Moving Mainstream

The European Alternative Finance Benchmarking Report

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Forewords

Until very recently, crowd and peer-to-peer financing activity was seen by many observers – particularly those within incumbent financial institutions – as a tiny niche with little prospect of ever impacting the broader financial system. Not any more. Our findings in this European Alternative Finance Benchmarking Report suggest that these new forms of alternative finance are growing quickly, and this growth is beginning to attract institutional investors. Alternative finance, at least in some European countries, is on the cusp of becoming mainstream.

Researchers at Cambridge have been studying alternative finance since it emerged as a grass-roots phenomenon following the recent financial crisis, and have authored and co-authored several of the most-cited reports about the industry. We firmly believe that alternative platforms can increase access to finance and thereby improve both social and economic outcomes. We felt it was important to provide a comprehensive picture of online alternative finance across Europe, and draw attention to the dramatic variation in how alternative finance is developing across European economies. Hopefully, our findings will cause industry, governments and academics to debate questions about how and why this is the case.

Robert Wardrop
Executive Director, Cambridge Centre for Alternative Finance,
Cambridge University Judge Business School

Alternative finance is a fast-growing area of the financial services sector, but there is little hard data about the extent of the industry across Europe, so we're delighted to be able to support the work of the University of Cambridge in this field.

One of the most noteworthy aspects of the alternative finance sector is that it showcases innovation, in terms of both business models and technological platforms. A high proportion of the businesses featured in this survey operate solely online, with websites that have been designed from the outset with the needs of the customer in mind. Compare that with traditional financial services firms that are working hard to redesign their products and processes to meet the demands of the internet age.

Indeed, it will be interesting to see how mainstream financial institutions respond to the growth of alternative finance providers. Will they simply regard them as competitors – albeit relatively small ones – or will they adopt some of the innovations from alternative finance as a way of increasing their own product offering?

The taxonomy of alternative finance featured in this report identifies nine broad categories of business, but within these there are many more sub-sectors. Inevitably, there will be winners and losers as the market develops.

As with any new sector, alternative finance also brings with it new risks. Investors need to understand the nature of the products, and it's important that appropriate controls are put in place. So we welcome the regulation of the sector – which, as this report reveals, is uneven across Europe. While the UK – the market leader by some distance – has introduced dedicated regulation for alternative finance providers, many other countries haven't, or are applying existing regulations that were not specifically designed to cover this kind of activity. The University of Cambridge has asked some commendably straightforward questions about different countries' regulatory frameworks, and the comments from the various industry organisations make for fascinating reading.

These issues will doubtless be resolved over the coming years, and we're excited about what the alternative finance sector can contribute as part of the broader economy. This study will provide a valuable benchmark against which to measure future developments.

Andy Baldwin
EMEIA FSO Managing Partner

Contents

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Research participating platforms

- 4just1.com
- abundance
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- Africa Fair Loan
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- Arcatomia
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Executive summary

Since the global financial crisis, alternative finance – which includes financial instruments and distributive channels that emerge outside of the traditional financial system – has thrived in the US, the UK and continental Europe. In particular, online alternative finance, from equity-based crowdfunding to peer-to-peer business lending, and from reward-based crowdfunding to debt-based securities, is supplying credit to SMEs, providing venture capital to start-ups, offering more diverse and transparent ways for consumers to invest or borrow money, fostering innovation, generating jobs and funding worthwhile social causes.

Although a number of studies, including those carried out by the University of Cambridge and its research partners[2], have documented the rise of crowdfunding and peer-to-peer lending in the UK, we actually know very little about the size, growth and diversity of various online platform-based alternative finance markets in key European countries. There is no independent, systematic and reliable research to scientifically benchmark the European alternative finance market, nor to inform policy-makers, brief regulators, update the press and educate the public. It is in this context that the University of Cambridge has partnered with EY and 14 leading national/regional industry associations to collect industry data directly from 255 leading platforms in Europe through a web-based questionnaire, capturing an estimated 85-90% of the European online alternative finance market.

> *"The European alternative finance market grew by 144% last year"*

Rapid growth across Europe

The first pan-European study of its kind, this benchmarking research reveals that the European alternative finance market as a whole grew by 144% last year – from €1,211m in 2013 to €2,957m in 2014. Excluding the UK, the alternative finance market for the rest of Europe increased from €137m in 2012 to €338m in 2013 and reached €620m in 2014, with an average growth rate of 115% over the three years. There are a number of ways to measure performance across the various markets. In terms of total volume by individual countries in 2014, France has the second-largest online alternative finance industry with €154m, following the UK, which is an undisputed leader with a sizeable €2,337m (or £1.78bn[3]). Germany has the third-largest online alternative finance market in Europe overall with €140m, followed by Sweden (€107m), the Netherlands (€78m) and Spain (€62m). However, if ranked on total volume per capita, Estonia takes second place in Europe after the UK (€36 per capita), with €22m in total and €16 per capita.

Peer-to-peer leads the way

In terms of the alternative finance models, excluding the UK, peer-to-peer consumer lending is the largest market segment in Europe, with €274.62m in 2014; reward-based crowdfunding recorded €120.33m, followed by peer-to-peer business lending (€93.1m) and equity-based crowdfunding (€82.56m). The average growth rates are also high across Europe: peer-to-peer business lending grew by 272% between 2012 and 2014, reward-based crowdfunding grew by 127%, equity-based crowdfunding grew by 116% and peer-to-peer consumer lending grew by 113% in the same period.

Collectively, the European alternative finance market, excluding the UK, is estimated to have provided €385m worth of early-stage, growth and working capital financing to nearly 10,000 European start-ups and SMEs during the last three years, of which €201.43m was funded in 2014 alone. Based on the average growth rates between 2012 and 2014, excluding the UK, the European online alternative finance market is likely to exceed €1,300m in 2015. Including the UK, the overall European alternative industry is on track to grow beyond €7,000m in 2015 if the market fundamentals remain sound and growth continues apace.

Introduction: research rationale, objectives and methodology

Although various forms of alternative finance have long existed, a combination of financial institutions having been weakened by the financial crisis, the rise of disruptive disintermediation-enabling technology, and underlying socio-economic and cultural shifts, is challenging the paradigm of how finance will be provided in the future.

Several economies and industries, particularly in the US, Europe and the emerging markets, are already witnessing the emergence of new alternative financing channels and instruments outside of the traditional banking sector and capital markets. Examples of alternative finance are crowdfunding, peer-to-peer lending, third party payment systems, SME mini-bonds, private placements and other 'shadow banking' mechanisms, social impact bonds, community shares and alternative (virtual) currencies such as Bitcoin. This is the beginning of a broad and long-term structural change; for instance, studies suggest that direct European corporate lending, as a strand of the shadow banking industry, is worth over \$50bn[4], while the alternative currency industry globally was worth \$60bn in 2013[5].

A burgeoning industry

Within the alternative finance industry, taking a narrower definition, online platform-based alternative financing activities such as donation-, reward- and equity-based crowdfunding, peer-to-peer consumer and business lending, invoice trading and debt-based securities are burgeoning in Europe following the global economic downturn. There are now hundreds (if not thousands) of online alternative finance platforms in Europe that are facilitating millions of euros' worth of transactions every day for individuals and businesses alike.

This new brand of innovative, decentralised and potentially disruptive alternative finance is supplying credit to consumers, providing early-stage investments to start-ups and growth capital to SMEs, stimulating regional economies and funding worthwhile causes. Crowdfunding and peer-to-peer lending are becoming financial as well as cultural buzzwords of today, capturing the public's imagination and the media's interest as well as regulator and government attention. With institutional investors starting to invest and diversify through those online platforms, corporates are beginning to experiment with various forms of crowdfunding and crowdsourcing, and banks themselves are getting involved with peer-to-peer or 'marketplace' lending; alternative finance is creating ripples and moving increasingly into the mainstream.

The need for research

However, this increasingly important sector is critically under-studied and often misunderstood. There is no universally accepted taxonomy in Europe to describe and distinguish between the various forms of alternative financing activity. There is little empirical-based study currently available to estimate the overall size of the European alternative finance market or the year-on-year growth of different market segments. Apart from the previous studies on the United Kingdom carried out by the University of Cambridge and its research partners (e.g. Nesta and UC Berkeley), no objective, independent and reliable research exists to scientifically benchmark and regularly track the development of key alternative finance markets in respective European countries.

This considerable gap in information and knowledge is unfortunate, particularly as this nascent alternative finance industry is growing swiftly, evolving rapidly and starting to be regulated across many European countries. It is in this context that the University of Cambridge has partnered with EY to carry out pan-European, scientific and systematic benchmarking research to capture the size and growth of the online platform-based alternative finance market in Europe. This survey-based benchmark research collected aggregate-level market data directly from leading online alternative finance intermediaries via a secure web-based questionnaire. This study will provide a better understanding of this fluid and diverse market and, in turn, inform policy-makers and regulators, the media and the general public, as well as update trade associations and key industrial stakeholders about the development and state of the European alternative finance market.

A pan-European study

In terms of research scope, as a pan-European benchmarking study, the research was specifically focused on online alternative finance platforms that are based in Europe and are facilitating funding for European individuals and businesses. Leveraging existing research relationships and extensive industry contacts, this benchmarking research aimed to capture 85-90% of all online platform-based alternative financing transactions in Europe from equity-, reward- and donation-based crowdfunding, peer-to-peer consumer and business lending to invoice trading, debt-based securities, micro-financing and community share offerings between 2012 and 2014. In addition, wherever necessary and feasible, the online transactions of some of the international platforms that have significant activity (i.e. those with over an estimated €15m transactions per platform) in Europe were also included in the scope of the benchmarking research.

> *“This nascent industry is growing swiftly, evolving rapidly and starting to be regulated”*

To meet the research objectives and ensure the consistency, rigour and validity of this pan-European study, the following benchmarking procedures were carried out by researchers based at the University of Cambridge from October 2014 to January 2015.

A collaborative research strategy

At the beginning of the benchmarking process, the research team compiled a list of 150 of the most prominent alternative finance platforms (according to estimated transactional volume) that are currently operating in Europe by leveraging publicly available information and existing industrial connections and conducting preliminary market research in key European countries. By targeting these leading alternative finance platforms, our benchmarking study was able to capture over 85% of all online platform-based alternative financing activities in Europe in the last three years.

Given the scope and scale of this ambitious multi-country study, the benchmarking team adopted a collaborative research strategy to reach out to those leading European online alternative finance platforms. A great effort was made to forge a pan-European research consortium consisting of leading national and regional alternative finance industry associations/organisations, often headed by influential leaders and pioneers in the field. In the end, after intensive rounds of coalition-building and partnership-forming, the University of Cambridge worked with 14 research partners in Europe on this benchmarking study, including: the German Crowdfunding Network, Asociación Española de Crowdfunding, Financement Participatif France (FPF), the Crowdfunding Hub, ANACOFI, Association Française de l’Investissement Participatif (AFIP), Peer-to-Peer Finance Association (P2PFA), the Nordic Crowdfunding Alliance, the European Crowdfunding Network, AISCRIS, the European Equity Crowdfunding Association (EECA), the UK Crowdfunding Association (UKCFA), P2P-Banking.com, the Collaborative Economy Center and the exclusive media partner, CrowdfundInsider.

Online questionnaire

Specifically designed for the European alternative finance market, our short online benchmarking questionnaire was effectively distributed through our national and regional research partners to their members and contacts in their respective European countries. Accompanying the launch of the survey were targeted press and social media outreach activities, with the benchmarking research press release being translated into five European languages (French, German, Dutch, Italian and Spanish) and interviews with key people from each research partner featured on CrowdfundInsider, a popular global media outlet specialising in crowdfunding and peer-to-peer lending. To reach other leading online alternative finance platforms not associated with any organisations, or who were not responding to the survey request, members of the research team communicated directly with them by email or telephone, explaining our research objectives and asking for their cooperation individually. In the cases where primary data was not obtainable through the survey, secondary data such as the platform's public data, annual reports and news articles was utilised to provide the best estimations wherever possible.

Data verification, anonymisation, aggregation and analysis

In total, our European alternative finance benchmarking survey received 205 survey responses from platforms in 27 European countries. Combined with the 50 survey responses we have already gathered from the UK as part of our joint industry research with Nesta[6], this survey database represents the most comprehensive and up-to-date source of aggregate-level alternative finance data in Europe.

All individual survey data was then methodically cleaned to ensure the consistency of data fields across all alternative finance platforms. Survey entries were then verified individually to identify likely errors or discrepancies. If a questionable data point was identified, the research team would then first cross-check the platform's website to find out necessary information and follow up with email communication if necessary in order to ascertain figures or correct mistakes. For two platforms that entered the benchmarking survey as alternative finance aggregators, their submitted numbers were broken down and significantly reduced against all the platforms' figures that they represented and that also participated in the benchmarking survey. For platforms that have hybridised alternative finance models (e.g. facilitating both equity- and debt-based transactions), a detailed breakdown of transactions per model was obtained wherever necessary. For platforms that operate in multiple European countries, the research team had sought to acquire accurate breakdowns in various jurisdictions wherever possible. For a number of global reward-based crowdfunding platforms that have facilitated significant transactions in Europe, manual and script-based scraping techniques were employed to gather the estimated volume (2012-2014) for each of the 27 surveyed European countries in order to complete the online alternative finance database.

The cleaned and verified database was then fully anonymised by deleting platform-identifying information such as platform names, addresses and contact emails. Anonymised platform datasets were then manually aggregated by country, region (e.g. the Nordics) and alternative finance models following our working taxonomy (e.g. peer-to-peer consumer lending) wherever necessary and possible, before detailed data analysis was carried out.

