



Crowdfunding and alternative finance in the UK

Glasgow 31.08.2017

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Big and small funders learning to play together
KIS in £3.2m partnership with Funding Circle

Facebook closes its \$2bn Oculus Rift acquisition. What next?

Alibaba partners alternative lenders to open doors to China

Crowdfunding public services - tapping into the crowd to finance public projects

More than money - crowdsourcing meets crowdfunding support

Voice Over
Beta testing
Volunteer hours

Crowdfunding and Cryptocurrencies

NOW ACCEPTING INVESTMENT IN BITCOIN

The Rise of the Crowdfunding Consultant

For unparalleled SUCCESS call 01453 655555
IMMEDIATE

Making everyone an investment manager

Disrupting, Building - Crowdfunding and P2P Lending Will be an Integral Part of new Financial Systems in Developing Economies

The competition between global, local and niche crowdfunding

Futures

Research summary September 2011 NESTA

Beyond the Banks
Innovative ways to finance Britain's small businesses
Andy Davis

Nesta... **CROWDING IN**
HOW THE UK'S BUSINESSES, CHARITIES, GOVERNMENT AND FINANCIAL SYSTEM CAN MAKE THE MOST OF CROWDFUNDING
Peter Brack, Liam Collins and Stan Westhead
November 2012

Nesta... **WORKING THE CROWD**
A SHORT GUIDE TO CROWDFUNDING AND HOW IT CAN WORK FOR YOU
November 2012

Nesta... UNIVERSITY OF CAMBRIDGE

UNDERSTANDING ALTERNATIVE FINANCE
The UK Alternative Finance Industry Report 2014
November 2014

Nesta... **BANKING ON EACH OTHER**
PEER-TO-PEER LENDING TO BUSINESS: EVIDENCE FROM FUNDING CIRCLE
Veronica Parrish and Liam Collins
April 2012

Nesta... **THE VENTURE CROWD**
CROWDFUNDING EQUITY INVESTMENT INTO BUSINESS
Liam Collins and Verónica Parrish
July 2012

THE RISE OF FUTURE FINANCE
The UK Alternative Finance Benchmarking Report
November 2013
Liam Collins, Verónica Parrish, University of Cambridge, Berkeley
Bryan Chapple, University of Cambridge

Nesta... Berkeley UNIVERSITY OF CAMBRIDGE

Nesta... **PUSHING BOUNDARIES**
THE 2015 UK ALTERNATIVE FINANCE INDUSTRY REPORT
February 2015
Liam Collins, Verónica Parrish, Steve Dagnall, Katherine Bunn and Verónica Parrish

Co-ordinating with KPMG

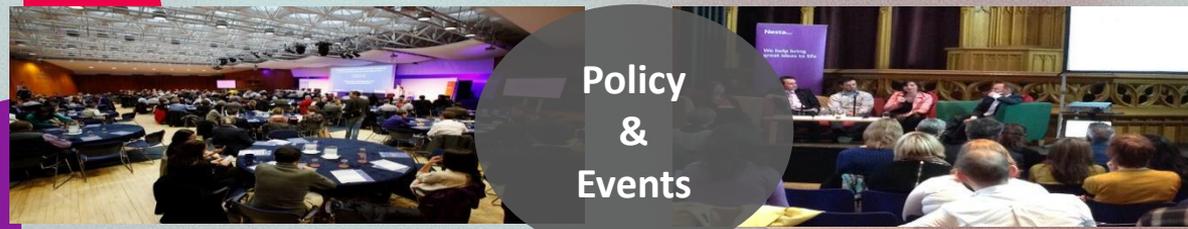
Nesta... Cabinet Office

Heritage + the Crowd
Where ideas happen.

Artists + the Crowd
Where ideas happen.

