

Cambridge
Centre
for Alternative
Finance



REACHING NEW HEIGHTS

THE 3RD AMERICAS ALTERNATIVE FINANCE INDUSTRY REPORT

December 2018

In collaboration with:



The Cambridge Centre for Alternative Finance (CCAF) is an international and interdisciplinary research centre based at the University of Cambridge Judge Business School. It is dedicated to the study of innovative instruments, channels, and systems emerging outside of traditional finance. This includes, among others, crowdfunding, marketplace lending, alternative credit and investment analytics, alternative payment systems, cryptoasset, distributed ledger technology (e.g. blockchain) as well as related regulations and regulatory innovations (e.g. sandboxes and RegTech).

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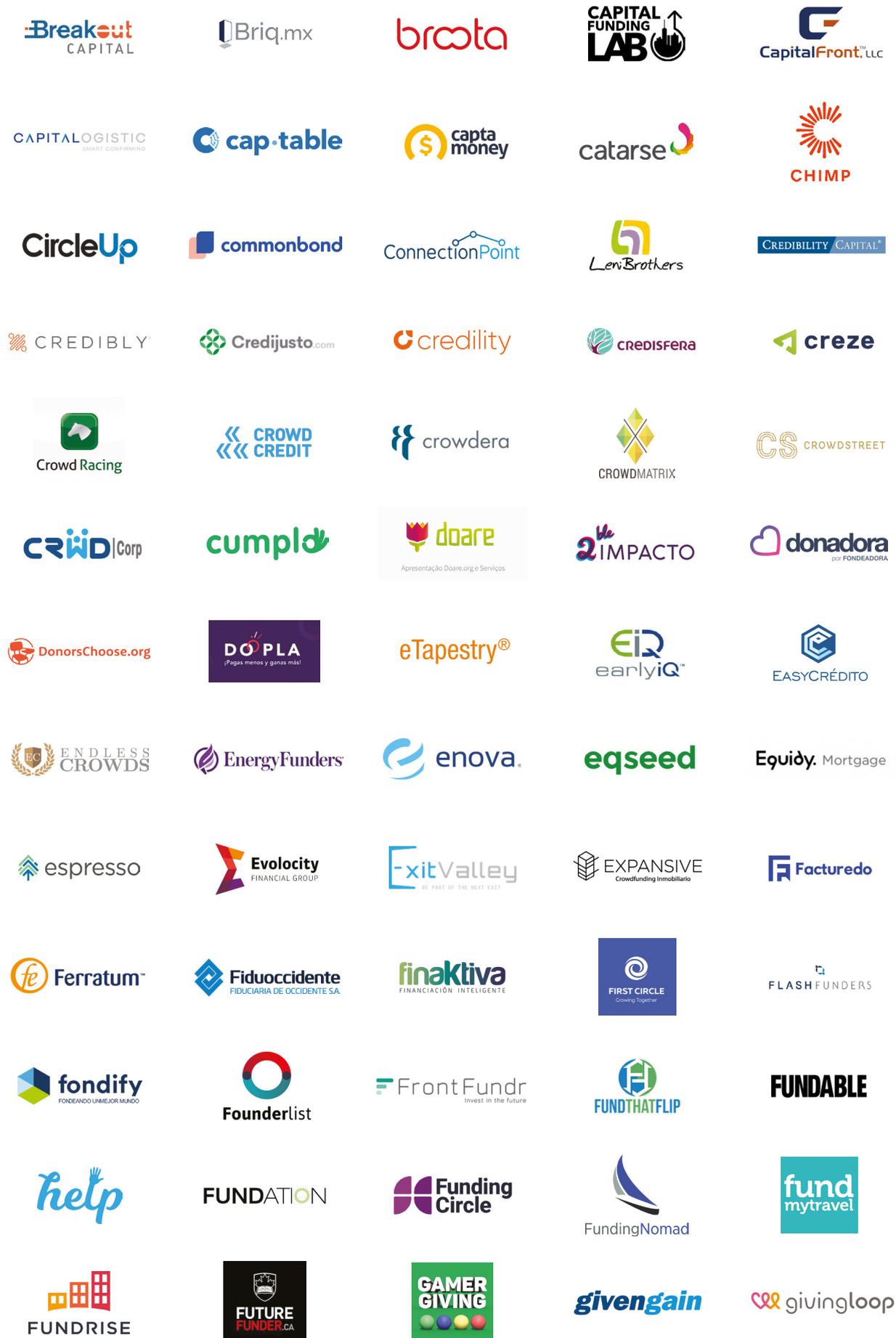
Finally, we thank Louise Smith for all her hard work on designing the publication, and Charles Goldsmith, Kate Belger, and Philippa Coney for their continued support in producing and publishing this report.

We are very grateful for the help and support of the following industry research partners:



We also wish to thank the following platforms who participated in our industry research:









FOREWORDS

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This is our third research report examining the development of online alternative finance channels in the Americas, a region consisting of the United States, Canada, and Latin America and the Caribbean (LAC). A central goal of our research center is ‘global comparative analysis’, and our study of the Americas region makes a critical contribution to achieving this. This year’s research team collected data from 35 countries and territories in the region, six countries more than our 2nd benchmarking report, which reflects our ongoing effort to capture variation in alternative finance development underway across a vast region with very diverse patterns of economic development. Online alternative finance channels have emerged quickly across the region, with the result that there are few sources of empirical analysis outside the USA and Canada providing financial services regulators and policy makers with the information needed to understand and respond to these developments. Our annual benchmarking reports are increasingly recognized by regulators, policy makers, and industry participants as the most comprehensive source of global developments in marketplace/P2P lending and forms of online crowdfunding now covering more than 180 countries.

Some notable patterns of development in the Americas region emerged during 2017. First, while the United States continued to easily account for the largest alternative finance market in terms of both volume (\$42.8 billion) and annual volume increase (\$15 billion), the decelerating growth rate in the USA was somewhat eclipsed by sharply accelerating growth rates in other large countries, specifically Canada and Brazil. Second, cross border funding flows are increasing. For example, lending platforms headquartered in the USA comprised almost half of the Canadian platforms that contributed data to our survey. Finally, regulation continues to play a critical role in the development of the market, and during 2017 several countries introduced new regulations covering alternative finance activities. Regulation also shaped the source of funding in each market, with the declining share of individual retail investors in the USA market linked to challenges in onboarding unaccredited investors in that market.

Our first benchmarking report for the Americas published in early 2015 was titled ‘Breaking New Ground’, reflecting the novelty of alternative finance channels emerging across the region. The Forward in that report highlighted the importance of maintaining public trust in sustaining this innovation. Three years later, we are observing sustained growth in many countries urgently needing funding alternatives to incumbent lenders, such as financing for small businesses in the LAC region. We look forward to chronicling these developments in future years, and recognize our ability to do so depends on the continuing efforts of hundreds of researchers as well as the cooperation of industry trade bodies and, of course, the platforms providing alternative finance across the region.

Dr. Robert Wardrop

Director

Cambridge Centre for Alternative Finance



This third edition of “The Americas Alternative Finance Benchmarking Report” is the result of the continuing effort of the Inter-American Development Bank (IDB) and the Cambridge Centre for Alternative Finance (CCAF) to deconstruct the crowdfunding ecosystem for Latin America and the Caribbean. IDB highly values the creation and dissemination of information on the Fintech ecosystem to understand its composition and evolution. In this sense, this publication is intended to be a useful tool for platforms, investors, regulators, academia and many other stakeholders, as a comprehensive and objective set of data and analysis about the alternative finance ecosystem in the region.

This year, data shows an increase in the regional market volume from \$324 million in 2016 to \$663 million in 2017, a 94% growth rate. When analyzed per country, Brazil appears to have the most significant volume of origination in LAC with \$216 million (33% of the total), followed by Mexico (\$151 million, 23%), Chile (151 million, 23%), and Colombia (\$50 million, 8%). These four countries are responsible for more than 86% of the region’s total. These numbers yield a couple of interesting facts: First, Brazil is the largest market in the region overthrowing Mexico from that position. Second, many of these markets sustained rates of growth of more than 100%. For instance, Peru and Colombia more than doubled their volumes, when compared to 2016.

By model, data on the LAC region shows that \$300.5 million (45% of the originated volume) comes from fintech firms operating consumer lending models. Yet when adjusted to review the main fundraising purpose, the results highlight that 85% of all alternative finance activity relates to business-specific fundraising. In 2017, business-focused alternative finance rose to \$565.7 million from a variety of lending, equity and non-investment fintech models. More importantly, the study results hint that crowdfunding platforms, mainly those from the lending space, can be used as a suitable instrument to finance productive development in the region. In fact, more than two-thirds of this specific segment (92%) are explained by debt platforms. At the regional level, it is relevant to highlight the case of Chile who has the most significant amount of originations placed in this type of financing, represents 27% of all business-focused funding in LAC.

This year we included additional information to understand the different characteristics of the industry. For instance we gathered numbers on gender showing how, on average, 31% of the fundraisers and 32% of the funders were female. We will follow through this critical number to measure the evolution of women as a vital part of the ecosystem in following editions of the study. On the other hand, it is interesting to find how platforms are investing in innovation, to improve their offers and also to enhance their business models. To this extent, for instance, surveyed debt-based platforms (consumer and business oriented) indicated to be placing resources in streamlining and automating their processes, identity verification, and, payment processing.

Another significant result from the study is the findings on the perception of regulation. For instance, 38% of debt-based platforms, which are the most substantial proportion regarding origination in the region, have an opinion that regulation is adequate and appropriate. However, a third of the platforms say that regulation is excessive or too strict, while another third thinks that no specific regulation is needed.

In fact, the regulatory landscape is changing across the region with regulators and policymakers being aware of the advances of the Fintech industry and frequently, alternative finance. In this sense, Argentina, Brazil, Colombia, and Mexico have issued specific rules for the Fintech sector as a whole or its verticals. Crowdfunding regulation is a common factor among these countries, showing the relevance of this study also for policymakers and regulators.

This publication is also an essential addition to the efforts that IDB Group (Inter-American Development Bank, IDB Invest and IDB Lab) is currently supporting for the Fintech industry at large in LAC. To this end, several initiatives are currently taking place at the IDB Group (IDBG). From a public policy perspective, we are supporting governments across the region with the intention of taking advantage of the chance of fostering the sector while appropriately regulating it. The support to the ecosystem is reinforced with instruments such as a Regional Public Good focused on public policy to foster and prudentially regulate Fintech. Also, the use of Fintech platforms to improve access to finance for enterprises and individuals is an activity that is being used by the group as a part of its activities. From the private sector perspective, the financing of platforms from incubation to scaling has significantly contributed to the growth on the number of platforms and transactions and the increase in their operational volumes. These and many other initiatives are striving to contribute to creating better conditions for the development of the Fintech ecosystem and the region.

We hope that the reader uses this study as an instrument to further understand the current status of alternative finance in the region and within the context of the Americas. As it shows, crowdfunding is growing up at a significant pace, and its impact is beginning to appear material for some jurisdictions financial markets, but most importantly, financial consumers.

Juan Ketterer

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EXECUTIVE SUMMARY

Throughout the Americas, online alternative finance markets have continued to develop at a steady pace. The industry has increasingly offered viable options for consumers and businesses to access finance, and for retail and institutional investors to invest in new asset classes. With expansive growth, this industry has continually garnered the interest of regulators, policymakers and academia across the region to further understand alternative finance business models, their drivers and funding mechanisms, impact and risks.

Against this backdrop, the *3rd Annual Americas Alternative Finance Industry Report* aims to provide readers with a snapshot of the rapidly changing alternative finance landscape across the Americas at a macro level as well as on a country-by-country basis. This empirical study provides independent, systematic, and reliable data about the size, growth, and diversity of various online alternative finance markets across the Americas, in turn, informing evidence-based policymaking and regulations.

This year's *Americas Alternative Finance Industry Report* has been produced by the Cambridge Centre for Alternative Finance at Cambridge Judge Business School in partnership with Ivey Business School, Western University. This report was generously supported by the Inter-American Development Bank (IDB), IDB Invest and CME Group Foundation.

A HIGHLIGHT OF THE KEY FINDINGS:

- The online alternative finance market in the Americas grew by 26% to reach \$44.3 billion in 2017. This total volume represents market activities from 35 different countries and territories across North, Central and South America, 21% more than the number of countries last surveyed.
- The United States accounted for 97% of the Americas market, with \$42.81 billion recorded for total market volume in 2017. Having grown by 24% against the previous year, the United States boasts the second largest alternative finance market globally, surpassed only by China (with a 2017 volume of \$104 billion). Consumer Lending was the key driver of USA market volume, with the Balance Sheet Consumer Lending model itself accounting for \$15.2 billion (or 35.5% of the USA market share) and Marketplace/ P2P Consumer Lending accounting for \$14.7 billion (or 34.3% of the USA market share).
- Canada experienced considerable growth in 2017 with its market volume up 159% from 2016's \$334.5 million to \$867.6 million in 2017. It is worth noting that 42% of surveyed firms which reported volumes in Canada were primarily headquartered in the United States, thus reflecting the strong cross-border relationship that exists between Fintech firms in these two countries.

- Responsible for 2% of the overall Americas regional market volume, alternative finance markets across Latin America and the Caribbean (LAC) have continued to grow rapidly, up by 94% year-on-year. The LAC online alternative finance market grew from the \$342 million in 2016 to reach \$663 million in 2017. Brazil, Mexico and Chile are the three highest volume markets in LAC, collectively accounting for 79% of the region's total. In 2017, Brazil leapfrogged both Mexico and Chile, becoming the region's market leader. This is due largely to a considerable increase in platforms which exited 'beta' phases and began trading in 2017.
- In the United States, online alternative finance for businesses accounted for \$10.1 billion, or 24% of the overall USA market. In stark contrast, 85% of all alternative finance volumes across LAC were channeled to support Micro, Small and Medium Enterprises (MSMEs) across the region. This is particularly pronounced in Chile, where its alternative business funding volume accounted for 27% of the overall LAC business funding market. Canadian market volume was also driven primarily by alternative business funding, which accounted for 61% of the total national market share.
- Across the Americas, institutionalization of the funding is on the rise both in terms of investment realized and partnerships forged. The provision of funding for the USA alternative finance market continues to be dominated by institutionalized capital, particularly in the Marketplace/P2P Lending arenas. This is largely due to persistent challenges and restrictions for platforms to onboard unaccredited investors within the existing regulatory framework. Across the LAC, institutionalization of the funding has also increased (albeit unevenly across models), alongside a greater degree of collaboration with traditional financial institutions in key markets.
- In LAC, alternative finance platforms have dedicated considerable resources towards innovation, both to revamp their business models and, to a lesser extent, the range of products on offer. In terms of R&D, debt-based models have placed significant emphasis on improving 'Process Streamlining & Automation', 'Customer Verification' and 'Payment Processing'.
- With respect to industry's perceptions towards regulation, considerable divisions exist in the United States in particular. Equity-based platforms were firmly divided, with half of the surveyed respondents viewing regulation as appropriate to their activities, and the other half viewing regulation as Excessive and Too Strict. Meanwhile, debt-based models are increasingly satisfied with the existing regulations, with 59% regarding current regulation as adequate in 2017, in contrast with the 42% recorded in 2016.
- Industry perceptions of regulations across LAC are highly varied and depend in large part on the status of Fintech regulation in each country. For instance, the majority of Mexico-based firms viewed regulation positively overall, but when adjusted by model, debt-based firms were slightly more concerned (25%) that regulations might be more excessive or strict with respect to their activities against the previous year (17%).

METHODOLOGY

The Annual Americas Alternative Finance Benchmarking Report systematically records the development of the online alternative finance industry across the North, Central and South Americas. This report is produced by the Cambridge Centre for Alternative Finance at Cambridge (CCAF), Judge Business School, and in partnership with Ivey Business School, Western University. Now in its third year, this report tracks the growth and development of this industry from forty countries and territories in 2017. Alternative finance volumes were recorded in: Anguilla, Antigua & Barbuda, Argentina, Barbados, Belize, Bermuda, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Cuba, Curacao, Dominica, Dominican Republic, Ecuador, El Salvador, the Falkland Islands (Malvinas), Greenland, Guam, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Saint Lucia, Suriname, Trinidad and Tobago, The United States of America, Uruguay, Venezuela, and the Virgin Islands (UK & USA).

The analysis presented in the following pages is based on the ‘Global Alternative Finance Benchmarking Survey’, which served as the primary data-collection tool to inform this study. The survey was hosted by the CCAF and was only accessible to the principle research team based at Judge Business School. The survey was available in English, Spanish, Portuguese and French.

The survey consisted of 32 questions, gathering self-reported aggregate-level data from platforms across the region in 2017. Participating firms needed to be actively trading in the calendar-year of the collection. Deviating slightly from previous survey structures, this year’s survey consisted of four parts: Fundraisers, Funders, Platform Structure & Strategy and Risks & Regulations. This more structured nature of the survey allowed platforms to provide more comprehensive, precise and cohesive data. Many of the questions remained the same to enable longitudinal analysis, relating to total transaction volumes, number of funders and fundraisers among others. The CCAF has standardized the survey questionnaire across all regions and models to ensure robust and comparable longitudinal data on an annual basis. Platforms were also presented with a series of noncompulsory questions which built on key research themes identified in last year’s report. Platform respondents were able to multi-select applicable countries of operation and models and were able to indicate the local currency to in which they were responding.

The research team surveyed online alternative finance platforms between May 2018 and September 2018. The research team compiled a platform-outreach database which included previous survey participants and identified new platforms across the region. Sanitization of this list occurred to ensure that platforms included in the outreach database were active and trading in 2017 and were operating in at least one of the models included in the study’s taxonomy.

The research team also relied upon our outreach partners (including 20 external industry organizations or trade bodies) to assist in identifying new platforms. These industry research partners contributed to making this research possible by identifying and engaging with online alternative finance platforms, as well as providing local market analysis and insights of country-specific trends and developments. Qualified platforms received communication in the form of emails, social-media invites and phone calls from designated research team members throughout the collection period. Upon request, platforms were provided copies of the survey questionnaire in PDF or .Doc, in addition to dedicated assistance in completing the survey from members of the research team.

Once the data set was collected any discrepancies, such as misattributed volumes and anomalous figures, were cross-checked through direct contact with the platforms. In cases where the survey could not obtain primary data, or where there were discrepancies in reported data, the team consulted secondary data (public information, annual reports and press releases) to inform the research. In order to obtain the most up-to-date online alternative finance volumes, the team also used web-scraping methods during the verification process and as a complimentary to the survey. This was carried out using widely available Python web-scraping libraries, devised within the research center. The research team estimates that the database has captured, at minimum, two thirds of the visible online alternative finance market covered in North, Central and South America.

In total, the survey captured 376 survey entries from across the Americas region from 234 unique firms. Approximately 25% of these firms responded to the survey in multiple countries or territories. To complement the survey, web-scraping was also used to get the most up-to-date transaction volumes for three additional key platforms, accounting for an additional 47 entries. This represents a 134% increase in platform coverage against the previous year.

All analysis performed was conducted upon a thoroughly sanitized and anonymized data-set, removing any platform-identifying information. For all average data points the team applied weightings by transaction volume per question in order to produce the most accurate estimates of responding platforms by model; significant outliers were removed to maintain the accuracy and validity of the dataset. At completion, the data was encrypted and stored for retrieval exclusively for the use of this project and was accessible only to the core research team.

CHAPTER 1: MARKET FUNDAMENTALS

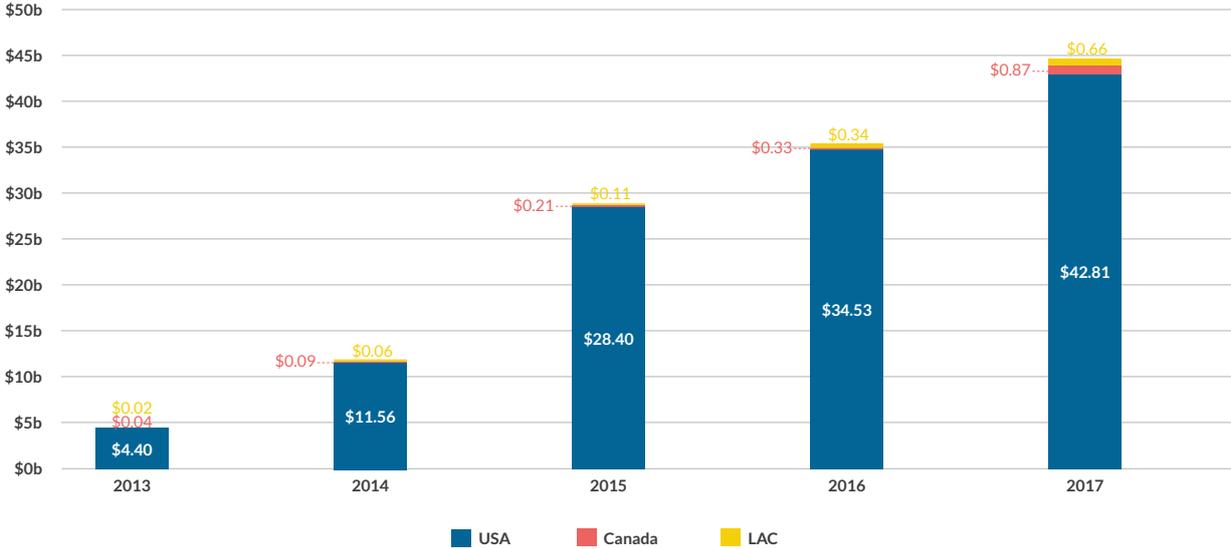
Throughout North, Central and South America, online alternative finance continues to develop and become a more mainstream option for an increasing number of consumers, start-ups and small businesses, as well as retail and institutional investors. As would be expected, this marketplace has continually garnered the interest of industry, government and academia to further understand the growth, impact and inherent risks – as well as how to properly regulate it.

Independent, systematic and reliable data about the size, growth and diversity of various online alternative finance markets around the world is needed as the industry continues to grow. The insight obtained by this sort of research will help inform policy makers, brief regulators on the impact of regulation, update the media and educate the public.

This year’s annual report continues to track the evolution of the sector throughout the region, analyze the market dynamics of specific alternative finance models and seeks to identify the emerging trends as the market continues to develop.

