

2018 Crowdlending Survey

Lucerne University of
Applied Sciences and Arts

**HOCHSCHULE
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About this study

The 2018 Crowdlending Survey is the first in-depth study with a general focus on the Swiss crowdlending market. It is a joint publication by PricewaterhouseCoopers, the Institute of Financial Services Zug IFZ at Lucerne University of Applied Sciences and Arts and the Swiss Marketplace Lending Association. It is intended that this publication will demonstrate both the increasing economic relevance of crowdlending in Switzerland and globally, and elaborates on the pivotal challenges and problems faced by Swiss crowdlending platforms. This study therefore makes an important contribution to transparency in this market.

Management team members from 14 crowdlending platforms took part in this year's study. We would like to thank the platforms for their support.

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Executive summary

1. Swiss platforms brokered CHF 186.7 million in 2017

Swiss crowdlending platforms allocated a volume of CHF 186.7 million in loans in 2017, corresponding to growth of 240% year-on-year. A market volume of CHF 400–500 million may be reached in the current year.

2. Institutionalisation on the part of investors

Professional investors such as asset managers, family offices, funds and wealthy individuals are becoming increasingly interested in the asset class of “crowdlending”. We have identified these investors as central drivers of growth for high loan volumes in this market in the future.

3. Platforms are seeking partnerships

Collaboration with banks and other start-ups appear to be important to the development of these platforms, and many crowdlending platforms are seeking collaboration of this type.

4. A simplified regulatory environment

Since summer 2017, it has been possible for loans to companies to be financed by more than 20 individuals. The removal of this limit of 20 lenders per project in the business crowdlending segment has been welcomed by the platforms. The limit of 20 lenders per project continues to apply in the consumer crowdlending segment, and the removal of this rule would be key to the development of this sector.

5. Reputation as a risk factor – with brand awareness as a central element

This still-young industry believes there are critical reputational risks due to potential misconduct on the part of individual market participants. At the same time, raising their profile is considered very important.

6. Transparency as an important driver of market development

The Swiss crowdlending market has a relatively low level of transparency compared to more mature crowd-lending markets, and key risk and return indicators are often unknown. The increasing transparency advanced by the recently founded Swiss Market-place Lending Association will have a positive impact on the development of this market.



How has crowdlending developed over recent years? What do platforms expect for 2018?

1. Introduction to crowdlending

What is crowdlending?

Crowdlending describes the process of brokering debt capital between lenders and borrowers of capital online. Examples of borrowers of capital include private individuals and companies. Private individuals and institutional investors, such as trusts, funds or family offices, are potential lenders of capital. Generally, several partners allocate a loan on a joint basis. Lenders of capital receive interest payments for the loan amount allocated. The amount of interest paid generally depends on the term of the loan and the borrower's risk of default.

Terms: crowdlending, P2P lending and marketplace lending

P2P (peer-2-peer) lending was the first term to be established for brokering loans online. However, as crowdfunding became increasingly popular, the term “crowdlending” became used much more frequently. Ultimately, a third term was established: “marketplace lending”. This can be more broadly defined as a “digital loan marketplace”. In Switzerland, crowdlending is the most frequently used term for the market investigated here, and so this document uses that term.

Crowdlending: three different types

In the following, a distinction is made between three types of crowdlending. Consumer crowdlending covers loans to private individuals, while the business crowdlending category includes loans that are allocated to companies, which are usually small or medium-scale. Finally, in the real estate crowdlending segment, mortgages are allocated via crowdlending platforms.

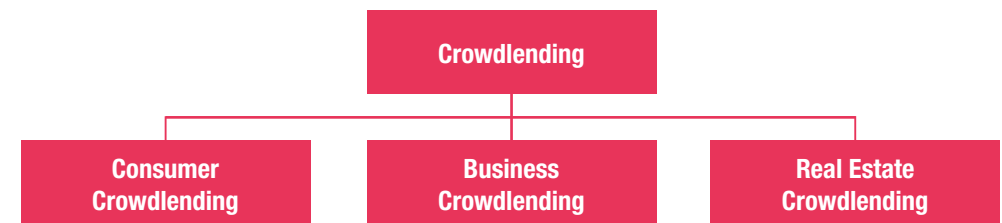


Figure 1: Three crowdlending segments

The basics of how crowdlending works

As described above, crowdlending generally involves private or institutional lenders lending money to a borrower. Potential borrowers apply to the crowdlending platform for a loan, and must provide various data so that the platform can review their creditworthiness and borrowing capacity. Lenders can look for and invest in borrowers of their choice on a crowdlending platform. If sufficient investors are found to finance the amount requested by the borrower, a loan agreement is concluded between the lender and borrower. It should be noted here that there are also other business models in which credit agreements operate via the crowdlending platform. Within these models, investors transfer the proportional loan amount to the borrower, and as a result, the borrower typically has to repay the loan amount to the lender over a predetermined period, plus the agreed interest. The entire process is handled by the crowdlending platform, meaning that any payment delay or inability to pay on the part of the borrower is handled by the platform, without the investors themselves having to intervene.

The crowdlending platform receives a fee from the borrowers and/or lenders for the services, depending on the business model. Individual processes are outsourced to other firms (such as rating agencies or collection companies) on a platform-specific basis.

Methodology

A wide range of data was collected for the present study. Firstly, all crowdlending platforms provided various data on business outcome in 2017, which has been aggregated and presented below. Secondly, additional data was gathered regarding challenges, and qualitative interviews were conducted with the Swiss crowdlending platforms. In total, 14 of the 15 Swiss platforms took part in the survey.

