Moving mainstream: benchmarking the European alternative finance market

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Moving mainstream: benchmarking the European alternative finance market

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2 This benchmarking research was designed, carried out and authored by researchers at the University of Cambridge with support from EY and contributions from alternative finance industry associations.
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Abstract
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 U.S., the U.K. 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 small and medium enterprises (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 partners3 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 collaborated 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. This article presents the results of this study, conducted between October 2014 and January 2015.

1. Introduction: research rationale, objectives and methodology

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

Several economies and industries, particularly in the U.S., 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, P2P 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 U.S.$50 billion, while the alternative currency industry globally was worth U.S.$60 billion in 2013.

Within the alternative finance industry, taking a narrower definition, online platform-based alternative financing activities such as donation-, reward- and equity-based crowdfunding, P2P 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 transactions worth millions of euros every day for individuals and businesses alike. This new brand of innovative, decentralized 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 P2P 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.

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With institutional investors starting to invest and diversify through these online platforms, corporates are beginning to experiment with various forms of crowdfunding and crowdsourcing, and banks themselves are getting involved in P2P or “marketplace” lending; alternative finance is indeed creating ripples and moving into the mainstream.

However, this increasingly important sector is critically understudied 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 research 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 carried out by the University of Cambridge and its research partners (e.g., Nesta and UC Berkeley) in the U.K., 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 collaborated with EY to carry out a 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 policymakers 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.
2. A pan-European study with a collaborative research strategy

In terms of research scope, as a pan-European benchmarking study, the research team 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, P2P 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., with over an estimated €15 million transactions per platform) in Europe were also included in the scope of the benchmarking research.

To meet the research objectives and ensure the consistency, rigor 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.

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, existing industrial connections and conducting preliminary market research in key European countries. Through 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/organizations, 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), P2P Finance Association (P2PFA), the Nordic Crowdfunding Alliance, the European Crowdfunding Network, AISCRIS, the European Equity Crowdfunding Association (EECA), the U.K. Crowdfunding Association (UKCFA), P2P Banking.com, the Collaborative Economy Center and the exclusive media partner, CrowdfundInsider.

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 featuring interviews with key people of each research partner featured on CrowdfundInsider, a popular global media outlet specializing in crowdfunding and P2P lending. To reach other leading online alternative finance platforms not associated with any organizations, 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 utilized to provide the best estimations wherever possible.
3. Data verification, anonymization, 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 U.K. as part of our joint industry research with Nesta, 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 exported into an Excel sheet and 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 who also participated in the benchmarking survey. For platforms that have hybridized 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, again communication was made 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 (2012-14) 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 anonymized by deleting platform-identifying information such as platform names, addresses and contact emails. Anonymized platform datasets were then manually aggregated by country, region (e.g., the Nordics) and alternative finance models following our working taxonomy (e.g., P2P consumer lending) wherever necessary and possible, before detailed data analysis was carried out.

6 Of the 205 benchmarking survey responses, 15 were from the U.K.-based online platforms and 190 were gathered from European online alternative finance platforms outside of the U.K. The 15 survey entries from the U.K.-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 U.K.
4. The size and growth of the European alternative finance market

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

The U.K., 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 a supportive government, the U.K. online platform-based alternative finance industry reached an impressive €2,337 million (£1.78 billion)\(^7\) in 2014 with a 168% year-on-year growth rate. The U.K. alternative finance sector increased its share of the overall European market from the 72% in 2013 to 79% in 2014.

Outside of the U.K., 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 U.K., grew by 147% from €137 million in 2012 to €338 million in 2013. In 2014, although the growth rate for the overall market slowed to 83%, the European alternative finance market grew by €282 million to reach €620 million. The three-year average growth rate for the European market is 115%.

\(^7\) As noted in footnote 3
As the geographic distribution of surveyed alternative finance platforms illustrates, the online alternative finance markets are well developed in Spain (34), France (33), Germany (31) and the Netherlands (31), all with over 30 platforms surveyed. 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 U.K., which had 65 participating platforms in our benchmarking research.
The French online alternative finance market more than trebled from €23 million in 2012 to €76 million in 2013, then doubled again to €154 million in 2014, with an average growth rate of 167% over three years. In Germany, its alternative finance market grew from €31 million in 2012 to €65 million in 2013 and €140 million in 2014, with a very steady three-year average growth rate of 113%. In the Netherlands, the online alternative finance market reached €78 million in 2014 with 70% growth rate from €46 million in 2013; meanwhile, the Spanish market increased by 190% to a record €29 million in 2013 and grew by 114% to achieve €62 million a year later.
For the Nordic countries, as a thriving regional block, its alternative finance market almost trebled to €94 million in 2013 from €32 million. Between 2013 and 2014, the Nordic growth rate slowed down to 36% to reach a total of €128 million.

