

# SUSTAINING MOMENTUM

THE 2ND EUROPEAN ALTERNATIVE FINANCE INDUSTRY REPORT

In Partnership with



Bryan Zhang    Robert Wardrop  
Tania Ziegler    Alexis Lui  
John Burton    Alexander James  
Kieran Garvey



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# FOREWORDS

Cambridge  
Centre  
for Alternative  
Finance



Robert Wardrop

Executive Director, Cambridge Centre for  
Alternative Finance

We have titled our 2nd Annual European Alternative Finance Industry Study *Sustaining Momentum* to highlight the opportunities and challenges facing the alternative finance industry in a period of rapid change and unusual macro-economic conditions for all financial market participants. European alternative finance transaction volume increased to more than €5,000m in 2015, with volume outside of the UK market exceeding €1,000m for the first time. The European alternative finance industry is still small, however, and the slowing *rate* of growth during the year is a reminder of the risks the industry must contend with in order to transition from a start-up to a sustainable funding channel within the European financial services ecosystem.

The alternative platforms we surveyed identified increasing loan defaults or business failure rates, fraudulent activities and collapse of platforms due to malpractice as the greatest risks to the continued growth of the industry. These events are all related to the loss of investor trust. Functioning markets rely on the trust and trustworthiness of all market participants, including policy makers and regulators. Since we issued last years' report we have seen several countries in Europe introduce material changes to the alternative finance regulations, which suggests these policy makers are gaining a better understanding of this emerging form of finance and developing innovative approaches for prudently regulating its activities. By contrast, the regulators in other countries – Italy being a good example – continue to effectively prohibit certain alternative finance activities despite public statements expressing concern about access to financing constraining economic development. We hope our analysis of the industry will contribute to helping the industry establish a sustainable future path of growth.



## Irene Pitter

Global Executive, Banking & Capital Markets  
Member of the FS FinTech Leadership Team

This report shows that the alternative finance sector is set to continue to grow and mature. 2016 marks a significant year for “alternative finance” in Europe as the market demonstrates clear signs of continued strong growth and increased maturation in the sector as a whole. European activity excluding the UK, showed solid growth of 72 percent and demonstrated client demand for alternative finance solutions even in the smaller EU countries.

Amidst this growth there are indications that a number of important factors are shaping that growth as the market matures including investor concerns about loans to riskier borrowers, the impact of interest rate rises on business model sustainability and increased regulatory scrutiny designed to provide a level playing field for all competitors in the financial marketplace. The normal course of evolution for a new market and we see a pattern of consolidation and adapting business models taking hold. In the course of this evolution we expect that the strongest players will continue to grow their customer base and become the defacto standard for the millennial demographic in the coming years.

There is also evidence that this evolution is already leading to partnerships between alternative finance platforms and banks who are moving to take a stake in the platforms themselves and referencing new customers that they don't plan to support through their traditional in-house products. This balanced approach will allow banks to benefit from platform growth while maintaining customer loyalty. At the same time, some incumbents are more actively embracing alternative finance solutions within their own operations and in some instances such as Goldman Sachs who have already launched an in-house online lending platform, the second venture into retail banking following its online savings accounts solution. All in all, the activity highlights the viability of alternative finance platforms to generate both cost savings and growth opportunities for incumbents and challengers alike. Both are signs of continued growth and strength in the alternative finance market.



## Rumi Morales

Executive Director, CME Ventures

This comprehensive survey of alternative finance in Europe is the latest in an important series by the University of Cambridge Judge Business School. As evidenced in their prior report focused on the Americas, the prominent feature of financial technology is that it is truly borderless. No one country is harnessing alternative financial markets or business models to the exclusion of any other. Rather, from the UK to Estonia and from Finland to Monaco, the entire European continent is experimenting and expanding upon innovations that can provide greater access to capital and financial services to more people than ever before.

Granted, the development of alternative financial markets is not without risk and uncertainty. This is true in Europe as much as any other continent, with open questions surrounding regulation, macro-economic conditions and business practices such as credit scoring, due diligence and underwriting. But what is certain is that continued effort and innovation can only improve the outcomes.

Two hundred and fifty years ago, in an early draft of the *Wealth of Nations*, Adam Smith wrote of greater productivity brought about by the division of labor and technological innovation. He stated, “these different improvements were probably not all of them the inventions of one man, but the successive discoveries of time and experience, and of the ingenuity of many different artists.”

The artists of alternative finance are just getting started, and CME Group Foundation is honored to support this important work. As the world’s leading and most diverse derivatives marketplace, CME Group is focused on advancing the global economy and fostering innovation across all of its markets, including Europe, where we have a significant and growing presence. We welcome the findings of this report and the great promise it foretells.

# ABOUT THE AUTHORS

## Bryan Zheng Zhang

Bryan Zheng Zhang is a Director of the Cambridge Centre for Alternative Finance and a Research Fellow at the Cambridge Judge Business School. He has co-authored nine industry reports on alternative finance.

## Robert Wardrop

Robert Wardrop is the Executive Director of the Cambridge Centre for Alternative Finance and a Research Fellow at the Cambridge Judge Business School.

## Tania Ziegler

Tania Ziegler is the Research Programme Manager of the Cambridge Centre for Alternative Finance. Her research interests include SME utilisation of alternative funding models and alternative finance regulation and policy.

## Alexis Lui

Alexis Lui is the Outreach Manager and a Researcher at the Cambridge Centre for Alternative Finance. His research interests include the efficiencies and advantages of alternative finance models, particularly the evolution of credit analytics.

## John Burton

John Burton is a Data Scientist and a Research Associate at the Cambridge Centre for Alternative Finance. He achieved his PhD in astronomy, and has been working in large scale data analysis for over 10 years, and has built his own crowdfunding platform to provide money for charitable causes.

## Alexander James

Alexander James is a Research Assistant of the Cambridge Centre at Alternative Finance. He has a particular research interest regarding the dynamics of incumbent involvement in new forms of finance.

## Kieran Garvey

Kieran Garvey is the Policy Programme Manager of the Cambridge Centre for Alternative Finance. His research interests include the application of alternative finance within developing countries, renewable energy and early stage ventures.

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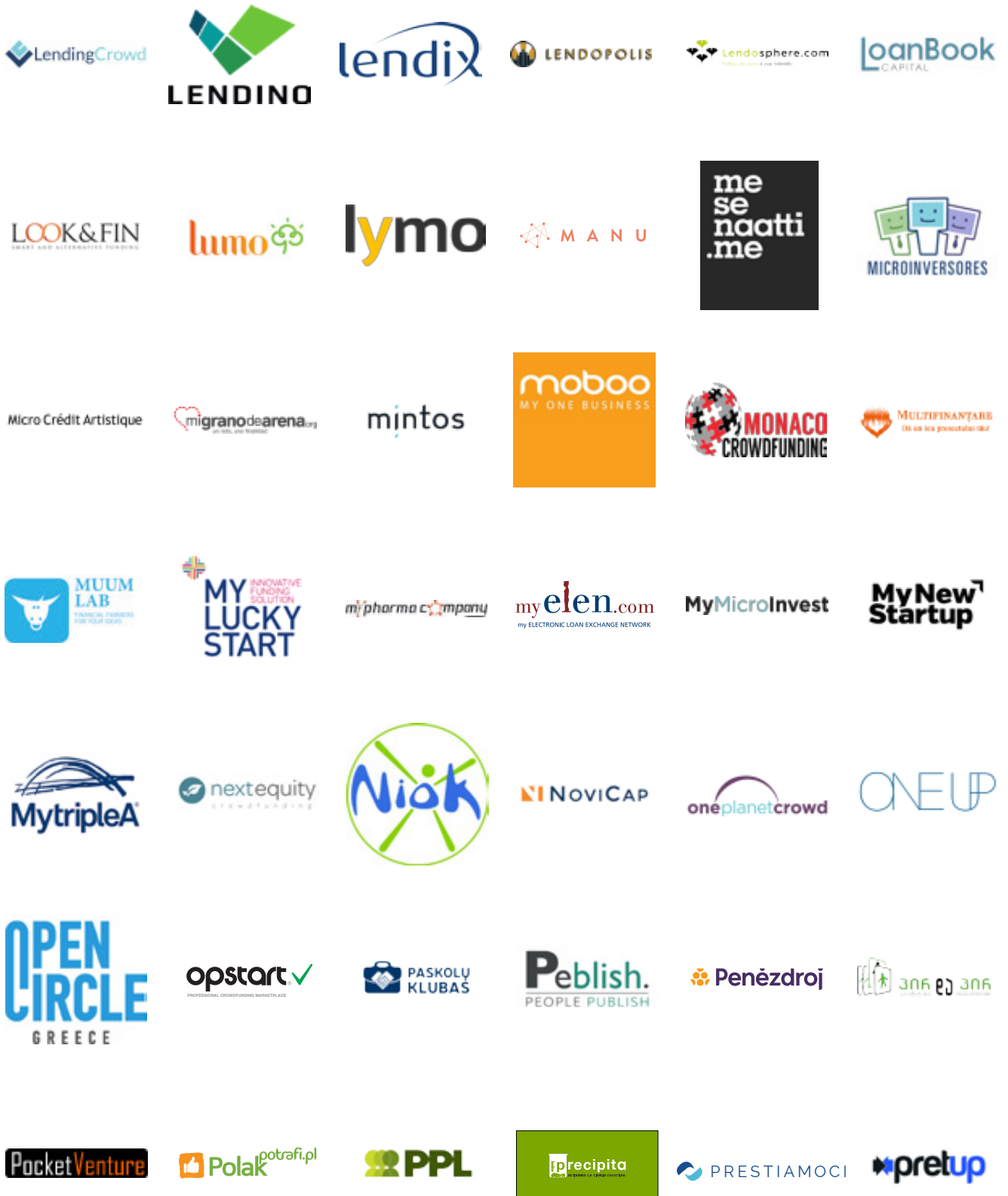


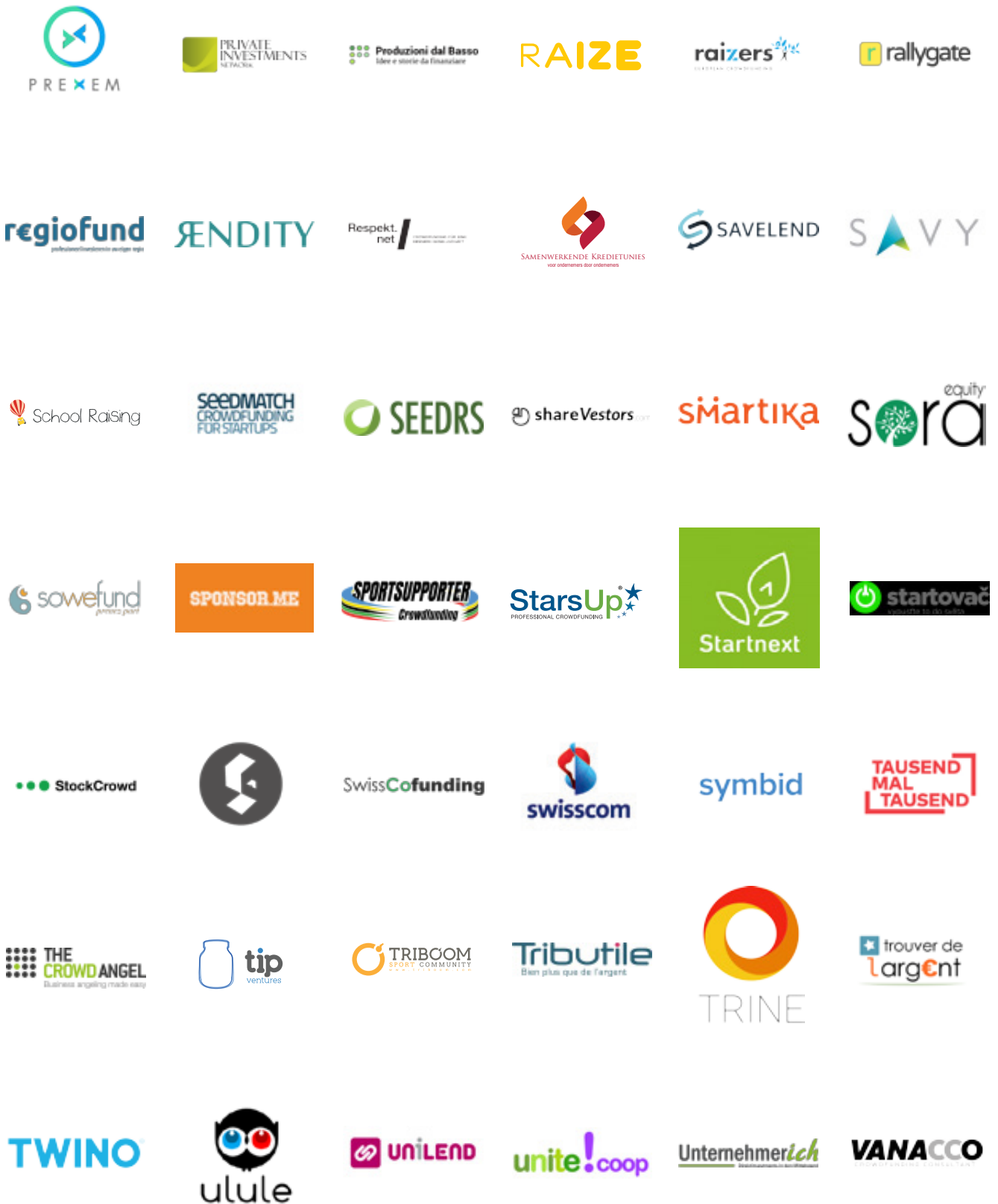
We thank the following alternative finance platforms for participating and contributing to this study:



















# EXECUTIVE SUMMARY

This report presents the research findings from the 2nd Annual European Alternative Finance Industry Survey, which aims to systematically track and comprehensively benchmark the growth and development of the pan-European crowdfunding and peer-to-peer lending markets in 2015. This research was carried out by the Cambridge Centre for Alternative Finance at the University of Cambridge Judge Business School, with the support of 17 major European industry associations and research partners, in partnership with KPMG and supported by CME Group Foundation.

Building on the success of the preceding benchmarking report – *Moving Mainstream*<sup>1</sup>, this study gathered data from 367 crowdfunding, peer-to-peer lending and other online alternative finance intermediaries from across 32 countries in geographic Europe, out of which 273 platforms are currently operating outside of the United Kingdom. Utilising this unprecedented industry dataset, which captures an estimated 90% of the visible market, we hope to shed some light on the state of online alternative finance in Europe.

This study shows that the total European online alternative finance market, which includes crowdfunding, peer-to-peer lending and other activities, grew by 92% to reach €5,431m in 2015. Excluding the United Kingdom, the largest market by a considerable margin, the European online alternative finance industry grew 72% from €594m in 2014 to €1,019m in 2015. Although the absolute year-on-year growth rate slowed by 10% (the growth rate between 2013-14 was 82%), the industry is sustaining momentum with substantive expansion in transaction volumes recorded across almost all online alternative finance models.

Looking beyond the total market size, highlights from the report include the following:

- **France, Germany and the Netherlands are the top three countries for online alternative finance by market volume in Europe**, excluding the United Kingdom. The French market reached €319m in 2015, followed by Germany (€249m), the Netherlands (€111m), Finland (€64m), Spain (€50m), Belgium (€37m) and Italy (€32m). The Nordic countries collectively pulled in €104m, while Central and Eastern European countries registered a total of €89m. The UK still dominated the European online alternative finance landscape, increasing its overall market share of Europe to 81% in 2015 with €4,412m.
- **Estonia ranked first for alternative finance volume per capita with €24** followed by Finland (€12) and Monaco (€10) outside of the United Kingdom. Estonia was also ranked first by market volume per capita in 2014 (€17). This year, Latvia (€7.68) and the Netherlands (€6.53) ranked 4<sup>th</sup> and 5<sup>th</sup> respectively, replacing Sweden and France in the top five.
- **Peer-to-peer consumer lending is the largest market segment** of alternative finance, with €366m recorded for 2015 in Europe. Peer-to-peer business lending is the second largest segment with €212m, with equity-based crowdfunding in third with €159m and reward-based crowdfunding, fourth, with €139m in 2015. However, invoice trading is the fastest-growing alternative finance model in Europe registering €81m in 2015, up significantly from the low base of just €7m in 2014.
- **Online alternative business funding increased considerably, with €536m raised** for over 9,400 start-ups and SMEs across Europe in 2015, up 167% year-on-year from the total of €201m in 2014. Total debt-based funding for SMEs reached €349m in 2015 with 156% year-on-year growth, driven largely by the growth of peer-to-peer business lending. Equity-based crowdfunding increased by 93% year-on-year to reach €159m in 2015.
- **Institutionalisation took off in mainland Europe in 2015** with 26% of peer-to-peer consumer lending and 24% of peer-to-peer business lending funded by institutions such as pension funds, mutual funds, asset management firms and banks. 8% of the investment in equity-based crowdfunding was also funded by institutional investors such as venture capital firms, angels, family offices or funds. Excluding the UK, 44% of the surveyed European platforms reported some level of institutional funding in 2015 and just under 30% of peer-to-peer consumer lending platforms reported having a majority institutional shareholder (e.g. a VC, corporate or a bank).
- **There is now a high degree of automation in peer-to-peer lending** with 82% of consumer loans, 78% of traded invoices (i.e. receivables) and 38% of business loans now funded by automatic selection or automatic bidding processes on European alternative finance platforms.
- **The average deal size in equity-based crowdfunding is now approximately €459,000**, in contrast to just under €100,000 for peer-to-peer business loans and just under €10,000 for peer-to-peer consumer loans. Real-estate crowdfunding has the second largest

average deal size with approximately €370,000, - a new model recorded in 2015.

- **Donation-based and reward-based crowdfunding models have the highest levels of female participation.** 54% of the fundraisers in donation-based crowdfunding are women. 40% of the fundraisers and 45% of the backers in reward-based crowdfunding are also women. In contrast, only 17% of the fundraisers in equity-based crowdfunding and 12% of SME borrowers in peer-to-peer business lending are women. However, 44% of the individual borrowers and 23% of the lenders in peer-to-peer consumer lending were women.
- **Across Europe, perceptions toward existing national regulations in alternative finance are divided.** 38% of surveyed platforms felt their national regulations for crowdfunding and peer-to-peer lending were adequate and appropriate. Nevertheless, 28% of surveyed platforms perceived their national regulations to be excessive and too strict, with a further 10% stating that current regulations were too relaxed. When it came to proposed national regulations, however, 47% of the surveyed platforms perceived them as adequate and appropriate.
- **The biggest risks perceived by the alternative finance industry are increasing loan defaults or business failure rates, fraudulent activities or the collapse of platforms due to malpractice.** Our survey asked platforms what they saw as the most detrimental risks to the future growth of the alternative finance industry. 42% of the surveyed platforms indicated that a 'notable increase in default rates (for loans) or business failure (for equity deals) are either 'very high risk' or 'high risk'. 46% of the surveyed platforms perceive 'platform collapse due to malpractice' as being 'very high risk' or 'high risk', whilst 40% of the platforms viewed 'fraud involving one or more high-profile campaigns, deals or loans' as either being 'very high risk' or 'high risk'.

The Cambridge Centre for Alternative Finance has recently published a number of reports covering markets in the Americas<sup>2</sup>, the Asia-Pacific<sup>3</sup> region and the UK<sup>4</sup>. It is evident from our regional studies that the global online alternative finance market is going through testing times. As the market develops and matures, competition will no doubt intensify, both within the industry and from financial incumbents. Continuing uncertainties within macro-economic conditions and the challenges to acquiring high-quality borrowers and deal-flow are likely to increase over time, while the cost of capital is likely to rise even amid increasing institutionalisation. Alternative finance platforms' credit scoring capabilities, robustness of underwriting and due diligence processes are likely to come under increased scrutiny from investors and regulators alike. The development and adjustment of regulatory regimes are likely to continue in many jurisdictions across Europe, adding uncertainty in the short-term, but may also offer potential, longer-term stability.

Nevertheless, compared with the current market sizes of the UK, US and China, the European alternative finance market should have ample room for continued growth and expansion over the coming years. Assuming a conservative year-on-year growth rate of 50%, we can still expect the overall European online alternative finance market (including the UK) to grow to around €8bn in 2016. The challenge for the industry then, is perhaps less that of chasing short-term growth, but rather of pursuing long-term resilience and *sustainability*. If the industry can maintain an emphasis on creative innovation, keep promoting financial inclusion and transparency, increase overall capabilities in credit risk scoring and control, continue providing great customer service and following best practices, then it should be able to *sustain momentum* through achieving *sustainability*.

# INTRODUCTION



## Research Rationale and Objectives

The global development of online alternative finance has become one of the key areas of interest for a wide variety of businesses, academic institutions and regulatory bodies. Europe, in particular, has adopted online alternative finance over the past several years as a viable means for businesses, individuals and charitable organisations to raise funds<sup>5</sup>. This report aims to monitor the growth and development of the market in Europe as a whole and on an individual, country-by-country basis. This report, *Sustaining Momentum*, covers the entire European Economic Area including: France, Germany, Italy, Spain, the Netherlands, the Nordics, Central and Eastern Europe, Russia and Turkey.

## Methodology

Primary, aggregate-level data collection was enabled through the use of a survey questionnaire distributed to individual platforms. This was based on previous questionnaires for studies into the UK, Asia-Pacific region and the Americas by the Cambridge Centre for Alternative Finance and its research partners, published in 2016. We would like to thank our research partners for helping greatly in identifying key platforms and providing contacts that made this work possible.

The survey was designed to collect market data about both the overall and business transaction volumes in 2015, in addition to parameters such as the most popular funding sectors, female participation by model, institutional funding and geographic inflow and outflow of volumes where applicable. The survey was written and distributed in English, French and Spanish. It was launched on 2<sup>nd</sup> May 2016 and remained open until 24<sup>th</sup> June 2016. Outside of the UK, a total of 273 platforms in Europe participated (up from the 205 in 2014), representing 31 countries, the highest number being from France with 49 platforms, followed by Germany with 35. For the UK market, 94 platforms responded to our UK survey, which was jointly conducted with Nesta in January 2016. While we did not capture every platform across Europe, we estimate that we were able to measure approximately 90% of the online alternative

finance market via the distribution of this survey.

The research team maintained communication with individual platforms via email and telephone to ensure the objectives of the survey and report were adequately explained, in addition to providing guidance and support throughout. The survey data set was only accessible to the research team at the Cambridge Centre for Alternative Finance, and was kept strictly confidential. Once the survey was complete, the data underwent a thorough check and cleanse to ensure volumes and figures were correctly attributed to their applicable model and respective country. In the cases where primary data was unavailable or incomplete, data was collected from secondary sources such as annual reports, press releases and publicly available online data. To complement the survey, web-scraping was also used to get the most up-to-date transaction volumes for Europe for a limited number of platforms. This was carried out using widely available Python web-scraping libraries and the scripting was all devised within the research centre.

Once the data set was established, any discrepancies, such as misattributed volumes and anomalous figures, were cross-checked by following up with the platforms directly. For cases in which platforms had described themselves as a “Mixed Model” or “Other”, the research team checked with them directly and split volumes into the appropriate models where necessary. The data used in the previous European report, *Moving Mainstream*, was also verified and updated where appropriate. The data was then anonymised and encrypted prior to data analysis. For data that required averaging (e.g. Auto-bid Rate in Loan Section & Female Fundraiser Percentages), the research team used weighting by transaction volume to reflect the overall values. Upon completion, the data was stored in a secure, encrypted environment - accessible only to the core research team.

# THE SIZE, GROWTH AND GEOGRAPHIC DISTRIBUTION OF EUROPEAN ALTERNATIVE FINANCE

## Total Market Volumes in Europe

In 2015, the total online alternative finance market volume for Europe reached €5,431m, up from the 2014 figure of €2,833m with an annual growth rate of 92%. The UK remains the largest market for alternative finance within Europe, providing €4,412m for 2015<sup>6</sup>.

Excluding the UK, the rest of Europe has seen an increase from the €594m in 2014 and broken through the billion Euro mark to €1,019m in 2015, realising an annual growth rate of 72%. Outside of the UK, France, Germany and the Netherlands have well-established and fast-growing alternative finance marketplaces, being the top three contributors to Europe's total alternative finance volume respectively. Between 2013 and 2015, the average annual growth rate was 77% for Europe, excluding the UK. It is interesting to note, however, that whilst the market volumes have grown Europe-wide, the rate of increase has fallen from 2014-15 by 10%. Nonetheless, Europe continues to experience substantive growth which is likely to continue into 2016.

Figure 1: European Online Alternative Finance Market Volumes 2013-2015 in € EUR (incl. the UK)

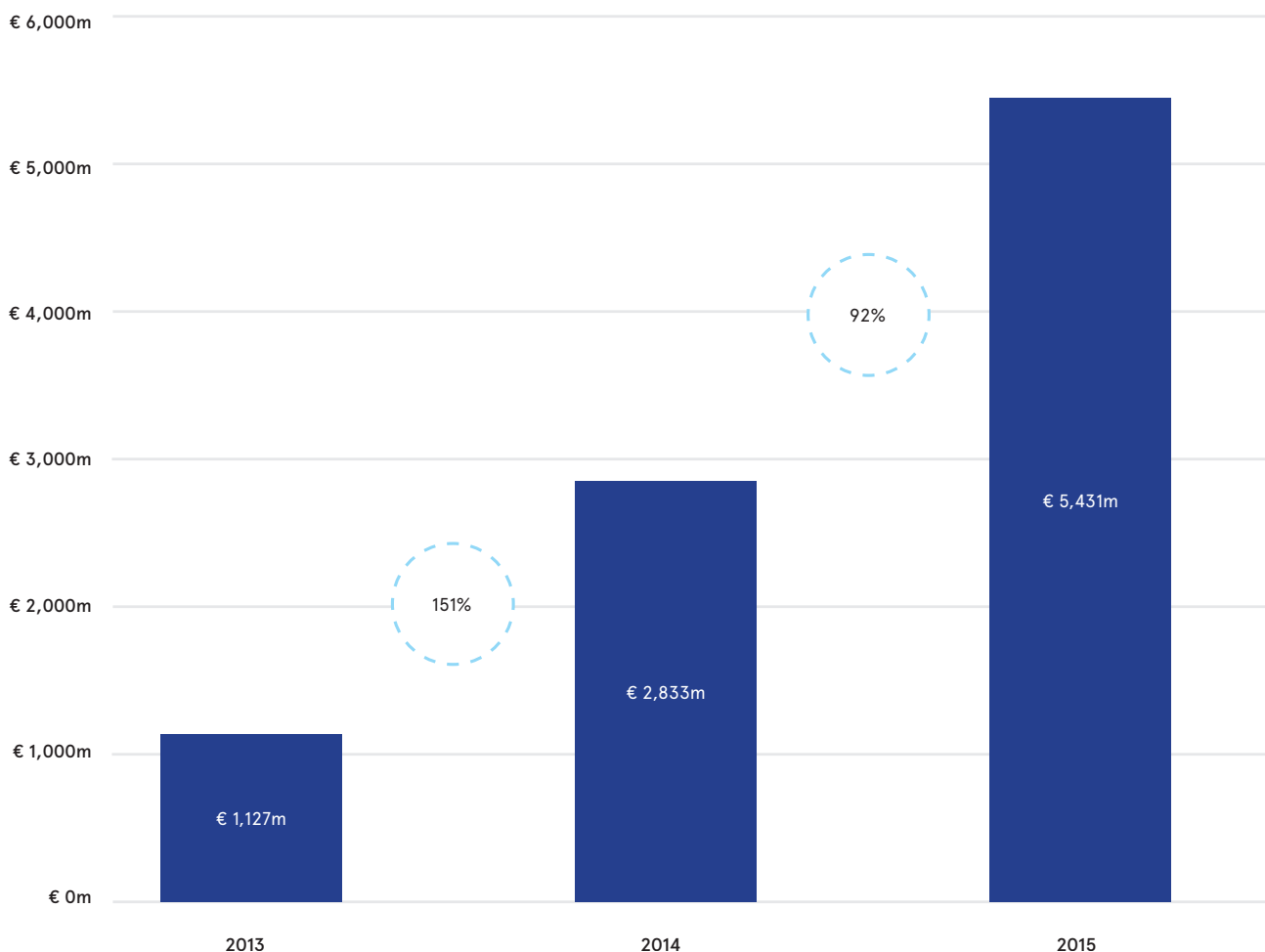
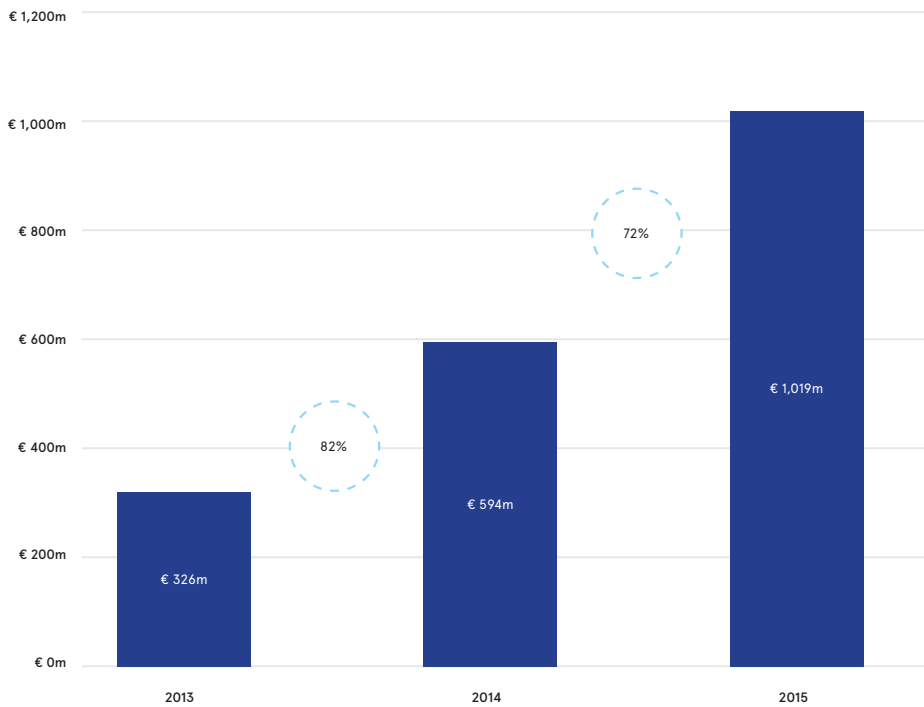




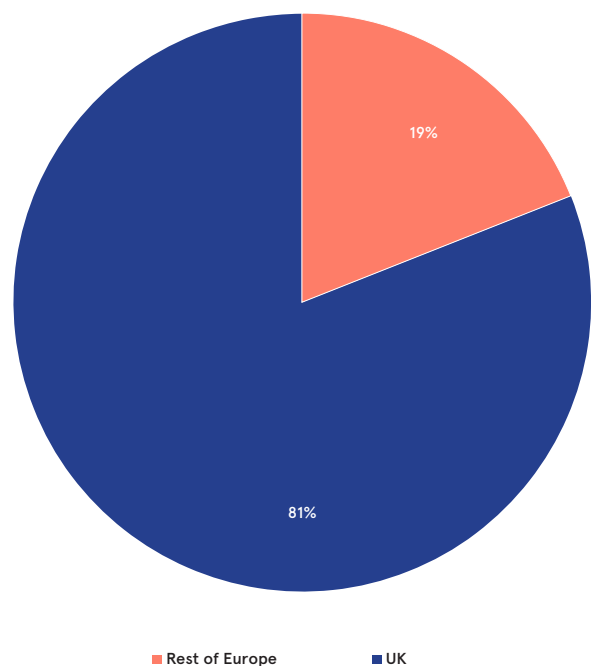
Figure 2: European Online Alternative Finance Market Volumes 2013–2015 in € EUR (excl. the UK)



The European market share for the UK has increased year on year, reaching 81% of the total European marketplace by 2015. In 2014, the UK’s market share for Europe was around 75%. Whilst the UK remains the largest country in terms of market volume, it is also worth noting the substantial slowdown in the UK’s annual growth, falling from 161% in 2014 to 84% in 2015.<sup>7</sup>

In order to put the growth and size of the European online alternative finance market into perspective, we can compare market volumes by global region. In 2015, the total online alternative finance volume for the Asia-Pacific region was €94.61bn<sup>8</sup>, and for the Americas €33.58bn<sup>9</sup>, in contrast to Europe’s €5.43bn. When considering the global online alternative finance landscape, it is important to mention that each region has a distinctive market leader which contributes significantly to the total volume and activity of each respective regional market. In Europe this is the UK, in the Americas there is the US and finally in the Asia-Pacific region, China is the world’s largest market for online alternative finance. In terms of total volume, the Asia-Pacific region is approximately 17 times greater than that of Europe, and the Americas are just over six times greater, due to China and the US respectively dominating these markets. Even with the UK’s contribution, the European market is still relatively small when compared to the other two regions.

Figure 3: Share of Alternative Finance Market 2015



Nevertheless, considering the regions without the three largest national markets, Europe would be very similar, in terms of total volume, to the rest of the Asia-Pacific region which reached €1,217m in 2015. However, the marked difference between these two regions is the 2014-15 growth rate of 313% for the Asia-Pacific region in contrast to the 72% recorded in Europe. This resulted in the Asia-Pacific region overtaking continental Europe for the first time in 2015 - it being approximately 50% of the European market by volume in both 2013 and 2014. Upon comparison to the Americas (excluding US), Europe's market volume was approximately 3.5 times greater in 2015 despite a strong growth rate of 97% in the Americas.

