutional investment (such as credit funds) to work alongside retail lenders. In 2018, retail investment drove Italian alternative finance volumes. Additionally, rules regarding taxation on profits changed, with the introduction a withholding tax equal to 26% for all retail investors.

When considering P2P Consumer activity, though growing at a slower pace, there are three major players that drive the majority of this model's activity. In 2018, the P2P Lending platform Smartika was acquired by the banking group Banca Sella, with the bank purchasing 85% of the firm.

Invoice trading is the fastest-growing industry in Italy's Alternative Finance market, with domestic players dominating this arena. Italian firms are also diversifying their offerings, with one firm specializing in supply chain finance as well.

### **Banks are Watching the Evolution of the Crowdfunding Market in Italy**

*By: Marino Cavallo, Metropolitan City of Bologna, Member of the CrowdfundPort Project*

Italy was one of the first countries to adopt rules on Equity Crowdfunding as its economy is based on small and medium enterprises, and some of its actors (like startups) have no access to bank loans. In April 2017, the law allowed all SMEs to collect capital through selling their financial products to the general public.

Banks are watching the evolution of the market carefully. Some banks are starting to understand that alternative finance might help their scoring system and select companies who deserve credit, as validated by the crowd. Concerning deal flow, Italy has great potential: there are many companies bringing innovation in for different industries or offering great products that were not able to find investments from professional investors or did not succeed in getting loans from banks.

### **Enabling Alternative Finance: Regulatory Changes and Innovation in Malta**

*By: Matthew Caruana, General Manager, ZAAR Crowdfunding and at the Foundation for the Promotion of Entrepreneurial Initiatives (FPEI)*

Following the growth in crowdfunding in Malta, the Malta Financial Regulator (MFSR) issued new regulations for crowdfunding platforms operating on equity and bond models whereby platforms are required to possess a MiFID license and carry out due diligence on the issuer while implementing an appropriateness test on each investor. Moreover, issues are capped to €1m and non-professional investors can invest up to €5,000 per issue, and not more than 20% of their income per year on a platform. These changes represent a positive step forward towards enabling start-ups access to this form of alternative funding.

In addition, in 2018 Malta earned the reputation of the “blockchain island” when it passed 3 new bills into law, establishing the very first regulatory framework for blockchain, cryptocurrency and DLT (Distributed Ledger Technology). Malta is the first country in the world to provide a set of specific regulations for operators in the blockchain, cryptocurrency and DLT space. These 3 bills establish a framework for internal governance arrangements, outline the duties and responsibilities and the certification for DLT platforms. Moreover, it established a regulatory regime governing ICOs, cryptocurrency exchanges, wallet providers, and so on.

### **Alternative Finance in Italy: Regulatory Reform Driving Strong Growth**

*By: Gianluca Quaranta, Founder, Crowdfunding Cloud*

In Italy, the investment-based crowdfunding industry has been developing relatively fast over the last few years. However, while it maintains relatively high annual growth rates, the absolute market values remain modest in comparison to countries like the US or the UK. To reduce this gap, the existing regulation was updated in 2017, with two main changes coming into force in 2018. Firstly, the Equity-based Crowdfunding market has been opened to all kind of SMEs, marking a critical turning point away from the previous regulatory limitations. Previously Equity fundraising was only allowed for special cases of small start-ups (“innovative start-ups”) and firms (“PMI innovative”), which represented a very little part of the overall Italian SME sector. Secondly, lending models’ taxation has been lowered to 26%, as per securities income. This reform prevented situations of excessive taxation that went as high as 43% under the previous regime, and hence limited the attractiveness of the peer-to-peer loans market for investors. These novelties have given a new impetus to the Italian industry leading to, inter alia: the increase of amounts invested through crowdfunding; the development of real estate platforms; the launch of an innovative index measuring the “theoretical” appreciation (depreciation) of securities offered in the Italian equity crowdfunding market; and the use of syndicate funding to raise capital in equity campaigns.

## IBERIA

### Market Volume

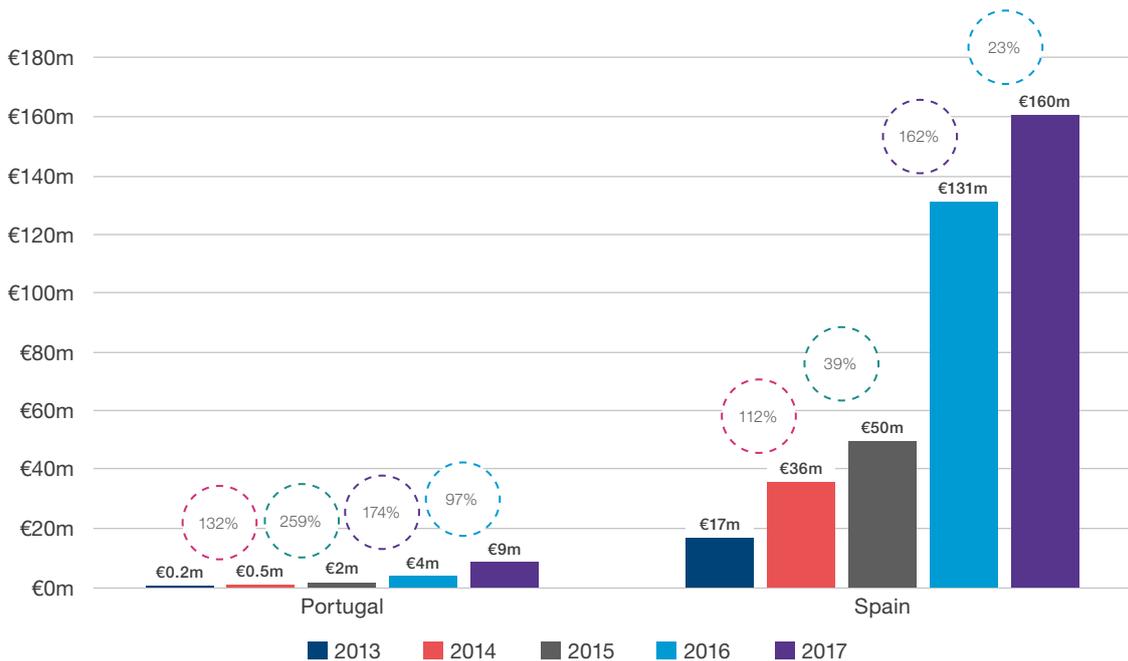
The Iberian market experienced growth in 2017, although at a slower pace than 2016. In 2017, Iberia as a region contributed €169m to alternative finance volume in Europe. This is a 25% growth on 2016's €135m. This volume represents 5% of European volume. Iberia was the ninth largest region. Our analyses were based on 39 platforms from the Iberian region that participated in our survey.<sup>54</sup>

Of this volume, the vast majority came from Spanish platforms. In 2017, Spain raised €160m through alternative finance platforms, a 23% annual growth from 2016's €131m. Growth has slowed in 2017, as between 2015 and 2016, Spain grew by 162%. Spain's market volume represents 4.7% of the European market. While Spain was the fifth largest country in terms of volume between 2013 and 2016, it fell to eighth in 2017.

This can, in large part, be attributed to its slower growth in comparison to other nations. Additionally, in 2016 much of Spain's volume came from business focused activities - roughly 76% of its volume (€100m) was attributed to these activities. This portion of Spain's volume actually fell slightly to €98m - or 61% of total volume. In 2016 Spain had been the third largest country in terms of business funding, however, this decrease moved Spain to the ninth largest.

Portugal's contribution to Iberian regional volume was €9m, 97% greater than its €4m in volume in 2016. The Portuguese alternative finance market represents just 0.3% of the total volume generated throughout the European region. While still impressive, Portugal's growth too has slowed somewhat, as between 2015 and 2016 overall volume grew by 174%.

Figure 73: Iberia Online Alternative Finance Market Volumes 2013-2017 (€millions)



### Volume by Model and Country

Even with the decrease in business funding in Spain, P2P Business Lending still makes up the largest share of the overall market volume. Its total contribution shrank by 4%, from €44.5 in 2016 to €42.7m in 2017. The

recorded decline can be explained by the shutting down of one platform vis-à-vis 2016 data.<sup>55</sup> When removing that platform's data from the previous year's volumes, the P2P Business Lending model exhibits a growth of 36% in Spain between 2016 and 2017.

The second largest model in Spain, P2P Consumer Lending, also experienced the largest amount of growth. P2P Consumer Lending was ranked seventh in terms of contribution to volume in 2016. In 2017 it grew 1480% from €2m to €31.6m.

Invoice Trading continued to grow and maintained its position as the third highest contributor to Spain's volume. Invoice trading generated €30.8m, an annual growth of 114% from 2016's €14.4m. Invoice Trading's annual growth rate has also continued to increase, as between 2015 and 2016, the sector's volume increased by 107%.

Equity-based Crowdfunding also continued to grow and is now the fourth largest model in Spain. In 2017, it generated €21.2m, a 110% increase from 2016's €10.1m.

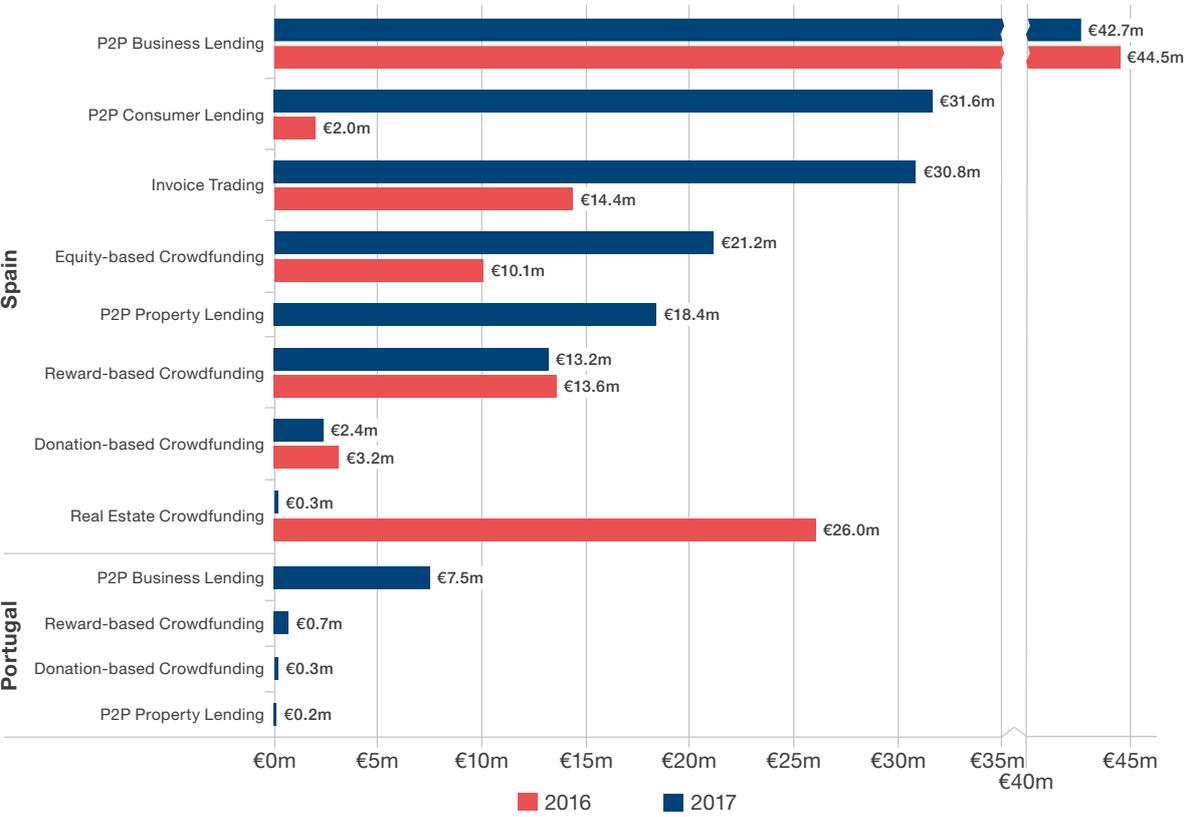
Activity in P2P Property Lending appeared for the first time and registered €18.4m, the fifth highest model volume for Spain. This represents a correction by a platform that in previous year reported these volumes under Real Estate Crowdfunding. Accordingly, Real Estate Crowdfunding fell dramatically

in 2016 to €0.3m, a 99% decrease. Based on data collected for 2017, Reward-based Crowdfunding platforms raised €13.2m, a 3% decrease from 2016's €13.6m. However, here as well, the decrease is superficial and results from non-participation of two platforms vis-à-vis last year's data.<sup>56</sup> Here, when removing figures associated with these platforms from the 2016 volumes, Reward-based Crowdfunding shows a respectable growth of 11% between 2016 and 2017.

However, a more certain decline was recorded with respect to Donation-based Crowdfunding, which fell by 24%, from 2016's €3.2m to €2.4m in 2017.

For Portugal, 2017 was the first year where enough diversified data was reported by platforms, allowing to capture volume by model type for four models. The model that contributed the highest amount to volume was P2P Business Lending, with €7.5m. Reward-based (€0.7m) and Donation-based (€0.3m) Crowdfunding, were second and third. P2P Property Lending was the fourth contributor to Portugal's volume, with €0.2m.

Figure 74: Total Alternative Finance Volume by Model in Iberia 2016-2017 (€millions)



## Regulation

Seventeen platforms operating in Spain and five platforms operating in Portugal provided insights about their perceptions of regulation in their respective markets.

Perceptions on regulation in Portugal were common across all Equity, Debt, and Non-Investment models. 100% of platforms answering this question reported that existing regulations were excessive and too strict.

In 2017, opinions on regulation remain split amongst platform and model types in Spain. However, it is interesting to note that across all three model types, the percentage of platforms that viewed regulation as 'adequate and appropriate' shrank in comparison to 2016. This was most pronounced by non-investment models where the number shrank from 44% in 2016 to 20% in 2017. The share of Debt models that viewed regulation as adequate fell from 36% to 29%. Finally, with regard to Equity models, the number of platforms that viewed existing regulation to be adequate reduced from 22% to 17%.

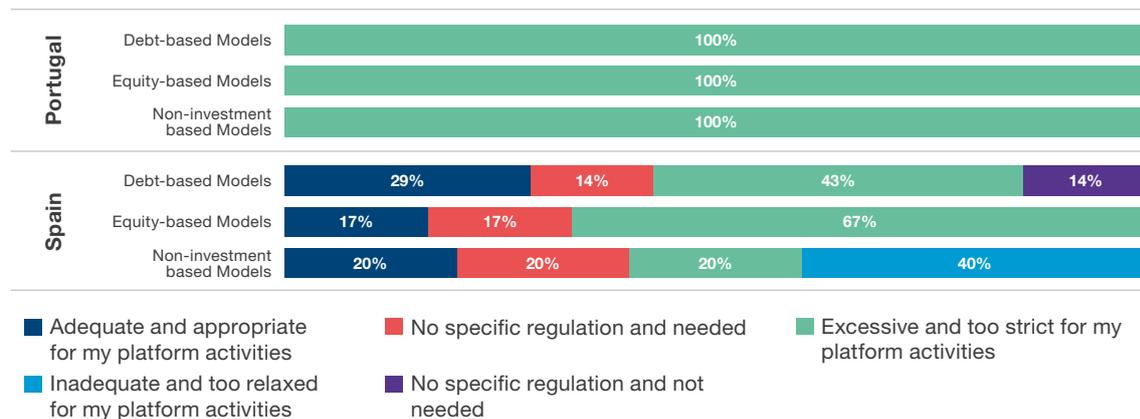
With regard to Debt Models, 14% of responding platforms indicated that 'no specific regulation existed [as relevant to

their activities] and was needed' and 43% reported that existing regulations were 'excessive and too strict'. This shows that 57% of debt platforms view the regulatory environment as inadequate or excessive and believe that changes are necessary. The remaining 14% of debt platforms responded that their business model is currently not legalized in Spain.

The majority of responding Equity platforms (67%) viewed existing Spanish regulations to be 'excessive and too strict'. The remaining 17% noted that 'no specific regulation existed and was needed.' Overall, combined, this shows that 83% of debt platforms are not satisfied with the regulatory environment.

Finally, with respect to Non-Investment based models, 20% of responding platforms viewed regulation as 'excessive and too strict' and an additional 40% as 'inadequate and too relaxed.' Finally, the remaining 20% indicated that 'no specific regulation existed and was needed'. Overall, 80% of responding non-investment platforms thought that existing regulations were not suitable for their sector.

Figure 75]: Perception Towards Existing National Regulation - Iberia



## Risk

Twenty-four platforms operating in Spain and four platforms operating in Portugal provided information about their risk concerns.

Platforms operating in Spain viewed five risk factors in a variety of ways, however all were regarded by at least 50% of platforms as a medium risk or higher. Change to current

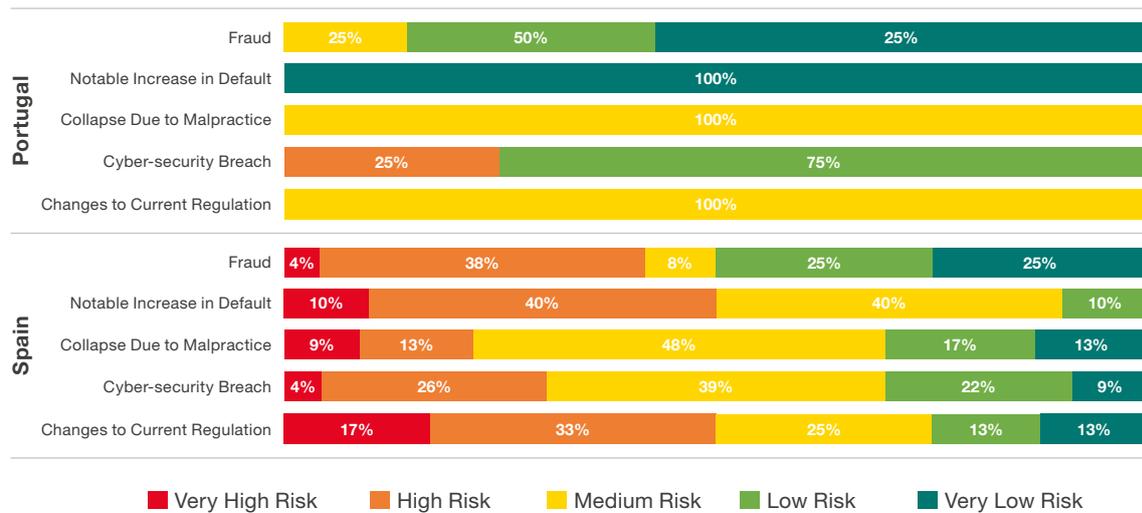
regulation was viewed by platforms as the highest risk overall, with 17% of platforms viewing it as "very high", 33% as "high", and 25% as "medium" risk. A notable increase in default was viewed as the next highest risk, with 10% of platforms rating it a "very high" risk, 40% of platforms as a "high" risk, 40% as a "medium" risk, and 10% as a "low" risk.

Fraud was regarded as a “high” risk by 38% of platforms, while 4% viewed it as a “very high” risk. The remaining platforms saw it as a “medium” to “low” risk, with 8% stating it was “medium”, 25% a “low” risk, and 25% a “very low” risk.

The two risks that were perceived the lowest in terms of risk severity were that of a cyber-security breach and collapse due to malpractice. For the potential risk of a cyber-security breach, 30% of platforms saw it as either a “very high” (4%) or “high” (26%) risk. The remaining 70% viewed it as a “medium” risk or lower – with 39% as “medium”, 22% as “low”, and 9% as “very low”. Similarly, 24% of platforms saw collapse due to malpractice as a “very high” (9%) or “high” (13%) risk. The remaining 76% predominantly saw it as a “medium” risk (48%), however some saw it as a “low” (17%) or “very low” (13%) risk.

With regard to Portugal, these factors were perceived as relatively low risks. Additionally, platforms were unified in their opinions on certain risk. For instance, 100% of platforms viewed changes to current regulation and collapse due to malpractice as a “medium” risk. 100% of platforms also viewed notable increase in default as a “very low” risk. Fraud on the whole was seen as a low risk – with 50% of platforms seeing it as a “low” risk, and 25% as a “very low” risk. The only risk that was viewed at all to be a “high” risk was that of a cyber-security breach – here 25% of platforms viewed it as a “high” risk, and 75% a “low” risk. Nevertheless, these assessments should be taken cautiously as they are based on responses of only four platforms operating in the country.