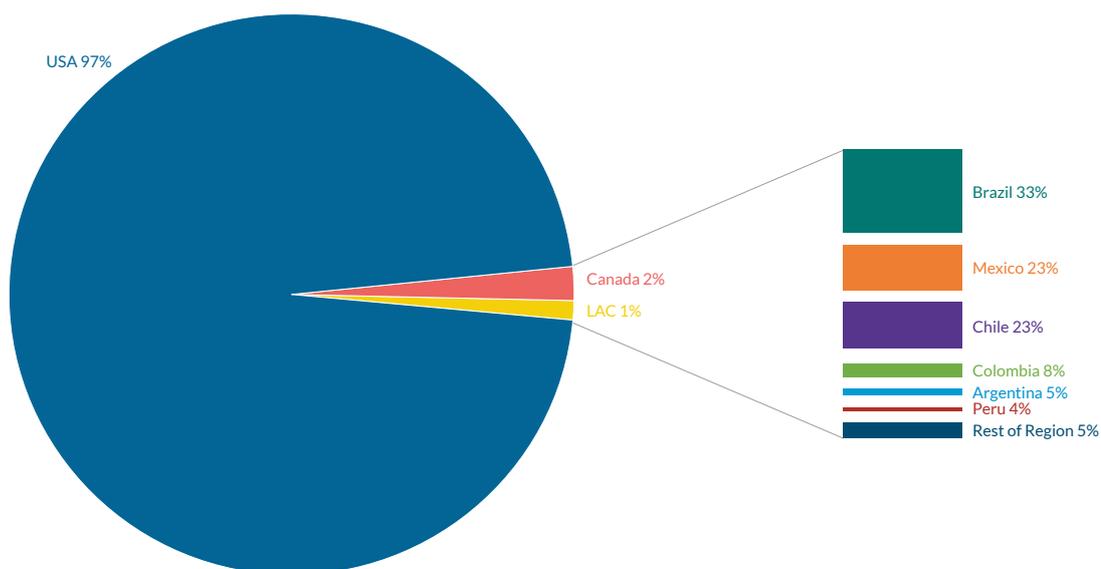
SIZE AND GROWTH OF THE ALTERNATIVE FINANCE MARKET IN THE AMERICAS

Overall Americas Alternative Finance Market Volume, 2013 - 2017 (\$billions)



In 2017, online alternative finance in the Americas continued to grow throughout the region. Overall volume increased by 26% from \$35.2 billion in 2016 to \$44.3 billion in 2017. This growth rate was slightly higher than the 23% recorded between 2015 and 2016. Throughout the last five years (2013-2017) the average annual growth in the sector was 89%. Total volume over the last five years amounted to \$124.5 billion – of which 35% came in 2017 alone.

Total Alternative Finance Volume Marketshare by Key Country 2017



UNITED STATES

The United States (USA) has continued to be one of the most advanced markets for online alternative finance. In 2017 the total volume of the market rose 24% compared to 2016, reaching \$42.8 billion. Overall, from 2013-2017, the market grew at an average of 88.5% each year. Over these five years, the USA Market accounted for a total of \$121.7 billion.

The USA accounts for the vast majority of the overall Americas volume, with a market share of 97%. The USA alternative finance market is not only the largest marketplace in the Americas, but the second largest globally after China.¹

CANADA

In 2017, Canada's online alternative finance market experienced substantial growth – growing 159% year-on-year. In 2016 Canada's total volume was \$334.5 million – increasing to \$867.6 million in 2017. From 2013 to 2017, Canada's alternative finance volume has increased at an average of 114% each year, contributing a total of \$1.5 billion to overall volume, 56% of which was in 2017. Canada's overall share of the Americas total volume is small, but notably increasing year-on-year. It now contributes roughly 2% to the Americas total volume. The USA and Canada combined make up 99% of total volume in the online alternative finance space.

LATIN AMERICA AND THE CARIBBEAN

The online alternative finance industry in Latin America and the Caribbean (LAC) has continued to grow rapidly in a relatively short period of time. LAC has grown considerably in 2017 - growing 94% from 2016's \$342.1 million to over \$663.1 million. In comparison, between 2015 and 2016, volume in the LAC region grew by 209% from \$110.6 million to \$342.1 million.

This year's research surveyed a larger number of new and existing platforms throughout LAC and allow for a further diversified analysis of the region. While the overall contribution to the Americas volume is just over 1%, the breakdown of this volume is important as the sector is

expanding rapidly throughout LAC. Throughout LAC, the countries that contributed the largest to overall volume were, from largest to smallest, Brazil, Mexico, Chile, Colombia, Argentina and Peru. The rest of LAC countries and territories contributed \$35 million to total volume.

BRAZIL

Brazil accounted for the largest share of LAC's total volume at 33%, with \$216.4 million in total. This portion of the total volume is particularly impressive, given that in 2016 Brazil was third in regional volume – contributing \$64.4 million. Overall, Brazil's volume grew by 236% between 2016 and 2017.

MEXICO

This year Mexico accounted for 23% of the overall volume, contributing \$151.1 million. Mexico was the largest share of LAC volume in 2016 with \$114.2 million. Between 2016 and 2017, Mexico's volume grew by 32%.

CHILE

Chile followed Mexico in total contribution in volume, also with 23% of overall volume. Its total volume was \$150.7 million, just \$400,000 less than Mexico. Chile remained the third largest contributor this year. Last year, it contributed \$97.8 million to the total volume. In all, Chile's online alternative finance volumes increased by 56% between 2016 and 2017.

COLOMBIA

Alternative finance volume from Colombia represented 8% of the overall LAC region volume, with a total of \$50.6 million. In 2017 Colombia's volume grew 352% from \$11.2 million in 2016.

ARGENTINA

Argentina contributed 4% to LAC's regional alternative finance volume. From 2016 to 2017 Argentina's volume grew 137%, from \$12.6 million to \$29.9 million.

PERU

Peru was the final significant contributor to LAC's regional volume, also with 4% of overall volume, but trailed Argentina's volume by \$600,000 with a volume of \$29.3 million.

GEOGRAPHY OF ALTERNATIVE FINANCE IN THE AMERICAS

The alternative finance market continues to grow throughout the Americas. By a clear majority, the United States continues to be the largest contributor in terms of annual volume, diversity of models, institutional participation and the overall of active alternative finance platforms. However, a number of platforms in the USA ceased operations or shifted out of alternative finance in 2017.

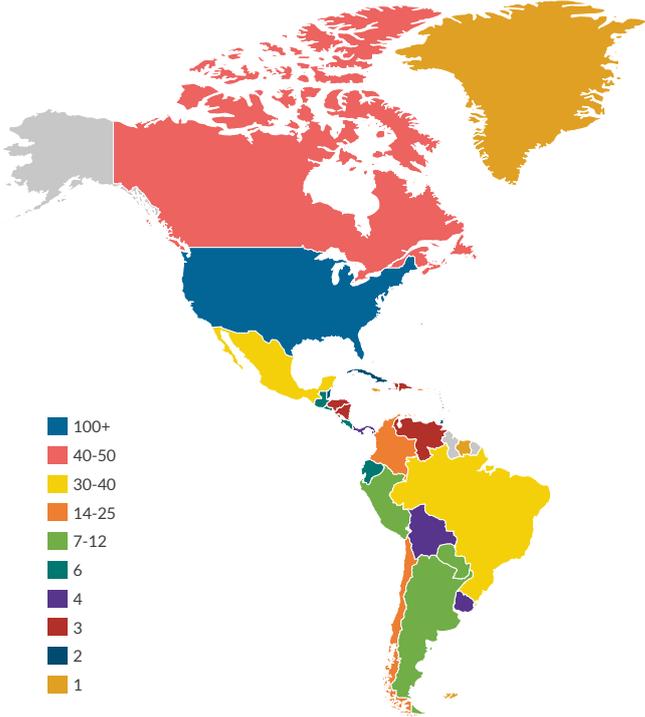
While a majority of transaction volume in the America's occurs in the United States, there are still significant volumes from Canada (\$867.6 million), Brazil (\$216.4 million), Mexico (\$151.1 million), Chile (\$150.7 million), Colombia (\$50.6 million), Argentina (\$29.9 million) and Peru (\$29.3 million). Market volumes increased across all of these countries compared to last year. Significantly, Brazil rose from third in total volume in 2016 to first in 2017, surpassing both Mexico and Chile.

Geographic Distribution of Alternative Finance Volume by Country, 2017



Many factors might also play a role in the success and growth of specific alternative finance markets across the Americas. These can include the role of differential GDP levels; adoption of online/mobile banking solutions; investment climates that facilitate, fund, and support technological advancement; a history of innovation in financial services; the demand from unbanked and underbanked consumers and businesses for services; and the presence of a supportive political and regulatory environment.

Geographic Distribution of Respondent Platforms, 2017



In terms of the number of platforms that responded to the 2018 Americas Alternative Finance Industry Survey, 30% were from the United States, 10% were from Canada and 60% were from across LAC. Within LAC, with Mexico accounting for 20% of the responding platforms, followed by Brazil at 14%, and Columbia with 11%. In all, the remaining 55% of platforms in LAC came from an additional 28 countries. Each of these had less than 10% of the overall number of platforms in LAC. Interestingly, the research team noted that about 25% of all platform respondents operated in at least one additional country distinct from their Headquarter or home country. In Canada 42% of platforms were operating in another country, principally the USA. In Latin America the highest concentration of multi-jurisdiction firms came from Mexico and Brazil.

Though the United States had the highest single concentration of active platforms by country, it is also important to note that while the rest of the region has grown in terms of new entrants, the United States experienced a contraction in the number of platforms in 2017. The research team identified 48 platforms that pivoted away from 'orthodox' alternative finance models or were no longer active. This amounted to just under 15% of previous participants who had left the Fintech space. Of this group that did not participate in our survey, about 60% had ceased operations and were already closed or were actively winding down and no longer trading. The remaining had pivoted their business model significantly so that they would no longer fit under our taxonomy. For example, a handful of equity crowdfunding platforms were now entirely private placement. Further, a number of marketplace lending firms had merged with traditional credit providers or had been absorbed or acquired by existing firms.

In Latin America and the Caribbean, however, there was an increase in the overall number of platforms surveyed across the board. Less than 10 previous participant platforms were unable to participate in this year's survey, yet there was a significant increase in new platforms that began trading in 2017. Approximately 15 new platforms headquartered in Latin America participated in the survey for this first time this year (concentrated mostly in Mexico, Brazil and Colombia), and a significant number of existing platforms reported operations in additional jurisdictions in 2017.

DIVERSITY OF MODELS IN THE AMERICAS: A WORKING TAXONOMY

MODEL	DEFINITION
Marketplace/P2P Consumer Lending	Individuals or institutional funders provide a loan to a consumer borrower.
Balance Sheet Consumer Lending	The platform entity provides a loan directly to a consumer borrower.
Marketplace/P2P Business Lending	Individuals or institutional funders provide a loan to a business borrower.
Balance Sheet Business Lending	The platform entity provides a loan directly to a business borrower.
Marketplace/P2P Property Lending	Individuals or institutional funders provide a loan secured against a property to a consumer or business borrower.
Real Estate Crowdfunding	Individuals or institutional funders provide equity or subordinated-debt financing for real estate.
Equity-based Crowdfunding	Individuals or institutional funders purchase equity issued by a company.
Balance Sheet Property Lending	The platform entity provides a loan secured against a property directly to a consumer or business borrower.
Invoice Trading	Individuals or institutional funders purchase invoices or receivable notes from a business at a discount.
Revenue Sharing/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.
Debt-based Securities	Individuals or institutional funders purchase debt-based securities, typically a bond or debenture at a fixed interest rate.
Mini-bonds	Individuals or institutions purchase securities from companies in the form of an unsecured retail bonds.
Reward-based Crowdfunding	Backers provide funding to individuals, projects or companies in exchange for non-monetary rewards or products.
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.

OVERALL AMERICAS

BALANCE SHEET CONSUMER LENDING:

In 2017 Balance Sheet Consumer Lending accounted for \$15.3 billion, up an impressive 409% from the \$3.0 billion in 2016. The model accounted for 34.5% of the total market in 2017. This was the largest model across the region. Approximately 18% of borrowers using this model are repeat borrowers (having used the model at least twice within a 12 month period).

MARKETPLACE/P2P CONSUMER LENDING:

In 2017, Marketplace/P2P Consumer Lending reached \$14.9 billion, down 29% from the \$21.1 billion in 2016. This model accounted for 33.6% of the total alternative finance market volume in 2017 in the Americas. Approximately 23% of borrowers using this model are repeat borrowers.

BALANCE SHEET BUSINESS LENDING:

Balance Sheet Business Lending accounted for \$7.3 billion, up 19% compared to \$6.1 billion in 2016. Overall, this model accounted for 16.3% of the market in 2017. Approximately 60% of borrowers using this model are repeat borrowers.

REAL ESTATE CROWDFUNDING:

Real Estate Crowdfunding increased by 128% to \$1.8 billion in 2017 from \$821 million in 2016. The model accounted for 4.2% of the total market in 2017 and grew by 128% annually.

MARKETPLACE/P2P BUSINESS LENDING:

In 2017, Marketplace/P2P Business Lending registered \$1.5 billion, slightly down 0.33% from the \$1.5 billion in 2016. Overall, this model accounted for 3.4% of the total alternative finance volume in 2017 in the Americas. Approximately 24% of borrowers using this model are repeat borrowers.

MARKETPLACE/P2P PROPERTY LENDING:

This model was responsible for \$1.2 billion in 2017, up 19% from \$1.1 billion in 2016. Marketplace/P2P Property Lending accounted for 2.8% of the total market in 2017. Approximately 38% of borrowers using this model are repeat borrowers.

BALANCE SHEET PROPERTY LENDING:

Balance Sheet Property Lending's volume in 2017 was \$780.7 million. Overall, this accounted for 1.8% of the entire Americas market.

REWARD-BASED CROWDFUNDING:

Reward-based Crowdfunding declined 26% to \$440.4 million in 2017 from the \$596 million recorded in 2016. Overall, it accounted for 1.0% of the total volume in 2016.

DONATION-BASED CROWDFUNDING:

This model saw a decrease of 13%, from \$339.2 million in 2016 to \$293.5 million in 2017. Donation-based Crowdfunding has seen an annual growth rate of 40% over the past three years. It represented 0.7% of the total market volume in 2017.

INVOICE TRADING:

Invoice Trading's total volume in 2017 was \$267.1 million. Overall, this accounted for 0.6% of the entire Americas market.² Approximately 93% of borrowers using this model are repeat borrowers.

EQUITY-BASED CROWDFUNDING:

Equity-based Crowdfunding accounted for \$260.9 million in 2017, down 54% from \$569.5 million in 2016. It represented 0.6% of the entire Americas market.

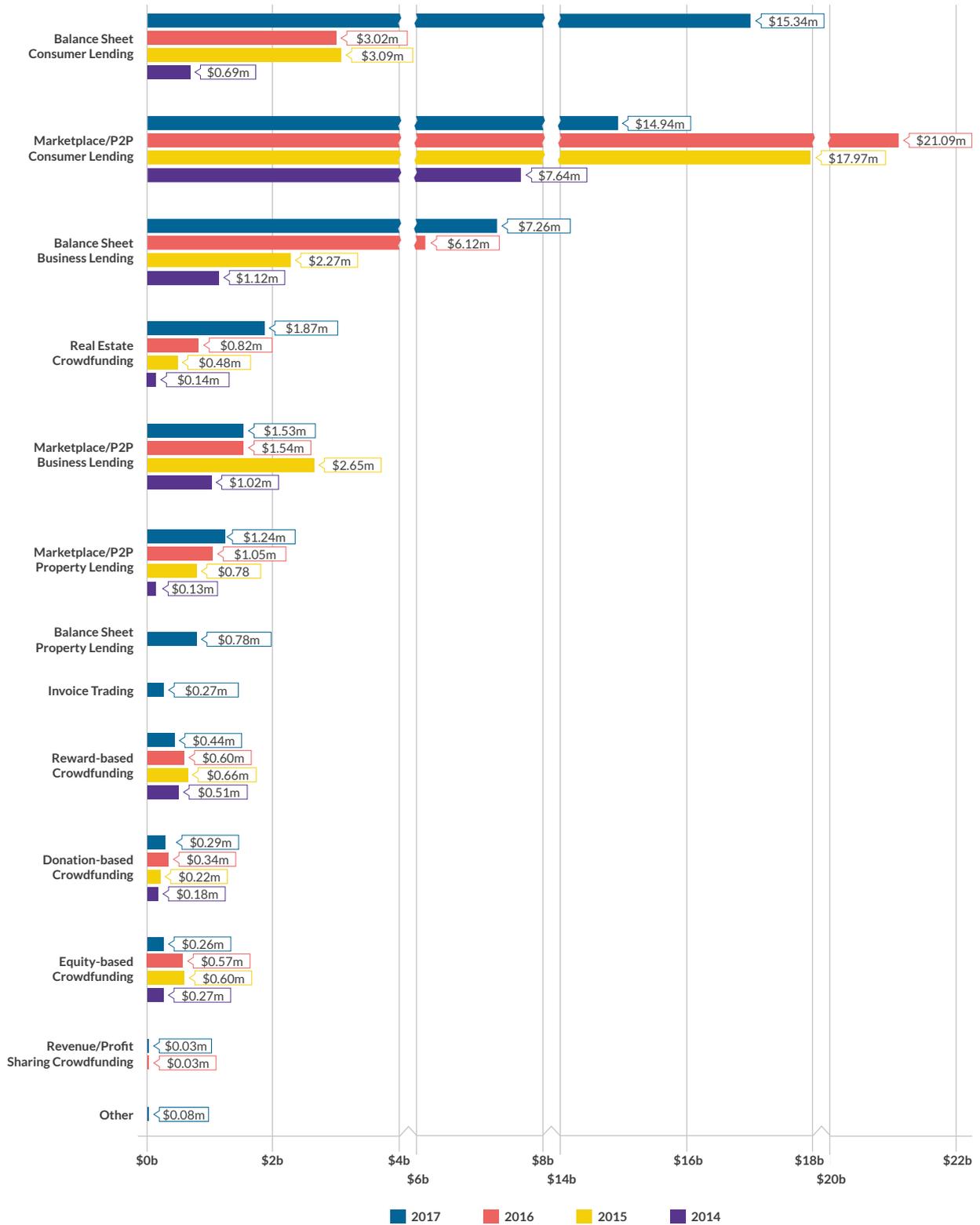
REVENUE-SHARING/PROFIT-SHARING CROWDFUNDING:

Revenue-sharing/Profit-sharing Crowdfunding's volume in 2017 was \$32.9 million, a 16% increase from 2016's \$28.4 million. Overall, Revenue-sharing/Profit-sharing Crowdfunding had a 0.1% share of the total market volume.

OTHER:

The CCAF also recorded a total volume of \$81.5 million raised through other alternative finance models, including Debt-based Securities/ Debentures, Community Shares, Pension-led Funding, Mini-bonds, and others.

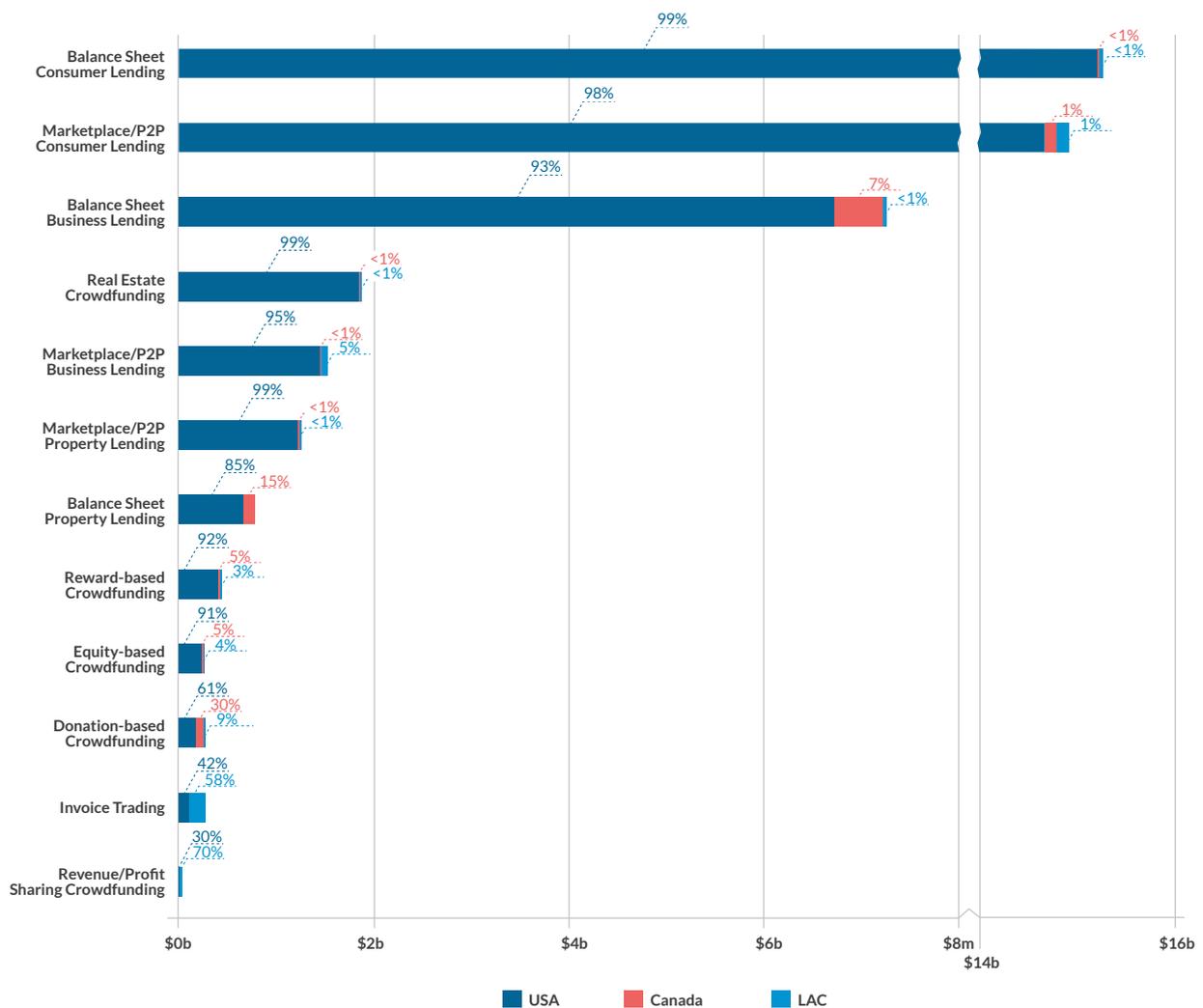
Total Alternative Finance Market Volume by Model - Americas 2014-2017 (\$billions)



MARKET SHARE COMPARISON

The United States dominates the total market share for the top nine models, only going below 90% market share for Balance Sheet Property Lending. For this model, the USA contributed 85% of total volume, while Canada contributed the remaining 15%. The USA still had the largest share (45%) of Donation-based crowdfunding's volume – but LAC (33%) and Canada (22%) were not too far behind. LAC had the largest portion of market share for both Invoice Trading and Revenue Sharing/Profit Sharing Crowdfunding – with 58% and 70% of the total, respectively. The USA had the remainder at 42% for Invoice Trading and 30% for Revenue Sharing/Profit Sharing Crowdfunding.