Key statistics: 2014

€2,957 million

Total transaction volume of the online European alternative finance market

144%

Growth of the online European alternative finance market compared with 2013

€620 million

Total transaction volume of the online European alternative finance market excluding the UK

€201 million

Early-stage, growth and working capital funding provided to European start-ups and SMEs through alternative finance platforms

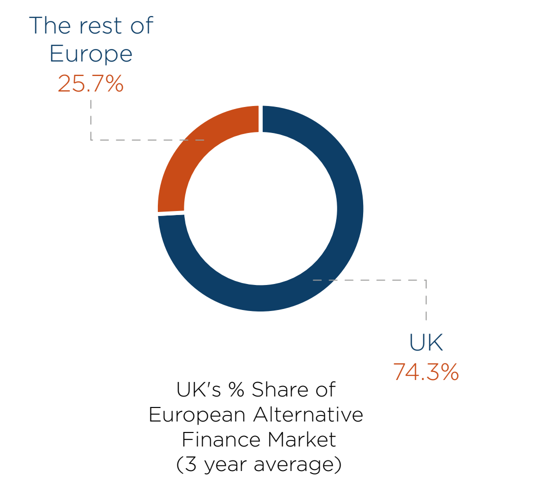
The size and growth of the European alternative finance market

The UK leads the way, but other European alternative finance markets are burgeoning too

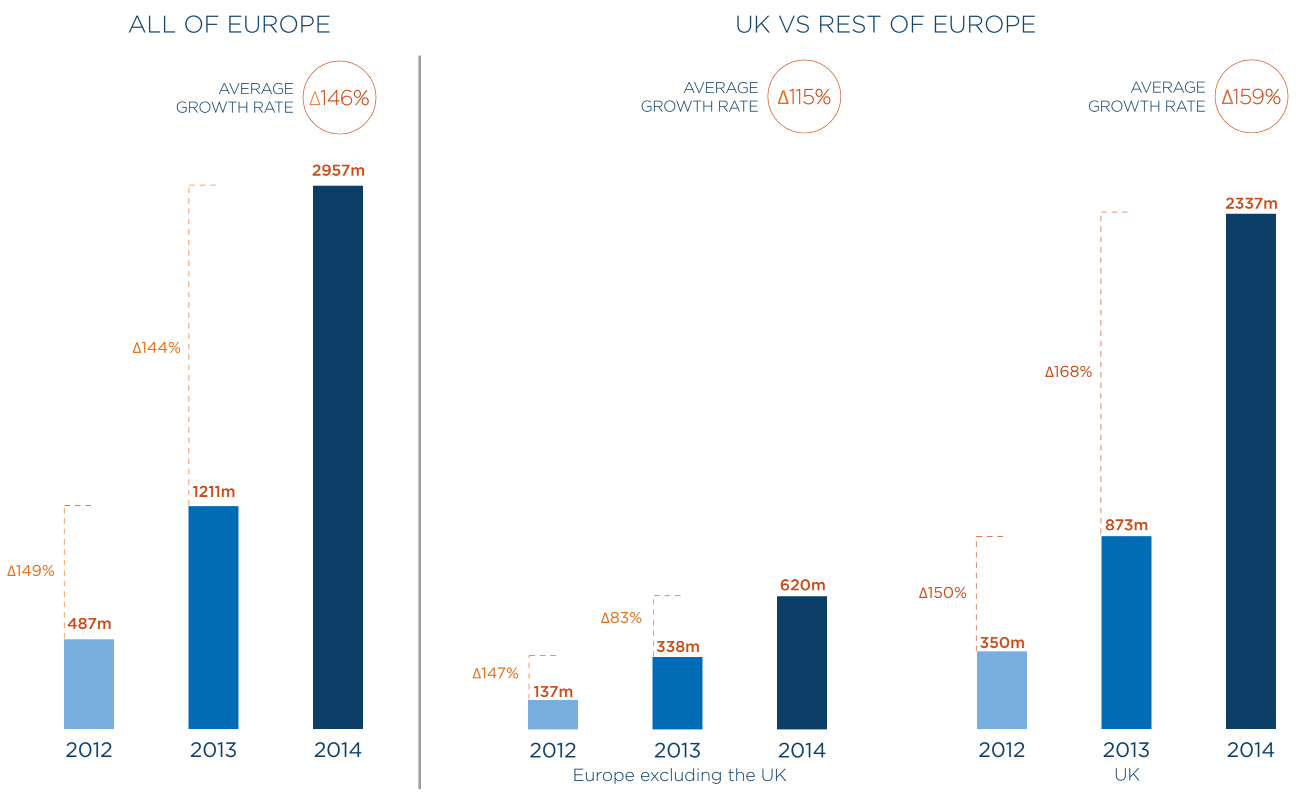
The state of the European online alternative finance market is strong. Between 2012 and 2014, the surveyed 255 platforms in 27 European countries facilitated €4,655m worth of funding to European consumers, entrepreneurs, creative artists, SMEs, social enterprises, renewable energy projects, community organisations and good causes. The overall European alternative finance market, including the UK, grew from €487m in 2012 to €1,211m in 2013 to €2,957m in 2014, with an impressive average yearly growth rate of 146%.

The UK, as an innovative leader in alternative finance, dominates the European market with some of the most advanced online platforms and sophisticated alternative finance instruments. Aided by a new, dedicated regulatory regime and

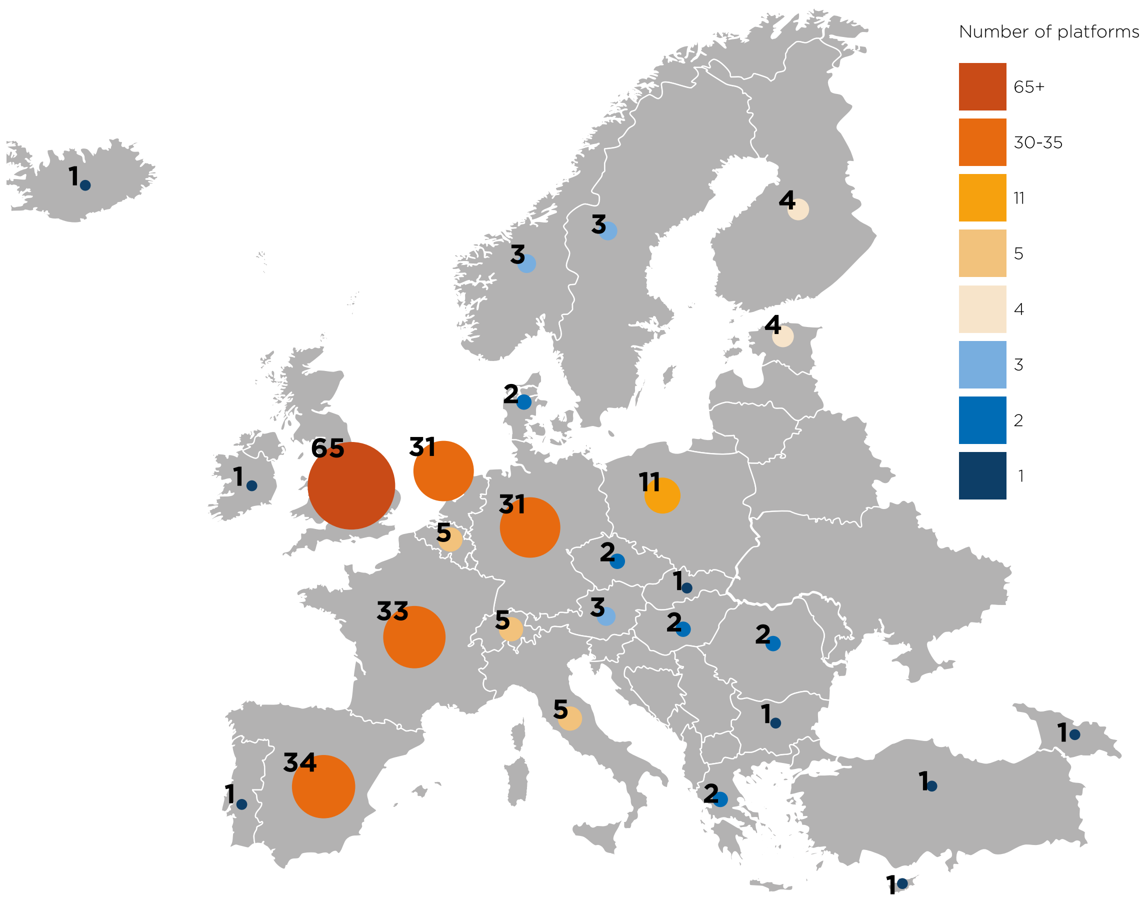
SHARE OF ALTERNATIVE FINANCE MARKET



EUROPEAN ALTERNATIVE FINANCE MARKET SIZE AND GROWTH RATE 2012-2014 €M



THE GEOGRAPHICAL DISTRIBUTION OF SURVEYED ALTERNATIVE FINANCE PLATFORMS IN EUROPE (BY COUNTRY)



a supportive government, the UK online platform-based alternative finance industry reached an impressive €2,337m (i.e. £1.78bn[7]) in 2014 with a 168% year-on-year growth rate. The UK alternative finance sector increased its share of the overall European market from 72% in 2013 to 79% in 2014.

Outside of the UK, however, the alternative finance market is also flourishing, with France, Germany, the Netherlands, Spain and the Nordic countries recording the highest rates of growth. The European online alternative finance market, excluding the UK, grew by 147% from €137m in 2012 to €338m in 2013. In 2014, although the growth rate for the overall market slowed to 83%, the European alternative finance market grew by €282m to reach €620m. The three-year average growth rate for the European market is 115%.

As the geographical distribution of surveyed alternative finance platforms illustrates, the online alternative finance markets are well developed in Spain (which has 34 platforms), France (33), Germany (31) and the Netherlands (31). In addition, Poland (11) and the Nordic countries (13) also have a high number of active alternative finance intermediaries. In total, 190 leading platforms were surveyed in Europe outside of the UK, which had 65 participating platforms in our benchmarking research.

The French online alternative finance market more than trebled from €23m in 2012 to €76m in 2013, then doubled again to €154m in 2014, with an average growth rate of 167% over three years. In Germany, the alternative finance market grew from €31m in 2012 to €65m in 2013 and €140m in 2014, with a very steady three-year average growth rate of 113%. In the Netherlands, the online alternative finance market reached €78m in 2014, with a 70% growth rate from €46m in 2013; meanwhile, the Spanish market increased by 190% to a record €29m in 2013 and grew by 114% to achieve €62m a year later. Finally, in the Nordic countries – a thriving regional block – the alternative finance market almost trebled to €94m in 2013 from €32m. Between 2013 and 2014, the Nordic growth rate slowed down to 36% to reach a total of €128m.

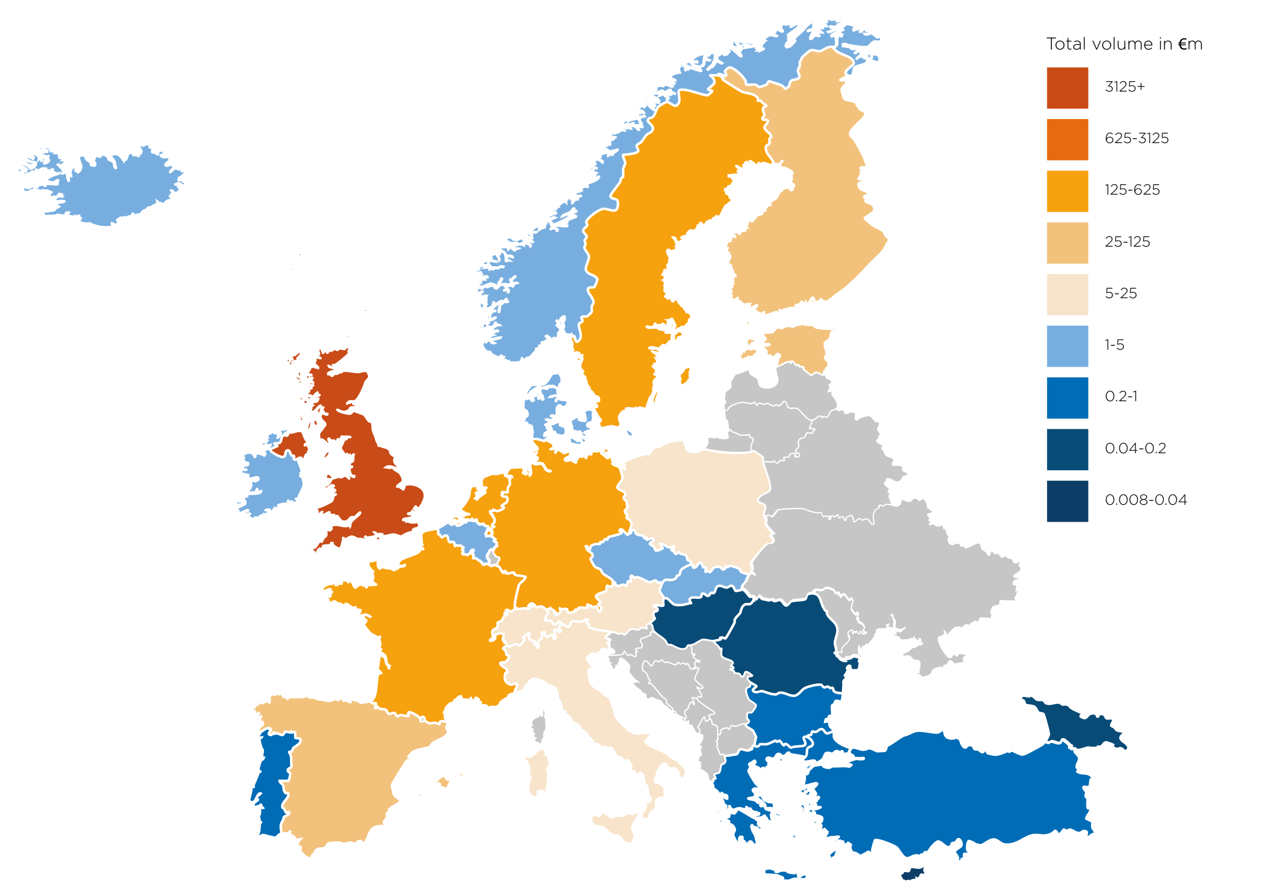
The dynamics of the European alternative finance market

Looking at the volume of alternative finance transactions by country per capita yields some intriguing results

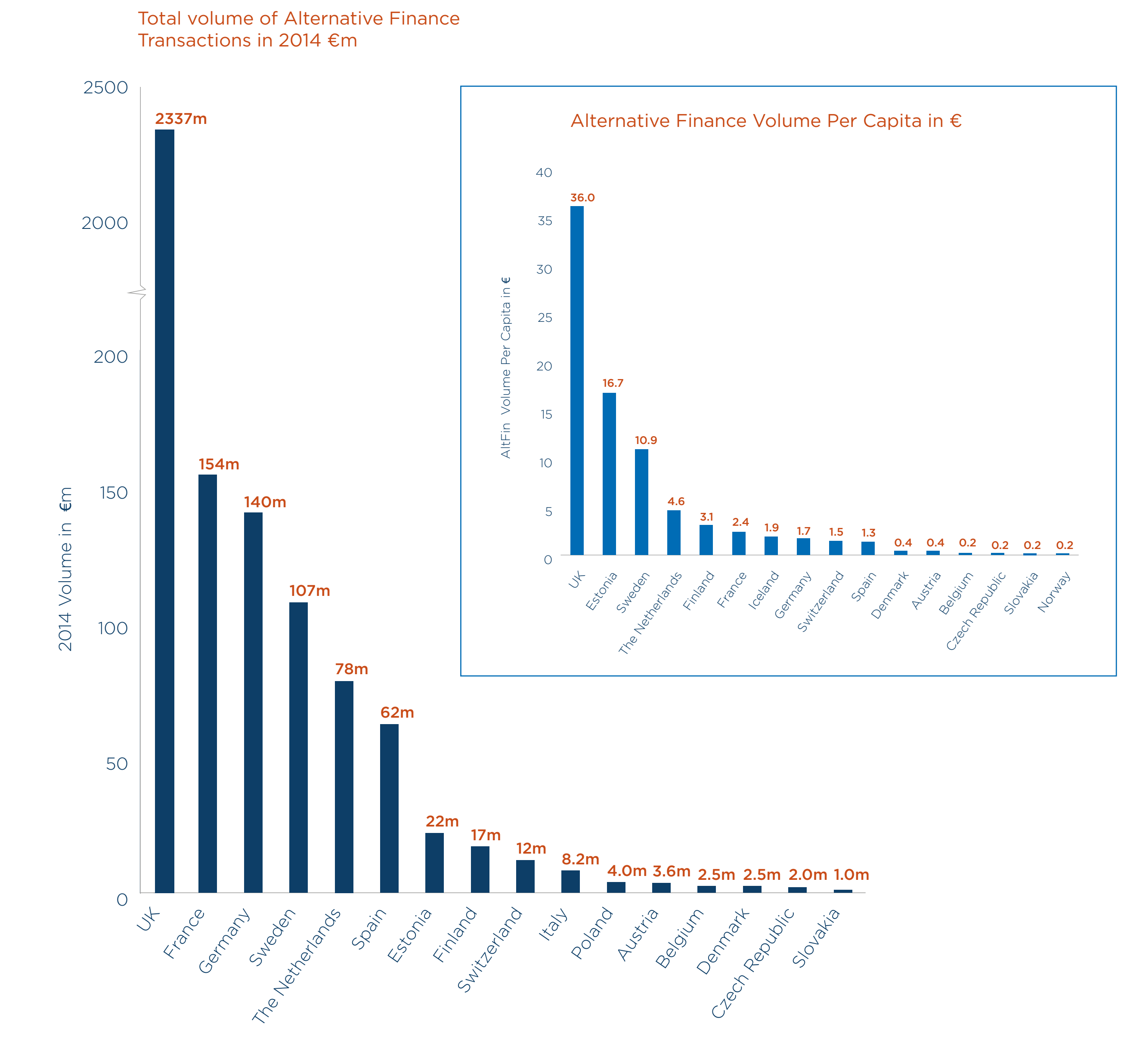
Over the last three years, online alternative finance platforms in the UK have cumulatively delivered €3,560m worth of funding to British individuals and businesses. Besides the UK, the top five European countries in terms of cumulative alternative finance between 2012 and 2014 are France with €253m, Germany with €236m, Sweden with €207m, the Netherlands with €155m and Spain with €101m. Collectively, these countries posted €952m in alternative financing in the last three years, which is around 6.7 times more than the combined total volume of the rest of the 21 European countries added together (€142.21m).