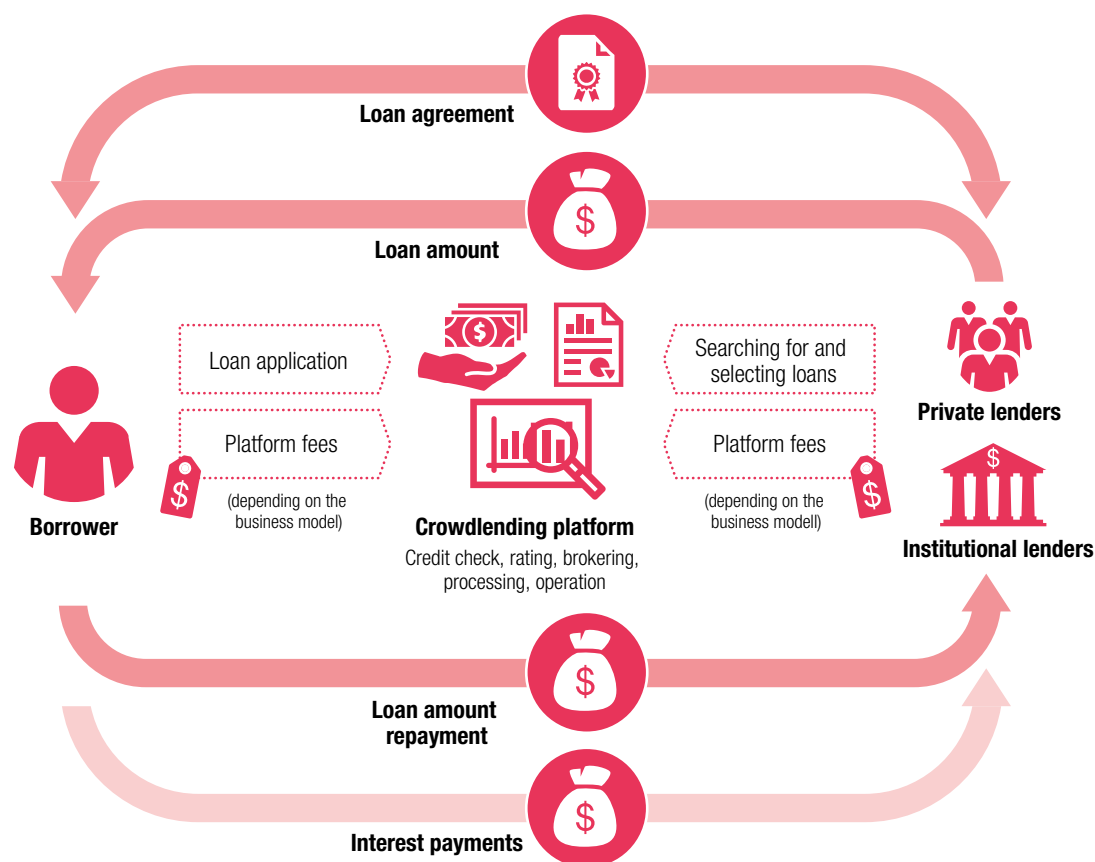


Figure 2: How crowdlending generally works

2. Crowdlending in Switzerland

A total of fifteen platforms were active in Switzerland as at the end of 2017. The platforms mostly focus on one or two segments within crowdlending, and there are also two platforms – Cashare and CreditGate24 – that offer business, consumer and real estate crowdlending. It's not always easy to delineate their various business models. For example, although Advanon offers a platform for invoice trading, unsecured short-term loans can also be concluded using Advanon, meaning that the platform is also listed under crowdlending.

Seven new platforms came to market in 2016. Additional platforms – Acredius, Creditfolio and Crowd4Cash – have entered the market in the past year.

In addition, two providers – Lendity and Impact-Lending – launched a kind of “umbrella platform” in 2017 and 2018, which invests in loans on Swiss crowdlending platforms, on behalf of institutional investors. These providers' objective is to offer a fund that invests in a range of selected loans on different platforms.

Together with the Swiss Marketplace Lending Association (SMLA), an industry organisation was founded last year with the objective of increasing transparency on the Swiss market, and further developing both the crowdlending market and the ecosystem.

Volumes and growth

The crowdlending market reached a volume of CHF 186.7 million in 2017 (previous year: CHF 55.1 million), and, as can be seen in Figure 4, the number of successfully brokered loans increased from 840 to 2,035.

Segment	Platform	Started
Business Crowdlending	Acredius	2017
	Advanon	2015
	Creditworld	2016
	Lendico	2016
	Swisspeers	2016
Consumer Crowdlending	Creditfolio	2017
	Lend	2016
	Lendora	2016
	Splendit	2014
Real Estate Crowdlending	SwissLending	2016
	Hyposcout	2016
Consumer und Business Crowdlending	3 circle funding	2016
	Crowd4Cash	2017
Consumer, Business und Real Estate Crowdlending	Cashare	2008
	CreditGate24	2015

Figure 3: Active crowdlending platforms as at the end of 2017

Of the CHF 186.7 million, CHF 111.6 million is attributable to the business crowdending segment (loans to SMEs), up from a figure of just CHF 28.1 million in this segment in the previous year.

The volume in the consumer crowdending sector (loans to private individuals) more than doubled in 2017 compared to the previous year (+116%) and is now CHF 52.0 million. Real estate crowdending also performed well in 2017, with CHF 23.1 million brokered (figure 4).

A common feature of the three crowdending segments is that they all focus on brokering debt capital. However, the type of loans provided varies significantly, as can be seen in particular in the wide range of average

loan amounts, with the average figure for loans to SMEs being around CHF 300,000, representing a significant rise compared with the previous year (2016: CHF 171,000). The largest transaction in this segment was a brokered SME loan of CHF 8.7 million.

In consumer crowdending, the average loan amount was CHF 31,000 – a figure that has increased continually over recent years, from just CHF 18,000 in 2013.

The average loan volume in real estate crowdending was CHF 854,000. Utilisation of the loans for residential ownership results in a noticeably higher average loan amount compared to other segments, and the largest transaction in this segment was CHF 7 million (figure 5).