Figure 76: Overall Perceptions towards Risk Factors - Iberia

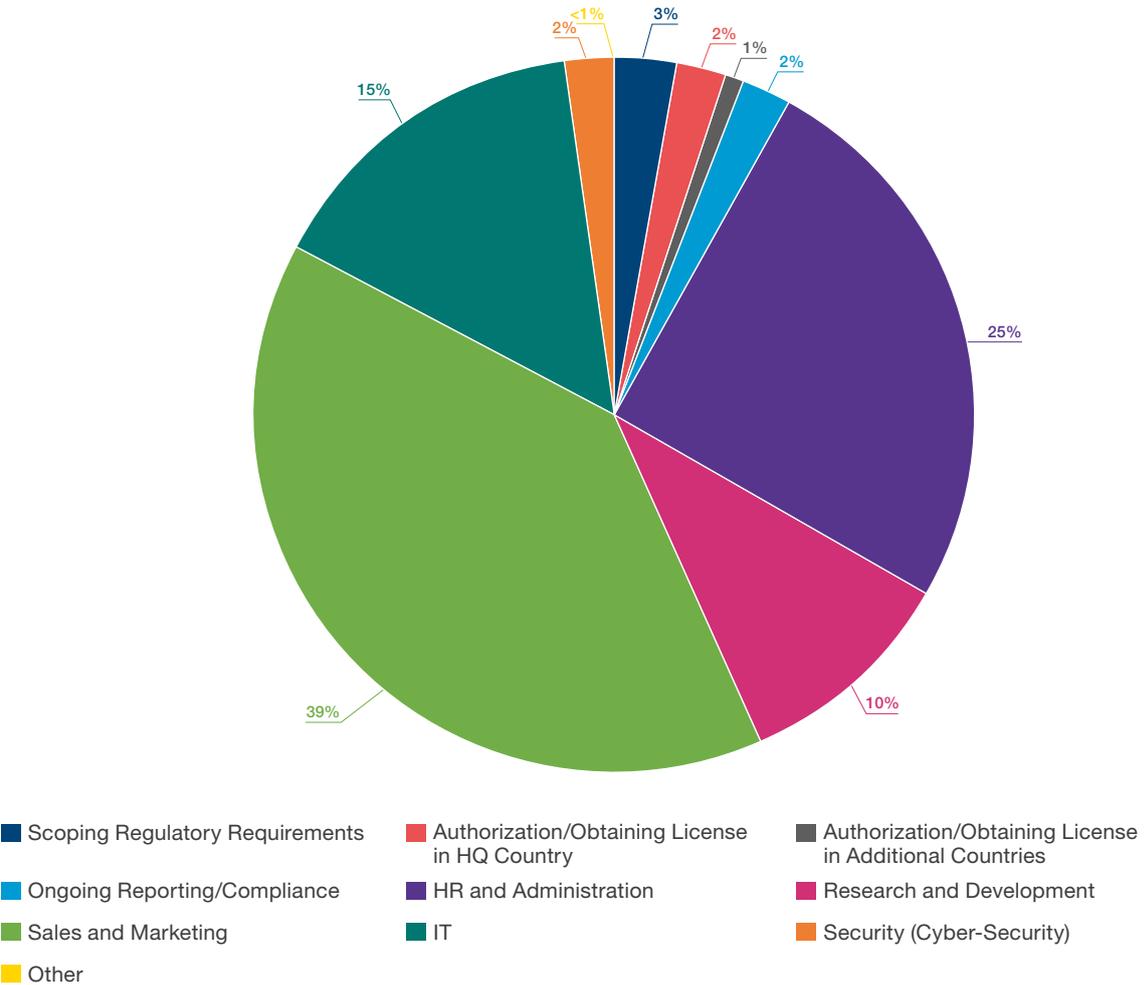


### Platform Costs and Budget

Nineteen platforms from the Iberian region provided information about their cost structure and budget allocations. Here, the largest share of budget went to Sales and Marketing (39%), and HR and Administration (25%). IT (15%) and Security (Cyber-Security) (2%) accounted for a total of 17% of the average budget. Research and Development was 10% of the average budget.

Finally, the cost of operating made up 8% of most budgets – including scoping regulatory requirements (3%), the cost for authorization/obtaining a license in their HQ country (2%), cost for authorization/obtaining a license in additional countries (1%) and ensuring ongoing reporting/compliance (2%).

Figure 77: Platform Operating Costs and Budget Allocation (%) Iberia



**Innovation**

R&D amounted to 10% of the average platform’s budget in Iberia, in the chart above, the research priorities are presented by the percentage of platforms that are actively developing each initiative. Thirty-three platforms from the Iberia region have provided information about their R&D focus and activities.

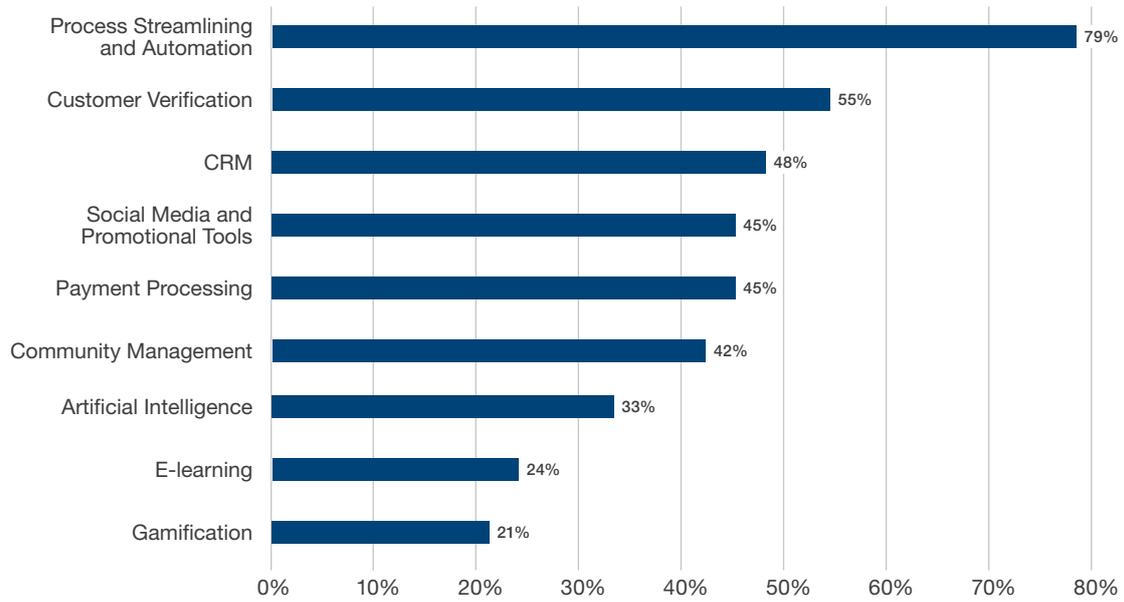
The highest research priorities in Iberia are Payment Streamlining and Automation (78%), Customer Verification (55%), CRM (84%), Payment Processing (45%), Social Media and

Promotional Tools (45%), and Community Management (42%).

Similar to Europe as a whole, the priorities are predominantly focused on improving operational efficiency (Payment Streamlining, Consumer Verification, and Payment Processing), followed by improving customer service (CRM, Community Management, and Social media promotional tools).

Additionally, there was also some focus on developing AI (33%), E-learning (24%) or Gamification features (21%).

Figure 78: Actively Pursued R&D Initiatives in 2017 - Iberia



**Internationalization**

Thirty-two platforms from the Iberian region provided information about their internationalization strategies.

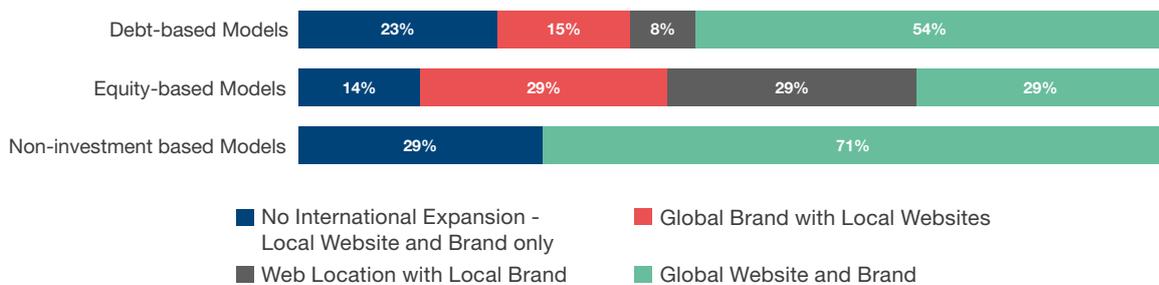
Most Non-investment platforms used a global website and brand (71%). The remaining 29% of responding platforms noted that they had no international expansion, and only maintained a local website and brand.

Internationalization for Equity-based platforms was split more equally, with 29% of platforms reporting that they have both a global brand and website, 29% with a global brand and local website, and 29% with a localized website and local brand. The remaining 14% had no international

expansion. This is surprising, and counter to evidence in most other European countries where varying regulatory frameworks pose a challenge for the international expansion of Equity-based crowdfunding platforms. This can be connected to general dissatisfaction with local regulation, which may make regulation in other countries favorable in comparable terms and encourage platforms to operate internationally.

Similar trends were evident with respect to Debt-based platforms, where a majority report an international strategy. Here, the majority use a global website and brand (54%), 15% had a global brand with local websites, and 8% used a localized website and a local brand. Only 23% had no international expansion at all.

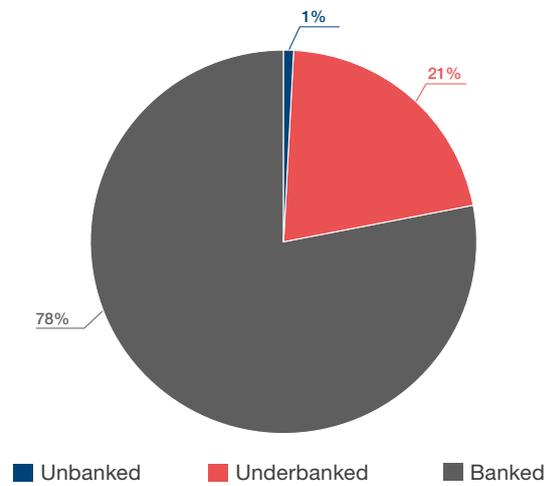
Figure 79: Platform Internationalization Strategy - Iberia 2017



### Financial Inclusion

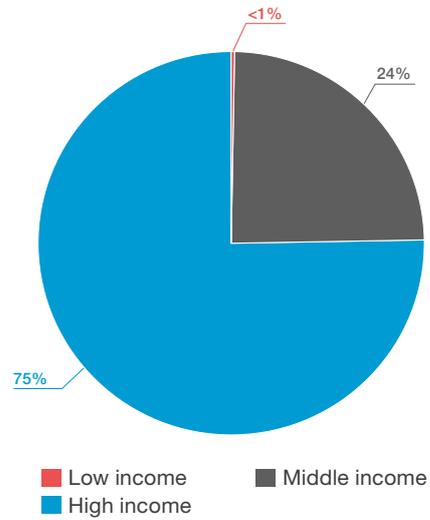
Sixteen platforms operating in the Iberia region provided information about the banking status of their borrowers. Individuals that utilized alternative finance platforms in Iberia were, for the most part (78%), banked individuals. 21% of borrowers were underbanked, and the remaining 1% were unbanked. In general, this means that most individuals that utilized alternative finance in the region used it to complement their existing banking services.

Figure 80: Banked Status of Borrowers (%) Iberia



Only eight platforms operating in the Iberian region provided information about the income level of their funder customer base. Here, most were high income individuals (75.2%). Middle income individuals then made up the next largest share, 24.3%. A minority of funders were low income (0.5%).

Figure 81: National Income Categorization by Funder Customerbase (%) Iberia



### Institutionalization

Twenty-eight platforms operating in the Iberian region provided information about the extent to which they collaborated with institutional partners. 50% of these platforms regarded this to not be applicable in their case. However, 32% indicated that they utilize institutional partners for client referrals and 14% for agent banking. 18% of platforms report to be owned/partially owned by an institutional partner. Less than 4% engaged with an institutional partner for data exchanges.

## CENTRAL EUROPE

### Market Volume

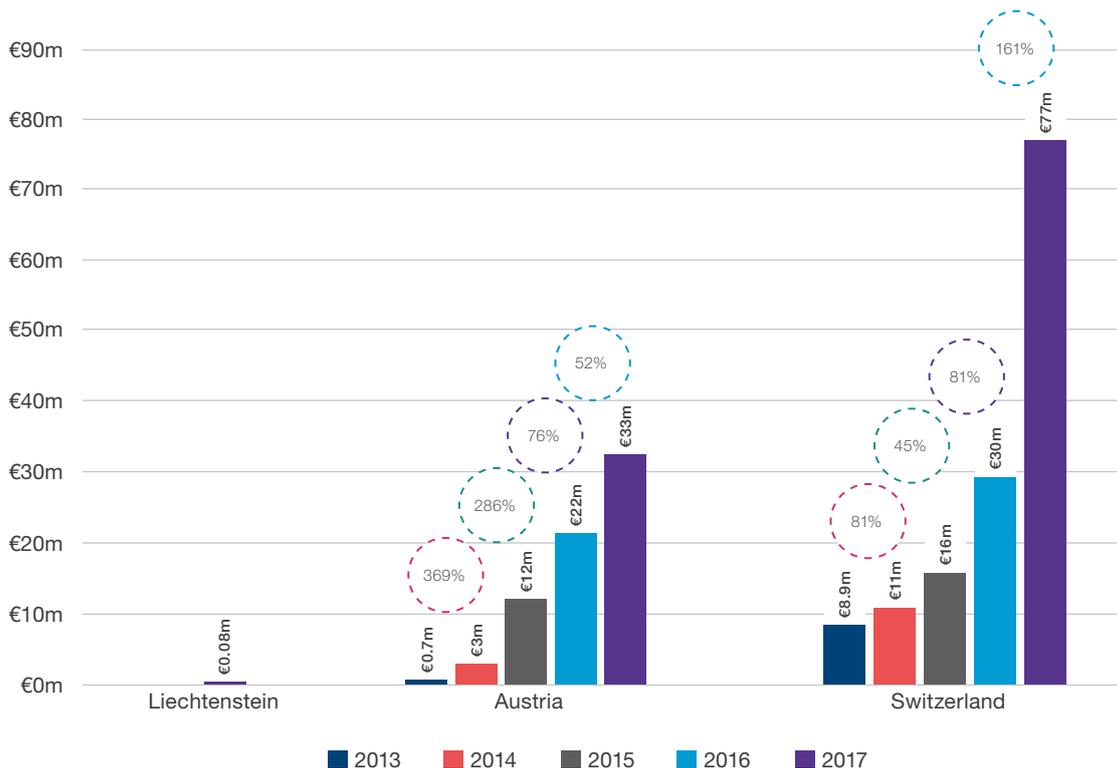
For the purpose of this study, Central Europe consists of three countries: Austria, Switzerland and Liechtenstein. Overall, the region has the 10<sup>th</sup> largest Alternative Finance Market in Continental Europe – in 2016, the region ranked 11<sup>th</sup>.

Total volume for the region more than doubled, from €51m in 2016 to €110m in 2017. Central Europe had a growth rate of 115% between 2016 and 2017, surpassing its 79% growth rate from 2015-2016. Switzerland had an Alternative Finance Volume of €9.11 per capita in 2017. Austria had an Alternative Finance Volume of €3.74 per capita, making Switzerland and Austria 10<sup>th</sup> and 17<sup>th</sup> in terms of volume per capita.

These numbers underscore the different dynamics of both markets. Alternative Finance Volume in Switzerland grew faster than in Austria, in particular due to the strong presence of lending platforms, whereas in Austria lending-based Crowdfunding faces some strong regulatory hurdles, meaning that the market dynamics in Austria are shaped more by equity platforms.

In total, 42 platforms reported operations in Central European countries and were included in our analysis.<sup>57</sup> From Austria, 22 platforms participated, 11 of which were local platforms. A total of 19 platforms active in Switzerland participated in our research, 6 of them local platforms. In Liechtenstein, while there did not appear to be any local platforms, one global platform indicated activity. In previous years, there had not been any activity attributed to Liechtenstein.

Figure 82: Central Europe Online Alternative Finance Market Volumes 2013-2017 (€millions)



### Volume by Model and Country

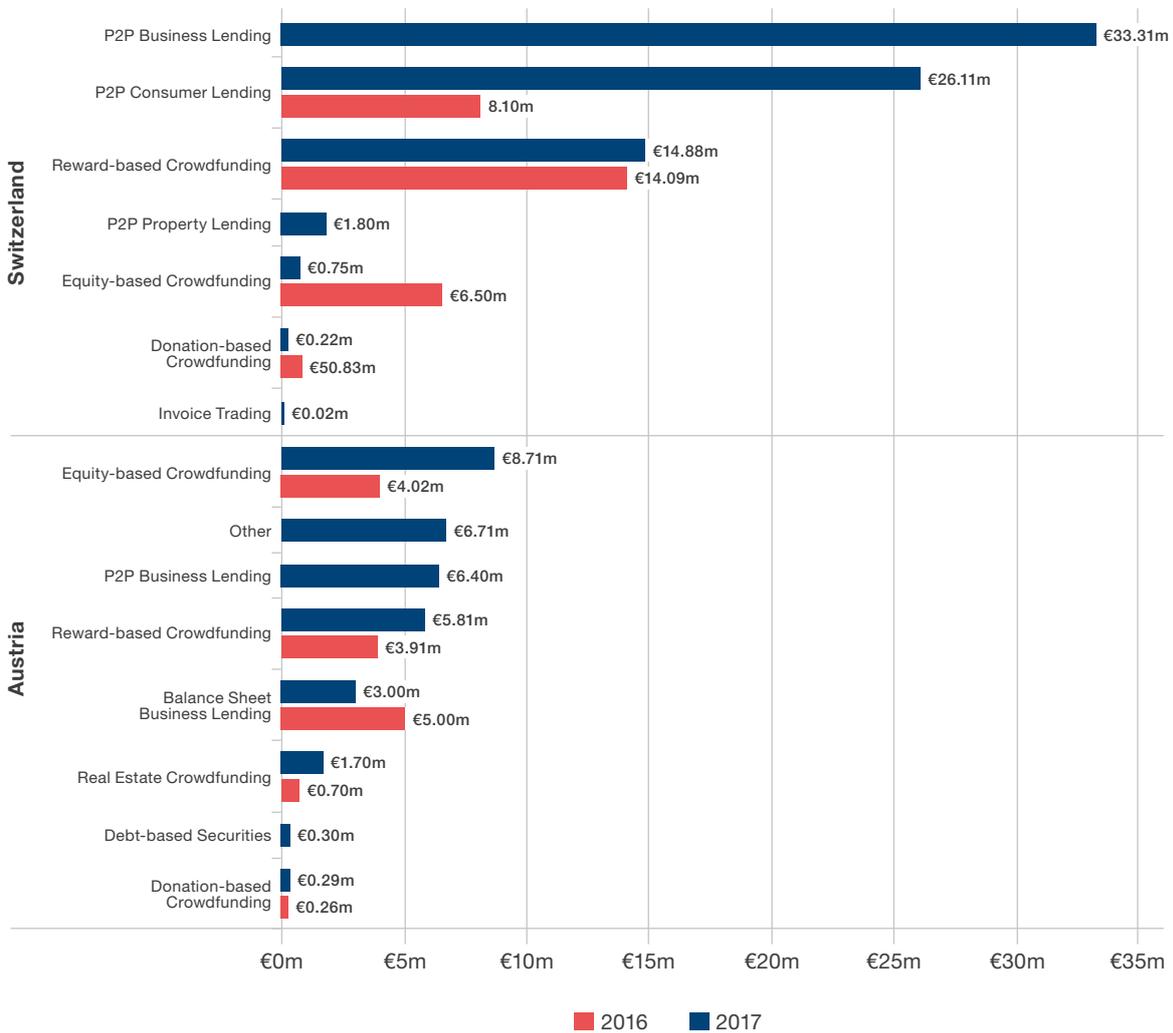
The strong growth of the Central European Alternative Finance Market stems from the Swiss Crowdfunding Market, which grew 161% in 2017, from €30m in 2016 to €77m in

2017. The Swiss Crowdfunding market is dominated by Lending-based Crowdfunding platforms. Their volume was small in 2016 but reached €26.1m for P2P Consumer Lending and €33.3m for P2P Business Lending in 2017. According to other sources,

lending-based volumes can be estimated at even higher growth rates, but our survey did not capture all of the platforms in this country.<sup>58</sup> Equity-based Crowdfunding in Switzerland, according to our data, shrunk to €0.75m. However, as indicated above, other sources report that Equity-based Crowdfunding grew at a large rate. The disparity between our data-set and the other data-set could be driven by the number of platforms that participated, particularly the lack of a response from one platform that

participated in 2016.<sup>59</sup> A second source of divergence could be that some platforms labelled as Equity-based Crowdfunding, run a business model of private placements for a selected number of business angels, instead of the public at large, or the so-called “crowd”, as in the rest of Europe. For instance, minimum investment amounts on Swiss Equity-based Crowdfunding platforms, which were not captured by our survey, were usually several thousand Swiss francs.<sup>60</sup>

Figure 83: Total Alternative Finance Volume by Model in Central Europe 2016-2017 (€millions)



Reward-based Crowdfunding in Switzerland was valued at €14.9m, with similar figures reported in 2016. The model grew modestly in 2017, increasing 5%. These figures are assumed to be slightly underestimated due

the lack of a response from two platforms that participated in 2016.<sup>61</sup> Nevertheless, Swiss Reward-based Crowdfunding volume ranked 3<sup>rd</sup> in continental Europe, after France and Germany.

Donation-based Crowdfunding shrunk from €0.8m in 2016 to €0.2m in 2017, almost to the 2015 levels. As discussed above, other sources estimate that Reward-based and Donation-based Crowdfunding in Switzerland was around €27m in 2017. The disparity stems from the fact that Donation-based Crowdfunding in Switzerland is often run in cooperation with local banks supporting fundraising platforms, which were not captured in the study. Another partial explanation is the closing down of one Donation-based platform that participated in 2016.<sup>62</sup> Additionally, P2P Property Lending and Invoice Trading volumes were reported for the first time in the Swiss Market at €1.8m and €0.02m, respectively.

The market volume of the Austrian Alternative Finance Market grew from €22m in 2016 to €33m in 2017, an increase of 52%. Regulations governing the Austrian Crowdfunding sector do not provide a specific framework for P2P Consumer Lending. This is why we do not observe any P2P Consumer Lending volumes. Additionally, Equity-based Crowdfunding platforms utilize a type of subordinated profit-participating loan, because other types of securities do not allow the same prospectus exemptions. Therefore, it is necessary to look at the combined figures of Equity-based Crowdfunding with €8.7m (2016: €4.0m), P2P Business Lending at €6.4m (2016: €0), and Balance Sheet Business Lending at €3.0m (2016: €5.0m) to understand the size of the Crowdfunding Market serving the financing needs of SMEs. The data suggests a shift from Balance Sheet Business Lending towards Equity-based Crowdfunding and P2P Business Lending.

Profit Sharing had a strong presence of €7m in 2016 but was not captured in our 2017 survey data. In contrast, Debt-based securities were detected for the first time in Austria, but the volume (€0.2m) was miniscule in 2017.

The volume of Real Estate Crowdfunding was only €1.7m, which was surprising given the strong growth of this segment in other regions. This can be partially attributed to the fact that Real Estate Crowdfunding projects were run on Equity-based Crowdfunding platforms, thus underestimating the volume of this segment.

Reward-based Crowdfunding, at €5.8m grew by 49%. In 2016, Reward-based Crowdfunding from several non-Austrian platforms was only at €3.9m. Donation-based Crowdfunding in Austria largely stagnated in 2017, only growing 12% to €0.29m from 2016's volume of €0.26m.