The concentration and uneven development of the European alternative finance market is also evident when comparing individual country transactional volume in 2014 alone. The order of the top six countries remains unchanged with the UK, France, Germany, Sweden, the Netherlands and Spain in the lead group. Nevertheless, going down the ranking, Estonia (€22m) overtook Finland (€17m), while the Czech Republic and Slovakia leapfrogged Norway with €2m and €1m in 2014 respectively.

COMPARATIVE VOLUME OF ALTERNATIVE FINANCE TRANSACTIONS 2012-2014



COMPARATIVE VOLUMES OF ALTERNATIVE FINANCE TRANSACTIONS IN 2014 (TOP 16 COUNTRIES) – BY COUNTRY AND PER CAPITA



However, when we derived the comparative volume of alternative finance transactions in 2014 by country per capita[8], the dynamics of the European markets altered notably. For instance, Estonia, with a small population of just over 1.3m, had an alternative finance volume per capita of €16.73 in 2014, putting it in second place behind the UK (€36 per capita). Sweden, with an alternative finance volume per capita of €10.91, overtook France (€2.39 per capita) and Germany (€1.72 per capita) to rank third. Finland (€2.39 per capita), Iceland (€1.87) and Denmark (€0.44) all improved their comparative European ranking and highlighted the competitive edge of the Nordic countries in alternative finance. Notably, Central and Eastern European countries such as the Czech Republic, Slovakia and Bulgaria also improved their comparative rankings in regard to alternative finance volume per capita in 2014. Italy, with €8.16m total online alternative finance in 2014, slipped from the top 10 to rank 17th when it comes to per capita comparison. Spain, with a relatively large population of more than 46m, also moved down the per capita ranking, with its neighbouring country Portugal's comparative position remaining largely unchanged in around 20th place.

The diversity of the European alternative finance market

This European benchmarking research largely utilises the working taxonomy that has been constructed and trialled in defining and segmenting the UK alternative finance market in previous studies[9] carried out by the University of Cambridge and its research partners.

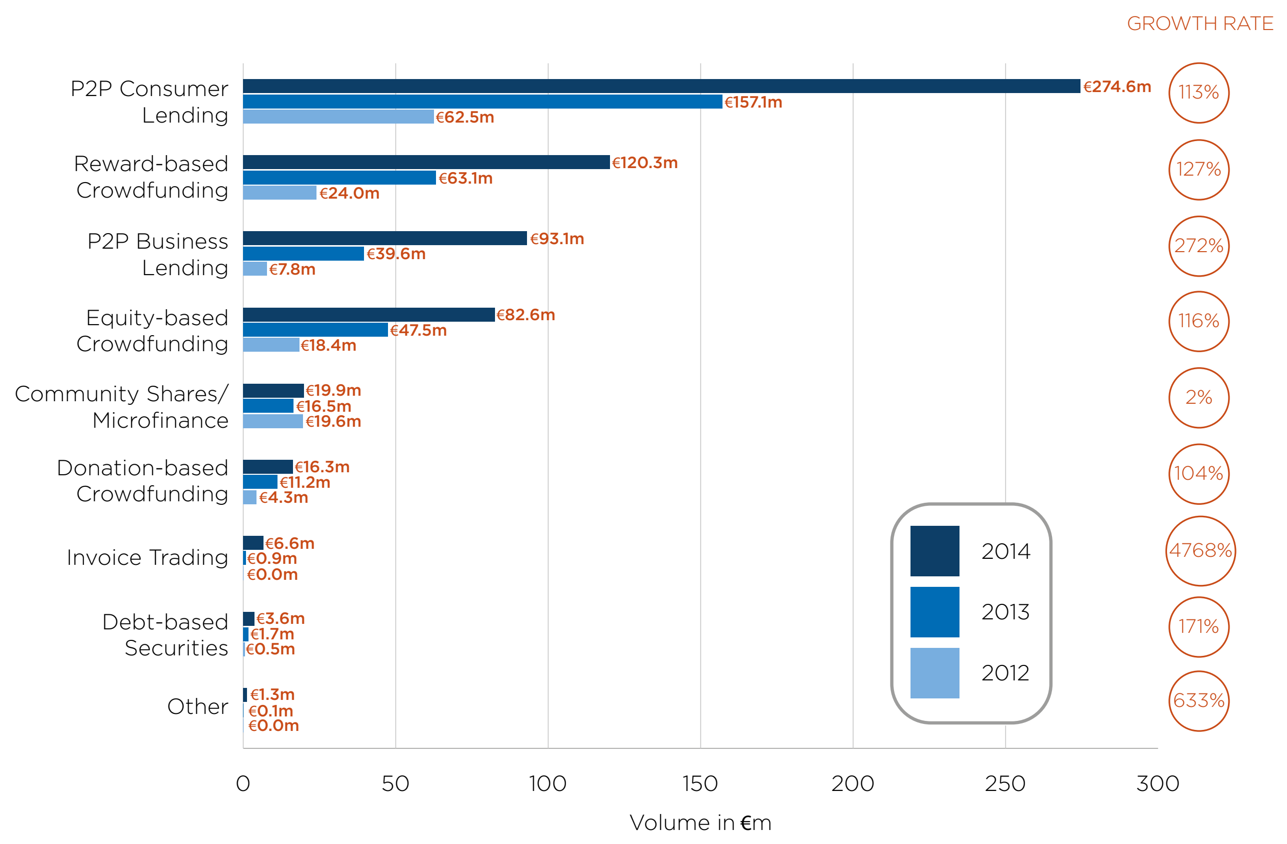
Following this taxonomy, it is encouraging to see that, outside of the UK, the European online alternative finance market has achieved strong and diversified growth across a wide array of models.

Peer-to-peer consumer lending, whereby individual borrowers acquire mostly unsecured personal loans from a number of other individual lenders (often lending a small amount each) through an online 'marketplace', is the biggest segment in the European alternative finance market excluding the UK. With an average growth rate of 113% in the last three years, the European peer-to-peer consumer lending market has developed rapidly, from €62.52m in 2012 to €157.14m in 2013 and €274.62m in 2014. This model of alternative finance offers access

A WORKING TAXONOMY OF ALTERNATIVE FINANCE, WITH VALUE OF 2014 EUROPEAN TRANSACTIONS IN €M (EXCLUDING THE UK)

Peer-to-Peer Consumer Lending	Debt-based transactions between individuals; most are unsecured personal loans.	274.62m
Reward-based Crowdfunding	Backers have an expectation that recipients will provide a tangible (but non-financial) reward or product in exchange for their contribution.	120.33m
Peer-to-Peer Business Lending	Debt-based transactions between individual/institutional investors and existing businesses who are mostly SMEs.	93.1m
Equity-based Crowdfunding	Sale of registered security by mostly early-stage firms to investors.	82.56m
Community Shares/ Microfinance	Microfinance refers to the lending of small sums to entrepreneurs who are often economically disadvantaged and financially marginalised. There is a debt obligation incurred, but the amounts lent are very small. Community shares refer to the sale of withdrawable share capital in cooperative and community benefit societies.	19.91m
Donation-based Crowdfunding	No legally binding financial obligation incurred by recipient to donor; no financial or material returns are expected by the donor.	16.34m
Invoice Trading	Firms sell their invoices or receivables to a pool of individual or institutional investors.	6.63m
Debt-based Securities	Lenders receive a non-collateralised debt obligation, typically paid back over an extended period of time. Similar in structure to purchasing a bond, but with different rights and obligations.	3.61m
Pension-led Funding	Mainly allows SME owners/directors to use their accumulated pension funds in order to invest in their own businesses. Intellectual properties are often used as collateral.	N/A

ALTERNATIVE FINANCE MODELS IN EUROPE (EXCLUDING THE UK) VOLUME IN €M AND AVERAGE GROWTH RATE 2012-2014



to comparatively low-cost consumer credit for borrowers (often with prime credit ratings) and competitive interest rates (in contrast to bank savings) to lenders and often has the benefit of combining efficiency, speed and a relatively low-risk profile. The peer-to-peer consumer lending market is particularly strong in France and Germany, both with approximately €80m in 2014, as well as in Nordic countries.

Reward-based crowdfunding – which, for many people, is synonymous with crowdfunding and online fundraising – has certainly captured the public imagination and media attention across Europe in recent years. With €120.33m raised in 2014 (compared with €63.18m in 2013), reward-based crowdfunding is the second largest sector within the European online alternative finance market (excluding the UK), with an 127% average growth rate over the last three years[10]. From aspiring entrepreneurs and creative artists to high-tech firms, SMEs and even multinational corporations, individuals and businesses can leverage this model to acquire early-stage investments, pre-sell products, obtain market validation and social proof, crowdsource creative ideas, engage customers, forge partnerships and build communities. In Spain, reward-based crowdfunding is the biggest online alternative finance sector, with €35.1m in the last year. This model is also well developed in France and Germany, with €35.42m and €29.82m in 2014 respectively. Although reward-based crowdfunding has its origin in Europe, this alternative finance model has been spreading around the world and many global platforms now operate and compete in multiple European markets.

Peer-to-peer business lending, in contrast, is a relatively new alternative finance model in Europe but is developing rapidly in a number of key markets. It allows predominantly small and medium-sized enterprises (SMEs) to obtain growth and working capital directly from a pool of online investors (both individual and institutional), bypassing sometimes prolonged and uncertain bank lending processes. This sector of the European online alternative finance market (excluding the UK) started with a very low base of €7.79m in 2012, but expanded quickly to just shy of €40m in 2013 and €93.1m in 2014. Its average growth rate of 272% is the highest among major alternative financing models. For many SMEs, the speed with which they are able to obtain business loans, the often more flexible and attractive terms of financing (e.g. no penalty for early repayments on many platforms), as well as transparency and ease of use, are determining factors that make peer-to-peer business lending a viable business funding alternative.

With the recent IPO of LendingClub and its notable SME financing partnership with Google, Alibaba and a growing trend of institutional lending (e.g. by HNWs, family offices, mutual funds, pension funds and hedge funds) on major platforms, the growth of peer-to-peer lending in Europe and its gradual institutionalisation is likely to continue. For instance, peer-to-peer business lending is already the largest online alternative finance segment in the Netherlands, with €35.32m recorded in 2014. Nevertheless, in contrast to the UK alternative finance industry, where peer-to-peer consumer and business lending account for around 90% of the total market, peer-to-peer lending comprised 59% of the European market last year and was just shy of 65% cumulatively between 2012 and 2014.

Equity-based crowdfunding reached €47.45m in 2013 and €82.56m in 2014, excluding the UK figures. Although this segment is very small in comparison with the total European early-stage investment market, which was estimated to be worth €7.5bn[11] in 2013, equity-based crowdfunding is growing fast, with a 116% average growth rate in the last three years. It enables European entrepreneurs and start-ups to raise early-stage capital in a transparent and perhaps more 'empowering' online marketplace, directly from individual investors and, increasingly, angel groups and venture capital firms as well.

There are several leading equity-based crowdfunding platforms now facilitating cross-border transactions and operating in multiple jurisdictions. These, in turn, allow investors to access deal flow from other European countries. Equity-based crowdfunding is well developed in Germany, with €29.82m raised in 2014 alone. Equity-based crowdfunding was also the third-largest market segment in France (with €18.9m in 2014), the Netherlands (€11.16m) and Spain (€10.51m).

Community shares and Microfinance can facilitate hyper-localised and community-based alternative financing for local SMEs, social enterprises and community organisations by leveraging people's social and geographical affinities. These models have long existed in Europe and the development of web-based transactions and platforms is channelling financing activities from offline to online. On some European platforms, many of the funders are institutions and corporates, which offer great potential for matched funding. This segment of the market achieved just under €20m in 2014.

Donation-based crowdfunding, which enables donors to support charitable or social causes or civic projects for no financial or material returns, has been growing steadily, with 104% average growth rate over the last three years to reach €19.91m in 2014.

Invoice trading is a very nascent online alternative finance model that allows SMEs to sell their invoices or receivables to many individual or institutional investors at a discount for working capital. In contrast to the sizeable market in the UK, the invoice trading model is underdeveloped in the rest of Europe, with hardly any transactions noted between 2012 and 2013 and just over €6.63m in 2014.

“The market has achieved strong and diversified growth across a wide array of models”

Debt-based securities, an alternative finance model that offers long-term investment (normally 10-25 years) predominantly for renewable energy firms (e.g. for financing wind farms or solar panel installations), has been growing fast, with an average growth rate of 171% in the last three years, reaching €3.61m in 2014.

Other niche online alternative finance models, including SME mini-bond offerings and convertible loans, are essentially too small at the present time to warrant individual categories. However, in future research, a pan-European alternative finance industry study will, we expect, expand and modify the existing working taxonomy to accommodate new models (e.g. merchant cash advances or third-party payment systems for SMEs) and to reflect the fluid landscape of alternative finance.

The vitality of alternative finance for SMEs in Europe

Online alternative finance platforms can be an effective source of funding for start-ups and SMEs

Access to finance remains one of the most pressing challenges facing European SMEs today[12]. Studies have found that most managers of European SMEs feel that the availability of bank loans has not improved since the financial crisis, and may even have worsened or deteriorated[13]. The European Banking Federation's recent report[14] also pointed out that the 'protracted weakness' of the European economy has led to a decline in the outstanding volume of bank loans to SMEs.

This is particularly noticeable in countries that experienced the full brunt of the financial downturn after the 2008 financial crisis. For example, in 2013, the volume of bank loans to SMEs actually fell by a substantial €232m; in particular, loans to non-financial corporations decreased by €99bn in Spain and by €50bn in Italy[15].

Online alternative finance, especially peer-to-peer business lending, equity- and reward-based crowdfunding and invoice trading, can be a viable and effective source of funding for start-ups and SMEs in Europe. Indeed, our research found that these forms of alternative finance provided €385m to nearly 10,000 European businesses between them in the last three years. The volume of online alternative business funding has been increasing steadily at around 75% year on year, from €66.33m in 2012 to €116.93m in 2013 and to €201.43m in 2014. Our data estimates that the number of start-ups and SMEs funded through online alternative finance platforms has been growing at an even faster average rate of 133% over the last three years, from just over 1,000 funded firms in 2012 to reach 5,801 in 2014. The figures for the total amount of alternative business financing, and for the number of SMEs funded, were calculated by combining the volume of peer-to-peer business lending, equity-based crowdfunding, invoice trading and debt-based securities platforms, plus an estimated 10% (for both volume and number of businesses financed) from the reward-based crowdfunding sector. Given the prominence of the reward-based crowdfunding model in Europe and particularly in France, Germany, the Netherlands, Spain and the Nordic countries, we believe 10% is a conservative estimation given the large number of entrepreneurs, high-tech firms, creative organisations and social enterprises fundraising through both European homegrown and global reward-based crowdfunding platforms.