2017 Alternative Finance Market Volume by Model USA, Canada and the Caribbean (\$billions)



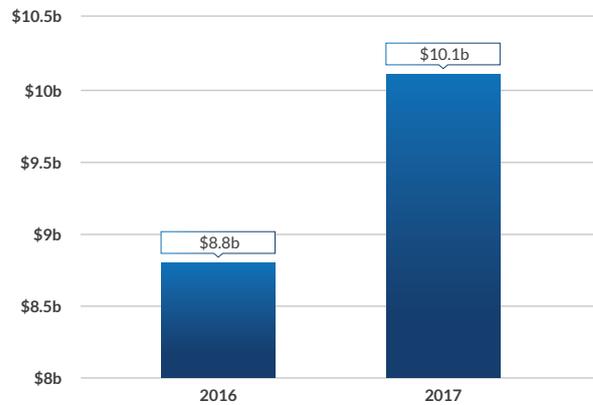
THE USE OF ONLINE ALTERNATIVE FINANCE BY BUSINESSES

USA

According to the 2017 Small Business Credit Survey, Federal Reserve Banks, firms in the USA sought financing most frequently from large banks (48%), followed by small bank (47%) and online lenders (24%). The percentage of applicants who sought loans, lines of credit, or cash advances from online lenders³ has continued to grow over time from 20% in 2015 to 24% in 2017 according to their findings.⁴ As online

lending becomes a larger category, it is important to understand the role that alternative finance models play when considering business-focused fundraising.

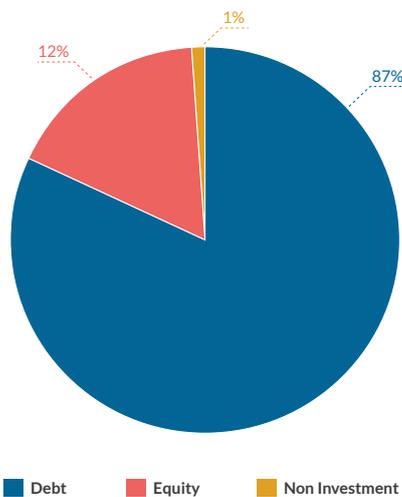
Total Alternative Business Finance - USA 2016-2017 (\$billions)



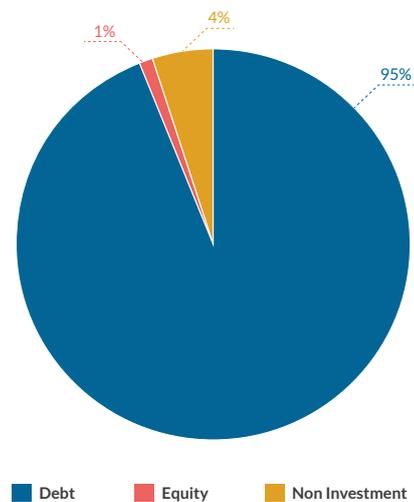
In 2017, 130,264 businesses across the USA raised approximately \$10.1 billion through online alternative finance platforms. Business-based alternative finance volume accounted for 24% of all USA market volume. In terms of volume raised, the 2017 figure represented 14.8% annual growth against the previous year's total figure (\$8.8 billion). Although there was a slight increase in total business lending in 2017, however the overall growth rate in terms of the number of businesses utilizing alternative finance has decreased by 9% between 2016 and 2017.

A total of \$8.7 billion (86.5%) was generated for USA SMEs through Debt-based platforms. The remaining portion of business funding was raised by Equity-based models (12%) or Non investment-based models (1.4%). In terms of the number of total SMEs, Debt-based models dominated the marketplace, with 95% of platforms. An additional 4% of platforms were Equity-based models. Non-investment models only accounted for 1% of all SMEs.

Composition of Business Finance - Proportion of SMEs by Volume, USA 2017



Composition of Business Finance - Number of SMEs USA, 2017

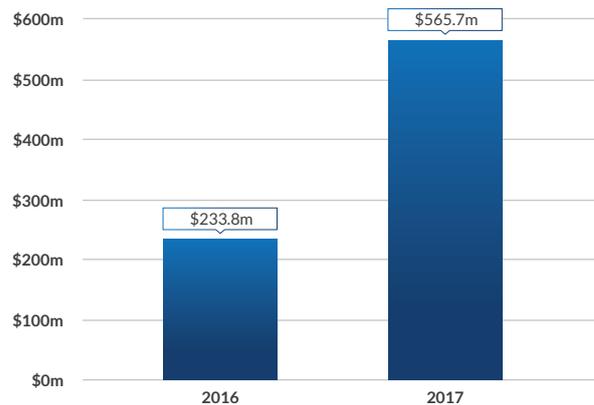


CANADA

In Canada 9,061 businesses received \$531.5 million through alternative finance platforms. Approximately 96% of this volume was driven by platforms operating a debt-based model. This represented \$509 million out of the total volume. Approximately 3% of Canadian business finance come from Equity models (\$14 million) and 2% (\$8.3 million) was derived from Non-investment-based models. Akin to Latin America and the Caribbean, the lion's share of alternative finance activity went to business fundraisers, accounting for 61% of the overall Canadian alternative finance market.

LAC

Total Alternative Business Finance and Number of SMEs 2016-2017, LAC (\$millions)

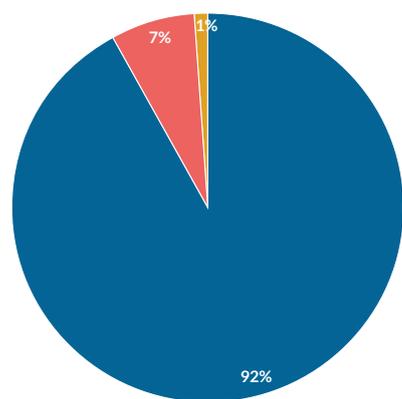


While the largest amount of business funding was from the United States, the USA market is largely consumer driven. Conversely, most of the activity in LAC is business-focused. Just over 85% of all volume came from debt, equity and non investment-based activities to businesses across the region. Business lending in LAC grew by 142% between 2016 and 2017, amounting to \$565.7 million in 2017. Debt-based models made up the largest share of business finance, accounting for 92% of volume (\$522 million), followed by 7% from equity-based models (\$39.4 million) and just shy of 1% from non-investment models (\$3.8 million).

A total number of 25,639 new businesses were served by alternative finance models in 2017, contracting 62% compared to 2016. This decrease in overall businesses borrowers, issuers or campaigners suggests that although the volume of business funding grew, the average deal size amount per fundraiser was likely higher in comparison to last year. It is also suspected that a greater proportion of SMEs are no longer first-time users of alternative finance models, so subsequent research on repeat business users is needed. Most SMEs that utilized alternative finance models used debt-based models (87.5%), followed by equity-based models (7.6%). Though the non-investment-based model accounted for less than 1% of business volume, the number of businesses using this model accounted for 4.9% of businesses that utilized alternative finance. In terms of business funding volume in LAC - Chile, Brazil, Mexico, Argentina, and Peru accounted for the top five countries in Latin America. For a third year in a row, Chile leads alternative finance business finance (accounting for 27% of LAC's business finance volume).

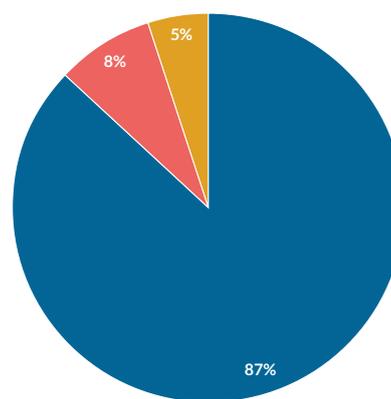
In general, Chilean SMEs account for over 98.5% of the total number of enterprises in the country. However, credit conditions have worsened for SMEs in recent years. According to the Central Bank, SMEs display a stronger credit demand and face a more restrictive credit supply. Banks were the main source of financing in 2015, followed by self-funding. The interest rate for SME funding has declined between 2013 and 2016, dropping by 21.6% in this period. Given this backdrop, it is not surprising that alternative finance as an avenue for business finance has continued to increase in importance over the years. Brazil and Mexico each account for just over 10% of business volume. See Appendix 2 for business volume by country.

Composition of Business Finance - Proportion of SMEs by Volume, LAC 2017



■ Debt ■ Equity ■ Non Investment

Composition of Business Finance - Number of SMEs LAC, 2017



■ Debt ■ Equity ■ Non Investment

Business funding in Chile accounted for \$248 million of its total volume, with 58% of volume from Debt-based models and 39% by Non-investment-based models. SMEs in Argentina raised \$72 million, 83% of which was from Non investment-based models. Colombia (\$33 million) was also a key contributor to the total volume from Non-investment-based business loans. The volume in Brazil and Mexico were both \$57 million, with 83% and 56% of that from Debt-based models, respectively.

The rest of the surveyed countries raised less than \$20m for business loans each, most specifically derived from debt based crowdfunding models.

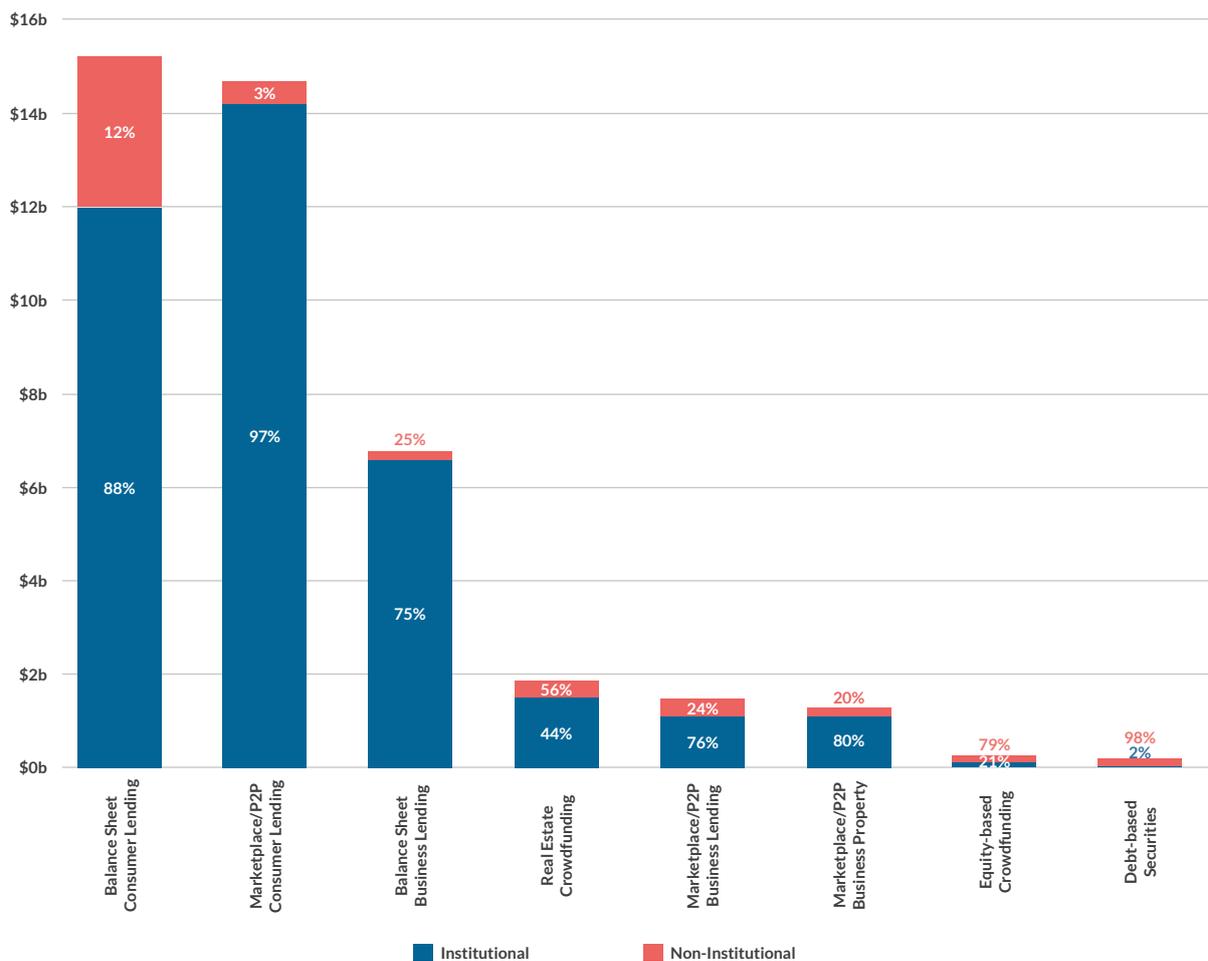
INSTITUTIONALIZATION

Institutional funders continue to drive alternative finance volume throughout the industry – and this is especially true in debt models. 88% of overall funding generated in the USA came from institutional funding – accounting for \$37.6 billion. Similarly, the majority of funding in Canada’s alternative finance market also come from institutional investors – making up 70%, or \$605 million, of Canada’s total volume.

USA

In the USA in 2017, the three highest volume generating models also had some of the highest proportion of institutional funding. Institutional investment in Balance Sheet Consumer lending, the largest overall model, was 88%. The second largest model, Marketplace/P2P Consumer Lending, had an even higher rate – with 97% of volume driven by institutional investors. The next largest model, Balance Sheet Business Lending, had 75% of its funding derived from an institution. Marketplace/P2P Property and Marketplace/P2P Business Lending also had a high proportion of institutional investment, with 80% and 76% respectively. The models with the lowest amount of institutional investment were Real Estate Crowdfunding, Equity-based Crowdfunding and Debt-based Securities – with 44%, 21%, and 2% of volume respectively originating from an institutional investor.

USA Funding Volume Derived From Institutional Investors in Key Models, 2017 (\$billions)

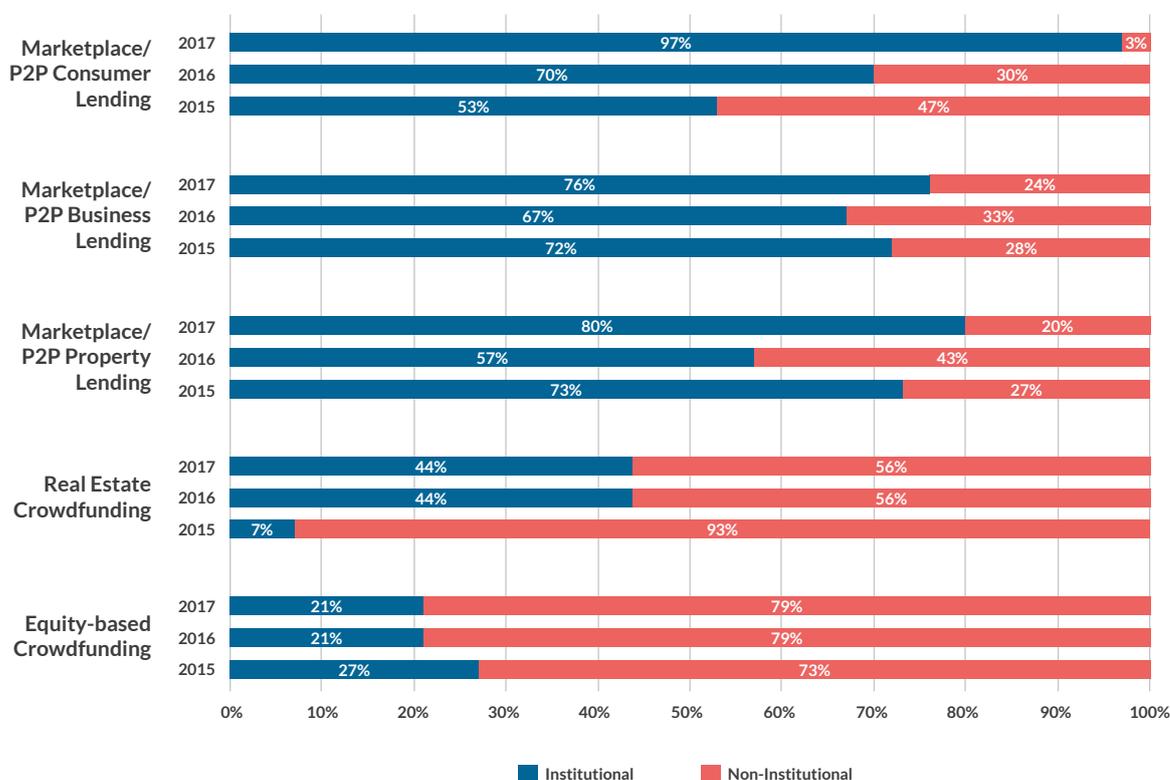


Compared to previous years, the proportion of funding from institutional investors increased at least modestly in nearly all model types in 2017. Since 2015, the share of institutional investors in Marketplace/P2P Consumer Lending has continued to increase each year – growing from 53% of the market in 2015, to 70% in 2016 and to 97% in 2017.

Marketplace/P2P Business lending’s proportion of institutional investors has slightly increased between 2015 and 2017 – starting out at 72% in 2015, before falling slightly to 67% in 2016, and rising to 76% in 2017. Marketplace/P2P Property Lending experienced a similar trend – with 73% of its volume derived from institutional investors in 2015, which fell to 57% in 2016, before increasing to 80% in 2017.

While between 2015 and 2016, Real Estate Crowdfunding’s proportion of institutional investors jumped from only 7% to 44%, its proportion remained stable in 2017 at 44%. The percentage of institutional investors in Equity-based Crowdfunding also remained stable at 21% from 2016.

Proportion of Funding from Institutional Investors, 2015-2017



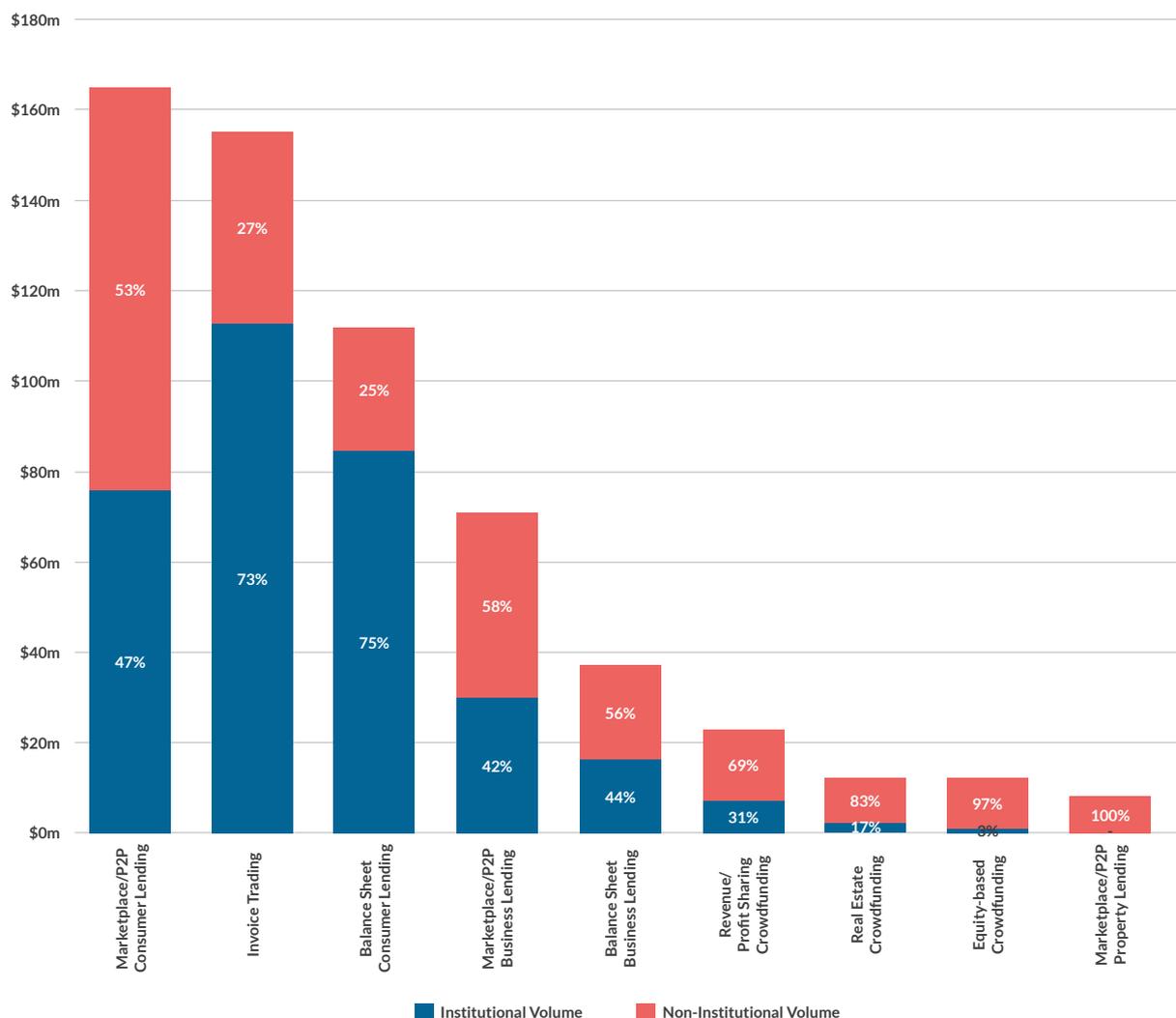
LAC

In Latin America and the Caribbean, alternative finance is, in general, funded more by the crowd. Roughly half of the market is driven by retail investors. While alternative finance in Latin America is still very much composed of retail investors, this year the share of institutional investors has grown considerably – indicating more sophisticated debt models. Institutional investors accounted for 51% of overall volume in LAC – or \$330.9 million.