### *Regulation*

Platforms in Austria and Switzerland were asked about their attitudes towards existing and planned regulation. It should be noted that both Swiss and Austrian regulatory frameworks were undergoing a process of reform during the data collection period of this survey. Seven Austrian platforms and four Swiss platforms provided information about their perception of regulation in their respective countries.

In Switzerland, the Federal Government initiated a consultation process in 2017 to change banking legislation. One of the obstacles for the Swiss Alternative Finance Market is the "20 lender rule", which means that if a company engages with more than 20 lenders, it is required to obtain a banking license. The currently proposed rule would allow for an exemption for investment rounds beneath CHF 1 million, making smaller loans more attractive.

In Austria, the *Alternativfinanzierungsgesetz* (Alternative Finance Law) was evaluated and reformed in 2017, easing the access to Crowdfunding for campaigns in 2018. The threshold for certain reporting obligations was raised and the exemption from the prospectus requirement for Equity-based Crowdfunding was also raised from €1.5m to €2m. Survey respondents in Austria seemed to have this positive development in mind when answering the questions.

In Central Europe, 57% of debt-based platforms, 89% of equity-based platforms and 93% of non-investment platform have a local license to operate their platform.

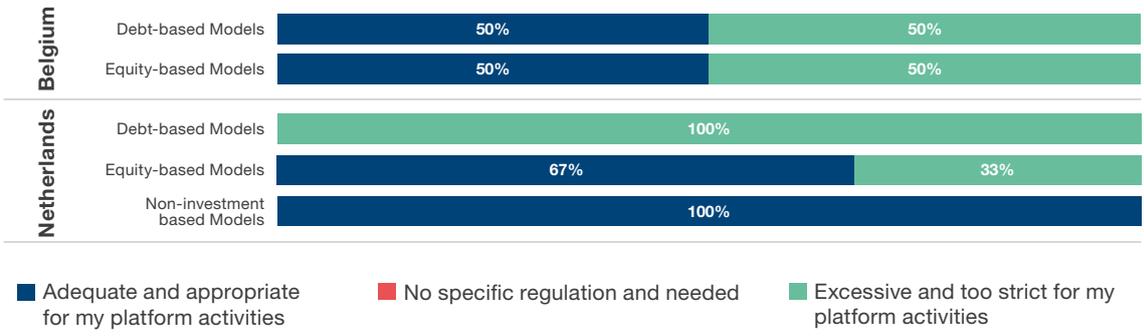
In Switzerland, perception of regulation was split. About half of both debt and equity crowdfunding models saw regulation as adequate, while the other half perceived it as excessive.

In Austria, all debt platforms viewed regulation to be adequate. Two thirds of Equity platforms saw regulation as adequate,

and the remaining one third regarded it to be excessive. This might result from a comparison with equity-based frameworks in nearby regions, especially Germany, where during the same time the prospectus

exemption was raised to €2.5m for investment assets (Vermögensanlagen) and €8m for securities (Wertpapiere) when using a Crowdfunding platform.

Figure 84: Perception Towards Existing National Regulation - Central Europe



**Risk**

Eleven platforms operating in Austria and five platforms operating in Switzerland provided information about their perceptions of various risks.

Perception of risk was similar throughout platforms in Switzerland and Austria. The risk of fraud was seen as “low” by a majority of platforms in both countries. In Switzerland, 50% of non-investment platforms and 50% of debt-based platforms regarded fraud as a “high” or “very high” risk.

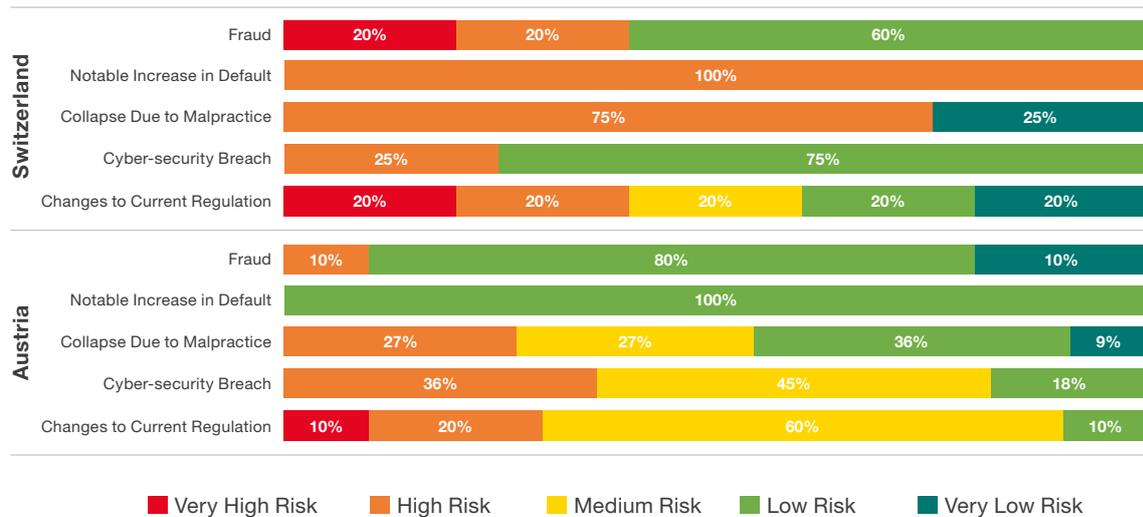
In contrast, all platforms in Austria and Switzerland agreed that there was a “high” risk of a notable increase in default for projects in their countries.

The risk of the collapse of a major platform due to malpractice was also viewed as a “high” risk by the platforms. In particular, 50% of debt-based platforms in Austria and all of the debt-based platforms in Switzerland indicated that this was a “high” risk. The majority of equity platforms operating in Austria judged this risk as “medium” to “very low”. All of the Swiss equity platforms perceived a “high” risk of collapse of a major platform due to malpractice. Non-investment platforms perceived this risk to be “medium” (Austria) and “very low” (Switzerland).

Austrian platforms perceived the risk of cybersecurity breaches to be higher than their Swiss counterparts. In Switzerland, platforms indicated a “low” risk of a cybersecurity breach, especially among debt-based platforms, when compared to their Austrian counterparts. Austrian non-investment platforms saw the risk of a cybersecurity breach as “high”, while their Swiss counterparts which regard this risk as “low”.

Austrian platforms saw changes to regulation as a “medium” risk, whereas Swiss platforms’ perception of regulatory risk ranges from “very high” to “very low”, thus, providing an ambiguous answer to this question. Debt-based platforms in Austria indicated that the risk of regulatory change was “medium” to “low”, whereas Austrian equity-based platforms reported that the risk was “medium” to “high” risk. In contrast, Swiss debt-based were split on this topic, with 50% percent indicating a “very high” risk and 50% a “low” risk. Swiss equity-based platforms perceived the risk of regulatory changes to be “medium” to “high” risk.

Figure 85: Overall Perceptions towards Risk Factors - Central Europe



**Innovation**

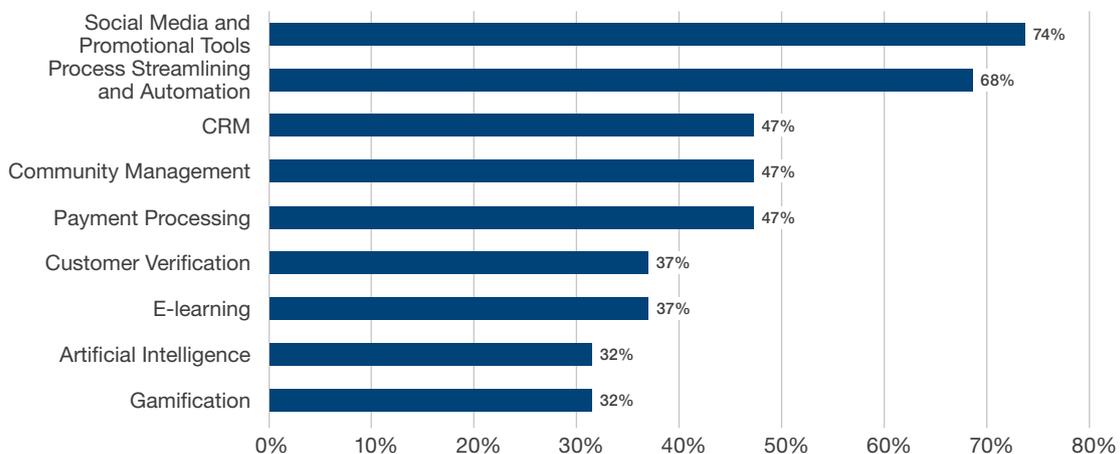
Nineteen platforms operating in Central Europe provided information on the extent to which they changed their business models in 2017. Here, the majority of platforms have not made changes to their business model (47%) or have undergone only slight alternations of their business model (42%). Only 11% of platforms significantly altered their business model.

This contrasts with product innovation. Fifteen platforms from Central Europe provided information on the extent to which they have changed their product offerings. 73% of all platforms have introduced new products in 2017, whereas 20% altered existing products. Compared to other regions

in Continental Europe, Central Europeans platforms have reported the highest rate of significant changes to their products. This finding highlights the aforementioned changes to the regulatory models in 2017 in both countries.

Furthermore, nineteen platforms operating in Central Europe provided information about their R&D focus and activities. Here, the focus was on innovation regarding Social Media and Promotional Tools (74%) followed by Process Streamlining and Automation (68%). Payment Processing (47%), Community Management (47%) and CRM systems (47%) were other relevant forms of innovation in alternative finance market in Central Europe.

Figure 86: Actively Pursued R&D Initiatives in 2017 - Central Europe

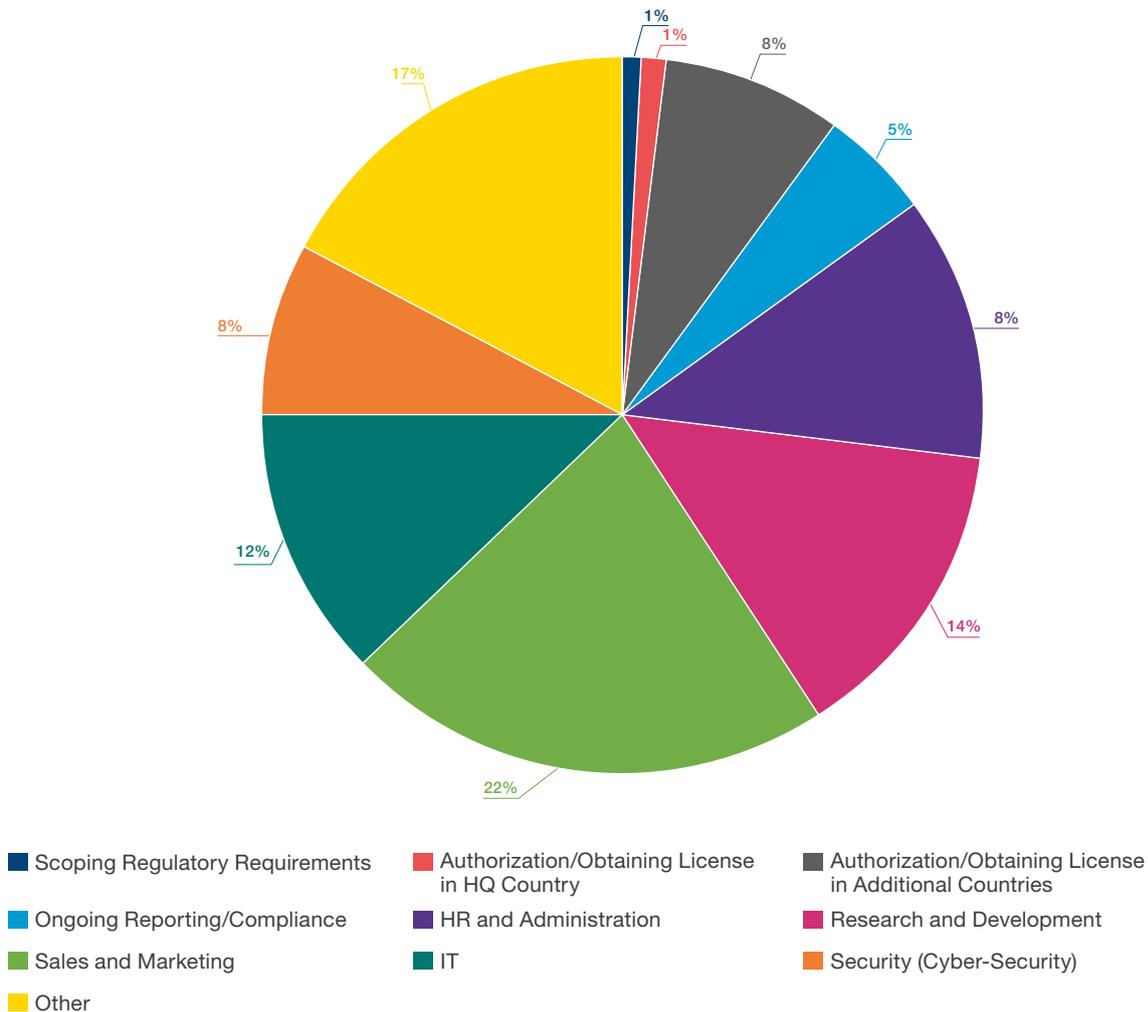


### Platform Costs and Budget

Eleven platforms operating in Central Europe provided information about their cost structure and budget allocations. Platforms in this region spent their budget in a similar fashion as platforms in the rest of continental Europe. On average, 22% was spent on Sales and Marketing, which was less than in the larger markets of France, Germany and the Nordics. Additionally, 14% was spent

on research and development, and 12% was devoted to both Human Resources and Administration and IT. Cybersecurity expenses were relatively high when compared to other regions, accounting for 8% of a platform's budget. When considered jointly, costs associated with authorization, compliance and regulatory scoping represented 15% of platforms budgets.

Figure 87: Platform Operating Costs and Budget Allocation (%) Central Europe



### Internationalization

Twenty-one platforms provided information about their internationalization strategies. 62% of Central European platforms utilize a global platform and brand, while 14% use a global brand with a localized website. This

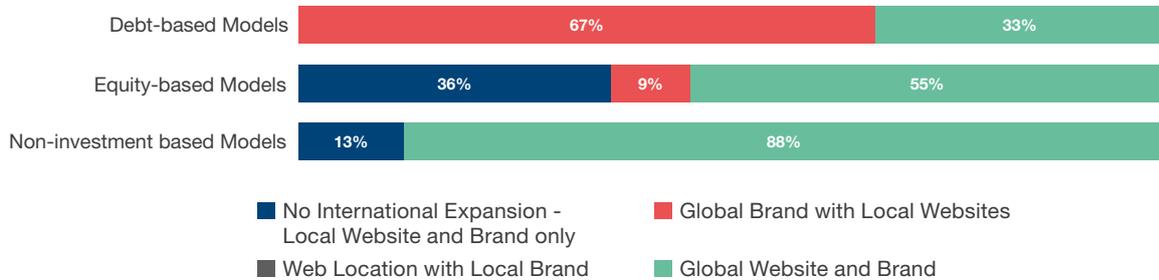
does reflect the nature of small alternative finance markets, where scaling opportunities are often linked to international expansion into other countries.

Non-investment platforms led in terms of global expansion, with 88% developing a

strategy to internationalize under a global brand. 55% of the equity-based platforms indicated that they were reaching out to a foreign customer-base using a global brand, a

further 9% ran a local website under a global brand. For debt-based platforms, 67% utilized a global brand with a local website, and 33% had both a global website and brand.

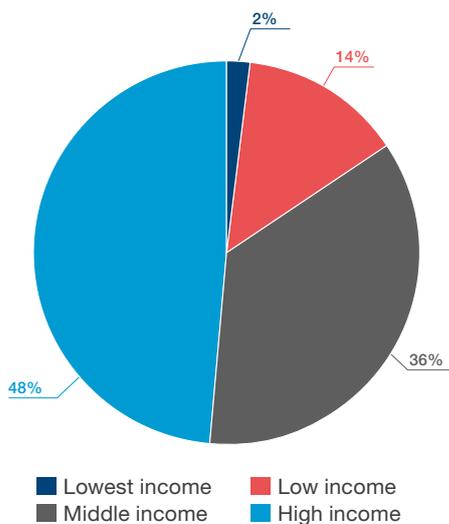
**Figure 88: Platform Internationalization Strategy - Central Europe 2017**



**Financial Inclusion**

Seven debt-based platforms operating in Central Europe reported that 100% of their borrowers were banked, and that none of their customers were either underbanked or unbanked. When considering their funder customer-base, platforms in Central Europe stated that 48% of their funders have a high income, 36% are in the middle-income bracket. The remaining 15.6% of funders were from low (13.6%) and the lowest income bracket. Comparable numbers can be found in other regions as well, for instance in the Baltic States.

**Figure 89: National Income Categorization by Funder Customerbase (%) Central Europe**



**Institutionalization**

Thirteen platforms operating in Austria and eight platforms operating in Switzerland provided information about their collaboration with institutional partners.

In Austria, 38% of platforms had an institutional partner. Yet, the institutional partner was only relevant in the context of referring prospective clients. In Switzerland, 62% of the platforms had an institutional partner for client referral. Swiss platforms also used an institutional partner for data exchange (12%), or agent banking (12%). Additionally, 12% of these platforms were owned/partially owned by the institutional partner. Thus, the level of institutionalization was considerably more evident in Switzerland than in Austria.

Institutional funding remained low in comparison to other regions in Europe with regard to total volumes. Only 6% of the total volume originated from institutional investors, which was very low compared to Italy (45%), but consistent with other countries such as Germany (5%) and France (6%).

### **Security Tokens on the Rise in Austria**

*By: Paul Pöltner, Chairman of the Working Group of Crowdfunding Platforms, Austrian Chamber of Commerce*

The Austrian Crowdfunding Market is growing due to the framework of the Alternativfinanzierungsgesetz (Alternative Finance Law). There is a great interest in Initial Coin and Security Token Offerings and the first market players have started to find regulatory solutions for this new form of financing.

### **Crowdsustaining is Growing in Reward-based Crowdfunding in Austria**

*By: Wolfgang Gumpelmaier-Mach, Owner of Crowdfunding-Service.com, Crowdfunding Consultant at the Institut for Communication in Social Media (ikosom) and the Creative Region Linz*

The competition among Reward-based Crowdfunding platforms from Austria, Germany and Switzerland can be seen by the increasing activity in this field. At the same time, Reward-based Crowdfunding is used more by projects in the field of tourism and infrastructure. Creatives also use new methods of crowdfunding, such as Crowdsustaining.

## THE BALTICS

### Market Volume

The Baltic market, which encompassed alternative finance in Estonia, Latvia and Lithuania, grew by €99m (73%) between 2016 and 2017, raising €235.2m. The region had an average two-year growth rate of 180%. However, the growth of alternative finance market in the Baltics in 2017 was not evenly distributed. The fastest growing market was Latvia, with a growth rate of 239%, followed by Lithuania (132%) and Estonia with a slight decline (-2%). This allowed Latvia to overtake Estonia and become the regional leader in terms of total volumes (€92m) for the first time. Despite its stagnating growth, Estonia was the second largest market with a total volume of €81m, although Lithuania's volumes were not far behind (€61m).

Although the economies in the region are relatively small, the Baltics region was the 6<sup>th</sup> largest alternative finance market in continental Europe in 2017 with a total volume of €235m and accounted for 7% of European volumes, excluding the UK. The remarkable success of this region is clearly evident when considering the population of Baltic countries. In terms of total volume per capita, Estonia and Latvia were ranked second and third in Europe, respectively, following the UK. Lithuania, with a slightly larger population, was ranked 6<sup>th</sup>.

Overall, 36 platforms in the Baltics provided information about their volumes and activities in 2017,<sup>63</sup> which made this region one of the most vibrant alternative finance markets in Europe with strong growth prospects. Our survey also captured the presence of a considerable number of foreign platforms operating in all three countries indicating low regulatory costs of entry.

Figure 90: Baltics Online Alternative Finance Market Volumes 2015-2017 (€millions)



### Volume by Model and Country

P2P Consumer Lending represented the largest share of total volumes in the Baltic region (68%). This model type repeated its triple-digit growth rate from the previous year (108% in 2017 and 188% in 2016) and raised €159.6m in 2017. The growth of this model was mainly due to market developments in Latvia, which accounted for 47% of regional volume. However, in both Lithuania and Estonia P2P Consumer Lending raised over

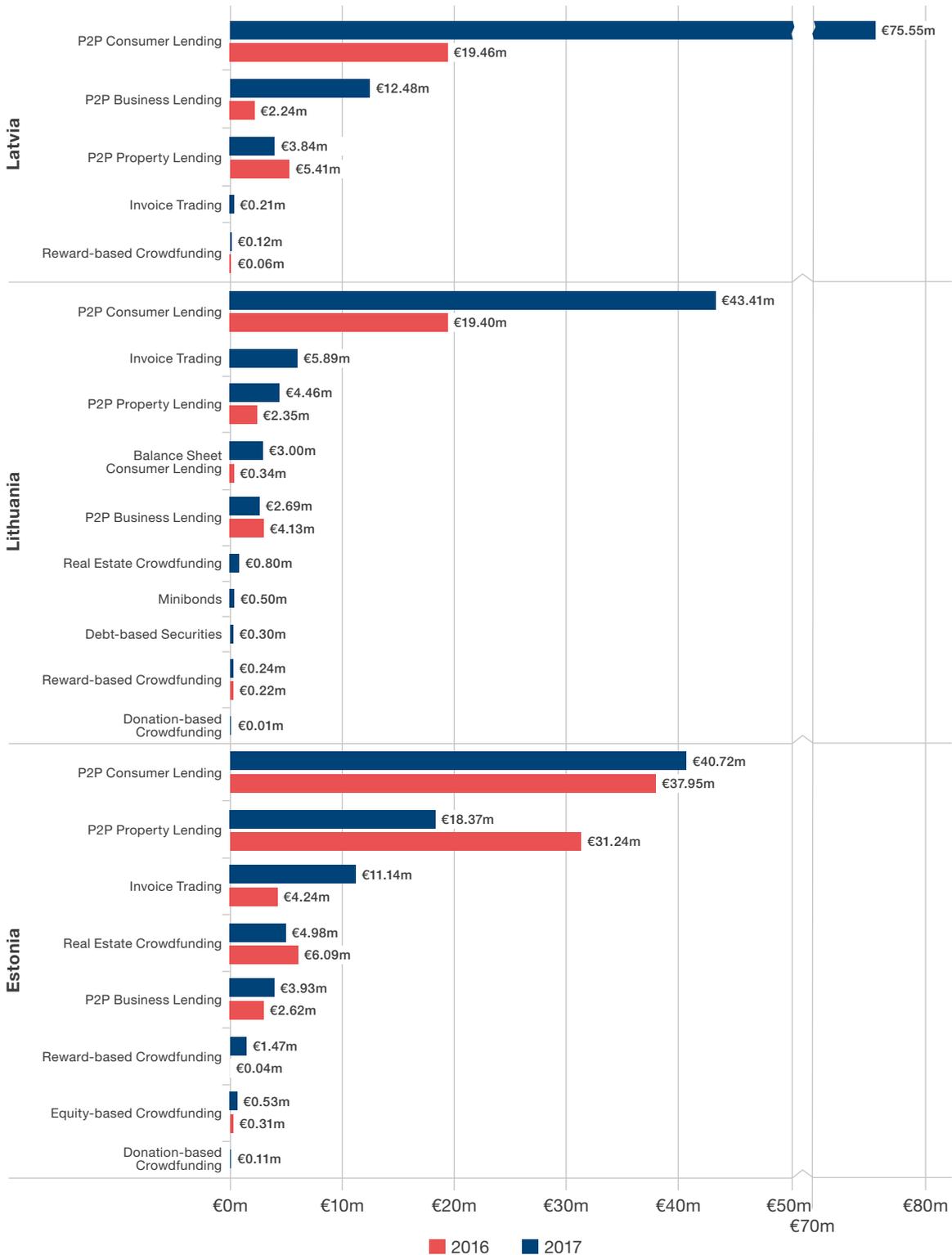
€40m, each representing about one quarter of total regional volume.