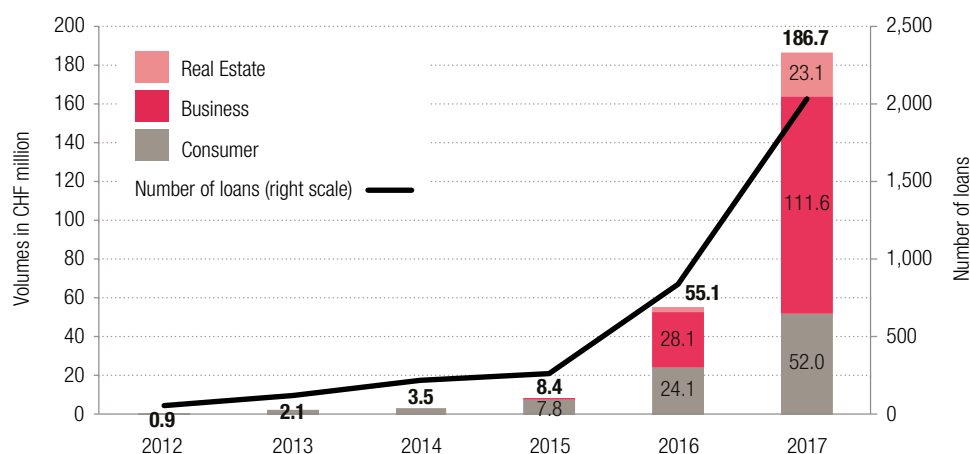


Figure 4: Crowdending volume and the number of loans in Switzerland, 2012–2017

On average, lenders to SMEs invested CHF 25,000 in 2017 (2016: CHF 18,000), and the value for loans to private individuals was unchanged from the previous year at around CHF 4,000. It should be assumed that these values vary significantly across different loans, and the average values should therefore be treated with caution. In addition to private investors, institutional investors and family offices are increasingly discovering crowdending as a new asset class, and these lenders generally invest much greater amounts than private investors (figure 6).

The launch of the new FinTech regulation in Summer 2017 resulted in the loosening of requirements, especially for platforms in the business crowdending sector. Loans in the segment are no longer affected by the limit of 20 lenders per project. As of recently, it has been possible for loans to SMEs to be financed by more than 20 individuals, which also makes small investment amounts possible.

The intended uses within crowdending segments may vary greatly, and in some areas also depend on the platforms' business models. Examples in business crowdending include project financing, refinancing, and short-term loans for the purposes of liquidity management. The consumer crowdending sector

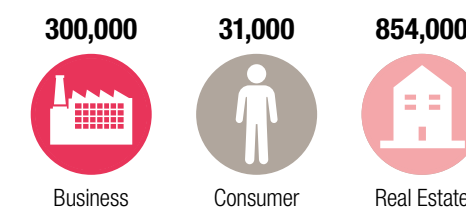


Figure 5: Average loan amount in 2017

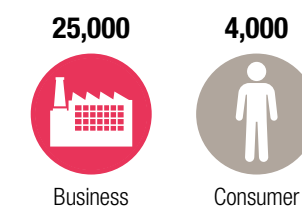


Figure 6: Average investment amount per investor in 2017

is also associated with a high number of possible uses, such as refinancing, student loans, and loans for cars, travel and weddings. Unfortunately, there is no detailed data available relating to these intended uses for Switzerland. In the real estate crowdending sector, mortgages are generally allocated to private individuals, and in some instances also as interim financing for real estate developers.

Balance-sheet lending in Switzerland

When considering crowdlending volume figures, it is always necessary to consider the actual relevance of the corresponding crowdlending segment. One option for ranking the figures is to perform a comparison with the submarkets in which the crowdlending platforms are active. The following illustrates how the overall consumer loan market (consumer crowdlending), SME loan market (business crowdlending), and mortgage loan market (real estate crowdlending) developed, and the size of corresponding market share of the crowdlending market.

The outstanding volume of consumer loans in Switzerland was CHF 7.2 billion as at the end of 2017, recording a slight increase for the first time since 2009.¹ CHF 8.7 billion was also outstanding in

leasing volumes. New loans of around CHF 4.2 billion were granted in the consumer loan sector in 2017. At CHF 52 million, the consumer crowdlending volume brokered in 2017 is still at a reasonable level in relation to the overall market (around 1.2%) (figure 7).

The Swiss mortgage loan market comprises both loans to private individuals and companies, as well as public authorities. As at the end of 2017, the mortgage loan volume in Swiss banks' books was CHF 974 billion, of which CHF 733 billion was attributable to private households.² The mortgage market has seen particularly vigorous growth over recent years. Annualised, the volume of mortgages issued to private households over the last 5 years has increased by 3.1% p.a.³ In the mortgage loan market for private individuals, it is estimated that CHF 150–180 billion of new loans are concluded each year (taking into account growth, maturities and repayments). It's also the case in this sector that the crowdlending volume allocated in the previous year – CHF 23.1 million – is still very low compared to the overall market.

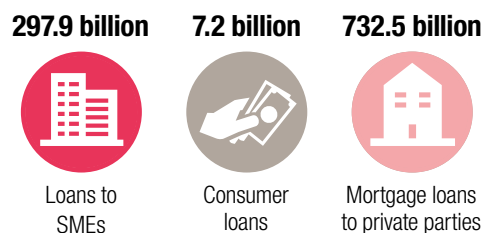


Figure 7: Outstanding loan volumes in Switzerland in 2017

In the SME loans market⁴, a credit volume of CHF 298 billion was outstanding with Swiss banks as at the end of 2017⁵, meaning that around 90% of all business loans in Switzerland went to SMEs.⁶ The market has grown by 2.3% on average in each of the last 5 years. Even if the volume of newly issued SME loans are not available for the overall market in 2016, it is also clear that – at CHF 95.9 million – the volume of business crowdlending is also relatively low in the sector. At the same time, the proportionally low volumes in all three segments also indicate the potential of crowdlending as an alternative financing option. It is to be expected that the proportions of crowdlending will see a marked rise in future in the corresponding markets.

Other business models in marketplace lending

As already explained in the definition of terms, the definition of marketplace lending has as much broader meaning than that of crowdlending. Specifically, purely B2B (business-to-business) platforms can also be subsumed under

the term “marketplace lending”. As a rule, borrowers primarily consist of businesses or public corporations and, in contrast to crowdlending, only professional investors are considered as potential backers. Loans in this segment are therefore often not publicly visible.

The focus on public authorities and companies on the borrower side means that volumes in the segment are far higher than in the crowdlending segment. Examples of platforms in this sector include Tradeplus24, Loanboox, Remaco and Instimatch.