Most model-types in LAC had less than 50% of their market share derived from Institutional investors. The largest model in LAC, Marketplace/P2P Consumer Lending, had 47% institutional

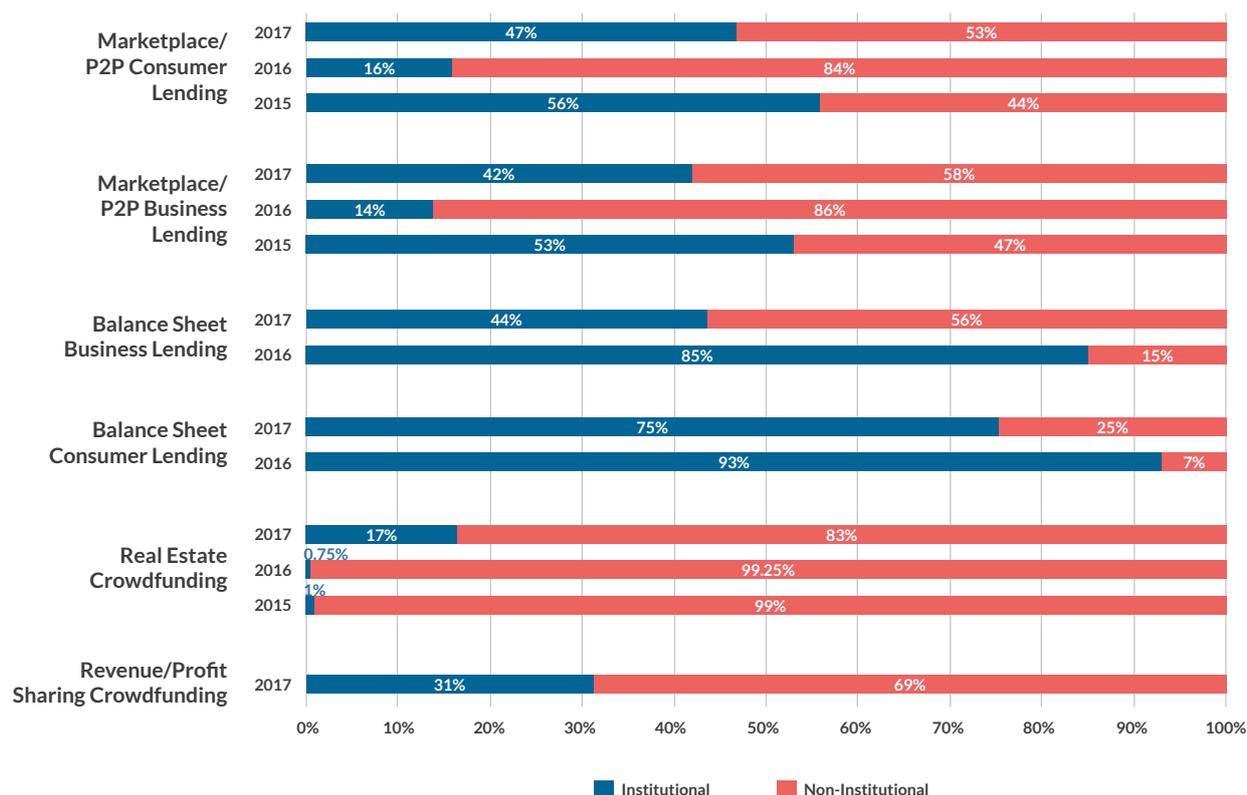
investment. The next two largest models - Invoice Trading and Balance Sheet Consumer Lending – both had high institutional involvement, with 73% and 75% of volume respectively derived from institutional investors. The next five largest model types - Marketplace/ P2P Business Lending (42%), Balance Sheet Business Lending (44%), Revenue Sharing (31%), Real Estate Crowdfunding (17%) and Equity-based Crowdfunding (3%) - continued to have lower levels of institutional participation.

LAC Funding Volume Derived From Institutional Investors in Key Models, 2017 (\$millions)



In general, throughout the LAC alternative finance market the proportion of institutional investment fell slightly between 2015 and 2017. The only exception was within Real Estate Crowdfunding where institutional investment grew from 1% in 2015 to 17% in 2017. Both Marketplace/P2P Consumer Lending and Business Lending experienced sharp declines in institutional participation in 2016 (from 56% in 2015 to 16% in 2016 for Consumer Lending and from 53% in 2015 to 14% in 2016 for Business Lending). Additionally, both model types increased in 2017 – but not to the level they had had in 2017. The proportion of funding from Institutional investors in Balance Sheet Business Lending, on the other hand, dropped by nearly half between 2016 and 2017 – from 85% to 44%. Balance Sheet Consumer Lending also fell from 93% in 2016 to 75% in 2017.

Proportion of Funding from Institutional Investors, 2015-2017



OTHER COLLABORATIONS WITH INSTITUTIONAL PARTNERS

Platforms were also asked about other potential collaborations with institutional partners. These included referral agreements, data exchange, agent banking, platform ownership and custodianship. Many platforms across models had some sort of referral agreement particularly in Balance Sheet Property Lending (100%), Marketplace/P2P Consumer Lending (57%) and Marketplace/P2P Business Lending (56%). With the exception of Balance Sheet Property Lending, between 15% and 30% of platforms in each model exchanged data with an institution. Of all models Marketplace/P2P Property Lending (29%), Marketplace/P2P Business Lending (28.13%) and Equity-based Crowdfunding (22%) had the highest level of Data exchange agreements. Overall, the number of platforms that utilized Agent Banking was relatively low. With the exception of Marketplace/P2P Business Lending (13%), less than 9% of platforms across models utilized agent banking. Additionally, platforms in LAC, did not utilize custodianship, with the exception of 12% of Balance Sheet Business Lending platforms.

Other than in Balance Sheet Property Lending, there was some level of institutional ownership of platforms across models. Balance Sheet Consumer Lending platforms had the largest percentage of institutional ownership, at 43%. Marketplace/P2P Business Lending (22%) and Balance Sheet Business Lending (20%) had the next highest levels of institutional ownership.



Developing Strong Linkages between Innovative Financial Technology Firms & Existing Frameworks

Maria Jesus Sanchez, Fintech Centroamerica

The Central American FinTech Association was born in June 2016 with the mission of offering FinTech companies in Central America, and the general public, an open and transparent collaboration space to strengthen the FinTech ecosystem in the region. The Association was officially launched in February 2017 in conjunction with the British Embassy; the event was attended by more than 200 representatives of different FinTechs, banks, cooperatives, government institutions and others.

There are two key challenges for the future of alternative finance in Central America. In particular, these are:

- Digitalization of all necessary documentation and paperwork.
- Improved interconnectivity between FinTechs and Banking institutions.

These challenges will be the basis for the discussion and development of the following topics throughout the region:

- Development of legal frameworks for the recognition of digital signatures as a valid credentials.
- Definition of crowdfunding and crowdlending models in the region.
- Legal regulation that allows the digitalization of paperwork.
- Growth of The Association to include and cooperate with even more FinTechs and other akin institutions.

The lessons we have learned as an association are many; however, one of the most striking ones is the overall lack of information the governments have about FinTech companies. This causes lawmakers to be overly cautious when regulating these institutions. Nevertheless, the path laid out has permitted an initial approach to these issues and we believe that, with increased cooperation between the Association and the Government, we are on the way to a better future for FinTech industries in the region.

CHAPTER 2: MARKET DYNAMICS

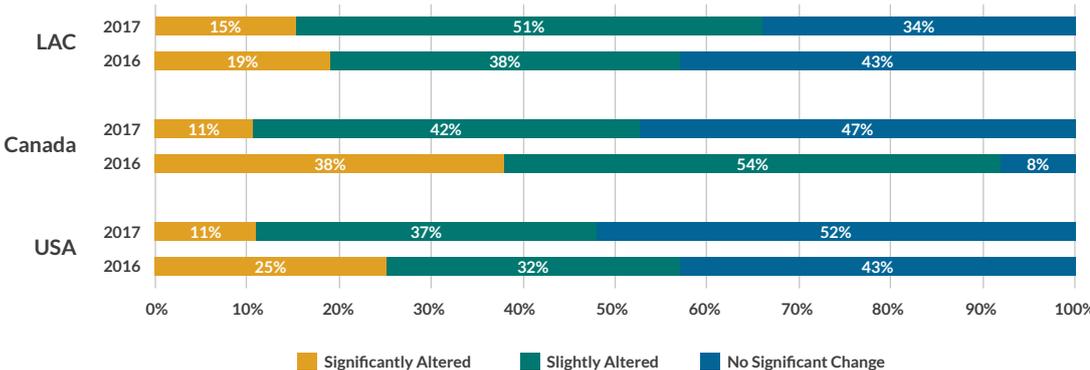
2017 was characterized by considerable innovation. Platforms have introduced new products, expanded their international reach and focused on research and development to expand and enhance their operations.

To facilitate a discussion on the dynamics of alternative finance in 2017, platforms were asked a series of questions on their business models, their internationalization strategies and the types of research and development focuses they had implemented.

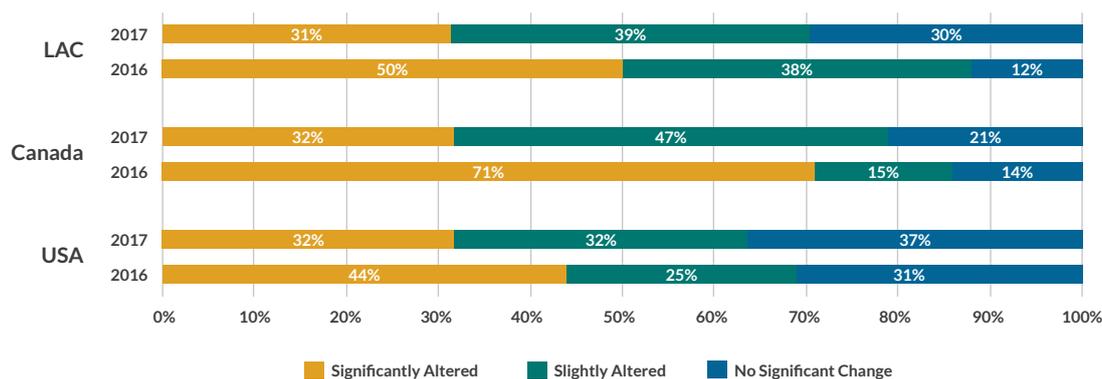
INNOVATION IN THE AMERICAS

Platforms across the region were asked whether they had made any changes to their business model in 2017. In particular, the research team wanted to understand if platforms were modifying the operations of their business through new practices or from moving into new models within the taxonomy, catering to different investors or different income streams. Overall, in the USA market most platforms indicated no significant changes to their model (52%), followed by 37% of the platforms saying they slightly altered their business model. Only 11% of platforms made significant changes to their business model. Similar to the US, only 11% of Canadian platforms made significant changes to their model. A total of 42% made slight changes to their model – meaning that 53% of Canadian models made some sort of change to their overall model. In LAC, the number of platforms that changed their models in some way increased from 57% in 2016 to 66% in 2017 (15% significant changes, 51% slight changes). Platforms across Latin America and the Caribbean experienced more underlying model change than those in the USA or Canada likely driven by regulatory and underlying-framework considerations. Qualitative comments collected suggested that many platforms that slightly or significantly changed their model did so to adhere to new or evolving regulatory considerations, or to improve upon existing financial system constraints related to their home-country.

Changes to Business Model - Americas (2016-2017)



Product Offering Innovations, Annual Change (2016-2017)



The platforms were also asked to indicate what, if any, level of change occurred to their product offerings. In this instance, the CCAF wanted to understand if the platforms were introducing new or distinct products to their existing investor or issuer cohort, or significantly innovating existing products. Most platforms in the Americas at least slightly changed their products – but to a lesser extent than in 2016. A similar proportion of platforms in both the USA and Canada made significant changes to their product (32%). Notably, for both regions, this was down from 2016 whereby 71% of platforms significantly altered their products. Nevertheless, a majority of platforms in the USA and Canada made some change to their offering, being 65% and 79% respectively. Latin American countries followed a similar trend. The amount of overall change was down from 2016, although 70% of platforms either slightly (39%) or significantly (31%) altered their products.

The research also captured specific data on model and product innovation in key LAC countries. A slight majority of Mexican platforms (53%) made some sort of alteration in their business model and 32% of platforms made significant changes. The remaining 47% made no significant changes. In Chile, 70% of platforms made some sort of change to their business model, with 20% of them altering it significantly. Half of Brazilian platforms made no significant changes to their models. Of the remaining 50%, only 19% significantly altered their products and the remainder (31%) slightly modified them. Colombia exhibited a similar trend to Brazil although more platforms made no significant changes (56%). Additionally, fewer platforms made other alterations, with only 18% made significant changes to their product and 27% made slight changes. Overall, most platforms in Argentina made slight changes to their business model (67%), whereas 33% made no changes.

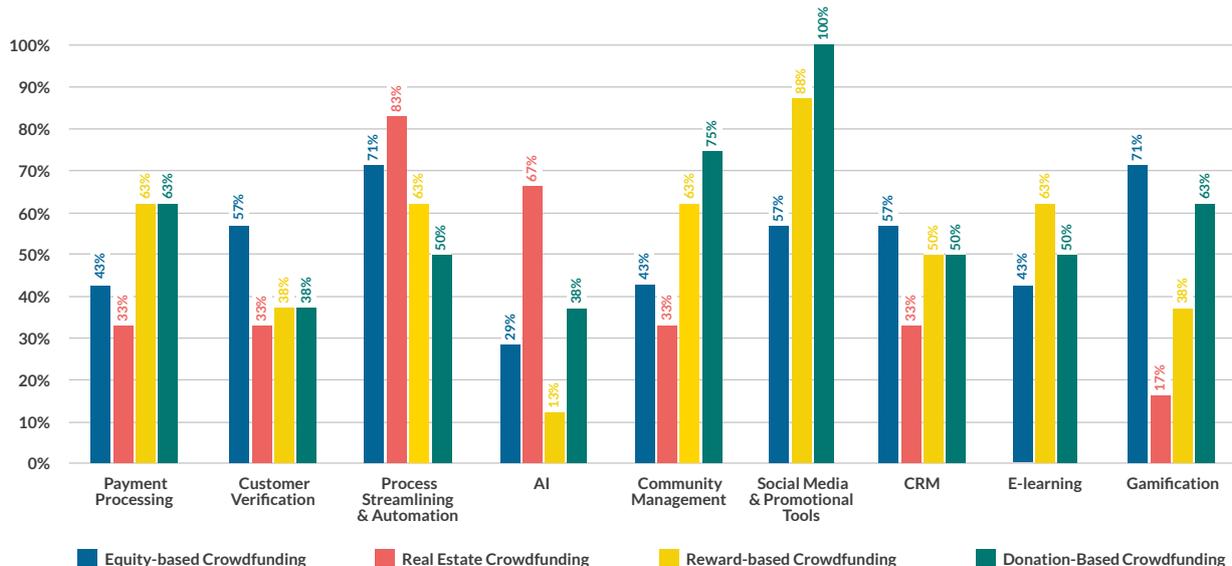
With regard to product offering, 69% of Mexican platforms made some sort of change to their products. Most of these alterations were slight (38%), albeit 31% made major alterations to their offerings. In Chile 80% of platforms modified their products but many of these were only slight alterations (50%). A total of 40% of Brazilian platforms made no significant alterations to their products, 33% significantly altered their products and the remaining 27% only slightly altered their products. In Colombia, 40% of platforms made no significant alterations to their products. The remaining 60% was equally divided between platforms that significantly (30%) or only slightly (30%) altered their products. Platforms in Argentina were divided equally between those that made significant changes to their product offering (33%), slight modifications (33%) or no significant changes (33%).

RESEARCH & DEVELOPMENT

USA & CANADA

In 2017, US-based platforms across the region spent an average 12% of their budget on Research & Development. Overall, this was the third highest expense, following HR & Administration costs (32%) and Sales & Marketing (28%). In Canada, firms spent 16% of their budget on Research & Development, also representing Canadian firm's third largest budgetary expense, followed by Sales & Marketing (25%) and HR & Administration (21%).

USA and Canada Actively Pursued R&D Initiatives in 2017 by Platforms (by Equity-based and Non Investment-based Models)



In the USA & Canada⁵, R&D focused on three principal areas: efficiency enhancements, customer service, and customer experience improvements. Most alternative finance models also reported high levels of investment in process streamlining and automation. Predominantly, this was reported by most platforms in Marketplace/ P2P Consumer/Business/Property Lending (100%) or Balance Sheet Consumer Lending (100%), Balance Sheet Business Lending (89%) and Real Estate Crowdfunding (83%).

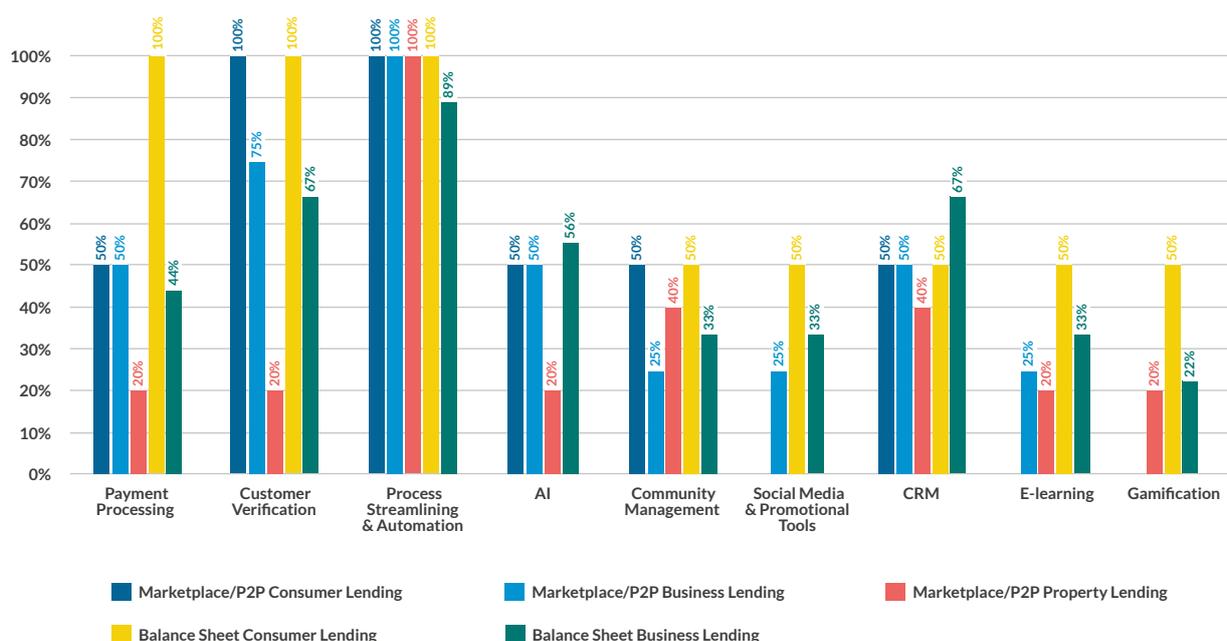
Similarly, payment processing and customer verification are innovation efforts that focus on resolving two of the key bottlenecks that continue to challenge the industry. Payment processing was reported as the dominant area of focus by all Balance Sheet Consumer Lending platforms, 63% of Reward-based and Donation-based Crowdfunding platforms, 44% of Balance Sheet Business Lending and 43% of Equity-based crowdfunding platforms. Customer verification was also reported as a focus area by all Balance Sheet Consumer and Marketplace/P2P Consumer Lending platforms and 57% of Equity-based Crowdfunding platforms.

Many platforms have been preempting future demands through investment in artificial intelligence (AI) and performance enhancement features. Overall, 67% of Real Estate Crowdfunding platforms, 56% Balance Sheet Business Lending platforms and half of the Marketplace/P2P Business and Consumer Lending platforms have been actively researching AI utilization for their platforms.

Platforms have also focused on the development of community management features, customer relationship management (CRM) systems, and customer support tools for social media promotions to improve customer service. Community management features were focused on by 67% of Balance Sheet Business Lending platforms, half of all Marketplace/P2P Business Lending, Marketplace/P2P Consumer Lending, Balance Sheet Consumer and Reward/Donation-based Crowdfunding platforms. Finally, customer support tools for social media promotion were emphasized by 100% of Donation-based platforms, 88% of Reward-based Crowdfunding platforms and 57% of Equity-based Crowdfunding platforms as areas of focus.

Whilst improving customer experience was important to platforms, e-learning and gamification were a lower priority across models in general. Some platforms have reported that they have pursued research into these areas as well, with the provision of e-learning features most frequently mentioned by Reward-based Crowdfunding (63%), Donation-based Crowdfunding (50%) and Balance Sheet Consumer Lending platforms (50%). Additionally, investments in gamification were reported by 71% of Equity-based Crowdfunding platforms, 63% of Donation-based Crowdfunding platforms and 50% of Balance Sheet Consumer Lending platforms.

USA and Canada Actively Pursued R&D Initiatives in 2017 by Platforms (by Debt-based Models)





Software Providers Race to Win Over Canadian Financial Institutions

*Kevin Clark – Chair & Gary Schwartz - President
Canadian Lenders Association*

Canadian FIs continue to digitize their lending practices, alternative lenders are growing, and access to capital is increasing. These trends are especially evident in the small business lending space. From the Bank of Montreal building their Xpress lending platform to Vancity implementing the Judi.ai platform, Canadian FIs are showing their focus on serving SMBs. This has not only heightened competition between the FIs, but amongst the software companies looking to support them.

Some of the most interesting developments include:

- **New Table Stakes for Software Providers**
Historically, there have only been a handful of software providers vying for Canada's top FIs. Now our members compete with upwards of 6 to 8 on each project. This increased competition has pushed software providers to innovate faster. For example, we see that almost every solution leverages artificial intelligence to calculate the probability of default. What once was a differentiator is now table stakes. On the other hand, many providers have come from outside of Canada and focus solely on process automation. Venturing into a new market is understandable (we're entering the US), but the real value is combining automation with an intelligent credit model that leverages the data and insights gained from building an alternative lending portfolio.
- **Government Support for the Adoption of Digital Lending**
With a significant amount of capital and data to leverage, Canada's "Big 5 Banks" can decide whether they will buy or build each piece of their lending technology stack. Unfortunately, many of the smaller financial institutions such as tier two banks and credit unions do not have that luxury. To improve access to capital for SMBs, our Provincial governments are taking action. For example, the Ontario Government has launched an innovative program designed to boost small business lending and selected credit unions as a major focus. This program allocates several million dollars to support the adoption of fintech technology by credit unions. We are excited to be participating in the program.

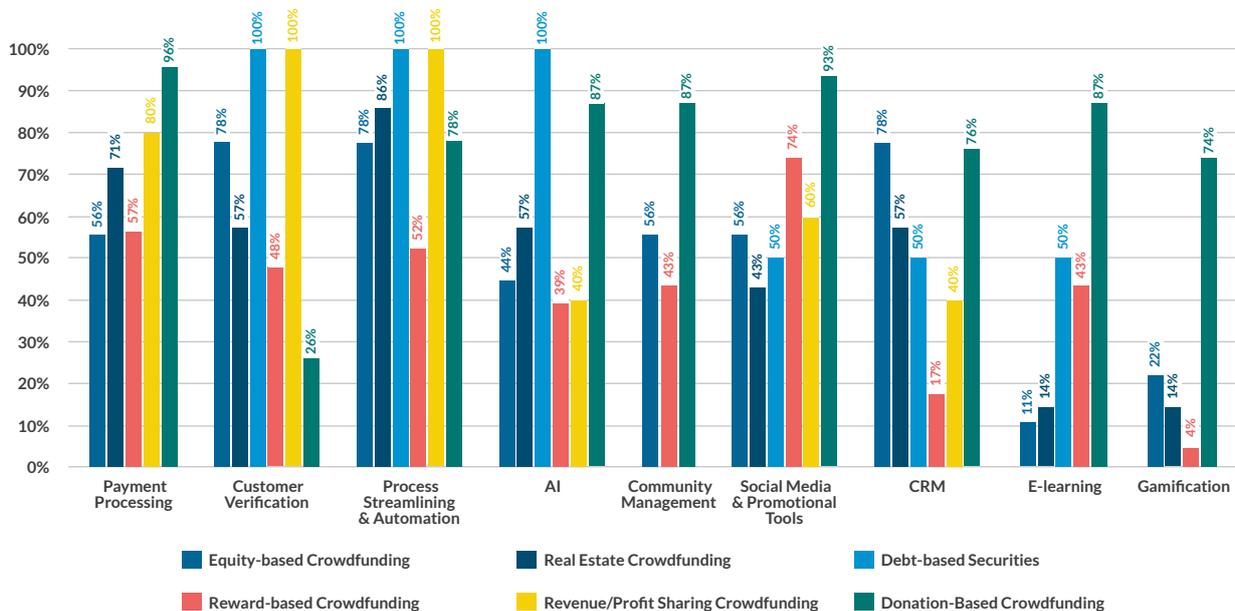
Overall, there continues to be a tremendous amount of innovation in Canada and we look forward to helping push the industry forward.