P2P Property Lending also generated significant volumes in 2017, raising close to €27m. However, this model fell 32% from the €39m it generated in 2016. Nevertheless, Estonia contributed the most to the regional market in this category and represented 69% of the market. Estonia was also a leader in mainland Europe in terms of total volumes. Similar trends of decreases in volumes were

observed with respect to Real Estate Crowdfunding, which dropped from €6.1m in 2016 to €5.8m in 2017. Taken together, Real Estate models represented 14% of total regional volumes.

In comparison to Consumer Lending, P2P Business Lending generated modest volumes in the Baltic region, raising €19.1m in 2017. However, given that the value of this model increased twofold since 2016,

Figure 91: Total Alternative Finance Volume by Model in Baltics 2016-2017 (€millions)



P2P Business Lending should continue to grow in the future, especially in Latvia, which accounted for 65% of current volumes. Since P2P Property Lending is often not clearly separated from P2P Business Lending by platforms, it is possible that some of the decline in P2P Property Lending can be explained by the increase of reported volumes in P2P Business Lending.

Another new financing opportunity for SMEs with stable cash flows, Invoice Trading, generated €17.2m in 2017, a growth of 307% from 2016 volumes. Such a high growth rate can mainly be attributed to market developments in Estonia, which represented 65% of the regional market. Given that this was the first time that our study captured volume for this model in Lithuania, and that it reported almost €6m in volume, it is reasonable to expect that this market will continue to grow in the future.

Contrary to developments in most other European markets, Balance Sheet Consumer Lending continued to grow, doubling its volume between 2016 and 2017, although still involved relatively small volumes (€3.0m).

In contrast to lending models, Equity-based Crowdfunding in the Baltics involved small volumes, totaling €0.5m. However, the model had strong growth between 2016 and 2017 (61%). A possible explanation for such a dramatic difference between lending and equity models is a need for a better developed regulatory framework in the latter case and the slow development of capital markets more generally in this region.

Reward-based and Donation-based Crowdfunding, which are generally associated with much looser regulations in comparison to their investment counterparts, were still underdeveloped in the Baltics. Combined, these two model types generated less than €2m in the Baltics in 2017. Despite these small volumes, Reward Crowdfunding exhibited dramatic growth between 2016 and 2017 (472%).

Overall, the Baltic region exhibited little diversity between countries in terms of the development of business models. P2P Consumer Lending dominated the market in all three countries, exceeding the volumes of any other model. Noticeable differences appeared with respect to P2P Business

Lending, which was more prominent in Latvia, while Invoice Trading and Real Estate models, generated particularly large volumes in Estonia.

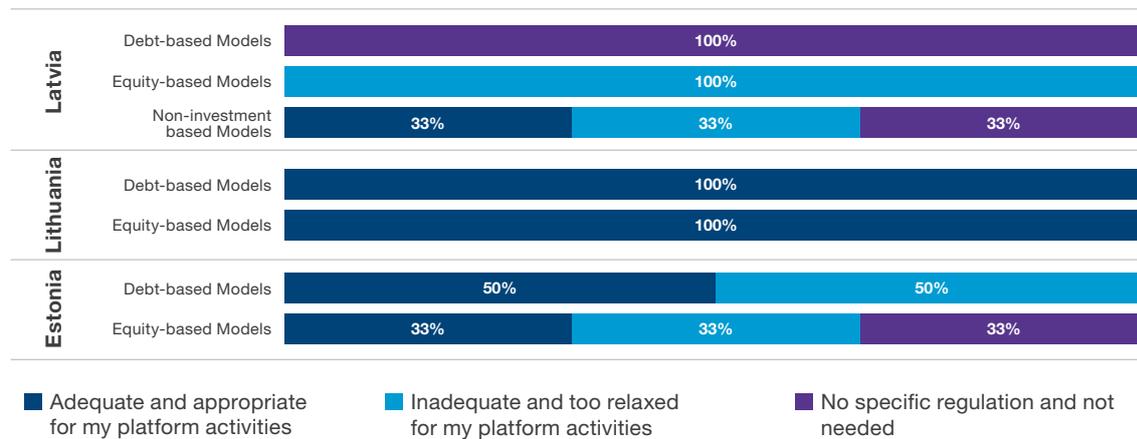
### *Regulation*

The Baltics represent an interesting example of a region in which an alternative finance market emerged and developed without tailored crowdfunding regulation in place. This, however, was not without consequences on the pace of development for some business models. Estonia and Latvia have still not passed laws on crowdfunding regulation. Lithuania passed regulations in late 2016, which created a common regulatory framework for offerings of securities and lending through online platforms. Donation and Reward-based Crowdfunding remain outside the scope of Lithuanian regulation.

The alternative finance market in Estonia is quite unique and has developed self-regulatory mechanisms in the form of an industry code of conduct/best practices, to which platforms can adhere to on a voluntary basis or provide reasons for deviating from certain rules on their websites. Nevertheless, self-regulation cannot replace broader state regulations already in place, particularly those that govern the activities of investment firms and the public offering of securities. These issues are of particular relevance when interpreting the findings on how platforms perceived regulation in each country.

Platforms were asked to provide information regarding if they were authorized to operate in their countries and whether an authorization was required for their business model. Overall, 40% of debt, 50% of equity, and 67% of non-investment model platforms in the Baltics reported being authorized to operate in their jurisdictions. In addition, 55% of debt, 50% of equity, and 33% of non-investment platforms reported that authorization was not required for their activities. Due to the limited number of platforms from each country per model, results are only shown in aggregate. However, these figures camouflage the differences on a country level. For debt models, while authorization was explicitly required by law in Estonia and Lithuania, there has been much legal uncertainty

Figure 92: Perception Towards Existing National Regulation - Baltics



regarding licensing requirements in Latvia. Licensing of Equity-based platforms in all three countries depended on the type of instruments and services offered on the platform, some of which required the platform to hold an investment firm license and others did not have any licensing requirements. Non-investment models were not subject to specific regulation in any of the Baltic countries.

Responses from platforms regarding their thoughts on the adequacy of applicable regulatory regimes captured some interesting country level differences. Thirteen platforms operating in the Baltic region provided insight into their perceptions of existing regulations. In Lithuania, where a bespoke crowdfunding regime was introduced in November 2016, there was a consensus among debt and equity platforms that regulation was adequate and appropriate for their activities. To the extent that platforms preferred a regulatory environment that balances investor protection and growth opportunities for SMEs, Lithuanian regulatory solutions could help inform the debate about the crowdfunding regulation in the other two Baltic countries.

In Latvia, operators of non-investment platforms agreed that no specific regulation was needed, whereas operators of equity platforms unanimously thought that the regulations that were applicable to their model was inadequate and too relaxed for their activities. In contrast, opinions about the adequacy of regulation applicable to debt-based models was divided between

those who thought that the regulation was adequate (33%), inadequate and too relaxed (33%), and that there was no need for specific regulation (33%). Such findings can be attributed to differences in legal interpretation that might arise from a lack of a clear regulatory framework and diversity of business models.

Estonian debt-based platforms viewed regulation similarly to those in Latvia, which was hardly surprising given that platforms in both countries face legal uncertainty. For equity-based platforms, platforms either saw regulation to be adequate and appropriate (50%) or inadequate and too relaxed (50%). This provides further support for regulatory clarity for the alternative finance ecosystem in Estonia.

**Risk**

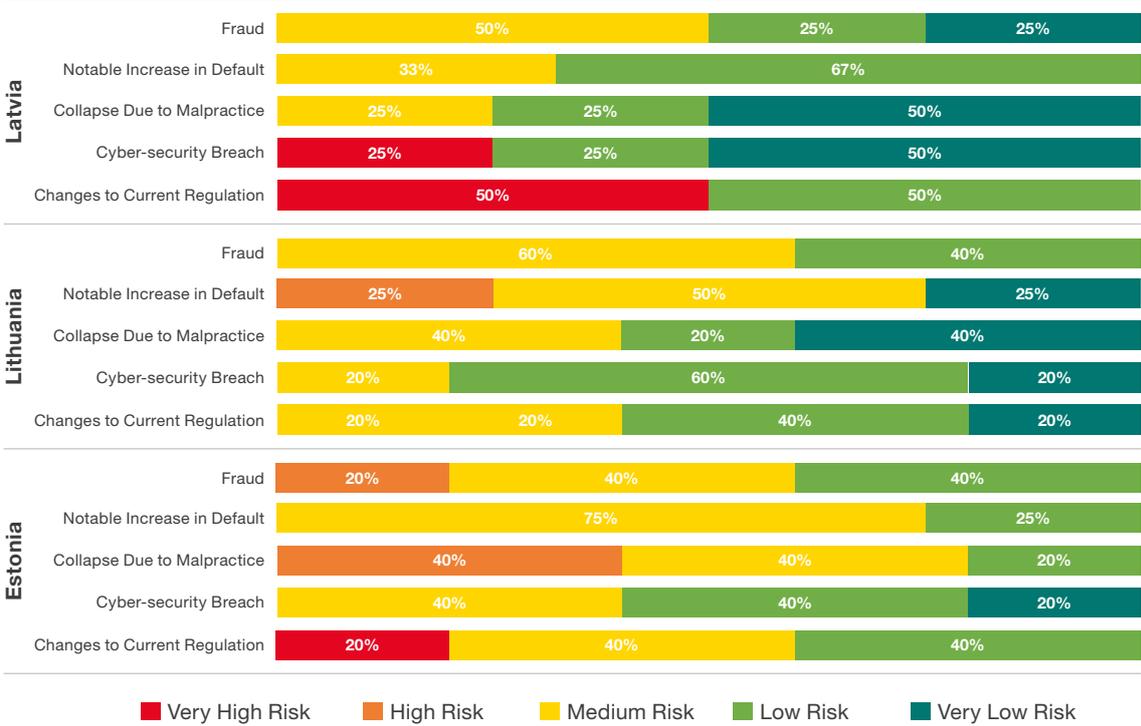
Platform operators in the Baltics were asked to evaluate the risk of several factors that may affect their activities and describe the extent to which they were concerned. Fourteen platforms operating in the Baltic region provided such information. Our survey captured differences among the Baltic countries, but overall there were some common concerns that emerged. Changes to current regulation was a risk factor that was of significant importance for platforms operating in all three countries. This risk was viewed to be of “very high” or “high” risk by 60% of Estonian, 50% of Latvian, and 20% of Lithuanian platforms. Concerns about possible amendments to current regulation are justifiable given the lack of bespoke

crowdfunding regimes in Estonia and Latvia, and newly introduced regulation in Lithuania, for which some platforms might fear that it will be subject to further revisions in the future.

Other than changes in regulation, platforms in Latvia only viewed a cyber-security breach as an important concern, with 25% describing it as “very high” risk. All other factors are perceived as “medium” to “low” risk. In Lithuania, 25% of platforms indicated

that the risk of a notable increase in default was of “high” significance to their operations. Most of these platforms were lending platforms. For the most part, Lithuanian platforms appeared to be less concerned with other risk factors. Finally, in Estonia, two additional factors are viewed as a potential threat to their operations: collapse of a well-known platform due to malpractice seen as “high” risk by 40% of market participants; and the risk of fraud, which 20% of platforms saw as a “high” risk.

Figure 93: Overall Perceptions towards Risk Factors - Baltics



The perception of risk factors was also examined by model type. For debt-based platforms, the greatest concerns were expressed by Estonian platforms, with 50% perceiving both changes to current regulation and a collapse of a well-known platform due to malpractice as “very high” or “high” risk. Estonian operators of debt models also showed moderate concern for the risk of fraud. Additionally, one third of Latvian debt platforms saw the risk of regulatory change to be “high”. Debt models in Lithuania only perceived the risk of a notable increase in default as a “high” risk (25%) to their operations.

The perception of risk by equity-based platforms follows a similar pattern. Platforms operating in both Latvia and Estonia unanimously described the risk of a change to current regulation as “very high” or “high”, indicating concerns about the introduction of excessive regulation to fill current void. Half of platforms operating in Lithuania shared their apprehension of this risk factor as well.

Finally, with respect to non-investment models, the major concerns were with regard to potential cyber-security breaches and changes to current regulation. This data was limited to Latvia, as only non-investment platforms from that country responded to this question.

### Innovation

In order to better understand trends in innovation in the Baltic region, platforms were asked to provide information about whether they introduced changes to their business model or their products and describe their R&D efforts. Fourteen platforms operating in the region provided this information. According to our findings, platforms in the Baltics did not significantly change their business model in 2017. Just over a third (36%) of platforms introduced slight changes, while 64% made no changes at all. This could be a sign of maturing model concepts, or the high cost of switching from one business model to another in terms of necessary infrastructure, human capital, regulatory compliance, market conditions and other factors.

Fourteen platforms operating in the Baltics provided information on the extent to which they have changed their product offering. The findings of our study show that making changes to platforms' products was a more frequent occurrence in the region. Here, 46% of platforms reported introducing significantly

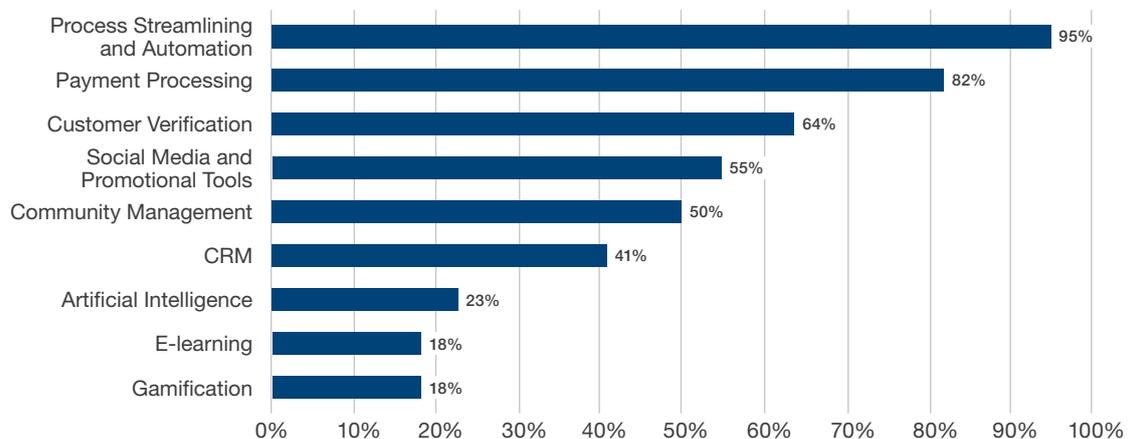
new products and 36% indicated introducing slightly new products. Overall, 79% of platforms made some changes to their existing products during 2017.

Twenty-two platforms operating in the Baltic region provided information about their R&D focus and activities. In general, R&D focuses split into three categories. First, most investments centered around innovation in performance enhancement technologies. Here 95% of platforms reported efforts in Process Streamlining and Automation, 82% indicated efforts in Payment Processing, and 23% mentioned efforts in AI.

Second, around half of platforms devoted R&D resources to customer service and management systems. 64% of platforms reported efforts in Customer Verification, 50% in Community Management features, and 41% in CRM systems.

Finally, innovative endeavors of some platforms were oriented towards various user support tools, such as Social Media and Promotional Tools (55%), Gamification elements (18%), and E-learning features (18%).

Figure 94: Actively Pursued R&D Initiatives in 2017 - Baltics

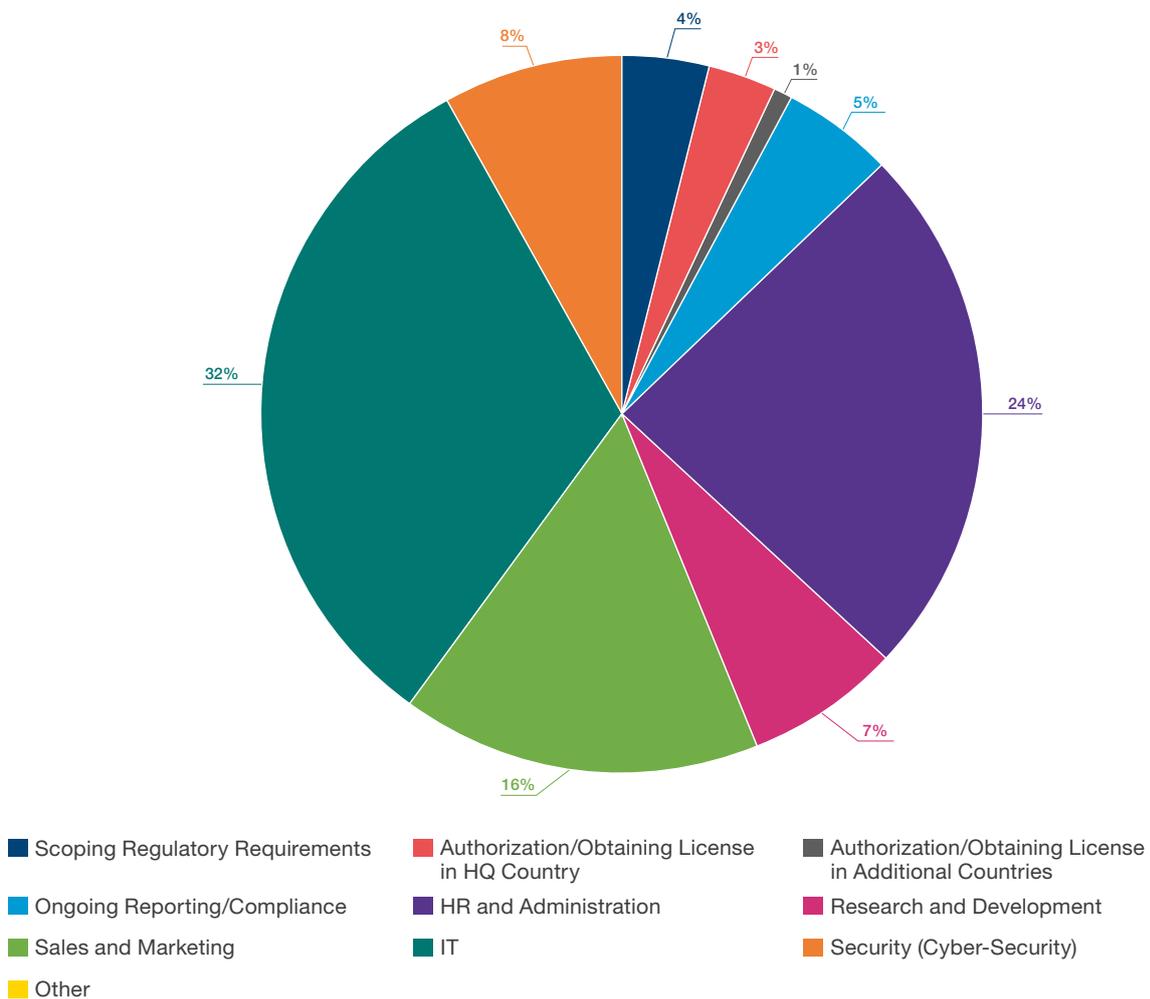


### Platform Costs and Budget

Seven platforms operating in the Baltic region provided information about their cost structure and budget allocation. Three types of expenses were dominant in the cost structure in the Baltics. IT expenses were the most significant component and accounted for almost one third of all expenses on average (32%). The next greatest expense was HR and Administration (24%), followed by Sales and Marketing, which represented

16% of all costs on average. Platforms also allocated some resources to Research and Development (7%) and Cyber-security (8%). Other expenses, such as those related to scoping regulatory requirements and compliance, as well as obtaining an authorization to operate a platform, accounted for 5% of platforms' budget or less each. Jointly, costs associated with authorization, compliance and scoping of regulation account for 13% of total platform budgets.

Figure 95: Platform Operating Costs and Budget Allocation (%) Baltics



Overall, the predominant focus on IT expenses was unique to the Baltics. In general, for the rest of Europe, IT represented the third largest share of costs, and Sales and Marketing represented the largest share of costs. This may be associated with relatively cheaper labor costs for those working on sales and marketing

in comparison to elsewhere in Europe, or due to the relative tech-savviness of Baltic citizens in comparison to other areas of “old Europe” which have adopted digital solutions to a greater extent and require less sales and marketing efforts to adopt these new solutions.