Loanboox, an online brokering platform for public corporations and professional investors, has been operational since 1. September 2016. Municipalities, cities and cantons can submit applications for loans for CHF 500,000 to CHF 500 million. It is then possible for institutional investors – but not private individuals – to submit financing offers. The loans can be financed by one or several lenders. If a loan agreement is successfully concluded, the borrower is charged a one-off fee of one basis point per year of the agreement's duration, whereas capital providers do not incur any costs. Loanboox was the first online

1 Verein zur Führung einer Zentralstelle für Kreditinformation (2018). 2016 Annual Report. Online (01/04/2018): <https://www.zek.ch/de-ch/uber-uns/jahresbericht-statistiken>

2 Swiss National bank (SNB) (2018). Data portal. Domestic mortgage loans. Online (10/04/2018): <https://data.snb.ch/>

3 For a comprehensive analysis of the mortgage loan market, please refer to: Lengwiler, Christoph; Seiler Zimmermann, Yvonne & Amrein, Simon (2018). Real estate financing and how it is currently controlled. In Armin Jans; Christoph Lengwiler; Marco Passardi (edited), Krisenfeste Schweizer Banken? («Crisis-proof Swiss Banks?») (317-360). Zurich: NZZ Libro.

4 An SME is defined as a company with fewer than 250 employees.

5 Swiss National bank (SNB) (2018). Data portal. Business loans by company size. Total loans, use. Online (10/04/2018): <https://data.snb.ch/>

6 For a competitive analysis of loans issued to SMEs, please refer to: Dietrich, Andreas; Wernli, Reto & Duss, Christoph (2017). Study on SME financing in Switzerland in 2016.

platform in Switzerland to broker loans for the public sector online. From launch to the end of 2017, Loanboox brokered around CHF 2.5 billion in loans. This volume is remarkable, even if some of the loans are very short-term.

Remaco, a company that operates a corporate direct lending model, is another example. The Remaco Direct lending platform brings together

companies that are seeking capital with a group of professional, qualified investors (in accordance with the Collective Investment Schemes Act (CISA)), where, as an alternative to bank loans, companies can procure their capital directly on the Remaco platform.

Banks are also keeping a close eye on these business models.

Regulatory environment

The FinTech regulation cut back legislative hurdles for FinTech companies, and therefore also crowdfunding platforms. It essentially results in two central changes for crowdfunding platforms: firstly, the maximum period for retaining funds for processing

purposes was extended from seven to 60 days. This amendment was welcomed in the industry, particularly as it greatly simplified loan processes.

Secondly, the limit of 20 lenders per project – which was very restrictive for crowdlending platforms – was softened in that it now only applies for loans of more than CHF 1 million. In other words, the revision of the Banking Ordinance means that loans totalling less than CHF 1 million can now be financed by more than 20 investors.

However, the limit of 20 lenders per project has only been abolished for loans to entities that undertake “commercial and industrial activity”. While loans to SMEs qualify as falling under the commercial and industrial category, loans to private individuals do not. Accordingly, the limit of 20 lenders per project continues to apply for consumer crowdlending and real estate crowdfunding.

However, we believe that it would be preferable for the limit of 20 lenders per project to be abolished for all three segments in the Swiss crowdlending market. A subdivision into “commercial and industrial” and “private loans” is less useful, particularly from an investor protection perspective.



3. Crowdlending in an international context

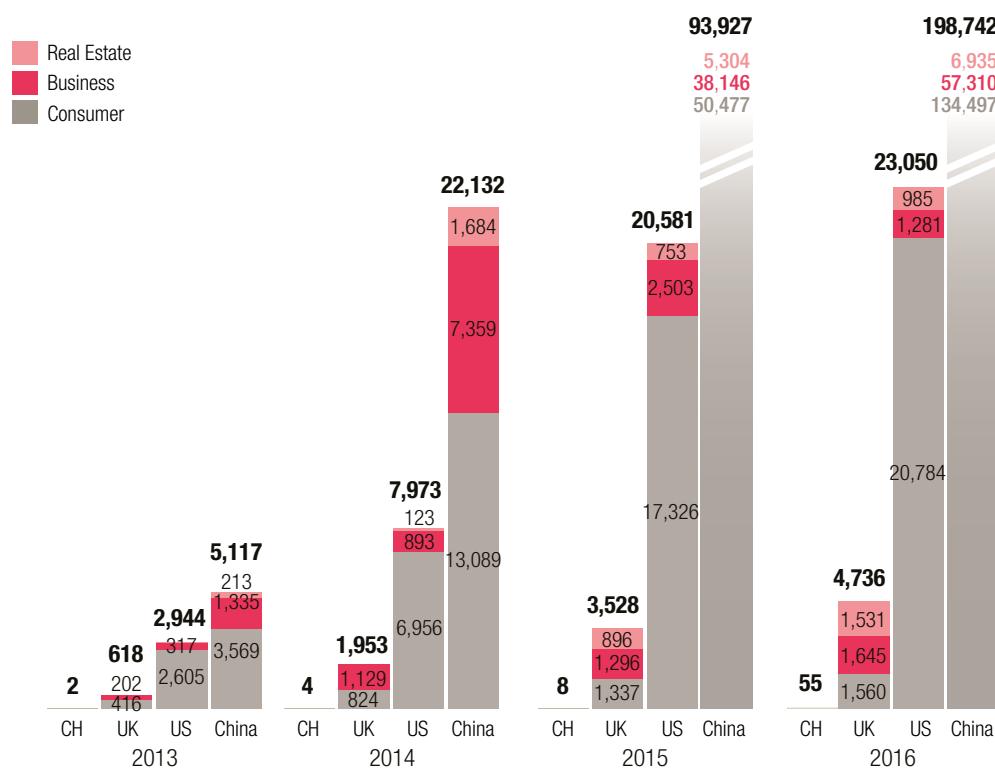


Figure 8: Crowdlending volumes in selected countries 2013-2016 (in million CHF)

The Swiss crowdlending market recorded high growth again in 2017. Volumes in other countries for 2017 are not yet available at the time that this document was published, and so this international comparison primarily concentrates on 2016.