LAC

The amount of platform budget that Latin American platforms dedicated to Research and Development was very similar to the US. Overall, platforms spent 10% of their budget on R&D in 2017, the third highest allocation of capital after Sales & Marketing (31%) and HR & Administration (28%).

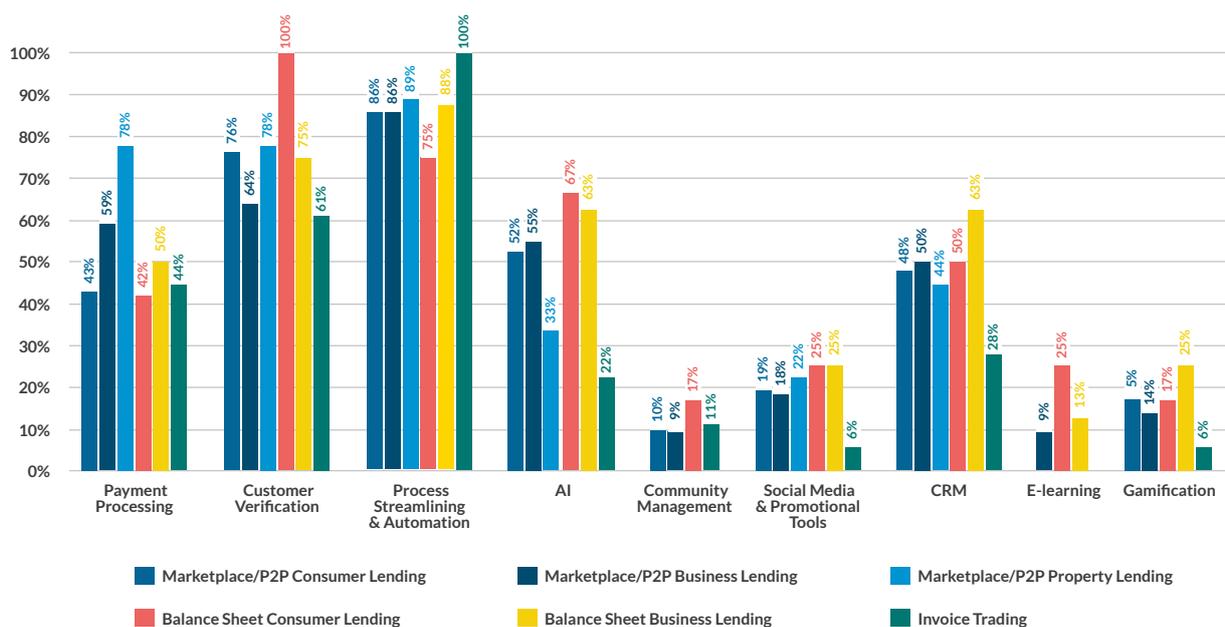
Platform innovation in LAC also focused on three principal areas. In general, the main priority was on efficiency enhancements, followed by customer verification and payment processing. Similar to the US, most alternative finance models reported high levels of investment in process streamlining and automation. This was reported by 100% of Invoice Trading, Revenue Sharing and Debt-based Securities platforms. As payment processing and customer verification challenges are directly linked to process streamlining and automation, it is understandable that they are the second and third most researched areas. Predominantly customer verification was reported as a key area of focus by all Balance Sheet Consumer Lending, Revenue Sharing, Debt-based securities and 76% of Marketplace/P2P Consumer Lending platforms. Payment processing was also reported to be a research focus by 96% of Donation-based Crowdfunding platforms, 80% of Revenue Sharing platforms and 78% of Marketplace/P2P Property Lending platforms but 0% of Debt-based Securities platforms.

LAC Actively Pursued R&D Initiatives in 2017 by Platforms (by Equity-based and Non Investment-based Models)



Similar to platforms in the USA and Canada, platforms in LAC have also focused on developing AI, CRM systems and social media and promotional tools. The development of AI features was stressed particularly by Debt-based Securities (100%), Donation-based Crowdfunding (87%) and Balance Sheet Consumer Lending (67%). Additionally, investment and development of CRM features were focused on by Equity-based Crowdfunding (78%), Donation-based Crowdfunding (76%) and Balance Sheet Business Lending (63%) platforms.

LAC Actively Pursued R&D Initiatives in 2017 by Platforms (by Debt-based Models)



Overall, e-learning, gamification and community management were the lowest priorities for LAC platforms. Some platforms have invested in these areas, with the provision of e-learning features most frequently reported by Donation-based (87%), Debt-based (50%) and Reward-based (43%) Crowdfunding platforms. Research into gamification was reported by the fewest number of platforms. The platforms that had the largest amount of focus on gamification were Donation-based Crowdfunding (74%), Balance Sheet Business Lending (25%) and Equity-based Crowdfunding (22%).

GLOBALIZATION AND EXPANSION STRATEGY IN THE AMERICAS

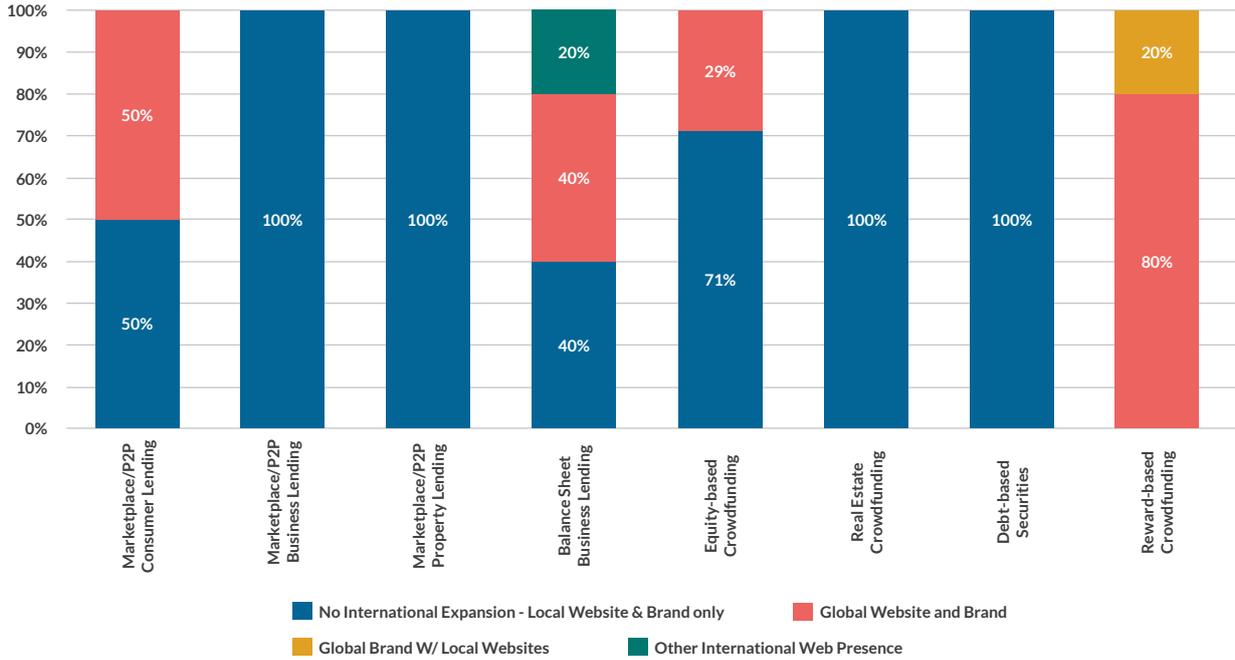
USA

In 2017, the CCAF sought to understand the international presence and internationalization strategies of platforms throughout the Americas. Additionally, the research team looked at the transaction flows associated with cross-border finance in conjunction with the internationalization strategies adopted by platforms.

Within the United States, Reward-based, Donation-based, Marketplace/P2P Consumer and Balance Sheet Business Lending platforms were the most internationally-oriented models. Among these platforms, the most popular internationalization strategy was utilizing a global website and brand; for instance, 80% of Reward-based Crowdfunding, 50% of Donation-based Crowdfunding, 50% of Marketplace/P2P Consumer Lending and 40% of Balance Sheet Business Lending utilized this strategy.

Conversely, Marketplace/P2P Business Lending, Marketplace/P2P Property Lending, Real Estate Crowdfunding and Debt-based Securities were the least internationalized models. They had no clear strategy for international expansion, and mainly relied on local website and brands only.

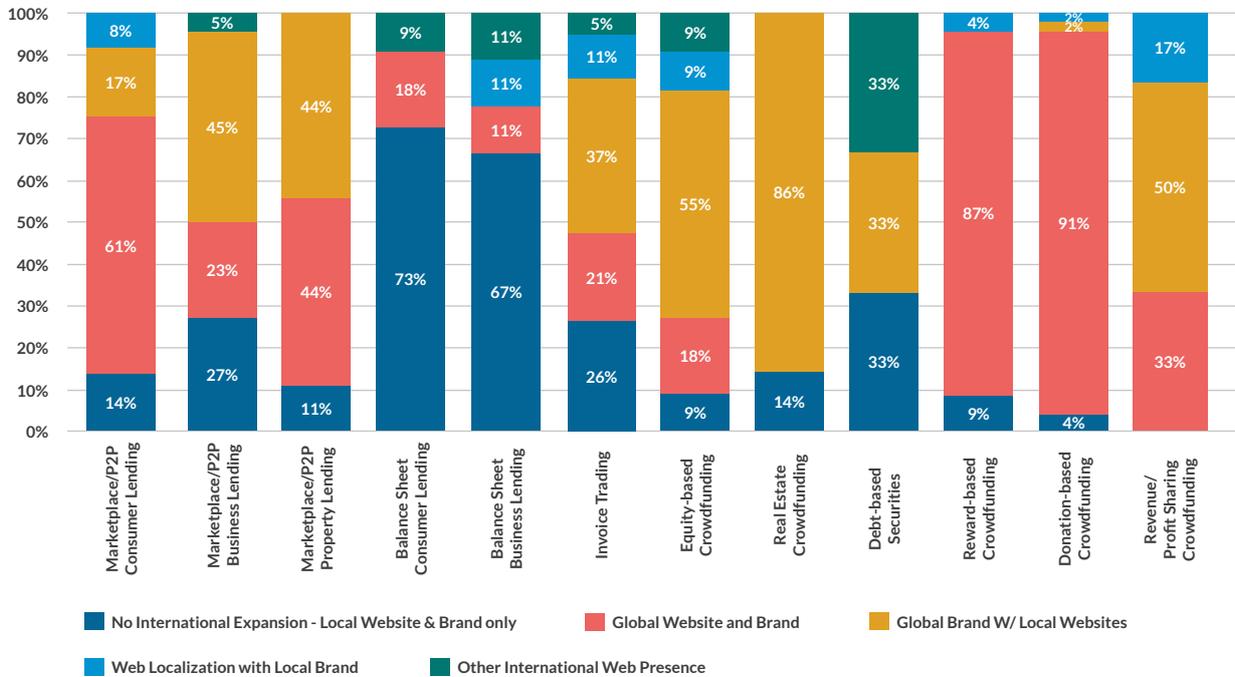
Platform Internationalization Strategies by Model - USA



LAC

The internationalization strategy of platforms in LAC, in general, had a higher percentage of platforms that were active internationally. Across all alternative finance models, most platforms indicated that they had implemented some degree of an international expansion strategy.

Platform Internationalization Strategies by Model - LAC



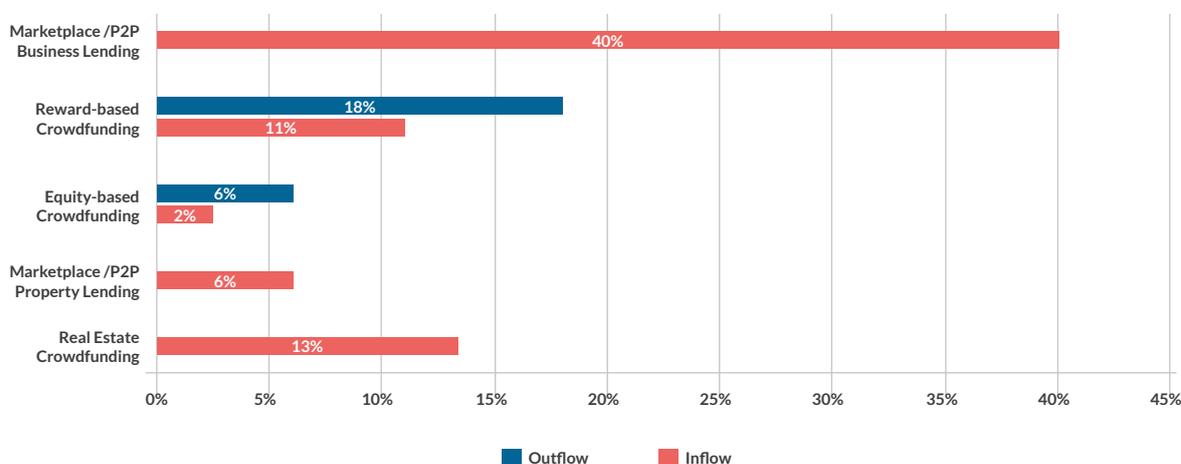
The LAC model types that had the greatest international focus were Reward-based Crowdfunding, Donation-based Crowdfunding, Revenue Sharing, Marketplace/P2P Consumer Lending, Marketplace/P2P Business Lending and Equity-based Crowdfunding platforms. For these platforms, many tended to have a global website and a global brand – including 91% of Donation-based Crowdfunding platforms, 87% of Reward-based Crowdfunding platforms, 61% of Marketplace/P2P Consumer Lending platforms and 44% of Marketplace/P2P Property Lending platforms.

Conversely, LAC platforms with Balance Sheet Consumer Lending, Balance Sheet Business Lending, Marketplace/P2P Business Lending, Invoice Trading and Debt-based Securities model types were the least internationalized models that had no international expansion strategy – and predominantly only had a local website and brand.

INFLOW AND OUTFLOW OF FUNDS

It is apparent from the data that some alternative finance platforms in the USA and LAC are more dependent on cross-border transaction flow than others. In the US, Marketplace/P2P Business Lending is the model type that had the most cross-border activity in 2017 with 40% of its transaction volume attributed to cross-border inflows. Marketplace/P2P Real Estate Crowdfunding is the model type that had the second highest percentage of cross-border inflows, at 13% of total volume. This is followed by Reward-based Crowdfunding where 11% of its volume was associated with cross-border inflows and 18% of volume was associated with cross-border outflows.

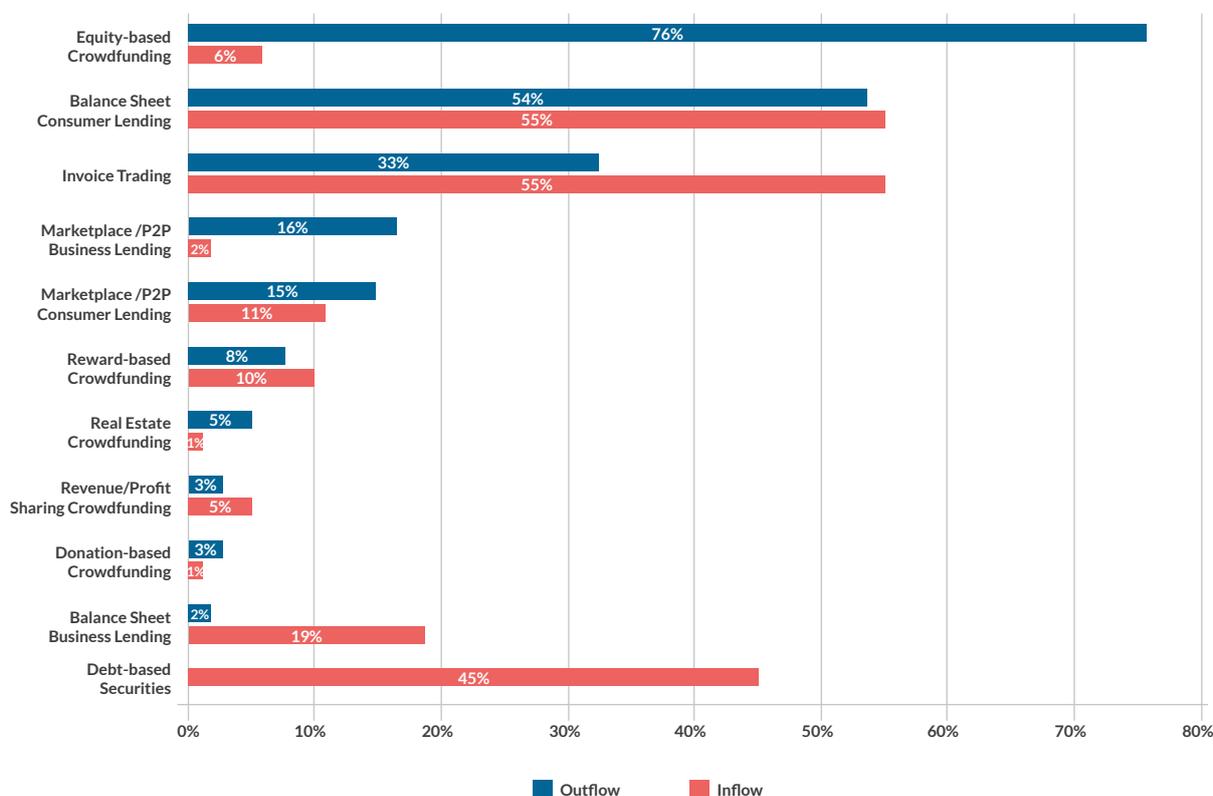
USA Cross-border Inflows and Outflows by Proportion of Volume (by Model)



On the other hand, the model types of platforms in LAC that relied on cross-border outflows were markedly different than that of the USA market. Balance Sheet Consumer Lending dominated the other models with over half of all transaction volume being attributed to cross-border inflows (55%) and outflows (54%). Debt-based Securities exhibited the second highest level of international investment, with 45% of volumes related to cross-border inflows. Equity-based crowdfunding platforms in LAC also had 76% of volume as cross-border outflow, while only 6% was associated with cross-border inflow.

In contrast, the models that were least dependent on cross-border transaction flows in LAC were Real Estate Crowdfunding, Donation-based Crowdfunding and Revenue Sharing. In these models less than 5% of volumes were cross-border inflows while between 3% and 5% of volumes were cross-border outflow.

LAC Cross-border Inflows and Outflows by Proportion of Volume (by Model)



FINANCIAL INCLUSION

Financial inclusion is an increasingly important topic when discussing the stakeholders in alternative finance. Throughout the Americas, the demographic information on both the funders and fundraisers indicate that both women and men are utilizing alternative finance. However, women for the most part tend to participate at a lower proportion than their male counterparts.

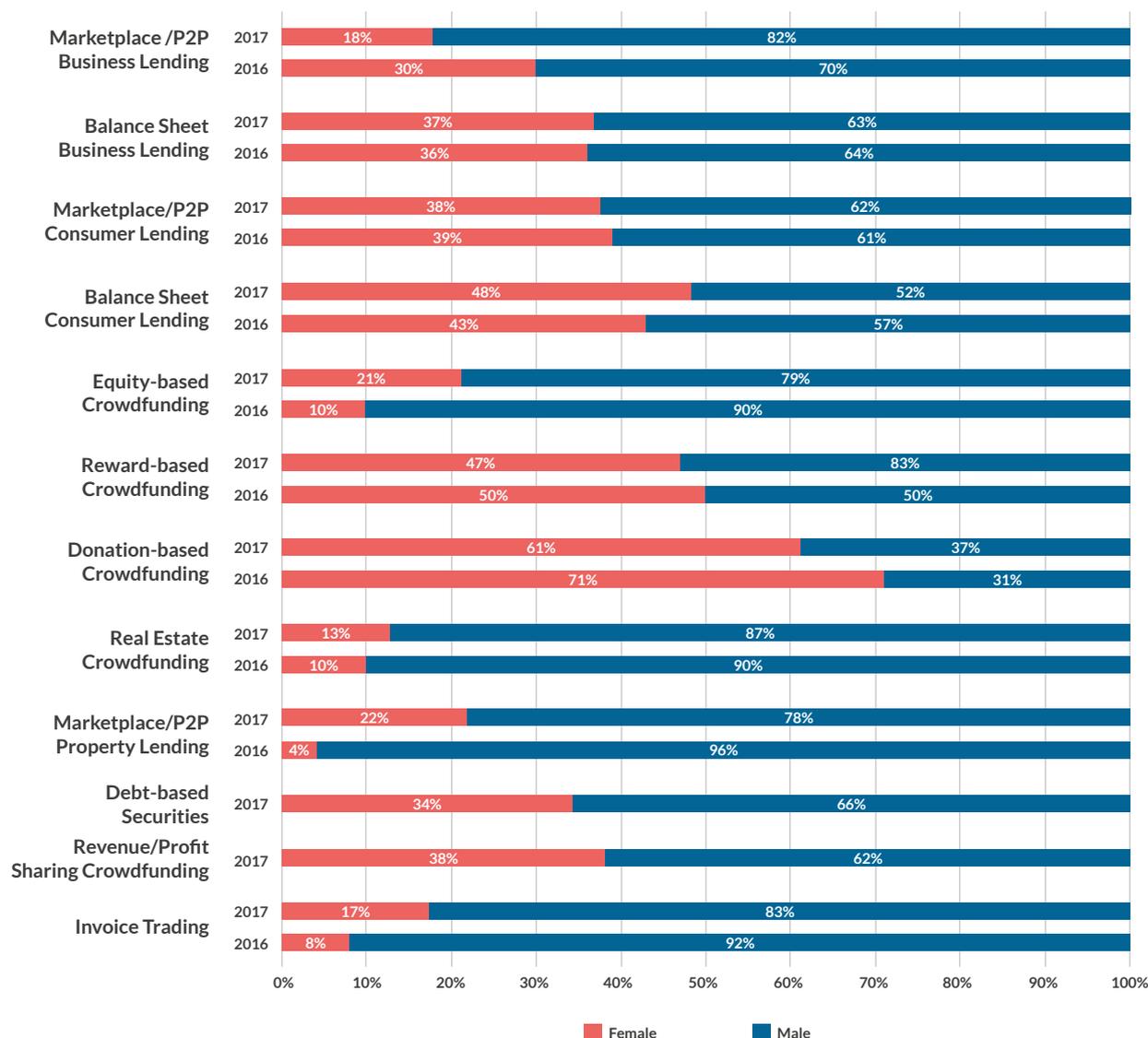
Additionally, this research also sought to understand the banked status of debt-based borrowers. This gives a general overview of the reach of the existing financial market in the region, as well as where online alternative finance complements or fills a gap in services. The survey also looked at the income status of funders to understand the levels of participation at various income levels. This will show a clearer demographic distribution of how various income level individuals participate across the region.