European online platforms can take some comfort from the rise of alternative business financing in the UK. Also growing from a small base, fuelled by the rapid development of peer-to-peer business lending and the invoice trading sector, the UK alternative finance market provided over £1bn worth of business finance to over 7,000 small- and medium-sized firms in 2014 alone, which is equivalent to 2.4% of the total national bank lending to SMEs[16]. With the gradual expansion of the retail investor base and the influx of institutional investment into this type of financing activity, the peer-to-peer business lending, invoice trading and equity-based crowdfunding markets appear set to continue in the next few years. In turn, both the total volume and the number of SMEs funded through online alternative business finance platforms are likely to increase considerably in the short term.

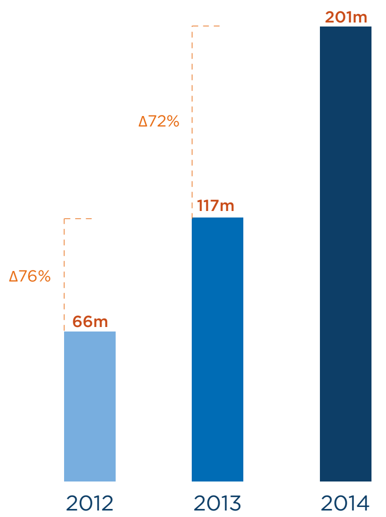
THE VITALITY OF THE ALTERNATIVE FINANCE MARKET FOR SMEs IN EUROPE

ALTERNATIVE FINANCE FOR SMEs IN EUROPE (EXCLUDING THE UK) 2012-2014

TOTAL RAISED

€385 million

AVERAGE GROWTH RATE Δ74%



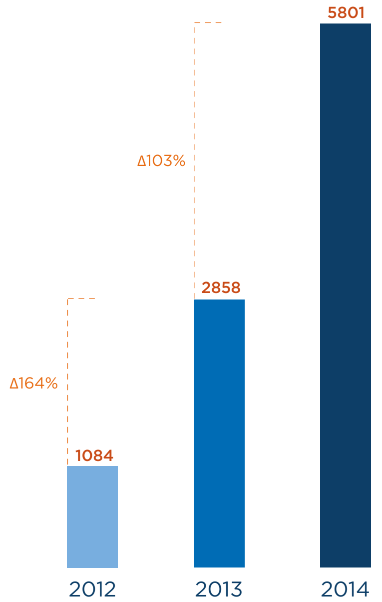
Funding raised by SMEs €m

NUMBER OF EUROPEAN SMEs RAISING ALTERNATIVE FINANCE (EXCLUDING THE UK) 2012-2014

TOTAL COUNT

9743 SMEs

AVERAGE GROWTH RATE Δ133%



Number of SMEs

Including P2P business lending, invoice trading, equity-based crowdfunding, debt-based securities + 10% of reward-based crowdfunding

The fundamentals of the European alternative finance market

There are three market fundamentals that this benchmarking research aims to highlight and examine: the number of total ventures funded and active funders, estimated percentages for cross-border transactions, and the industry perspectives of regulations.

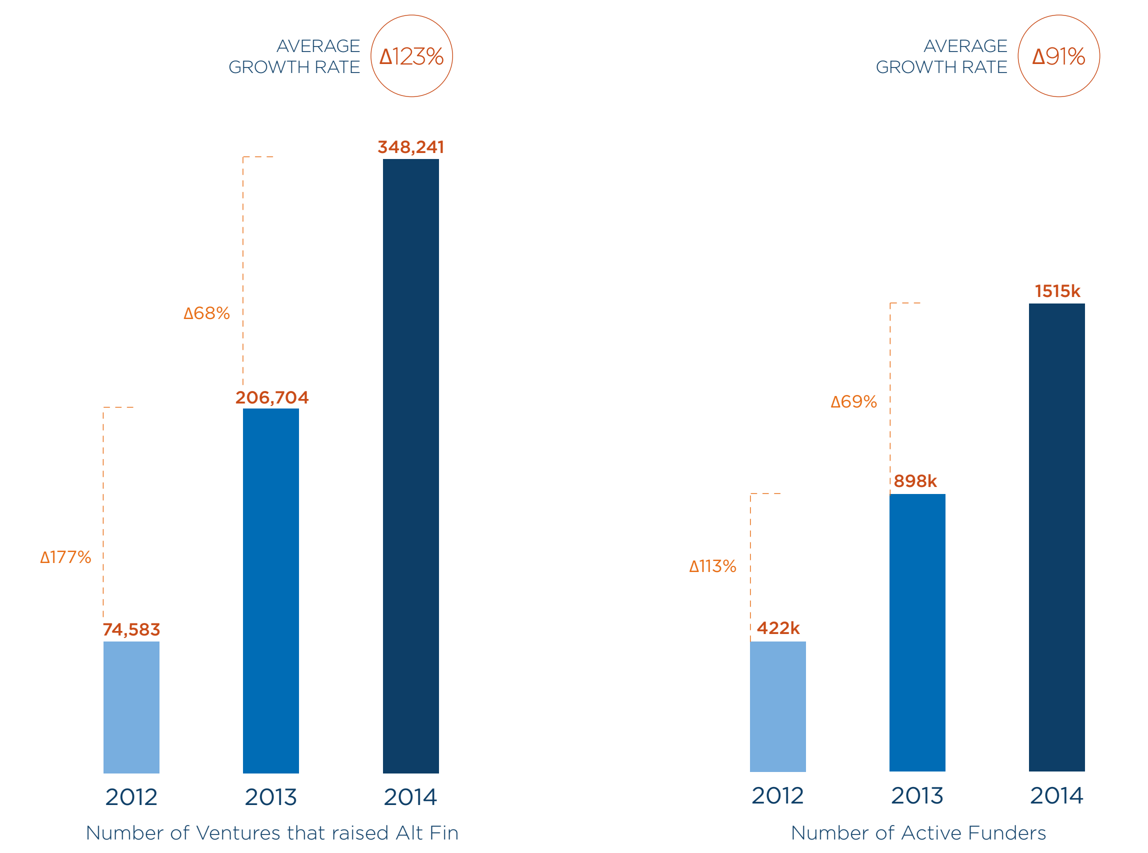
The number of total ventures funded and the number of active funders

The socio-economic foundation of online alternative finance is direct connection, interaction and exchange between fundraisers and funders without the orthodox intermediation of traditional financial institutions. Therefore, the breadth and growth of individual, business and community participation and engagement with the sector is fundamental to the health and long-term sustainability of the alternative finance market.

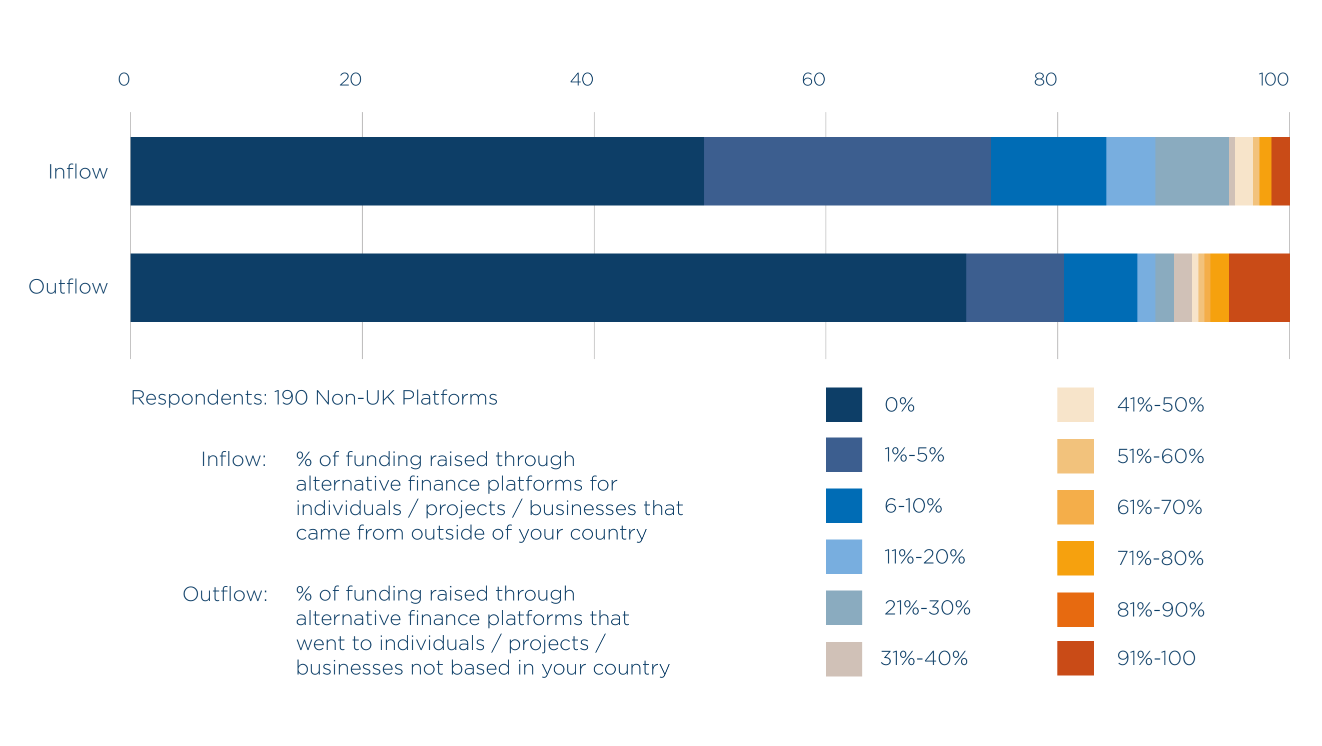
Therefore, although the aggregated data collected directly from the platforms in terms of total ventures funded (including all campaigns, personal and business loans and equity investment deals, etc.) and the total number of funders (including investors, backers, donors and lenders) are likely to be overestimated and inevitably involve some double counting, these statistics still provide useful insight into market fundamentals.

In 2014, more than 348,241 ventures were fully funded through European online alternative finance platforms excluding the UK. In 2013 and 2012, the figures were just 206,704 and 74,583 respectively, representing an average three-year growth rate of 123%. Notably, the growth rates slowed down, from 177% between 2012 and 2013 to 68% between 2013 and 2014. In terms of number of active funders, these online alternative finance platforms attracted and sustained more

THE NUMBER OF VENTURES FUNDED AND ACTIVE FUNDERS IN EUROPE (EXCLUDING THE UK) 2012-2014



CROSS-BORDER TRANSACTION PERCENTAGES FOR EUROPEAN ALTERNATIVE FINANCE PLATFORMS



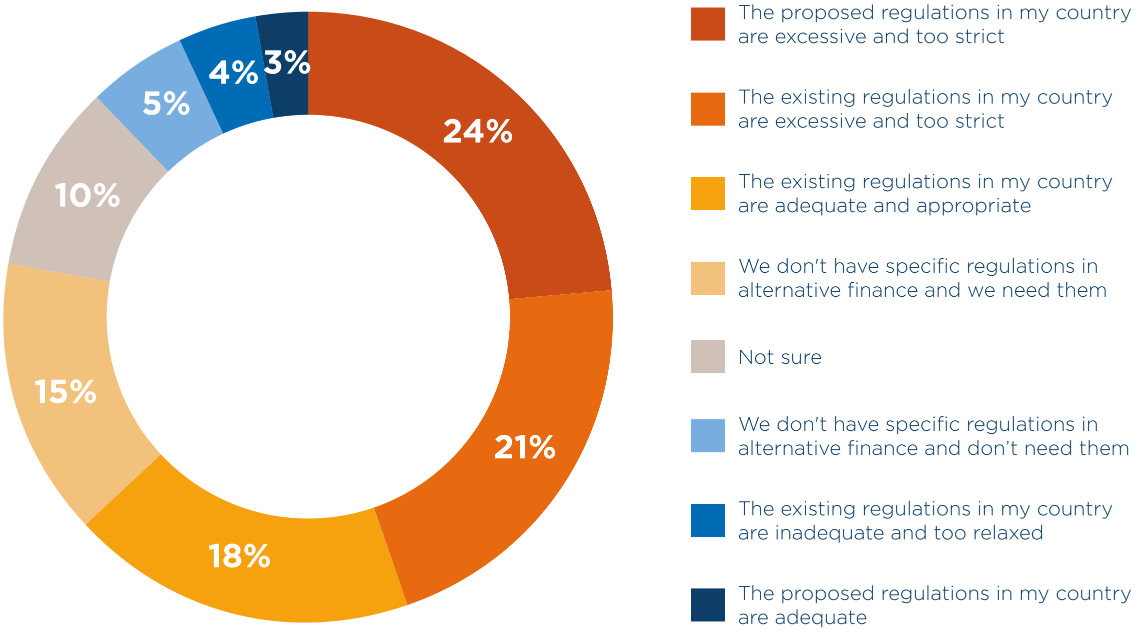
than 1.51m active donors, backers and investors on their platforms in 2014 outside of the UK. The figures for 2013 and 2012 are 898,330 and 421,741 respectively, realising an average three-year growth rate of 91%. Even after factoring in over-estimation and double counting, these numbers still reflect a growing market sector and an expanding funder base over time across Europe.

Cross-border transaction percentages

Cross-border transaction volume on European platforms is a key indicator of the alternative finance industry that has been closely watched and studied by policy-makers and regulators at both national and supranational levels. However, gathering and analysing reliable and meaningful cross-border transactional data is very challenging. This is partly due to the fact that the online alternative finance platforms themselves might not possess or collect such data or that it cannot be readily extracted. The prominence of global reward-based crowdfunding platforms in Europe also adds to the challenge of obtaining this data. Therefore, based on the data captured in our benchmarking survey, we feel that precise cross-border transaction volumes for each platform and, in turn, for each European country, cannot be reliably calculated at the present time.

Nevertheless, the estimated cross-border transaction percentages (out of total funding) provided by the platforms offers some valuable insight for policy-makers and regulators. In terms of inflow funds (which measures investor funding coming from outside a platform's home country), nearly 50% of surveyed platforms had no inflow of funding from other countries, while around 35% registered between 1-10% and roughly 1 in 10 of them indicated between 11-30%, which suggests a relative domestically-oriented funding system. Our estimate of outflow funds (the measure of investor funding leaving the platform's home country) again suggests a relatively domestically-oriented financing environment. Over 72% of platforms report no outflow activities at all and nearly 15%

INDUSTRY PERSPECTIVES ON REGULATIONS IN A EUROPEAN CONTEXT



registered between 1% and 10%. However, a small minority of platforms, 5%, reported that their outflow is between 91% and 100%.

Industry perspectives on regulations

The regulatory landscape of the European alternative finance market is fluid and multifaceted. In some countries, existing regulations have been 'stretched' to accommodate online alternative finance; in other countries, new regulations have put clear boundaries around the industry; in yet others, there has been little regulation at all. Although the industry's perception of alternative finance regulations is best understood and analysed in the context of individual regulatory jurisdictions, it is still helpful to have a pan-European overview with the data from 190 surveyed European platforms. In our findings, it seems that, at least on a European level, the perception of and attitudes towards both existing and proposed regulations are both divided and highly varied. The pan-European response from the platforms reflects this variation. For example, while 18.42% of the respondents state that the existing regulations in their countries are adequate and appropriate, 21.05% argue that they are excessive and too strict. However, across Europe, 14.74% of the respondents in countries currently without dedicated regulations are actively calling for them, while 23.68% of the surveyed platforms suggested that the proposed regulations are excessive and too strict. In terms of individual countries, in France and the Netherlands, over 40% of surveyed alternative finance platforms perceive the existing regulations to be adequate and appropriate, while very sizeable proportions of respondents in Germany (58.06%), Spain (52.94%) and the Nordic countries (36.46%) believe the proposed regulations in online alternative finance are excessive and too strict, indicating significant differences across European jurisdictions.