Figure 8 presents the crowdlending volumes for selected countries. China had the world's largest crowdlending market in 2016. In total, loans equating to CHF 198.7 billion were brokered in China this year, representing year-on-year growth of 112%. The volume was CHF 23.0 billion in the USA in 2016, and CHF 4.7 billion in the UK.

The volumes from additional countries can be seen in figure 9. The 2016 volume was CHF 272 million in France, and CHF 223 million in Germany. In Switzerland, this figure reached CHF 55.1 million in 2016. A loan volume of CHF 186.7 million was brokered in the last year.

Due to the varying sizes and economic power of the countries listed above,

statements regarding the absolute volume are only of limited significance. A consideration of the volume in relation to economic output provides an indication of the relevance of crowdlending. As can be seen in figure 9, this figure is also high in China where the crowdlending volume corresponds to a considerable 1.8% of GDP, while this figure is almost 0.2% and 0.13% in the UK and USA respectively. In Europe, the figure for Estonia is very high at 0.34%.

Figure 9 presents the crowdlending volumes for 2016 in relation to the number of inhabitants. As is shown, China, the USA and the UK also come out on top in this ranking. CHF 144 was invested in crowdlending per capita in China, CHF 71.30 in the USA, and CHF 72.20 in the UK. In continental Europe, a high pro-capita volume is again recorded in Estonia, at CHF 60.20, while an average of CHF 6.60 per inhabitant was invested in crowdlending in Switzerland in 2016, with this figure rising to CHF 29.90 in 2017.

Country	Volume in CHF million (2016)	Year-on-year growth	Volume per inhabitant	Volume in % of GDP	Crowdlending in % of crowdfunding
China	198,734	112%	144.15	1.80%	98%
USA	23,049	12%	71.34	0.13%	92%
UK	4,736	34%	72.19	0.18%	80%
Japan	367	17%	2.89	0.01%	94%
France	272	53%	4.07	0.01%	56%
Germany	223	13%	2.70	0.01%	66%
Finland	119	104%	21.60	0.05%	77%
Estonia	78	160%	60.21	0.34%	87%
Italy	78	562%	1.28	0.00%	56%
Spain	69	191%	1.49	0.01%	49%
Denmark	69	724%	12.05	0.02%	71%
Switzerland	55 (2017: 186.7)	597%	6.56 (2017: 26.91)	0.01% (2017: 0.03%)	43%
Canada	47	-44%	1.29	0.00%	22%
Austria	5	155%	0.63	0.00%	23%

Figure 9: Crowdlending volume – absolute and in relation to the number of inhabitants and GDP (2016, in million CHF)⁷

The volumes and structure of selected crowdlending markets

The importance of crowdfunding varies greatly across some of the countries set out above, both in terms of absolute and relative figures. There are a number of explanations for this. Firstly, the (varying) regulatory environment makes a significant contribution to the development of crowdfunding. Secondly, it must be taken into account that

financial systems operating in countries in continental Europe differ greatly from those in the USA and UK. For historical reasons, a larger proportion of financial intermediation is traditionally processed via money and capital markets in the USA and UK, also referred to in financial literature as direct finance. In contrast, the indirect finance model is more widely spread in continental Europe. Switzerland is a typical example of a

country with a heavily bank-oriented financial system. Cultural differences also need to be taken into account, for example with respect to openness to innovation and the adaptation of new developments. Finally, crowdfunding's profile – which can vary from country to country – must also be considered.

The volume of crowdlending in relation to the total crowdfunding volume is

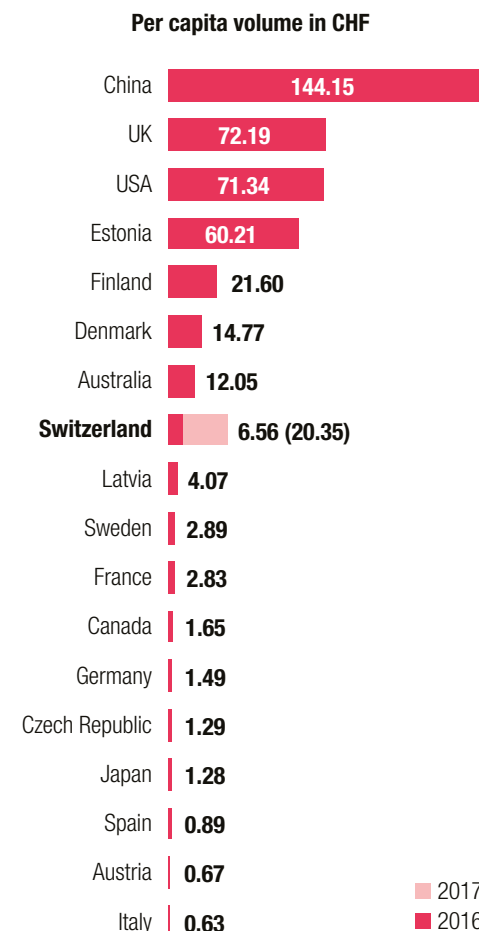


Figure 10: Crowdlending volume per inhabitant in 2016, in selected countries⁸

⁷ Sources for Figure 8 and Table 1: University of Cambridge. Cultivating Growth. The 2nd Asia-Pacific Alternative Finance Industry Report. Online. (04/04/2018): <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/>. University of Cambridge. The Americas Alternative Finance Industry Report. Hitting Stride. Online. (04/04/2018): <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/>. University of Cambridge. Entrenching Innovation. The 4th UK Alternative Finance Industry Report. Online. (06.04.2018): <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/>. University of Cambridge. Expanding Horizons. The 3rd European Alternative Finance Industry Report. Online. (06.04.2018): <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/>. The annual mean rates were used for converting figures to Swiss francs.