Practice

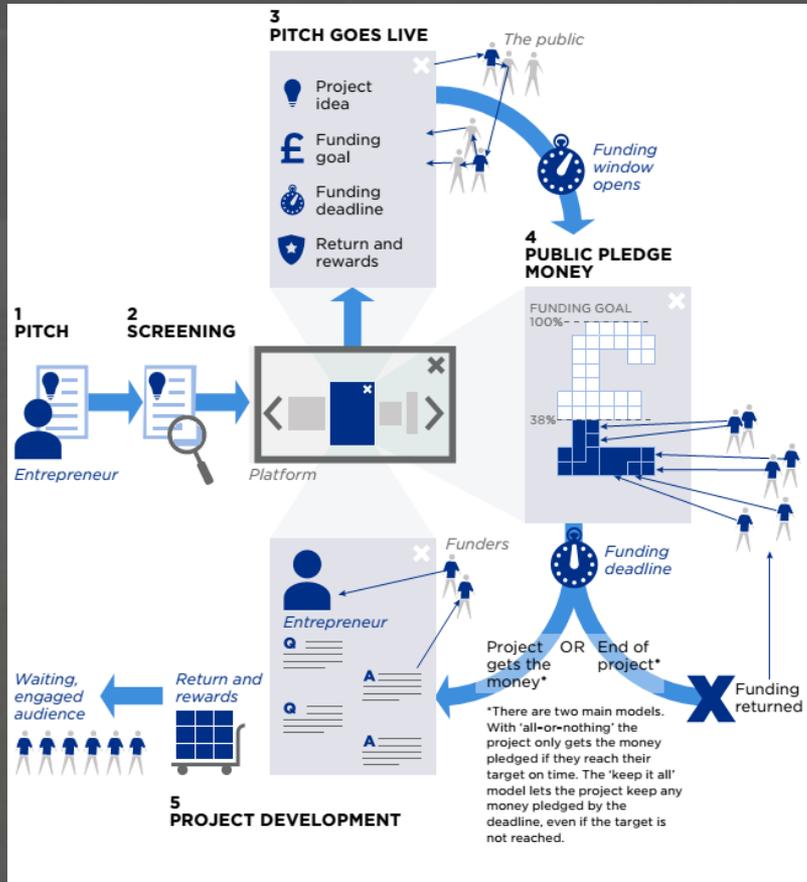
INNOVATION IN GIVING



Policy & Events

- I. Growth and trends in the UK Market
- II. Regulation and policy in the UK
- III. What next for crowdfunding

WHAT IS IT



Crowdfunding is a way of financing projects, businesses and loans through small contributions from a large number of sources, rather than large amounts from a few. Contributions are made directly or through a light-touch platform rather than through banks, charities or stock exchanges

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DIFFERENT MODELS



Reward-based: People contribute to projects and receive a non-financial reward or product in return. *Average campaign size - £6,326.*



Donation-based: People donate money towards a project. Except for seeing the feeling of seeing the project go ahead, receive no financial return or product. *Average campaign size - £714.*



Equity based: Enables the crowd to invest for equity, or profit/revenue sharing in businesses or projects, with the hope of a financial return if the business exits. *Average campaign size - £523,978*



Lending based: People seeking a loan apply through the platform, with members of the crowd taking small chunks of the overall loan. Profit is made when loan is repaid with interest. *Average campaign size - £76,280*