A view from the field

Market commentary by alternative finance industry associations

A view from the field – France

Marianne Iizuka

The French crowdfunding industry started in 2008 with two platforms. In 2013, the first peer-to-peer lending platform was launched. Fast forward to January 2015, and France had 70 platforms, 36% of which were reward-based, 9% donation-based, 25% peer-to-peer and 20% equity-crowdfunding based (according to Ahès Consulting). Each month, about four new platforms are launched.

The French regulators, the AMF and the ACPR, issued rules and regulations for equity crowdfunding and peer-to-peer lending in France in October 2014. Both the French crowdfunding associations, AFIP and FPF, worked with the regulators during this process. The new regulations allow crowdfunding platforms to operate within a bespoke framework and led to the creation of 20 new peer-to-peer lending platforms between October 2014 and January 2015.

Government support

The French government has been strongly supportive of crowdfunding. It created a dedicated website for this industry, where major French crowdfunding projects are listed among many other activities in the industry. It also provided back-office support to some of them through the Public Investment Bank (BPI). Certain banks and insurers invested directly into platforms, or co-invested in crowdfunding projects during 2014. Two asset managers and several public institutions are also currently launching their own peer-to-peer lending platforms.

The French crowdfunding market is no longer a niche market. An overall ecosystem is evolving from this young industry. Consultants in crowdfunding, digital marketing agencies, training companies, payments systems and project aggregators are offering their services to project owners. Specialised firms provide the platforms with their technology.

Fast growth

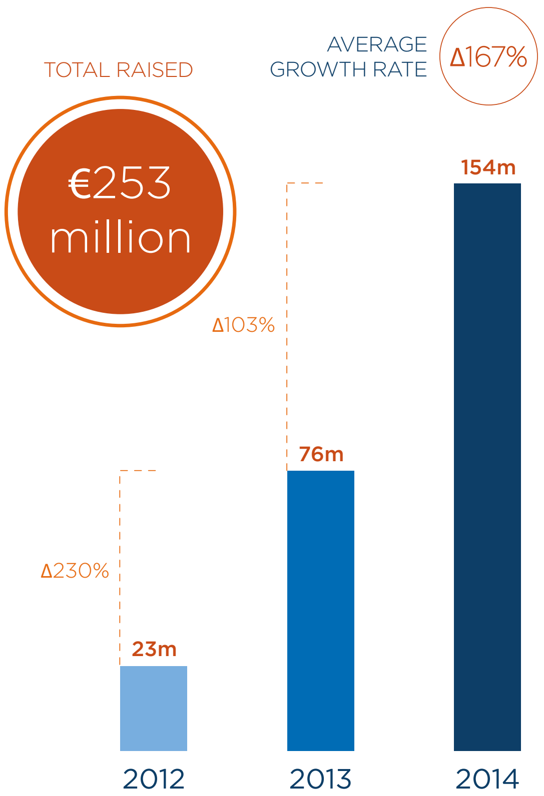
The fast growth of the industry raises many questions. First of all, how will the consumer or the investor be able to ensure the platform can be trusted? As the number of platforms increases, good practice such as transparency, deal flow management and project owner due diligence may suffer. Second, as nearly everyone can start their own crowdfunding campaign, questions on the ultimate beneficiary of the funds may be raised. Therefore, it is now vital for the alternative finance industry in France to continue to develop and professionalise in order to promote trust among investors and consumers.

> *An overall ecosystem is evolving for this young industry*
>
> *Marianne Iizuka*

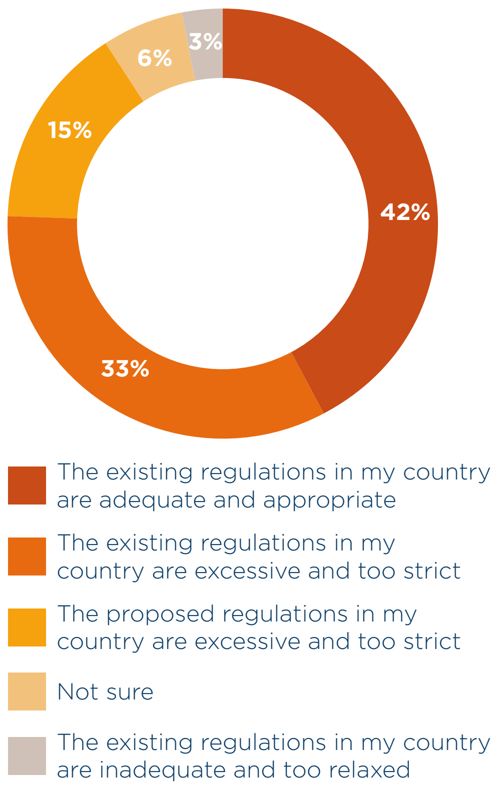
Marianne Iizuka is a European Commission ECSF Crowdfunding expert for the Anacofi and AFIP. She is the President of Ahes-consulting.com, co-founder of Edubanque.com and the author of Le Crowdfunding: les rouages du financement participatif.

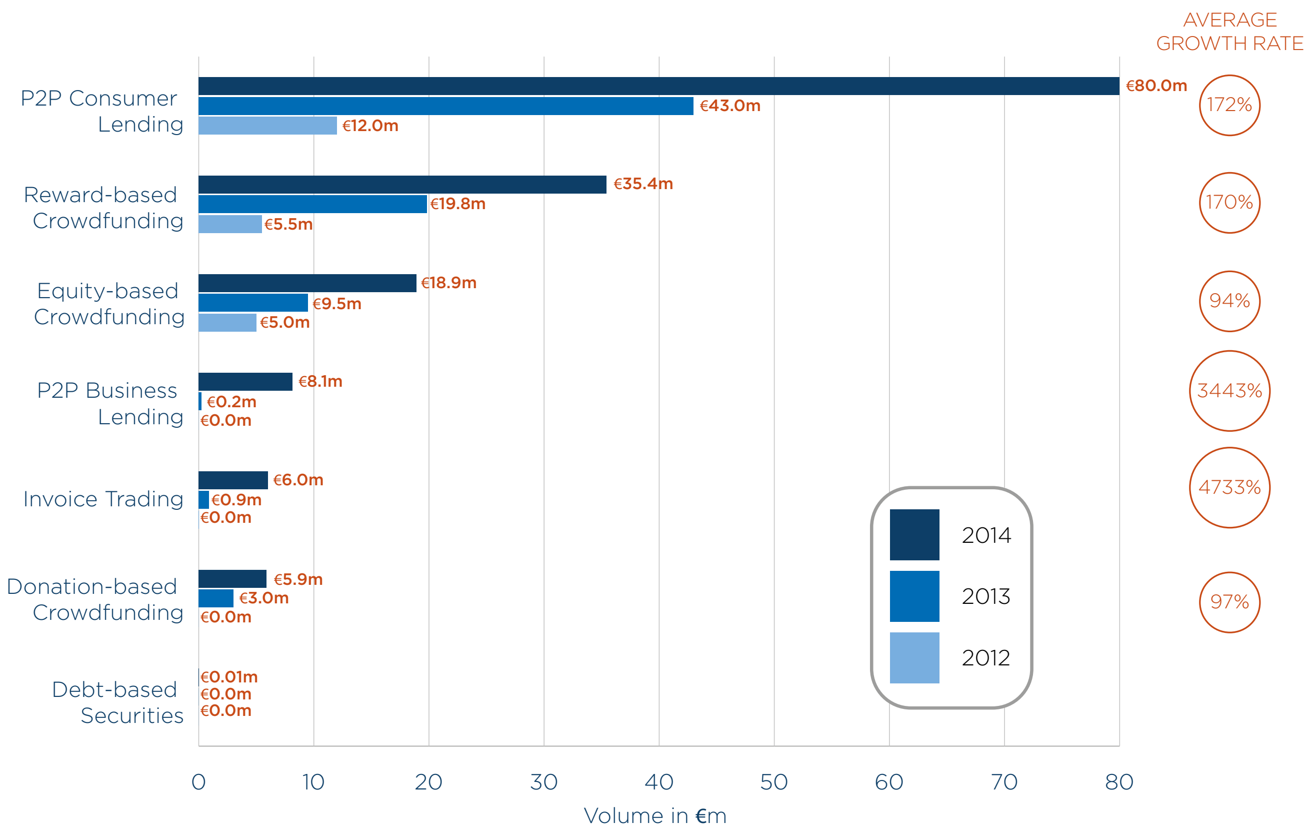
ALTERNATIVE FINANCE MARKET SNAPSHOT FOR FRANCE

Total French alternative finance market size in €m



Perception of regulations in France





A view from the field – Germany

Karsten Wenzlaff

Crowdfunding in Germany started as early as 2006. The year 2010 saw a number of reward-based platforms gaining market share, while 2011 followed with a boost of equity-based crowdfunding platforms catering for start-ups and seed financing.

Equity-based crowdfunding has been legal in Germany for some time. The large platforms have used a type of mezzanine instrument known as Partiarisches Nachrangdarlehen – or Subordinated Profit Participating Debt. This instrument allows investors to participate in the profits of the borrower. This form of subordinated debt instrument has thus far been exempt from having to publish a prospectus, and incurring the substantial costs of doing so, because interest is only paid if there are profits. The recently proposed Government regulations closed this loophole and an exemption was created for online crowdfunding platforms. They also introduce a range of other proposed rules and requirements.

Restrictions for investors

The proposed exemption allows crowdfunding projects up to €1m to be published without an investor prospectus, as long as each investor is limited to a maximum investment of €1,000. This exemption is restricted to subordinated debt instruments. Further restrictions for investors are proposed, which will arguably reduced the access of retail investors to crowdfunding platforms in Germany. For example, if a platform wishes to allow investments above €1,000, it also has to ask the investor for an income statement, which in turn determines the amount that can be invested. The concern is that such complex regulation, which was adopted with reference to the US JOBS Act, could make the German crowdfunding market less accessible, since this is more costly to operate. I would argue that policy-makers should instead look towards the UK or France as potential models.

Rules on advertising

The regulations also include a requirement for an Investment Products Information Leaflet (Vermögensanlagen-Informationsblatt), which is proposed to be manually signed and mailed by the investor, as well as rules on the advertising of crowdfunding projects online. For example, it is possible to advertise them in the printed press in Germany, but not in online media or on Facebook, Twitter or other social networks.

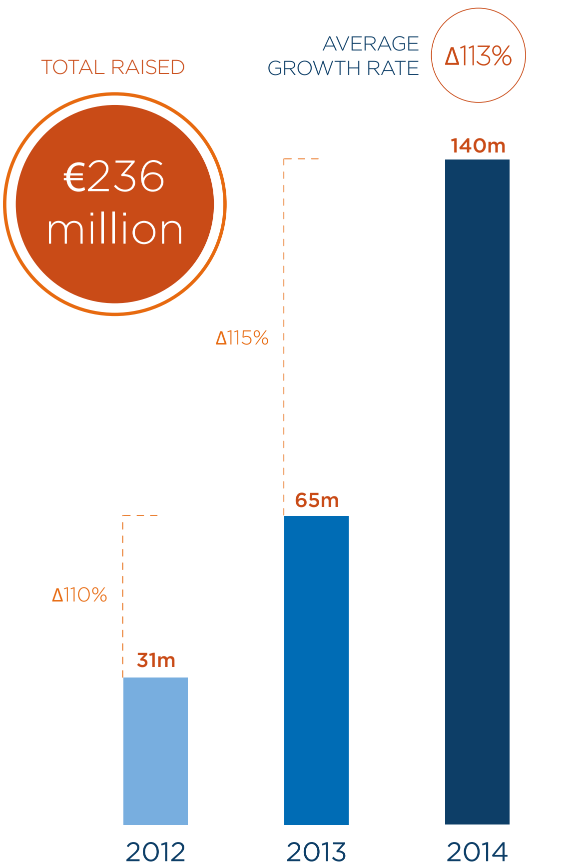
For peer-to-peer lending, the draft regulation states that loans to private borrowers should not be within the scope of the law if a regulated bank is an intermediary in the lending process and, thus, selling the loans from the borrower to the lender. Other forms of crowdfunding and collaborative finance, such as donation- and rewards-based crowdfunding, have been exempted from the new regulation.

The law will be brought into force by 1 July 2015. The parliamentary debate is set for February to April 2015. The German Crowdfunding Network's position is that government should follow the examples set by other countries, such as France, the UK and the Netherlands, which have created a disclosures-based regulatory framework.

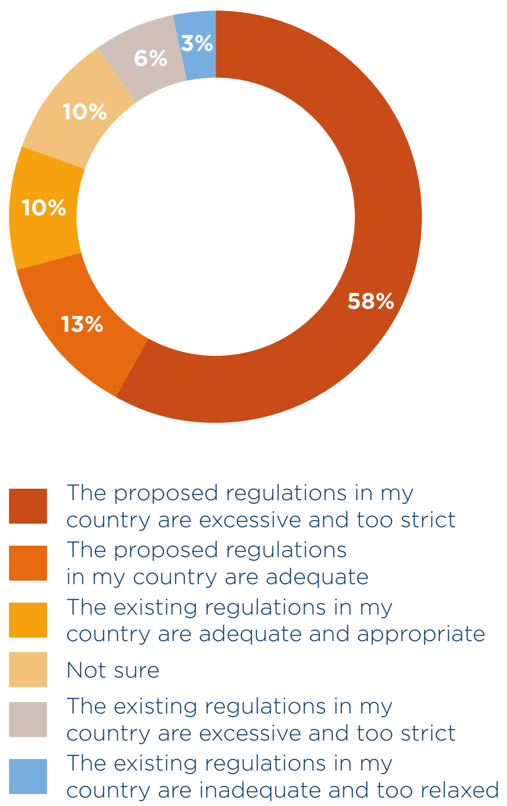
Karsten Wenzlaff is the coordinator of the German Crowdfunding Network and a member of the European Crowdfunding Stakeholder Forum. He has an MPhil from Cambridge University and is the CEO of ikosom, a private research centre in Berlin.