Figure 4: Regional Online Alternative Finance Volumes 2013-2015 (€ EUR)

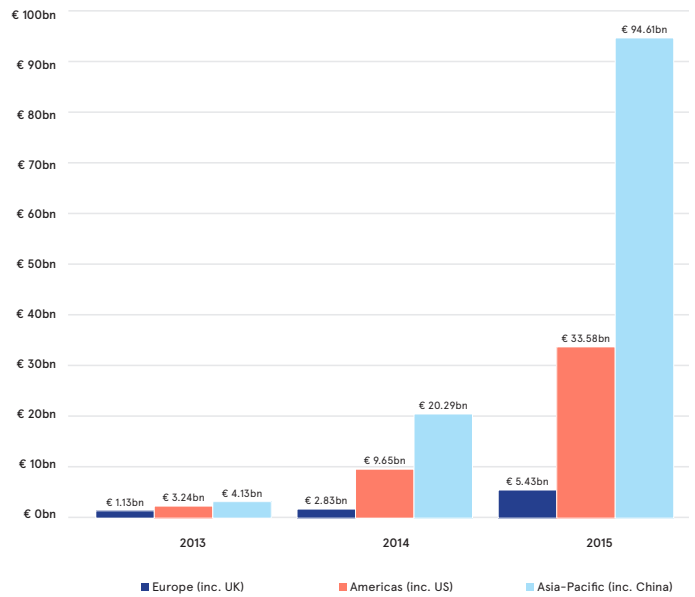
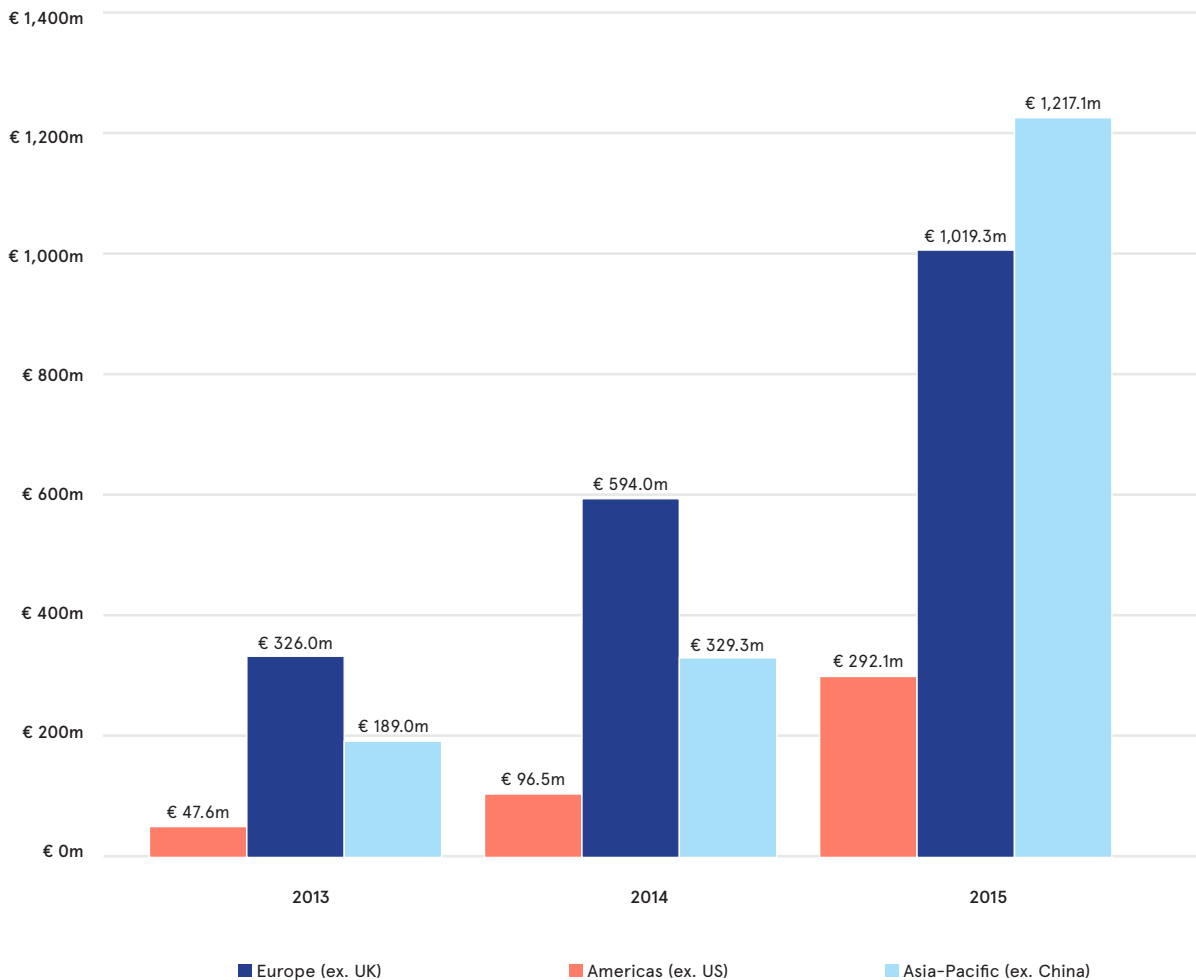


Figure 5: Regional Online Alternative Finance Volumes (excl. the UK, US and China) 2013-2015 (€ EUR)



## The Geographic Distribution of Platforms and Market Volumes

The 2015 European survey captured responses from 32 European countries, including a number of countries that only began alternative finance activities in 2015. In particular, this study captured online alternative finance activity from a number of new countries to add to the 27 used in 2014. Newly surveyed countries and regions include Russia, Lithuania, Romania and the Balkans. Additionally, there was a net increase in platform participation for all countries that were represented in

the 2014 European study. The geographic distribution of platforms in Europe, outside of the UK, shows the highest concentration of platforms in France (49), Germany (35), Italy (30), Spain (29) and the Netherlands (27). The total number of platforms in Central and Eastern European countries rivals France with 47 firms over the entire region participating in the survey for 2015. Of the Nordic countries, Denmark and Finland had just shy of 10 firms.

Figure 6: The Geographical Distribution of Surveyed Platforms (2015)

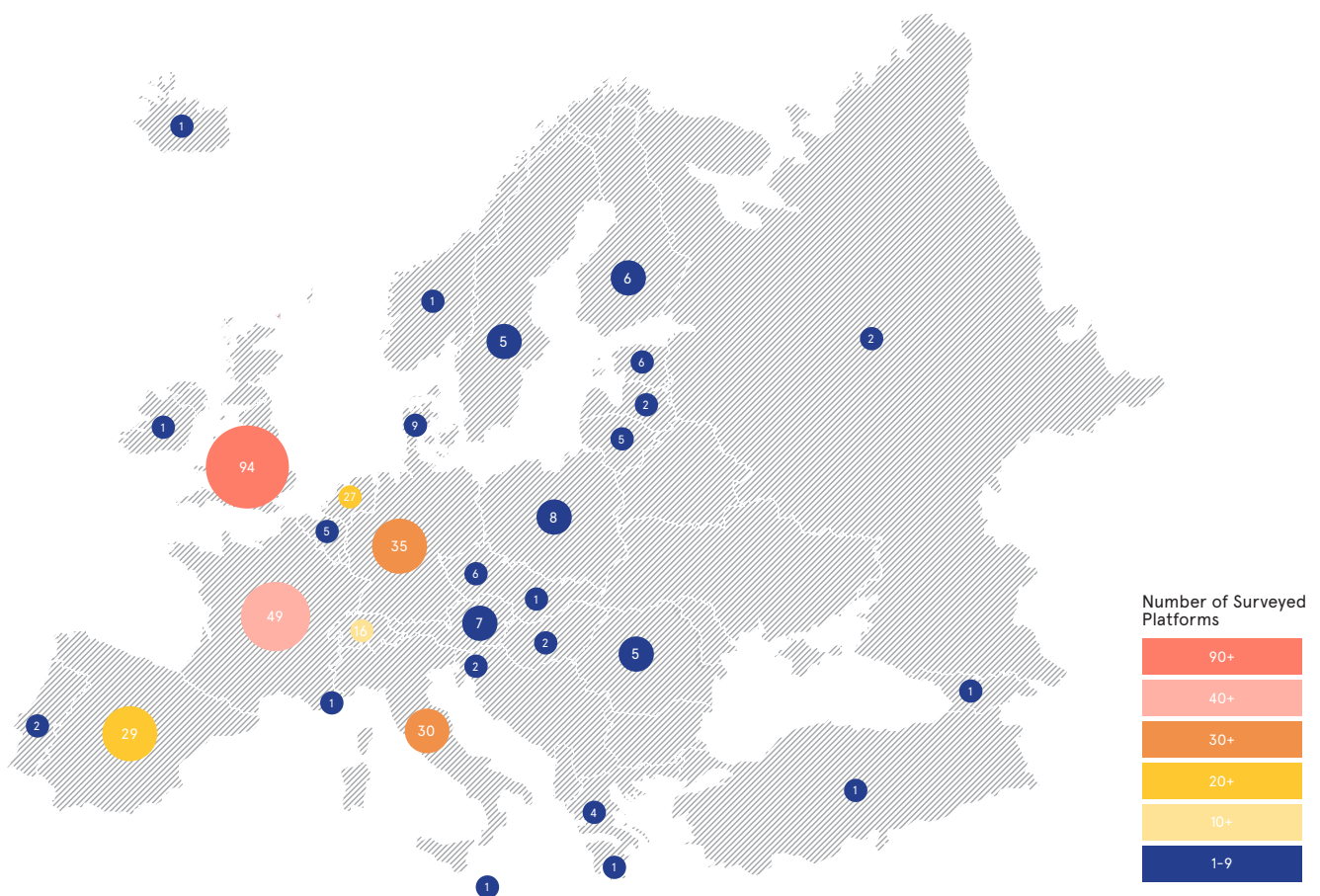
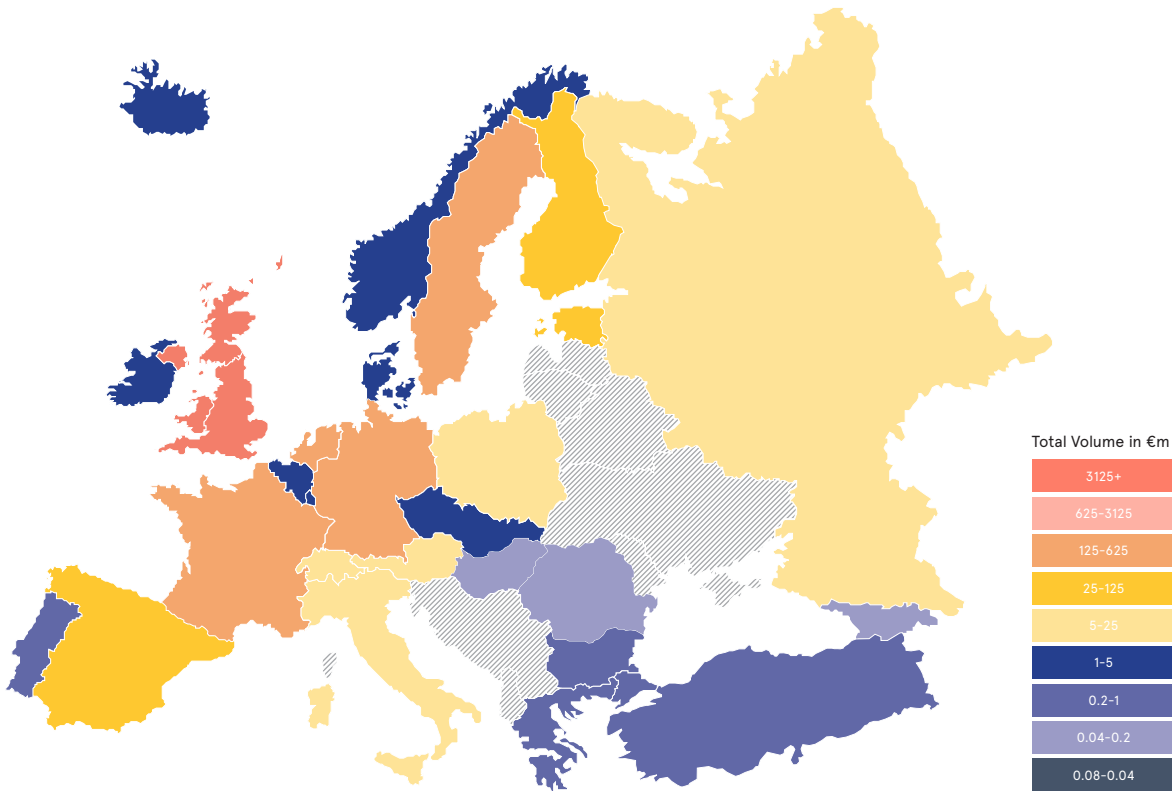
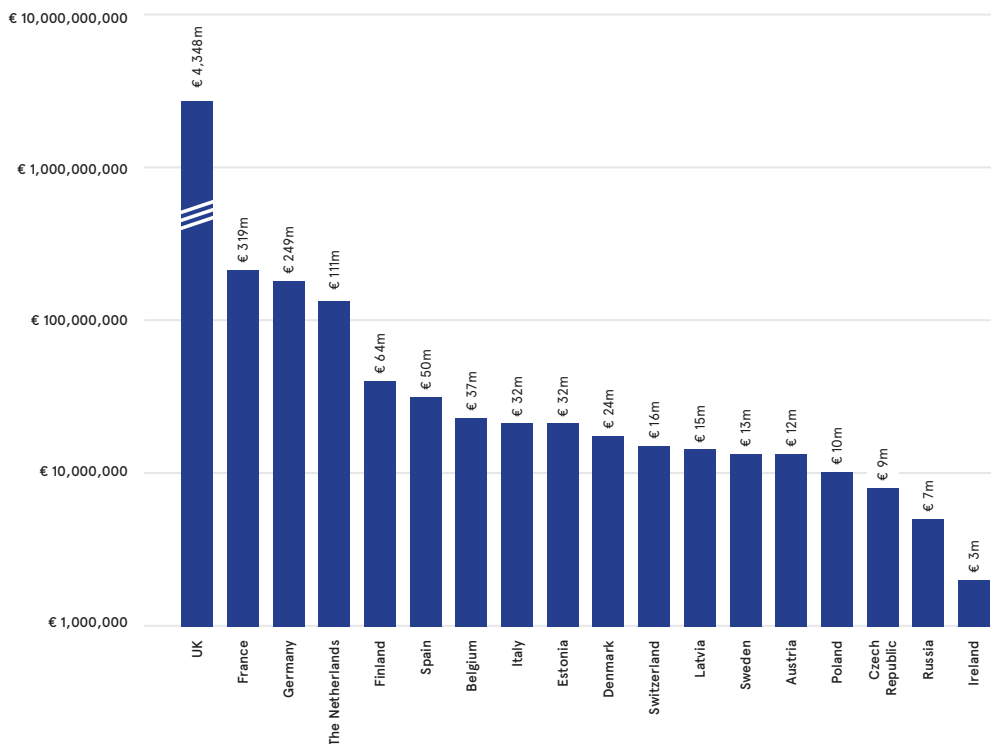


Figure 7: Comparative Market Volumes of Alternative Finance Transactions in the EU (2015)



The highest total market volumes, aside from the UK, occur in France (€319m), Germany (€249m), the Netherlands (€111m), Finland (€64m) and Spain (€50m). With respect to the top five volume-driving countries, Finland (in fourth place vis-à-vis volume) ranked tenth with respect to platform distribution. Similarly, Italy has a high number of platforms, yet ranked seventh in terms of total volume in 2015 (€31.61m). France and Germany account for a large percentage of the market at 31% and 25% respectively with the next highest - the Netherlands - accounting for 11%. While the top three countries accounted for nearly 70% of Europe's total volume and distribution, given the increase in platform participation by country number, it is clear that alternative finance activities are spreading across Europe.

Figure 8: Online Alternative Finance Volume by Country 2015 (€ EUR)



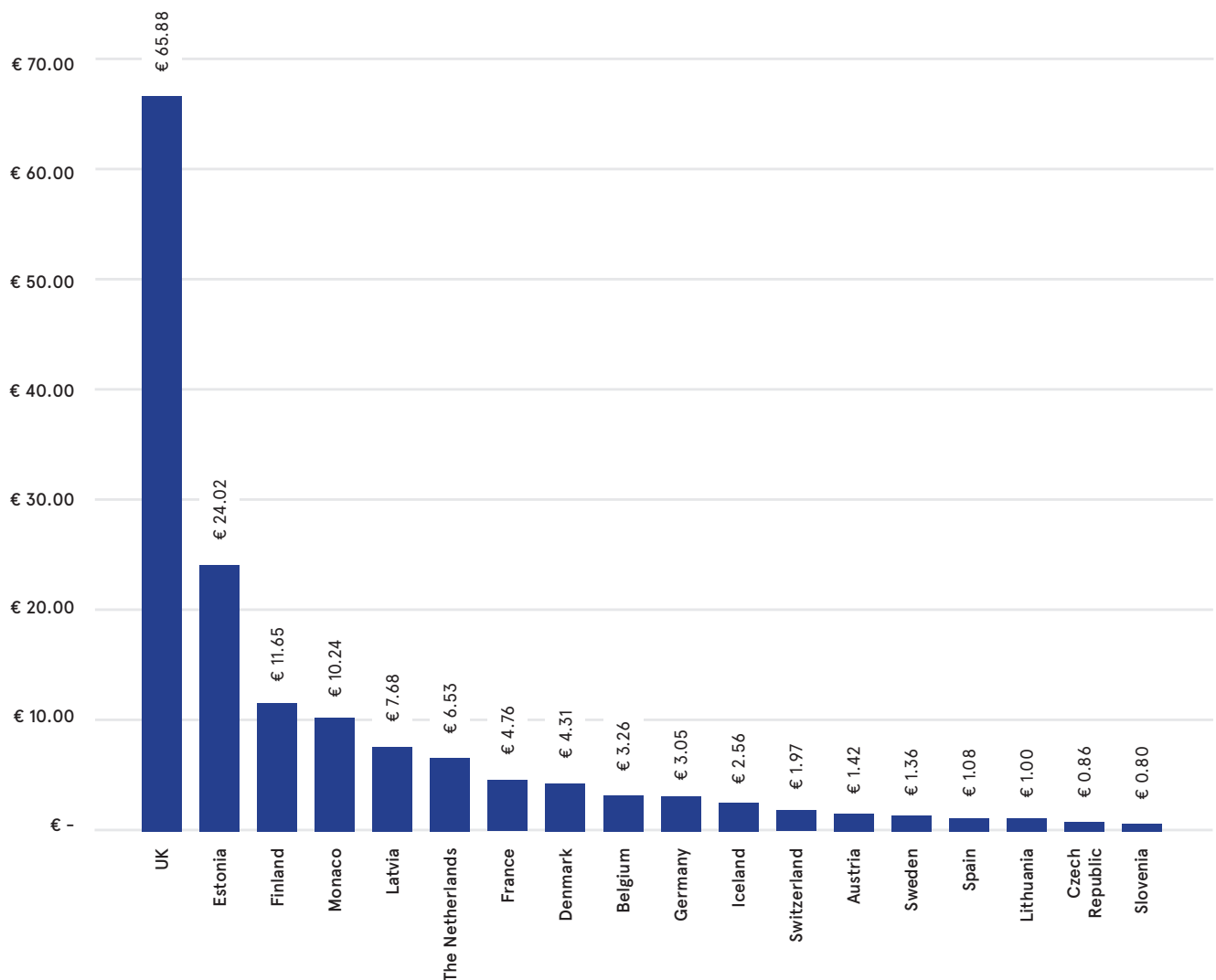
# THE DYNAMICS OF THE EUROPEAN ALTERNATIVE FINANCE MARKET

## Alternative Finance Volume per Capita

In order to develop a more nuanced understanding of the European online alternative finance market for each country, we also conducted analysis on market volume per capita. Not surprisingly, the UK registers highest in online alternative finance market volume per capita, at €65.88. Yet, when looking at the distribution of the top five performers, several countries out-perform the largest markets by total volume. Estonia has the highest level of volume per capita (€24.02), followed by Finland (€11.65) and Monaco (€10.24), Latvia (€7.68) and the Netherlands (€6.53). France and Germany, the incumbent market volume leaders, slip considerably in overall rankings, with values of €4.76 and €3.05 respectively. It is interesting to note the shift in rankings when measuring

by this method. For example, Estonia, with €32m in total volume, comes first in terms of per-capita volume. Yet Italy, with an equivalent €32m in total volume, does not even feature within the top 18 countries in terms of per capita volume, with a value of just €0.52. Of the countries in the top five positions vis-à-vis total market volume, the Netherlands drops from 3<sup>rd</sup> to 5<sup>th</sup>, while Finland moves up from 4<sup>th</sup> to 2<sup>nd</sup>. Spain, which previously held 5<sup>th</sup> position, falls dramatically to 14<sup>th</sup>. In almost every instance, high total volume does not necessarily reflect strong correlation with per capita distribution in terms of rank. The only exceptions are Sweden (€13m) and Austria (€12m), which remain in 12<sup>th</sup> and 13<sup>th</sup> place in terms of both methods of ranking.

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

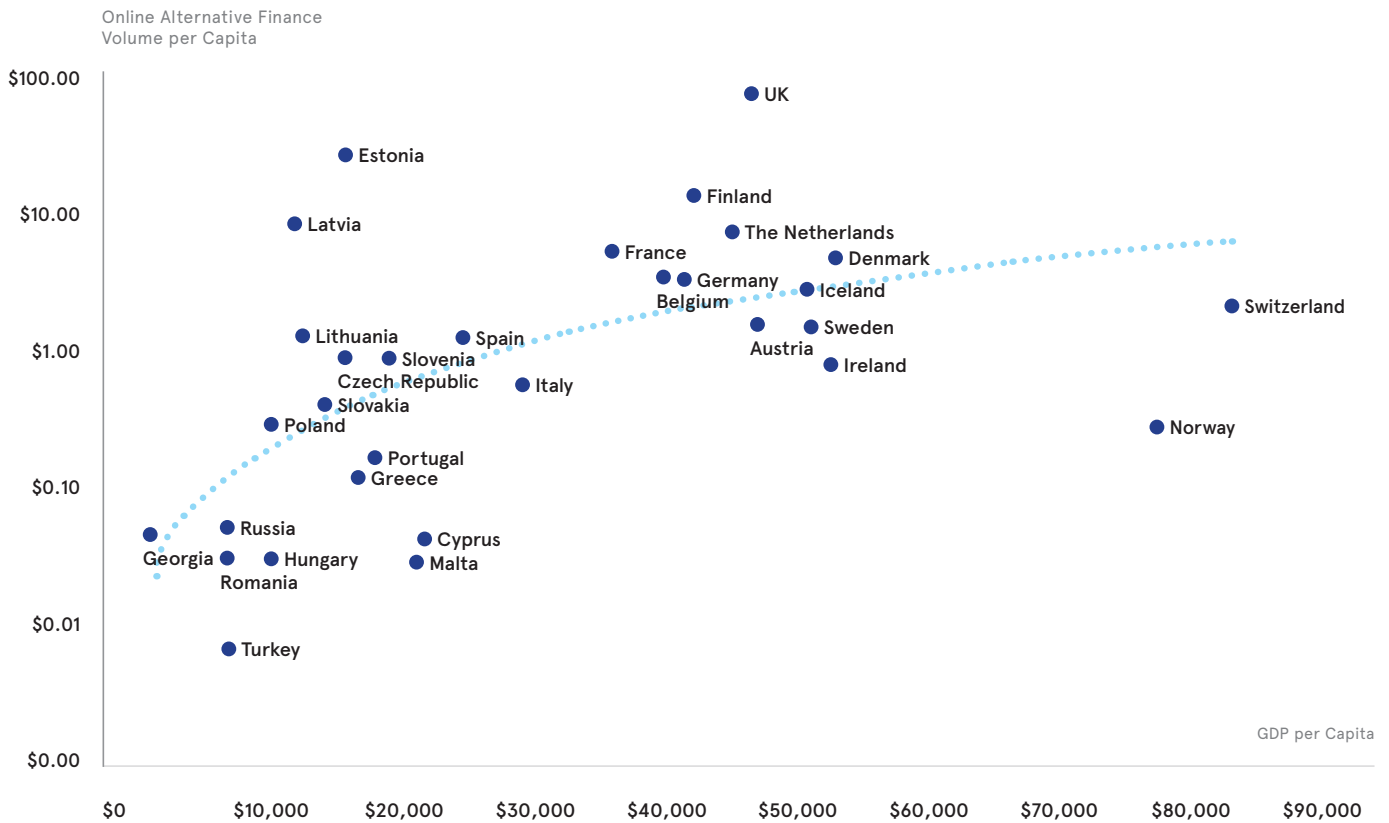


### Online Alternative Finance Volume per Capita vs. GDP per Capita

In order to compare the per capita volume with the relative economic strength of each country, we plotted it against the GDP per capita figure for 2015. The positions of countries such as Latvia, Estonia and Finland are surprising, indicating a high contribution of alternative finance per person in contrast to the GDP figure for 2015 - lying above the line of best fit. Conversely, countries such as Italy, Portugal, Sweden and Norway lie below this line, a possible indication of relatively less-well exploited markets. It is also interesting to review the make-up of platform activity in the countries that lie above the line of best fit, as opposed to those below. For instance, with respect to the placement of countries

like Norway and Switzerland, which have high GDP per capita, yet fall well below the line of best fit, there are a few possible explanations. Countries with strong peer-to-peer consumer and business lending activities tend to outperform, while countries with strong non-investment based models, such as reward-based or donation-based crowdfunding, tend to underperform. This is not altogether surprising, as the contributions per fundraiser from individual funders will be lower in a non-investment focused model. Additionally, regulatory regimes which might hinder or prohibit investment-based activities (e.g. peer-to-peer lending or equity-based crowdfunding) can contribute to underperforming markets.

Figure 10: Total Online Alternative Finance Volume per Capita vs GDP per Capita (\$ USD)



# THE DIVERSITY OF EUROPEAN ALTERNATIVE FINANCE MODELS

## A Working Taxonomy

A total of 10 alternative finance model types, defined below, were identified across continental Europe for the purpose of this year's study. This taxonomy mirrors the alternative finance models analysed in previous regional benchmarking studies - in particular those conducted in the Asia-Pacific region, the Americas and the UK.

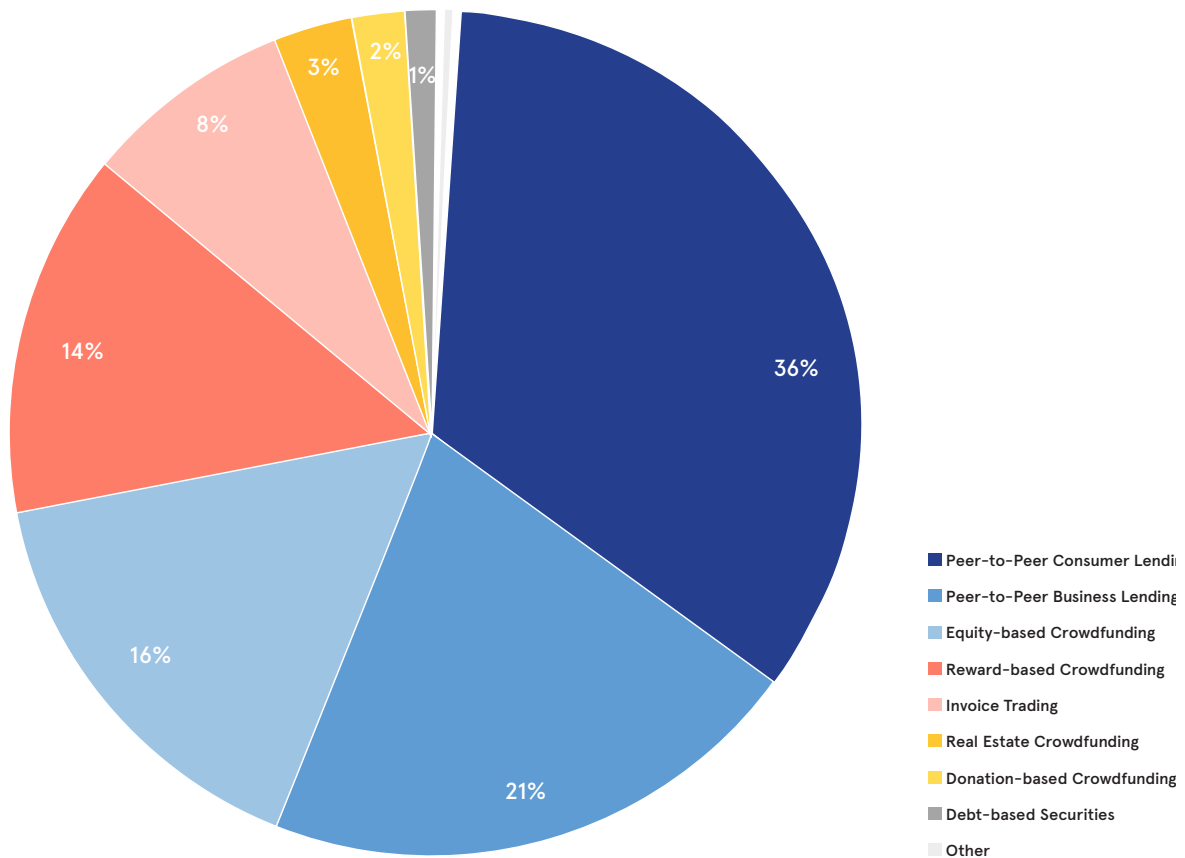
Figure 11: A Working Taxonomy for Online Alternative Finance

Alternative Finance Model	Definition	2015 Market Volume
Peer-to-Peer Consumer Lending	Individuals or institutional funders provide a loan to a consumer borrower.	€ 365.80m
Peer-to-Peer Business Lending	Individuals or institutional funders provide a loan to a business borrower.	€ 212.08m
Equity-based Crowdfunding	Individuals or institutional funders purchase equity issued by a company.	€ 159.32m
Reward-based Crowdfunding	Backers provide finance to individuals, projects or companies in exchange for non-monetary rewards or products.	€139.27m
Invoice Trading	Individuals or institutional funders purchase invoices or receivable notes from a business at a discount.	€ 80.59m
Real Estate Crowdfunding	Individuals or institutional funders provide equity or subordinated-debt financing for real estate.	€ 26.97m
Donation-based Crowdfunding	Donors provide funding to individuals, projects or companies based on philanthropic or civic motivations with no expectation of monetary or material return.	€ 21.71 m
Debt-based Securities	Individuals or institutional funders purchase debt-based securities, typically a bond or debenture at a fixed interest rate.	€ 10.73m
Balance Sheet Business Lending	The platform entity provides a loan directly to a business borrower.	€ 2.35m
Profit Sharing Crowdfunding	Individuals or institutions purchase securities from a company, such as shares or bonds, and share in the profits or royalties of the business.	€ 0.54m

Peer-to-peer consumer lending and peer-to-peer business lending accounted for the largest contingent of alternative finance activity in 2015, with approximately one third and one fifth of total market activity respectively. By way of comparison, these two models were also the most prevalent in terms of market share in the Asia-Pacific region, the Americas and the UK. Interestingly, both equity-based and reward-based crowdfunding accounted for similar proportions of total market activity in Europe, with around 15% for both models. This differs quite significantly from the UK data, wherein equity crowdfunding represented 7.6% of total market activity with rewards accounting for a much smaller 1.3%.

2015 also saw the rise of real estate crowdfunding in Europe. If this model follows the projected growth rate of the UK and the current growth rate of European equity-based crowdfunding, 2016 is likely to show a rapid expansion of this emergent model type. However, it is clear that the majority of market activity is dominated by debt-based online alternative finance, accounting for around two thirds of the total. Equity-based models, such as equity-based crowdfunding and real estate crowdfunding across Europe account for almost a fifth, while non-financial return based models accounted for another 16% in 2015.

Figure 12: Market Share by Alternative Finance Model (excl. UK)





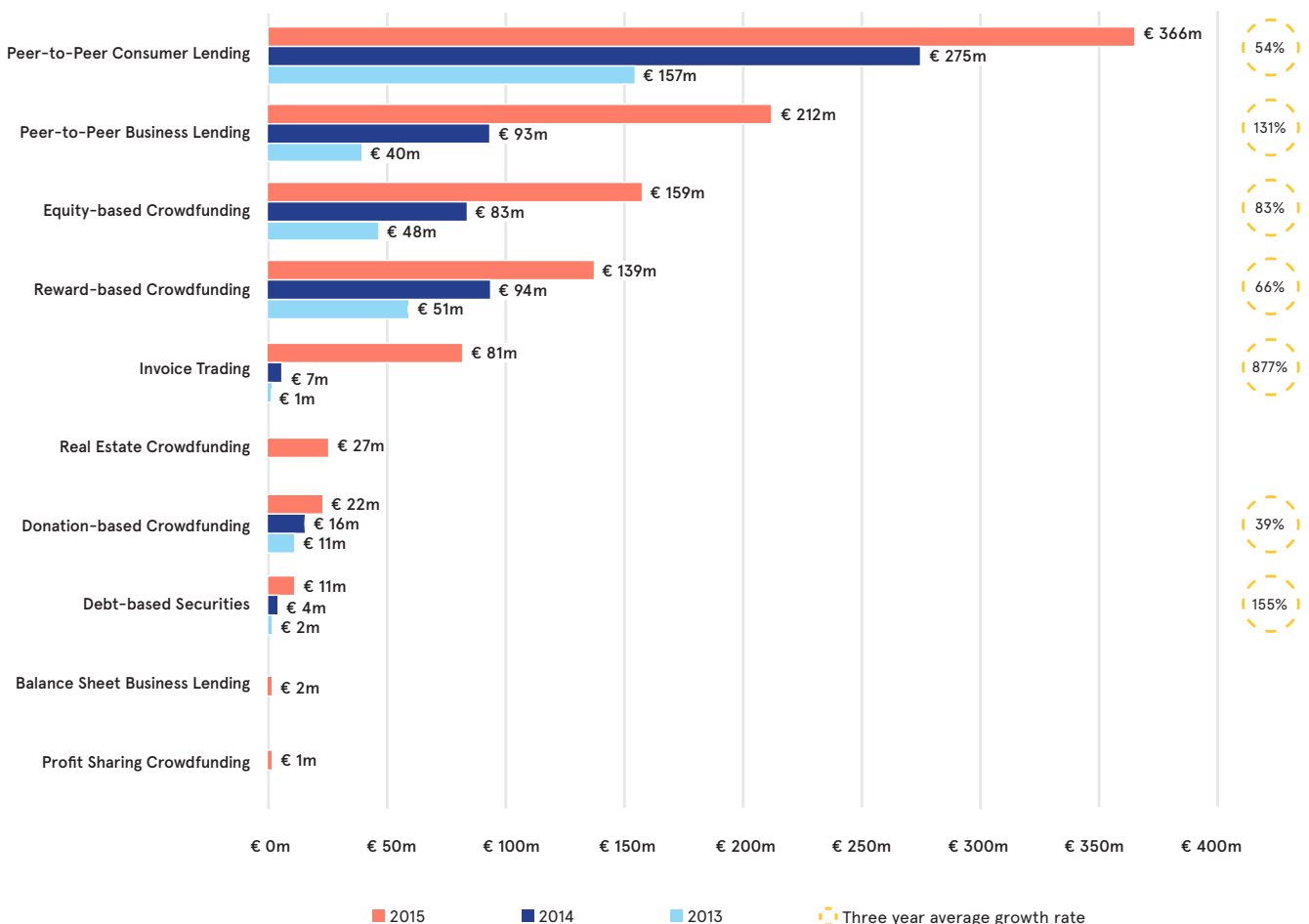
### Prevailing Alternative Finance Models in Europe

Overall, each of the online alternative finance models in Europe continued to grow across the board between 2013 and 2015. Invoice trading had the highest 3-year average annual growth rate at 877%, emerging from very low levels in 2014 to reach a substantial €81m in 2015. Similarly, debt-based securities grew by an average of 155% over the period. While this is nowhere near the annual average growth rate registered by invoice trading, this is still a significant development for the market. Peer-to-peer business lending grew by an average of 131% between 2013-15 and slowed only slightly from 2013-14 to 2014-15 (135% and 128% respectively). On the other hand, the peer-to-peer consumer lending annual growth rate

reduced markedly from 75% in 2013-14 to 33% in 2014-15. Equity-based crowdfunding had an average three-year growth rate of 83% and experienced an overall rise in market growth from 74% in 2013-14 to 93% in 2014-15.

Assuming these trends in growth rates continue, it is likely that peer-to-peer business lending will overtake peer-to-peer consumer lending in 2016 to become the largest alternative finance model across Europe. Reward-based crowdfunding continues to expand with a three-year average growth rate of 66%. However, the year-on-year growth rate figure dropped by over a third from 85% between 2013-14 to 48% between 2014-15.