⁸ Sources: see footnote 7. Number of inhabitants: The World Bank. Population, total. Online (06/04/2018): <http://data.worldbank.org/indicator/SP.POP.TOTL>

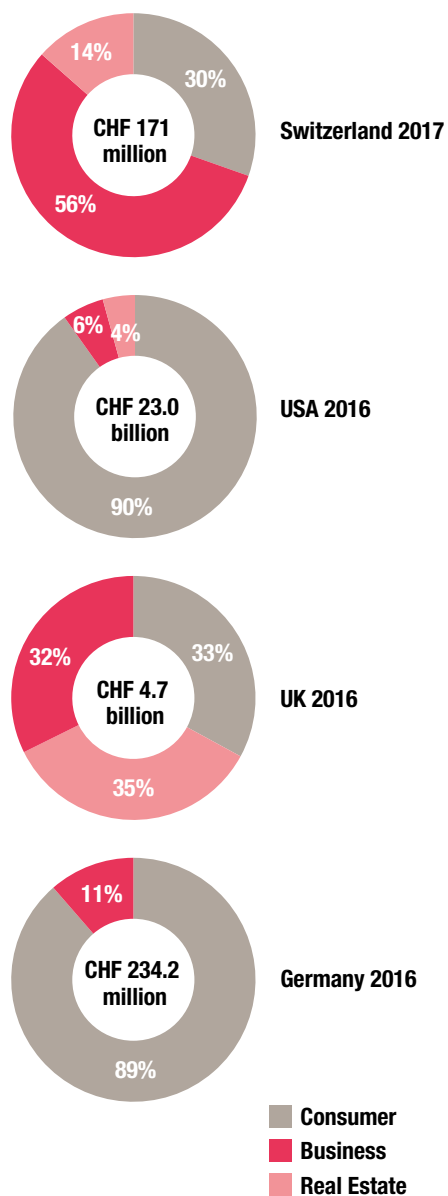


Figure 11: The crowd lending market structure in Switzerland (2017 & 2016) as well as the USA, the UK and Germany

also presented in the Table 1 provided above. The brokering of debt capital online plays an important role in the four largest crowd lending markets, with crowd lending making up over 80% of the total crowdfunding volume in each case. In Switzerland, crowd lending made up 43% of total crowdfunding in 2016.

Figure 11 indicates the proportion of consumer crowd lending, business crowd lending, and real estate crowd lending to the overall crowd lending market in Switzerland, the USA, the UK, and Germany. In the UK, the figures for volumes are practically identical in these three segments, and it's also clear that the market is dominated by a small number of market players. In business crowd lending, for example, a loan volume of CHF 1.6 billion was concluded on Funding Circle alone in 2017 (2016: CHF 1.1 billion), while Zopa, which works in consumer crowd lending, achieved CHF 1.2 billion in 2017 (2016: CHF 920 million).⁹

In the USA, 90% of loans brokered are attributable to the consumer crowd lending sector. LendingClub, the largest US platform, brokered CHF 8.9

billion in loans in 2017 (2016: CHF 8.5 billion), and now also issues loans to SMEs.¹⁰ CHF 2.8 billion were processed by the Prosper platform in 2017 (2016: CHF 2.2 billion).¹¹

Compared with leading crowd lending markets such as China, the USA and the UK, the volume in Switzerland remains low despite impressive growth. We must therefore ask how far the dynamic growth of advanced markets can translate to Switzerland. As already stated, the Swiss financial market is fundamentally different from those operated in the USA and UK. However, comparisons are possible, for example with respect to the crowd lending volume per inhabitant: in order to reach a similar crowd lending volume per capita as the USA or UK 2016, the Swiss crowd lending market volume would have to approximately double in both of the next two years. This indicates that Switzerland is approximately three years behind these leading markets in terms of its development. At the same time, we expect a continued high level of dynamic growth in Switzerland. A market volume of CHF 400–500 million may be reached in the current year.

The structure of capital providers has changed in these markets, particularly as the entry of professional investors has enabled the financing of significantly greater loan volumes. Among European platforms, the proportion of institutional investors in the consumer crowd lending segment has risen from 26% in 2015 to 45% in 2016, and from 24% to 29% in the business crowd lending segment.¹² In the USA, the proportion of institutional investors in business crowd lending was 67% in 2016, and 70% in consumer crowd lending.¹³ Corresponding figures are not yet available for Switzerland.

⁹ For an overview of crowd lending suppliers and their volumes in the UK, please refer to: P2PFA (2018). P2PFA Member Loanbook Data. Online (07.04.2018): <https://p2pfa.org.uk/data/>

¹⁰ Lending Club (2018). Investor Relations. Online (07/04/2018): <http://ir.lendingclub.com/corporateprofile.aspx?iid=4213397>

¹¹ Prosper (2018). Media. Online (07/04/2018): <https://www.prosper.com/about-us/media/>

¹² University of Cambridge. Expanding Horizons. The 3rd European Alternative Finance Industry Report. Online. (06/04/2018): <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/>. p. 38.

¹³ University of Cambridge. The Americas Alternative Finance Industry Report. Hitting Stride. Online. (04/04/2018): <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/>. p. 47.



4. 2018 Survey

In a survey, the platforms were asked to rank eight main topics according to their importance, with respect to the following challenges: competition, customer acquisition, platform growth, costs and availability of qualified employees, IT costs, regulations, the waiting time between the loan application and payout, and risks. Several questions were asked for some topics; these have been aggregated to form eight main topics and set out in Figure 11. The values shown in the following figures each indicate the median. In total, 14 of the 15¹⁴ platforms took part in the survey, meaning that the majority of the Swiss market is represented. The results of the individual sub-topics are then set out and analysed in Section 4.2.

¹⁴ We would like to thank 3 Circle Funding, Acredius, Advanon, Creditfolio, CreditGate24, Creditworld, Crowd4Cash, Hyposcout, Lend, Lendico, Lendora, Splendit, SwissLending and Swisspeers for their participation in the 2018 Crowdlending Survey. The Lend and Splendit platforms provided a joint response as they share a parent company, Switzerland AG.

Summary

1. Customer acquisition is very important

Swiss crowdlending platforms identify acquiring new customers as the area in which they face the greatest challenges. This includes the acquisition of both borrowers and lenders. For lenders, the focus is on larger institutional investors in particular.