I. GROWTH AND TRENDS IN THE UK MARKET



Growth of the UK Crowdfunding finance market

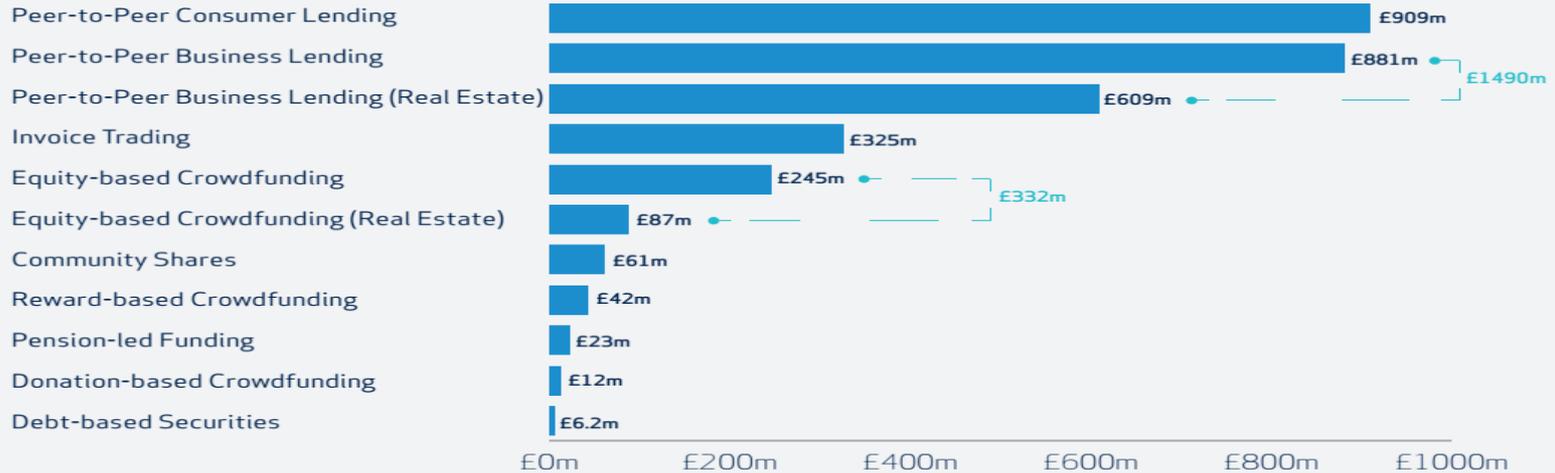
Total UK Online Alternative Finance Raised Between 2012 and 2015



The 2015 market by model

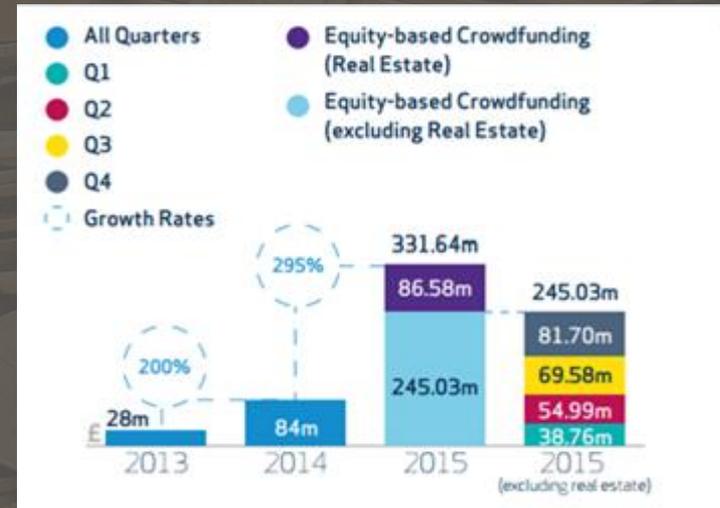
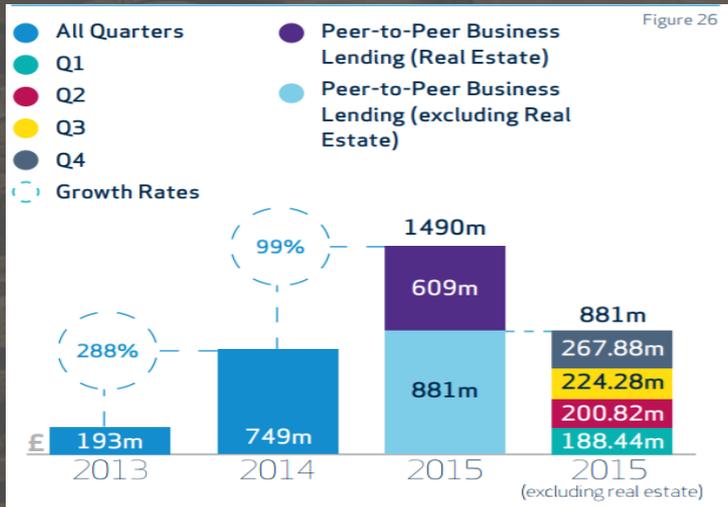
2015 Market Volume by Alternative Finance Model