Figure 13: Alternative Finance Volume by Model in Europe (excl. UK) 2013–2015 (€ EUR)



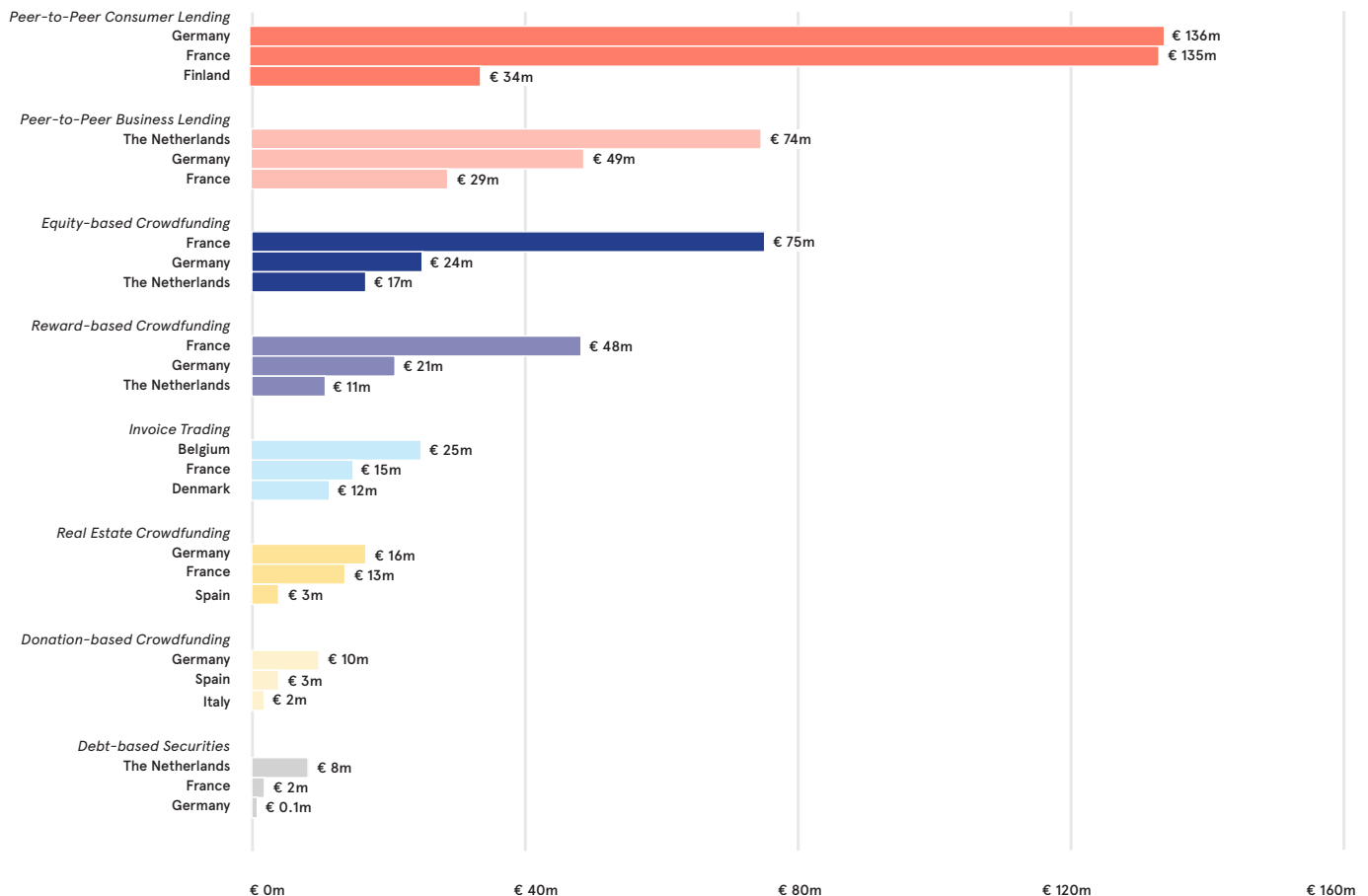
In terms of the online alternative finance models for which growth accelerated between 2013-14 and 2014-15; invoice trading, debt-based securities and equity-based crowdfunding all grew at a faster rate over this three-year period. However, donation-based crowdfunding, reward-based crowdfunding, peer-to-peer consumer and peer-to-peer business lending all had slower rates of growth in 2014-15 as compared to 2013-14.

For the models with significant contributions from multiple regions, the top three countries by total volume are depicted above. Both France and Germany feature in the top 3 for seven of the eight models, which is no surprise as these have the largest economies and alternative finance markets in Europe outside of the UK. Germany is the leader in peer-to-peer consumer lending, and is second behind the Netherlands for peer-to-peer business lending. Germany also features strongly as the European market leader within real

estate crowdfunding and donation-based crowdfunding and is the second largest market within peer-to-peer business lending, equity-based crowdfunding and reward-based crowdfunding.

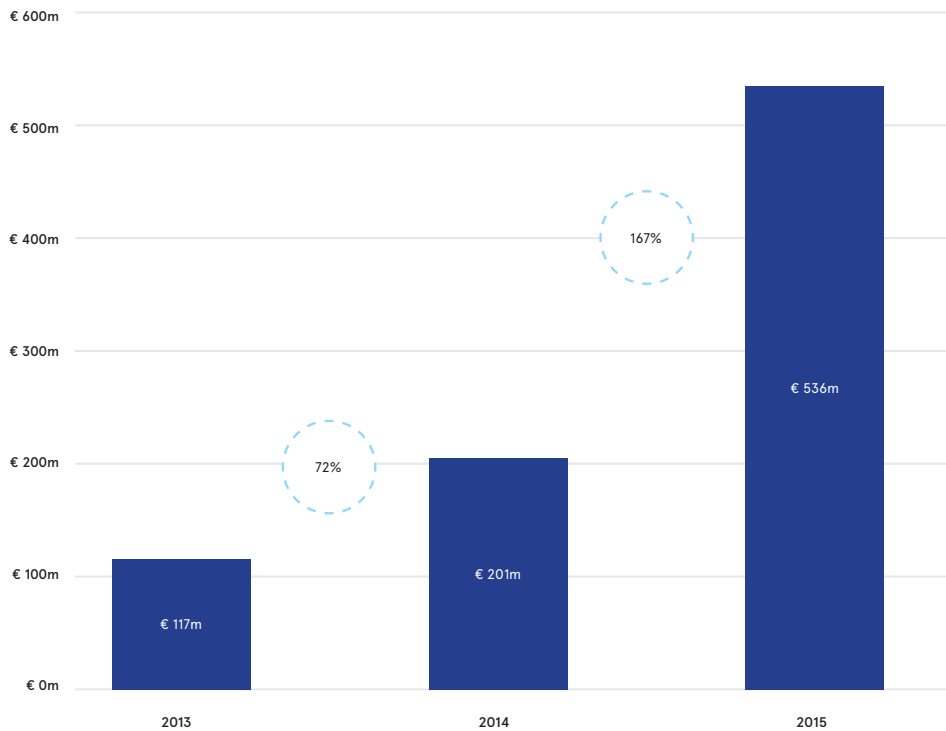
France is the market leader in Europe, excluding the UK, in equity-based crowdfunding and reward-based crowdfunding and comes in second for peer-to-peer consumer lending, invoice trading, real estate crowdfunding and debt-based securities. The Netherlands is the market leader in both debt-based securities and peer-to-peer business lending, while also performing relatively strongly in reward-based crowdfunding and equity-based crowdfunding, where it is the third largest market for these models in Europe (excluding the UK). Spain features in the top three for both real estate crowdfunding and donation-based crowdfunding, while Finland is the third largest market for peer-to-peer consumer lending and Belgium is the largest market for invoice trading.

Figure 14: Top Three Countries by Model - Alternative Finance Volume (excl. UK) 2015 (€ EUR)



# THE VITALITY OF EUROPEAN ALTERNATIVE BUSINESS FUNDING

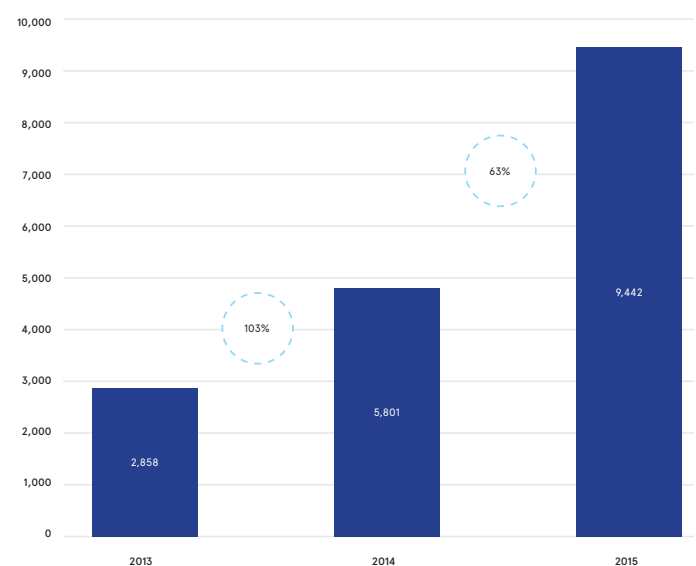
Figure 15: Total Online Alternative Business Funding Volumes (excl. UK) 2013-2015 (€ EUR)



Funding for businesses across Europe has increased considerably since 2014, becoming an important source of finance for entrepreneurs, start-ups and small & medium-sized enterprises (SMEs)<sup>10</sup>. In 2015, €536m of business finance was raised through online alternative funding models, providing capital to 9,442 businesses. Though slightly more modest year-on-year growth was seen between 2013-14, significant year-on-year growth occurred between 2014-15 - up 167%.

While a high funding volume was noted in 2015, the number of SME fundraisers grew at a more modest pace. In 2013, 2,858 SME fundraisers participated in the online alternative finance space, growing 103% to 5,801 SME fundraisers in 2014. This modest increase of 63% between 2014-15, coupled with the considerably larger total volume of 2015, is indicative of larger average fundraises by SMEs compared to previous years.

Figure 16: Number of European SMEs raising Alternative Finance (excl. UK) 2013-2015

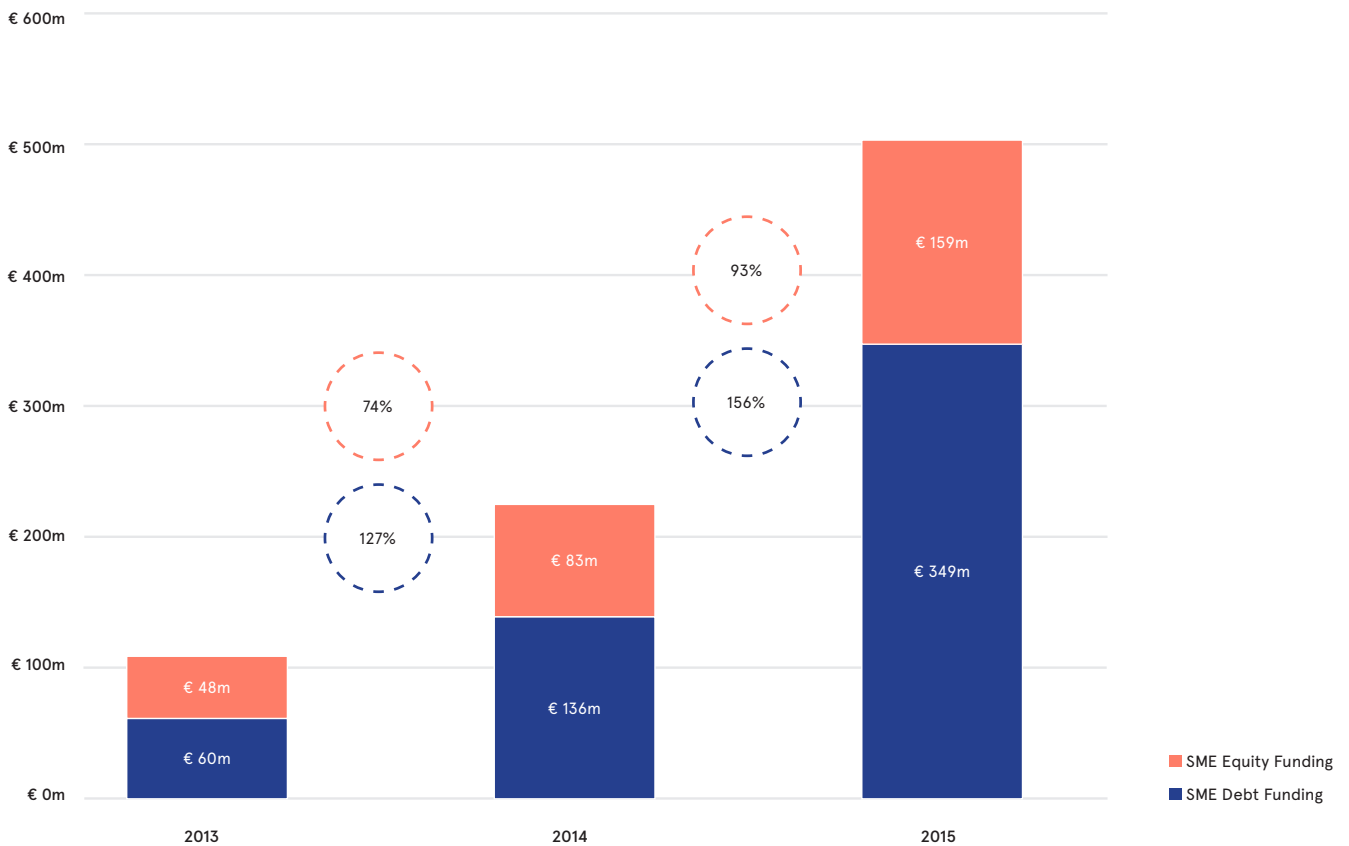


Debt and equity models for business finance accounted for €508m in 2015, with 69% of this volume deriving from lending models. Across Europe, lending-models accounted for the vast majority of finance to businesses, with a year-on-year growth rate of approximately 156% from 2014-15. In 2015, €349m was generated by debt based models including peer-to-peer business lending, balance sheet business lending, invoice trading and debt-based securities. Unsurprisingly, peer-to-peer business lending generated the most significant proportion of debt-based business finance, with the Netherlands accruing (€74m), Germany (€49m) and France (€28m). Invoice trading also accounted for a large proportion of debt-based business finance in 2015,

with Belgium accounting for (€25m), France (€15m) and Denmark (€12m).

Not to be ignored, equity-based crowdfunding generated €159m in volume to businesses in 2015, growing at a year-on-year rate of 93%. Accounting for approximately three quarters of all equity volume, France raised (€75m), Germany (€24m) and the Netherlands (€17m). France, Germany and the Netherlands account for the top three European countries in terms of overall funding volume. It is not surprising that these three countries also play significant roles in driving business funding volumes, ranking within the top three business finance models for both debt and equity models.

Figure 17: Debt vs Equity Online Alternative Business Finance 2013–2015 (€ EUR)



As indicated in the table below, alternative finance in Europe affects a wide variety of sectors. While most models boast some level of sector agnosticism, several industries continue to rank high across the alternative finance landscape. Retail & wholesale, technology and manufacturing & engineering ranked as the three most represented sectors across the entire ecosystem – despite different model-specific industry ranking.

As online alternative business funding continues to grow, it is interesting to consider the broader SME finance context in Europe. According to the European Commission<sup>11</sup>, barriers to finance available to enterprises across Europe have somewhat eased in 2015. Not surprisingly, bank-based products, such as bank loans and overdrafts are the most sought-after external funding options for European businesses, though the main source (just over 50%) of finance used by enterprises are equity instruments<sup>12</sup>. This is due, in large part, to the fact that “SMEs have few (debt based) alternatives to bank loans, since they cannot easily access capital markets directly”<sup>13</sup>. In 2015, venture capital amounted to “€4.1bn, with around 90% of all venture capital investment coming from the United Kingdom,

Germany, France, Sweden, the Netherlands, Finland, Belgium and Spain.”<sup>14</sup> Including the UK, equity-based crowdfunding in Europe is equivalent to just 4% of traditional equity investments in Europe, and remains relatively small in contrast to the traditional venture capital industry.<sup>15</sup>

With respect to bank-lending, bank financing improved in 2015, driven by net-easing of credit standards according to the European Central Bank quarterly bank lending survey<sup>16</sup>. Despite a commitment to service more SMEs, ‘increasing non-interest rate costs of financing and collateral requirements,<sup>17</sup> have deterred SMEs, adding to growing difficulties in accessing traditional debt-finance, ‘primarily affecting smaller and innovative companies.’<sup>18</sup> Some of these non-interest rate costs include an increased reliance on personal guarantees or assets by a bank, onerous terms and obligations and/or offering the business significantly less funding than required. Therefore, although the credit conditions for SMEs have improved in Europe, online business funding options such as peer-to-peer business lending and invoice trading can still play a vital role in providing a viable ‘*alternative*’ to tradition sources of finance.

Figure 18: Most Funded Sectors by Model

Alternative Finance Model	1st	2nd	3rd
Peer-to-Peer Business Lending	Retail & Wholesale	Manufacturing & Engineering	Construction
Peer-to-Peer Consumer Lending*	Education & Research	Community & Social Enterprise	Health & Social Work
Equity-based Crowdfunding	Technology	Manufacturing & Engineering	Health & Social Work
Reward-based Crowdfunding	Arts, Music and Design	Film & Entertainment	Media & Publishing
Donation-based Crowdfunding	Charity & Philanthropy	Health & Social Work	Community & Social Enterprise
Real Estate Crowdfunding	Real Estate & Housing	Construction	
Invoice Trading	Retail & Wholesale	Business & Professional Services	Manufacturing & Engineering
Debt-based Securities	Retail & Wholesale	Energy & Mining	Agriculture
Balance Sheet Business Lending	Retail & Wholesale	Agriculture	Food & Drink
Profit Sharing Crowdfunding	Environment & Clean-Tech	Business & Professional Services	Health & Social Work

\* Sectors or industries applicable to business borrowers

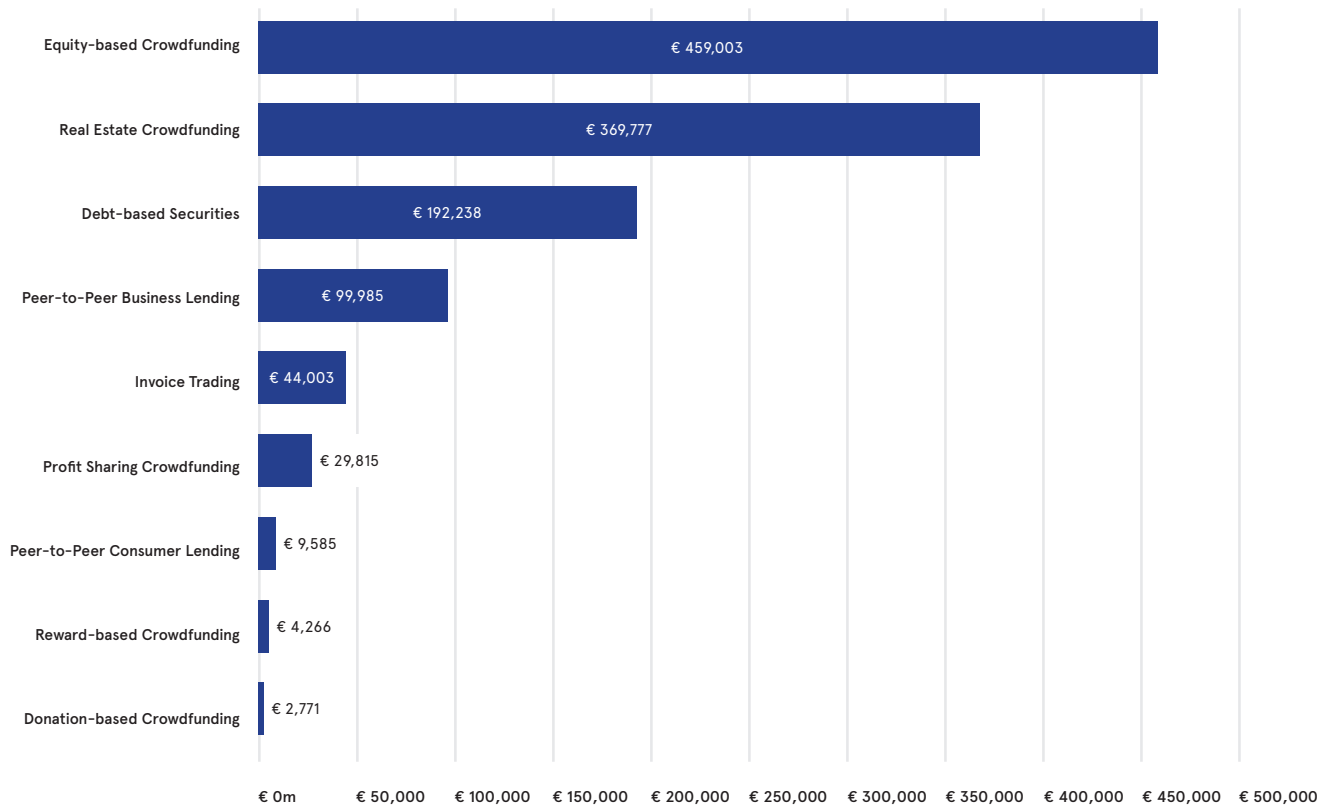
# EUROPEAN ALTERNATIVE FINANCE MARKET FUNDAMENTALS

## Average Deal Size by Alternative Finance Models

Across Europe, excluding the UK, equity-based crowdfunding had the highest average deal size by model at almost €460,000. Given that the European Commission was considering imposing a cap of €500,000 before having to issue a formal prospectus, this data perhaps demonstrates that equity-based crowdfunding is no longer solely within the realm of early stage, first time, start-up raises, but rather is enabling more established, larger companies to use this method of raising capital in Europe. Similarly, real estate crowdfunding had an average of almost €370,000 per deal in 2015. The other alternative finance models reviewed were much smaller in comparison, with debt-based securities at just over €190,000 and approaching

€100,000 for peer-to-peer business lending. Invoice trading was just over €44,000 per transaction, while profit-sharing crowdfunding was at €30,000. Peer-to-peer consumer loans were nearly €10,000 per loan, while both reward-based and donation-based crowdfunding models had average funding sizes below €5,000, with €4,266 and €2,771 respectively. There is nothing that stands out as particularly surprising here, other than the relatively large size of equity-based crowdfunding which, as mentioned, is experiencing a rapid rate of growth. In the UK, the average deal size is well over €600,000, so it is possible that through 2016, we will see continued growth in average funding size for this model.

Figure 19: Europe Average Fundraise by Model 2015 (excl. UK) (€ EUR)

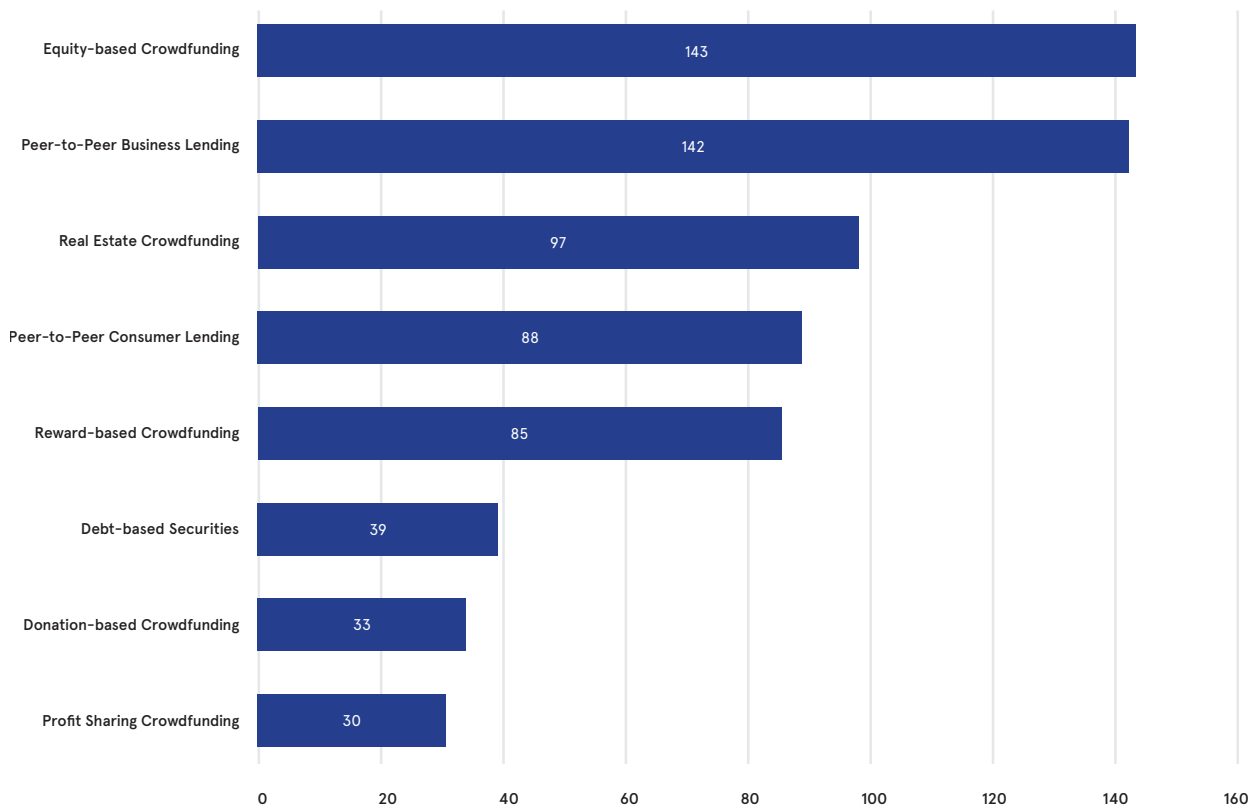


## Average Number of Investors per Deal by Model

Across Europe, the average number of funders per fundraising deal (e.g. loan or equity raise) by model reveals some interesting figures. Both equity-based crowdfunding and peer-to-peer business lending have a comparable number of average funders per deal at just over 140. In contrast with the UK where peer-to-peer business lending has a much higher average number of funders with 347 in 2015, UK equity-based crowdfunding appears to attract fewer funders per deal at 77 in 2015.

Real Estate crowdfunding in Europe, excluding the UK, averaged 97 funders in 2015, while peer-to-peer consumer lending had 88 lenders per consumer loan. For debt-based securities, the average number of funders was substantially less than the other debt and equity models, with only 39 apiece. Interestingly, donation-based crowdfunding had, on average, 33 backers per raise, which is less than half the average number for reward-based crowdfunding at 85 backers per campaign.

Figure 20: Europe Average Number of Funders by Model (excl. UK) (2015)



## Female Market Participation Rates

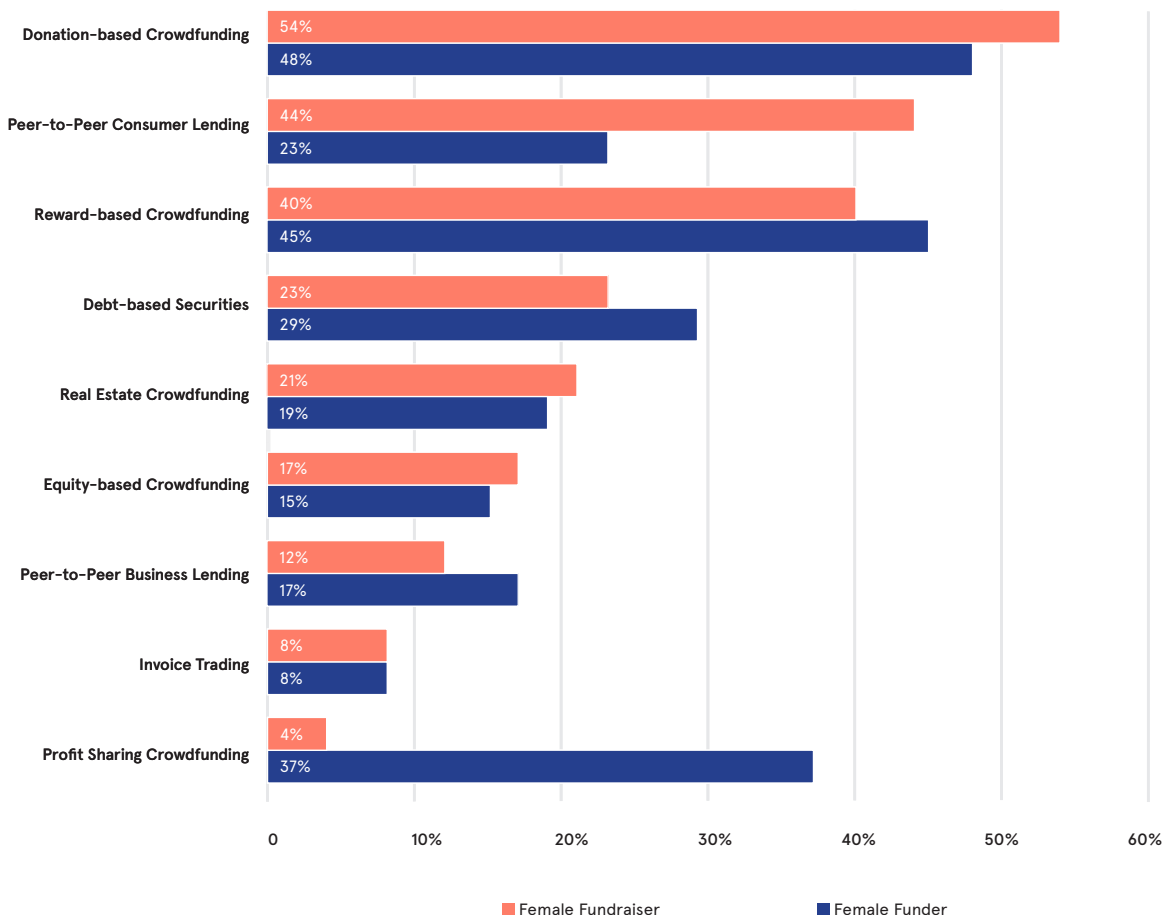
This year’s European Alternative Finance Survey took the opportunity to assess the current state of female market participation and access to online alternative finance across the continent. Platforms were surveyed on the proportion of female funders and successful fundraisers, with responses weighted by each platform’s reported volume and broken down by alternative finance model.

Female participation differs prominently between models, but following a similar trend to the UK and the Asia-Pacific Region (excluding China), donation-based crowdfunding in Europe had the highest proportion of both female funders and fundraisers at 48% and 54% respectively. Peer-to-peer consumer lending had the second highest proportion of successful female fundraisers at 44%, while reward-based crowdfunding came third with 40% of its total fundraisers being female.

Whilst females constitute 52% of the European population, they account for just over 34% of the EU self-employed and 30% of start-up entrepreneurs<sup>19</sup>, who often face difficulties and challenges in obtaining bank loans or equity finance<sup>20,21</sup>. From our findings, it seems that for models which are being utilised to raise start-up and SME capital, the market participation rates by female fundraisers are encouraging to say the least, with 17% of entrepreneurs in equity-based crowdfunding and 12% of the SME borrowers in peer-to-peer business lending being women. Nevertheless, the proportion of female fundraisers remains small in invoice trading (8%) and profit-sharing crowdfunding (4%).

Among the models, peer-to-peer consumer lending shows a high level of disparity when comparing female funders to fundraisers, with a difference of 21% between the two figures. Profit sharing crowdfunding had a difference of 33% between female funders and fundraisers, with 4% and 37% respectively.

Figure 21: Female Funders and Fundraisers by Alternative Finance Model (excl. UK) 2013-2015





# EUROPEAN ALTERNATIVE FINANCE MARKET DEVELOPMENTS

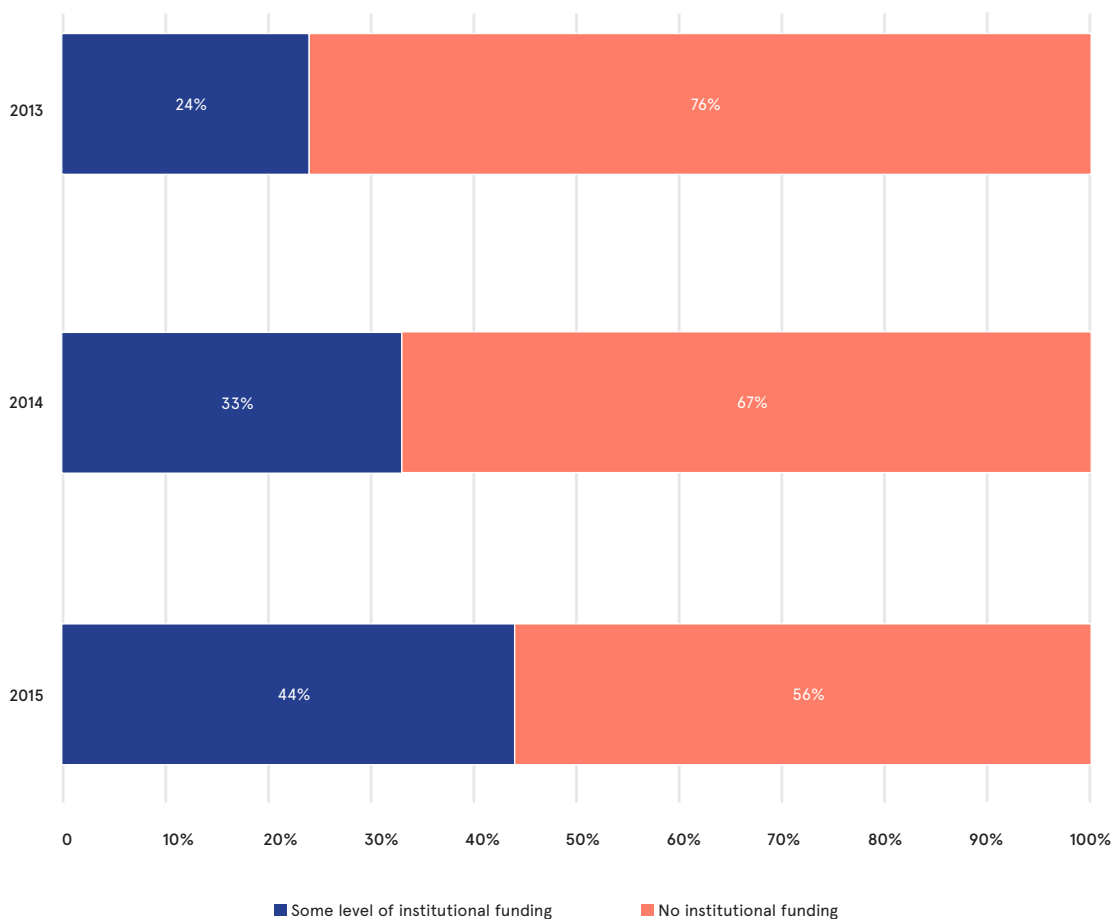
## Levels of Institutionalisation

Across continental Europe, participation rates of institutional investors increased dramatically over the past three years. Institutional investors (including pension funds, mutual funds, asset management firms, family offices and banks) have begun to play an increasingly significant role in not only funding provision, but also by investing directly in alternative finance platforms themselves. In an effort to shed light on the growing interest and involvement of institutions in the alternative finance landscape, our industry survey was designed to examine the level of institutional investment in terms of year-on-year participation, proportion of actual institutional funding by key models and the institutional ownership of alternative finance platforms.

## Institutional Investor Participation

Platform responses indicated growing institutional investor participation over the course of 2013-15. In 2013, 76% of European online alternative finance firms indicated that no institutional funding had taken place on their platform, while 24% noted some level of institutional funding. Since then, the percentage of institutional investors participating in online alternative finance has grown considerably from 33% of firms reporting some level of institutional funding in 2014, jumping to 44% in 2015. While average levels of institutional funding differ slightly across Europe, the indicated percentages provide a comprehensive snapshot of institutional activity across Europe. Countries such as France, Spain and the Netherlands were slightly higher than the indicated average, while Italy, Germany and the Nordics were slightly below.

Figure 22: Proportion of Institutional Funding (2013-2015) (excl. UK)



### Proportion of Institutional Investor Funding by Key Model

Actual institutional funding volumes in 2015 were led predominantly by the lending models. In 2015, institutional investment across invoice trading platforms accounted for 37% of the model's total volume of that year, or €30m. Quarter-on-quarter growth indicates that institutionalisation occurred at a rapid pace, accounting for 34% of lending in Q1 and 44% in Q4.