2. Platforms are very open to strategic partnerships

Almost all the platforms consider partnerships to be an important pillar of their growth strategy. Alliances with other start-ups and crowdlending platforms are considered in addition to partnerships with banks.

3. The Swiss labour market as a challenge

The availability of qualified employees poses major challenges, particularly for larger platforms. The high level of wages on the Swiss labour market is reported to be an important challenge.

4. Regulatory uncertainty is still an issue

The new regulation affects the platforms to different extents, depending on their area of activity. First and foremost, action is required due to the removal of the limit of 20 lenders per project for consumer crowdlending platforms.

5. Reputational damage as the greatest risk for this young industry

Swiss crowdlending platforms identify potential misconduct on the part of other market participants as their greatest risk. This could, for instance, occur in the form of behaviour that is in contravention of regulations, or increased default rates as a result of less stringent loan allocation guidelines.

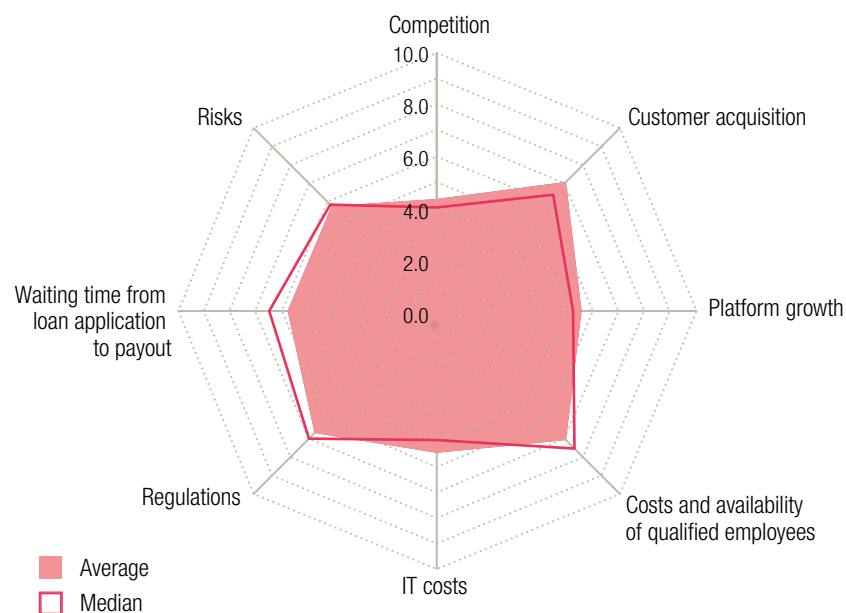


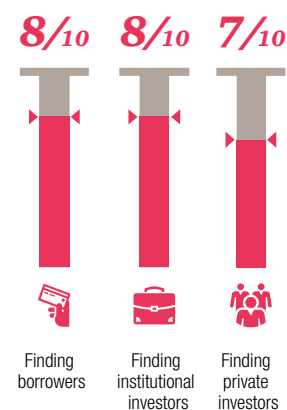
Figure 12: Average importance assigned by Swiss platforms (10 = very important, 1 = very unimportant)



Survey results

Customer acquisition

The platforms consider the acquisition of lenders and borrowers to be the greatest challenge overall, rating the acquisition of both borrowers and institutional investors as 8 out of 10 in importance (10 = very high importance, 1 = no importance), while the acquisition of private investors was rated as 7 (median).



The platforms stated that the proportion of institutional lenders – such as private debt funds, asset managers, pension funds or family offices – increased in 2017. Not least due to the low-interest-rate environment, these professional lenders are seeking alternative investment opportunities in the fixed-income segment that offer interesting risk/return profiles. The platforms see this as a welcome development, as

institutional investors are able to finance significantly greater credit tranches than private investors. Platforms that work together with institutional investors are also able to focus more on the acquisition of borrowers.

Swiss platforms' investor structures currently vary greatly. Although loans are exclusively brokered to private investors on some platforms, institutional investors are extremely important on others, and in some instances even make up the bulk of financing. Various statements provided in the interviews indicate that many platforms expect further significant growth in the proportion of institutional investors in 2018. Based on qualitative interviews, many platforms assume that the proportion of institutional investors will ultimately reach over 50% in the long term.

Strategic partnerships

75% of all platforms are seeking strategic partnerships, and all platforms that are open to collaboration would like to partner with a bank. A smaller proportion of the platforms is also planning strategic alliances with other start-ups or crowdlending platforms, with some platforms intending to offer their service to banks as a white-label solution. With respect to the creation of an ecosystem, the intention is that these banks will integrate the platforms'

75%

Banks



50%

Start-ups



33%

Other crowdlending platforms

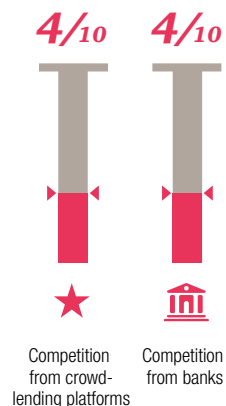


offerings into their bank environment as a “front tool”, while the transactions are processed via the relevant crowdlending platform’s systems.

Competition

Swiss crowdlending platforms rate the risk arising from the competition as relatively low (median: 4 out of 10 possible points). It’s striking that larger Swiss platforms view banks as greater competition, while smaller crowdlending platforms report competition within the sector as a greater risk.

Swiss platforms identify little danger on the horizon with respect to market entries, and none of the CEOs surveyed in the interviews expected a non-Swiss platform to launch to market in the next year. Although, as was also the case in 2016, several new platforms



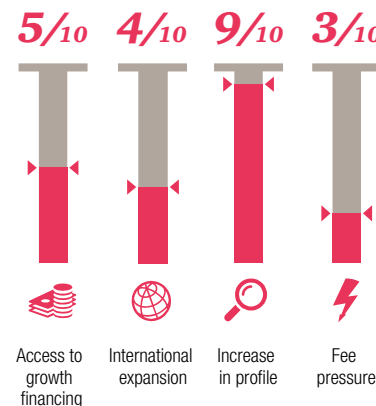
again entered the crowdlending market in 2017 (Acredius, Crowd4Cash and Creditfolio), fewer launches of new platforms are expected in 2018. For the next few years, we expect an increased concentration of the majority of loans on a few platforms, as can already be observed in other mature markets. It is also possible that some platforms will merge in the medium term.