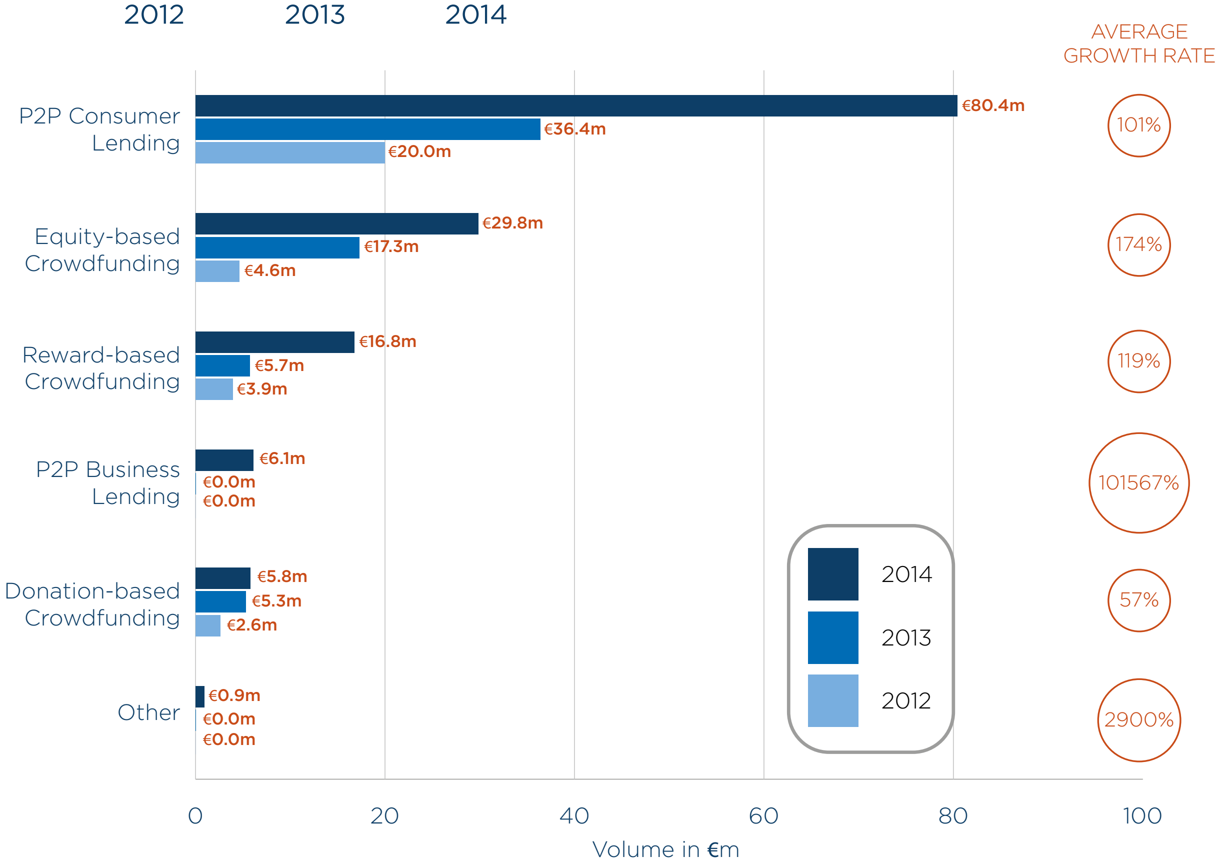
ALTERNATIVE FINANCE MARKET SNAPSHOT FOR GERMANY

Total German alternative finance market size in €m



Perception of regulations in Germany





A view from the field – The Netherlands

Ronald Kleverlaan

The Netherlands has a long history of innovation in the financial industry. A supportive regulator (AFM) and Ministry of Economic Affairs have contributed to a creative and innovative ecosystem for the launch of new alternative finance platforms in the last decade, many of them the first of their kind in the world. There is significant innovation in hybridised crowdfunding models and innovative financial products, such as convertible notes and revenue-sharing models.

Besides crowdfunding, other alternative finance initiatives, such as credit unions and stock exchanges for SMEs, are also growing rapidly. With more than 100 alternative finance platforms, the Netherlands has the highest number of platforms per capita. This number is still growing, although the first signs of consolidation are being seen by platforms going out of business or being sold to competitors.

Proposed changes

There is no specific crowdfunding regulation in the Netherlands. At the moment, 30 companies have a licence or exemption to offer financial products through online platforms based on existing financial regulations. For investors, it is not permitted to either invest in more than 100 projects, invest more than €20,000 in equity through an online platform, or invest more than €40,000 in debt. For projects raising in excess of €2.5m, a prospectus is required.

During the final months of 2014, the AFM carried out in-depth research into the crowdfunding market in consultation with major stakeholders in the industry. The draft version of the proposed changes was published on 19 December 2014. The most important change is expected to be the introduction of new crowdfunding regulations for lending and equity, but the regulator does not appear to be pushing this at the moment, waiting instead for the market to mature before it introduces these new regulations.

The Dutch Government is also promoting the alternative finance industry. The Ministry of Economic Affairs has funded some alternative finance companies directly and also financed a large public promotional campaign on crowdfunding, together with the Chamber of Commerce and crowdfunding platforms focusing on SME financing.

A need for education

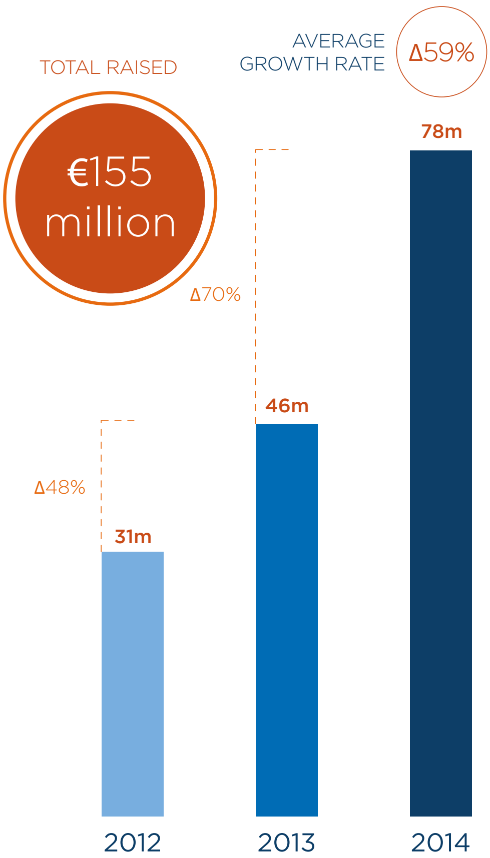
The main problem is that the industry is very fragmented and a lot of investors and entrepreneurs are unsure of how to start using crowdfunding. Therefore, there will be a major need to educate entrepreneurs, investors and other stakeholders in the industry to speed up the adoption process.

Transparency about risks, defaults and how to handle fraud is also important. An opportunity for the crowdfunding industry is the introduction of new financial advisors acting as independent guides in the fragmented and fast-evolving alternative finance industry. The alternative finance advisors will support entrepreneurs to find the right type of finance, from debt/equity/pre-sales crowdfunding to informal investments, factoring and traditional bank loans. Over the next few years, this will offer great opportunities for accountancy firms and financial advisors.

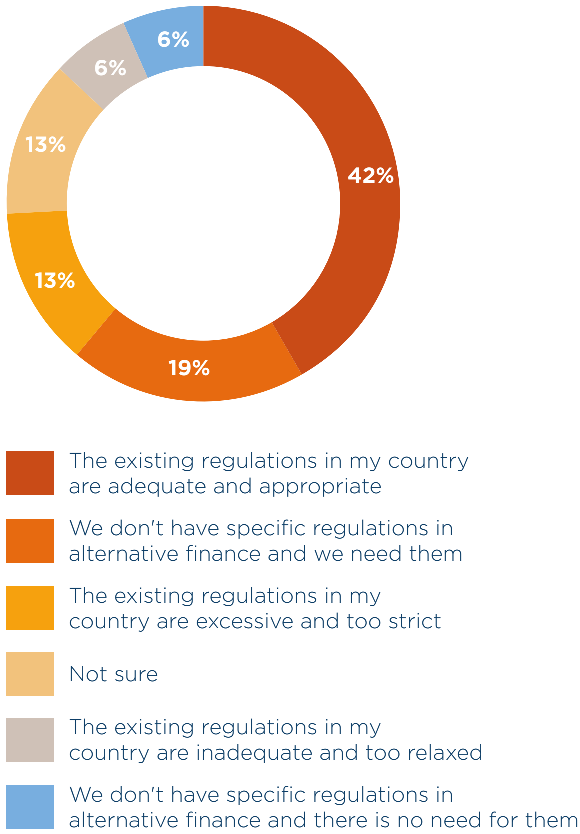
Ronald Kleverlaan is the founder of CrowdfundingHub, the Dutch crowdfunding knowledge institute. He is an advisor on Crowd-Investing for the European Commission and a Co-founder & Executive Board Member of the European Crowdfunding Network.

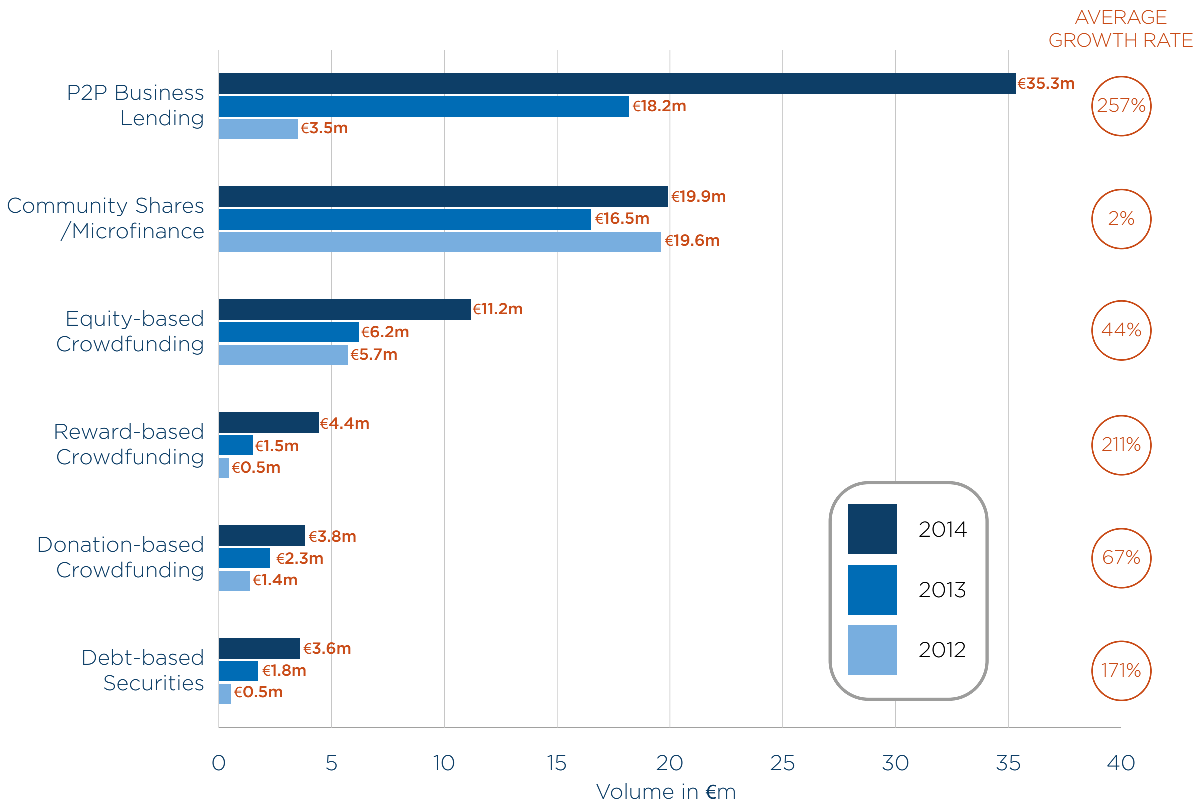
ALTERNATIVE FINANCE MARKET SNAPSHOT FOR THE NETHERLANDS

Total Dutch alternative finance market size in €m



Perception of regulations in The Netherlands





A view from the field – Spain

Daniel Oliver

Spain is quickly embracing the collaborative economy as a new and important alternative to traditional economic models. This may seem surprising to those who think of Spain as an old-fashioned economy, and one where 80% of the country's SME funding comes from bank loans, but Spaniards are incredibly enthusiastic about new models of socio-economic distribution.

The collaborative economy simply makes sense to many people, and some forms of it (like short-term apartment rentals or car sharing) have become an important part of making ends meet for Spanish families. Crowdfunding is playing an essential role in replacing public funding and grants, which have become increasingly scarce, and Spanish artists and designers have been forced to race up the learning curve in order to be competitive using donation- and rewards-based platforms.

An alternative model

As for investment crowdfunding, this is becoming a realistic alternative, but it still has to overcome the hurdle of scepticism from a population that has endured several major financial crises and scandals in recent years. However, loss of trust in mainstream institutions is arguably fuelling faith in the sharing economy as an alternative model. Crowdfunding is gaining popularity and building a strong reputation but is still, in my view, often misunderstood and underused.

Specific legislation has been introduced in relation to crowdfunding. This new legislation limits the use of equity and debt crowdfunding to a maximum €2m per project where non-accredited investors are involved, and €5m where only accredited investors are included. It also places limits on the amount that each non-accredited investor can contribute. This effectively limits the role of crowdfunding to the SME sphere. Another concern is that the crowdfunding laws overlap with many other existing regulations, which is causing a certain amount of confusion.

> *Loss of trust in mainstream institutions is fuelling faith in the sharing economy*
>
> *Daniel Oliver*

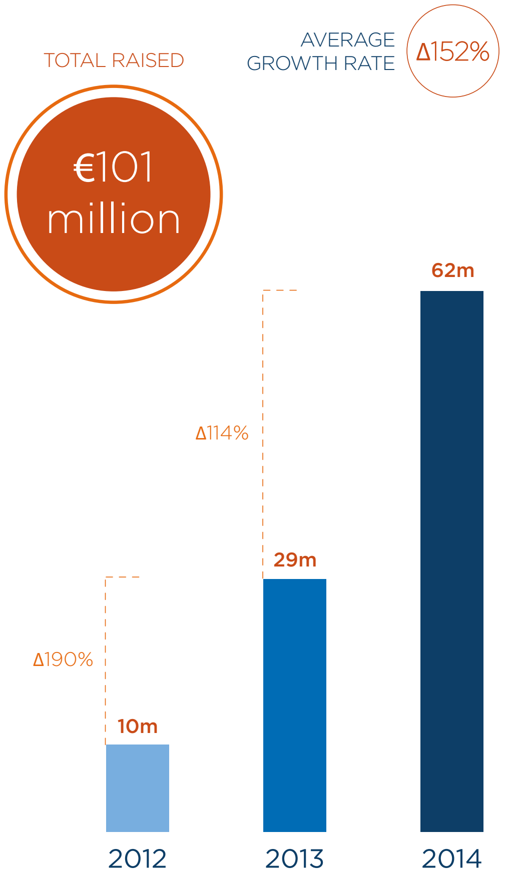
The world has changed

As is usual with laws aimed at limiting online activities, governments are very good at legislating within the boundaries of their nations, but face real challenges when confronted with the realities of the internet and the newly globalised economy. I would argue that the collaborative economy and alternative finance operators are not changing the world: the world has already changed. We're merely building the tools this new world demands, and I do not think there is a point in fighting that. The race is on, and countries that fail to realise this and try to go down struggling will simply be the last runners.

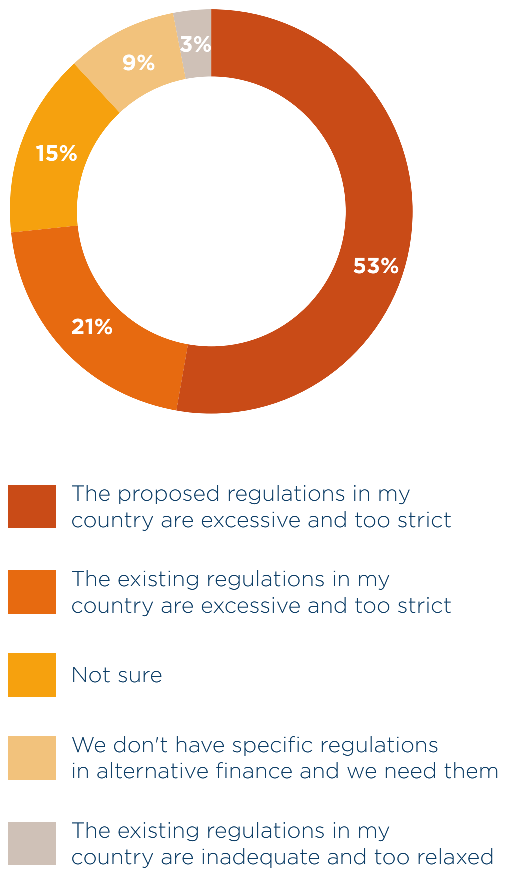
Daniel Oliver is the President of the Spanish Crowdfunding Association, Board Member of the European Equity Crowdfunding Association and Founder of Creoentuproyecto.com and CapitalCell.net.