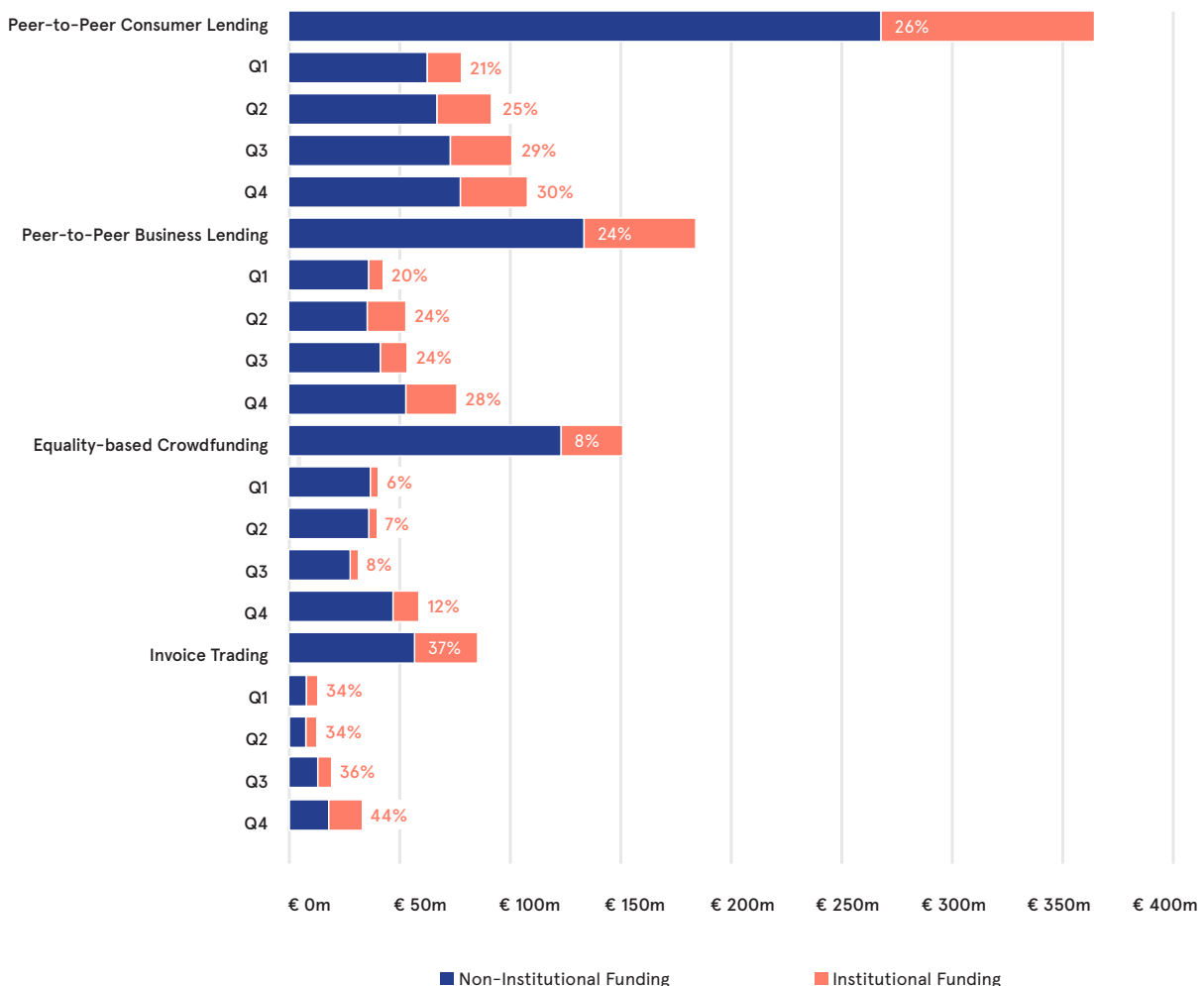
Peer-to-peer consumer lending, the model accounting for the largest total volumes across Europe, registered 26% of total volume derived from institutional lenders, or €96m.

The total volume for this model grew every quarter, and the proportion of institutional lending grew with it. In Q1, 21% of lending came from institutions, culminating in 30% of lending from institutions in Q4.

24% of the total volumes attributed to the peer-to-peer business lending model are derived from institutional lenders, or €51m. In Q1, institutional lenders accounted for 20% of the total volume, growing to 28% in Q4.

Equity-based crowdfunding, albeit to a lesser degree, also saw an increase in overall institutionalisation of the funding. In 2015, 8% (€13m) of total funding volumes came from institutional investors. Unlike the above three debt-based models, equity-based crowdfunding saw a decrease in total volumes in Q2 and Q3, rising again in Q4. Despite this quarter-on-quarter dip, the proportion of funding attributed to institutional investors increased every quarter, from 6% in Q1 to 7% in Q2 to 8% in Q3, culminating with 12% in Q4. Across Europe, institutionalisation has increased on a quarter-by-quarter basis, suggesting that institutionalisation was a major trend of 2015.

Figure 23: Percentage of Institutional Funding Across Models in 2015 (Weighted)



## The Institutionalisation of Platform Ownership

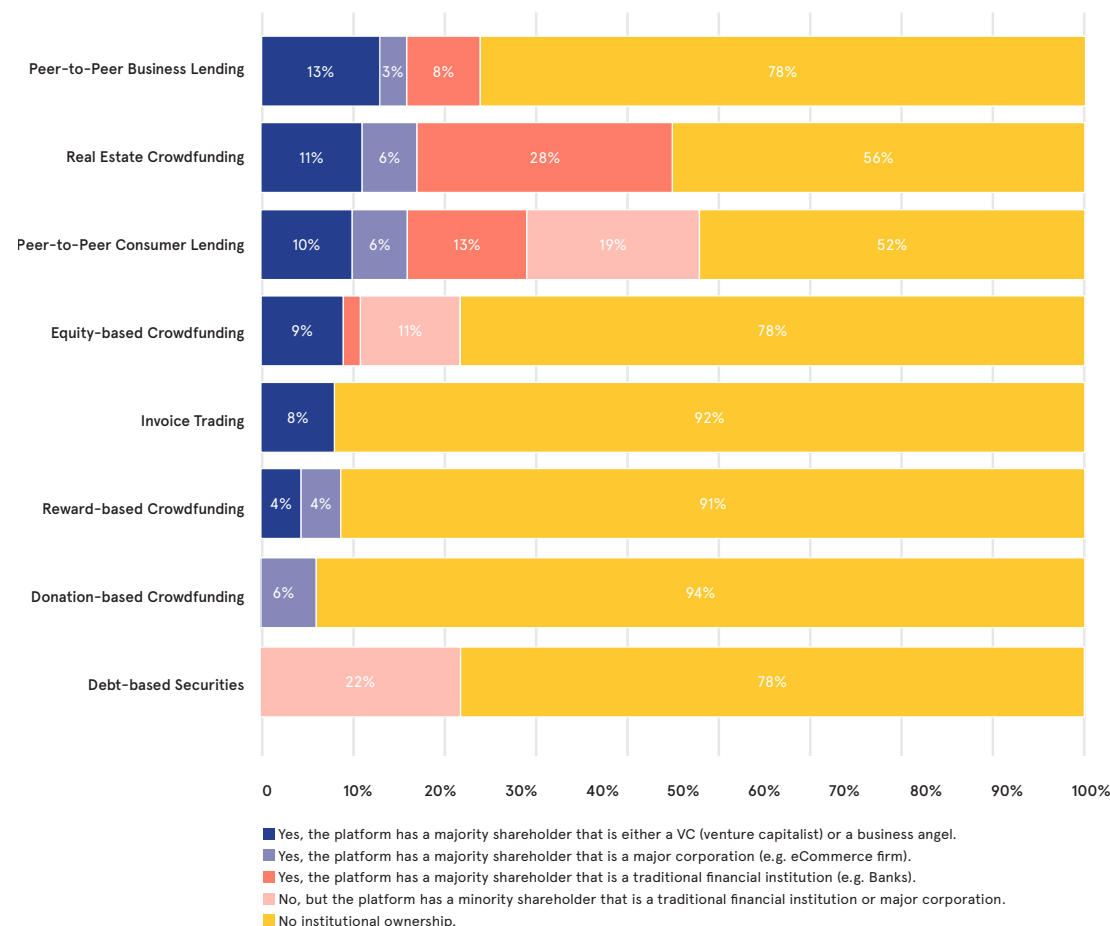
As institutions continue to increase their participation as funders across a variety of models, it is also interesting to note the number of institutions that have taken equity stakes in online alternative finance firms. Across Europe, a number of bank-based fintech accelerators grew in prominence in 2015, leading to greater emphasis on institutional ownership across the online alternative finance landscape.<sup>23</sup> <sup>25 27</sup> With the exception of donation-based crowdfunding, invoice trading and reward-based crowdfunding, where an overwhelming 90% of firms indicated no institutional ownership, firms in every other model indicated a higher level of institutional ownership. While the level of institutional ownership varies by model, certain models are more predisposed to institutional investment than others. In the case of peer-to-peer consumer lending, while a small majority (52%) indicated no institutional ownership, 48% of platforms indicated at least some level. Though 19% of platforms indicated that an institution maintained a minority share in the platform, 13% of platforms indicated that a traditional finance institution (such as a bank) maintained a majority share and 10% indicated a venture

capitalist (VC) or angel investor as the majority shareholder. Only 6% noted majority shareholders that were major corporations sitting outside of traditional finance.

78% of peer-to-peer business lending platforms indicated no institutional ownership, with a mere 13% indicating a VC or business angel majority shareholder. Unlike peer-to-peer business lending models, no firm indicated a bank or traditional lender as a shareholder.

Debt-based securities was the only model to have no instances of majority shareholders from an institutional investor, while 78% of the firms from this model recorded no institutional ownership and 22% indicated minority shareholders from an institution. Finally, though 78% of equity-based crowdfunding platforms indicated no institutional ownership, 11% of firms had a minority shareholder in the form of an institution. 9% of these platforms also indicated that a VC or business angel was a majority shareholder, with 2% of platforms noting a traditional finance institution as a majority shareholder.

Figure 24: Europe Alternative Finance Institutional Ownership by Model 2013-2015



### Auto-bid Functionality

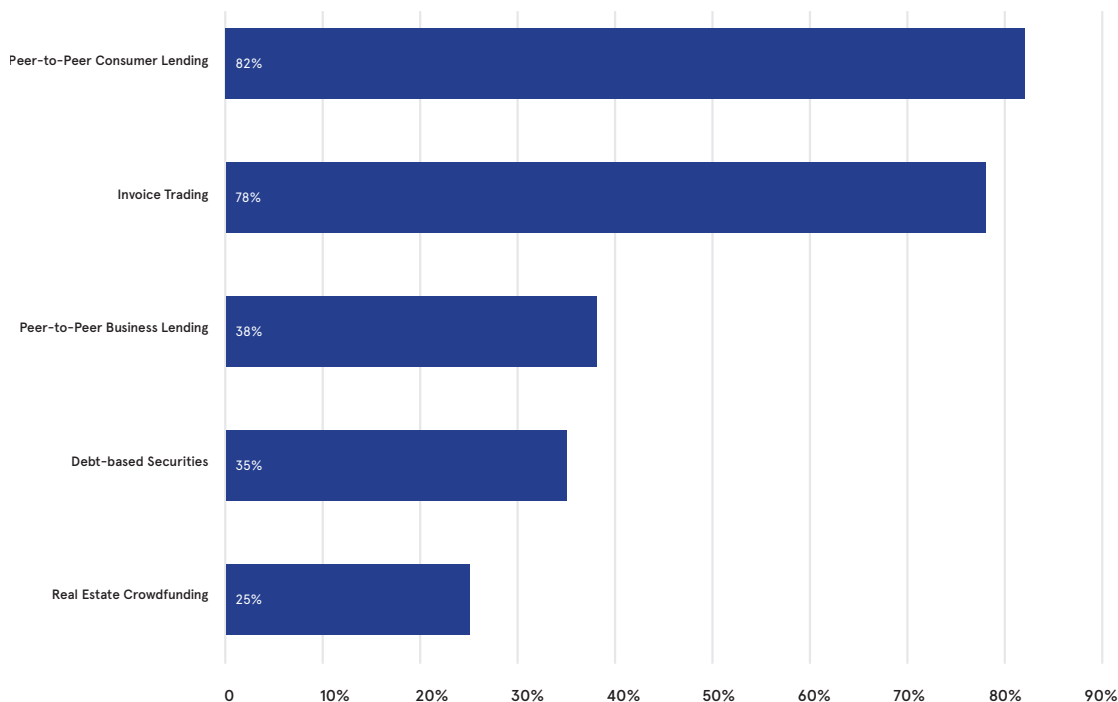
The first alternative finance models relied upon retail investors selecting funding opportunities at an individual level. This is known as manual or self-selection (e.g. choosing a loan to lend to on a peer-to-peer business lending platform). As the industry developed, a number of models began to offer or exclusively utilise auto-selection, whereby an individual funder indicates their investment or lending preferences and allows the alternative finance platform to match and automatically allocate funds across suitable funding options. In this instance, an investor would specify their desired lending or investment amount, duration and risk appetite but would not choose the unique individual, business or real estate proposition to fund.

In 2015, 82% of peer-to-peer consumer lending platforms noted that lenders on their platform made use of an auto-bid or auto-selection functionality. Akin to peer-to-peer consumer lending, invoice trading firms tend to rely heavily on auto-bidding, with 78% of firms noting auto-bid as the preferred lending vehicle used on their platform. Globally, these two models tend to rely heavily on auto-bid functions as well, since this allows the platform to auto-diversify a lender’s portfolio across many available loans, whilst also improving market efficiencies by assuring loan fulfilment. In this case, both the lender and borrower

know their applicable interest rate with greater certainty, leading to a quick fulfilment and draw-down of the desired loan. Peer-to-peer business lending (38%), debt-based securities (35%) and real estate crowdfunding (25%) are all models that have also registered significant usage of auto-bid functions, albeit lower than the preceding two models.

While the use of auto-bid functions will likely continue to increase through 2016, reliance on auto-bidding also poses additional challenges to the platform. As the platform is responsible for selecting and matching retail investor funds, the importance of due-diligence, underwriting, credit-risk scoring and management is paramount. As such, a platform must ensure that their own underwriting and credit analytics are sufficiently robust to ensure that the retail investor is safeguarded against unnecessary or unreasonable risk. This is especially true for platforms that deal with secured lending, either in the form of security against fixed assets or property. In this case, platforms are required to either create their own in-house underwriting facilities or seek external underwriting partners to adequately assess the security on offer. This is most prevalent in peer-to-peer business lending, debt-based securities and real estate crowdfunding, as reliance on fixed assets is a key driving factor for loan success.

Figure 25: Proportion of Auto-Selection by Models (2015)



## Cross-border Transactions

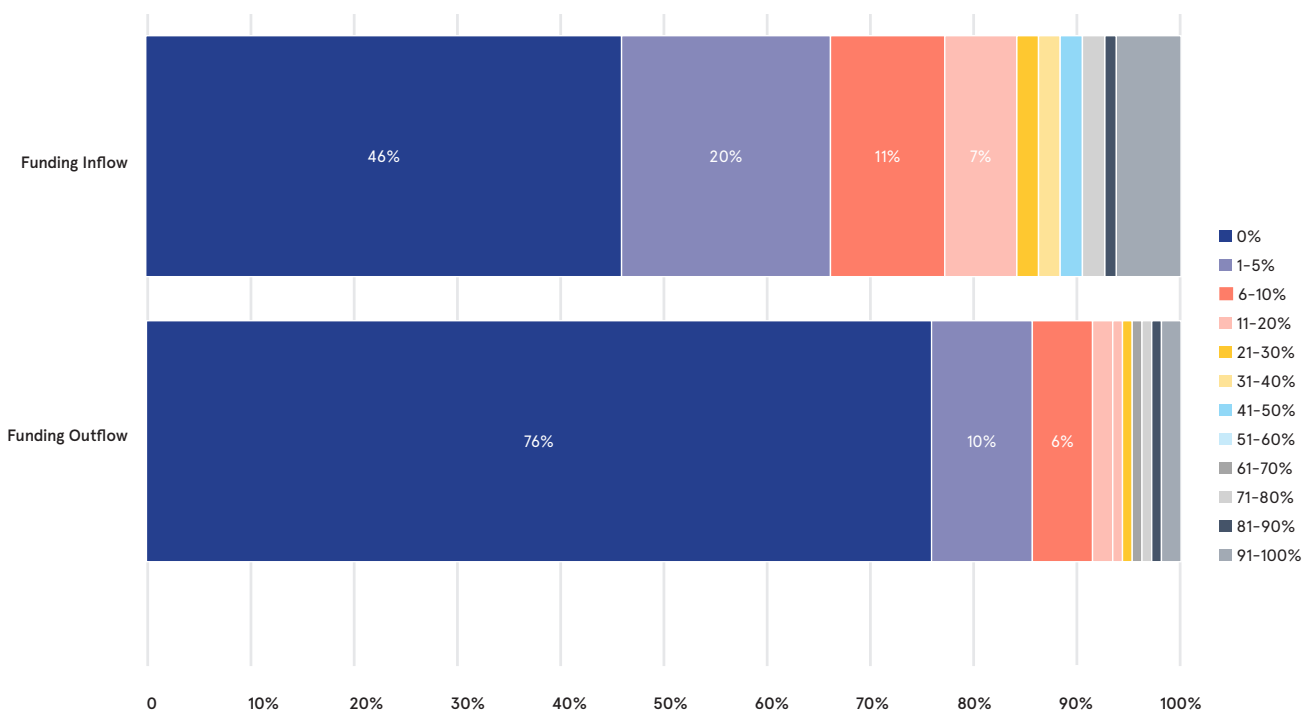
The topic of internationalisation and cross-border investment flows continues to perplex alternative finance stakeholders and regulators alike. In 2014, the *Moving Mainstream* report indicated lower levels of investment flows across European borders, either to other member-states or globally. The report concluded that just shy of 50% of firms indicated no inflow of funding from outside their country, while 72% of platforms indicated no outflow of funds to other countries<sup>28</sup>.

While funding flows increased slightly in 2015, cross-border transactions remained low across Europe. In 2015, 46% of respondents indicated zero funding inflows from outside of their country while 44% of firms had between 1-50%. 77% of surveyed firms had 10% or less of total funding coming from outside their country of operations. As in 2014, European alternative finance activity remains heavily domestic.

As for funding flowing out of countries in Europe, 76% had 0% of funds leaving national borders with a further 16% having less than 10%. Therefore 92% of surveyed platforms had less than 10% of funding leaving their respective countries of operation with 3% of surveyed countries having more than 70% of funding outflows.

Continued low levels of cross-border flows may be attributed to poor regulatory harmonisation, where national regulation remains fragmented across Europe. The only caveat to this is that certain regional blocks did register slightly above average levels of cross-border flows, including platforms in Nordic countries and Central and Eastern Europe. Though cross-border flows remain low, it should be noted that internationalisation, at the firm level, increased in 2015. A number of high-profile alternative finance firms<sup>29</sup>, either through mergers and acquisitions or organic expansion into new jurisdictions took place – perhaps hinting at how the market could evolve in the coming years.

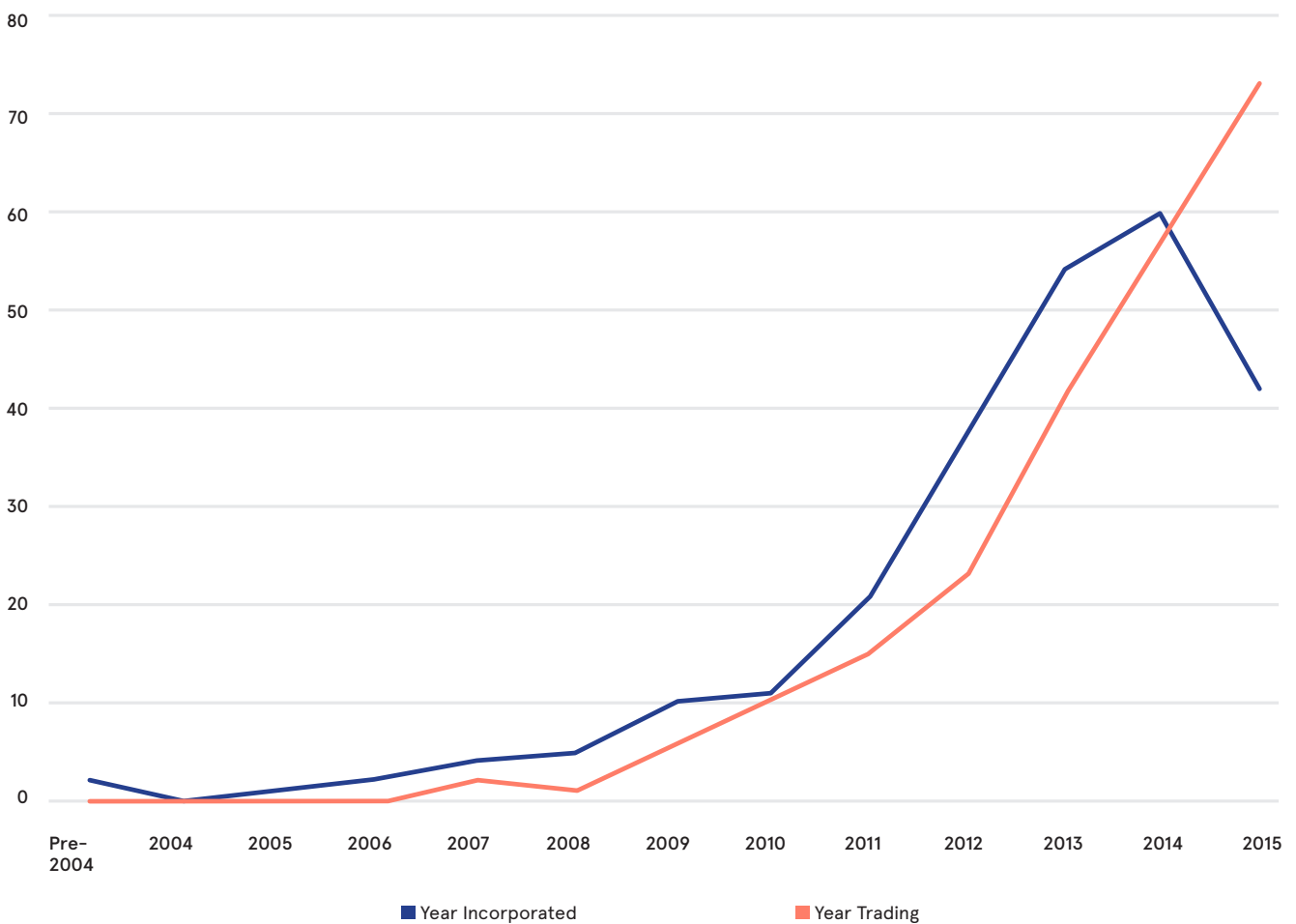
Figure 26: Cross-Border Transaction Inflow and Outflow (2015)



### Platform Trading & Incorporation

In an effort to determine platform formation levels across Europe, platforms were asked to indicate their year of incorporation and the year they commenced trading. Data indicates that between 2011-14, incorporation of platforms increased rapidly. Entry of new platforms peaked in 2014, with 60 firms incorporated in that year and 57 firms beginning to trade. In 2015, incorporation of new firms dropped, yet the number of firms which began trading increased significantly to 73. While it may be too soon to claim that the growth of online alternative finance, in terms of number of industry players is slowing, the survey data may indicate that new formation has peaked and that 2016 may show a phase of consolidation. Several factors could be contributing to this, including regulatory developments in key jurisdictions that may have presented barriers to potential new entrants.

Figure 27: Europe Alternative Finance Platform Incorporation and Trading (Pre-2004 to 2015)



# EUROPEAN ALTERNATIVE FINANCE RISKS AND REGULATIONS

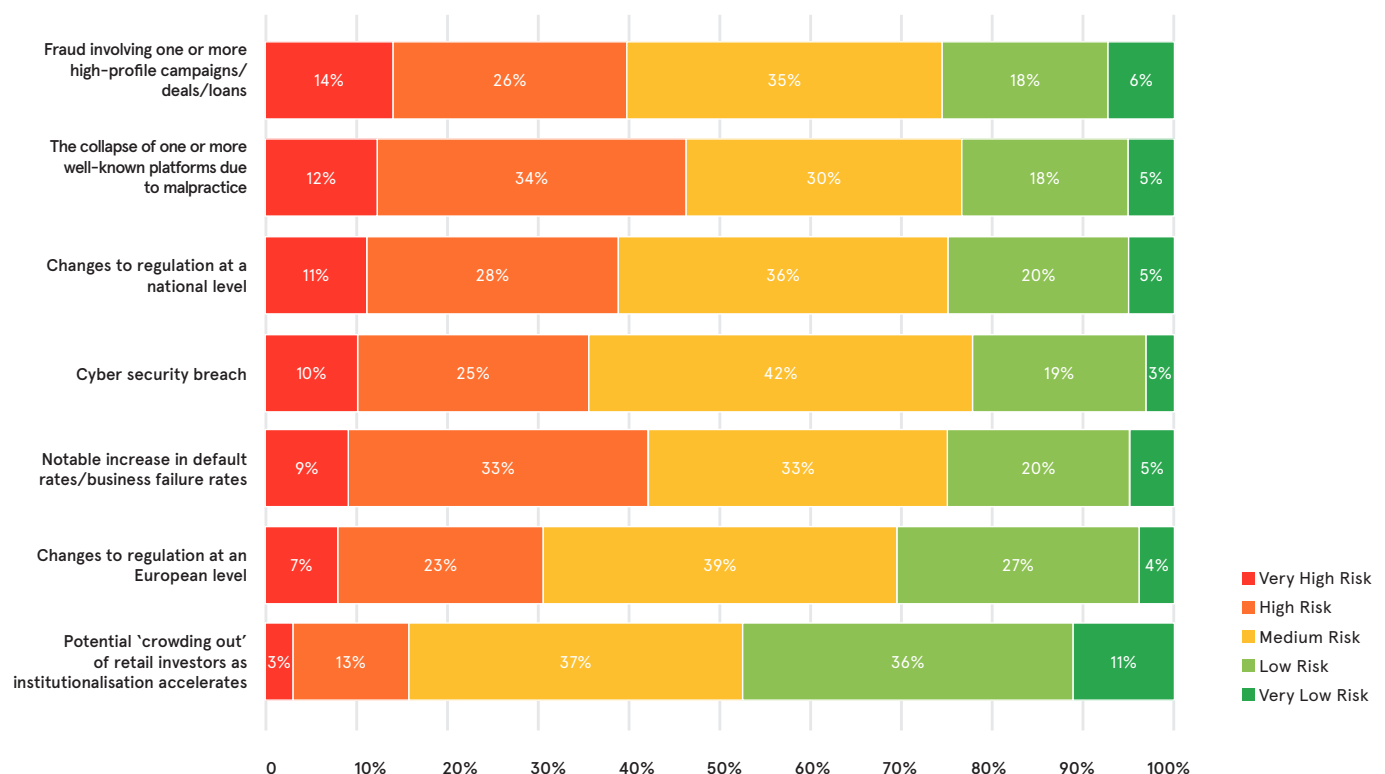
## Perceived Risks by Platforms

Platforms across Europe perceived risk to the industry in a variety of ways, though certain factors weighed more heavily than others. The ‘collapse of one or more well-known platforms due to malpractice’ was viewed as the most significant risk factor across Europe, with 46% of firms indicating this as ‘very high risk’ or ‘high risk’. Interestingly, 2015 saw its first major incidence of malpractice in Europe, when a large Swedish platform declared bankruptcy and shut down operations. It should be noted that while this platform was regulated by the Swedish Financial conduct authority, the Finansinspektionen, no specific peer-to-peer supervisory framework existed at the time of the firm’s collapse.<sup>30</sup> The reverberations of this high-profile collapse are likely a driver for industry-wide concern

over similar malpractice or fraud-related failures. Not surprisingly therefore, ‘fraud involving one or more high-profile campaigns/deals/loans’ registered as a significant risk factor, with 40% of firms viewing this as high or very high risk.

Given the significant emphasis on alternative finance for businesses across Europe, it is not surprising that a ‘notable increase in default rates/business failure rates’ is of significant concern to platforms. 42% of platforms indicated this as ‘very high risk’ or ‘high risk’, suggesting that firms catering to businesses are likely paying more attention to business affordability and credit/risk modelling when accepting businesses onto their respective platforms.

Figure 28: Industry Perceived Risks to Future Growth of the Alternative Finance Sector



While regulation remains a divisive issue across Europe, risk perceptions towards regulatory changes at a supra-European level remained fairly evenly split in the survey, with 30% of platforms viewing this as a 'very high risk' or 'high risk' and 31% viewing it as 'very low risk' or 'low risk'. Finally, a 'potential crowding-out of retail investors as institutionalisation accelerates was resoundingly viewed as 'very low risk' or 'low risk', as indicated by 47% of platforms. This is not surprising given the emphasis on increasing institutionalisation across Europe.

### Perceptions to Regulations

A lack of coherent regulatory frameworks for online alternative finance at both the European level, as well as in individual national contexts, remains a significant deterrent to cross-border flows and to the growth of alternative finance in some jurisdictions. Though a majority of member states regulate crowdfunding and peer-to-peer lending activities, many lack bespoke regulation or suffer from complex rules which may ill-fit alternative finance activities. Regulation remains non-existent in a handful of countries, thus hindering further development of the online alternative finance landscape

in those jurisdictions. As regulation varies considerably from jurisdiction to jurisdiction, and there remains no cohesive supra-national regulatory approach, cross-border investment is likely disadvantaged and therefore likely lower than it could otherwise be.

Given the attention placed on online alternative finance from regulators and policy-makers in 2015, it is interesting to note that alternative finance firms continue to have varied and divisive opinions towards existing and proposed regulation. Across Europe, only 38% of firms feel that existing regulations are adequate and appropriate, with 28% of firms viewing regulation as excessive and too strict, and 10% of firms perceiving existing regulation to be inadequate and too relaxed. Another 12% of firms indicated that no specific regulation existed in their jurisdiction but that it was needed, while 7% of firms indicated that no specific regulation existed and that none was needed.

When looking forward to proposed regulation, platform perceptions remained fairly unchanged. 47% of firms perceived proposed regulations as adequate and appropriate, while 22% viewed them as excessive and too strict.

Figure 29: Europe (excl. UK) Industry Perceptions towards Existing National Regulation

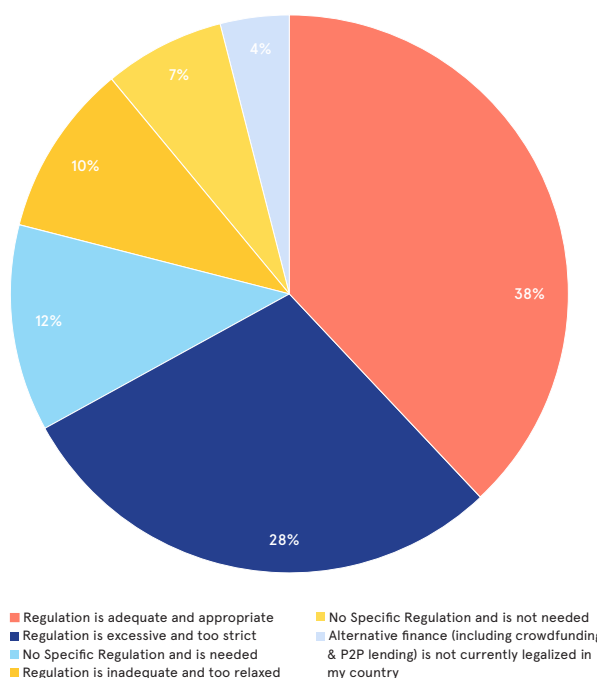
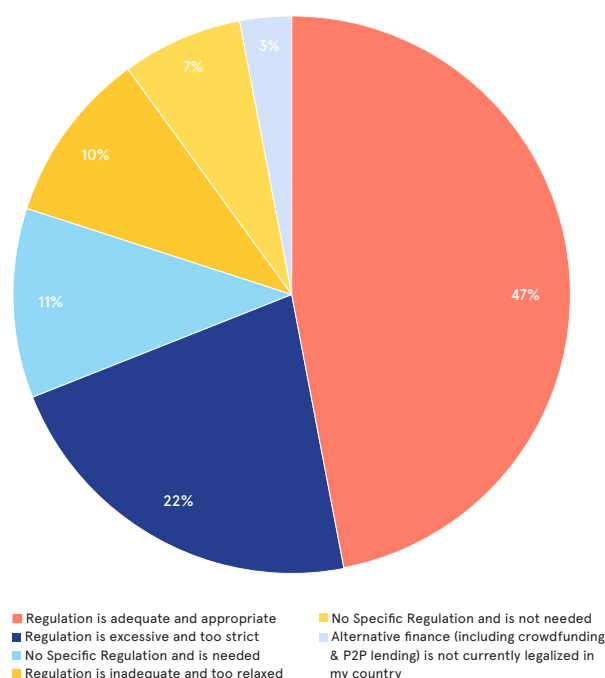


Figure 30: Europe (excl. UK) Industry Perceptions towards Proposed National Regulation



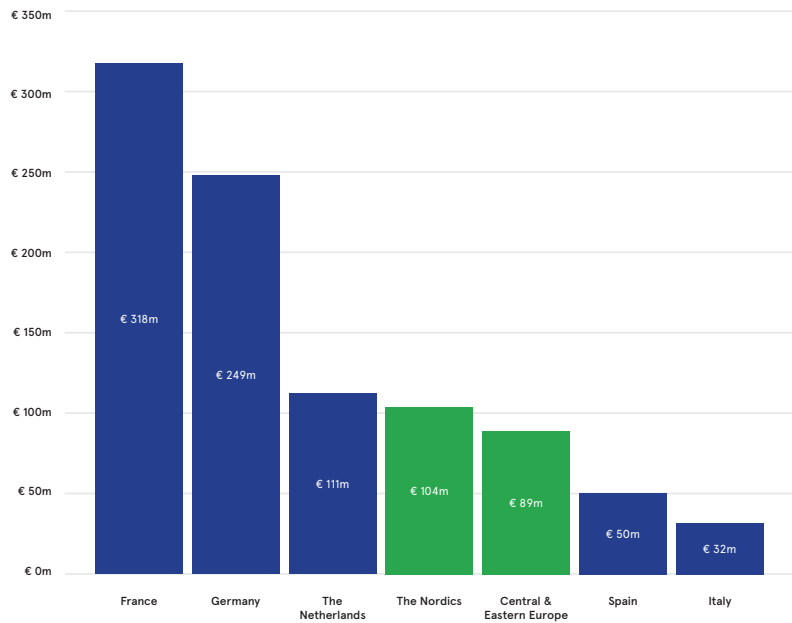


# ALTERNATIVE FINANCE MARKET SNAPSHOTS BY COUNTRY & REGION



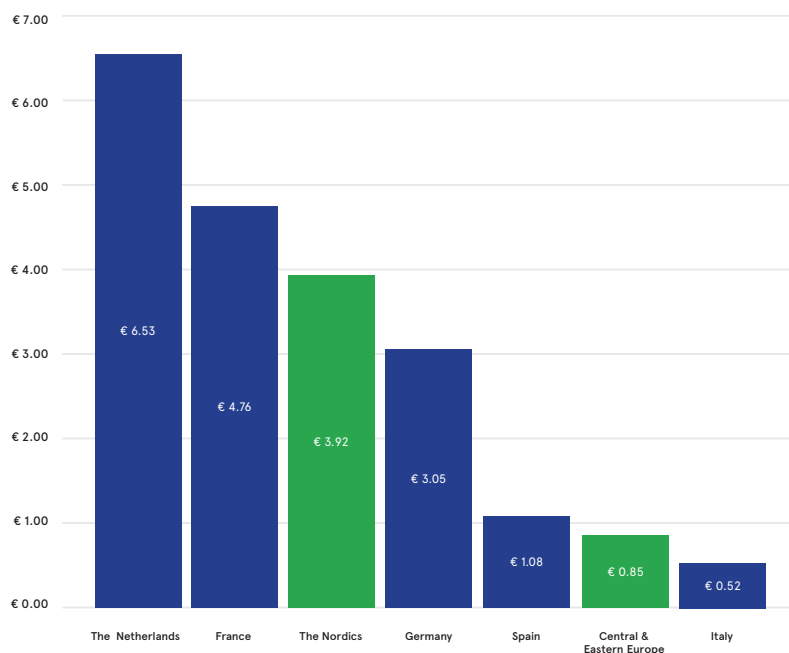
One of the salient features of the European alternative finance market is its regional diversity. It is therefore helpful to highlight some of the regional patterns and illustrate differences as well as similarities between key markets. To aid our analysis, we combined data from Norway, Denmark, Finland, Iceland and Sweden together as the Nordics. Similarly, we also aggregated market data for Central and Eastern Europe.