Platform growth

Swiss crowdlending platforms identify raising their profile as the most important challenge, with a median rating of 9 out of 10 possible points. Improved public perception would

manifest in particular in it becoming easier to acquire borrowers and lenders.

The field is very diverse in the Swiss crowdlending sector when it comes to international expansion – a goal that is not at all a priority for most platforms.



Platforms that do engage with this topic often state Germany as an expansion target. In the interviews with platforms, it became clear that individual larger providers in particular are engaging with this subject area. International expansion is an obvious path for business models with vast scaling capacity.

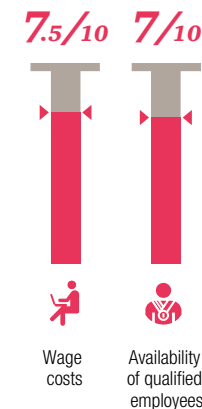
The platforms only identify a low level of pressure with respect to fees.

In terms of their age, most of the platforms can still be referred to as start-ups. The subject of additional financing is presented in the following, although it is not the top priority for most of the platforms.

Personnel costs and availability

The availability of qualified employees poses significant challenges in particular for platforms that are larger and/or experiencing fast growth. In the interviews, the CEOs surveyed stated that the platforms often compete with banks on the labour market. Banks generally pay higher wages. In addition, as is also the case for other start-ups in Switzerland, the generally high level of wages on the Swiss labour market represents a major challenge for platforms.

Some Swiss crowdlending platforms are planning to acquire additional capital in 2018 to enable them to cover the high costs of both personnel and infrastructure despite continued low yields, and further expand their volume.



Costs & automation

The platforms rate costs for technical infrastructure to be of middling importance, with larger platforms giving a higher rating to this subject than smaller ones. This may be due to the level of complexity, which increases in line with size of the platform, as well as automation.

On average, Swiss crowdlending platforms assign 7 out of 10 possible points (median, 1 = manual, 10 = fully automated”) with respect to their level of automation. Further automation is to be expected, particularly in the area of consumer loans.

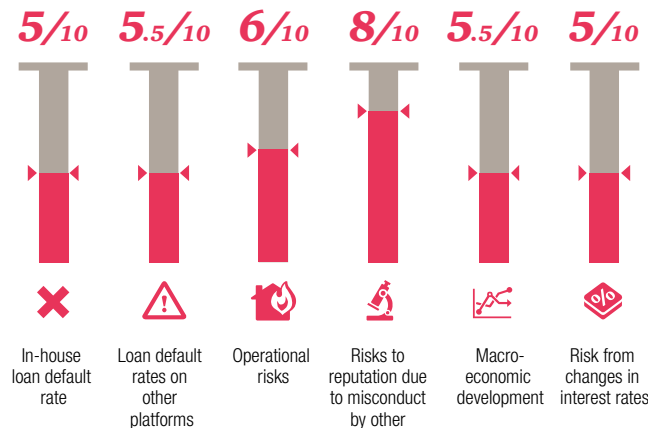
Regulations

The Bundesrat relaxed regulatory requirements for crowdlending platforms in 2017. However, regulations appear to still represent a major challenge for many platforms, as shown in the relatively high rating of 7 out of 10 possible points. The removal of the limit of 20 lenders per project is a particular focus for platforms in the consumer crowdlending segment.



Risks

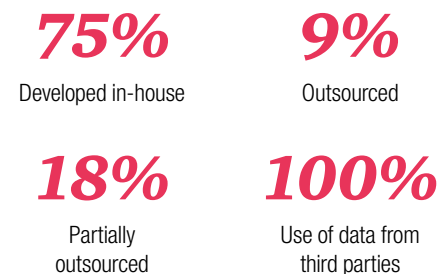
We surveyed the Swiss crowdlending platforms with respect to their perception of various risks. It's interesting that a very high number of platforms rate the risk of reputational damage due to misconduct by another participant on the crowdlending market as high to very high (8 out of 10 points). In addition, the platforms believe that negative press reporting could cause sensitive damage to the industry's reputation overall. Loan default rates and macroeconomic risks are only rated to be of middling importance.



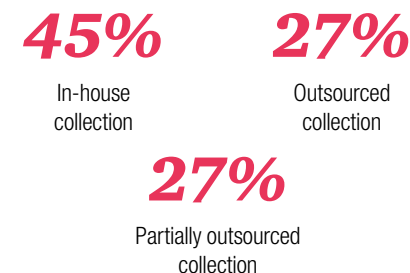
“Make or buy”

Platforms were also surveyed with respect to their credit check process. 73% of the platforms use a credit check model developed in-house. 9% have completely outsourced their credit check model, and 18% of all platforms stated that they have outsourced sections of their credit check process.

All platforms stated that they use data from third parties for their credit checks, to make their credit check process more accurate. Swiss platforms use credit history information from the Verein



zur Führung einer Zentralstelle für Kreditinformationen ZEK, CRIF, Dun & Bradstreet, Intrum Justitia und Euler Hermes in particular.



45% of all platforms handle collection services in-house, while 27% of all platforms state that they have outsourced these services. An additional 27% of all platforms have outsourced sections of their collection process to third parties.

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\$ 59,032.00	\$ 43,685.00	\$ 37,121.00	\$ 14,001.00	\$ 8,465.00
\$ 88,728.00	\$ 34,548.00	\$ 82,101.00	\$ 11,228.00	\$ 22,159.00
\$ 27,862.00	\$ 19,001.00	\$ 7,307.00	\$ 28,784.00	\$ 21,791.00
\$ 21,784.00	\$ 19,822.00	\$ 60,466.00	\$ 38,495.00	\$ 50,000.00
\$ 53,225.00	\$ 30,259.00	\$ 19,905.00	\$ 17,281.00	\$ 63,415.00
\$ 18,477.00	\$ 27,178.00	\$ 12,548.00	\$ 28,828.00	\$ 49,109.00
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