GENDER AS A MEASURE OF FINANCIAL INCLUSION

For the Americas as a whole, female participation remained relatively stable, although it increased for some models and decreased for others. Women made up a large percentage of fundraisers in non-investment models although not as large a percentage as in

2016. While women still make up the majority of fundraisers (61%) in donation-based crowdfunding, this figure is down 10% year-on-year. Last year men and women participated equally in raising funds via Reward-based Crowdfunding, however, this year women make up 47% of the total fundraisers. With respect to investor activity, women also provided significant funding through these two non-investment models. The number of women funding projects through reward-based models increased to 53% (compared to 2016's 47%). The proportion of female funders pertaining to the Donation-based female funders was also quite large, at 46% in 2017, albeit decreasing from 2016's 65%.

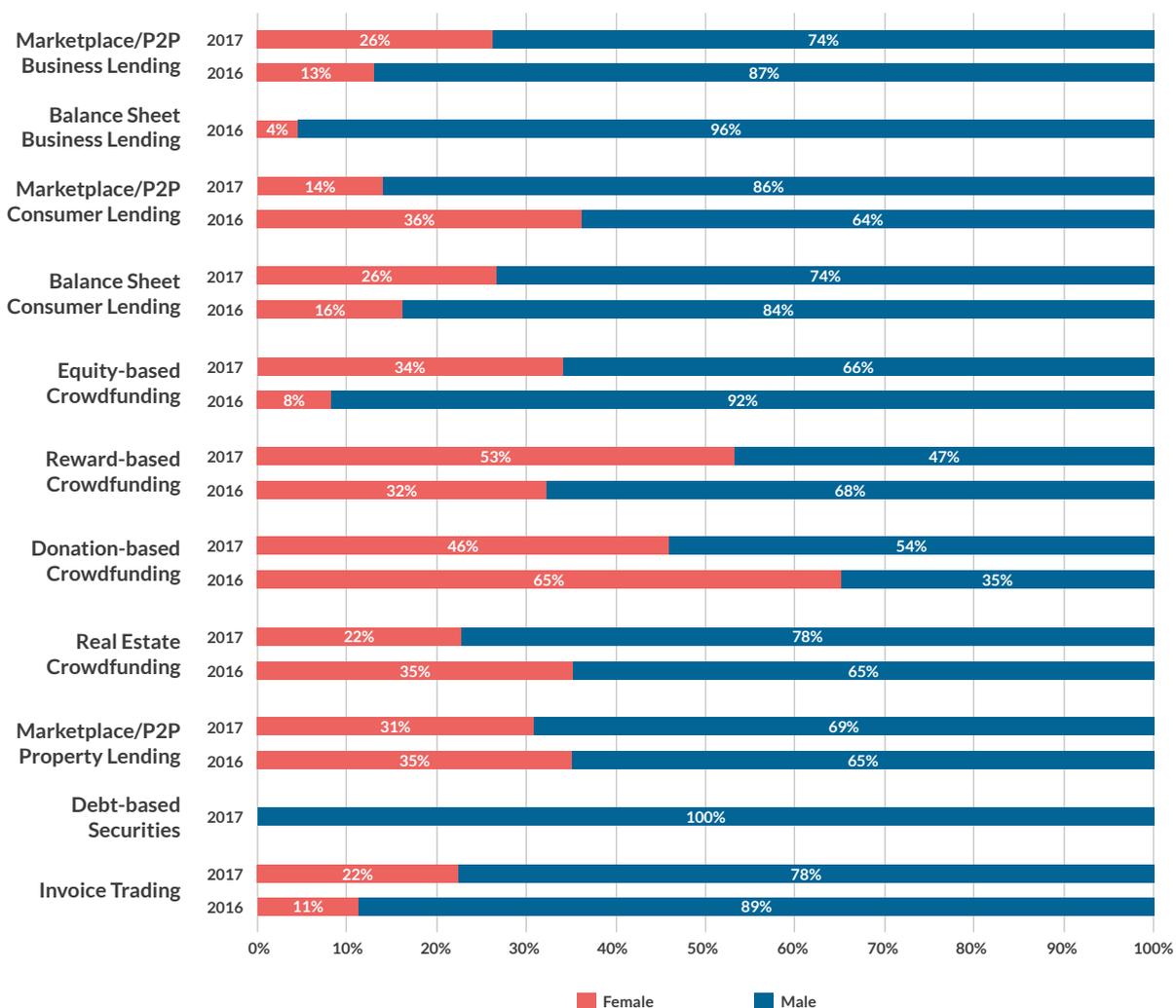
Americas - Percentage of Female Fundraisers (2016-2017)



Female fundraisers also continued to be significant participants in Balance Sheet Consumer Lending (48%), Marketplace/P2P Consumer Lending (38%) and Balance Sheet Business Lending (37%). Participation in 2017 rose from 2016 levels in Balance Sheet Consumer Lending and Balance Sheet Business Lending (from 43% and 36% respectively) and slightly decreased for Marketplace/P2P Consumer Lending (from 39%). This year there was also enough data to report fundraiser rates from Revenue Sharing and Debt-based

Securities, both of which had significant female participation (38% and 34% respectively). Additionally, the largest increase in female fundraiser activity was seen in Marketplace/P2P Property Lending, with an 18% increase from 4% in 2016 to 22% in 2017.

Americas - Percentage of Female Funders (2016-2017)

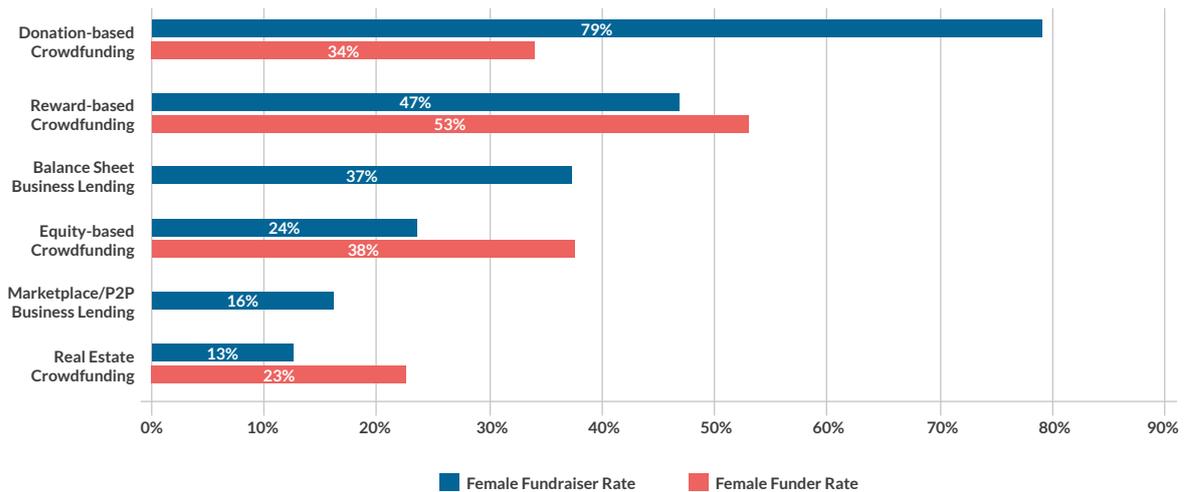


Female funder participation increased in four models - Marketplace/P2P Business Lending (26%), Balance Sheet Consumer Lending (26%), Equity-based Crowdfunding (34%) and Invoice Trading (22%). While in 2016 Equity-based Crowdfunding only had an 8% female funder rate, it increased significantly in 2017 to 34%. Conversely, female funders decreased in Marketplace/P2P Consumer Lending (14%), Real Estate Crowdfunding (22%) and Marketplace/P2P Property Lending (31%). The most significant decline was seen in Marketplace/P2P Consumer Lending, where it dropped 22% from 36% in 2016 to 14% in 2017.

FEMALE PARTICIPATION IN THE US

When the proportions of female fundraisers and funders are analyzed by country or region, we are able to observe clear differences as they relate to how women participate in capital raising activities in the USA or LAC.

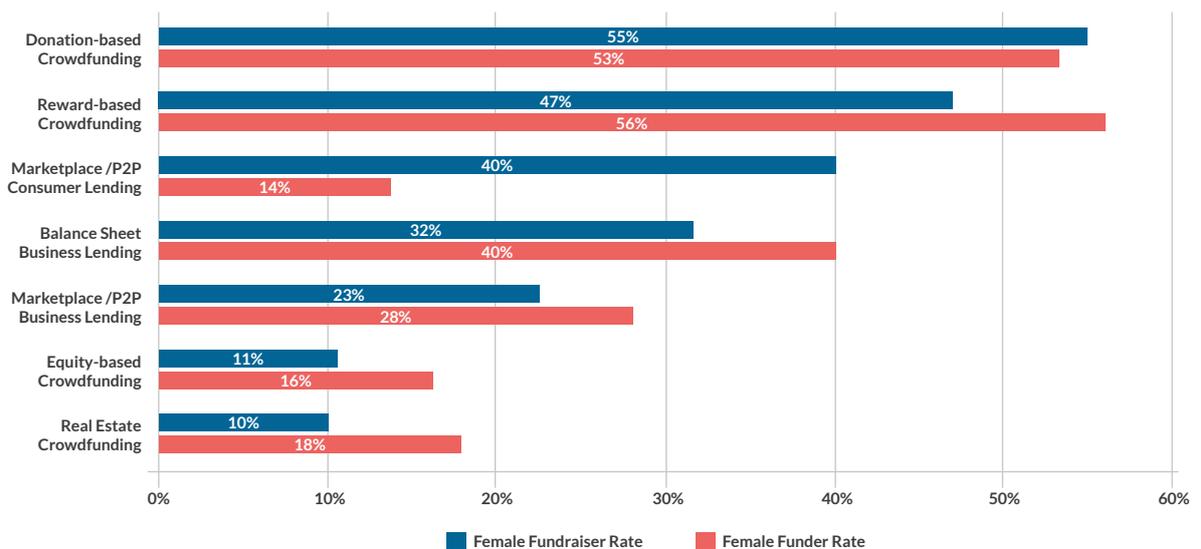
USA Percentage of Female Participation, Key Models 2017



There are numerous interesting data-points when looking at female participation in key models solely in the United States. Primarily, a clear majority (79%) of fundraisers in Donation-based Crowdfunding were female in 2017, whereas only 34% of funders were. Reward-based Crowdfunding was more equally split, with 47% and 53% of fundraisers and funders, respectively, being female. While both Balance Sheet Business Lending (37%) and Marketplace/P2P Business Lending (16%) had female fundraisers, the data collection was inconclusive with respect to proportion of female funder rates. In both Equity-based and Real Estate Crowdfunding, there was a higher percentage of female funders (38% and 23% respectively) than fundraisers (24% and 13% respectively).

FEMALE PARTICIPATION IN LAC

LAC Percentage of Female Participation, Key Models 2017



While LAC is a large area, it is important to examine female participation to see if there are any key trends for the region as a whole. Female participants were involved in at least some capacity across most of the key online alternative finance models in LAC.

Participation was strongest in the Donation and Reward models, but also quite strong as fundraisers in Marketplace/P2P Consumer Lending and as Funders for Balance Sheet Business Lending.

Similar to the US, Donation-based Crowdfunding has a majority female fundraiser base (55%), but it also has a majority of female funders (53%). LAC has the same percentage of female fundraisers for Reward-based Crowdfunding (47%) as the US, but a larger number of female funders (56%).

Marketplace/P2P Consumer Lending across LAC had a 40% female fundraiser rate, but only 14% of funders on these platforms were female. Balance Sheet Business Lending and Marketplace/P2P Business Lending both had a higher proportion of female Funders (40% and 28% respectively) when compared to their female fundraiser rate (32% and 23% respectively).

Equity-based and Real Estate Crowdfunding had similar levels of female participation for both fundraisers and funders, with female fundraisers making up 11% for Equity-based and 10% for Real Estate and female funders at a slightly higher 16% for Equity and 18% for Real Estate.

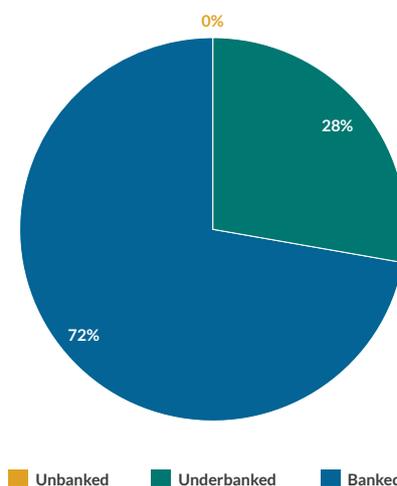
THE BANKED STATUS OF BORROWERS

To have a more complete understanding on the impact of online alternative finance on inclusiveness, it is important to understand the banked status of individuals utilizing the platform. To do this, platforms were asked to identify the proportion of their platform users that were Unbanked (were not served by or do not have access to any traditional financial service), Underbanked (users that have access to some basic financial services/a bank account, but do not have access to a complete suite) and Banked (users that have access to a full suite of financial services).

The USA borrower userbase primarily consisted of Banked individuals, with a total of 72% of users defined as Banked. Underbanked individuals accounted for the remaining 28%. There were no identified Unbanked users.

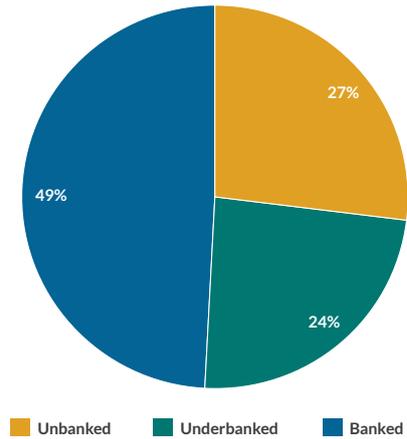
In a robust financial market like the United States this is to be expected. The US's financial system is well-developed, though there is a key component of society that may not have easy access to credit – accounting for just over a quarter of borrowers categorized as Underbanked.

USA Banked Status of Borrowers (%)



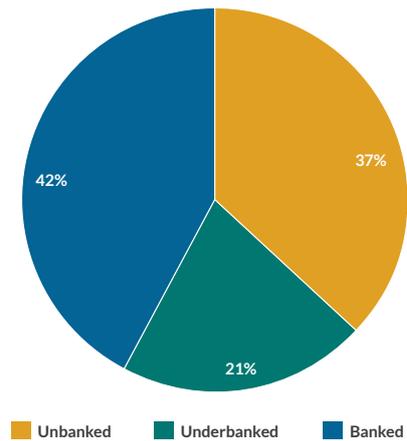
Looking at Latin America and the Caribbean as a whole, with its mix of very developed and developing financial systems, the overall banked status of borrowers is much more diverse. Almost half (49%) of borrowers are classified as Banked individuals. Just under a quarter (24%) are identified as Underbanked and the remaining 27% of borrowers are categorized as Unbanked individuals. This implies that the online alternative finance market in the LAC area is filling a key gap in services that traditional financial institutions have not yet been able to fill. To put that into perspective – 51% of individuals across LAC utilize online alternative finance to utilize services that they otherwise would not have access to.

LAC Banked Status of Borrowers (%)



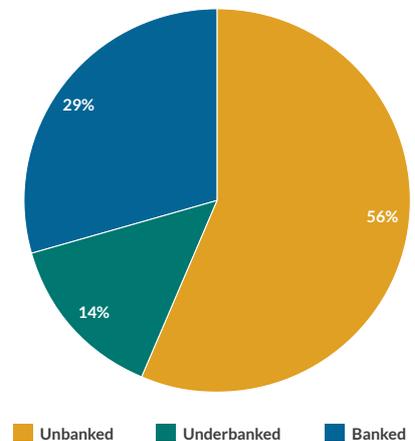
The banked status of Mexico's borrowers paints an interesting picture – while the largest percentage of borrowers (42%) are fully Banked, 37% are Unbanked. This means nearly as many individuals seeking to raise funds through Mexican platforms have either full or no access to traditional financial services. The remaining 21% of individuals were identified as Underbanked. Therefore 58% of individuals are either Underbanked or Unbanked and without alternative finance would be unlikely to have access to similar borrowing facilities.

Mexico Banked Status of Borrowers (%)



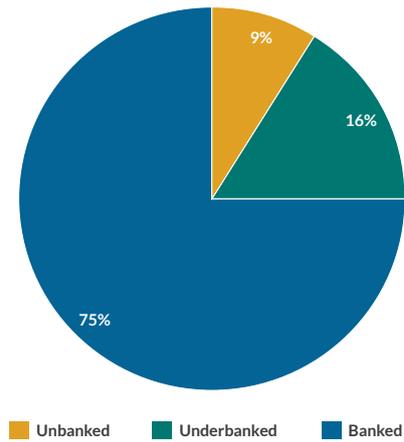
In contrast to the previous countries, Chile's borrowers are predominantly Unbanked – with 56% of borrowers classified as such. Combined with the number of Underbanked individuals, just over 70% of borrowers in Chile access financial services with online alternative finance that they would otherwise not be able to. The remaining 29% of borrowers were Banked individuals. This implies that alternative finance in Chile is enabling greater inclusivity with respect to financial services.

Chile Banked Status of Borrowers (%)



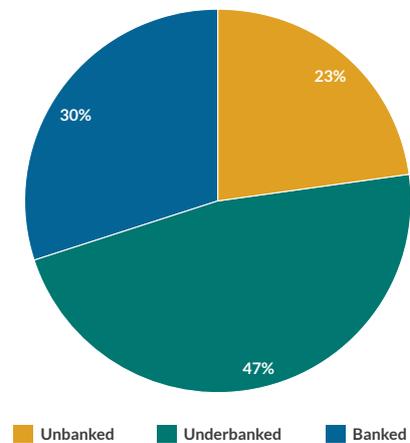
The clear majority of borrowers on Brazilian platforms – 75% - were Banked individuals. The remainder was split up between Underbanked (16%) and Unbanked (9%). This signifies that while there are some individuals utilizing Brazil’s online alternative finance market because they do not have access to traditional financial services, most borrowers in Brazil use online alternative finance as an additional option to their existing finance options.

Brazil Banked Status of Borrowers (%)



Argentina’s distribution of banked status shows an interesting distribution; while 30% of individuals that utilized the platforms for borrowing were identified as Banked, 23% were underbanked. The largest overall categorization, however, was Underbanked at 47%. This likely means that almost one third of the users of online alternative finance in Argentina utilize it to enhance or expand their options. Combined, Unbanked and Underbanked make up 70% of borrowers, clearly implying that online alternative finance is filling a need for additional services in Argentina.

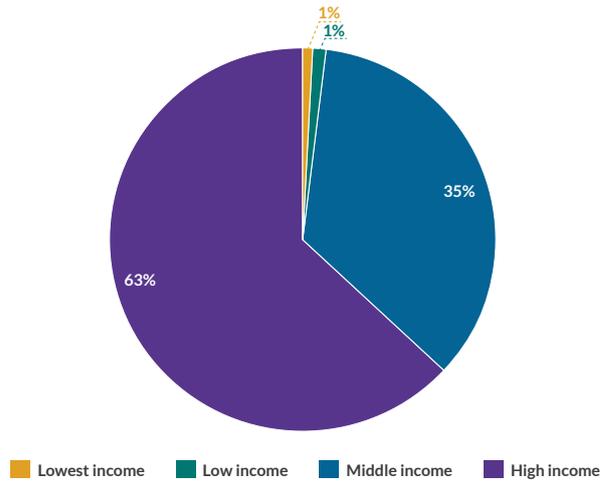
Argentina Banked Status of Borrowers (%)



INCOME STATUS OF FUNDERS

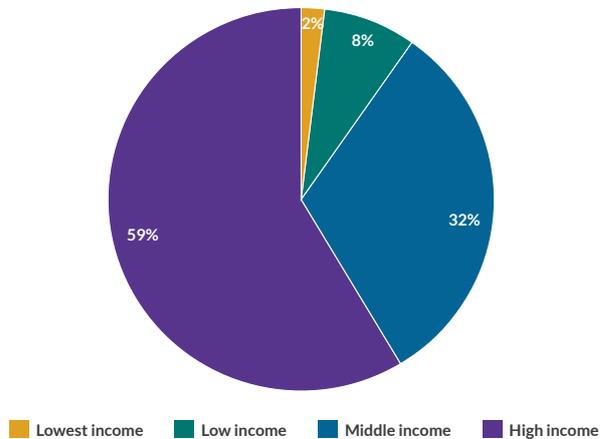
It is also important to examine the income status of funders involved in online alternative finance. This survey gathered data on the income level of funders in the United States, Latin America and the Caribbean as a region, and several key countries within LAC (Mexico, Chile, Brazil, and Argentina). Responses were split, in increasing order, into ‘Lowest Income’, ‘Low Income’, ‘Middle Income’, and ‘High Income’.

USA National Income Categorization by Funder Customerbase (%)



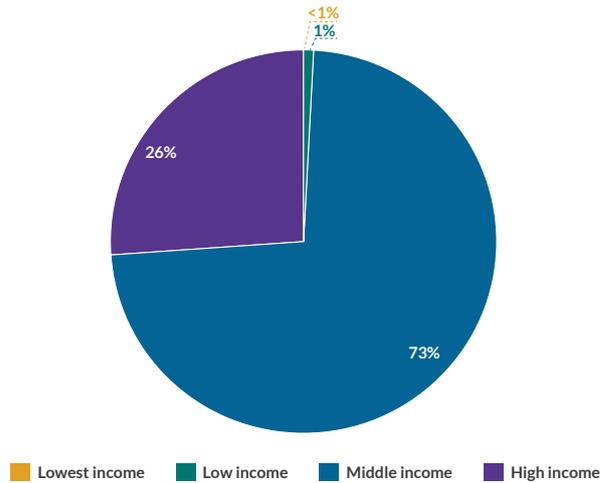
In the US, the clear majority of funders for online alternative finance campaigns were High Income individuals with 63% of the total. Middle Income funders were the next largest group of funders, with 35%. There was very little participation by Low (1%) or Very Low (1%) Income individuals.