Figure 31: Online Alternative Finance Volume by Country and Region (2015)



Together as regional blocks, the Nordics recorded €104m in 2015 whilst Central and Eastern Europe registered €89m. In terms of market volume per capita, the Nordics is among the highest in the Europe, with €3.92. In contrast, Central and Eastern Europe is lagging behind with just €0.85 alternative finance market volume per capita. In the following chapters we will examine the national and regional markets of France, Germany, the Netherlands, the Nordics, Spain and Central & Eastern Europe in turn.

Figure 32: Market Volume Per Capita by Region (excl. UK) (€ EUR)



# FRANCE

The total volume of online alternative finance raised in France grew from €76m in 2013, to €154m in 2014 and €318m in 2015. The growth between 2013-2014 was 107%, and 104% between 2014-2015, representative of sustained growth across the three-year period. The aforementioned 2015 figure of €318m places France as the dominant force in European online alternative finance (excluding the UK), and is 28% larger than its closest competitor, Germany.

Figure 33: Online Alternative Finance Market Volumes in France 2013-2015 (€ EUR)

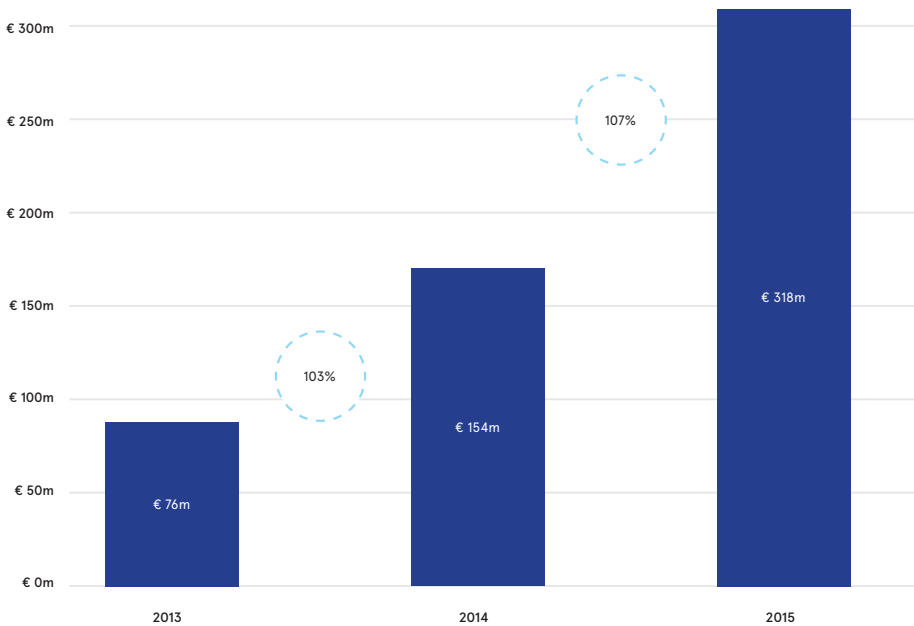
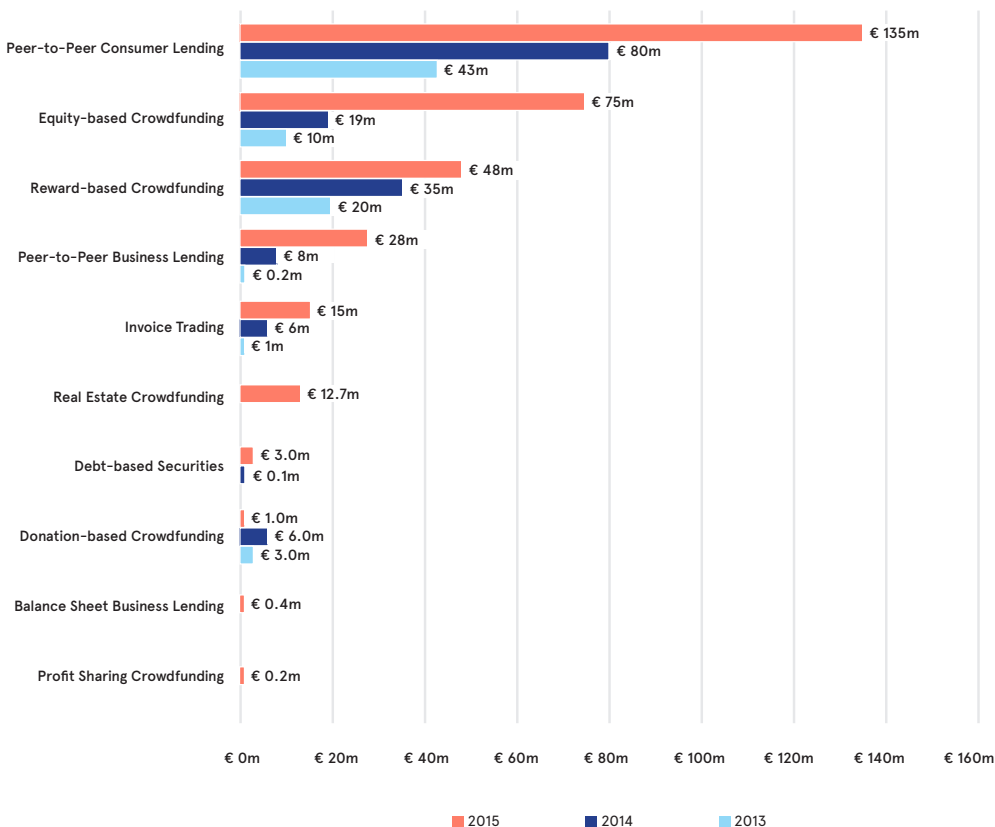


Figure 34: Total Alternative Finance Volume by Model in France 2013-2015 (€ EUR)

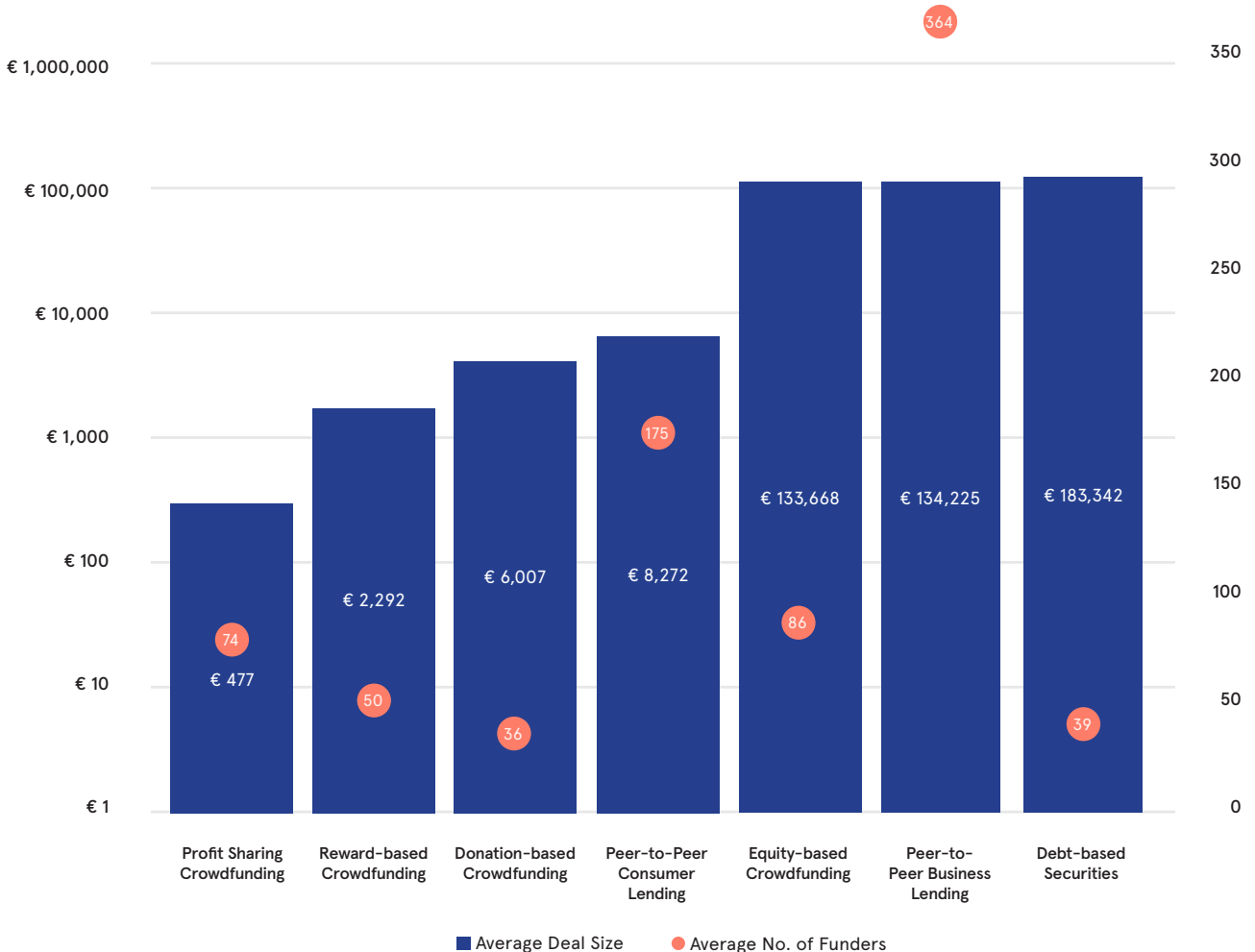


When considering the growth trajectory of France over the three-year period, it is clear that peer-to-peer consumer lending is the most prevalent model, accounting for 42% of the total market in 2015. Although this model accounts for the largest market volume, it is important to note that despite positive growth, there was a recorded decline in growth rate per annum, from 86% between 2013-14 to 68% between 2014-15.

The second largest model in France is equity-based crowdfunding, with €75m invested in 2015 nationally. Equity-based crowdfunding underwent market growth

of 298% between 2014-15 - the largest of any model nationally. Dropping to third in the model rankings is reward-based crowdfunding. This funding model grew the slowest of any model between 2014-15 (35%). Following on in fourth is peer-to-peer business lending, which raised a total of €36m during the three years, while in fifth place, invoice trading grew 150% between 2014-15 raising €15m. This figure represents 19% of this model's European total. Real estate crowdfunding has only recently emerged in France, with platforms helping to fund €13m- worth of property deals. The only model to exhibit negative growth was donation-based

Figure 35: Average Fundraise by Model in France (€ EUR)



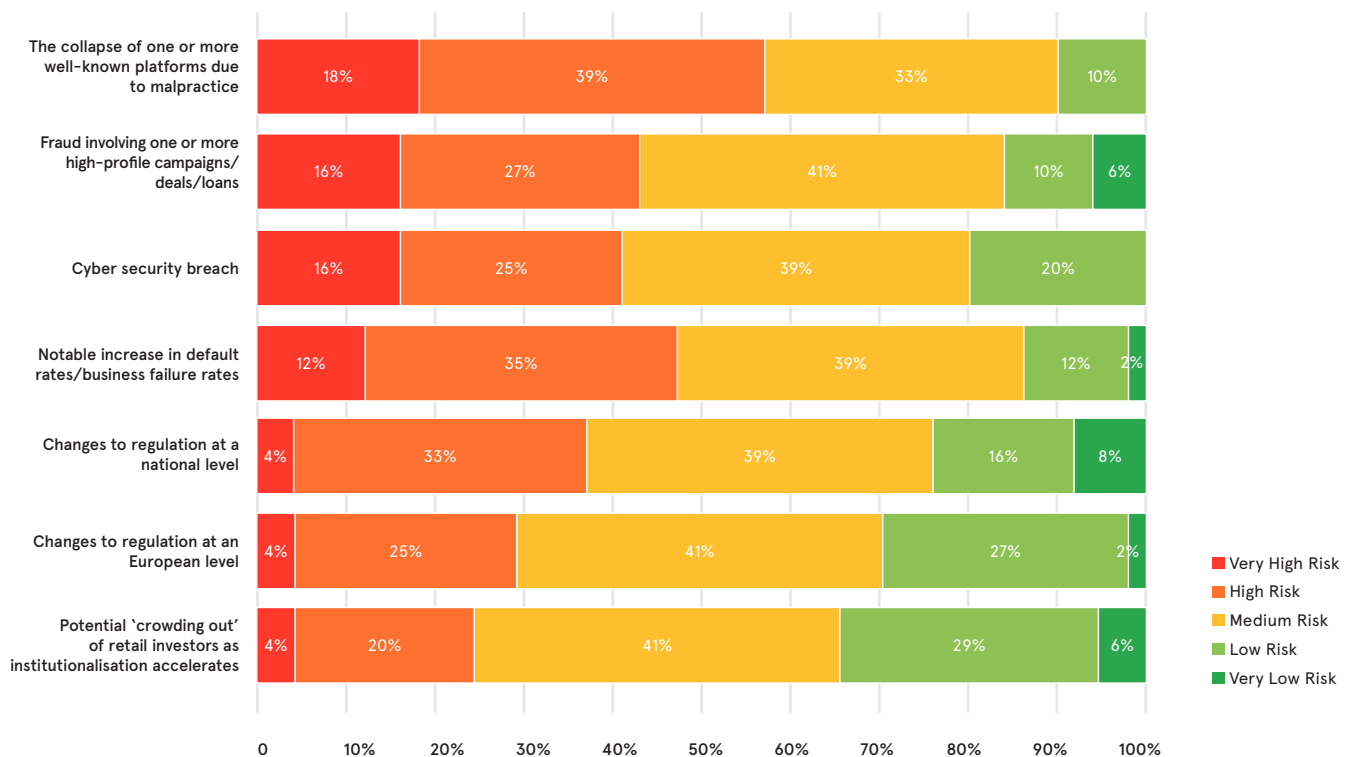
crowdfunding, going from €6m in 2014 to a three-year low of €1m in 2015.

The model with the largest average deal size of approximately €6.5m was real estate crowdfunding - 10 times larger than any other models' average deal size in France. Peer-to-peer business lending had an average loan size of €134,225 while peer-to-peer consumer lending had an average of €8,272 per loan. Peer-to-peer business lending in France involved the largest number of investors on average (364), more than double the number involved in

a typical peer-to-peer consumer loan (175). The average number of investors involved in all types of crowdfunding (including profit sharing, reward-based, donation-based and equity-based) was very similar, ranging between an average of 36-86. Equity-based crowdfunding had by far the largest average deal size (€133,668) of any form of crowdfunding apart from real estate crowdfunding.

The 'collapse of one or more well-known platforms due to malpractice' remains the greatest perceived risk by firms surveyed in France. 'Fraud involving a high profile' remains the greatest perceived risk by firms surveyed in France. 'Fraud involving a high profile

Figure 36: Industry Perceived Risks to Future Growth of the Alternative Finance Sector in France

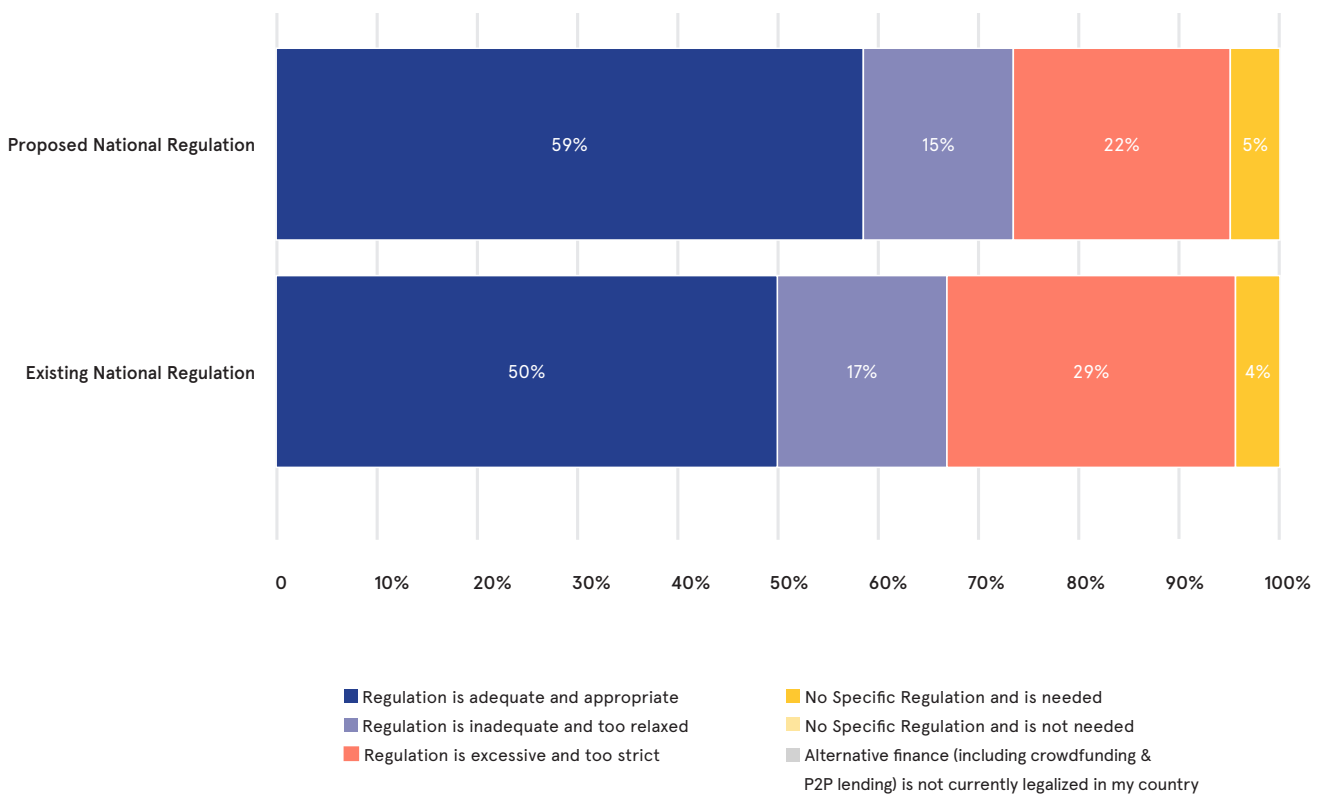


campaign or loan’, and ‘cyber security breaches’ were the industry’s next two most pressing worries. ‘Notable increases in default rates or funded business failure’ can be seen to have the fourth largest risk perception determined by 47% of survey respondents viewing this as ‘high or very high risk’. It seems those surveyed did not see much threat from the ‘crowding out’ of retail investors as institutionalisation accelerates in France.

Regarding perceptions of *existing* regulation in France, 50% of market participants perceived French regulation as ‘adequate and appropriate’, 17% think regulation is

‘inadequate and too relaxed’ while 29% are convinced that regulation is ‘excessive and too strict’. When considering opinions regarding *proposed* French regulation, the data tells us that 59% of those surveyed feel potential future regulation will be ‘adequate and appropriate’ with 15% perceiving proposed regulation to be ‘inadequate and too relaxed’. A further 22% deem future regulation will be ‘excessive and too strict’. There appears to be a paradigm shift in the regulatory perceptions in France from ‘excessively strict’ towards ‘adequate and appropriate’ given the changes in perceptions from existing to proposed regulations.

Figure 37: Industry Perception Towards Regulation in France



# GERMANY

In 2015, German online alternative finance grew by 115%, from €140m in 2014 to €249m in 2015, ranking second among European countries in terms of total volume. This figure was a substantial increase on the growth rate of the previous year at 78%, suggesting the German market is picking up pace. If this acceleration continues, it may be possible that Germany could become the largest alternative finance market in Europe, excluding the UK, in the coming years.

Figure 38: Online Alternative Finance Market Volumes in Germany 2013-2015 (€ Euro)

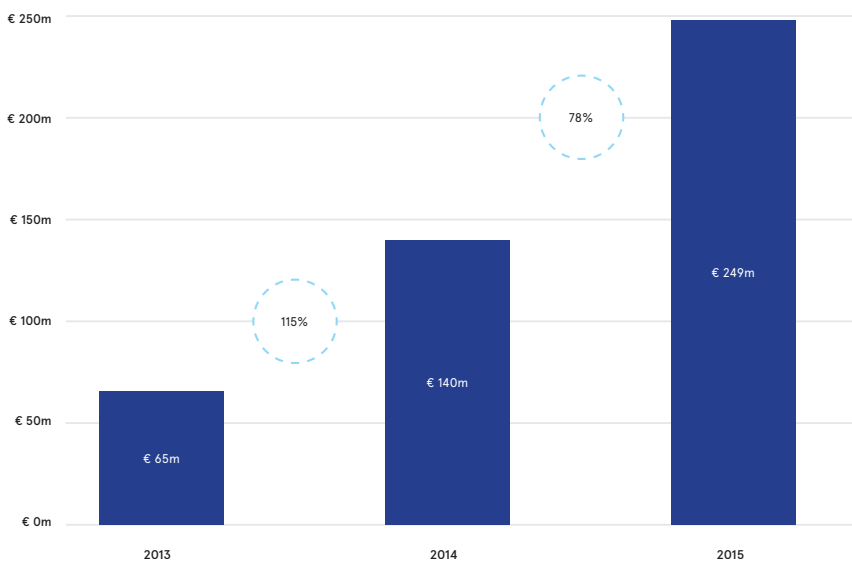
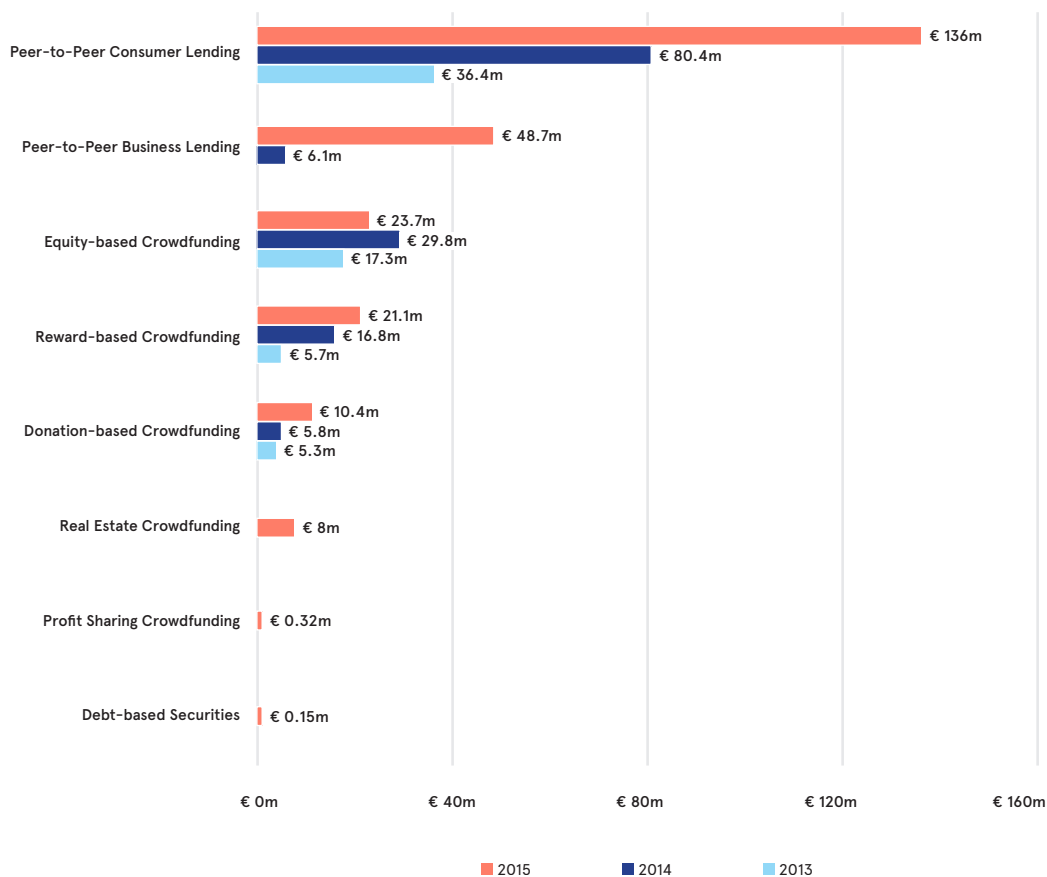


Figure 39: Total Alternative Finance Volume by Model in Germany 2013-2015 (€ EUR)



Peer-to-peer consumer lending was the prevailing model, with the highest total volume accounting for €253m between 2013-15, growing by approximately 121% between 2013-14, and by 70% in 2014-15. Over the course of three years, this model was also the fastest growing in Germany, at an average annual growth rate of 95% from 2013-15. In 2015, this model accounted for €136m, or roughly 55% of Germany’s total online alternative finance volume.

Starting from a low base in 2014, the peer-to-peer business lending model is the second highest ranked model in Germany by transaction volume. Accounting for €49m in 2015, this model experienced the most significant growth rate from the previous year, increasing by 698% from 2014’s €6m total peer-to-peer business lending volume.

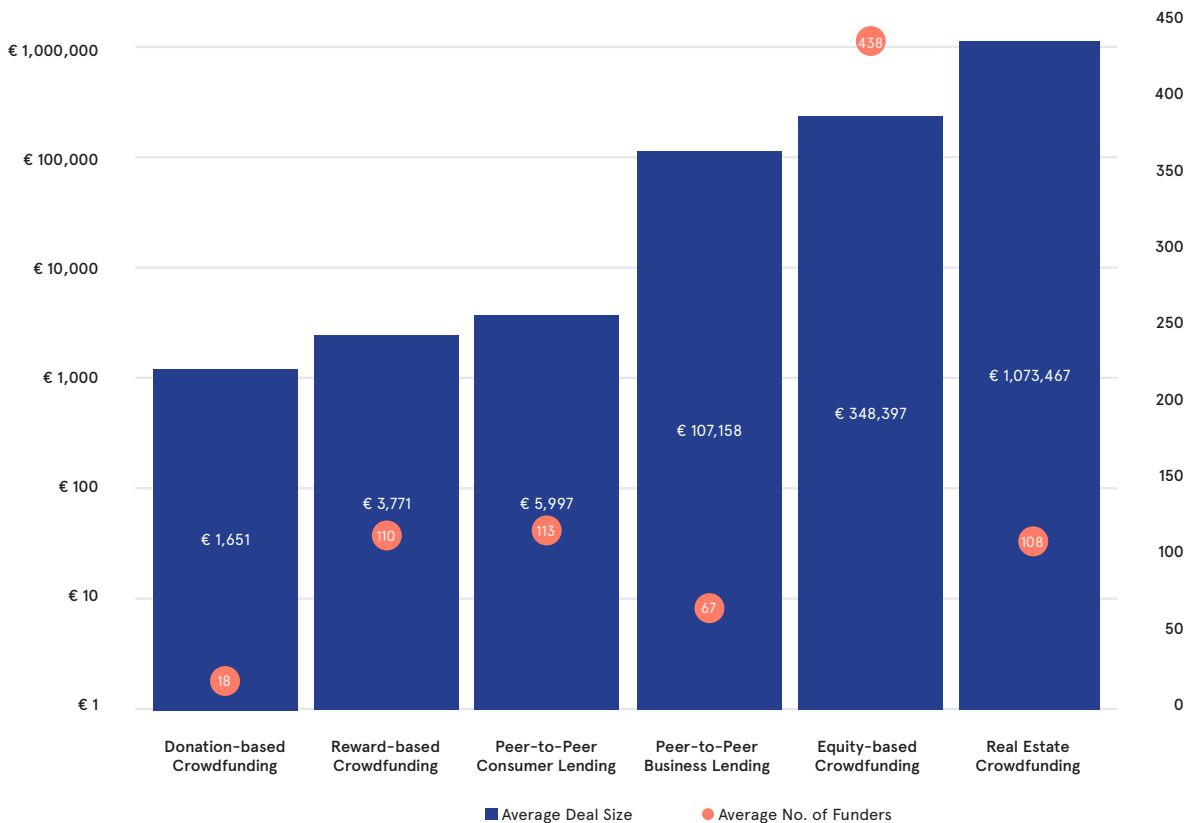
Equity-based crowdfunding, though performing well in terms of the overall 2015 European ecosystem (approximately accounting for 15% of all European equity-based crowdfunding), actually marked a significant decline in total volume from the previous

years, reducing from €30m in 2014, to €24m in 2015. This 21% decline is likely the result of continued regulatory struggles, as indicated in several qualitative remarks from equity-based platforms surveyed in this study.

Reward-based crowdfunding accounted for €21m in 2015, growing by 26% from the previous year. This model represents 8.5% of Germany’s total 2015 online alternative finance volume. Donation-based crowdfunding, though accounting for only €10.4m of total 2015 volume, saw an 80% increase from the previous year’s €6m. Several new models also began trading in Germany in 2015 including: real estate crowdfunding (€8m), profit sharing crowdfunding (€320,000) and debt-based securities (€150,000).

The average funding size and participating average number of funders in Germany varies considerably from model to model. As indicated in the figure above, donation-based crowdfunding saw an average of 18 individuals participating, with an average of €1,651. Reward-based crowdfunding saw an average of 110 individuals, with an average fundraising size of €3,771. Peer-to-peer consumer lending saw an average of 113 individuals, with an average fundraising size of €5,997. Peer-to-peer business lending saw an average of 67 individuals, with an average fundraising size of €107,158. Equity-based crowdfunding saw an average of 438 individuals, with an average fundraising size of €348,397. Real estate crowdfunding saw an average of 108 individuals, with an average fundraising size of €1,073,467.

Figure 40: Average Fundraise by Model in Germany (€ EUR)





When moving away from non-investment based models, the average deal size increases. The average peer-to-peer consumer loan was approximately €5,997, with 113 lenders participating in each loan. Thus the average amount lent per individual is approximately €50. As previously discussed, many peer-to-peer consumer lending platforms utilise auto-bid functionality when matching retail investor funds to available loans. As such, it is not unusual to see double-digit lending contributions across each loan, as platforms have a diversification mandate and typically diversify an individual's portfolio, funding a number of loan-parts rather than an entire individual loan.

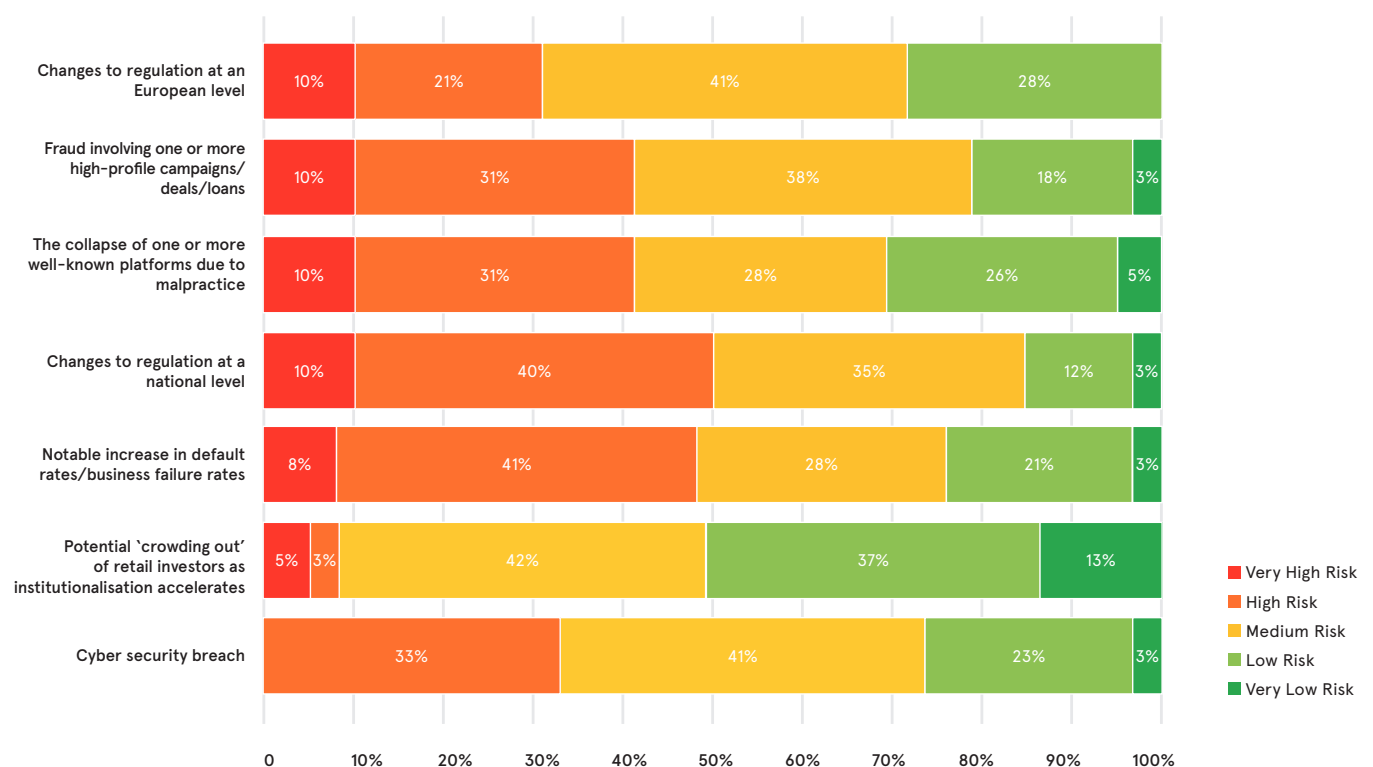
A significant jump in fundraising size occurs when we begin to look at models geared towards business or real estate finance. Peer-to-peer business lending saw an average of €107,158 per business loan, with 67 lenders apiece. While auto-bid functionality is becoming more prevalent across this model in Europe, it should be noted that many lenders still self-select the loans that they participate in. As such, greater sums tend to be lent per loan. As auto-bidding increases, the average amount lent by each lender will likely decrease whilst the average number of participants may increase.

The average deal size on equity-based crowdfunding platforms in Germany was €348,397, with approximately 438 investors per deal. This figure is not surprising, as the amount investors can invest is limited by regulation. Should an investor wish to invest more than €1,000, they must undergo an affordability evaluation, amongst other requirements<sup>31</sup>. As such, it is not surprising that the average investment per deal by each investor is about €765 – well below this threshold.

Real estate crowdfunding had an average deal-size of €1m, with 108 investors apiece. In this instance, property is the key asset, so it is not surprising that average deal sizes and investments are high. However, it is important to note that the average investment tends to be just below €10,000, as regulation dictates an upper limit for private investors (i.e. capped at 10k).<sup>32</sup>

Given the division of opinion towards regulation in Germany, it is not surprising that approximately 50% of German platforms view 'changes to national regulation' as 'very high risk' or 'high risk'. Only 15% of firms indicated this as a 'very low risk' or 'low risk'.