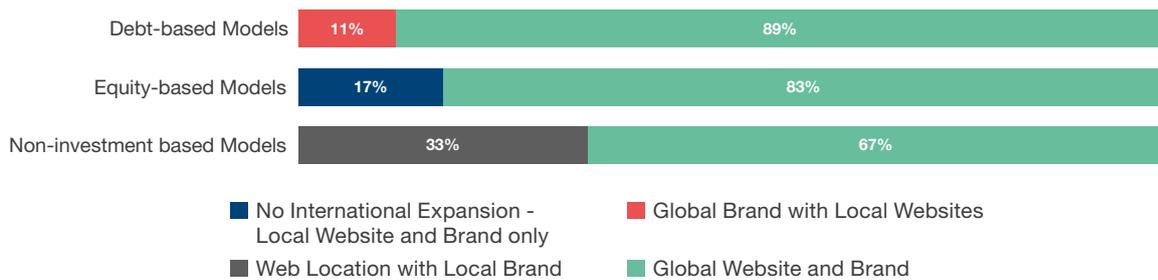
### Internationalization

In the light of a discussion on passporting opportunities in the EU for platforms that had cross-border operations, twenty-four platforms in the Baltics provided insight on their current internationalization strategies. We found that Baltic platforms were among the most active in greater Europe in terms of internationalization efforts, given that only 4% of platforms reported not expanding internationally. More than two thirds of platforms (83%) are trying to cater to international customers by using a global brand and website. Only a small number of platforms have resorted to other internationalization strategies, with 8% creating a website that operates under a global brand, and 4% localizing the brand

itself. Given the small population size of Baltic countries, an internationalization strategy allows them to capture significant economies of scale.

Our study shows some differences with regard to the internalization strategy of different alternative finance models. All debt and non-investment platforms pursued some sort of an internationalization strategy. Apart from operating under a global brand and using a global website, which is the preferred option among all models, a few debt platforms reported running a local website (11%), while a few non-investment platforms reported expanding through a creation of a local brand and website (33%). Among equity-based platforms, 17% indicated that they had no international expansion.

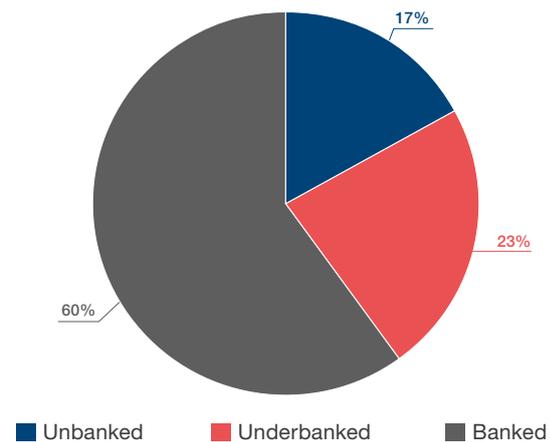
Figure 96: Platform Internationalization Strategy - Baltics 2017



### Financial Inclusion

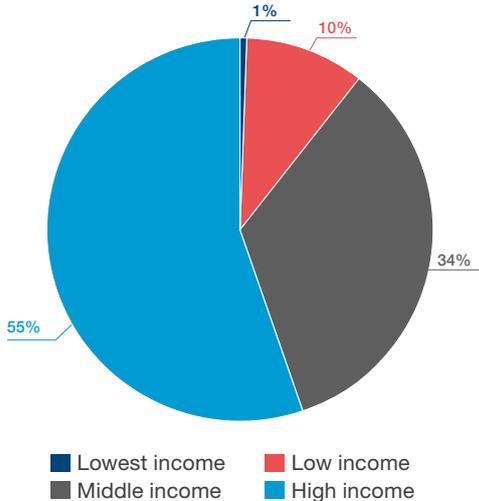
Ten debt-based platforms in the Baltics provided information about the banked status of their borrowers. Overall, the platforms reported that, on average, 60% of their borrowers were banked, 23% were underbanked, and 17% are unbanked. In European terms, this represents a relatively high level of financial inclusion, given that only platforms from two regions covered in our study, South Eastern Europe and Italy, reported higher financial inclusion rates for the unbanked and underbanked.

Figure 96: Banked Status of Borrowers (%) Baltics



Additionally, only six debt-based platforms operating in the region provided information about the income of their funder customer-base. Here, on average, just over half of all customers (55%) were high-income individuals, 34% were middle-income, and 10% were from the low-income group. The lowest income group was not represented at all in the Baltics.

**Figure 97: National Income Categorization by Funder Customerbase (%) Baltics**



**Institutionalization**

Twenty-two platforms operating in the Baltic region provided information about the way in which they collaborated with institutional partners. More than half of platforms (64%) stated that such arrangements were not applicable to them.

For those that indicated some degree of institutionalization, 27% of platforms had referral arrangements with institutional partners and about 5% of platforms pursued each of the following strategies: using the external partner as a bank agent, exchanging data with institutional partners, and allowing them to invest directly into their platform as shareholders.

**Favorable Regulation Drives Crowdfunding Growth in Lithuania**

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

The Crowdfunding market is booming in Lithuania, driven mostly by lending. Altogether, the amount of loans issued in 2018 grew more than 60%. Current yearly interest after bad loans and taxes varies from 8% to 23%.

Post-Brexit Lithuania has attracted much attention from UK businesses as a country with one of the most favorable jurisdictions for FinTech in the European Union. Recent regulatory developments have been related to taxation of crowdfunding investors and STO (Security Token Offering). Lithuania amended its laws in favor of investors and there is currently no obligation to pay personal income tax if the investor’s profit from the money invested through crowdfunding platforms’ does not exceed 500 EUR per year. Such provisions relieve the burden from platforms and promotes the development of crowdfunding in Lithuania.

Moreover, efforts to develop FinTech in Lithuania could be an inspiration for other Member States. Fast licensing, sandboxing programs for fintech startups, and legislatives initiatives from the Ministry of Finance, Ministry of Economy, and the Bank of Lithuania all boost the alternative finance sector in Lithuania. In the beginning of 2018, Lithuania published guidelines that described the taxation, supervision, and audit requirements related to STO. Lithuania also has introduced the world’s first STO platform with access to retail investors (DESICO).

## EASTERN EUROPE

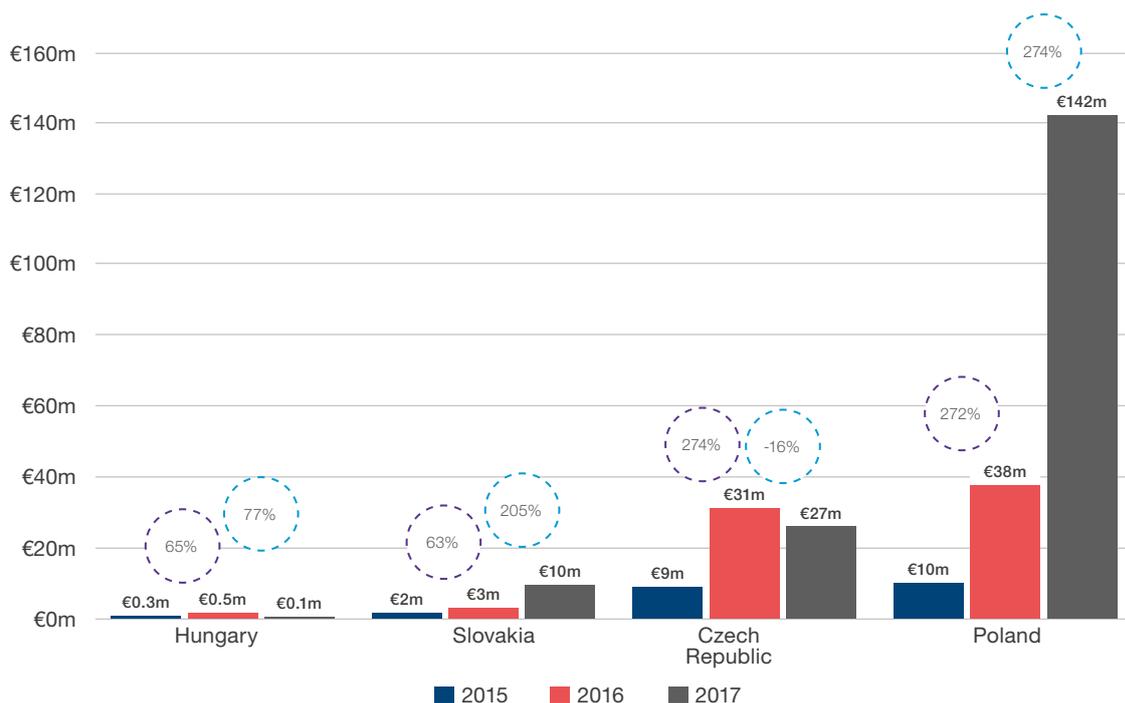
Eastern Europe, including Poland, the Czech Republic, Slovakia and Hungary was the seventh largest European alternative finance region in 2017. In 2016, Eastern Europe was only the tenth largest region. The regional market grew from €70m in 2016 to €179m in 2017, an increase of 153%.

The main driver of this development was Poland, which saw an extraordinary growth of 274% between 2016 and 2017, slightly larger than its growth rate of 272% between 2015 and 2016. The alternative finance market in the Czech Republic and Slovakia were considerable smaller but were maturing as well. The Hungarian crowdfunding market was slowly emerging and consisted mainly of Donation-based Crowdfunding.

Overall, thirty-six platforms operating in Eastern Europe were included in our analysis.<sup>64</sup> In Poland, six local platforms participated in our survey, whereas nine foreign platforms noted volumes generated in this market as well. In the Czech Republic, three local platforms participated, with an additional six active foreign platforms. In Slovakia, data from six foreign and two local platforms were included. In Hungary, only data from four foreign platforms was included, as no data was received from a local platform. This is consistent with the overall finding that platforms from both Central Europe (especially Austria), and from the Baltic States (especially Estonia), have increased their activities in Eastern Europe.

### Market Volume

Figure 98: Eastern Europe Online Alternative Finance Market Volumes 2015-2017 (€millions)



Between 2015 and 2017 the Polish alternative finance market grew from €10m to €142, each year almost tripling in size. The Slovak alternative finance market grew from €3m in 2016 to €10m in 2017. The Hungarian alternative finance market remained small at just €0.1m. Finally, our data shows that the

Czech Republic's alternative finance market stagnated somewhat in 2017, raising €27m in comparison to 2016's €31m. However, this result may underestimate actual volume due to a few local platforms that participated in 2016 but did not participate in 2017.

### *Volume by Models and Country*

The Polish crowdfunding market was the largest alternative finance market in Eastern Europe. P2P Consumer Lending was the strongest segment, growing from €31.9m in 2016 to €97.7m in 2017. The same trend can be seen in P2P Business Lending – which was almost non-existent in 2016 raising only €0.59m and grew to €24.0m in 2017. Invoice Trading was the third largest sector in Poland with €10.6m. Reward-based Crowdfunding maintained healthy growth and raised €4.6m in 2017, up from €3.3m in 2016. Donation-based Crowdfunding in Poland surpassed Reward-based Crowdfunding in 2017. In 2016, Donation-based Crowdfunding volume only amounted to €1.4m, but in 2017 volumes grew to reached €4.8m. Equity-based Crowdfunding volumes fell to €0.76m in 2017, despite a considerable number of new platforms active in the market.

The Czech Republic was the second largest alternative finance market in Eastern Europe. Here, Invoice Trading was the largest sector growing from €5m in 2015, to €10.5m in 2016, and up to €21.5m in 2017. The sector maintained healthy growth, even though this year's figure likely underestimates the market's size, as a platform that participated last year did not participate this year.<sup>65</sup> The volume of P2P Consumer Lending fell to €2.7m in 2017, after raising €16.0m in 2016.

P2P Business Lending also reached €2.0m in 2017. Donation-based Crowdfunding and Equity-based Crowdfunding did not report any significant volumes as two platforms that had responded in 2016, did not respond for the 2017 survey.<sup>66</sup> Reward-based Crowdfunding was found to have raised only €0.25m in 2017.

The Slovak Crowdfunding Market was the third largest Alternative Finance Market in Eastern Europe. Overall, its volume was dominated by P2P Consumer Lending which raised €8.7m, up 300% since 2016 (from €2.4m). P2P Property Lending in Slovakia was captured by our survey for the first time in 2017, raising €1.4m. Other forms of Crowdfunding, were found in modest amounts, including Reward-based Crowdfunding at €0.05m and Equity-based Crowdfunding at €0.01m.

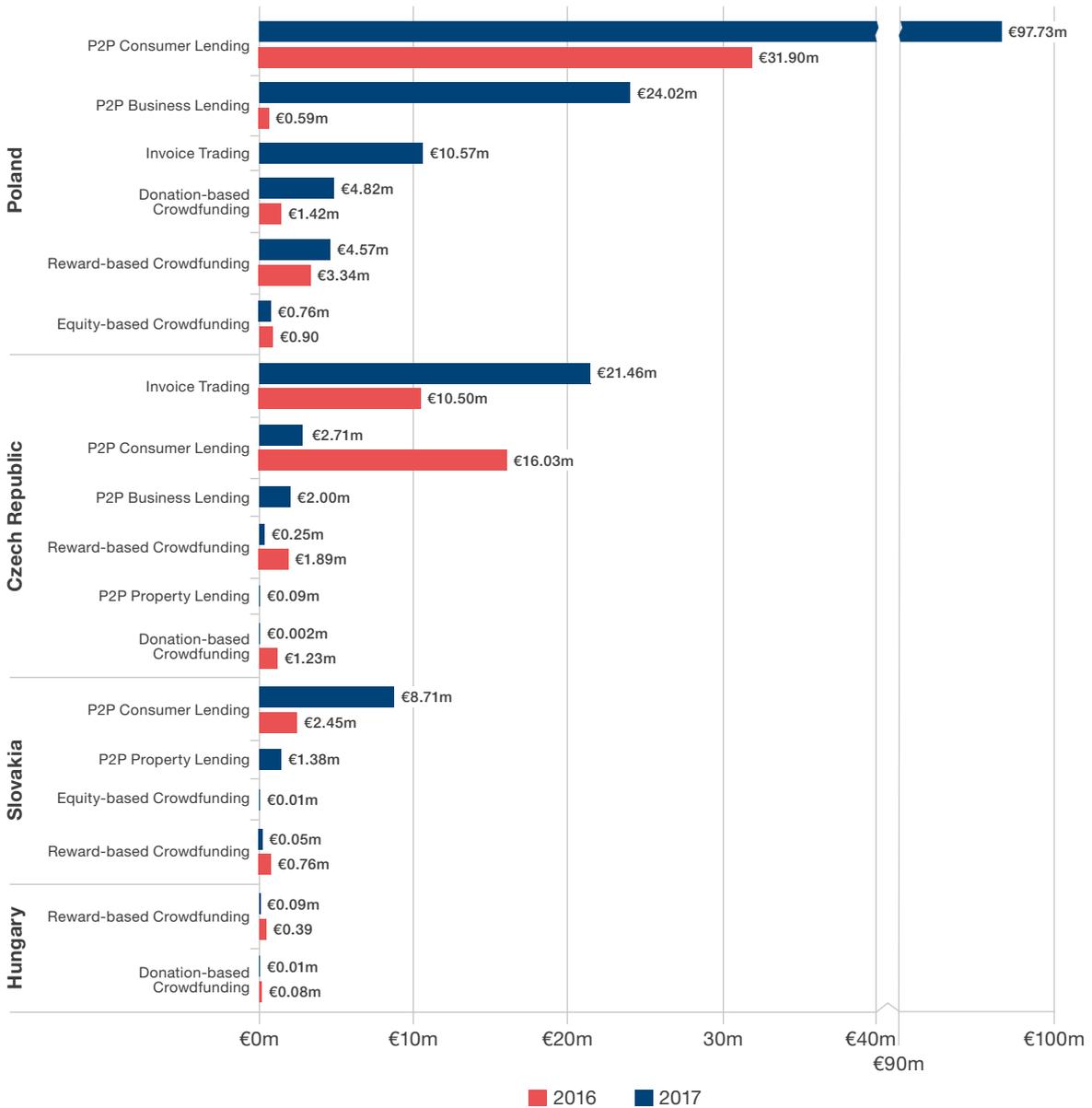
Hungary was the smallest Eastern European crowdfunding markets. Volume in Hungary was generated by foreign platforms predominantly operating Donation- and Reward-based platforms. In the past, there had been a single local platform, but this year they did not participate in the survey.<sup>67</sup> Reward-based Crowdfunding platforms raised €0.09m in 2017. The total Donation-based Crowdfunding volume was €0.01m in 2017.

#### **Donation-based Crowdfunding and Online-Fundraising in the Czech Republic**

*By: Jan Kroupa, Czech Fundraising Center*

Donation-based Crowdfunding is exhibiting strong growth and continues to be an important part of online-fundraising for Czech Non-profit organizations. We especially see new methods of online-fundraising being used, such as Crowdfunding campaigns via Peer-to-Peer Financing.

Figure 99: Total Alternative Finance Volume by Model in Eastern Europe 2016-2017 (€millions)



**Regulation**

The perception of regulation in Eastern Europe differs across models and countries. Given the small sample size and the regulatory differences among countries, fragmentation emerges as an obvious problem. None of the countries in the region have a bespoke Crowdfunding regime, although Poland and Slovakia are in the process of consulting with market players and drafting a regulatory regime which would specifically target this market.

In Eastern Europe, 30% of debt-based platforms have authorization, 60% do not need authorization and 10% have an interim permission to operate their models in their jurisdiction. A similar picture was found with respect to equity-based platforms: 20% have authorization, 60% do need authorization, and 20% have interim permission. However, in order to fully capture the licensing requirements behind these numbers, one would have to examine the data at the country level, which was not fully comprehensive given the small sample of platforms per country and model.

Seven platforms operating in Poland, three platforms operating in Slovakia and one platform operating in the Czech Republic provided insights on regulation in their respective countries. With respect to Equity-based Crowdfunding in Poland, regulation was deemed as inadequate and too relaxed by the single platform that answered the question. Half of debt platforms in Poland viewed the regulatory framework applicable to them as excessive and too strict while

the other half viewed it as adequate and appropriate.

In contrast, in the Czech Republic a single platform indicated that their regulatory framework was adequate and appropriate. In Slovakia, debt-based platforms were divided in their assessment of regulation. One platform perceived regulation as adequate, another stated that there was no specific regulation needed, and a third viewed regulation as excessive.

**Sandbox-Regimes support Fintech Development in Poland**

*By: Karol Krol, Crowdfunding.pl*

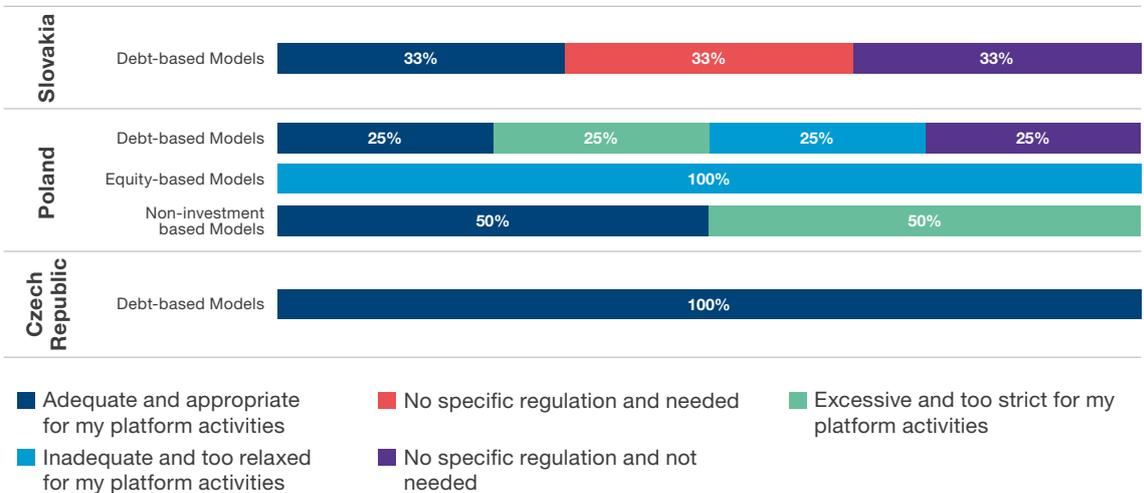
The Polish market in 2018 saw a year of constant growth, especially for crowdfunding - which finally took off with several projects reaching a max. cap of €1m. This is also visible in first quarter of 2019 – the number of crowdfunding campaigns was much larger than the number of IPOs on the Polish alternative stock market NewConnect. In March, a platform debuted that allowed for crowdfunding in the public offering of SMEs that would be listed after the registration of a capital raise. That gives crowdfunders a clear solution for the problem of the market value of their assets and an exit possibility. The Polish Financial Supervisory Commission (PFSC) developed the FinTech Hub, which is special department supporting fintech companies (including alternative finance platforms) with analysis and confirmation of the legal basis for their business models. PFSC also supported opening 9 fintech sandboxes, that allow for the market testing of fintech solutions without being licensed, in digital environments provided by their partners, such as banks or card operators.

**Ministry of Finance and Crowdfunding Platforms are Working on a New Regulatory Framework in Slovakia**

*By: Zora Jaurova, Chair of the Creative Industry Forum, Member of the CrowdFundPort project*

The Slovak Republic is one of the fastest growing economies in the EU and OECD (measured by GDP). The matter of FinTech, including crowdfunding, is under the remit of the Centre for Financial Innovations (CFI). The CFI was established in February 2018 by the Slovak Ministry of Finance to create a platform where relevant government authorities, market operators and interest groups exchange information and share best practices on a regular basis. In the area of crowdfunding, CFI actively collaborates with crowdfunding platforms via the Creative Industry Forum (CIF) association. In Slovakia, there were 11 crowdfunding platforms as of 31.12.2018. Among the Slovak crowdfunding platforms, CFI, and the National Bank of Slovakia (serving as the national regulator on the financial market), there is an ongoing discussion about the needs and opportunities for the legislative anchoring of crowdfunding.

**Figure 100: Perception Towards Existing National Regulation - Eastern Europe**



## Risk

Perceptions of risk varied across country and model type in Eastern Europe. Overall, fifteen platforms operating in the region provided information about their risk concerns. Fraud was seen as a “high” to “medium” risk (100%) in the Czech Republic and as a “medium” to “low” risk in Slovakia (100%) and Poland (83%). Overall, however, debt-based platforms in these countries judge the risk of fraud to be more relevant to their concerns than equity-based or non-investment-based platforms.