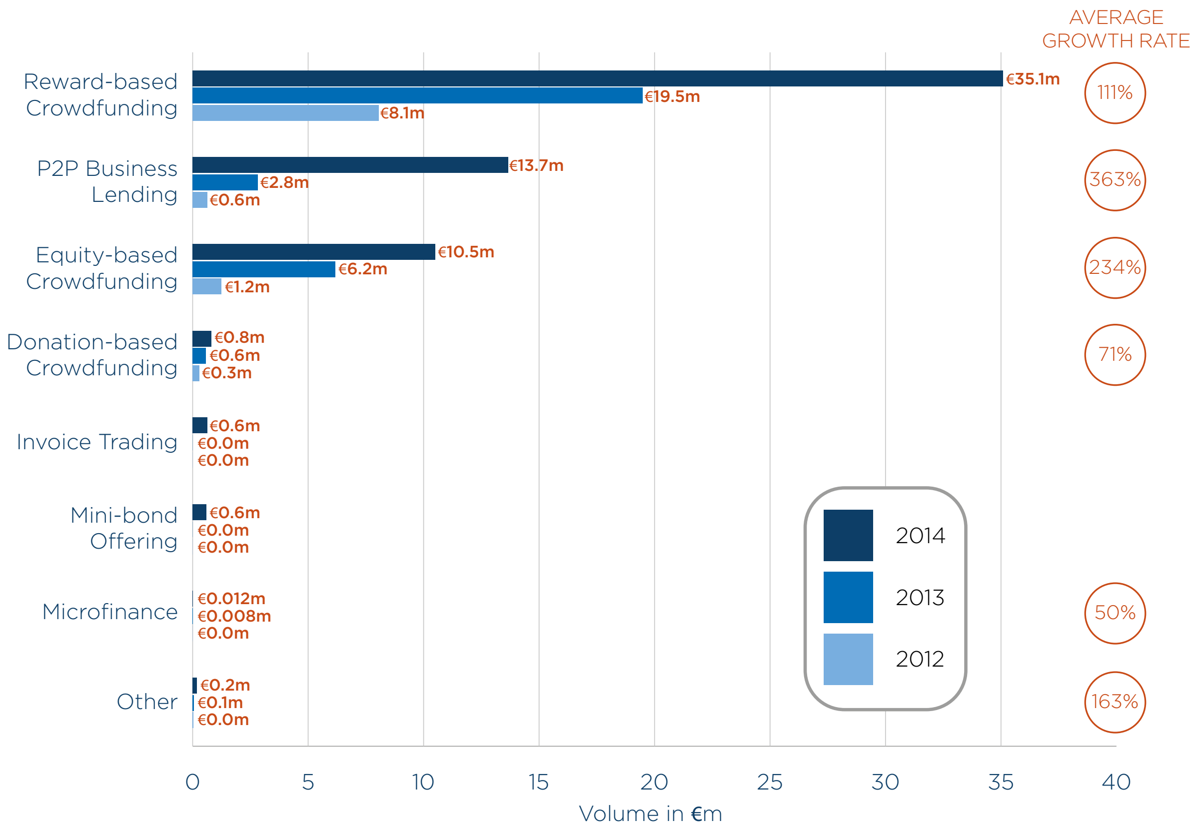
ALTERNATIVE FINANCE MARKET SNAPSHOT FOR SPAIN

Total Spanish alternative finance market size in €m



Perception of regulations in Spain





A view from the field – the Nordic countries

Dr Rotem Shneor

Crowdfunding in the Nordic region has been growing at a fast rate in recent years. Currently, there are close to 20 locally-anchored crowdfunding platforms operating in the region, the majority of which are very small and young companies that tend to specialise in reward-based and, to a lesser extent, donation-based crowdfunding formats.

These choices are unsurprising, as there are no significant regulatory constraints with respect to reward-based crowdfunding. If anything, recent news from Denmark suggests that a government fund (Markedsmodningsfonden) will actually match certain sums of successfully completed Danish reward-based crowdfunding campaigns that have been pre-approved prior to the campaign launch.

The situation is, however, different with respect to equity and lending crowdfunding, which are currently governed by legislation formulated well before the age of online alternative finance. In this respect, Nordic regulators have been quite passive in amending regulations, out of concern for consumer protection, and remain expectant of new direction from the European Community as part of a European approach to the issue.

> “Much of the market education effort falls on the platforms themselves”
>
> Rotem Shneor

Nevertheless, some local lobbying efforts for regulatory amendments with respect to equity crowdfunding are evident in Denmark and Finland in particular. The latter is the only country in the region that has issued a formal stance on equity crowdfunding, classifying such platforms as financial service providers and, hence, in need of obtaining licences to operate as investment firms. A similar signal was also provided by Norway with respect to crowdlending, when it refused to allow the operations of a Nordic peer-to-peer platform in its territory without the firm first obtaining a licence as a financial service provider.

New industry associations

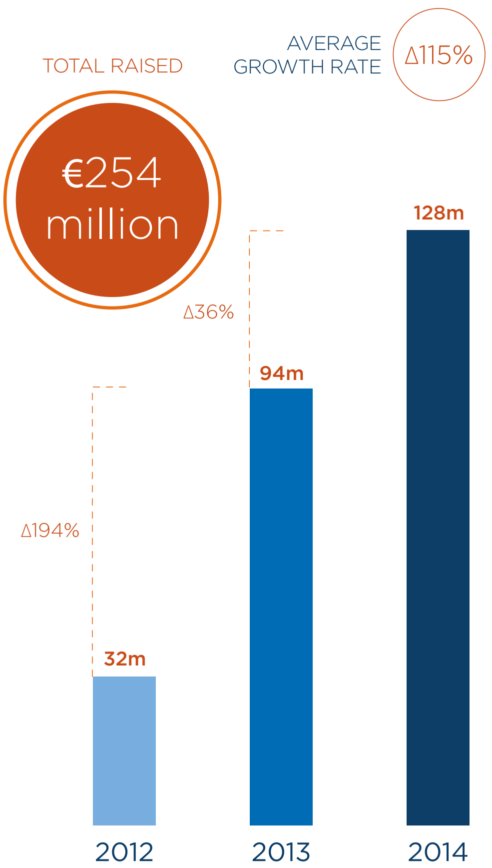
Despite significant growth, crowdfunding as a concept remains relatively unknown and/ or unclear to the majority of the public in the Nordic countries, a situation also prevalent among players in local entrepreneurial ecosystems. Hence, much of the market education effort falls on the platforms themselves and their network of advisors and supporters.

Finally, the region has seen the emergence of new associations dedicated to addressing some of these issues, including the Danish Crowdfunding Association and the Nordic Crowdfunding Alliance. At the core of these initiatives are collaborative approaches, in which resources from different stakeholders are pooled and directed towards the development and support of a crowdfunding community in a crowdfunding-friendly Nordic region.

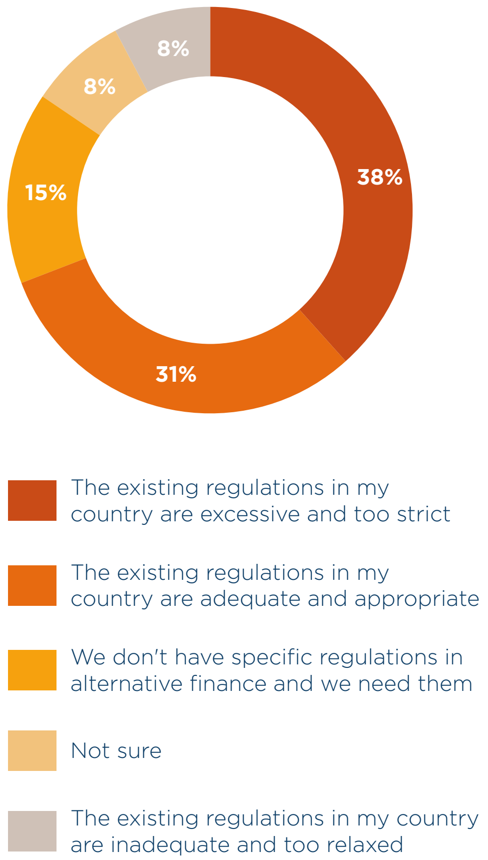
Rotem Shneor is an Associate Professor at the University of Agder’s School of Business and Law, Norway and the Head of the Nordic Crowdfunding Alliance.

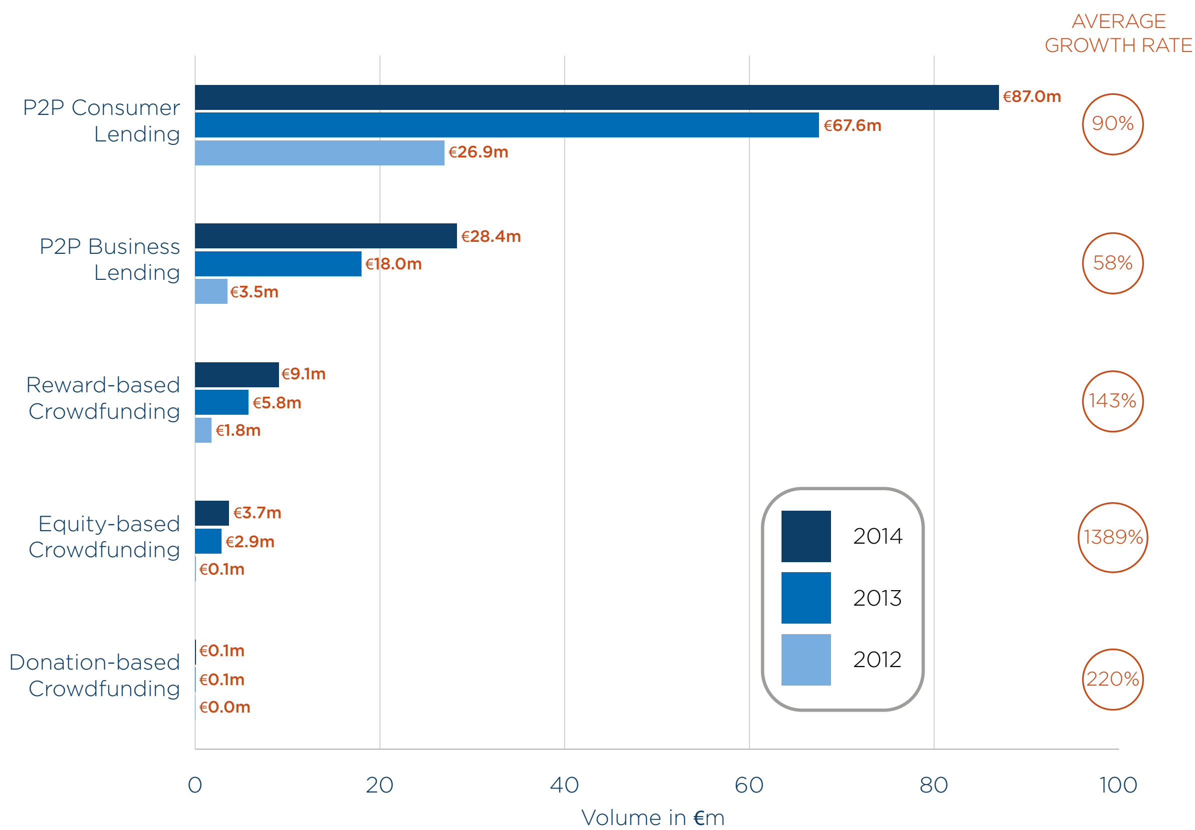
ALTERNATIVE FINANCE MARKET SNAPSHOT FOR THE NORDIC COUNTRIES

Total Nordic alternative finance market size in €m



Perception of regulations in Nordic countries





A view from the field – the United Kingdom

Sam Ridler

Peer-to-peer lending (P2P) was founded in the UK in 2005 and is the leading source of online alternative finance for UK SMEs and consumers. In 2014, over £1.2bn was lent to SMEs and consumers through UK P2P platforms. The industry created its own self-regulatory body, the Peer-to-Peer Finance Association (P2PFA), in 2011.

The UK has a legal definition of what constitutes a P2P loan (Regulatory Activities Order 36H). Further, from 1 April 2014 the UK regulator, the Financial Conduct Authority (FCA), introduced a disclosure-based regulatory regime for P2P platforms to provide protection for consumer investors. Along with the requirement ensuring all financial promotions are fair, clear and not misleading, client money provisions and minimum capital standards are applied. Firms running platforms must also have resolution plans in place that mean, in the event of the platform collapsing, that loan repayments will continue to be collected so lenders do not lose out.

In terms of support for the P2P sector, the British Business Bank and some local councils have put funds through several P2P platforms to support business lending. In the 2014 Budget, the UK Government set out the aim of including investing in P2P lending in the popular UK tax-free Individual Savings Account (ISA) scheme to give consumers more choice of investments.

Reputation and regulation

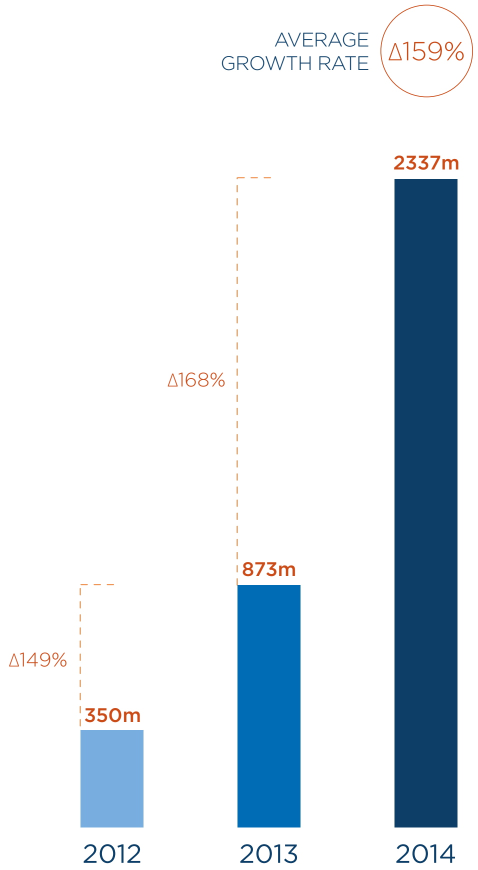
As the P2P lending industry is still relatively young and growing, there are two key risks that could impact its growth and perception in the market. First, reputational risks – an unscrupulous or fraudulent platform could cause investors and policy-makers to lose faith in the industry. Second, excessive regulation could stifle its ability to compete with traditional financial services. Part of the function of the P2PFA is to help the industry minimise these risks by providing a forum for developing best practice.

As P2P lending grows, it brings diversity and choice for consumers and SME finance. Traditional institutions such as banks dominate the market for retail savings products and business/consumer lending. P2P lenders can help to bring new competition and greater resilience to the economy.

Sam Ridler is the Executive Director of the Peer-to-Peer Finance Association (P2PFA).