LAC National Income Categorization by Funder Customerbase (%)



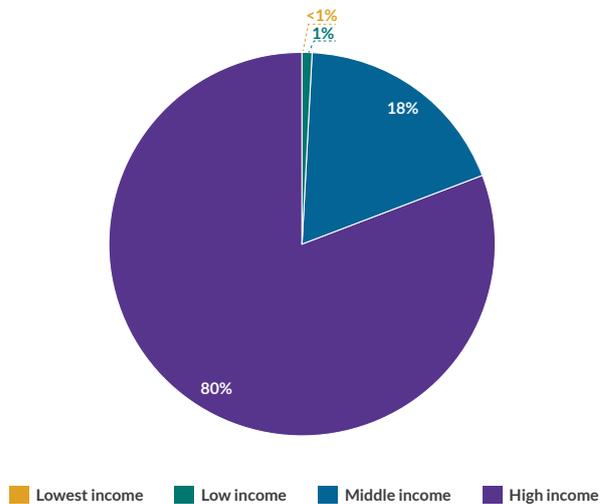
Similar to the United States, LAC as a region had a majority of funders that were identified as High-Income individuals with 59% of the overall total. Compared to the USA though, there were fewer Middle-Income funders (32%) and a higher proportion of Low (8%) or Lowest (2%) Income participants.

Mexico National Income Categorization by Funder Customerbase (%)



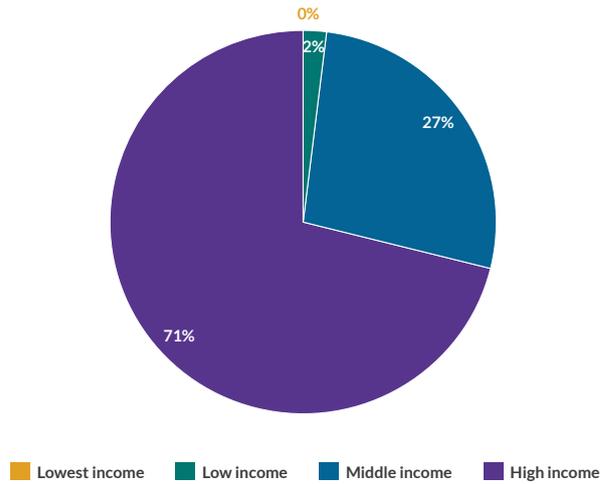
Mexico, in contrast to the overall LAC region, only had 26% of its funders identified as High Income. The overwhelming majority of funders came from Middle Income individuals (73%). There was very little participation by Low (1%) or Very Low (<1%) Income individuals. In general, then, while in the overall region, funders are from a higher income bracket, Mexico's online alternative finance market relies on middle income individuals to finance projects.

Chile National Income Categorization by Funder Customerbase (%)



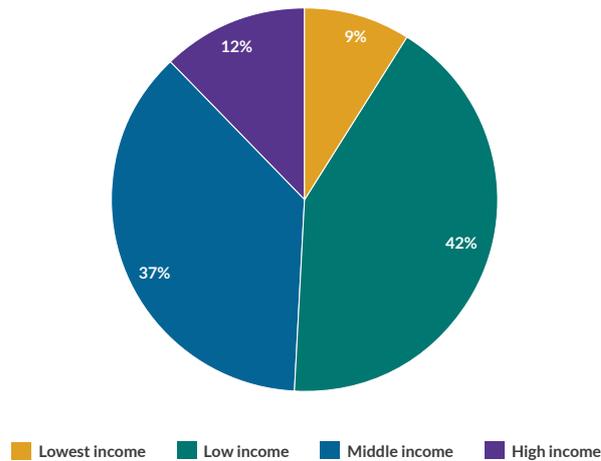
Most of the funders in Chile's online alternative finance space were identified as High Income, with a reported 80% of all funders. Middle Income individuals were a distant second, with 18% of the funders identified as such. Low and Very Low Income matched the same rate as Mexico, with 1% and <1%, respectively.

Brazil National Income Categorization by Funder Customerbase (%)



Similar to Chile, most of Brazil's funders were identified as High Income (71%). Additionally, Brazil had a slightly higher Middle-Income Funder rate at 27%. Low and Very Low Income contributions were also small, with 2% and 0% respectively.

Argentina National Income Categorization by Funder Customerbase (%)



Argentina interestingly had the most diversification across models by income level throughout its online alternative finance market. No single income class had a clear majority, but the largest share of funders (42%) were categorized as Low-Income individuals. The second largest group, Middle-Income individuals, accounted for 37% of funders. High Income individuals only accounted for 12% of the overall funders, while 9% were classified as lowest income.

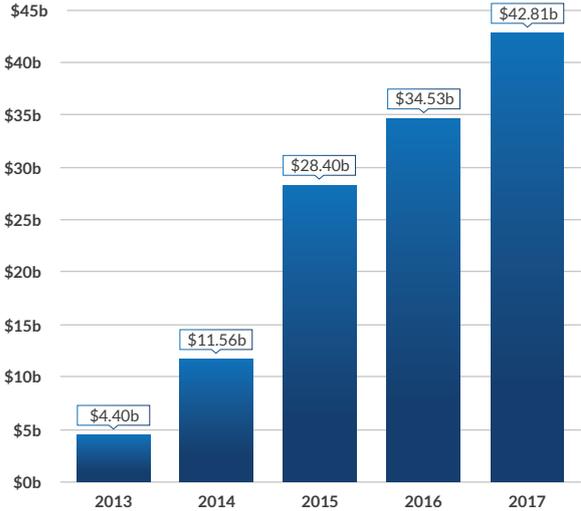
CHAPTER 3: COUNTRY SPECIFIC ANALYSIS

USA

Over the course of 2017, the growth of alternative finance models in the United States (US) has varied widely, with some models growing considerably and others contracting. The USA market, as a whole, grew by 24% to \$42.8 billion. Akin to the 2015 to 2016 year-on-year growth (22%), this steady yet modest growth was driven largely by incumbent Fintech firms rather than new entrants. While a handful of incumbent firms grow within their model category, the survey found that there were far fewer new platforms operating in the United States, with a handful of platforms exiting the alternative finance landscape.

USA Alternative Finance Market Volume, 2013-17 (\$billions)

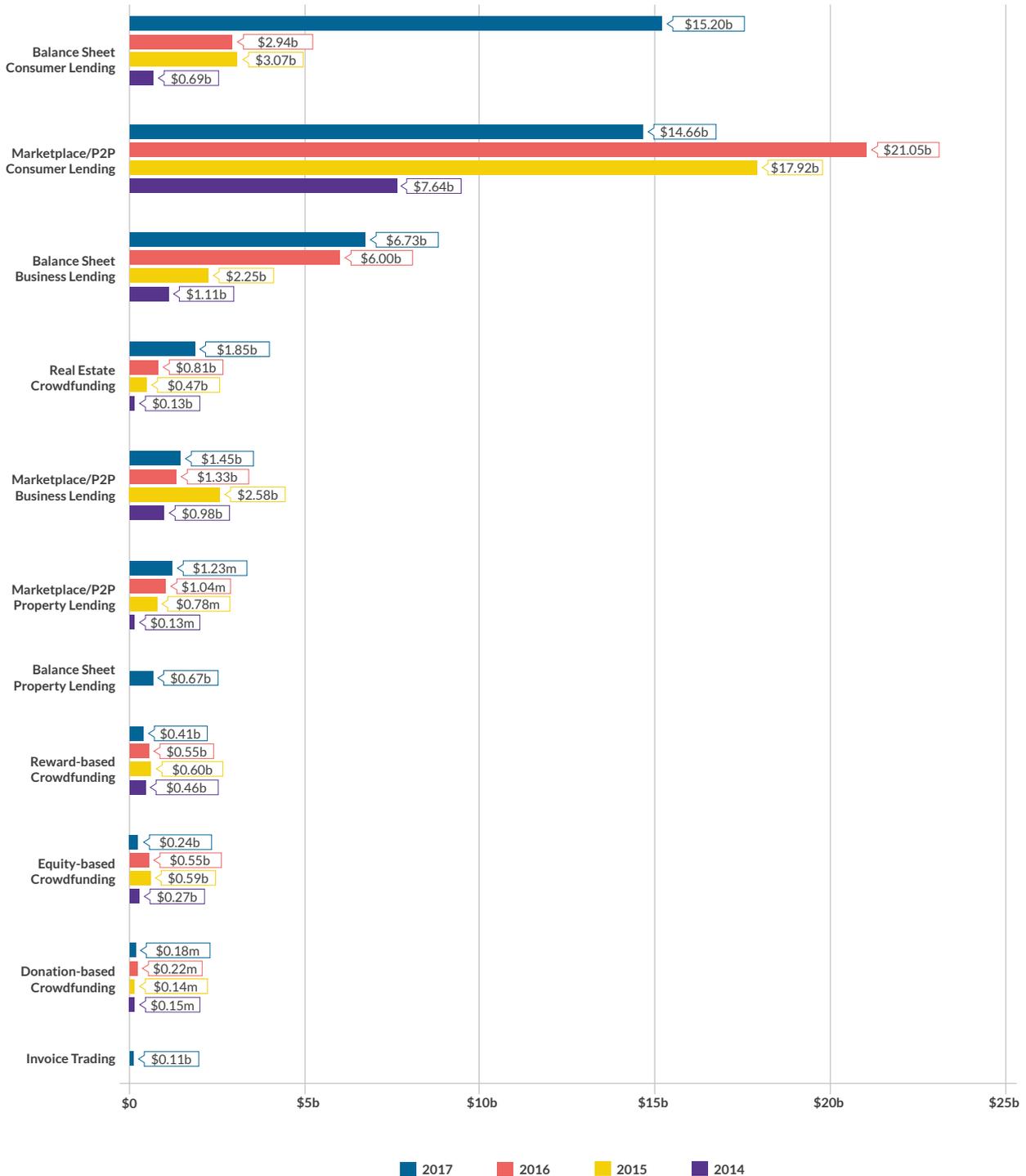
In 2017, Balance Sheet Consumer Lending was the largest model type by volume. This model accounted for 35.5% of the USA market. Overall, Balance Sheet Consumer Lending generated \$15.2 billion compared to the \$2.9 billion it raised in 2016, a significant growth of 417% year-on-year. This model is linked closely to that of the Marketplace/P2P Consumer Lending



model, which in 2016 was the highest contributor to volume. However, in the last year Marketplace/P2P Consumer Lending has experienced the most severe contraction of any model in the US, shrinking by 30%. Its total volume went from \$21 billion in 2016 to \$14.7 billion in 2017. Nevertheless, even with this decline in volume the model still raised the second largest volume in the US. It is significant to note that nearly every Fintech platform operating within the Marketplace model also operated a Balance Sheet model. From 2016 to 2017, these Fintech firms have shifted their model operation away from 'orthodox' marketplace lending activities typically associated with alternative finance, towards balance-sheet driven operations. Therefore, it is important to look at these two models together, to understand the growth of the consumer lending category in a more comprehensive manner. These two models accounted for 70% of the USA market.

After Consumer Lending, the Balance Sheet Business Lending model was the third largest in the US, representing 15.7% of the USA alternative finance market. The total volume for Balance Sheet Business Lending platforms in the USA was \$6.7 billion, up 16% from \$6.0 billion in 2016. Akin to the relationship between the two consumer lending models, there is significant overlap between Fintech firms operating a balance sheet business lending model and a marketplace business lending model.

USA Alternative Finance Market by Model 2014-2017 (\$millions)



Marketplace/P2P Business and Property Lending both grew in 2017. Marketplace/P2P Business Lending grew by 9% from \$1.3 billion to just over \$1.4 billion (with much of firm-level growth derived from the balance sheet operations of a given firm). Marketplace/P2P Property Lending grew by 18% from \$1.0 billion in 2016 to \$1.2 billion in 2017. This year the model taxonomy also included Balance Sheet Property Lending as a separate model, which contributed \$665 million to total volume. The model with the second highest year-on-year growth rate was Real Estate Crowdfunding, which experienced triple digit growth - 129% - and increased from \$807 million in 2016 to \$1.9 billion in 2017.

Equity-based Crowdfunding saw a notable decline in volume in the USA during 2017, falling by 57% against the previous year. This decline is likely related to a significant decline in platform operators, with a loss of nearly 15% of the previous platform panel. It was noted by many of these firms that continued uncertainty around regulation, specifically related to how issuers could be promoted or solicited to accredited and unaccredited investors, made it difficult to support deal flow. Ultimately, many of the firms have shifted to more traditional broker structures or have left the marketplace all together. In 2017, the model raised \$236 million in comparison to the \$549 million raised in 2016.

The non-investment-based models – Reward-based and Donation-based Crowdfunding - also reported a decline in 2017. Reward-based Crowdfunding's overall volume decreased by 26%, generating \$405 million in 2017. Similarly, Donation-based Crowdfunding reported \$178 million in volume, 20% less than the \$224 million it had raised in 2016.

The remaining model types - Invoice Trading, Revenue Sharing, Debt-based Securities, Minibonds, Community Shares and others - contributed only 0.5% to the overall USA volume (\$197 million).

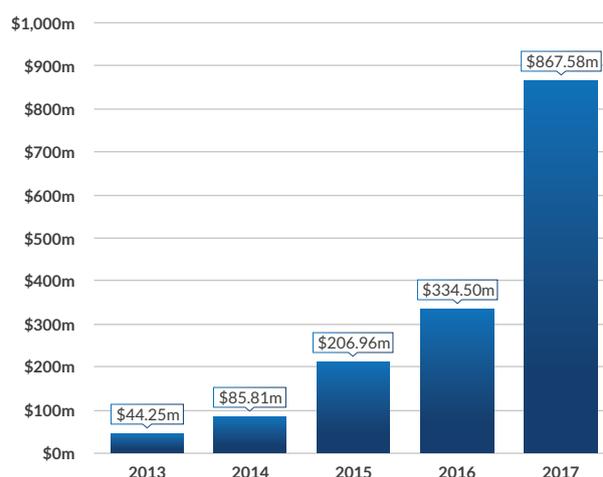
CANADA

Canada's alternative finance market, though at a smaller scale, mirrors many of the market dynamics that characterize the USA with respect to levels of institutionalization and funder sophistication. Yet, despite many similarities at a model level, Canada's alternative finance market was markedly driven in large part by business-focused debt-based models, in particular Balance Sheet Business and Property Lending. The Canadian alternative finance market showed remarkable growth in 2017. Canada experienced considerable growth in 2017, with market volume up 159% from \$334.5 million in 2016 to \$867.6 million in 2017. It is worth noting that 42% of surveyed firms which reported volumes in Canada were primarily headquartered in the United States, thus reflecting the strong cross-border relationship that exists between Fintech firms in these two countries.

Balance Sheet Business Lending now makes up the largest proportion of Canadian alternative finance, accounting for 57% of the market. Overall, this model grew 378% to \$494 million in 2017. Conversely, the more orthodox Marketplace/P2P Business Lending Model shrank 60% against the previous year, from \$22.5 million in 2016 to \$9.1 million in 2017. The model contributed just over 1% to Canada's overall alternative finance volume. Though the model contracted, it is important to note that the firms operating these models are heavily focused on the balance-sheet element of their operations. Therefore, these models should be viewed in unison, given the overlap of firms.

Canada Alternative Finance Market Volume, 2013-17 (\$millions)

While no Balance Sheet Property Lending models in Canada were captured in 2016, this particular model contributed the second largest volume in 2017 - \$116 million – and accounted for 13.3% of Canada’s alternative finance volume. Marketplace/P2P Property Lending grew by 20% and accounted for \$6 million in



2017 compared to \$5 million in 2016. When reviewing the qualitative responses from firms operating in these two models, it was noted that much of these secured loans went to business borrowers and bridging loans to developers or similar entities. Thusly, this model contributed roughly a quarter of overall debt-based business-focused volumes.

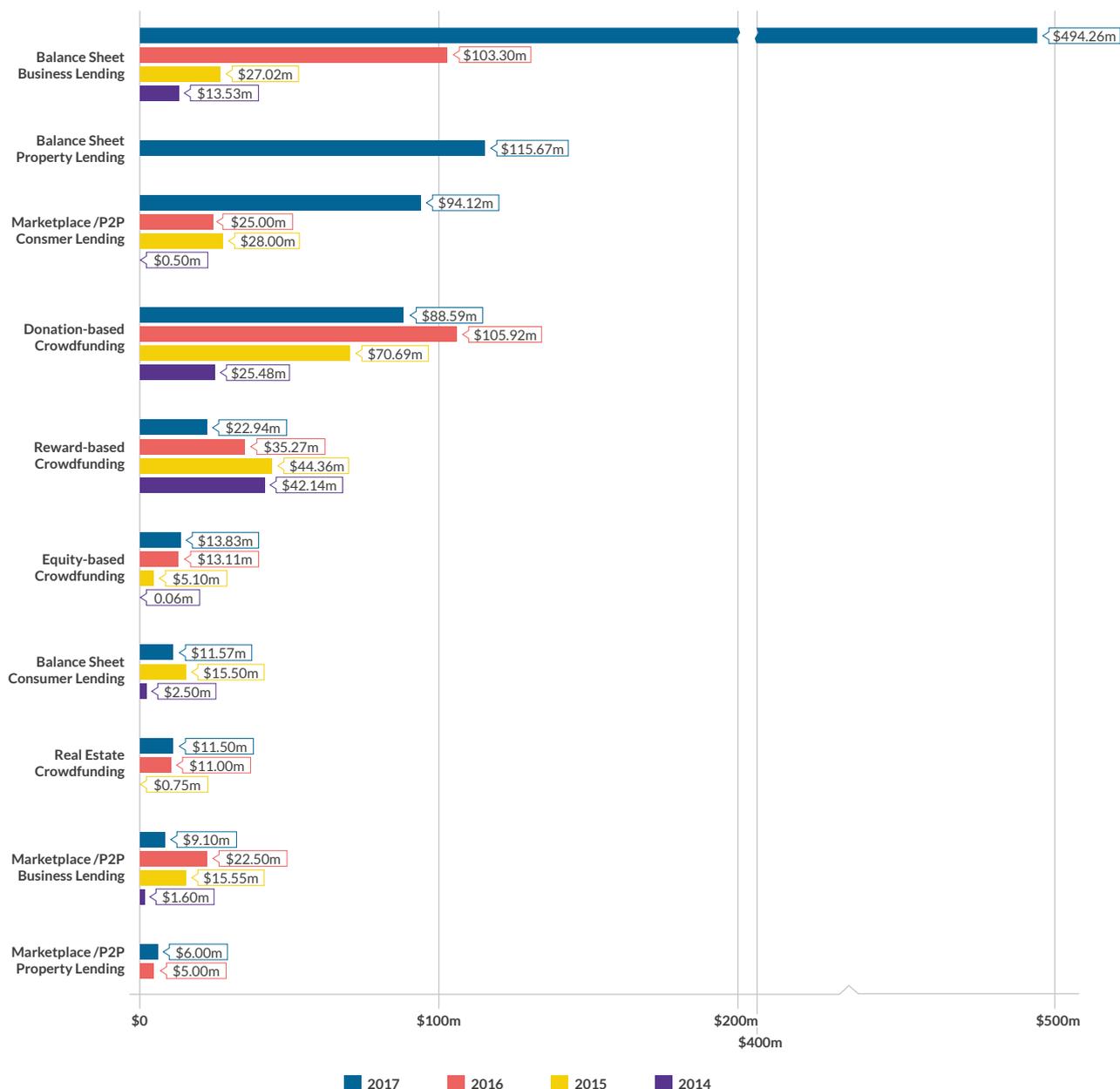
In third place, Marketplace/P2P Consumer Lending grew by 276% from \$25 million in 2016 to \$94 million in 2017. Unlike the United States, where this more traditional alternative finance model has contracted with firms focusing on balance sheet activities, this model dominated the consumer lending space. Unlike the USA, where Balance Sheet Consumer Lending was the leading model, in Canada the model accounted for only 1.3% of Canada’s market, with \$12 million in 2017. Though there was significant overlap of firms between the two models, there was a higher concentration of distinct operators.

Both Real Estate Crowdfunding and Equity-based Crowdfunding grew by 5% in 2017, raising \$11.5 and \$13.8 million, respectively.

Donation-based Crowdfunding accounted for \$89 million in 2017 and made up 10% of Canada’s overall volume. This model was the fourth largest in Canada, despite contracting by 16% in 2017 (from \$105.9 million in 2016). Reward-based Crowdfunding decreased by 35% to \$22 million in 2017 compared to \$35 million in 2016, which represented a 2.6% share of the Canadian market.

One of the key findings from our 2nd Annual Americas report was that Canadian alternative finance was driven by non-investment models (i.e. Reward- and Donation-based models). The market share of non-investment models declined from 43% (in 2016) to 13% in 2017, which indicates that the Canadian alternative finance market is driven by more sophisticated models and marks the start of a more mature and sustainable alternative finance marketplace in future years.

Canada Alternative Finance Market Volume by Model, 2014-2017 (\$millions)

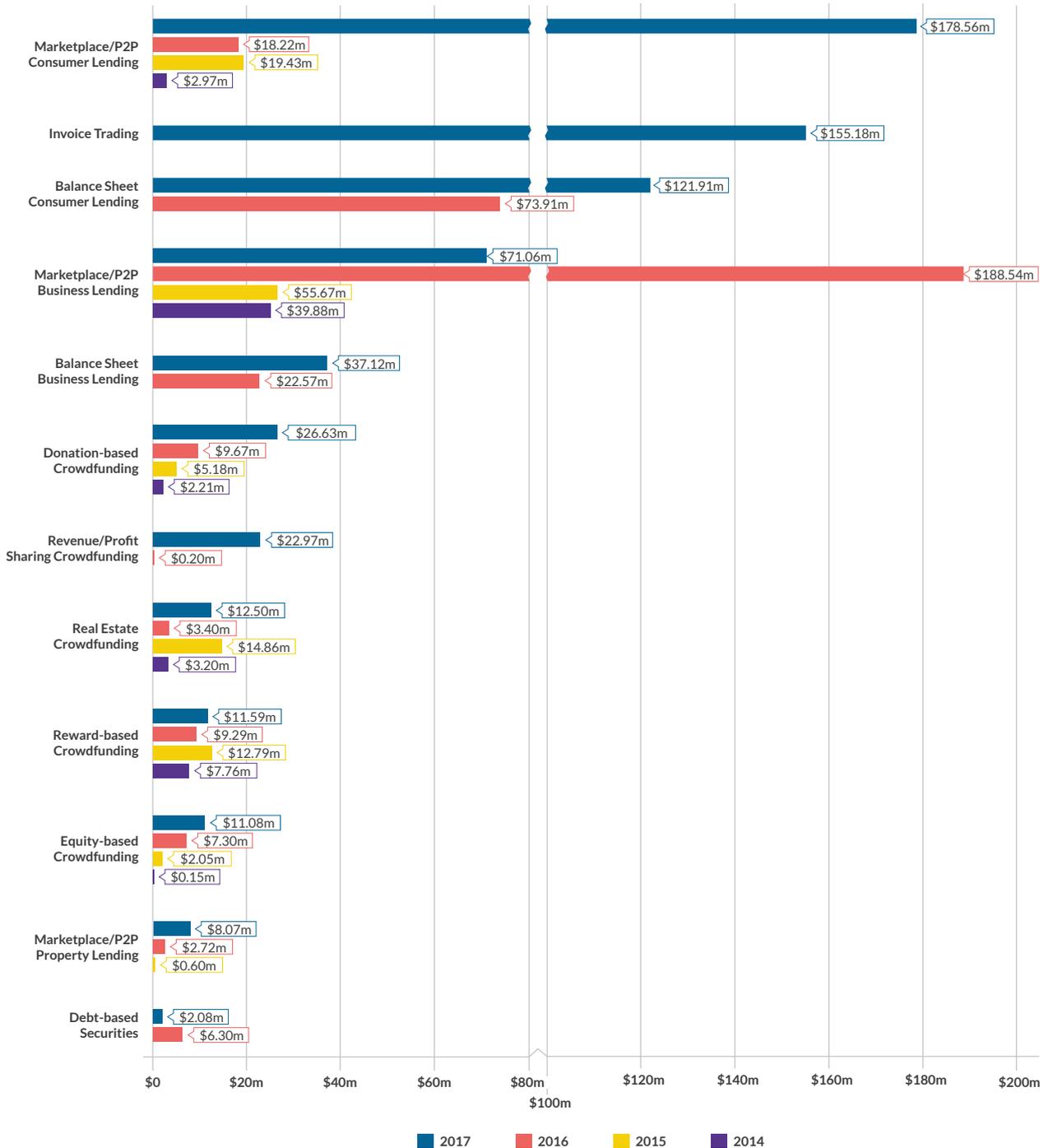


LAC

The Latin America and the Caribbean alternative finance landscape is marked by a variety of models, and an emphasis on business-focused activities. Volumes from 15 different alternative finance models from 35 different countries and territories accounted for \$663 million in 2017. The single largest model was Marketplace/P2P Consumer, which accounted for 27% of the LAC market and experienced exponential growth (880%) - growing from \$18 million in 2016 to 179 million in 2017. Brazil and Mexico were the lead volume drivers for this model. Linked closely to this model due to the considerable overlap of platforms operating both models is Balance Sheet Consumer Lending. In 2017, this model accounted for \$74 million across LAC.