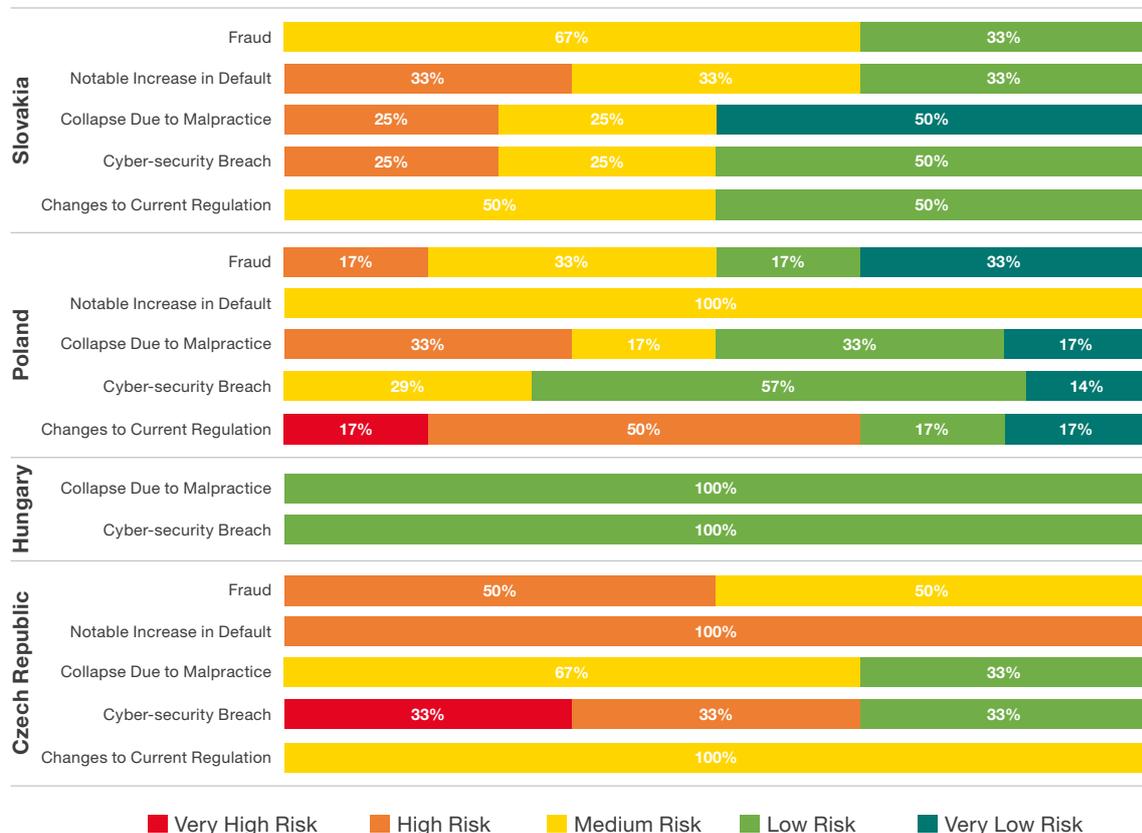
A notable increase in defaults was seen as a high risk by all Czech Platforms in our survey. Additionally, a majority of Slovakian platforms saw the risk of default as a “medium” to “high” risk (66%). In contrast, platforms in Poland only perceived it as a “medium” risk (100%).

In general, the potential collapse of a major platform due to malpractice was not viewed as an important risk in the region. The single Donation-based platform in the Hungarian

market viewed this as a “low” risk. In the Czech Republic, two thirds of platforms are regarded this risk as “medium”, and the remaining one third viewed it as “low”. In Slovakia, 50% of platforms regarded this risk as “very low”. The remaining 50% of Slovakian platforms viewed it to either be a “medium” (25%) or “high” (25%) risk. In Poland, the opinion was divided: debt-based platforms viewed the risk of collapse to be “high”, non-investment platforms as “medium” and equity-based platforms as “low”.

A cyber-security breach was seen as either a “high” or “very high” risk by two thirds of platforms in the Czech Republic. Again, different model types within the country viewed the risk differently. Czech debt-based platforms viewed the risk to be “high”, while Czech equity-based platforms saw it as a “low” risk. In contrast, 71% of Polish Platforms saw cyber-security as a “low” or “very low” risk, and 75% of the Slovak

Figure 101: Overall Perceptions towards Risk Factors - Eastern Europe



platforms thought that cyber-security was a “medium” to “low” risk. However, all Slovak non-investment platforms viewed cyber-security as a “high” risk.

Changes to current regulation were seen as a “high” or “very high” risk by 67% of Polish platforms, especially among equity-based platforms. There was a distinctively different view by platforms in the Czech Republic, where all platforms viewed regulatory changes as a “medium” risk. In Slovakia, half of the platforms considered changes to regulation to be of “medium” risk, while the remaining 50% saw it as a “low” risk.

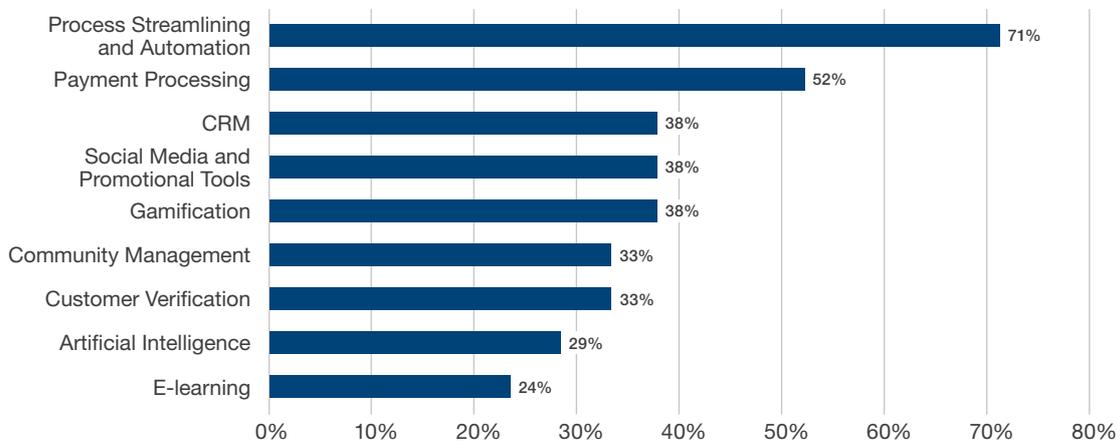
**Innovation**

Twenty-one platforms operating in Eastern Europe provided information on the extent to which they changed their business models, and thirteen platforms provided information on the extent to which they have changed their product offerings. More than half of the platforms in the region significantly (14%) or slightly (43%) altered their business

model in 2017. With regard to products, 31% introduced new products, and 38% altered existing products. This highlights that platforms in this region are still in the process of establishing their business models and are operating in relatively young markets. This needs to be taken into consideration when assessing the impact of European regulation allowing foreign platforms to enter the market – with well-funded foreign platforms from Western Europe, local platforms might not be able to compete.

Twenty-one platforms operating in Eastern Europe provided information on their R&D focus and activities. Platforms predominantly focused on Process Streamlining and Automation (71%) as well as Payment Processing (52%). Other R&D initiatives that were prioritized in the region were Social Media and Promotional Tools (38%) Gamification (38%), CRM (38%), Community Management (33%), Customer Verification (33%), Artificial Intelligence (29%) and E-Learning (24%).

**Figure 102: Actively Pursued R&D Initiatives in 2017 - Eastern Europe**



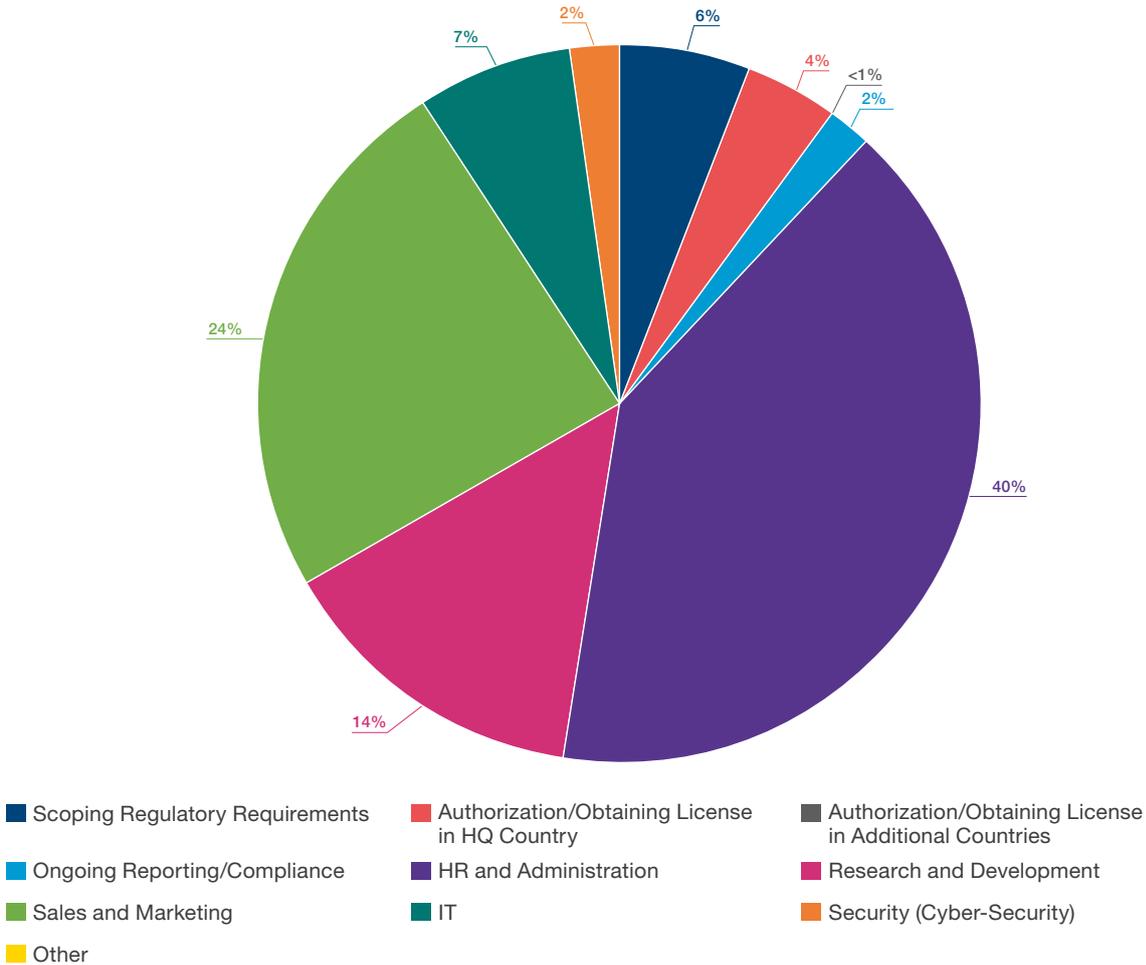
**Platform Costs and Budget**

Twelve platforms operating in Eastern Europe provided information about their cost structure and budget allocations. On average, platforms in the region allocated their spending predominantly towards Human Resources and Administration (40% - the highest percentage across all regions in Europe).

Sales and Marketing activities constituted

24% of the budget of platforms, followed by Research & Development with 14% of the budget. Other activities were considerably lower priorities: IT (7%), Scoping Regulatory Change (6%), Obtaining an operating license in the headquarter country (4%), Compliance Reporting (2%), Security and Cybersecurity (2%). Jointly, costs associated with authorization, compliance and regulatory scoping took up a total of 12% of platform budgets.

Figure 103: Platform Operating Costs and Budget Allocation (%) Eastern Europe



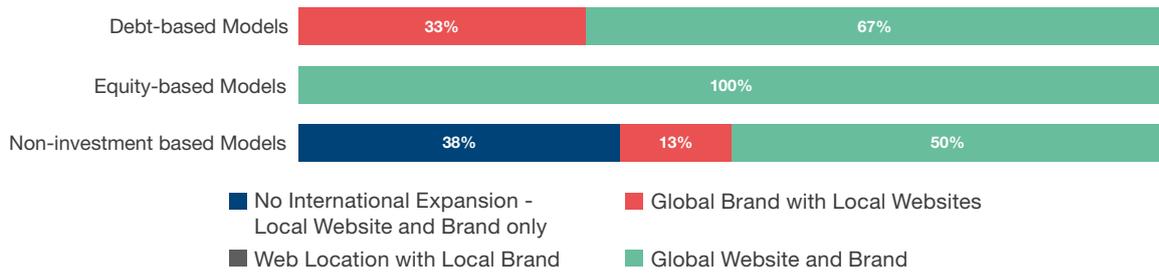
### Internationalization

Twenty-one platforms operating in Eastern Europe provided information about their internationalization strategies. Across the region, platforms tended to rely on standard global website and brand. Given the small size of their home markets and the costs associated with localization, it is no surprise that the internationalization strategy of two thirds of platforms reported establishing a global website and brand. Only 19% of platforms indicate that they have a global brand with local websites. The remaining 14% of platforms operating in Eastern Europe had no international expansion and operated only a local website and brand.

As mentioned earlier, this was consistent with the general findings in our survey - that Eastern European markets were seen as a potential target for expansion by platforms from the Nordics, Germany, Central Europe and the Baltic States.

Non-investment platforms were essentially the only platforms in Eastern Europe which chose not to expand internationally and instead focused on a local presence and interface. Both debt-based and equity-based platforms had predominantly global websites with global brands. One third of debt-based platforms operating in Eastern Europe had a global brand with local websites.

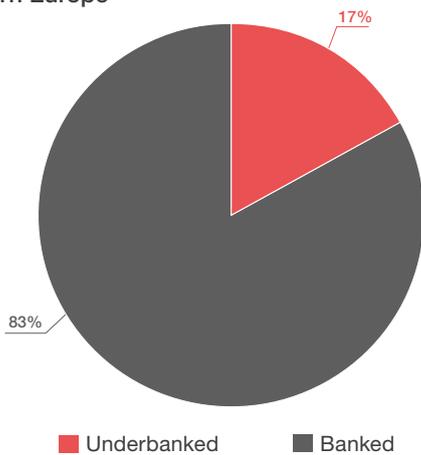
**Figure 104: Platform Internationalization Strategy - Eastern Europe 2017**



**Financial Inclusion**

Four platforms operating in Eastern Europe provided information about the banking status of their borrowers and the income levels of the funder customer-base. Here, most borrowers were banked customers, with only 17% of borrowers underbanked.

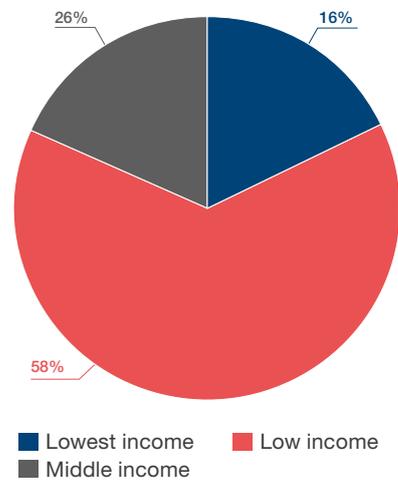
**Figure 105: Banked Status of Borrowers (%) Eastern Europe**



This, as a result, represents a low level of financial inclusion via platforms.

However, unlike much of Europe, the majority of funders came from middle-income (58%), and low income (16%) individuals, with only around a quarter (26%) of funders coming from high income individuals. In this sense, debt-based models indeed democratize finance by engaging a large share of middle- and low-income funders in their investment activities.

**Figure 106: National Income Categorization by Funder Customerbase (%) Eastern Europe**



**Institutionalization**

Twenty platforms operating in Eastern Europe provided information about the ways in which they cooperate with institutional partners. Overall, 55% of platforms stated that they did not have any institutional relationships. Of those that did have a partnership with an institution, 40% reported that they had a referral agreement with an institution. Additionally, a few platforms in the region utilized institutional partners for data exchange (5%) or agent banking (5%).

### **European Regime would Stabilize Equity-based Crowdfunding in Poland**

*By: Anna Malinowska, Gdansk Entrepreneurship Foundation, Member of the CrowdFundPort*

The crowdfunding market in Poland is growing, but we can see a disproportionate dynamics of growth in particular models of crowdfunding. Donation-based Crowdfunding and Reward-based Crowdfunding are rapidly growing and we can see that these are popular ways to fulfil different goals for SMEs. However, Equity-based Crowdfunding, which can be seen as an alternative source of finance, has not grown as dynamically. The new European Crowdfunding Service Provider Regime would help bring more stability to the market.

### **Czech Crowdfunding: In a Transitory Phase**

*By: Matous Radimec, Regional Development Agency of South Bohemia - RERA, Member of the CrowdFundPort Project*

Crowdfunding is a relatively new phenomenon in the Czech Republic. Even though its ecosystem is more advanced than in other new EU member states, it is still in its infancy. The market has evolved within regulations not directly aimed at crowdfunding, but usually regulating the subject of a campaign. Currently, the crowdfunding market in the Czech Republic is in a transitory phase from an enthusiasm-driven trend into a regular alternative to traditional funding, marketing or market research tools.

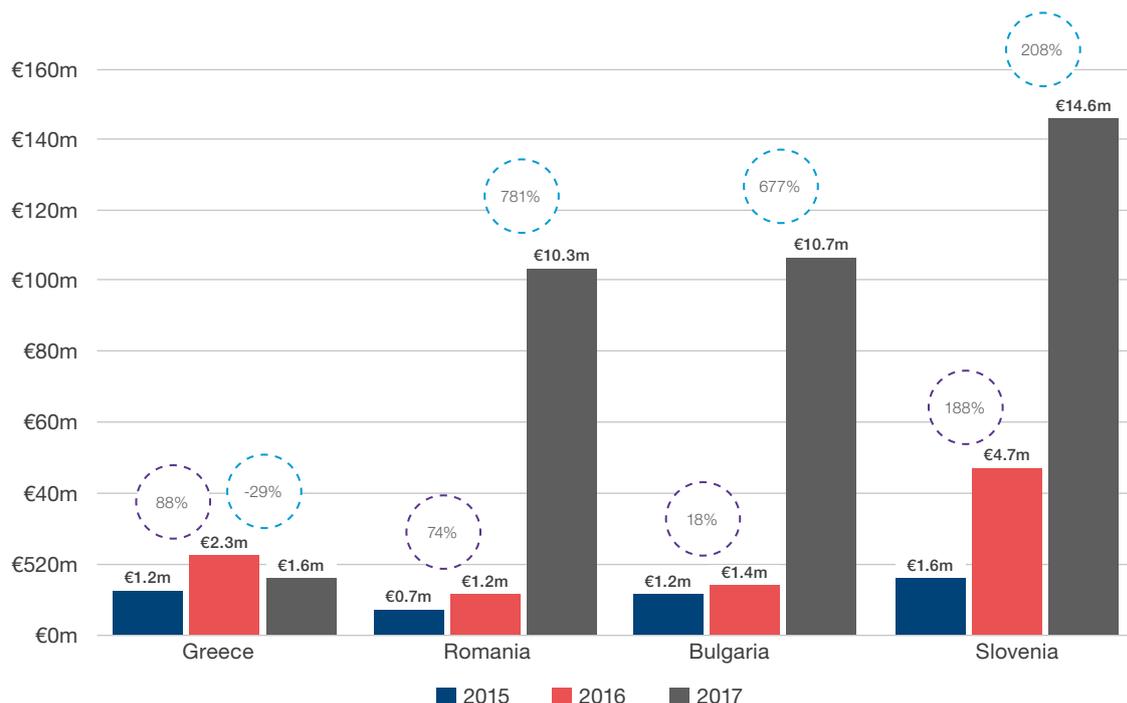
## SOUTH EASTERN EUROPE

### Market Volume

Compared to other regions covered in this study, the alternative finance market in South Eastern Europe is still in a nascent stage, valued at €37.2m in 2017. However, thanks to very high growth rates in recent years (288% in 2017 and 104% in 2016), this region holds a promise of a fast development. This section focuses on regional leaders in terms of total alternative finance volumes: Slovenia (€14.6m), Bulgaria (€10.7m), Romania (€10.3m), and Greece (€1.6m).<sup>68</sup> Even though the market volume in the first three countries was of a comparable size, growth between 2016 and 2017 was not uniform. Romania saw the largest growth (781%), followed by Bulgaria (677%), and Slovenia (208%). In contrast, Greece, which was the second

largest alternative finance market in South Eastern Europe in 2016, experienced a decrease in volumes by 29%, to a total volume of €1.6m in 2017. One characteristic of South Eastern Europe was the strong presence of foreign platforms, which outnumbered local platforms in all countries in the region. Their presence was likely to enable a transfer of well-established business practices and products from more developed alternative finance markets and foster the growth of regional volumes over the following years. Overall, the analyses presented in this section were based on information collected from twenty-eight platforms operating in the selected four countries – Bulgaria, Greece, Romania and Slovenia.<sup>69</sup>

Figure 107: South Eastern Europe Online Alternative Finance Market Volumes 2015-2017 (€millions)



### Volume by Model and Country

The alternative finance market in South Eastern Europe was dominated by Invoice Trading, P2P Consumer Lending and non-investment models. It is important to note that each of the models tends to be more prominent in one country versus another. For

instance, Bulgaria and Slovenia each had one model type that accounted for almost their entire alternative finance volume. In Bulgaria, P2P Consumer Lending raised over €10.5m, representing 98% of total volumes in the country. The Slovenian alternative finance market was driven by Invoice Trading, with a volume of €13.6m. The joint volume of all

other active models in Slovenia was about €1m. In Romania, the market was split between two models: Reward-based Crowdfunding (€5.1m) and P2P Consumer Lending (€4.0m). Similarly, the Greek market

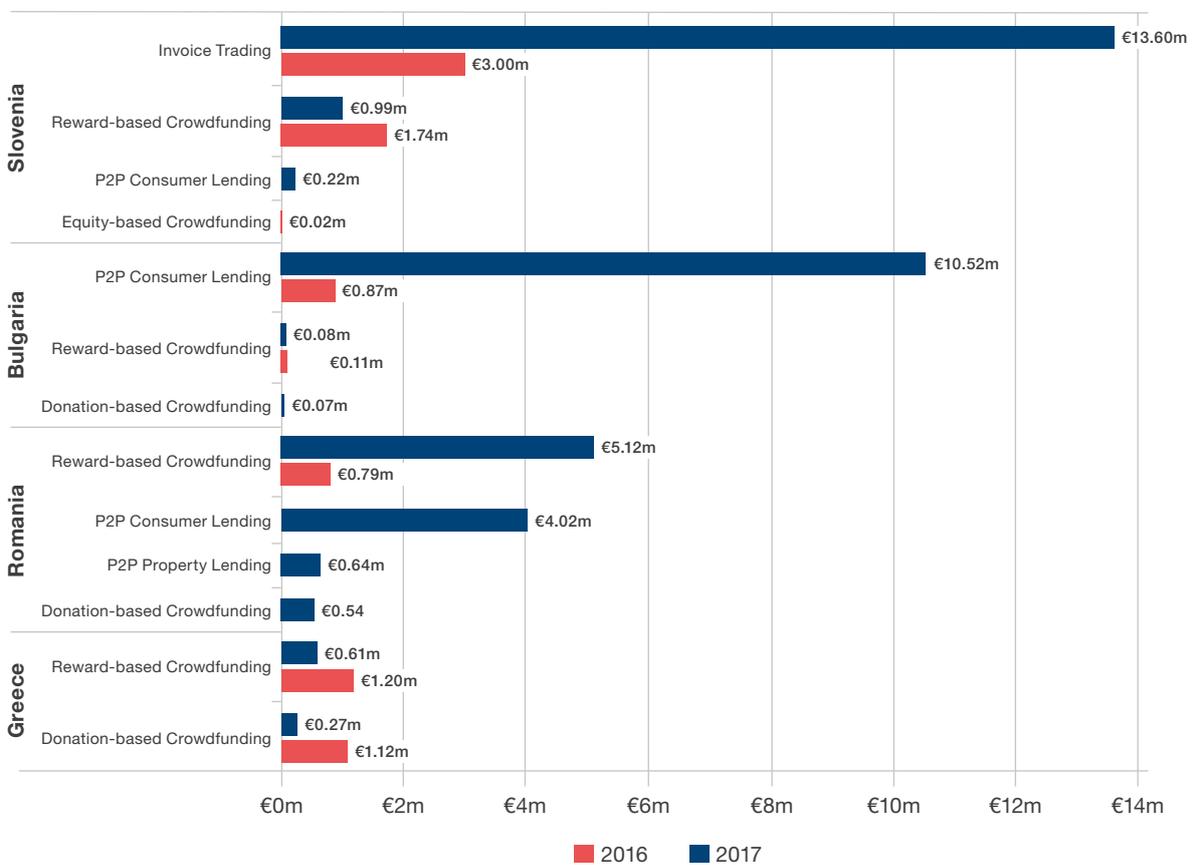
was divided between the two non-investment models, Reward- and Donation-based Crowdfunding, although their volumes were fairly small.