Figure 41: Industry Perceived Risks to Future Growth of the Alternative Finance Sector in Germany



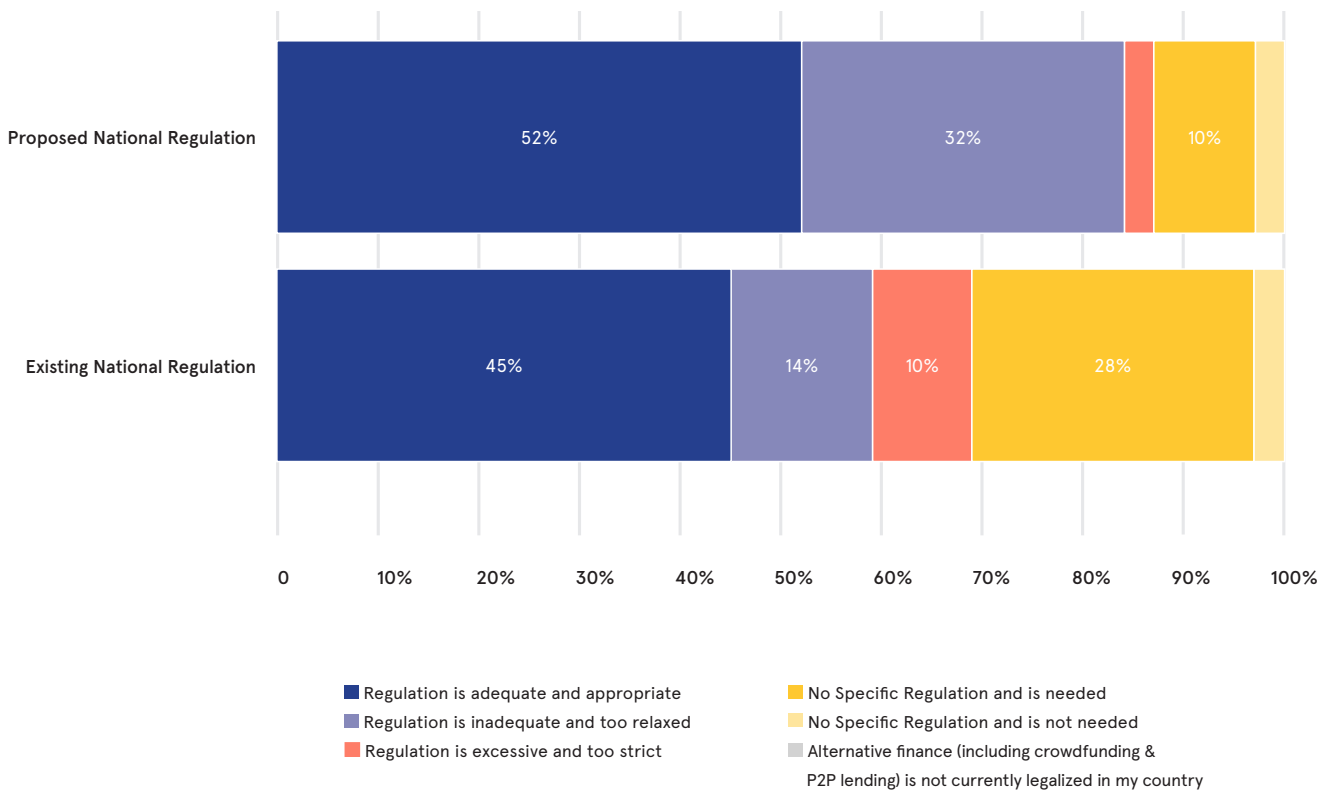
In close second, platforms perceive a “notable increase in default rates/business failure rates’ as a significant risk factor, with 49% indicating this to be ‘very high risk’ or ‘high risk’. In third place and related to defaults and business failures, 41% of survey respondents ranked ‘fraud involving one or more high-profile campaigns/deals/loans’ as ‘very high risk’ or ‘high risk’, with only 21% of firms viewing this as ‘very low risk’ or ‘low risk’.

Interestingly, the factor that is viewed as the least risky for the industry’s continued growth relates to ‘potential crowding out of retail investors as institutionalisation accelerates’, with 50% of firms stating this to be ‘very low risk’ or ‘low risk’. This is interesting for a few reasons. Firstly, as mentioned previously, there are restrictions on retail investors imposed by the regulator. As such, one might expect German platforms to entertain increased

levels of institutional participation. Yet, when reviewing institutional participation, Germany was one of the least exposed countries to institutional participation as of yet.

Platforms in Germany have a somewhat divided outlook towards regulation. While 40% of firms feel that existing national regulation is ‘adequate and appropriate’, another 53% perceive it as ‘too strict and excessive’. When accounting for model type, this sentiment seems to stem predominantly from equity-based platforms that have had to deal with regulatory caps on investor activity and limits to the amount firms may raise. Yet, when asked for their perception towards future or proposed regulation, positive sentiment increases. 52% of firms perceive proposed rules as ‘adequate and appropriate’, while 32% of firms view the proposed regulation as ‘too strict or excessive’.

Figure 42: Industry Perception Towards Regulation in Germany



# THE NETHERLANDS

The Netherlands has a large number of well-established online alternative finance platforms, covering a wide variety of different models, from peer-to-peer business lending to debt-based securities (debentures) and equity-based crowdfunding. The total amount raised in 2015 was €111m, up from €78m in 2014 and €46m in 2013. The growth rate increased from 42% in 2014 to a sizable 70% in 2015.

Figure 43: Online Alternative Finance Market Volumes in the Netherlands 2013–2015 (€ EUR)

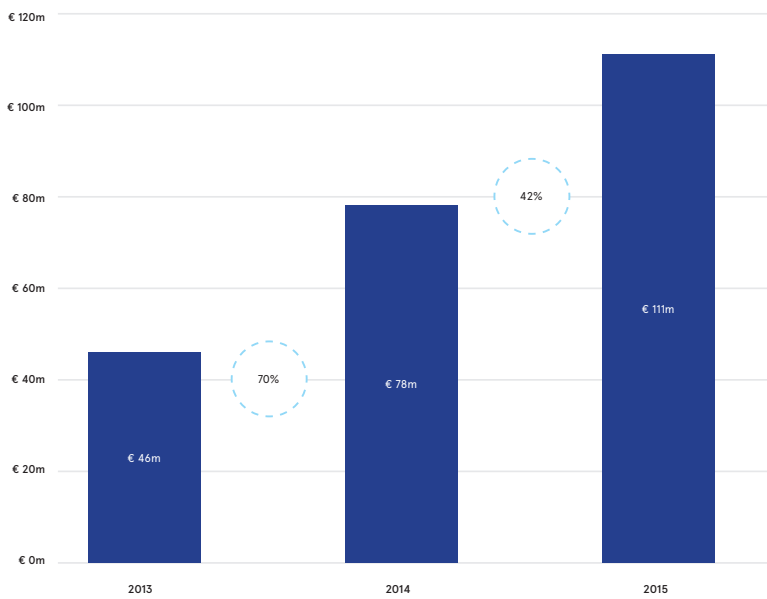
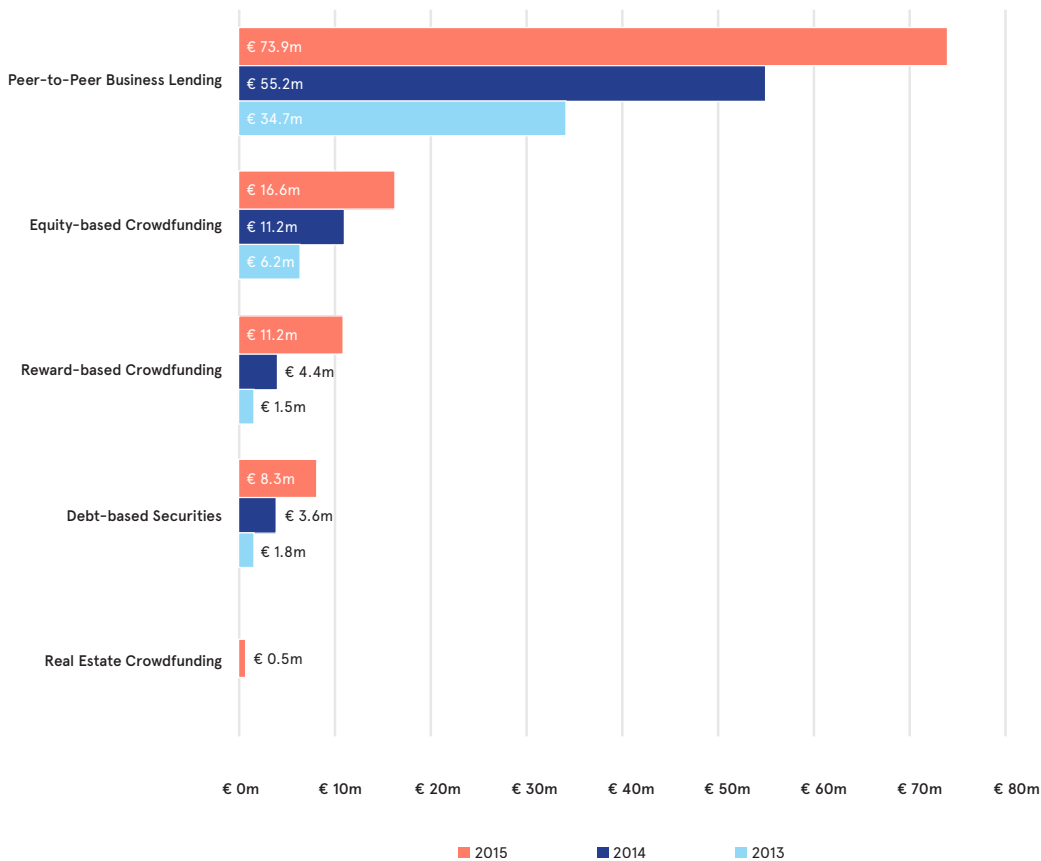


Figure 44: Total Alternative Finance Volume by Model in the Netherlands 2013–2015 (€ EUR)

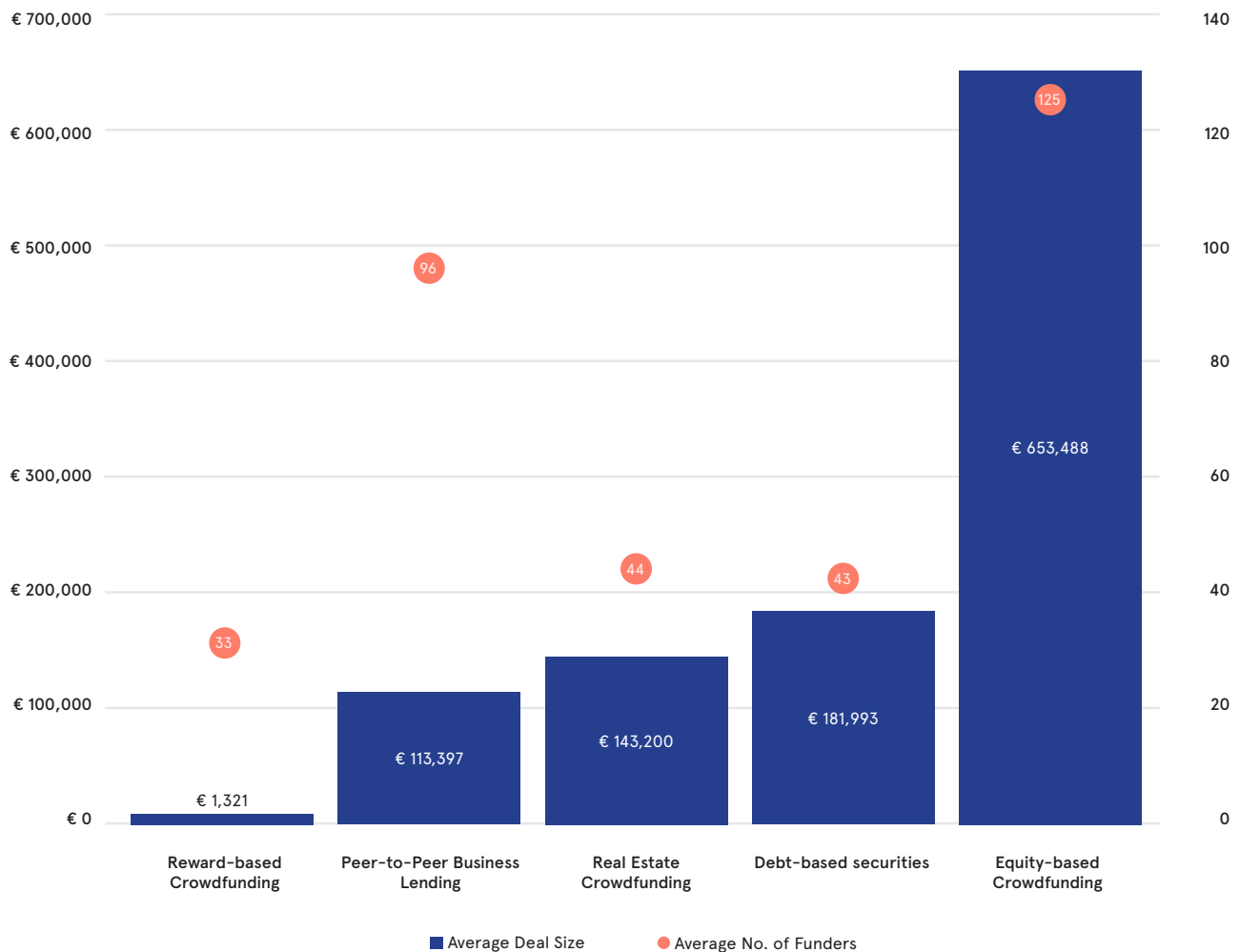


Peer-to-peer business lending had the highest total volume nationally, growing 34% from €55.2 million in 2014 to €74m in 2015. This represents the highest peer-to-peer business lending figure in Europe (excluding the UK). Equity-based crowdfunding was next with a total volume of €16.6m in 2015 - up 49% from €11.2m in 2014. In 2015, reward-based crowdfunding generated €11.2m, growing by an impressive 153% from €4.4m in 2014 while debt-based securities continued to expand at 131% growth in 2015 to a total volume of €8.3m from €3.6m in 2014. Finally, real estate

crowdfunding contributed to the overall total online alternative finance volume for the first time in 2015 with €0.5m raised under this model. It is important to note that the Netherlands remains the third highest market in continental Europe despite having no contribution from peer-to-peer consumer lending - the largest model type by transaction volume in Europe as a whole.

In terms of the average deal size for each model, equity-based crowdfunding had the highest with €653,488 raised from an average of 125 investors per deal. Debt-

Figure 45: Average Fundraise by Model in the Netherlands (€ EUR)



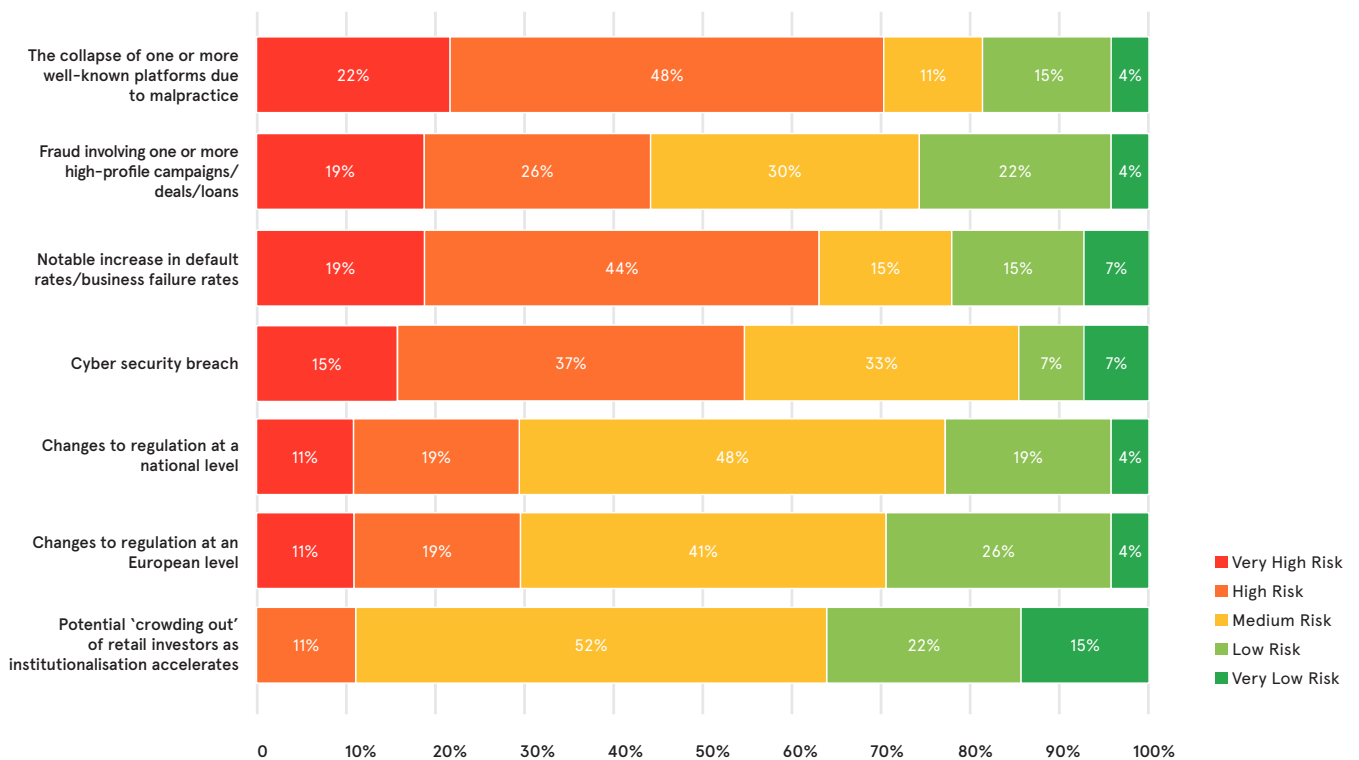
based securities had an average of €181,933 raised from 43 backers while real estate crowdfunding had an average of 44 investors contributing to an average deal size of €143,200. Peer-to-peer business lending had an average deal size of €113,397 from 96 investors with reward-based crowdfunding having a much smaller average with €1,321 from 33 backers.

In terms of risk perception, the highest-rated risk given by platforms was the ‘collapse of one or more well-known platforms due to malpractice’ - 70% rated this as ‘high or very high risk’. The lowest risk was found to be potential

‘crowding out’ of retail investors as institutionalisation accelerates, with 52% giving a response of ‘medium’. Changes to regulation, both on a national and European level, were also not considered to be high risk to the online alternative finance industry in the Netherlands.

The Dutch regulatory framework, applicable to both debt-based crowdfunding and equity-based crowdfunding, was updated from 1st April 2016. Crowdfunding platforms in the Netherlands are expected to follow a set of best practices that encourage investors to invest appropriately by following best

Figure 46: Industry Perceived Risks to Future Growth of the Alternative Finance Sector in the Netherlands



practices such as diversification. Alongside this, the platforms must adhere to a list of requirements broadly covering areas of risk, ethics, transparency and consistent operational practices. It will be of the utmost importance for the regulatory bodies and businesses to monitor the growth of the market given these new rules. Given our survey responses, it seems that platforms themselves are generally satisfied with the regulatory developments and recognise the need for transparency in the industry.

In terms of perception of national regulations, 76% view the proposed national regulations as ‘adequate and appropriate’, up from 57% for existing national regulation. 20% view the proposed national regulations as ‘too excessive and strict’, while 18% view existing regulations in the same light. It seems therefore that the vast majority of platforms see proposed regulation to be suitable and the coming years will reveal the impact of these developments on the growth and success of the alternative finance industry in the Netherlands.

Figure 47: Industry Perception Towards Regulation in the Netherlands



# THE NORDICS

Across the period 2013-15, the Nordics, which includes Norway, Sweden, Finland and Iceland, underwent a three-year average growth rate of just under 10%. However, in actuality, between 2014-15, a major platform based in Sweden went bankrupt due to a widely-reported scandal involving the misappropriation and misuse of funds. This led to the total alternative finance volume for 2014-15 to fall by almost a fifth in that year but still remained well above the 2013 figure of €94m. In 2015, a total of just under €104m was raised across the region, mostly dominated by Finland, contributing a total of €64m.

Figure 48: Online Alternative Finance Market Volumes in the Nordics 2013-2015 (€ EUR)

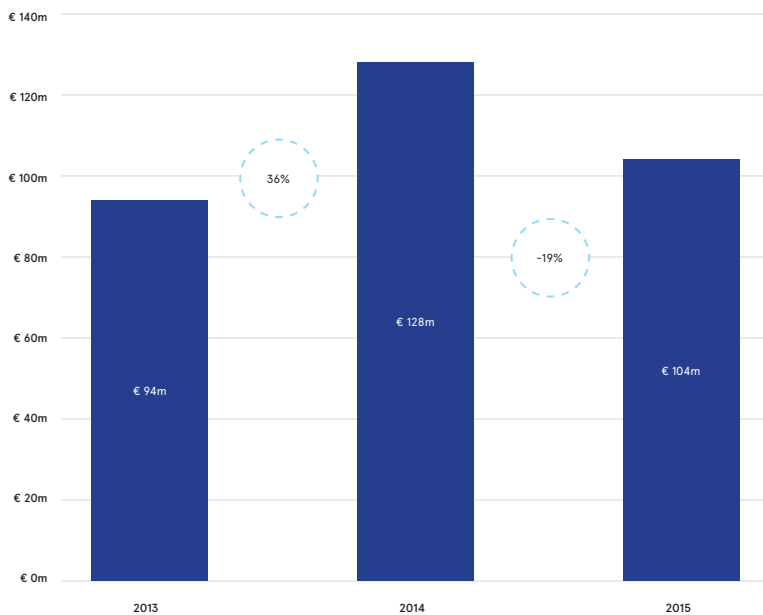
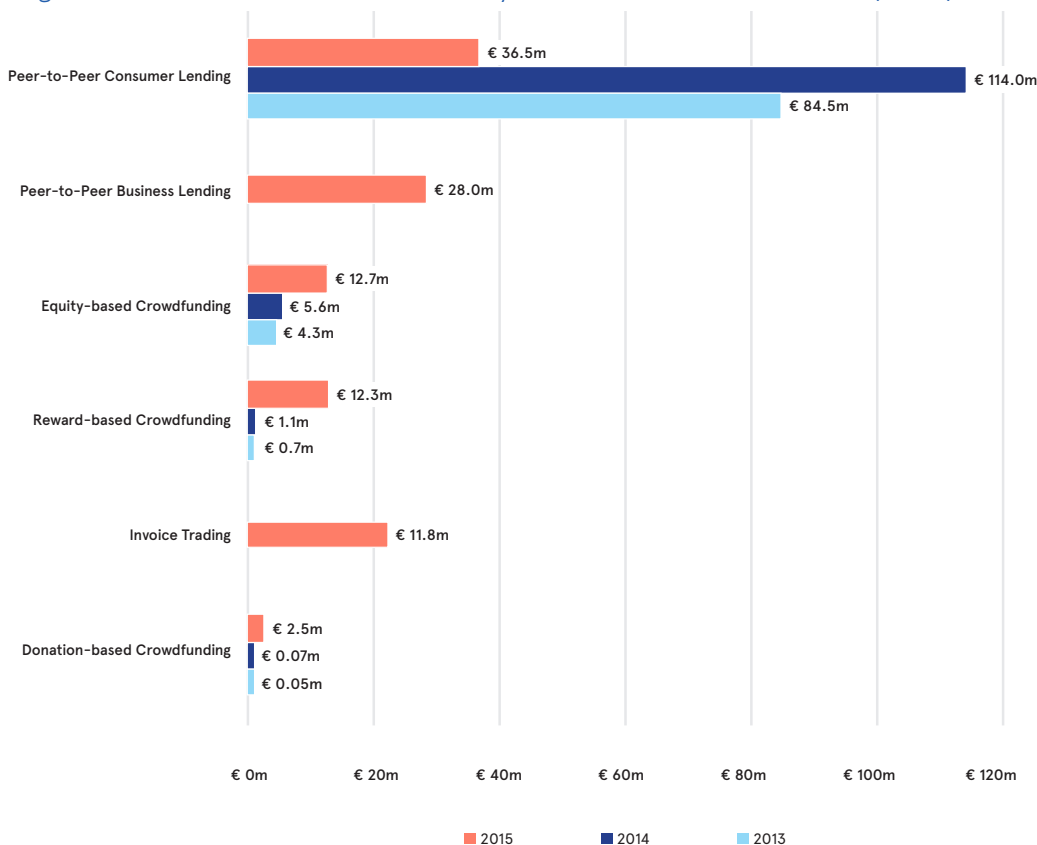


Figure 49: Total Alternative Finance Volume by Model in the Nordics 2013-2015 (€ EUR)

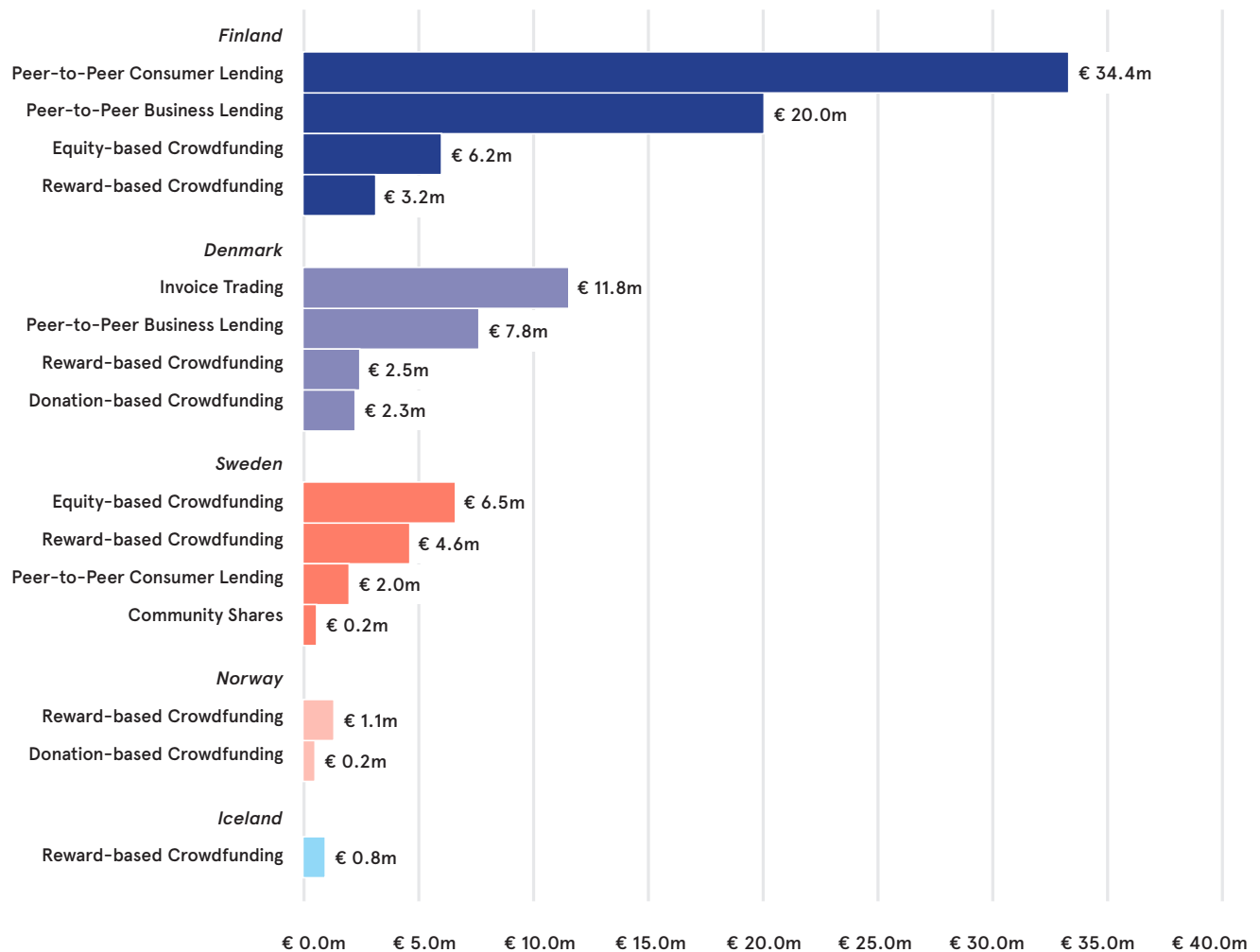


Upon closer inspection of each individual alternative finance model, it becomes clear that the Nordics are dominated by peer-to-peer consumer lending, which accounted for over 35% of the total market activity in 2015. This model remains dominant, despite a drop of 68% on the previous year - largely down to the failure of the aforementioned major platform in Sweden. Peer-to-peer business lending followed in second place with over a quarter of alternative finance activity - an impressive feat given this was the first year in which this model recorded any market activity. Equity-based crowdfunding, reward-based crowdfunding and invoice trading each accounted for between 11% and 12% of total market activity in 2015. Equity-based crowdfunding increased substantially in 2015 on the previous year, with a growth rate of 128%. For reward-based crowdfunding, 2014-15 was a record year with rapid growth increasing to 984% between 2014-15

compared to the relatively meagre growth rate of 68% between 2013-14. For invoice trading, 2015 was the first year in which market data was recorded. Donation-based crowdfunding remains relatively low with a total of €2.5m recorded in 2015, which nevertheless is a marked increase on the €70,000 of 2014.

Within the Nordics, it is clear that there are substantial disparities and differences between each of the respective countries within the alternative finance models. With peer-to-peer consumer lending, Finland is, by far, the market leader with over €34m channelled through these platforms in 2015, compared to just over €2m in 2015 for Sweden. No other Nordic country reported any trading volumes at all for this model. As for peer-to-peer business lending, once again Finland leads the region with €20m raised in 2015, followed by Denmark which approached €8m.

Figure 50: Total Alternative Finance Volume by Model Breakdown by Country - the Nordics (2015)



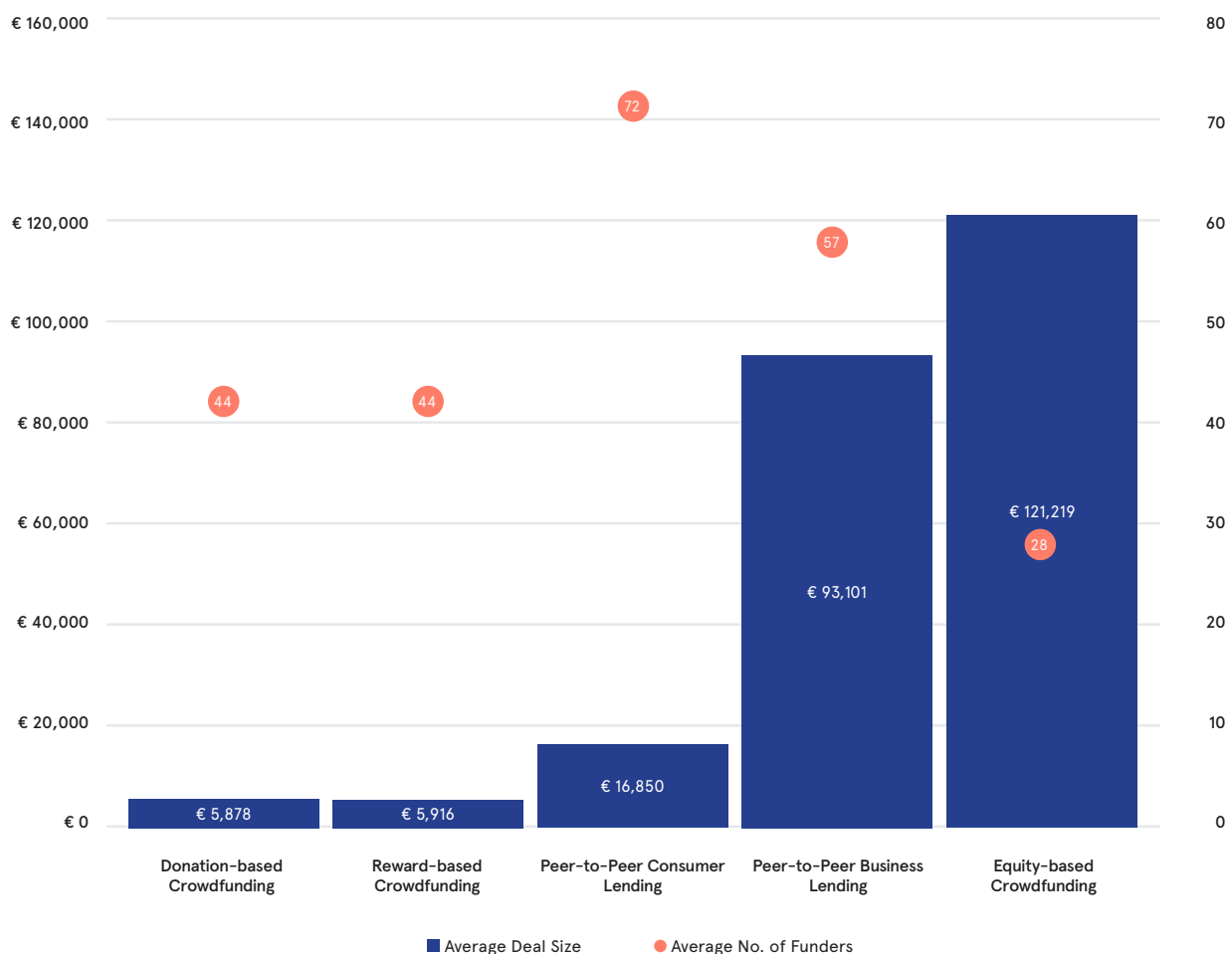


No other country in the Nordics reported market activity for peer-to-peer business lending over the period 2013-2015. For equity-based crowdfunding, both Sweden and Finland are similar, with over €6m, whilst no other Nordic country reported any volumes for equity crowdfunding in 2015. Reward-based crowdfunding was the only alternative finance model for which every Nordic country reported market activity. This was led by Sweden with over €4.6m, followed by Finland with almost €3.2m and then Denmark with over €2.5m. Both Norway and Iceland had trading volumes at the level of €1m in 2015. As for invoice trading, Denmark was the only country to report trading volumes with nearly €12m in 2015 - the largest model for the country. For donation-based crowdfunding, Denmark again reported relatively high volumes with nearly €2.3m while Norway contributed only €230,000.

All in all, it seems clear that Finland is the market leader when it comes to the majority of online alternative finance models, with both Denmark and Sweden also performing relatively strongly. Norway seems to be lagging behind their Nordic counterparts, while Iceland also has a small market size given the country's small population and economy. Nevertheless, Iceland on a per capita basis has a higher figure than both Norway and Sweden with €2.56 per person. Finland, however, is the undisputed market leader of the Nordics with €11.56 per person, making it the third most active country on a per capita basis in Europe behind only the UK and Estonia.