Figure 3



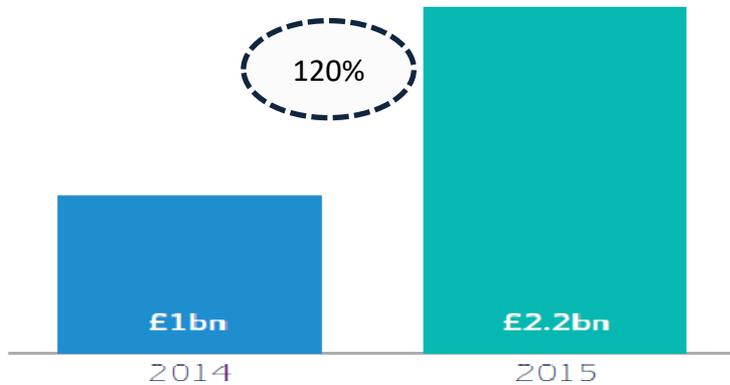
P2P BUSINESS LENDING market volume by year

Equity based crowdfunding market volume by year

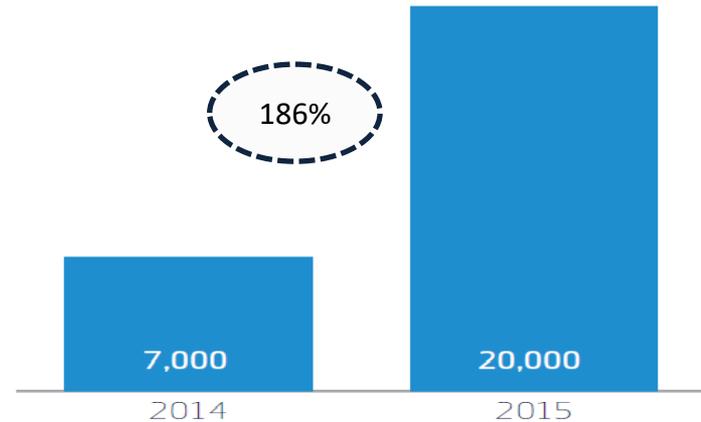


The Growth of Online Alternative Business Market

Total Alternative Business Funding in 2015

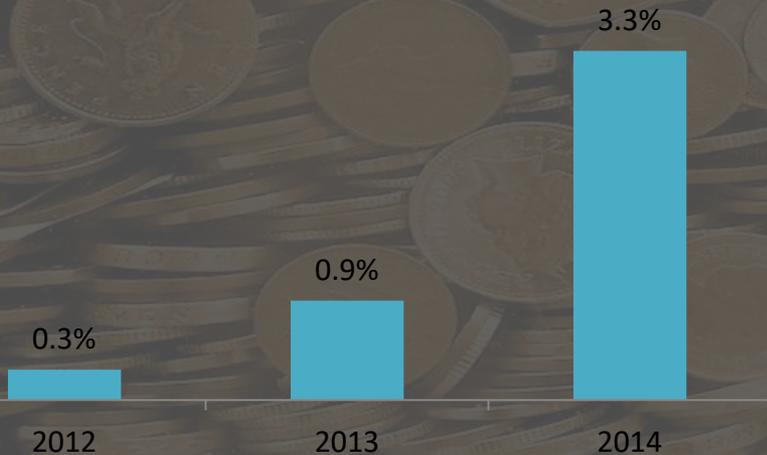


Total Number of SMEs Funded through Alternative Finance Channels in the UK

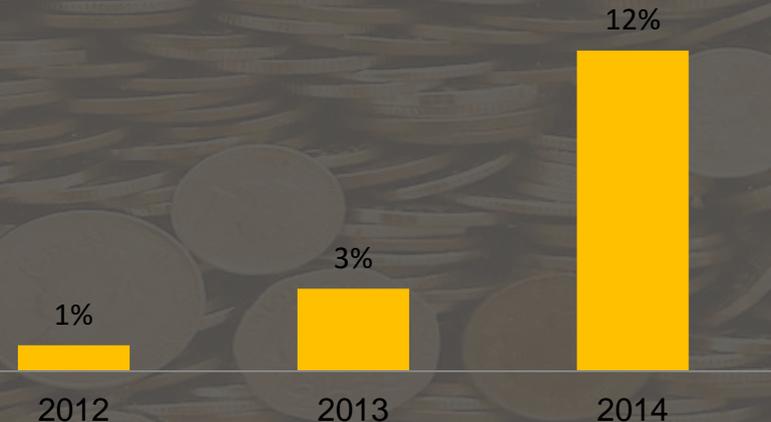


Peer-to-Peer Business Lending Vs. BBA New Loans

Peer-to-Peer Business Lending as a Percentage of New Loans to SMEs (based on BBA Data)



Peer-to-Peer Business Lending as a Percentage of New Loans to Small Businesses in the UK (based on BBA Data)



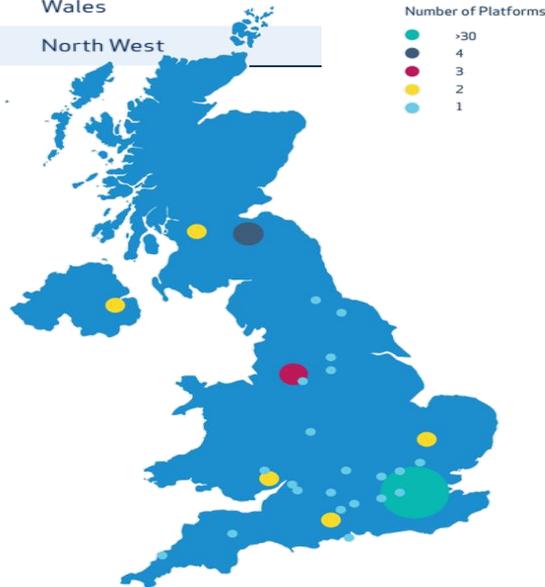
EQUITY CROWDFUNDING SHARE OF TOTAL SEED AND VENTURE STAGE INVESTMENT MARKET

Equity-based Crowdfunding in the Context of VC/ Equity Investment in the UK (2011-2015)



- Equity crowdfunding now makes up 16.5% of market for seed & venture stage investment in 2015
- Number of deals increased from 175 in 2013 to 720 in 2015.
- Growth equity CF not just about competing with traditional VC and BA investment, but also growing the total pool of start-up finance
- Market grew by 295% from 2014 – 2015.
- Data on 2016 performance, indicates a slow down in deals and volume Q1 & Q2. This is in line with rest of investment market.

Ranking	Funding Received	Funding Provided
1	London	London
2	South East	South East
3	South West	South West
4	West Midlands	West Midlands
5	Scotland	East of England
6	East Midlands	East Midlands
7	North East of England	Scotland
8	East of England	North East of England
9	Yorkshire and The Humber	Yorkshire and The Humber
10	Northern Ireland	Northern Ireland
11	Wales	Wales
12	North West	North West



The Geography of Alternative Finance

- London and the South East are most popular regions for fundraising
- Scotland is 5th most popular region for receiving funding
- 62% of platforms are based in London
- East Midlands is one of the most popular regions for P2P business borrowers
- Community Shares is most popular outside London (South West, North West, South East and Scotland)

CROWDFUNDING MARKET SECTOR

Sector Ranking	
1	Real Estate & Housing
2	Technology
3	Manufacturing & Engineering
4	Food & Drink
5	Retail & Wholesale
6	Leisure & Hospitality
7	Community & Social Enterprise
8	Finance
9	Construction
10	Education & Research

Real estate is the most popular sector across the market followed by technology and manufacturing and engineering

In equity crowdfunding technology, food & drink, Internet & e-commerce, real estate & housing and media & publishing were most popular.