**Figure 3: Comparative volume of alternative finance transactions in Europe (2012-14)**

5. **The dynamics of the European alternative finance market**
Over the last three years, online alternative finance platforms in the U.K. have accumulatively delivered €3,560 million-worth of funding to British individuals and businesses.
Besides the U.K., the top five European countries in terms of accumulative alternative finance during 2012-14 are France with €253 million, Germany with €236 million, Sweden with €207 million, the Netherlands with €155 million and Spain with €101 million. Collectively, these countries posted €952 million in alternative financing in the last three years, which is about 6.7 times more than the combined total volume of the rest of the 21 European countries added together (€142.21 million).

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 U.K., France, Germany, Sweden, the Netherlands and Spain in the lead group. Nevertheless, going down the ranking, Estonia (€22 million) overtook Finland (€17 million), while the Czech Republic and Slovakia leapfrogged Norway with €2 million and €1 million in 2014, respectively.

However, when we derived comparative volume of alternative finance transactions in 2014 by country per capita, the dynamics of the European markets altered notably. For instance, Estonia, with a small population of just over 1.3 million, had an alternative finance volume per capita of €16.73 in 2014, putting it in second place behind the U.K. (€36 per capita). Sweden, with 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 €8.16 million 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 46 million, also moved down the per capita ranking, with its neighboring country Portugal’s comparative position remaining largely unchanged around 20th place.

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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)
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Figure 4: Comparative volumes of alternative finance transactions in 2014 (top 16 countries) – by country and per capita
6. The diversity of the European alternative finance market

This European benchmarking research largely utilizes the working taxonomy, which has been constructed and trialed in defining and segmenting the U.K. alternative finance market from 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 U.K., the European online alternative finance market has achieved strong and diversified growth across a wide array of models.

**P2P 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 U.K. With an average growth rate of 113% in the last three years, the European P2P consumer lending market has developed rapidly from €62.52 million in 2012 to €157.14 million in 2013 and €274.62 million in 2014. This model of alternative finance offers access 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 P2P consumer lending market is particularly strong in France and Germany, both with about €80 million in 2014, as well as in Nordic countries.

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\(^9\) For P2P lending, the market is further segmented into P2P consumer lending and P2P 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 during 2013-14. All hybridized crowdfunding transactions on surveyed platforms were broken down and added into the total volume of other forms of categorized alternative finance models.
Reward-based crowdfunding, which, for many people, is synonymous with crowdfunding and online fundraising, has certainly captured the public's imagination and media attention in recent years across Europe.
With €120.33 million raised in 2014 and €63.18 million recorded in 2013, reward-based crowdfunding is the second-largest sector within the European online alternative finance market (excluding the U.K.) with 127% average growth rate over the last three years. From aspiring entrepreneurs, creative artists, to high-tech firms, SMEs and even multinational corporations, individuals and businesses can leverage this model to acquire early-stage investments, presell 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 €35.1 million in the last year. This model is also well developed in France and Germany with €35.42 million and €29.82 million in 2014, respectively. Although it is a “classic” alternative finance model with its origin in Europe, reward-based crowdfunding has been spreading around the world and many global platforms now operate in multiple European markets.

P2P 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 predominately small and medium-sized enterprises to obtain growth and working capital directly from a pool of online investors (both individual and institutional), bypassing a sometimes prolonged and uncertain bank-lending processes. This sector of the European online alternative finance market (excluding the U.K.) started with a very low base of €7.79 million in 2012, but expanded quickly to just shy of €40 million in 2013 and €93.1 million in 2014.

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 U.S.$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 method were added to the total. 10% of those total ventures were then taken as an estimation for the number of start-ups and SMEs funded through reward-based crowdfunding.
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 P2P 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 P2P lending in Europe and its gradual institutionalization is likely to continue. For instance, P2P business lending is already the largest online alternative finance segment in the Netherlands with €35.32 million recorded in 2014. Nevertheless, in contrast with the U.K. alternative finance industry, where P2P consumer and business lending account for about 90% of the total market, P2P lending comprised 59% of the European market last year and was just shy of 65% accumulatively between 2012 and 2014.

**Equity-based crowdfunding** reached €47.45 million in 2013 and €82.56 million in 2014, excluding the U.K. figures. Although this segment is very small in comparison with the total European early-stage investment market, which was estimated to be worth €7.5 billion\(^1\) 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 and which, in turn, allow investors to access deal flow from other European countries. Equity-based crowdfunding is well developed in Germany with €29.82 million raised in 2014 alone. Equity-based crowdfunding was also the third-largest market segment in France with €18.9 million in 2014, followed by the Netherlands (€11.16 million) and in Spain (€10.51 million).