With regard to the average number of investors by model in the Nordic region, both donation-based crowdfunding and reward-based crowdfunding have exactly the same average number of funders

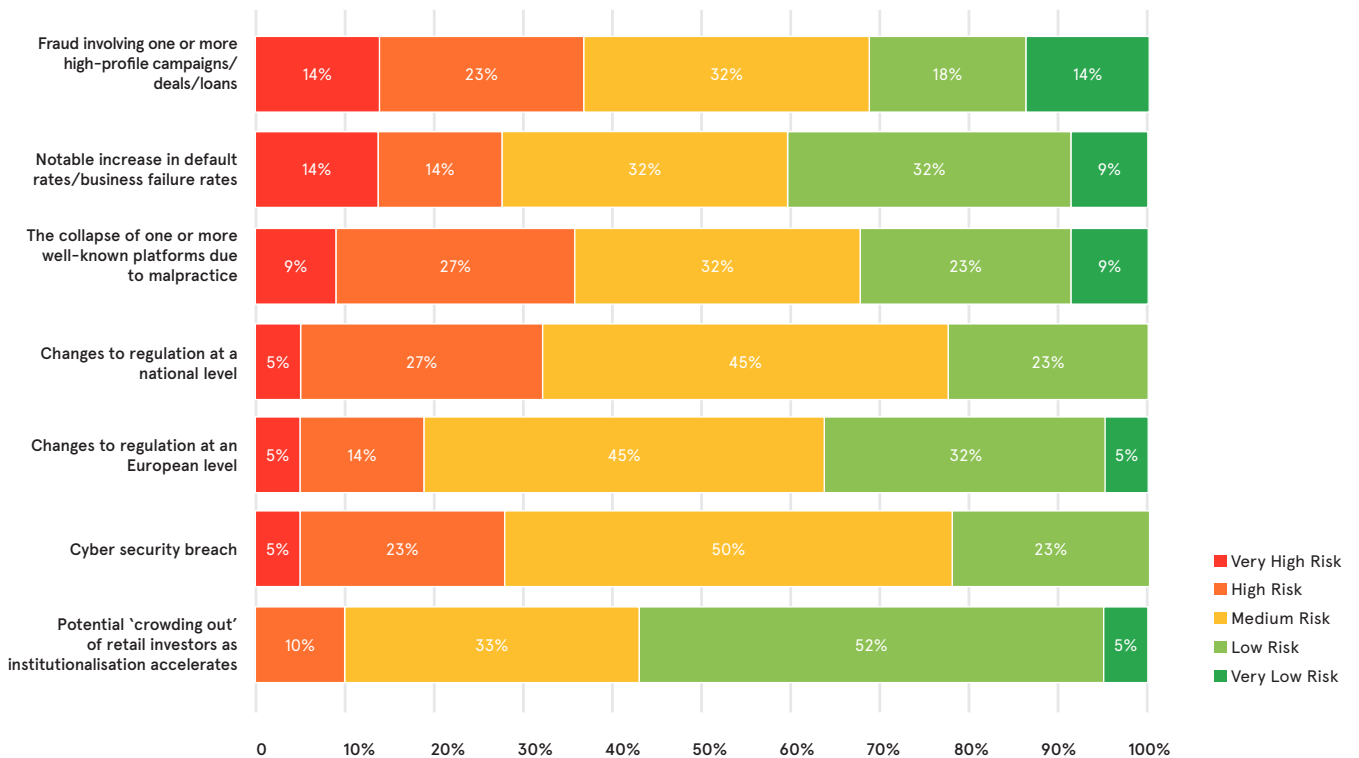
Figure 51: Average Fundraise by Model in the Nordics (€ EUR)



at 44. Compared to the UK, the average number of reward-based crowdfunding funders is substantially less in the Nordic region, while donation-based crowdfunding is slightly higher when compared in this way. The peer-to-peer consumer lending average number of funders was 72 and for peer-to-peer business lending the average number of funders was 57. As for equity-based crowdfunding, the average investment per funder stood at over €4,375 with 28 investors per deal on average. The average deal size equated to over €120,000, which is far below the European average of €460,000. Despite the relatively low average deal size for equity-based crowdfunding, the average amount invested per funder is quite high. This perhaps indicates that market awareness is low with relatively low participation rates compared with the rest of Europe.

Across the Nordic region, ‘fraud involving one or more high profile platforms’ was deemed to be the highest risk by industry participants, with 37% of survey respondents stating this to be a ‘high or very high risk’. Following this was the ‘collapse of a very well-known platform’, for which 36% of survey respondents stated this to be a ‘high or very high risk’. Given the recent failure of a major platform in the Nordics as previously discussed, this could potentially explain why these two risks were ranked highest in the region. Following behind these was the ‘risk of changes to national regulation’ which 32% of survey respondents stated was ‘high or very high risk’. In joint fourth place were ‘cyber security threats’ and ‘a notable increase in business or loan failures’, both with 28% of survey respondents deeming these risks to be ‘high or very high’. Survey respondents viewed the potential ‘crowding out’ of retail investors as a ‘high

Figure 52: Industry Perceived Risks to Future Growth of the Alternative Finance Sector in the Nordics



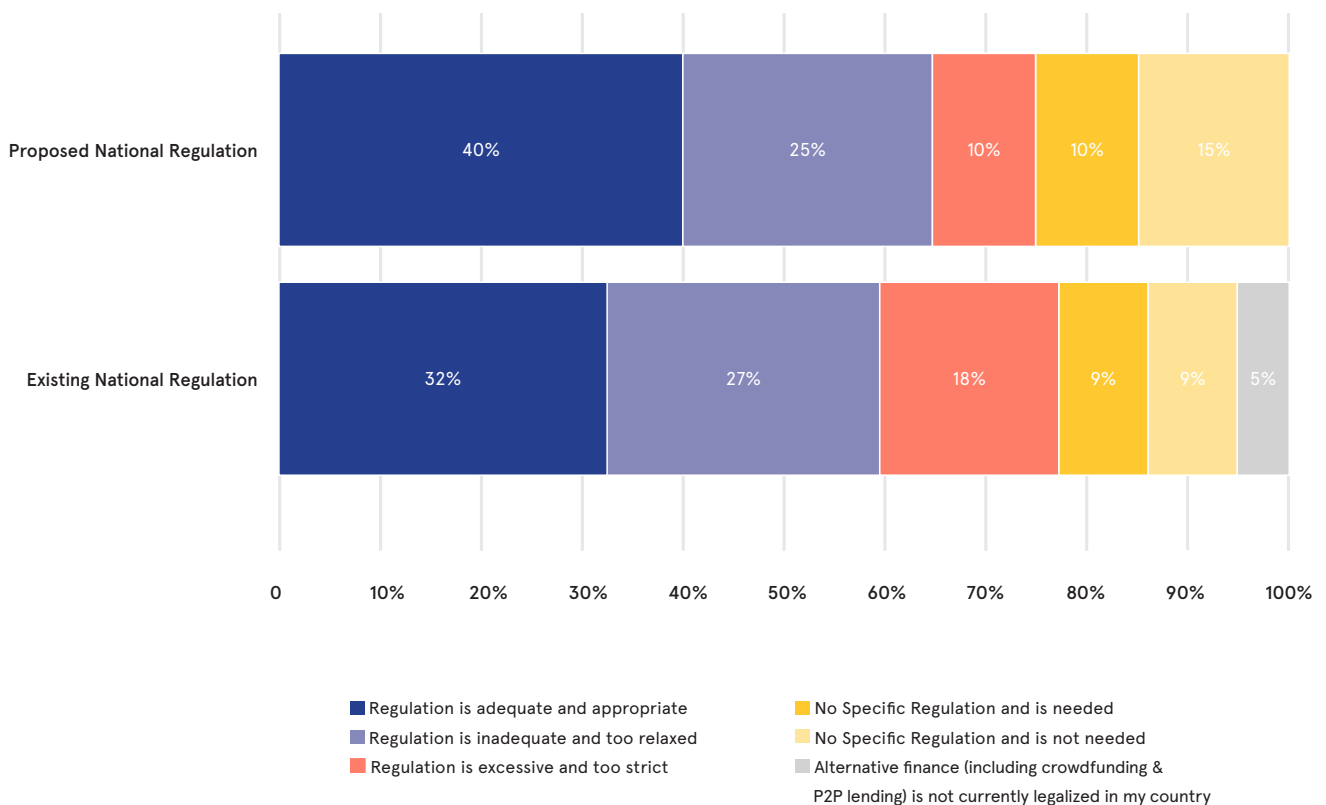
or very high risk' with only 10% of survey respondents stating this as such.

In the Nordic region, approximately one third of the industry survey participants stated that they view the existing regulations as 'adequate and appropriate'. Slightly less, 27%, view regulations as 'inadequate and inappropriate', while 18% go further to suggest that existing regulation is 'too strict and excessive'. Therefore, almost half of survey respondents view existing regulation unfavourably. Interestingly, 9% of survey respondents stated that there was no existing regulation and that none was needed, while another 9% stated there was no existing regulation but that it was needed. All in all, it seems there are very divergent perceptions towards existing

regulations. Half of the surveyed platforms view existing regulations unfavourably while the other half see them as favourable or are at least feel ambivalent towards them.

In terms of proposed regulations, an increased number of survey participants view the proposed regulations favourably – an increase of 8% on the number of industry respondents as compared to their perception of existing regulations. Regarding proposed regulation being perceived as inadequate or inappropriate, slightly fewer survey respondents view proposed regulations negatively. 15% of survey respondents stated they were not aware of any proposed regulation and that it was not needed, while 10% stated there was no proposed regulation but that it was needed.

Figure 53: Industry Perception Towards Regulation in the Nordics



# SPAIN

Over the past three years, Spanish alternative finance platforms have generated €103m, and grown at an average of 75% over the period 2013-15. In 2015, the Spanish online alternative finance volume grew by 112%, from €36m in 2014 to €50m in 2015, ranking fifth amongst European countries in terms of total volume. While this is a sizeable volume, it should be noted that when adjusted for alternative finance per capita, Spain drops from 5<sup>th</sup> to 14<sup>th</sup> place with €1.08 per person.<sup>33</sup>

Figure 54: Online Alternative Finance Market Volumes in Spain 2013-2015 (€ EUR)

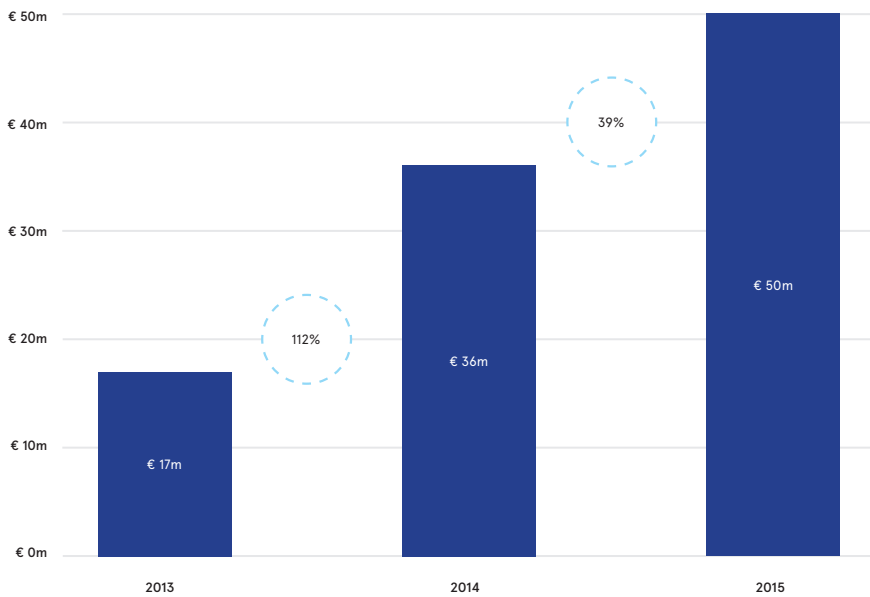
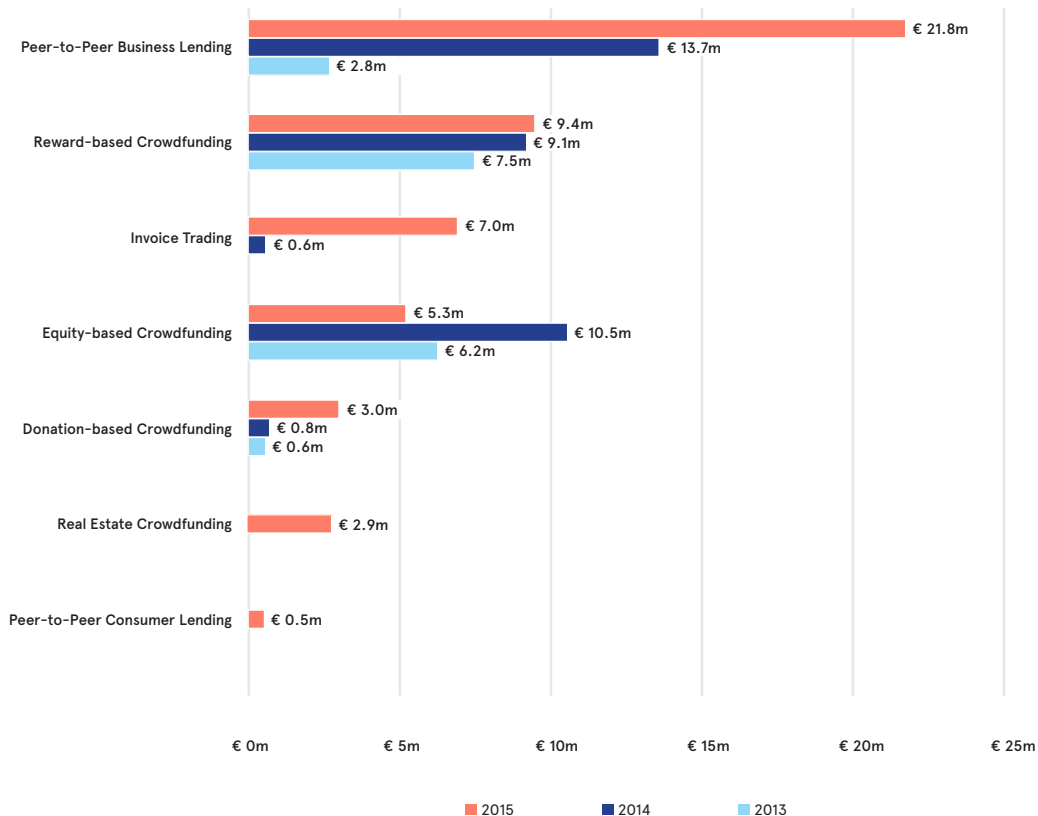


Figure 55: Total Alternative Finance Volume by Model in Spain 2013-2015 (€ EUR)



Peer-to-peer business lending was the prevailing model in Spain, accounting for €38m in total volume between 2013-15, and growing at an average of 222% per year between 2013-15. Starting from a relatively low base in 2013 (€3m) the model grew by 384% between 2013-14, to €14m in 2014. The model grew by an additional 59% between 2014-15, to €22m. In 2015, this model accounted for roughly 44% of Spain's total alternative finance volume.

Reward-based crowdfunding accounted for just under 19% of Spain's total alternative finance volume in 2015, yet accounts for the second largest model. This model saw limited growth between 2014-15, increasing by a mere 3% from €9.1m in 2014 to €9.4m in 2015.

In third place, invoice trading accounted for €7m in alternative finance volume. This model saw the greatest year-on-year increase, growing at over 1000% from a very small €630,000 in 2014. Continued growth of this model is anticipated through 2016.

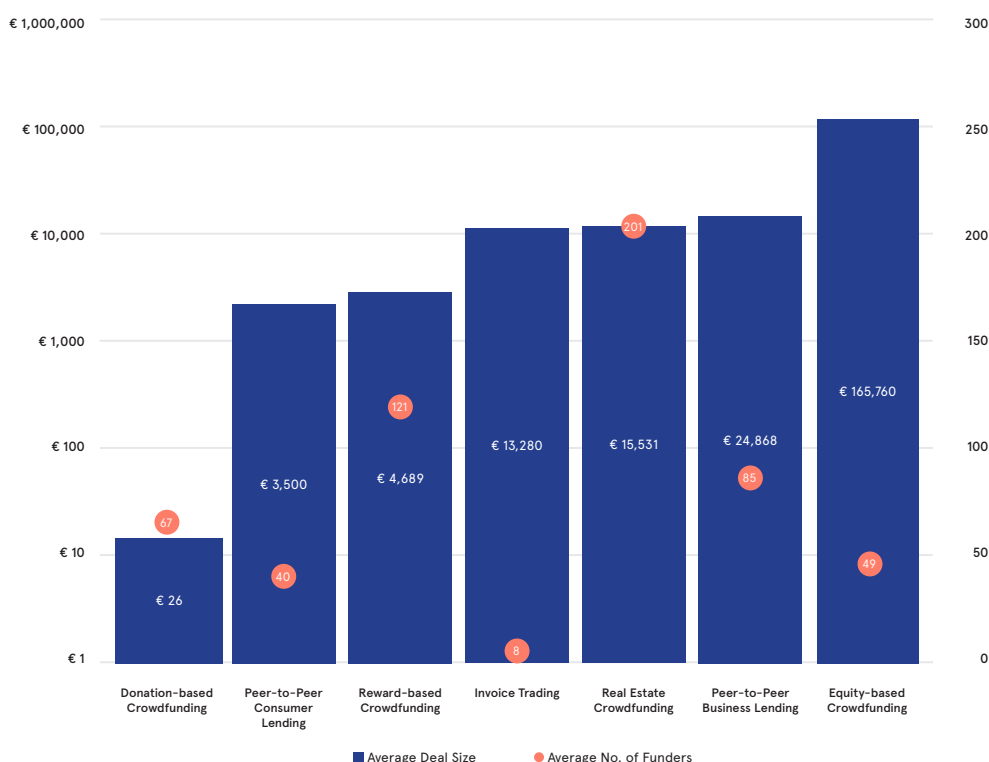
Equity-based crowdfunding registered a significant decline in total volume from the previous year, from €10.5m in 2014, decreasing by 49% to €5.3m in 2015. Despite the year-on-year decrease, over a three-year period, equity-based crowdfunding created €22m in total alternative finance volume for Spanish businesses and

is the third ranked model over the three-year period. One possible reason for the stalling of this model in 2015 may relate to regulation that has forced existing firms to modify their operations or seek additional permissions prescribed under new crowdfunding laws.

Donation-based crowdfunding, though accounting for only a €3m total 2015 volume, saw a significant 269% year-on-year increase from 2014's €800,000. Two new models also began to take hold in Spain: firms operating in the real estate crowdfunding space became active in 2015, and accounted for €2.9m in total volume; peer-to-peer consumer lending also arrived in Spain, albeit at a small total volume with €500,000 for 2015. It is worth noting that peer-to-peer consumer lending is the smallest model in Spain, despite this being the largest alternative finance model for Europe over-all.

Average deal size and participating average number of investors varies considerably from model to model in Spain. As indicated in the figure above, reward-based crowdfunding saw an average of 121 individuals participating in each campaign, with an average of €4,689 raised. Though peer-to-peer consumer lending made up the smallest proportion of market-share in terms of model volume, the average loan size and number of funders is comparable with this model's

Figure 56: Average Fundraise by Model in Spain (€ EUR)



activity across the rest of Europe. The average peer-to-peer consumer loan was approximately €3,500 with 40 lenders participating in each loan. Thus, the average amount lent per individual is about €87.50. Many peer-to-peer consumer lending platforms utilise auto-bid functionality when matching lenders to available loans. Spain actually ranks high in terms of auto-bidding adoption - above the European average.

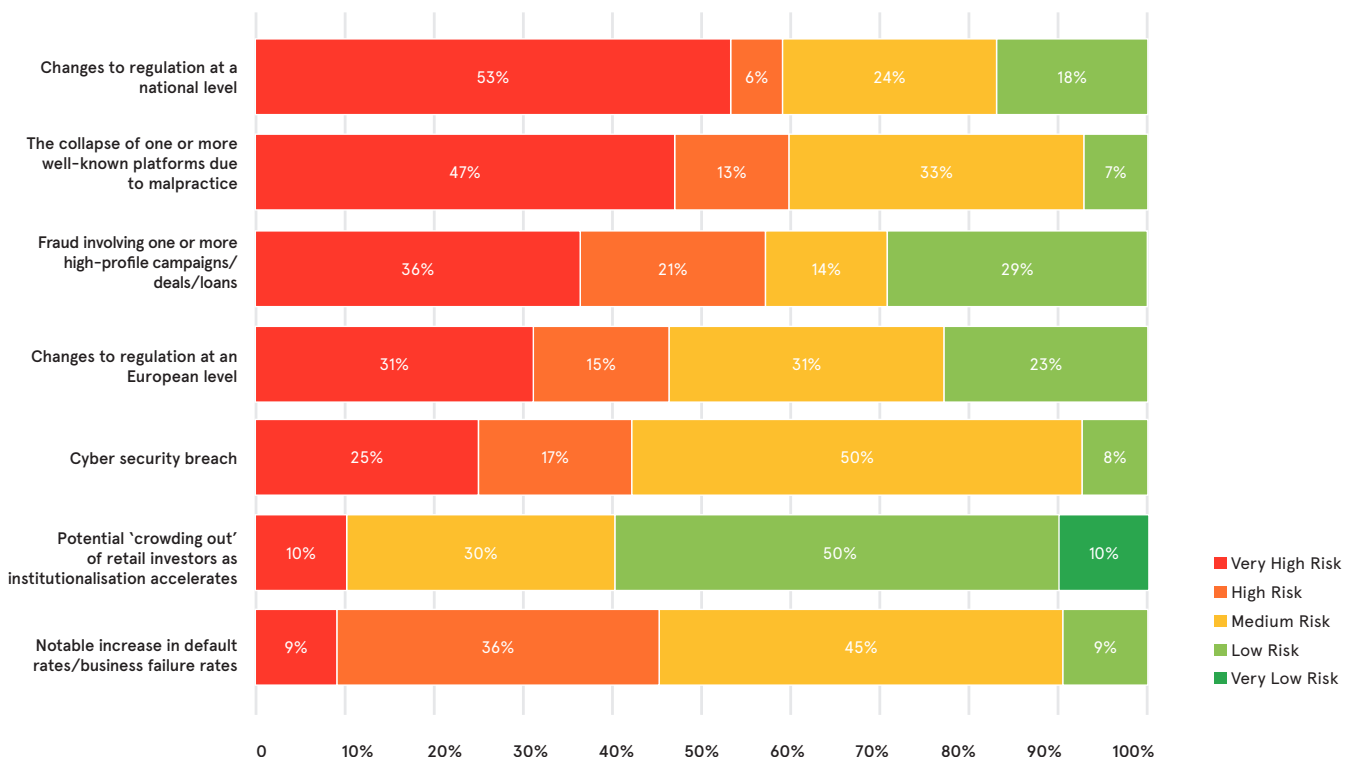
A significant jump in deal-size occurs when we begin to look at models which facilitate business finance. Peer-to-peer business lending, for instance, saw an average of €24,868 per business loan, with 85 lenders, lending approximately €290 per transaction. It should be noted, however, that the average loan-size is somewhat smaller than the same model in other European countries. For instance, in the UK, the average loan size is approximately €90,000, while the European average is approaching €100,000.

Invoice trading saw an average deal size of €13,280 but across only 8 lenders. Invoice trading tends to attract high-net-worth individuals or quasi-professional

lenders, so it is not unusual for more significant sums to be lent per loan. Finally, the average deal size on an equity-based crowdfunding platform in Spain was €165,760 with 49 investors participating per deal. As noted in Germany, it is possible that the underperformance of this model may relate to rules that cap the size of investment available to a retail investor. As it currently stands, only accredited investors may invest more than €3,000 per project, and are capped at no more than €10,000 of investments through a unique platform per calendar year.<sup>34</sup>

On the whole, Spanish firms tended to view all of the factors as 'very high risk' or 'high risk' to some degree, with over 40% of firms indicating six of the seven factors as 'very high risk' or 'high risk'. The factor which was viewed as 'very low risk' or 'low risk' by 60% of platforms was that of 'potential crowding out of retail investors' - something which is consistent across many countries in Europe. Conversely, 60% of firms viewed the 'collapse of one or more well-known platforms due to malpractice' as a 'very high risk' or 'high risk' to sector development.

Figure 57: Industry Perceived Risks to Future Growth of the Alternative Finance Sector in Spain



As regulation remains a divisive issue in Spain, it follows that changes to national regulation are viewed as a significant risk. 59% of firms indicated this to be 'very high risk' or 'high risk'. Only 18% of Spanish firms view changes to national regulation as a 'very low risk' or 'low risk'.

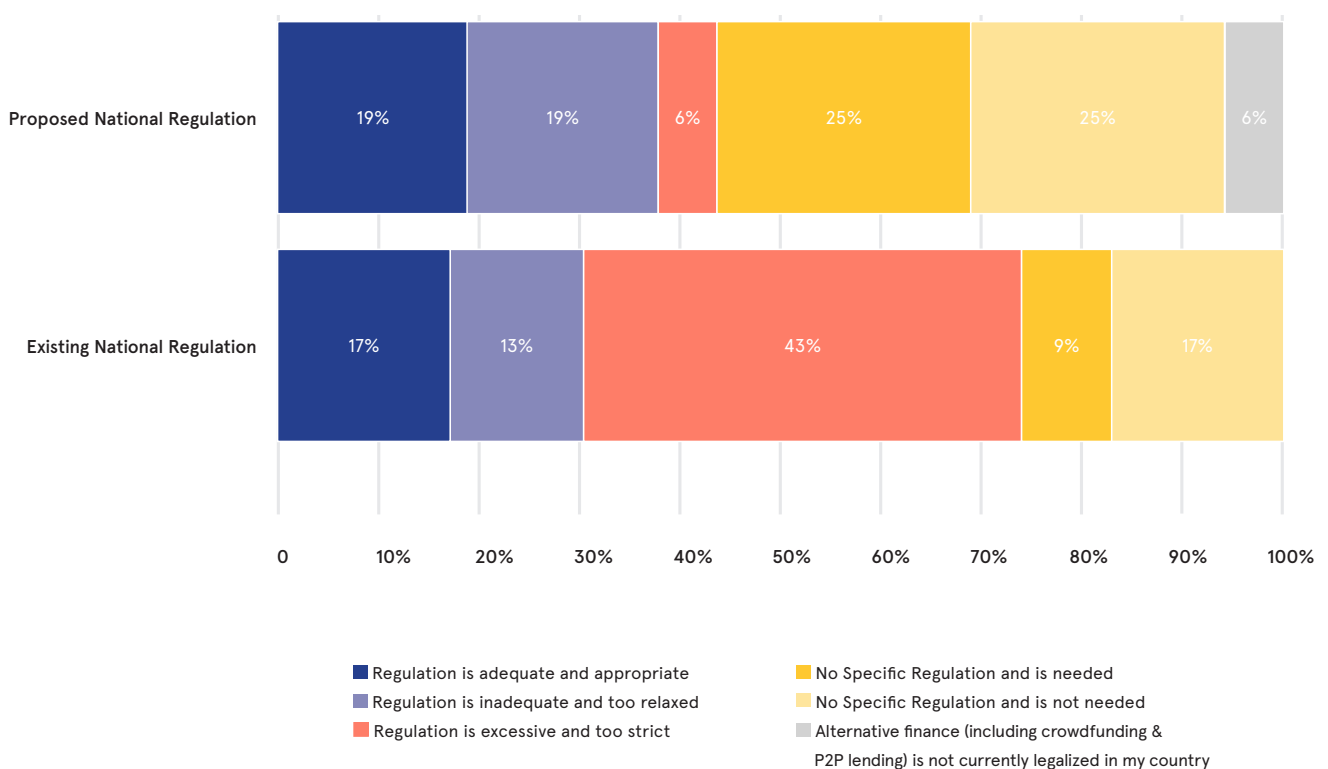
Finally, firms perceive 'fraud involving one or more high-profile campaigns/deals/loans' as a significant risk factor, with 57% indicating this as 'very high risk' or 'high risk'. A significant proportion of Spain's total alternative finance activity relates to business funding, especially with respect to debt models such as peer-to-peer business lending and invoice trading. It follows that business-risk in the form of fraud could be a significant blow to the sector. Similarly, 'notable increases in defaults or increased business failure' similarly raise concerns amongst 45% of Spanish firms, stating this to be 'very high risk' or 'high risk'.

The Spanish regulator was one of the first to impose some level of legislation for alternative finance activities. In 2015, Spain saw a number of changes (both already

implemented and proposed) with the goal of clarifying rules applicable to the various models, especially around investor protections and capital requirements at the firm level. Despite continued cooperation and dialogue between Spanish firms and the regulator, only 17% viewed existing national regulation as 'adequate or appropriate', while 13% viewed it as 'inadequate and too relaxed'. A resounding 43% of firms perceived existing national regulation as 'too strict and excessive' which is relatively high as compared to other countries in Europe.

When considering proposed regulation, the tenor shifts slightly but remains considerably divided. In this instance, only 6% view proposed regulation as 'excessive and too strict', with 19% of firms viewing proposed regulations as adequate and appropriate, while another 19% viewed them as 'inadequate and too relaxed'. Surprisingly, 25% of firms indicated that, to their knowledge, there was no specific proposed regulation but that it was needed, and another 25% felt that this lack of proposed specific regulation was not needed.

Figure 58: Industry Perception Towards Regulation in Spain



# CENTRAL AND EASTERN EUROPE

The Central and Eastern European online alternative finance market includes transaction volumes from the following countries: Albania, Armenia, Austria, Belarus, Bosnia & Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kosovo, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine.

Over the period 2013-15 this region underwent an average annual growth rate of 179%. Online alternative finance has gone from strength to strength with €11m raised in 2013 and €33m raised in 2014, representing a year-on-year growth rate of 191%. From 2014-15 the pace of growth in the region accelerated by 167%, from €33m to €89m.

Figure 59: Online Alternative Finance Market Volumes in Central and Eastern Europe 2013-2015 (€ EUR)

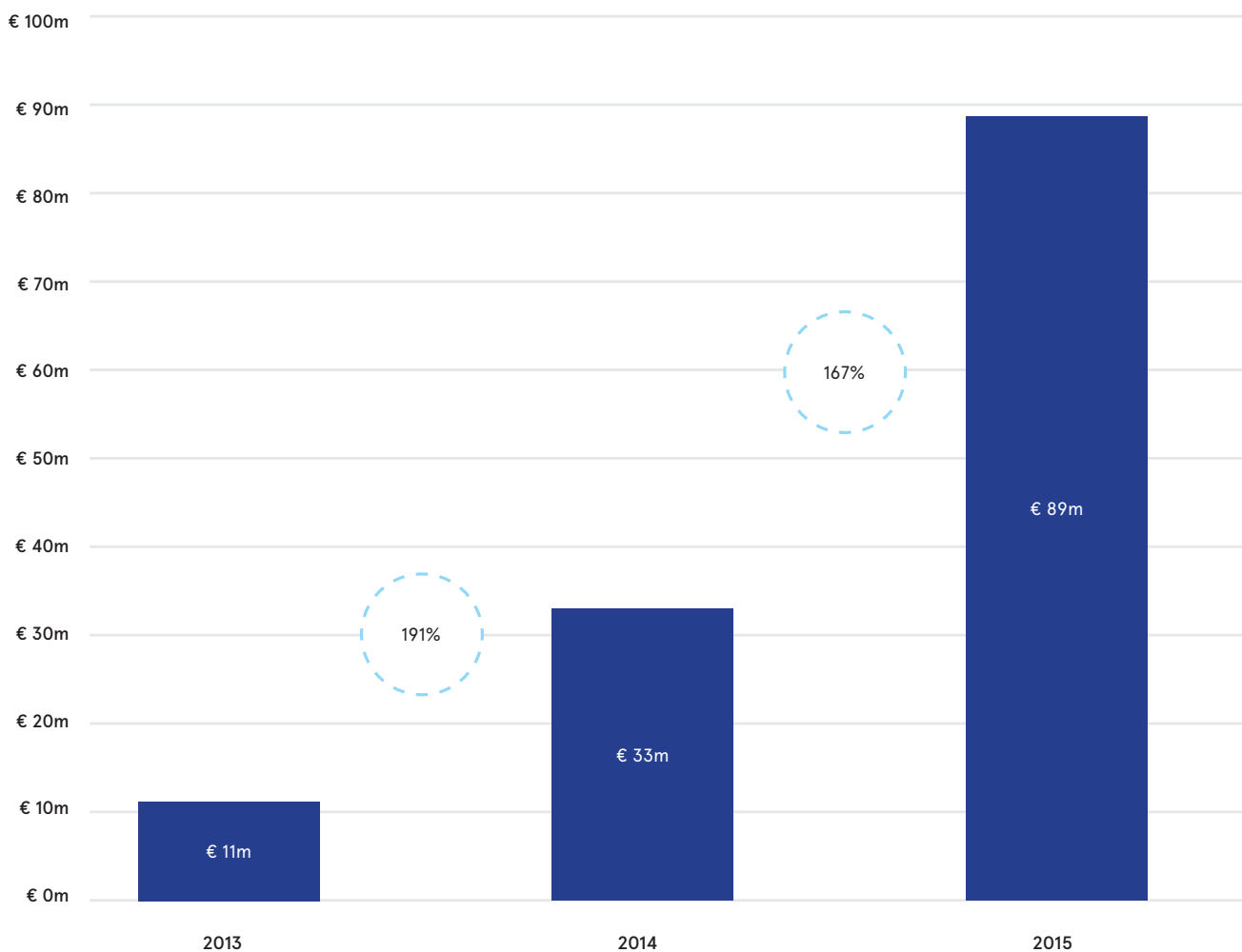




Figure 60: Total Alternative Finance Volume by Model in Central and Eastern Europe 2013–2015 (€ EUR)

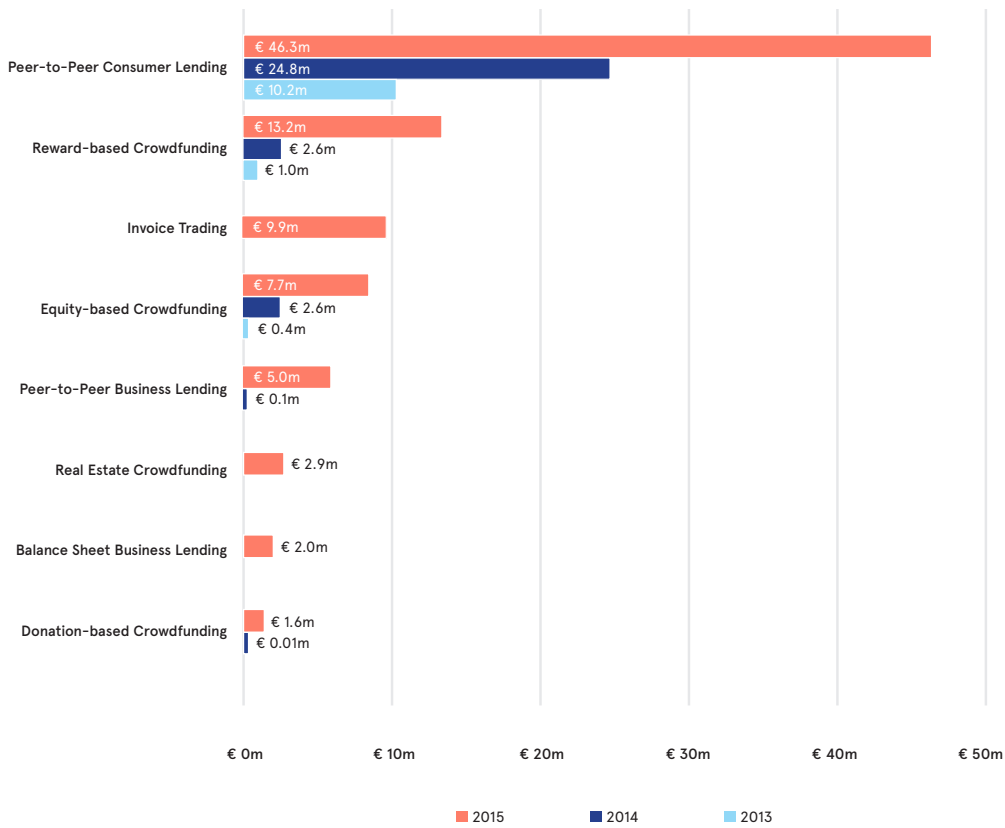
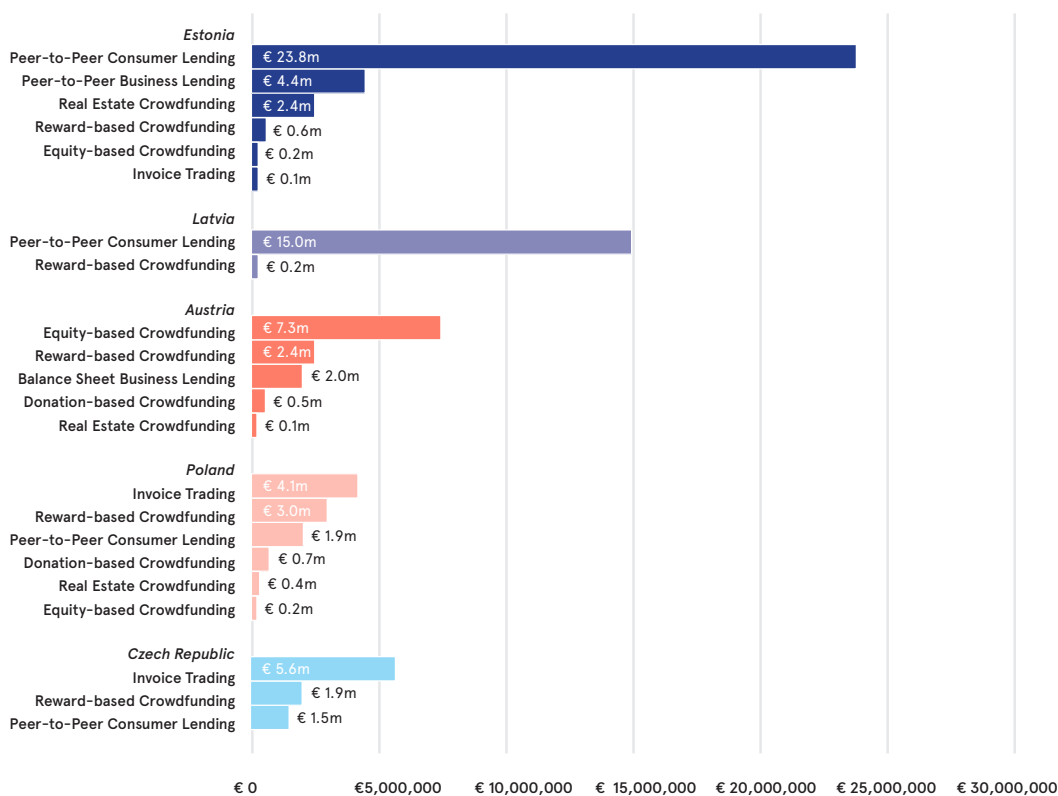