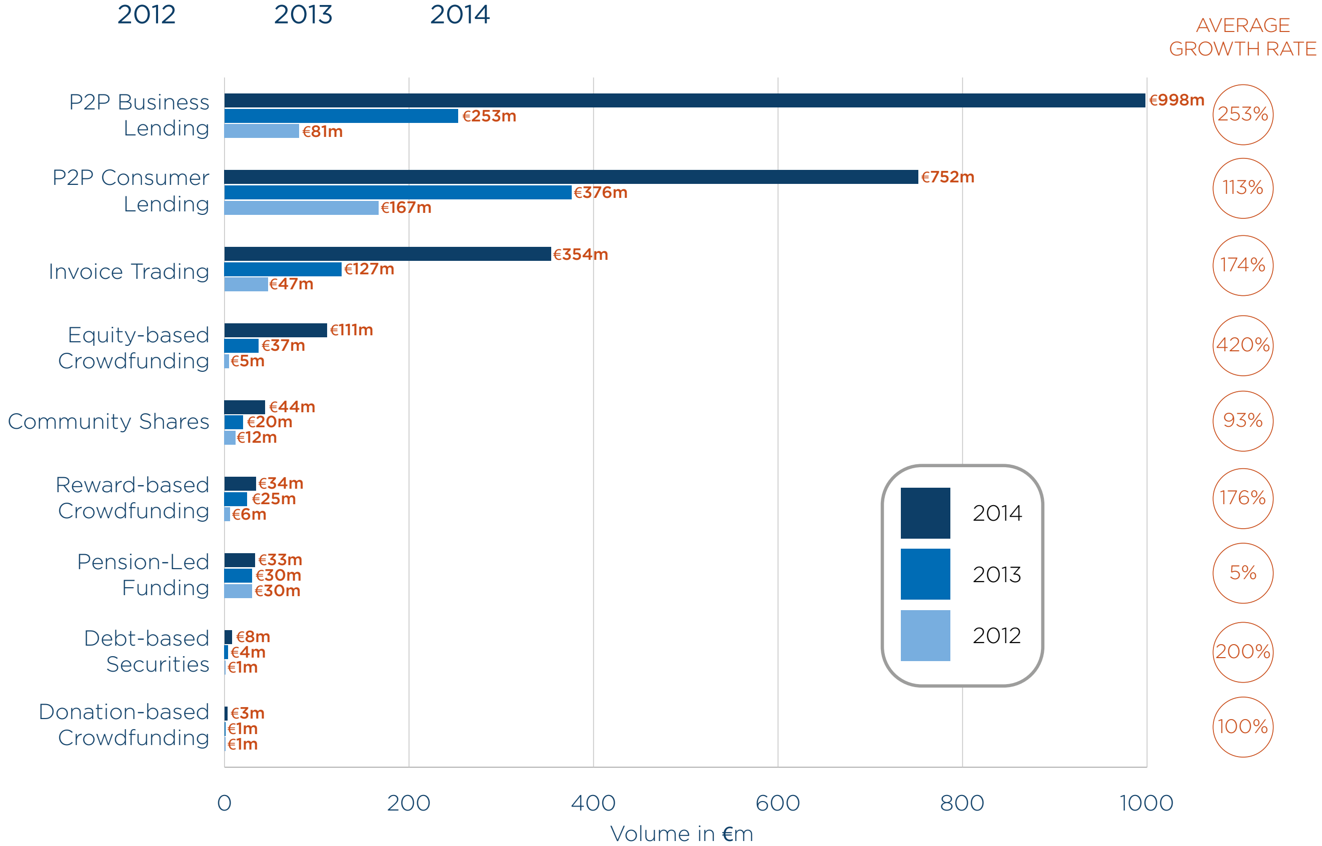
ALTERNATIVE FINANCE MARKET SNAPSHOT FOR THE UNITED KINGDOM

Total UK alternative finance market size in €m



Total raised

€3560 million



Bruce Davis

If 2014 was the year that alternative finance came of age in the UK, with the introduction of a world-leading regulatory framework and the launch of tens of new platforms into the market, then 2015 is when we will see alternative finance take its place on the main stage. It is also when the mainstream financial institutions will begin to react to something they may previously have considered as 'niche' and unimportant. The end of 2014 also saw a big uplift in advertising and marketing spend from the big players in the market, a trend that looks set to continue into 2015. No longer the new kids on the block, alternative finance platforms are evolving into well-known brands.

This push for mainstream positioning and acceptance will be boosted by the launch of peer-to-peer ISAs (Individual Savings Accounts) offering tax-free returns which open up a new market of long-term investors. For many in the UK, particularly younger people, the ISA has become the long-term saving and investing vehicle of choice for both future investment and retirement goals. The assets available to peer-to-peer investors are often appealing due to their flexibility and returns.

The FCA is due to review the crowdfunding regulations in 2015, as part of its efforts to maintain regular and open conversations with the industry about the practicality of the regulatory framework and suggestions for improvement. This is to be applauded when compared to the more conventional and rules-based approaches in other markets. I hope that, after positive reports from the likes of the World Bank and the European Securities and Markets Authority, policymakers and regulators worldwide will consider how best to embrace crowdfunding.

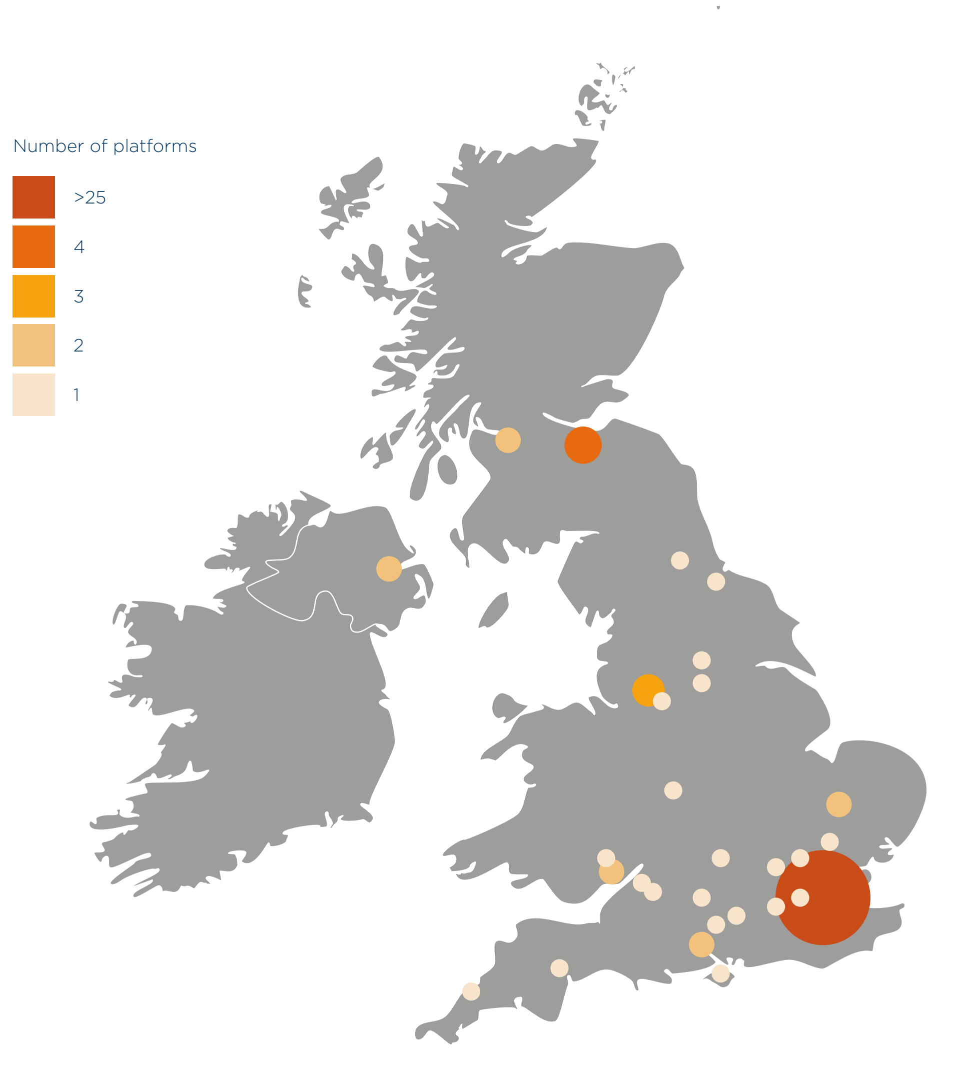
Big money and small investors

The sector does face some challenges and risks in 2015 and beyond. There has been a surge of institutional investor interest and money coming into the sector (and state monies) and platforms need to ensure that the 'crowd', which we fought so hard to keep in the frame, is not, ironically, crowded out by big money. The experience so far has been positive, with most platforms taking the view that big money should not disadvantage the small investor in any way. This is important, because the big differentiator of the alternative finance sector is the fact that no one can or should throw their weight around and corner the market, or gain advantage through early access to information.

So, the headlines for 2015 are going to be about continued growth, continued reach into the mainstream and continued innovation, with ISAs being the game-changer that will turn alternative finance into a real alternative within mainstream financial services.

Bruce Davis is a Director of the UK Crowdfunding Association (UKCFA) and a Managing Director of Abundance Generation.

THE DISTRIBUTION OF SURVEYED ONLINE ALTERNATIVE FINANCE PLATFORMS IN THE UNITED KINGDOM



Conclusion

Alternative finance is moving mainstream, but there are still risks that could hamper its development

Online alternative finance platforms are no longer the nascent, grassroots-led alternative to the traditional banking system that emerged in the aftermath of the financial crisis. From 2012 to 2014, transaction volume via online alternative finance platforms in Europe grew six-fold, from approximately €500m to €3,000m, and we project it will surpass €7,000m in 2015. During the same period, the number of ventures funded by alternative finance platforms increased five-fold, from approximately 75,000 to 350,000, and engaged well over a million investors. The market is now attracting bigger, more sophisticated investors and this is likely to accelerate volume growth. Funds are flowing from institutional investors into peer-to-peer consumer loans, for example, leading to the creation of new investment-grade asset classes being packaged and financed in the traditional capital markets. This growth is also attracting the attention of potential entrants from outside the financial sector, particularly firms with expertise in social data analytics. An ecosystem of fintech firms is emerging and providing tools and services to both alternative finance platforms and investors.

Dramatic variations

The market size and growth numbers for Europe as a whole, however, obscure dramatic variation in the pattern of alternative finance development between individual European economies. In 2015, the UK alternative finance market is projected to exceed €5,700m, which is more than five times larger than the market volume projected for the rest of Europe, and the growth rate in the UK continues to outpace the rest of Europe. Italy is the fourth largest country in Europe, with a population similar in size to the

Market outlook in 2015

€1,300 million

Projected total transaction volume via online alternative finance platforms in Europe excluding the UK

€5,700 million

Projected total transaction volume for the UK online alternative finance market in 2015

UK, but has little online alternative finance activity. There is a substantial body of academic research demonstrating the important role that access to finance plays in promoting economic development, which suggests that economies with low levels of alternative finance activity may be disadvantaged in trying to stimulate economic growth. Policymakers, therefore, may wish to re-examine the regulatory framework governing alternative finance activity in those economies where it appears to be a factor stunting development of the market, while of course balancing this against the need for investor protection.

Striking a balance

While alternative finance is moving mainstream, there are a number of risks to its continued development. There is a clear need to strike the right balance between a regulatory regime aimed at facilitating market growth, and a regime that provides sufficient protection to investors. The alternative finance industry itself recognises that the market will not develop if the platforms are not perceived as trusted intermediaries by investors and beneficiaries alike. The alternative finance associations in each country have taken a leadership role in encouraging their members to engage in commercial practices, like transparency, that help build confidence and trustworthiness. Our hope is that the European Alternative Finance Benchmarking Report contributes to that effort by shedding light on this young industry.

> *"The market will not develop if the platforms are not perceived as trusted intermediaries"*

€7,000 million

Projected total transaction volume of the European online alternative finance market in 2015

Endnotes

[1] This benchmarking research was designed, carried out and authored by researchers at the University of Cambridge with support from EY. For general purposes, please quote this report as (Cambridge-EY, 2015). For academic reference, please quote this report as (Zhang, Z., Wardrop, R., Rau, P.R. and Gray, M., 2015).

[2] *Understanding Alternative Finance – the UK Alternative Finance Industry Report* (Zhang, Z., Collins, L. and Baeck, P., 2014), Nesta and the University of Cambridge: London.
The Rise of Future Finance – The UK Alternative Finance Benchmarking Report (Zhang, Z., Collins, L. and Swart, R., 2013), Nesta, the University of Cambridge and UC Berkeley: London

[3] The size of the UK alternative finance market in 2014 was estimated to be £1.74bn by the joint Nesta-Cambridge *Understanding Alternative Finance* industry report. This figure is then revised upwards to £1.78bn due to new and additional data obtained on UK platforms through European benchmarking research. The exchange rate used throughout the report was 1.3111447 (Pound to Euro).

[4] Allen & Overy (2014) Funding European Business: What's the Alternative? http://www.allenovery.com/SiteCollectionDocuments/Funding-European-Business-Whats-the-alternative.pdf

[5] McKee, J. (2013) Redefining Virtual Currency, Yankee Group, http://home.tapjoy.com/info/wp-content/uploads/sites/4/2013/05/RedefiningVirtualCurrency_WhitePaper-1MAY2013-v1.pdf

[6] Out of the 205 benchmarking survey responses, 15 were from UK-based online platforms and 190 were gathered from European online alternative finance platforms outside of the UK. The 15 survey entries from UK-based platforms were then combined with the 50 survey responses captured previously from the joint Nesta-Cambridge industry research to provide an updated dataset for the UK.

[7] As noted in endnote 3

[8] The population estimations for each surveyed European country were obtained from http://en.wikipedia.org/wiki/List_of_European_countries_by_population, which sourced population statistics from yearly or monthly official estimates or the most recent census information. (Accessed on 29 January 2015)

[9] For peer-to-peer lending, the market is further segmented into peer-to-peer consumer lending and peer-to-peer business lending to reflect their distinctive funding mechanisms and financing purposes. There were no visible transactional activities recorded for revenue- or profit-sharing crowdfunding in Europe between 2013-2014. All hybridised crowdfunding transactions on surveyed platforms were broken down and added into the total volume of other forms of categorised alternative finance models.

[10] For reward-based crowdfunding, in addition to the survey data provided directly by alternative finance platforms, the research team also used both manual and script-based scrapping techniques to estimate and calculate the size of the market for each European country surveyed. Wherever possible, most funded reward-based crowdfunding projects (typically all projects with more than $1,000 total funding and funded between January 2012 and 6 January 2015) were manually scrapped from two well-known global crowdfunding platforms. The manually scrapped database was then cross-referenced with the data obtained through script-based scrapping methods to achieve better estimations. The verified data was then added to the country's total volume in reward-based crowdfunding. For the number of ventures funded through reward-based crowdfunding, only results obtained from script-based scrapping methods were added to the total. 10% of those total ventures was then taken as an estimation for the number of start-ups and SMEs funded through reward-based crowdfunding.

[11] EBAN (2014, 2) The European Trade Association for Business Angels, Seed Funds, and other Early Stage Market Players – Statistics Compendium for 2014

[12] ECB-European Commission (2013,6-8) SMEs' Access to Finance Survey 2013, http://ec.europa.eu/enterprise/policies/finance/files/2013-safe-analytical-report_en.pdf

[13] As above

[14] European Banking Federation (2014, 30) 2014 European Banking Sector Facts & Figures http://publications.ebf-fbe.eu/European%20Banking%20Sector%20Facts%20_%20Figures%202014#p=0

[15] As above

[16] Quoted from the *Understanding Alternative Finance* report (2014, 13) and based on the Bank of England's *Trends in Lending figures* (BOE, 2014 October).

Acknowledgements

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About the Cambridge Centre for Alternative Finance

The Cambridge Centre for Alternative Finance, based at the University of Cambridge Judge Business School, is an international interdisciplinary academic research institute dedicated to the study of alternative finance, which includes financial channels and instruments that emerge outside of the traditional financial system. Examples of alternative finance channels are online 'marketplaces' such as equity- and reward-based crowdfunding, peer-to-peer consumer/business lending, and third-party payment platforms. Alternative instruments include SME mini-bonds, private placements and other 'shadow banking' mechanisms, social impact bonds and community shares used by non-profit enterprises, and alternative currencies such as Bitcoin. The Cambridge Centre for Alternative Finance has been established to conduct cutting-edge, multidisciplinary, rigorous and critical research on all aspects of alternative finance. It aims to have high impact not only on academic thought leadership, but also on policy decision-making and business practice globally.

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