Rewards based platforms help fund Creative economy projects, with film, technology, media & publishing being some of the most popular categories in this model

EQUITY CROWDFUNDING MARKET TRENDS

Sector Trends

- Real estate is the most popular sector, making up a quarter of the 2015 market (£87m)
- Other popular sectors in 2015 were technology, food & drink, internet & eCommerce, media & publishing.
- Different platforms attract different sectors (eg. SyndicateRoom for life-science projects, PropertyPartner for real estate).
- Average project size was £523,978,
- To date the market has seen few exits and failures, so too early to tell how market performs compared to other forms of investment. (Some platforms have begun to release data on portfolio performance.)

Investor Trends

- Just over a quarter of investors on equity-based crowdfunding platforms are sophisticated/High Net Worths (HNW)
- Average number of investors for a project is 77,
- Investors have an average portfolio of 4 or 5 investments on a platform.

Peer-to-peer business lending trends

Sector Trends

- The most popular sectors funded through P2P lending are real estate and housing followed by manufacturing & engineering, transport & utilities and then finance and retail.
- The average size of a peer-to-peer business loan was £76,280 and was funded by an average of 347 lenders
- the most active regions receiving funds were the East Midlands, London and the South East.

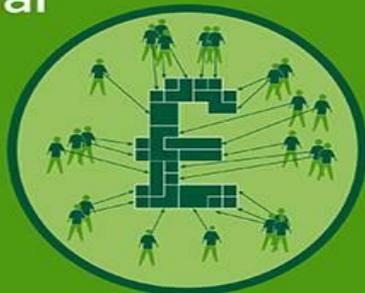
Investor Trends

- The most active regions for providing peer-to-peer business lending were London, the South East and the South West.
- around 26% of loans on P2P business lending platforms were funded by institutions.
- Increased in partnerships between established financial institutions and P2P business lending platforms
- Internationalisation

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CROWDFUNDING GOOD CAUSES

Opportunities and challenges
for charities, community
groups and social
entrepreneurs



Jonathan Bone and Peter Baeck

June 2016

In partnership with **NCO**

Not only for businesses Crowdfunding Good Causes

- Community Shares, Rewards and Donation Based crowdfunding all used to fund good causes
- Donation crowdfunding grew by 500% from 2014 – 2015
- An estimated £81 million was raised for good causes through crowdfunding in 2015, only 0.5% of giving in the UK.

EVENTS AND ACTIVITIES

NewVlc Ability Counts Football Squad - £630 to get to the nationals.

BUILDINGS, RESTORATIONS AND INFRASTRUCTURE

Websters – A New Glasgow Theatre - £33,310 from 108 backers to convert a church into a theatre, community hall and bar.

EQUIPMENT AND TOOLS

Help a Heart campaign raised £1,808 and £1,107 in 2 campaigns to buy defibrillators for a local community.

GARDENS PLAYGROUNDS AND GREENSPACES

Global Garden, Global Kitchen raised £10,894, from 110 Backers to set up a community garden and kitchen

CAMPAIGNS AND MOVEMENTS

Keep streets live raised £3,285 from 133 backers to go towards paying legal and campaigning costs

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II. REGULATION OF THE UK MARKET



DEVELOPMENT OF P2P LENDING REGULATIONS



Regulation

- Self-Regulation by P2PFA from 2011, and UKCFA in 2013
- FCA began consultation on regulation in 2013 and began interim authorisation of platforms in 2014
- Implementation of regulation in 2016
- Ongoing review of regulation

Other policy and government initiatives

- Innovative finance ISA
- Matches on P2P business Loans from British Business Bank
- Personal Savings Allowance