Figure 61: Total Alternative Finance Volume by Model Breakdown by Country – Central and Eastern Europe (2015)



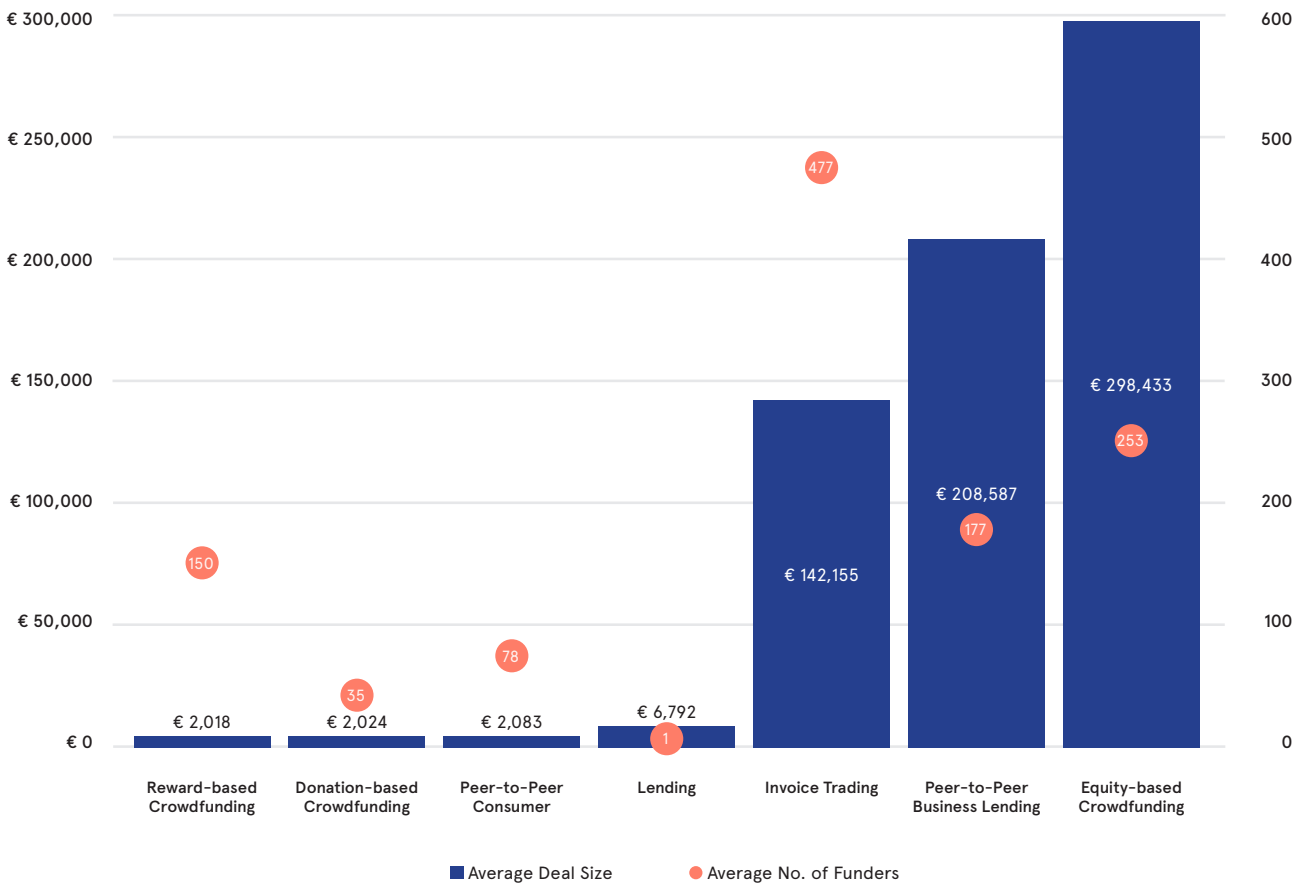
The Central and Eastern European market share of online alternative finance in Europe for 2015 was 9%. Honing in on individual countries, Estonia was the second highest ranked country by online alternative finance transaction volume per capita in Europe in 2015 after the UK at €24.02. Latvia was placed fifth at €7.68 after Finland and Monaco.

Peer-to-peer consumer lending was the most dominant model by transaction volume in the region from 2013-15, accounting for €46m or 52% of the total online alternative finance market in Central and Eastern Europe in 2015. It grew at an average rate of 115% between 2013-15 which placed it behind reward-based crowdfunding and equity-

based crowdfunding with average growth rates of 289% and 335% respectively.

Reward-based crowdfunding was the second largest by transaction volume in 2015 having raised €13m, followed by invoice trading with €10m, placing it in third position. This model also raised the most capital for businesses in the region. The second most popular model for business finance was equity-based crowdfunding, accounting for €8m in 2015, with an average deal size of approximately €209,000 and 177 investors backing each campaign. Online alternative business funding accounted for approximately one

Figure 62: Average Fundraise by Model in Central and Eastern Europe (€ EUR)



third of the total market volume in Central and Eastern Europe.

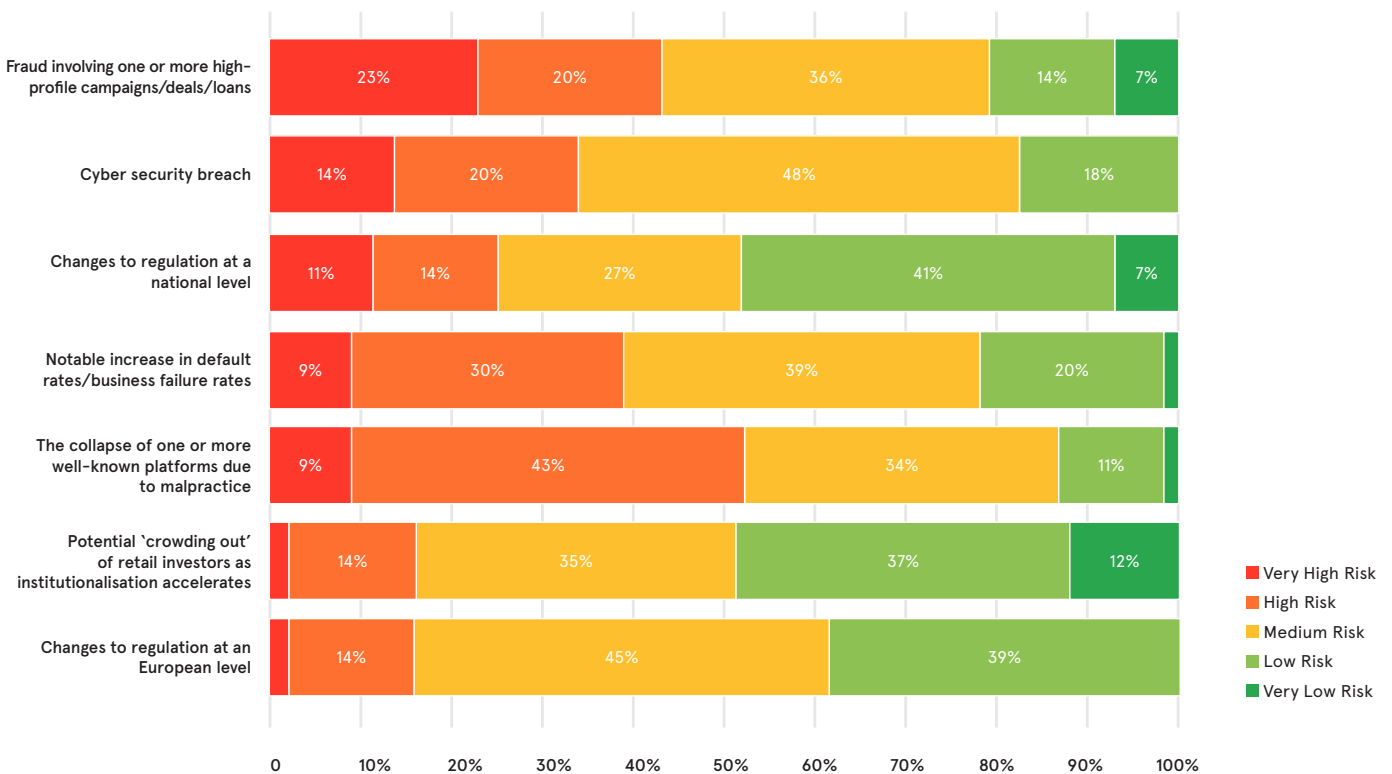
A relatively new online alternative finance model in the region, with the majority of platforms starting to trade in 2015, was real estate crowdfunding. However, it has quickly made its mark with €3m raised in 2015 and the largest average deal size at almost €300,000.

Across Central and Eastern Europe, almost 25% of survey participants thought that ‘fraud involving one or more high-profile campaigns or loans’ was of ‘very high risk’ to the industry and their business, making it

the most concerning issue surveyed. The second most concerning problem, with 14% of respondents stating this to be a ‘very high risk’, was ‘cyber security breach’ of a platform.

The factor that is of highest concern in terms of it being deemed either ‘very high risk’ or ‘high risk’, is the ‘collapse of one or more well-known platforms due to malpractice’, with 52% of participants selecting this issue. The issue that is of least concern to platforms is the potential ‘crowding out’ of retail investors as institutionalisation accelerates, with 37% and 12% considering this to be ‘very low risk’ or ‘low risk’, respectively.

Figure 63: Industry Perceived Risks to Future Growth of the Alternative Finance Sector in Central and Eastern Europe

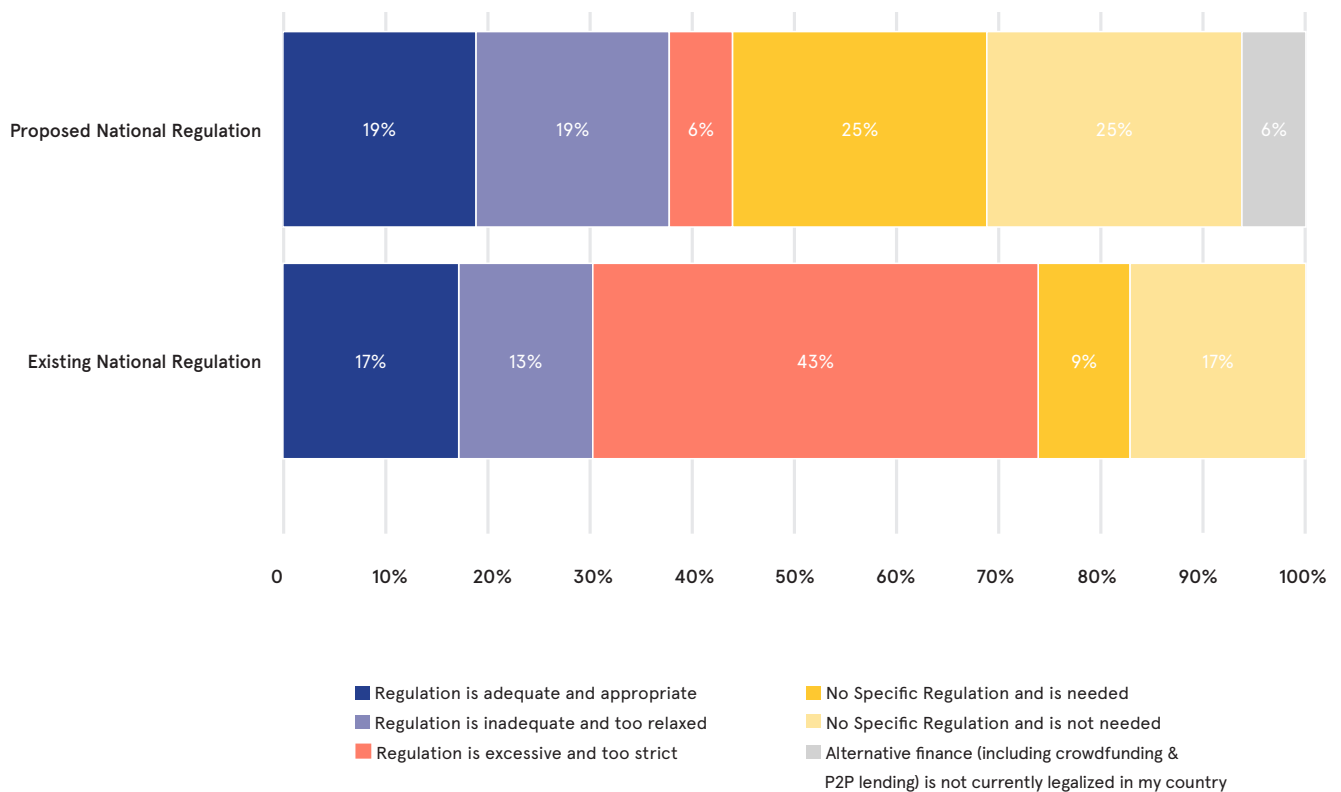


Although Central and Eastern European platforms experience highly diversified regulatory environments dependent on the respective countries in which they operate, online alternative finance is still very much at the earlier stages in many of these jurisdictions. Therefore, the regulatory regimes governing these platforms will either be non-specific or still in the process of taking root within the market.

Studying the general sentiments towards existing national regulation, 43% of respondents agree that regulation is currently excessive and too strict. A closer inspection of

the survey participants' responses to proposed regulation suggests that there are mixed feelings from platforms as national regulators begin to take differing paths towards their treatment of online alternative finance in their own jurisdictions. However, a salient view, adopted by 25% of platforms, was that there was no specific proposed regulation and that it was needed. For instance, in the Czech Republic it is currently unlikely that specific alternative finance regulations will be introduced and as a result, platforms must comply with a number of existing Acts which may add to the number of obstacles and barriers for the industry<sup>35</sup>.

Figure 64: Industry Perception Towards Regulation in Central and Eastern Europe



# ITALY

The Italian online alternative finance market raised a total of €32m in 2015, capturing an estimate 90-95% of the visible market in the country. Although this volume is small relative to its European neighbours, it registered the largest year-on-year growth rate, with 287% between 2014-15, of all the major economies studied in this report. By way of comparison, the Italian online alternative finance market grew by 580% between 2013-14, from €1m to €8m. Likely contributing factors towards this surge in growth include both the increasing number of platforms joining the market, with 46% of surveyed platforms beginning to trade in 2015, as well as better coverage of the Italian market as compared to our previous report, *Moving Mainstream*.

Figure 65: Online Alternative Finance Market Volumes in Italy 2013-2015 (€ EUR)

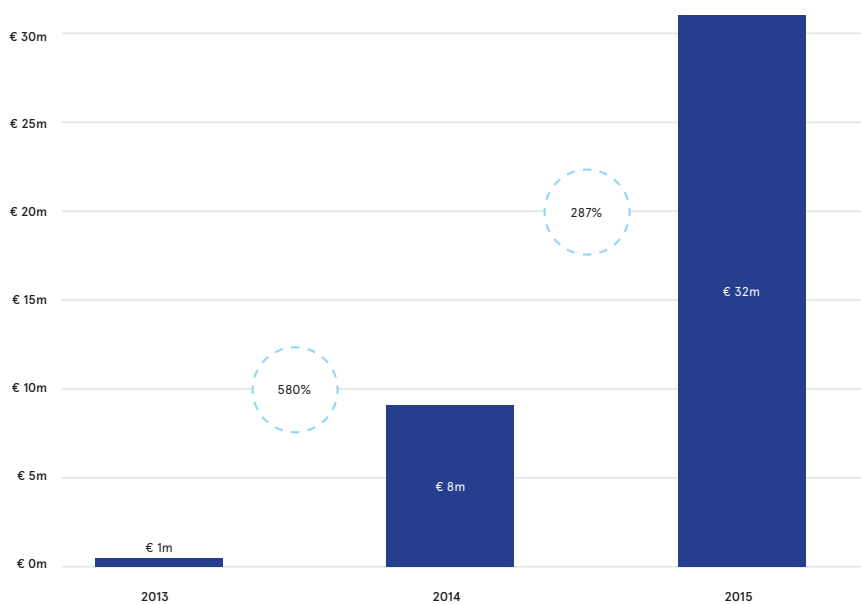
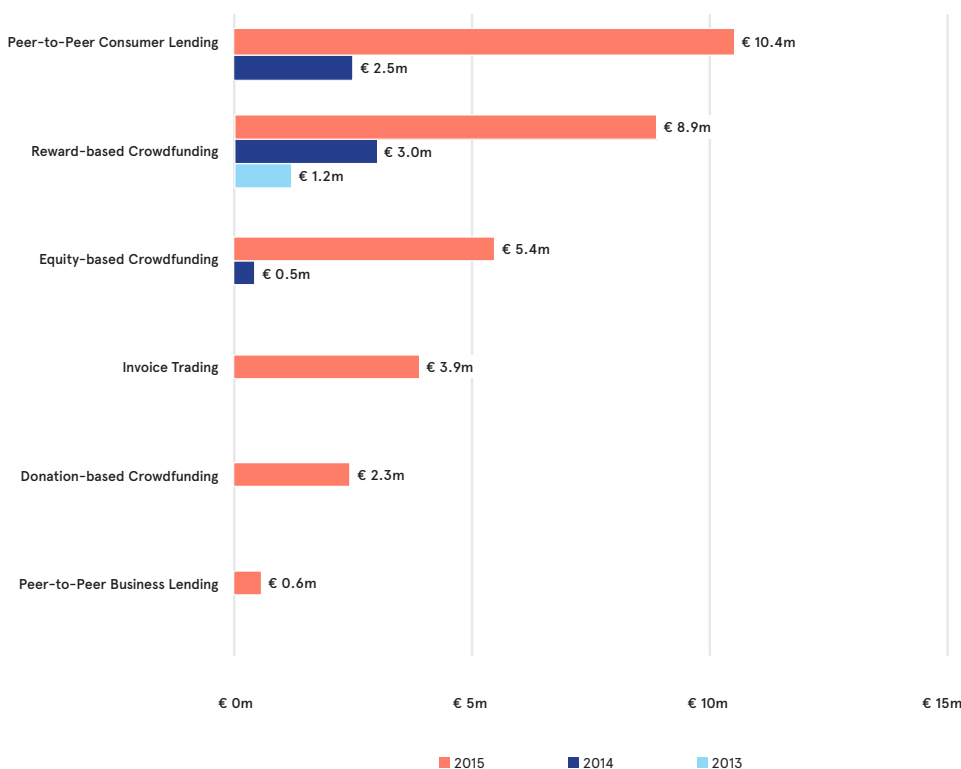


Figure 66: Total Alternative Finance Volume by Model in Italy 2013-2015 (€ EUR)



Despite having the highest level of growth in Europe in 2015, Italy's market share of online alternative finance in Europe was 3% of total market activity in Europe, excluding the UK. Furthermore, Italy's online alternative finance volume per capita was €0.52, placing it in 19<sup>th</sup> position out of a total of 32 European countries. A combination of a difficult environment for traditional banks in conjunction with progressive changes to the regulatory environment for the crowdfunding space, suggests that there is good potential for industry growth in Italy.

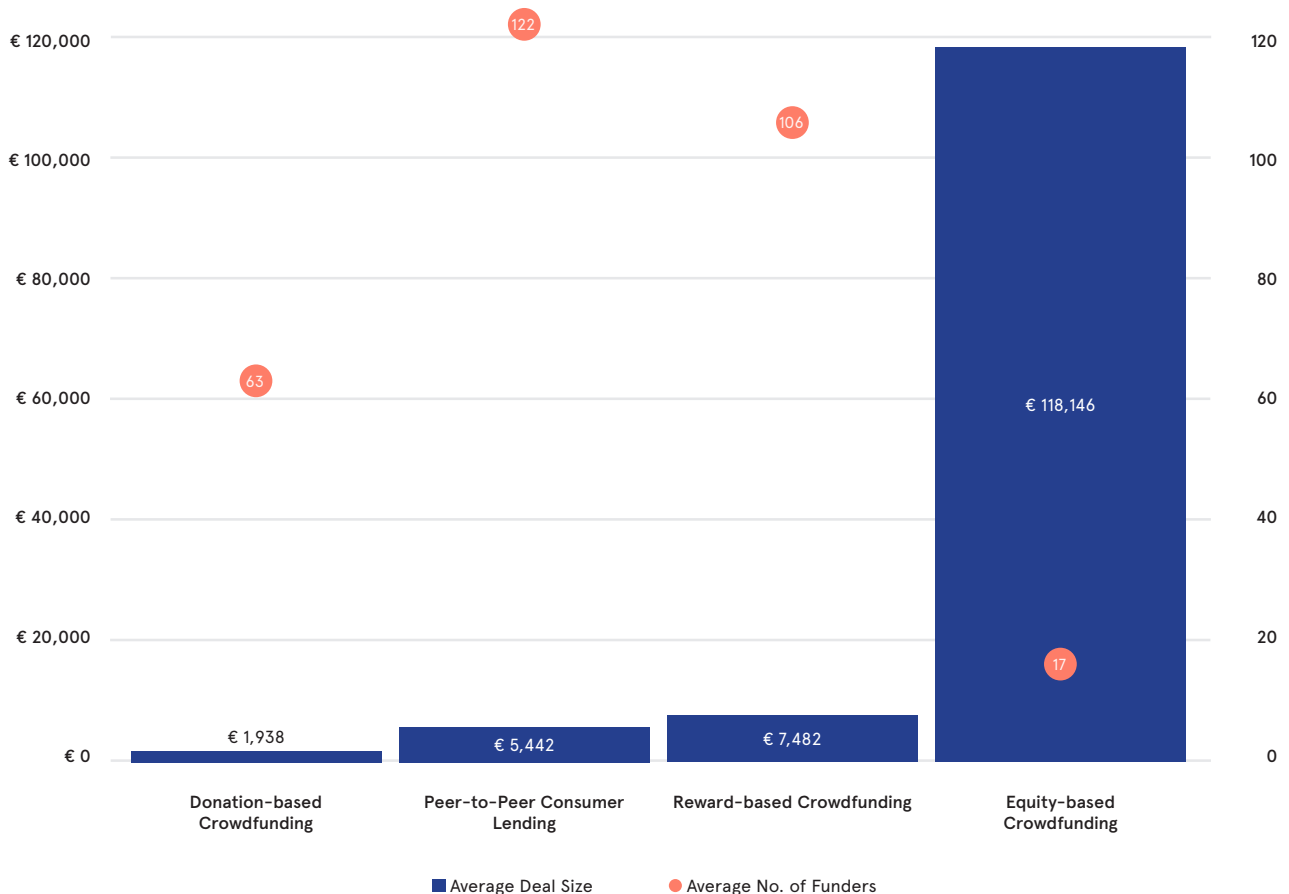
Peer-to-peer consumer lending was the leading online alternative finance model by market volume in Italy in 2015, surpassing reward-based crowdfunding, which held this position in 2014. Peer-to-peer consumer lending accounted for €10m in 2015, taking 33% market share of the total amount raised by all models over the year there. Following closely behind is reward-based crowdfunding which raised €9m, accounting for 28% of the total Italian

online alternative finance market in 2015. Both models experienced rapid year-on-year growth rates of 316% and 195% respectively in the period 2014-15.

Equity-based crowdfunding is the third largest alternative finance model with €5.4m raised in 2015, up from a much smaller starting base of €0.5m in 2014. From 2014-15, this model registered an impressive growth rate of a 941%, making it the fastest growing model in Italy. It must be noted that the 2015 Equity-based crowdfunding category in Italy may include volumes attributed to mini-bonds due to incomplete information. This is an area we hope to monitor more closely with our research partners for further developments in 2016.

For the first time, two new online alternative finance models began trading in 2015 and have very quickly taken root in the Italian market - namely invoice trading and peer-to-peer business lending registering market volumes of €3.9m and €0.6m respectively.

Figure 67: Average Fundraise by Model in Italy (€ EUR)



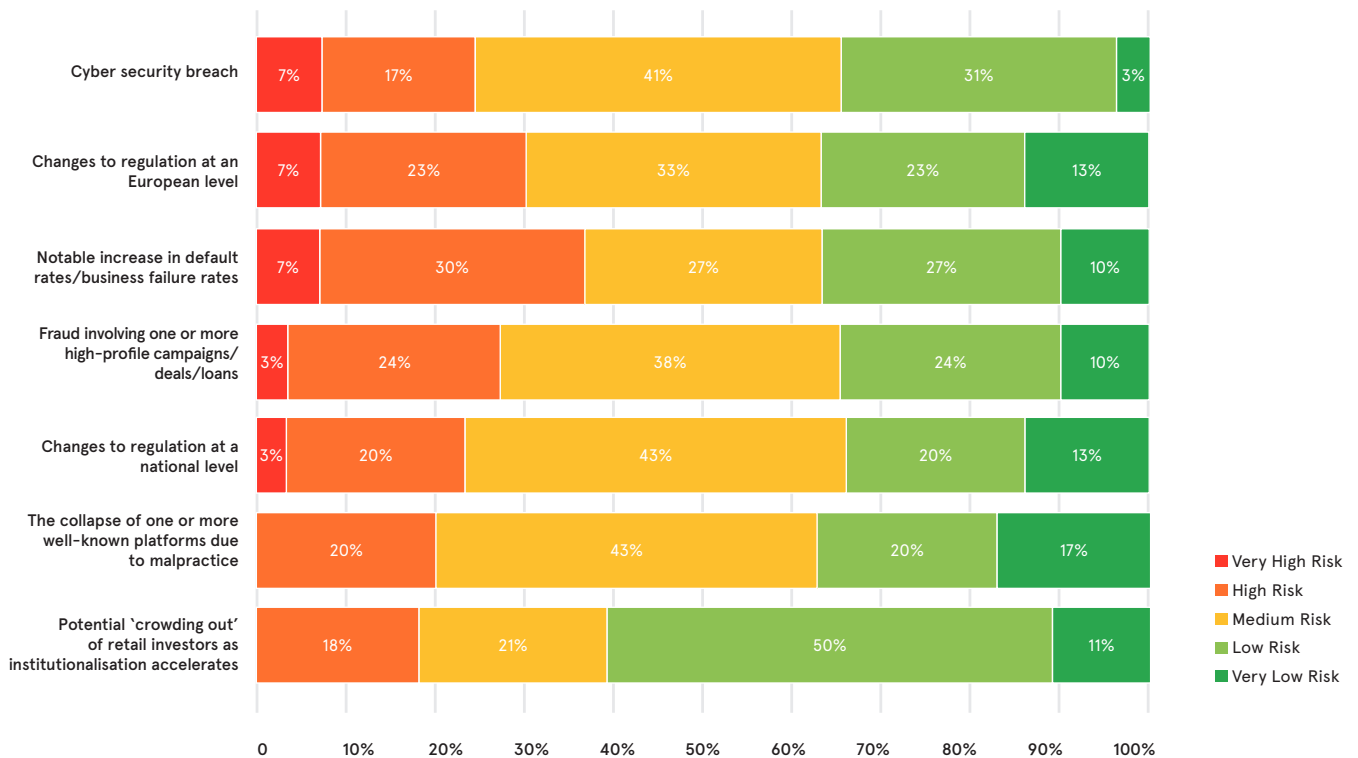
Equity-based crowdfunding has the highest average deal size of approximately €118,000 with an average of 17 investors backing each deal. Peer-to-peer consumer lending had a much higher number of investors backing each loan with 122, lending on average €5,400 per loan. Interestingly, reward-based crowdfunding projects in Italy raised on average €7,500, which is three times higher than the equivalent in France and two times higher than in Germany.

With regard to the key perceived industry risks in Italy, the top 3 factors that were deemed to be 'very high risk' were: 'cyber security breaches', 'changes to regulation at a European level' and finally 'a notable increase in default or business failure rates'. Overall, 60-70% of platforms considered all factors to be of at least 'medium risk' with the exception of the potential for the 'crowding out' of retail investors by institutions - only 39% of platforms considered this to be of at least 'medium risk'.

Naturally, platform behaviour and planning depends very much on the regulatory environment and it should be noted that 'changes to regulation at a national and European level' were considered by over half of surveyed Italian platforms be either 'very high risk' or 'high risk'.

Looking ahead, the Italian securities market regulator updated the equity-based crowdfunding rules earlier this year to enable a wider variety of businesses to raise finance via crowdfunding as opposed to only 'innovative startups'<sup>36</sup>. Therefore, it is likely we will see a broader variety of businesses seeking finance which, as a result, may increase the level of investor interest on the supply side. Regulators have also made it a requirement for all equity-based crowdfunding campaigns to have at least 5% of the project funded by professional investors, such as banks, investment firms and mutual investment funds<sup>37</sup>. This is comparable to the angel syndicate model for which rounds are led by angels who have invested a certain percentage of the sought amount. The full effects

Figure 68: Industry Perceived Risks to Future Growth of the Alternative Finance Sector in Italy



of this regulation on this model are yet to be seen but we look forward to measuring the impact in our next report.

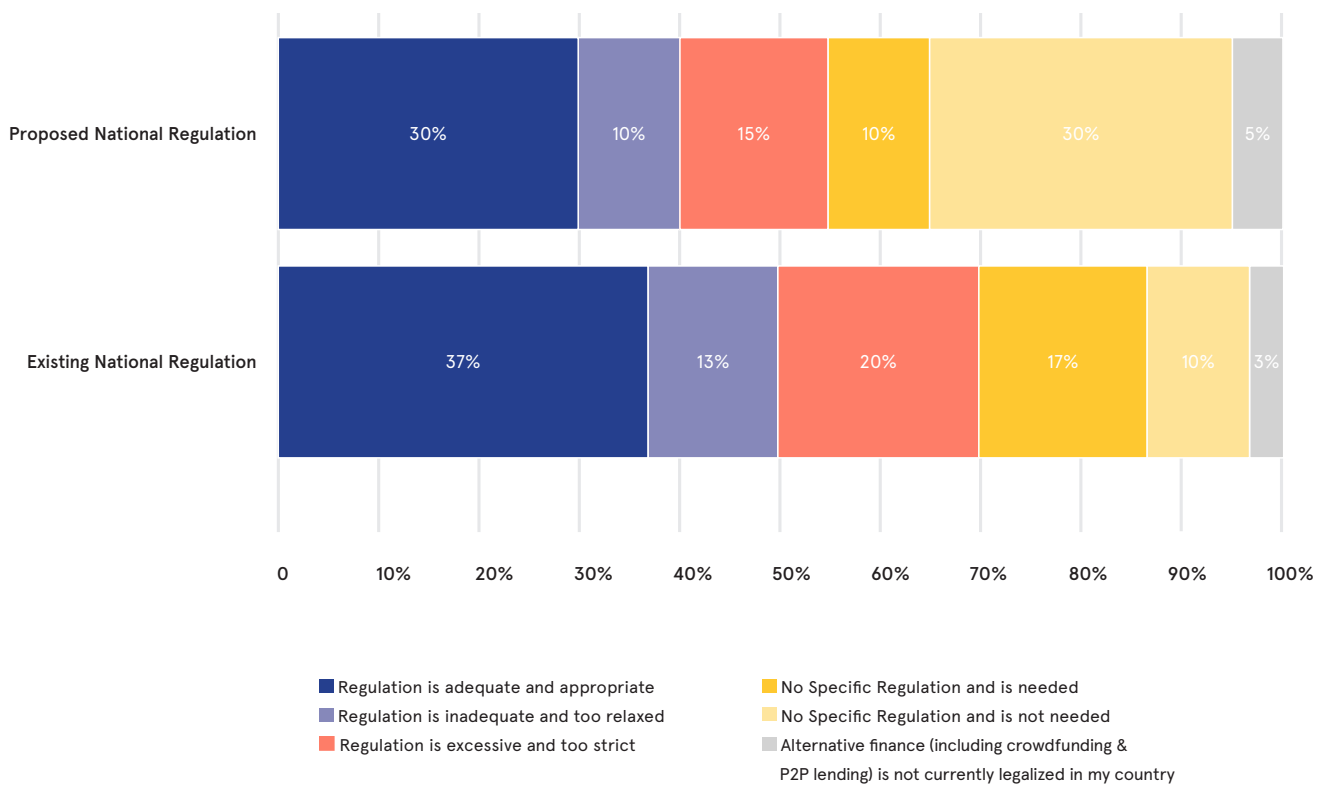
Italian platforms were surveyed regarding their perception of the current regulatory environment, as well as proposed national regulations for the online alternative finance industry. As mentioned earlier, approximately 65% of platforms considered changes to regulation at a national or European level as either 'medium', 'high risk' or of 'very high risk'. This is perhaps a particularly salient issue after one of the first lending platforms in Italy, and currently the largest, was initially forced to suspend its operations by national regulators in 2009<sup>38</sup>.

With regards to existing national regulations, 37% of survey participants deemed the existing regulatory

regime to be 'adequate and appropriate', while a further 20% took the stance that existing regulation is 'excessive and too strict'. A smaller, yet significant 17% of respondents believe that there is no specific regulation targeted at their particular business but that it is needed.

Just under a third of respondents viewed proposed national regulation as 'adequate and appropriate' whilst the same amount also thought that there to be no specific proposed regulation and that it was not needed. Recently, Italian legislators have widened the scope of businesses that can raise finance through crowdfunding and simplified the investor appraisal process by enabling the platforms to do it themselves instead of a third party bank or investment company<sup>39</sup>.

Figure 69: Industry Perception Towards Regulation in Italy





# ENDNOTES

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7. Ibid.
8. Harnessing Potential
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10. To calculate the total online alternative funding attributed to business, the research team aggregated the 2015 volumes from the following models: peer-to-peer business lending, balance-sheet business lending, invoice trading, equity-based crowdfunding, debt-based securities, profit-sharing crowdfunding, relevant volumes attributed to businesses from donation-based crowdfunding and 35% of the reward-based crowdfunding volumes (to exclude fundraising for individual, creative or communal projects etc.).
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29. Ibid

30. As noted in our methodology, the previously stated 2013 and 2014 total volumes (Moving Mainstream-The Alternative Finance Benchmarking Report) were incorrect and included a significant over-estimation of Spain's total volume, and with respect to the reward-based crowdfunding activity from Spain. This has been amended in the 2015 study, and is reflected in the charts and figures above.
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