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\(^1\) EBAN, 2014, The European Trade Association for Business Angels, Seed Funds, and other Early Stage Market Players - Statistics Compendium for 2014
Community shares and microfinance can facilitate hyper-localized and community-based alternative financing for local SMEs, social enterprises and community organizations by leveraging people's social and geographic affinities. These models have long existed in Europe and the development of web-based transactions and platforms are channeling 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 €20 million in 2014. Donation-based crowdfunding, which enables donors to support charitable, 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 €19.91 million in 2014.

Invoice trading is a nascent online alternative finance model, which 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 U.K., the invoice trading model is underdeveloped in the rest of Europe, with hardly any transactions noted between 2012 and 2013 and just over €6.63 million in 2014. Debt-based securities, which is an alternative finance model that offers long-term investment (normally 10-25 years) predominately 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 €3.61 million 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 their individual categories. However, in future studies, 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.
7. The vitality of alternative finance for SMEs in Europe

Access to finance remains one of the most pressing challenges facing European SMEs today. 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. The recent European Banking Federation’s report also pointed out the fact 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 €232 million; in particular, loans to nonfinancial corporations decreased by €99 billion in Spain and by €50 billion in Italy.

Online alternative finance, especially P2P 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 €323 million to nearly 10,000 European businesses in the last three years. The volume of online alternative business funding has been increasing at about 168% year-on-year, from €29.11 million in 2012 to €95.98 million in 2013 and to €197.93 million 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.

13 As above.
15 Ibid.
The figures for the total amount of alternative business financing, and for the number of SMEs funded, were calculated by combining the volume of P2P 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 organizations 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 U.K. Also growing from a small base, fueled by the rapid development of P2P business lending and the invoice trading sector, the U.K. alternative finance market provided over £1 billion-worth of business finance to over 7,000 SMEs in 2014 alone, which is equivalent to 2.4% of the total national bank lending to SMEs. With the gradual expansion of the retail investor base and the influx of institutional investment into this type of financing activity, the P2P 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.

8. 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 industrial perspectives of regulations.

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

The socioeconomic foundation of online alternative finance is the direct connection, interaction and exchange between fundraisers and funders without the orthodox intermediation of traditional financial institutions.

16 Quoted from the Understanding alternative finance report (2014) and based on the Bank of England’s Trends in lending figures [BOE (2014 October)].
Consequently, 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, over 348,241 ventures were fully funded through European online alternative finance platforms excluding the U.K. 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, suggesting that the average funding size of each venture might be growing. In terms of number of active funders, these online alternative finance platforms attracted and sustained more than 1.51 million active donors, backers and investors on their platforms in 2014 outside of the U.K. The figures for 2013 and 2012 are 898,330 and 421,741 respectively, realizing an average three-year growth rate of 91%. Even after factoring in overestimation and double counting, these numbers still reflect a growing market sector and an expanding funder base over time across Europe.

8.2 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 policymakers and regulators at both national and supranational levels. However, gathering and analyzing 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 policymakers 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 about 35% registered between 1% and 10% and roughly one in 10 of them indicated between 11% and 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% registered between 1% and 10%. However, a small minority of platforms, 5%, reported that their outflow is between 91% and 100%.

**8.3 Industrial perspectives of 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. Although the industry’s perception of alternative finance regulations is best understood and analyzed 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 and attitudes toward both existing and proposed regulations are 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, whilst 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 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.
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Figure 6: Cross-border transaction percentages for European alternative finance platform

Respondents: 190 non-U.K. platforms

Inflow: % of funding raised through alternative finance platforms for individuals/objects/businesses that came from outside of your country

Outflow: % of funding raised through alternative finance platforms that went to individuals/projects/businesses not based in your country
9. Market commentaries by alternative finance industry associations

A view from the field – France, by Marianne Iizuka

The French crowdfunding industry started in 2008 with two platforms. In 2013, the first P2P lending platform was launched. Fast forward to January 2015, and France had 70 platforms, 36% of which were reward based, 9% donation based, 25% P2P and 20% equity crowdfunding based (according to Ahès consulting). Each month there are about four new platforms launched.

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17 Marianne Iizuka is a European Commission ECSF Crowdfunding expert for the Anacofi and AFIP.
The French regulators, the AMF and the ACPR, issued rules and regulations for equity crowdfunding and P2P 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 P2P lending platforms between October 2014 and January 2015.

**Figure 8: Alternative finance market snapshot for France**
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 P2P lending platforms.

The French crowdfunding market is no longer a niche market. An overall ecosystem is evolving from this young industry.
Moving mainstream: benchmarking the European alternative finance market

Consultants in crowdfunding, digital marketing agencies, training companies, payments systems and projects aggregators are offering their services to project owners. Specialized firms provide the platforms with their technology.