	SEIS (2012)	EIS (1994)	SITR (2014)
Aim	Designed to help high risk small companies raise equity finance	Designed to help small early-stage companies raise equity finance	Designed to encourage investment in social enterprises
Investor benefits			
Upfront income tax relief	50% up to max qualifying investment of £100,000 held for three years that can be carried back to earlier tax year	30% up to max investment of £1m, which can be carried back to previous tax year	30% up to max investment of £1m, which can be carried back to previous tax year
Inheritance tax relief	100%	100%	-
Capital gains	50% tax relief for re-investment	Tax deferral for the life of the qualifying investment	Tax deferral for the life of the qualifying investment
Growth / profit	Tax Free	Tax free	Tax free

POLICIES RELATED TO EQUITY CROWDFUNDING

- Enterprise Investment Scheme (EIS), 1994
- Seed Enterprise Investment Scheme (SEIS), 2012
- Social Investment Tax Relief (SITR), 2013

FEATURES OF 2016 FCA REVIEW OF EQUITY CROWDFUNDING REGULATION

- Management of conflicts of interest between platforms, investors, and businesses.
- Due Diligence: As number of failing projects increases, the FCA is considering a standard minimum level of due diligence required.
- Appropriateness Test: guidance to ensure investor classification is done correctly.
- Disclosure: expansion of mandatory disclosure to include
 - Amount raised since pitch
 - Number of projects that have failed after successful fundraising
 - Only list money funded by people unconnected to project to ensure investors are not misled about level of interest for a project.
- Develop new business models: new types of investment (eg. mini-bonds, convertible notes, real estate investment trusts, accelerator funds) may require new rules.

iii. WHAT'S NEXT



A MATURING MARKET

economics [banking](#) retail markets eurozone

Camden Town Brewery sold to world's biggest drinks company

Critics say craft beer image of north London brewer is compromised by becoming wholly owned subsidiary of Budweiser firm AB InBev

Crowdcube celebrates first exit as Europcar buys E-Car Club

'Punk' beer maker BrewDog sells 22% of firm to private equity house

Crowdfunding investors are rewarded

Medical firm Oval Medical is sold to a rival

Business > IndyVenture

Crowdfunding: Great way of launching a business or minefield for risk?

It's the buzzword for the modern startup, but is crowdfunding really the perfect answer to the thorny question of financing the next big idea?

Britain's biggest crowdfunding failure is accused of misleading investors – its chairman says that's not true

Shoemaker was on last legs, but crowdfund investors were in dark

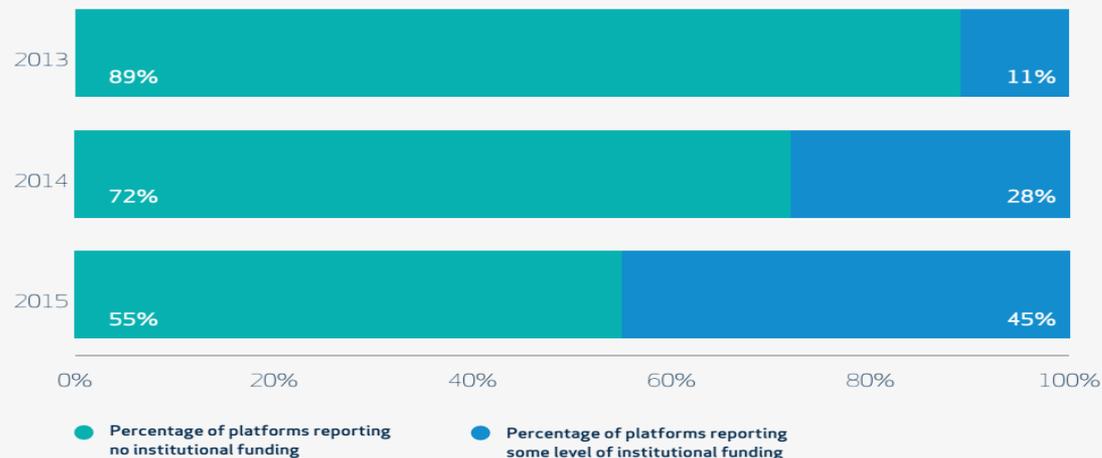
Are we in a crowdfunding bubble that's about to burst?