**Mobile Fundraising Method Underpins Donation-based Crowdfunding in Romania**

*By Camelia Mates, Arc Romania*

The classic Crowdfunding model does not work very well in Romania. However, the acceptance of mobile fundraising methods is very high in our country. Last year alone, 5.1 million Euro was raised using mobile fundraising methods. According to our data, more than 440,000 donors are using mobile phones to make monthly donations of 2 or 4 Euro. We expect this market to continue to grow.

**Figure 108: Total Alternative Finance Volume by Model in South Eastern Europe 2016-2017 (€millions)**



**Regulation**

In order to grasp the adequacy of regulatory frameworks in South Eastern European countries, it is useful to first examine the platforms' insights on whether authorization is required to operate their business model. The region had a prevalence of platforms that are operating without holding a license because there was no such requirement in their jurisdictions. This holds true for

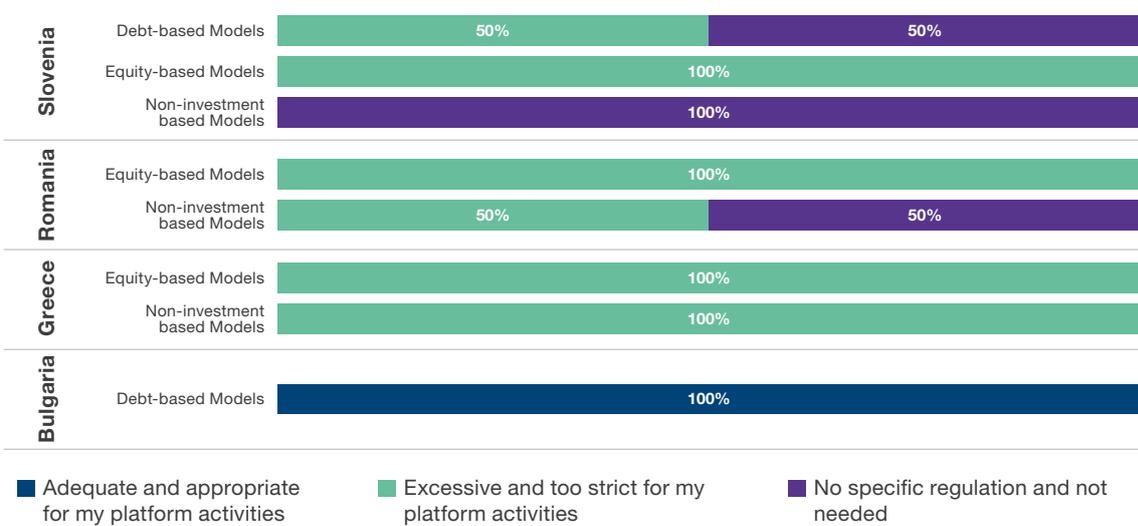
debt, equity and non-investment models. Overall, only 36% of debt, 8% of equity, and 44% of non-investment platforms reported being authorized to operate their business activities. In addition, 64% of debt, 92% of equity, and 52% of non-investment platforms reported that authorization was not required for their activities. 4% of non-investment platforms also indicated that

they had an interim permission to operate in their jurisdiction. Disparity in platforms' view on the necessity for authorization might be due to the fact that, in the absence of rules tailored to the crowdfunding market, the activities of platforms could potentially qualify as other regulated activities, for instance, payment institutions or investment intermediaries.

Only seven platforms operating in South Eastern Europe provided insights regarding their perceptions of regulatory adequacy in their respective countries – three from Slovenia, two from Romania, one from Bulgaria, and one from Greece. Overall, these platforms viewed the regulatory frameworks in place in a fairly consistent manner. The majority of platforms indicated that existing rules, which were usually not tailored to the alternative finance ecosystem, were excessive and too strict for their

platform's activities. This view was expressed unanimously by all equity-based platforms participating in our survey. The Greek platform, as well as half of Slovenian and Romanian non-investment platforms shared this view as well, while the other half was satisfied with the status quo of not having a bespoke regulation in place. However, debt-based platform operators in Slovenia and Bulgaria took a different stance. The Bulgarian platform reported that regulation was "adequate and appropriate for their activities". In Slovenia, it was indicated that no specific regulation was needed. Overall, the perception of platforms in different countries across different models was consistent with their activity level and volume. Interestingly, Greece, which was the only country that introduced a bespoke crowdfunding regime for Equity Crowdfunding<sup>70</sup>, saw the smallest volumes in 2017.

Figure 109: Perception Towards Existing National Regulation - South Eastern Europe



**Risk**

Platform operators in South Eastern Europe were asked to evaluate the risk of several factors and describe to what extent they were concerned with each of them. Thirteen platforms operating in the region provided this information. Our survey captured disparities in perception on a country level, with some common concerns emerging.

Platforms in all countries with the exception of Bulgaria viewed the risk of a cyber-security breach to be significant. Overall, it was seen to be a "high" risk 67% of Slovenian platforms, and one third of both Romanian and Greek platforms.

The perception of a "high" risk of changes to current regulation was strongest in Bulgaria (50%) and Slovenia (33%). Given the lack of

a bespoke regime in all countries in South Eastern Europe with the exception of Equity-based Crowdfunding in Greece, it was surprising that this risk factor did not receive more attention from our survey participants.

The risk of fraud was a “high” concern for one third of platforms in Slovenia and Greece, while it remained “low” in Romania and Bulgaria. Collapse of a well-known platform was described as “high” risk by only Bulgarian platforms (33%). The risk of a notable increase in default was not viewed as a “high” risk to any of the platforms operating in the region.

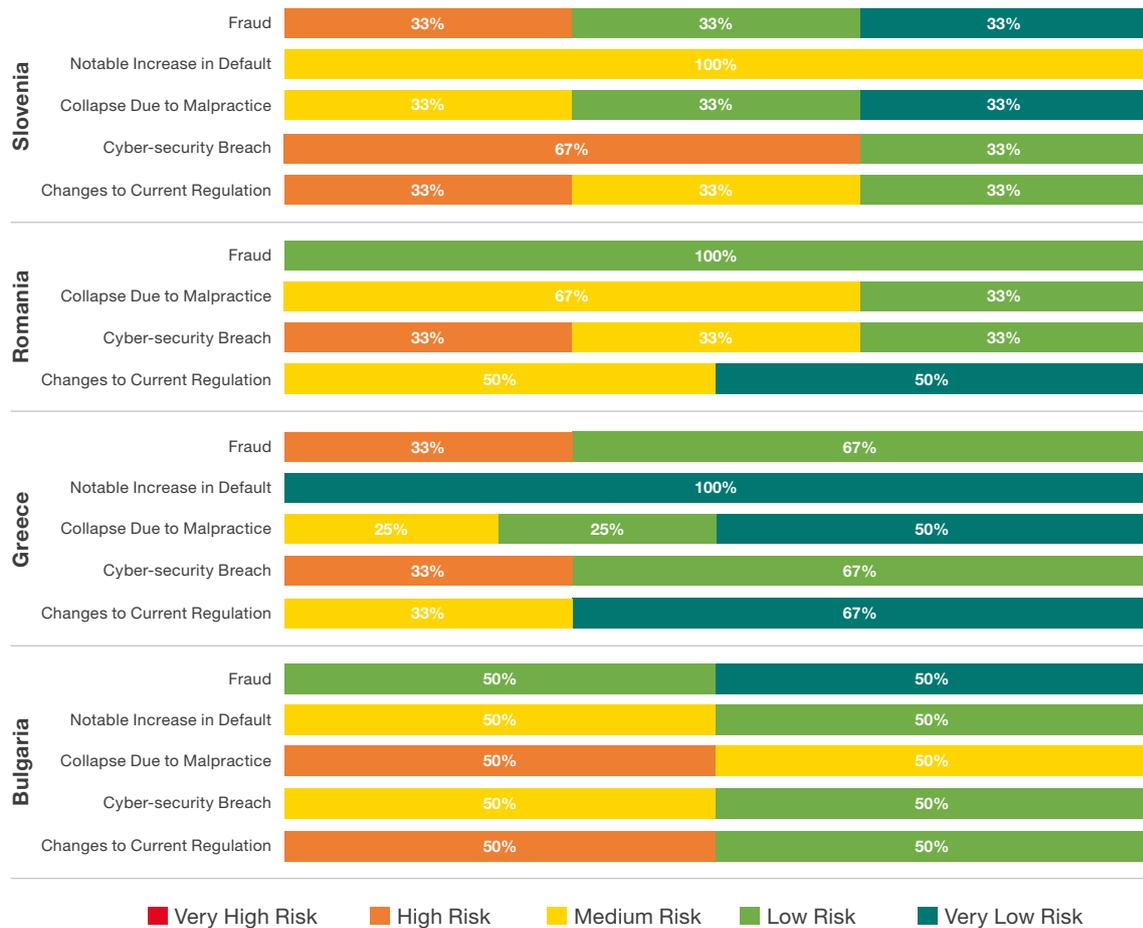
The perception of risk factors becomes even more indicative if examined by model type. Debt-based models were primarily operated in Slovenia and Bulgaria, where there was common concern about the risk of changes to current regulation. This risk factor was described as “high” by all Slovenian and 50%

of Bulgarian platforms. However, their views diverge with respect to two additional risks – cyber-security breach, which was highly relevant for all Slovenian platforms, and a collapse due to malpractice, which was a “high” risk for half of Bulgarian platforms.

With regard to Equity-based models, one major concern for platform operators in Slovenia, Romania and Greece was the risk of a cyber-security breach. All other factors were described as “medium” to “low” risk.

Finally, the perception of risk by the operators of non-investment models exhibited a similar pattern. Half of all platforms in Slovenia, Romania and Greece viewed the risk of cyber security breach as a “high” concern. With the exception of the risk of fraud – viewed by 33% of Greek platforms as a “high” risk – the remaining risk factors were not seen as a high concern by non-investment platforms.

Figure 110: Overall Perceptions towards Risk Factors - South Eastern Europe



### Innovation

Fifteen platforms operating in South Eastern Europe provided information about the extent they have changed their business model, and thirteen platforms provided information about the extent to which they have changed their product offerings. In line with trends in other regions in Europe, platforms mainly experimented with their products and to a lesser extent with their business models. Only 4% of platforms significantly changed their business model, compared to 42% which introduced significantly new products in 2017. Additionally, 46% of platforms slightly altered their business model, while 32% slightly changed their product offerings.

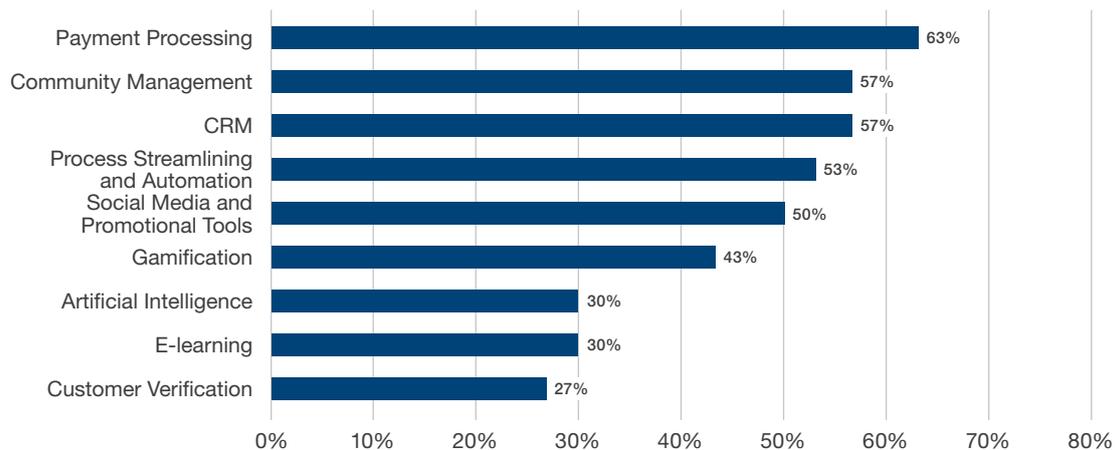
In addition, seventeen platforms operating in South Eastern Europe provided information about their R&D focus and activities. In the sphere of performance enhancement

technologies, 53% of platforms reported efforts in Process Streamlining and Automation, 63% indicated efforts in Payment Processing, and 30% mentioned efforts in AI.

Additionally, platforms devoted considerable resources to the development of customer service and management systems. Overall, 27% of platforms reported efforts towards Customer Verification, 57% towards Community Management features, and 57% towards CRM systems.

Finally, innovation was also introduced with respect to various user support tools, such as Social Media and Promotional Tools (50%), Gamification elements (43%), and E-learning features (30%). Overall, given the nascent stage of the alternative finance market in South Eastern Europe, this region had a high level of innovation.

Figure 111: Actively Pursued R&D Initiatives in 2017 - South Eastern Europe

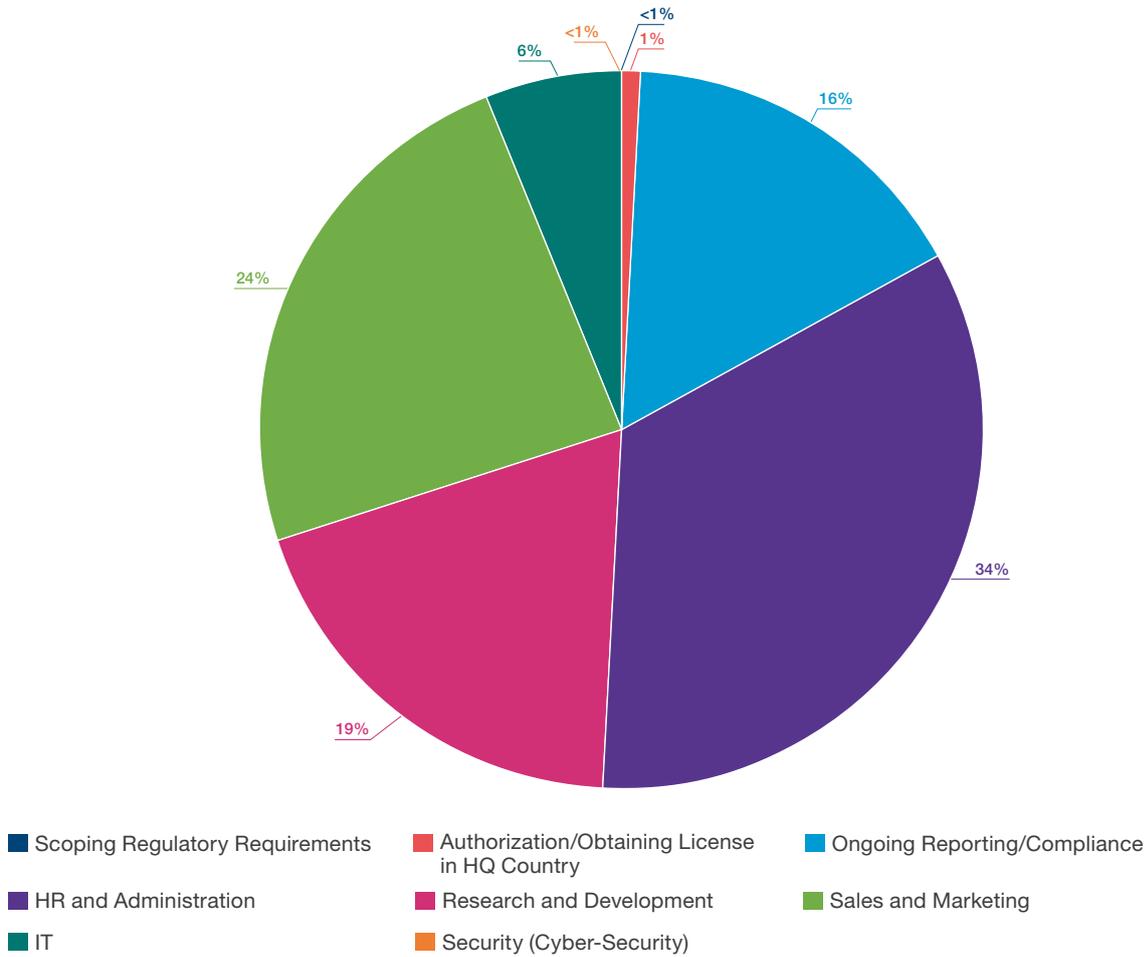


### Platform Costs and Budget

Ten platforms operating in South Eastern Europe provided information about their cost structure and budget allocations. HR and Administration accounted for the largest share of costs, on average 34%. About one fourth of all expenses on average was devoted to Sales and Marketing (24%), followed by Research & Development (19%). In line with our findings on innovation, South

Eastern Europe was one of the highest ranked in terms of emphasizing R&D, if considering its relative share in platforms' budget structure. Ongoing Reporting/ Compliance expenses were also, in relative terms, the highest among the regions covered by our study (16%), consistent with our results concerning the excessiveness of regulatory frameworks. Platforms allocated considerably less resources to IT (6%) and obtaining a license to operate (1%).

Figure 112: Platform Operating Costs and Budget Allocation (%) South Eastern Europe



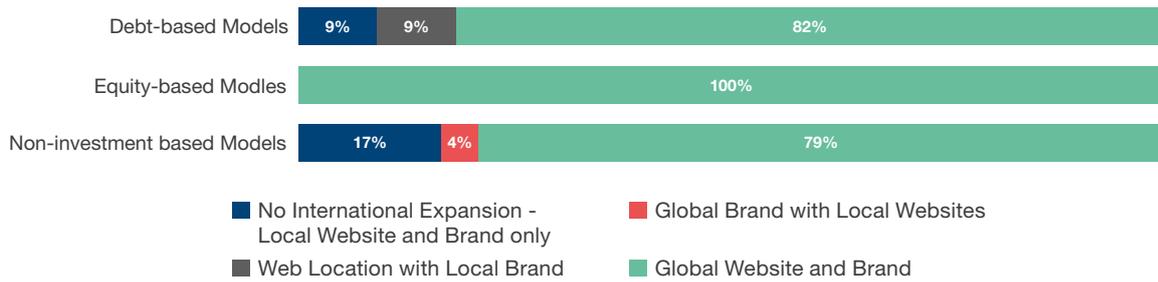
### Internationalization

Nineteen platforms operating in South Eastern Europe provided information about their international strategy. The level of internationalization in South Eastern Europe was among the highest in continental Europe, with 89% of platforms pursuing some kind of internationalization strategy. This is a direct consequence of the large number of foreign platforms operating in the region. The most widely used internationalization method was the use of a global brand and website (81%). Only 6% of platforms expanded internationally using the other two methods – creating a local website (3%) or localizing both their brand and website (3%). Platforms operating in different countries which differ in terms of

the development of their alternative finance ecosystems, are likely to create positive spillover effects in less developed markets such as South Eastern Europe.

There was little disparity across different alternative finance models in South Eastern Europe, given that most prevalent method of internationalization was operating a platform under a global brand and website. In contrast to equity-based models, which only utilized this method, 9% of debt-based platforms also created a local website, and 4% of non-investment platforms localized both the brand and the website. In addition, 17% of non-investment and 9% of debt-based platforms did not pursue an internationalization strategy.