A view from the field – Germany, by 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 introduced a range of other proposed rules and requirements.

The proposed exemption allows crowdfunding projects up to €1 million 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 reduce the access of retail investors to crowdfunding platforms in German. 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 U.S. JOBS Act, could make the German crowdfunding market less accessible since this is more costly to operate. I would argue that policymakers should instead look toward the U.K. or France as potential models.

18 Karsten Wenzlaff is the coordinator of the German Crowdfunding Network and a member of the European Crowdfunding Stakeholder Forum.
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Figure 9: Alternative finance market snapshot for Germany

Total German alternative finance market size in € millions

- Total raised: €236 million
- Average growth rate: Δ113%

Perception of regulations in Germany:

- The proposed regulations in my country are excessive and too strict: 3%
- The proposed regulations in my country are adequate: 6%
- The existing regulations in my country are adequate and appropriate: 10%
- Not sure: 10%
- The existing regulations in my country are excessive and too strict: 13%
- The existing regulations in my country are inadequate and too relaxed: 58%
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Figure 9: Alternative finance market snapshot for Germany (continued)

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, on Facebook, Twitter or other social networks.

For P2P 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.
A view from the field - the Netherlands, by 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 being the first of their kind in the world. There is significant innovation in hybridized crowdfunding models and innovative financial products, such as convertible notes and revenue-sharing models. Besides crowdfunding, other alternative finance initiatives are also quickly growing, such as credit unions and stock exchanges for SMEs. With over 100 alternative finance platforms, the Netherlands has the highest number of platforms per capita and 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.

There is no specific crowdfunding regulation in the Netherlands. At the moment, 30 companies have a license 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, to invest over €20,000 in equity through an online platform or invest over €40,000 in debt. For projects raising in excess of €2.5 million, a prospectus is required.

During the final months of 2014, the AFM carried out in-depth research of 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 they introduce 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.

19 Ronald Kleverlaan is the founder of CrowdfundingHub, the Dutch crowdfunding knowledge institute.
A view from the field – Spain, by 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 SMEs funding comes from bank loans, but Spaniards are incredibly enthusiastic about new models of socioeconomic 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.

As for investment crowdfunding, it is becoming a realistic alternative, but it still has to overcome the hurdle of skepticism from a population that has endured several major financial crises and scandals in recent years. However, loss of trust in mainstream institutions is arguably fueling 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 €2 million per project where non-accredited investors are involved, and €5 million 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.

Daniel Oliver is the President of the Spanish Crowdfunding Association, Board Member of the European Equity Crowdfunding Association.
A view from the field – the Nordic countries, by 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 specialize in reward 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. 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 licenses 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 P2P platform in its territory without the firm first obtaining a license as a financial service provider.

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.

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21 Rotem Shneor is an Associate Professor at the University of Agder’s School of Business and Law, Norway and he is also the Head of the Nordic Crowdfunding Alliance.
A view from the field – the U.K., by Sam Ridler

P2P lending was founded in the U.K. in 2005 and is the leading source of online alternative finance for U.K. SMEs and consumers. In 2014, over £1.2 billion was lent to SMEs and consumers through U.K. P2P platforms. The industry created its own self-regulatory body, the P2PFA in 2011.

The U.K. has a legal definition of what constitutes a P2P loan (Regulatory Activities Order 36H). Further from 1 April 2014, the U.K. 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, which means that in the event of the platform collapsing, loan repayments will continue to be collected so lenders do not lose out.

**Figure 10: Alternative finance market snapshot for U.K.**

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22 Sam Ridler is the Executive Director of the P2P Finance Association (P2PFA).
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 U.K. Government set out the aim of including investing in P2P lending in the popular U.K. tax-free Individual Savings Account (ISA) scheme to give consumers more choice of investments.
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. Firstly, reputational risks – an unscrupulous or fraudulent platform could cause investors and policymakers to lose faith in the industry. Secondly, excessive regulation could stifle its ability to compete with traditional financial services. Part of the function of the P2PFA is to help the industry minimize these risks by providing a forum for developing best practice.

10. Conclusion
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 sixfold, from approximately €500 million to €3,000 million, and we project it will surpass €7,000 million in 2015. During the same period, the number of ventures funded by alternative finance platforms increased fivefold, 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 P2P 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.

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 U.K. alternative finance market is projected to exceed €5,700 million, which is more than five times larger than the market volume projected for the rest of Europe, and the growth rate in the U.K. continues to outpace the rest of Europe. Italy is the fourth-largest country in Europe with a population similar in size to the U.K., 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 reexamine 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.

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 recognizes 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 this article contributes to that effort by shedding light on this young industry.
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