Increased institutionalisation

Almost half of all platforms reported some level of institutional funding in 2015

Growing Involvement of Institutional Funding in the UK Alternative Finance Market (2013-2015)

Figure 16



INCREASED INSTITUTIONALISATION OF P2P LENDING AND CROWDFUNDING

P2P CONSUMER LENDING



32%

P2P BUSINESS LENDING
(TOTAL)



26%

P2P BUSINESS LENDING
(REAL ESTATE)



25%

EQUITY BASED
CROWDFUNDING

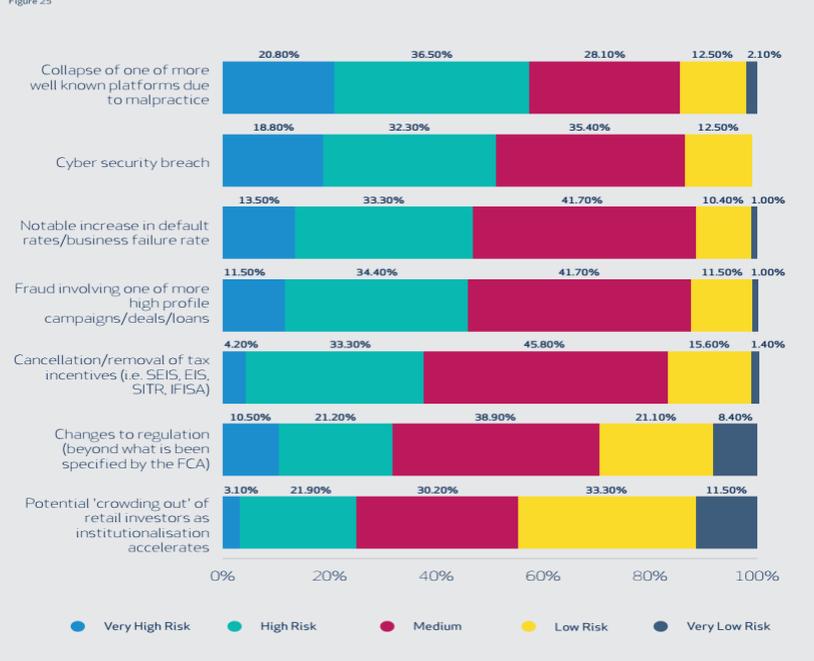


8%

RISKS TO FUTURE GROWTH

Industry Perceived Risks to Future Growth of the Alternative Finance Sector

Figure 25



- Platform collapse due to malpractice and cyber security breach are seen as the highest risk
- Platforms aren't too worried about changes to regulation & potential crowding out of retail investors



FUTURE CHALLENGES AND TRENDS

- MAINTAINING GROWTH
- FINDING THE RIGHT BALANCE BETWEEN INSTITUTIONAL AND RETAIL INVESTORS
- MANAGING SUCCESS VS FAILURE AND DELAY
- MANAGING RISK OF FRAUD
- GOING GLOBAL
- CHANGES TO REGULATION AND POLICY
- BLOCKCHAIN TECHNOLOGY AND NEXT WAVE OF DIGITAL DISRUPTION
- NICHE & LOCAL PLATFORMS VS GENERAL & GLOBAL



Department
for Culture
Media & Sport

The Culture White Paper



#OurCulture

NEED FOR MORE EXPERIMENTATION AND BETTER EVIDENCE

We will launch a new pilot scheme in partnership with the National Endowment for Science, Technology and the Arts, Arts Council England and the Heritage Lottery Fund to explore the opportunities for matched crowdfunding as an innovative way of funding cultural projects and to build the evidence base to support the growth of this method of fundraising.

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