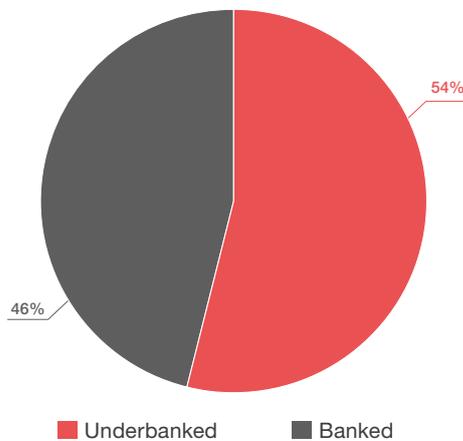
**Figure 113: Platform Internationalization Strategy - South Eastern Europe 2017**



**Financial Inclusion**

Five debt-based platforms operating in region provided information about the banking status of their borrowers. On average, 46% of borrowers were banked and 54% were underbanked. Platforms did not indicate serving any unbanked clients. This represented the highest level of financial inclusion, given that platforms from other regions in our study reported, on average, lower levels of underbanked borrowers.

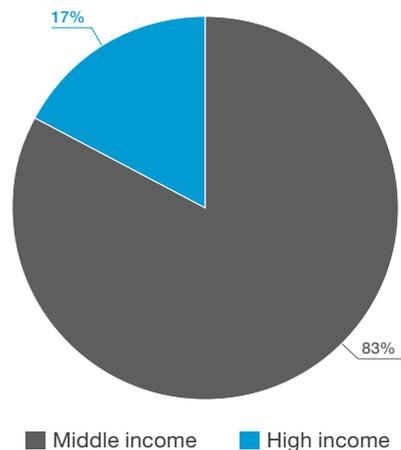
**Figure 114: Banked Status of Borrowers (%) South Eastern Europe**



In addition, two platforms that operated in the region reported the income categorization of their customer-base. On average, 83% of funders were middle-income individuals and 17% were high-income individuals. Funders from either the low- or lowest-income groups were not represented at all in the alternative finance market in South Eastern Europe. In comparison with other regions in Europe, South Eastern Europe still was one of the

regions where democratization of finance was most evident, with the largest share of funders coming from middle-income individuals.

**Figure 115: National Income Categorization by Funder Customerbase (%) South Eastern Europe**



**Institutionalization**

Fifteen platforms operating in South Eastern Europe provided information on the way in which they collaborated with institutional partners. Half of platforms in the region stated that such arrangements were not applicable to them.

For those that indicated some degree of institutionalization, 46% of platforms had referral arrangements with institutional partners, 11% used the external partner as a bank agent, 4% exchanged data with institutional partners, and 8% allowed them to invest directly into their platform as shareholders.

### **SMEs in Slovenia Mostly Aiming for US-based Crowdfunding Platforms**

*By: Darko Fercej, Anja Prislan, eZavod, Member of the CrowdfundPort Project*

The Slovenian market, with population of only 2 million, represents a small-scale crowdfunding market. Although national platforms exist, most start-ups and SMEs are still using global platforms, i.e. Kickstarter and Indiegogo, to reach more potential supporters. In the period between 2011-2017, almost €7 million was raised, making Slovenia the most successful market among countries in the Balkan region. Interest among entrepreneurs exists and knowledge about crowdfunding is rising, although there is still no formal support network or structural support services that are provided on a local/regional/national level, which could contribute to a more successful and efficient use of crowdfunding in Slovenia.

### **Equity-Crowdfunding Slowly Emerging in Croatia**

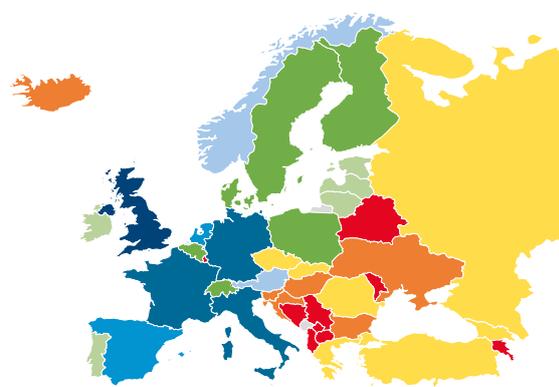
*By: Damir Soh, Brodoto, Member of the CrowdfundPort Project*

More than 2,200 crowdfunding campaigns collected US\$9 million in the South Eastern Europe region between 2012 and 2016. During the same period campaigns launched in Croatia collected around US\$2.5 million. That number was reached again in 2017 alone.

The market is growing and maturing – with fewer campaigns launched, but with higher success rates and larger financial goals. Moreover, in 2017 an Equity-based platform was introduced, pointing to a newly emerging trend of investment related to equity and business in the Croatian crowdfunding market. The need for enhancing the investment environment is of key importance.

# APPENDIX A

Figure 4: The Geographical Distribution of Surveyed Platforms (2017)



Total volume in €m



UK	77	Slovenia	6
Germany	46	Bulgaria	6
France	46	Ukraine	6
Italy	45	Malta	6
Spain	39	Croatia	5
Netherlands	32	Iceland	5
Austria	22	Hungary	4
Norway	21	Albania	3
Switzerland	19	Armenia	3
Finland	17	Serbia	3
Sweden	15	Kosovo	2
Poland	15	Macedonia	2
Denmark	15	Monaco	2
Belgium	15	Belarus	2
Estonia	13	Bosnia & Herzegovina	2
Lithuania	13	Moldova	2
Latvia	10	Cyprus	1
Ireland	10	Luxembourg	1
Portugal	10	Liechtenstein	1
Czech Republic	9	Andorra	0
Slovakia	8	Montenegro	0
Romania	8	<b>Total (incl. UK)</b>	<b>597</b>
Turkey	8	<b>Total (excl. UK)</b>	<b>520</b>
Greece	8		
Georgia	7		
Russia	7		

Figure 5: Comparative Market Volumes of Alternative Finance Transactions in the EU (2017)



Total volume in €m



UK	€7,066.80m	Iceland	€0.58m
France	€661.37m	Croatia	€0.46m
Germany	€595.41m	Malta	€0.36m
Netherlands	€279.93m	Moldova	€0.36m
Italy	€240.66m	Serbia	€0.36m
Finland	€196.76m	Kosovo	€0.35m
Sweden	€196.38m	Luxembourg	€0.19m
Georgia	€173.28m	Hungary	€0.11m
Spain	€160.48m	Liechtenstein	€0.08m
Poland	€142.46m	Macedonia	€0.05m
Ireland	€106.79m	Monaco	€0.01m
Latvia	€92.20m	Bosnia & Herzegovina	€0.01m
Belgium	€90.90m	Cyprus	€0.01m
Estonia	€81.24m	Belarus	€0.001m
Switzerland	€77.10m	Montenegro	0
Lithuania	€61.31m	Andorra	0
Denmark	€43.47m		
Austria	€32.92m		
Russia	€28.44m		
Czech Republic	€26.50m		
Slovenia	€14.61m		
Norway	€11.79m		
Bulgaria	€10.66m		
Romania	€10.33m		
Slovakia	€10.17m		
Portugal	€8.73m		
Turkey	€4.81m		
Armenia	€2.21m		
Albania	€1.89m		
Ukraine	€1.76m		
Greece	€1.64m		
		<b>€10,435,923,946.37</b>	

# APPENDIX B

Country	Volumes	Local	Foreign	Total
UK	€7066.80m	62	15	77
France	€661.37m	36	10	46
Germany	€595.41m	30	16	46
Netherlands	€279.93m	24	8	32
Italy	€240.66m	34	11	45
Finland	€196.76m	9	8	17
Sweden	€196.38m	8	7	15
Georgia	€173.28m		7	7
Spain	€160.48m	26	13	39
Poland	€142.46m	6	9	15
Ireland	€106.79m	4	6	10
Latvia	€92.20m	4	6	10
Belgium	€90.90m	4	11	15
Estonia	€81.24m	7	6	13
Switzerland	€77.10m	6	13	19
Lithuania	€61.31m	7	6	13
Denmark	€43.47m	4	11	15
Austria	€32.92m	11	11	22
Russia	€28.44m	1	6	7
Czech Republic	€26.50m	3	6	9
Slovenia	€14.61m	2	4	6
Norway	€11.79m	14	7	21
Bulgaria	€10.66m	2	4	6
Romania	€10.33m	1	7	8
Slovakia	€10.17m	2	6	8
Portugal	€8.73m	4	6	10
Turkey	€4.81m	3	5	8
Armenia	€2.21m		3	3
Albania	€1.89m		3	3
Ukraine	€1.76m		6	6
Greece	€1.64m	3	5	8
Iceland	€0.58m	1	4	5
Croatia	€0.46m	2	3	5
Malta	€0.36m	1	5	6
Moldova	€0.36m		2	2
Serbia	€0.36m		3	3
Kosovo	€0.35m		2	2
Luxembourg	€0.19m		1	1
Hungary	€0.11m		4	4
Liechtenstein	€0.08m		1	1
Macedonia	€0.05m		2	2
Monaco	€0.01m		2	2
Bosnia & Herzegovina	€0.01m		2	2
Cyprus	€0.01m		1	1
Belarus	€0.00m		2	2
Montenegro	€0.00m			
Andorra	€0.00m			

# ENDNOTES

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- 1 For example, Norwegian based company 'reMarkable' raised €14.5m for their proprietary e-paper tablet technology. This reward-based campaign ran independently of an alternative finance platform, based off of the company's own website. <https://techcrunch.com/2017/08/16/crowdfunded-remarkable-e-paper-tablet-ships-on-august-29/>
- 2 For example, European-based campaigns on platforms like GoFundMe, PledgeMusic, etc. were not captured in this study.
- 3 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.
- 4 The UK total volume in 2017 was £6.19 billion, according to the 5th UK Alternative Finance Industry Report : <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/5th-uk-alternative-finance-industry-report/#.XGVMVz7SM8>
- 5 Ziegler et al. (2018) The 3rd Asia Pacific Alternative Finance Industry Report <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/3rd-asia-pacific-region-alternative-finance-industry-report/#.XKen1uhKiUk>
- 6 Ziegler et al. (2018) Reaching New Heights: The 3<sup>rd</sup> Americas Alternative Finance Industry Report
- 7 Alternative finance volume refers to the amount (in Euros) of money that was received by fundraisers (borrowers, campaigners, issuers, etc..) within a given country through an alternative finance platform for the year of 2017.
- 8 Total Alternative Finance Volume by Country-2017
- 9 Ziegler et al. (2018) Expanding Horizons: The 3<sup>rd</sup> European Alternative Finance Industry <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/expanding-horizons/#.XKeoH-hKiUk>
- 10 Zhang et al. (2016) Sustaining Momentum: The 2<sup>nd</sup> European Alternative Finance Industry Report <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/sustaining-momentum/#.XKeoJuhKiUk>
- 11 As a note, Italy and South East Europe total volumes from this chart and table will be different than in the section discussing each – this is a result of including Malta in the Italian region and Turkey, Croatia, Bosnia & Herzegovina, Serbia, Montenegro, Macedonia, Albania, Cyprus, Kosovo for South East Europe.
- 12 Commonwealth of Independent States European members
- 13 In previous years' studies, the UK Market volume per capita accounted for €65.88 in 2015, and €85.44 in 2016.
- 14 Two significant Danish platforms were unable to report 2017 data.
- 15 <https://pitchbook.com/news/articles/13-charts-explaining-europes-vc-industry>
- 16 To calculate the total online alternative funding attributed to business, the research team aggregated the 2017 volumes from the following models: P2P business lending, balance-sheet business lending, invoice trading, equity-based 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.
- 17 Platforms were asked the following question as related to their Onboarding and Successful Funding Rates:  
Onboarding Rate – 'Of the fundraisers that applied to your platform, what percentage were considered qualified and allowed to proceed with a fundraise through your platform?'  
Successful Funding Rate – 'Of those qualified to fundraise, what percentage received funding through your platform?'
- 18 The survey provided firms with a selection of nine R&D focus areas. They were: Payment Processing, Customer Verification, Process Streamlining and Automation, Artificial intelligence and performance enhancement features, Community management features and tools, Social Media & Promotional Tools, CRM, E-learning, and Gamification.
- 19 The research team took care to remove any double counting related to firms which responded to this question set in multiple models or countries. As such, this figure refers to the platform responses, irrespective of their model or country.
- 20 The risk factor categories were denoted in the survey as follows:
  - Fraud involving one or more high-profile campaigns/ deals/loans.
  - Notable increase in default rates/business failure rates
  - The collapse of one or more well-known platforms due to malpractice
  - Cyber-security breach
  - Changes to regulation at a national level

- 21 This report presents risk findings for eight key model-types (P2P Consumer Lending, P2P Business Lending, Invoice Trading, Debt-based Securities, Equity-based Crowdfunding, Profit-Sharing, Reward-based Crowdfunding and Donation-based Crowdfunding), as these models had a sufficiently robust data-set to make this analysis statistically relevant.
- 22 Data for France was collected from 46 platforms. 29 of which are repeat platforms providing data both in 2016 and 2017, and 17 new platforms providing data for first time in 2017. 8 Platforms participating in 2016 data collection did not respond for the 2017 data survey.
- 23 Credit Fr, KissKissBankBank, Look&Fin and Prêtgo did not participate in 2017 data collection.
- 24 The volumes recorded may be slightly lower, due to not receiving a response from Davidom for our 2017 survey.
- 25 European Crowdfunding Network (2017), Review of Crowdfunding Regulation 2017, p. 218. Retrieved from [https://eurocrowd.org/wp-content/blogs.dir/sites/85/2017/10/ECN\\_Review\\_of\\_Crowdfunding\\_Regulation\\_2017.pdf](https://eurocrowd.org/wp-content/blogs.dir/sites/85/2017/10/ECN_Review_of_Crowdfunding_Regulation_2017.pdf)
- 26 KissKissBankBank did not participate in this year's research.
- 27 Ordonnance n° 2014-559 du 30 mai 2014 relative au financement participatif; Décret n° 2014-1053 du 16 septembre 2014 relatif au financement participatif.
- 28 LOI n° 2015-990 du 6 août 2015 pour la croissance, l'activité et l'égalité des chances économiques; Ordonnance n° 2016-520 du 28 avril 2016 relative aux bons de caisse; Décret n° 2016-1453 du 28 octobre 2016 relatif aux titres et aux prêts proposés dans le cadre du financement participatif; Ordonnance n° 2016-1635 du 1er décembre 2016 renforçant le dispositif français de lutte contre le blanchiment et le financement du terrorisme; Décret n° 2017-245 du 27 février 2017 relatif aux obligations d'assurance de responsabilité civile professionnelle des intermédiaires en financement participatif qui ne proposent que des opérations de dons.
- 29 Data for Germany was collected from 46 platforms. 27 of which are repeat platforms providing data both in 2016 and 2017, and 19 new platforms provided data for first time in 2017. 7 Platforms participated in 2016 but did not respond for the 2017 data survey.
- 30 A small portion of this decline can be associated with the non-response of the platform SeedMatch to our 2017 data survey.
- 31 Upcoming Press Statement by German Crowdfunding Association.
- 32 A small portion of this decline can be associated with the non-response of the Erzeugerwelt.de and Gigflip platforms to our 2017 data survey.
- 33 The Retail Investors' Protection Act (Kleinanlegerschutzgesetz – KASG) extended the application of scope of the German Investment Products Act (Vermögensanlagengesetz – VermAnlG) and introduced the Crowdfunding exception.
- 34 The German regulator further strengthened the crowdfunding regulatory framework by amending the German Investment Products Act (Vermögensanlagengesetz – VermAnlG) in 2017.
- 35 Section 34 f of the German Trade, Commerce and Industry Regulation Act (Gewerbeordnung).
- 36 Growth rate and volumes are likely underestimated due to the non-participation of one major P2P lending platform from Denmark (Udenombanken) and two important P2P lending platforms in Finland in our 2017 survey (Vaurus and Lainajaa).
- 37 Data for the Nordic region was collected from 73 platforms. 35 of which were repeat platforms that provided data both in 2016 and 2017, and 38 new platforms that provided data for first time in 2017. 7 Platforms participated in the 2016 data collection but did not respond for the 2017 data survey.
- 38 Crowdfunding and Peer to Peer Lending (29.03.2018) available at: <https://www.suomenpankki.fi/en/Statistics/crowdfunding/>
- 39 This margin grows when comparing to the figures reported by the Finnish Ministry of Finance for the same year, estimating the volumes at €247 million in 2017 (a difference of €41 million). See: <https://www.suomenpankki.fi/en/Statistics/crowdfunding/>. The main differences between the two sources are with respect to non-consumer P2P lending platforms that did not participate in our survey.
- 40 This question was not mandatory, so there was an option to not respond.
- 41 Despite the inclusion of the largest number of platforms operating in the region for our 2017 research (32 in the Netherlands, 14 in Belgium, and 1 in Luxembourg), growth rates and volumes are likely underestimated due to the non-participation of one Equity platform from the Netherlands (Leapfunder), three important P2P Business lending platforms from the Netherlands (Greencrowd, Kapitaal Op Maat, and Geldvoorelkaar), and one reward crowdfunding platform from Belgium (Ulule/Hello Crowd).
- 42 Data for Benelux was collected from 47 platforms. 23 of which were repeat platforms providing data both in 2016 and 2017, and 24 new platforms providing data for first time in 2017. 5 Platforms that participated in the 2016 data collection did not respond for the 2017 data survey.
- 43 Greencrowd, Kapitaal Op Maat, and Geldvoorelkaar were P2P Business Lending platforms that participated in the 2016 survey but not in the 2017 survey.
- 44 LeapFunder is an Equity Crowdfunding platform that participated in the 2016 survey but not in the 2017 survey.
- 45 Ulule/Hello Crowd is a Reward Crowdfunding platform that participated in the 2016 survey but not in the 2017 survey.
- 46 Data for Italy was collected from 45 platforms. 16 of which are repeat platforms that provided data both in 2016 and 2017, and 29 new platforms that provided data for the first time in 2017. 10 platforms that participated in the 2016 data collection did not respond for the 2017 data survey.
- 47 Art. 57(1), Legislative Decree no. 50 (24 April 2017), referred to as "Decreto Correttivo".
- 48 European Crowdfunding Network (2017), Review of Crowdfunding Regulation 2017, p. 363. Retrieved from [https://eurocrowd.org/wp-content/blogs.dir/sites/85/2017/10/ECN\\_Review\\_of\\_Crowdfunding\\_Regulation\\_2017.pdf](https://eurocrowd.org/wp-content/blogs.dir/sites/85/2017/10/ECN_Review_of_Crowdfunding_Regulation_2017.pdf)
- 49 Legislative Decree no. 179 (18 October 2012) amended by the Law no. 221 (17 December 2012), referred to as "Decreto Crescita 2.0".

- 50 Bank of Italy: Resolution 584/2016.
- 51 Legislative Decree 58/1998, referred to as the Consolidated Law on Finance (TUF).
- 52 Legislative Decree no. 3 (24 January 2015) amended by the Law no. 33 (24 March 2015), also known as "Investment Compact".
- 53 Legislative Decree no. 50 (24 April 2017).
- 54 Data for Iberia was collected from 39 platforms, 22 of which are repeat platforms providing data both in 2016 and 2017, and 17 new platforms providing data for first time in 2017. 10 platforms participating in 2016 data collection did not respond for the 2017 data survey.
- 55 The platform Comunite.com has shut down and did not participate in the 2017 data collection.
- 56 The platforms Lánzanos and Ulule Spain did not participate in the 2017 data collection, and their missing data most likely to explain recorded decline.
- 57 Data for Central Europe was collected from 42 platforms. 12 of which are repeat platforms providing data both in 2016 and 2017, and 30 new platforms providing data for first time in 2017. 6 Platforms that participated in the 2016 data collection did not respond for the 2017 survey.
- 58 The number of platforms in our survey is lower than in another survey by the Institute of Financial of Financial Services in Zug. The Swiss Crowdfunding Monitor (Dietrich and Amrein 2018) lists the following market volumes for 2017:
- CHF 374.5m/€ 340m (+192%) was the total Alternative Finance Market
  - Lending-based Crowdfunding CHF 186.7m/ € 169m (+239%)
  - Equity-based Crowdfunding CHF 143.2m/ € 129m (+245%)
  - Invoice trading CHF 23.5m / € 20.9 (+38%)
  - Reward-based / donation-based Crowdfunding CHF 29.1m / € 26m (+71%)
- Dietrich, Andreas, and Simon Amrein. 2018. 'Crowdfunding Monitoring Schweiz 2018'. Institute of Financial Services Zug IFZ. [https://blog.hslu.ch/retailbanking/files/2018/06/CM\\_E.pdf](https://blog.hslu.ch/retailbanking/files/2018/06/CM_E.pdf).
- 59 The platform Investiere (Verve Capital Partners) did not respond to the 2017 data collection.
- 60 (Dietrich and Amrein 2018, p.17)
- 61 The platforms 100-days.net and Miteinander erfolgreich / BLKB did not respond in the 2017 data collection.
- 62 The platform Moboo.ch was closed down due to financial reasons.
- 63 Data for the Baltic region was collected from 36 platforms. 18 of which are repeat platforms providing data both in 2016 and 2017, and 18 new platforms that provided data for first time in 2017. 1 Platform that participated in the 2016 data collection did not respond for the 2017 data survey.
- 64 Data for Eastern Europe was collected from 36 platforms. 14 of which are repeat platforms that provided data both in 2016 and 2017, and 23 new platforms providing data for first time in 2017. 9 Platforms that participated in 2016 did not respond for the 2017 data survey.
- 65 The platform Investiční aukce/ Roger.cz did not provide data for the 2017 data collection.
- 66 The equity platform Fundlift and the donation platform Nadační fond pomoci did not provide data for the 2017 data collection.
- 67 The platform NIOK Foundation/adjukossze.hu did not provide data for the 2017 data collection.
- 68 Facts reported elsewhere in this report about South Eastern Europe include the following countries: Romania, Bulgaria, Greece, Turkey, Slovenia, Croatia, Bosnia & Herzegovina, Serbia, Montenegro, Macedonia, Albania, Cyprus, and Kosovo. Their total volumes amounted to € 45.2m. Due to lack of information on platforms' activity or very small volumes, some countries are not included in the analysis.
- 69 Data for South Eastern Europe was collected from 28 platforms in the four selected countries – Bulgaria, Greece, Romania and Slovenia. 15 of which were repeat platforms that provided data both in 2016 and 2017, and 13 new platforms that provided data for first time in 2017. 1 Platform that participated in 2016 data collection did not respond for the 2017 data survey.
- 70 Law 4416/2016.