Invoice Trading was the second largest model, with \$155 million. In previous iterations of this study, this model was treated as a sub-segment of Marketplace/P2P Lending, given their considerable similarities and restrictions around data-anonymization which prevented the team from breaking out this model previously. In 2017, the Invoice Trading model (as a unique model) received a sufficiently large and robust sample size to allow US to split this model from the more orthodox alternative finance activities associated with Marketplace/P2P Business Lending.⁶ Chilean-based Fintech firms were the largest contributor this model, accounting for 77% of the market.

LAC Alternative Finance Market Volume by Model, 2014-2017 (\$millions)



Marketplace/P2P Business Lending accounted for \$71 million across LAC. Due to the split from Invoice Trading, this model artificially appears to have contracted. The model remained significant across LAC and was especially important as it appeared as a leading model in emerging alternative finance ecosystems across LAC. In countries which have yet to display a strong alternative finance marketplace, the emergence of this model signals the development of an alternative finance landscape. When coupled with Balance Sheet Business Lending activities (\$37 million), the two models accounted for 16% of the LAC market share.

A relative newcomer to the LAC alternative finance landscape was the Revenue/Profit Sharing Crowdfunding Model. This model allows businesses to issue securities (typically as a share or bond) to retail investors who will share in the profits or royalties of the business. In the span of a year, this model grew considerably, and accounted for \$23 million across LAC.

Equity-based Crowdfunding grew by 52%, from \$7.3 million in 2016 to \$11 million in 2017. This model was most established in Brazil and Mexico.

Real Estate Crowdfunding saw exponential growth, having grown from \$3.4 million in 2016 to \$12.5 million in 2017 (a 268% increase). Marketplace/P2P Property Lending also saw exponential growth (197% from 2016 to 2017) and accounted for \$8 million in 2017.

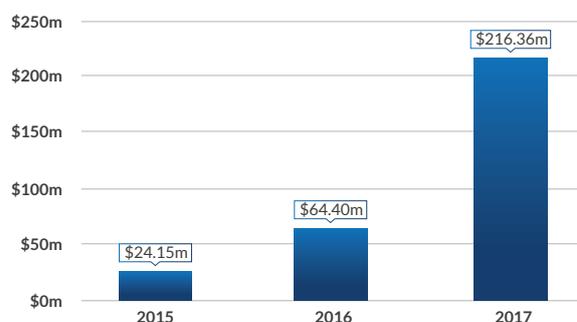
Donation-based and Reward-based Crowdfunding have continued to grow across LAC, especially in countries or territories with relatively new alternative finance ecosystems. More often than not, ecosystems with developed and established non-investment Fintech activities have served as a pre-cursor to attracting more sophisticated models. As such, we were pleased to see that these two models continued to grow within already established markets and have expanded to new and developing marketplaces across LAC. Overall, Donation-based Crowdfunding accounted for \$27 million, while Reward-based Crowdfunding accounted for \$12 million.

BRAZIL

Over the last year, Brazil has experienced impressive growth – rising from the third largest volume in LAC in 2016 to first in 2017, surpassing both Mexico and Chile. In 2017 Brazil accounted for \$216.4 million of total transaction volume, an increase of 236% compared to \$64.4 million in 2016. Brazil accounted for 33% of LAC’s 2017 volume.

Brazil Total Alternative Finance Market Volume 2015-2017 (\$millions)

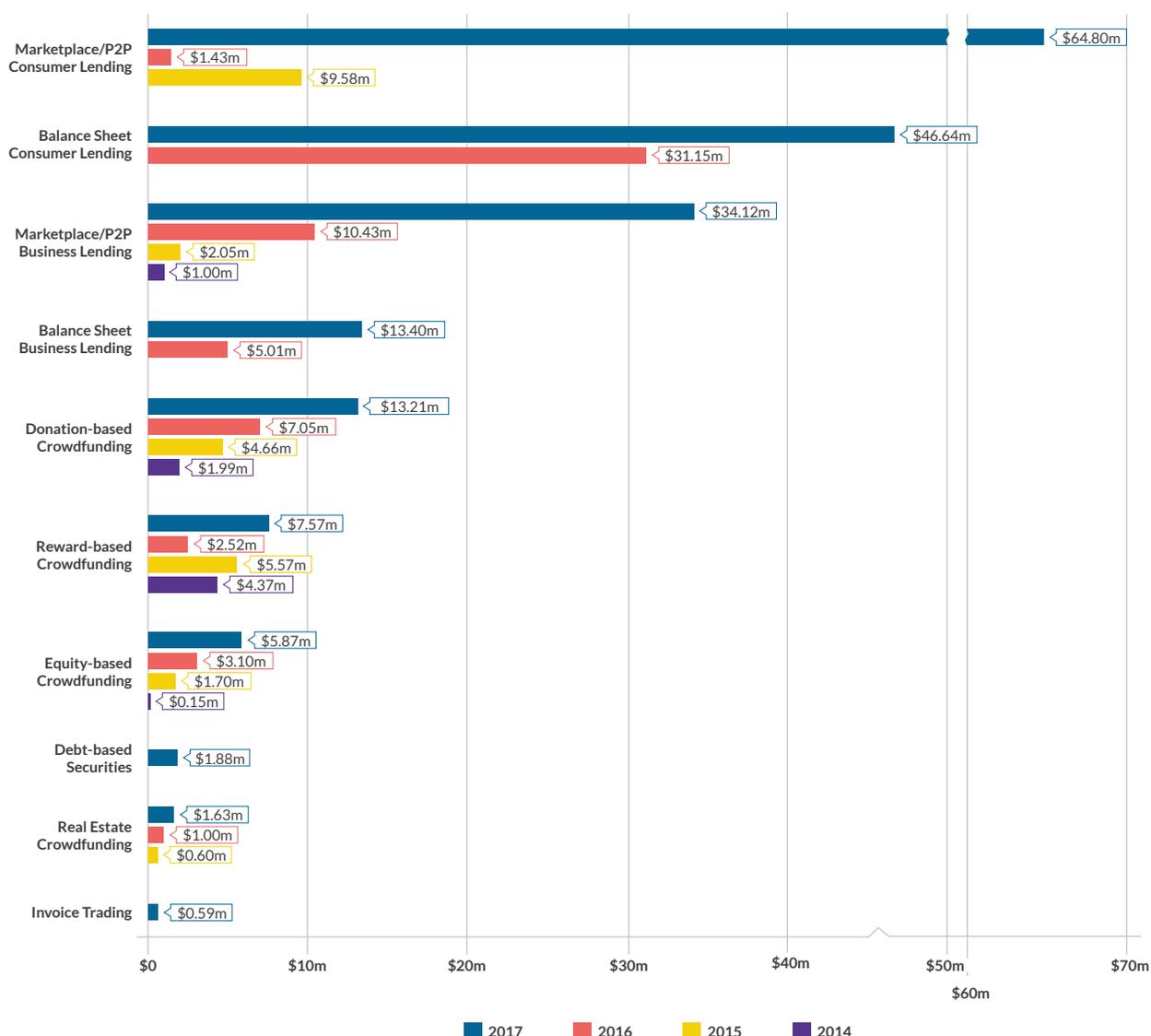
The largest model in Brazil was Marketplace/P2P Consumer Lending. This model grew by an impressive 4,432% in 2017 and accounted for 30% of Brazil’s market share, contributing \$64.8 million to total volume. The 2017 exponential growth is



likely explained by the enactment of new regulation in the Brazilian Fintech market in 2017, which enabled the expansion of existing platforms and the entry of many new platforms, who will likely become strong incumbents in the next year.

Not surprisingly, the second largest model in Brazil was that of Balance Sheet Consumer Lending. This model accounted for 22% of Brazil’s volume, contributing \$46.6 million in 2017. The model grew by 50% against the previous year. Together both consumer lending models accounted for 42% of Brazil’s alternative finance volume. Unlike the USA and Canada, however, Brazilian firms look more like orthodox P2P/Marketplace Lending models, yet to transition towards a greater emphasis on balance sheet models. Nevertheless, the overlap of firms operating both models is significant.

Brazil Alternative Finance Market Volume by Model, 2015-2017 (\$millions)



Marketplace/P2P Business Lending accounted for 15.8% of the market with a total volume of \$34.1 million (up 227%) in 2017. Balance Sheet Business Lending (up 168%) raised a total of \$13.4 million. Though Brazilian alternative finance focused more on consumer lending,

overall the country was second only to Chile in terms of business-focused alternative finance. Micro and small enterprises (MSEs) form an essential part of the Brazilian economy and account for 98.5% of all legally constituted companies. Monetary policy aimed at curtailing inflation has led to interest rates as high as 30.6% for SMEs. This has, as a result, created a lending climate with shrinking demand for new SME loans. Despite their importance to economic growth, SMEs suffer more from credit constraints than larger companies, since they usually have less collateral to secure a loan and are more likely to default than large companies.⁷

While Reward-based Crowdfunding fell by 55% in 2016, it experienced significant growth in 2017, up by 200% and accounted for \$7.6 million to Brazil's total volume. Donation-based Crowdfunding accounted for 6.1% to the market and had a total volume of \$13.2 million in 2017 (up 87%).



Platforms are Warming Up their Engines in Brazil

FinTech Brasil, Paulo Deitos

In 2012, the CVM (Brazil's Securities and Exchange Commission) held its first meeting to discuss the subject of Crowdfunding - a topic that was relatively unknown at the time. At that point, there was only one English platform operating throughout the world, but the responsiveness of the regulator was always very perceptible. From the start, their regulator showed interest in understanding the sector in order to help develop this newborn market.

The alternative finance market in Brazil really began to develop in 2013 when the first platform for investment was launched. Throughout 2013 to 2017, the market continued to develop, regulators started to understand the sector and create regulations to control the market's growth. In July 2017, the CVM (Brazil's Securities and Exchange Commission) launched regulation number 588, which allowed crowdfunding platforms more freedom to increase the speed of their growth. As a result, in the six months following, platforms grew up to three times what they had grown in the previous three years combined. In April of 2018, the Brazilian Central Bank enacted regulations for Marketplace/P2P Lending, which has also had a similar effect of accelerating the operations of this model.

This is an exciting moment in Brazil, one where the market is regulated and recognizing new fintech platforms. Going forward, the market will continue to grow well past 2017's figures. Additionally, this situation is also excellent for improving Brazil's economy, as it brings more financial alternatives to small businesses to support their operations with the lower rates than offered by the traditional market.

Angel investing is relatively new in Brazil and the network is still in its infancy. As of 2013, Brazil had more than 6500 angel investors. By 2016 there were 7070 angel investors, whose investment totaled BRL 851 million.⁸ Equity-based Crowdfunding raised \$5.9 million of total volume in 2017 (up 89%). Real Estate Crowdfunding raised \$1.6 million in 2017 (up 63%). Both of these models grew at similar rates to their 2015-2016 growth, driven primarily by a small number of incumbent

firms in Brazil, rather than new entrants. Thus, we anticipate that these two models will likely to continue to grow steadily in the coming year.

For the first time there was enough data from Debt-based Securities platforms to report their contribution to the sector. Overall, these platforms raised \$1.9 million and represented 0.9% Brazil's overall market in 2017. In contrast to 2016, there was not enough data to report Marketplace/P2P Property Lending. Additionally, while in previous years, Invoice Trading data had been included as a component of P2P Business Lending, enough data was collected in 2017 to report it as a distinct model. In 2017, Invoice Trading raised \$0.6 million in total volume, representing 0.3% of the Brazilian market.

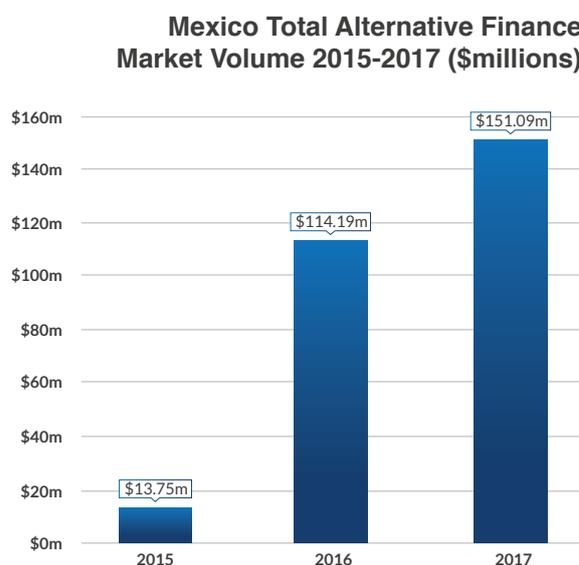
All of the models identified in the Brazilian alternative finance marketplace grew in 2017, thus highlighting the disruptive impact of the alternative finance market to the Brazilian economy

MEXICO

In 2016, Mexico had constituted the largest share of Latin American alternative finance. Yet, in 2017, Mexico fell to second place after Brazil with \$151.1 million in total volume. Chile also closely trailed Mexico's total volume, separated by less than \$1 million in volume. Mexico's annual growth rate this year decreased from last year's record 730% to 32%. Despite slower growth, it is important to note that the breakdown of Mexican alternative finance models has broadened, with more sophisticated models driving Mexican volumes. With the advent of a new Fintech law, the research team also observed markers that suggest the start of market consolidation. A handful of platforms have become market leaders, increasing their market-share considerably, while other previous platform respondents have left the alternative finance space. This trajectory mirrors developments that we have observed in other markets that have more developed alternative finance ecosystems. In 2017, Mexico accounted for 23% of total LAC market volume.

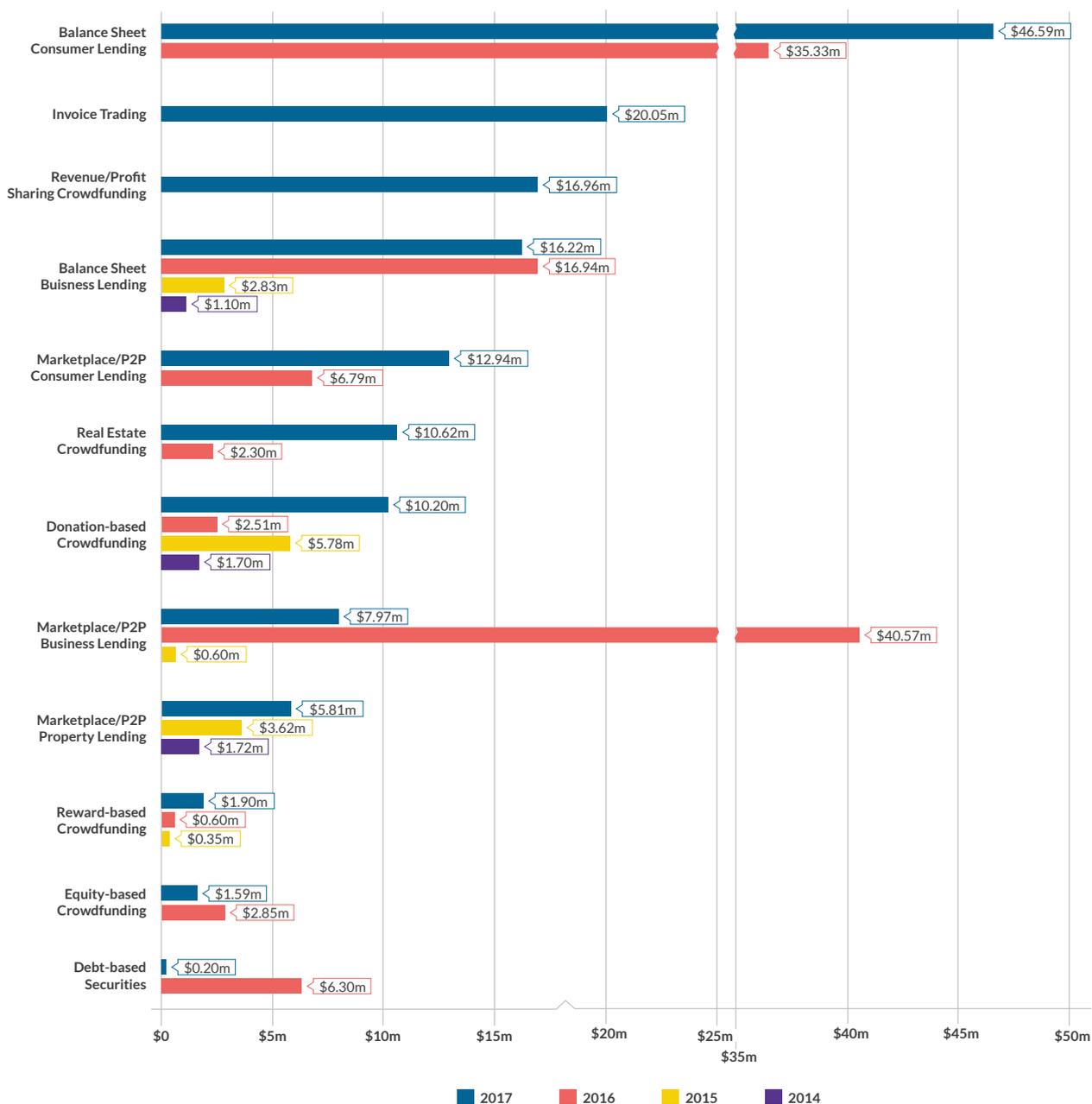
The single largest model in the Mexican alternative finance market in 2017 was Balance Sheet Consumer Lending, which maintained stable annual growth of 32%, rising to \$46.6 million. The model is responsible for 45% of Mexico's overall volume. The Marketplace/P2P Consumer Lending model, though considerably smaller than its balance sheet counterpart, grew by 90% in 2017, from \$6.8 million in 2016 to \$13

million. The second largest model was Invoice Trading, accounting for 20% market share and a volume of \$20 million. This model is very closely linked to that of Marketplace/P2P Business Lending, as it was previously treated as a sub-segment of the model. In this case, the Fintech firms that responded to the survey as Invoice



Trading platforms indicated this model as their primary or exclusive model, with minimal overlap with the more orthodox P2P/Marketplace Business Lending or Balance Sheet Business Lending models. As such, this split results in an artificial annual decrease as related to the Marketplace/P2P Business Lending model. In 2017, this model delivered \$8 million to small and medium-sized business borrowers, mostly as unsecured loans. The Balance Sheet Business Lending model remained steady in 2017, accounting for \$16.3 million. In the case of these platform respondents, there was considerable overlap between the two models. These three models cater exclusively to business borrowers, and in particular small and medium-sized businesses. Together, these models accounted for 42% of Mexico's volumes.

Mexico Alternative Finance Market Volume by Model, 2014-2017 (\$millions)



While there was no reported activity in the Mexican market in 2016, the Revenue/Profit Sharing Crowdfunding model became a major model in 2017, accounting for \$16.9 million in 2017 – capturing a 16% market share of Mexico’s alternative finance landscape. Mexican Revenue/Profit Sharing activity made up 74% of the total (\$23 million) generated by this model throughout LAC in that year.

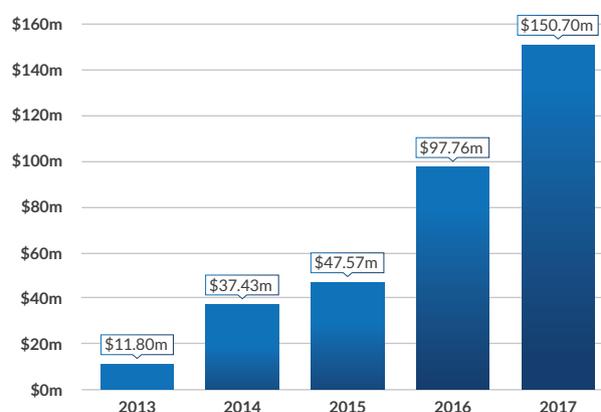
Real Estate Crowdfunding and Donation-based Crowdfunding both experienced rapid growth in 2017, with Real Estate Crowdfunding increasing by 362% from 2016’s \$2.3 million to \$10.6 million. This growth was driven primarily by larger deal-sizes, and greater deal origination from existing platforms, rather than new entrants. Donation-based Crowdfunding grew by 307%, from \$2.5 to \$10 million. The Equity-based Crowdfunding and Debt-based Securities models both contracted in 2017, with the equity model dropping by 44% and accounting for \$1.6 million. When reviewing qualitative comments from firms responding to the survey, it was clear that this reduction is related more to operational shifts, while platforms adjust to new regulation and supervision. We expect that this model will grow considerably in 2018, as incumbent firms have indicated considerable new deal origination which does not appear in the 2017 results.

CHILE

In 2017, Chile was the third largest market in LAC, following Brazil and trailing closely behind Mexico. Growing by 54%, Chile’s alternative finance volume was \$151 million. Chile’s alternative finance marketplace was marked by its lead position in terms of business funding. In fact, 27% percent of all business-focused funding in LAC came from Chile.

Invoice Trading was the largest model in the Chilean market, amounting to \$119 million, and represented 79% of Chile’s total volume. As discussed in the Mexican analysis, this model has been split out from the Marketplace/P2P Business lending model to more accurately benchmark the Chilean business-funding landscape.⁹

Chile Total Alternative Finance Market Volume 2013-2017 (\$millions)

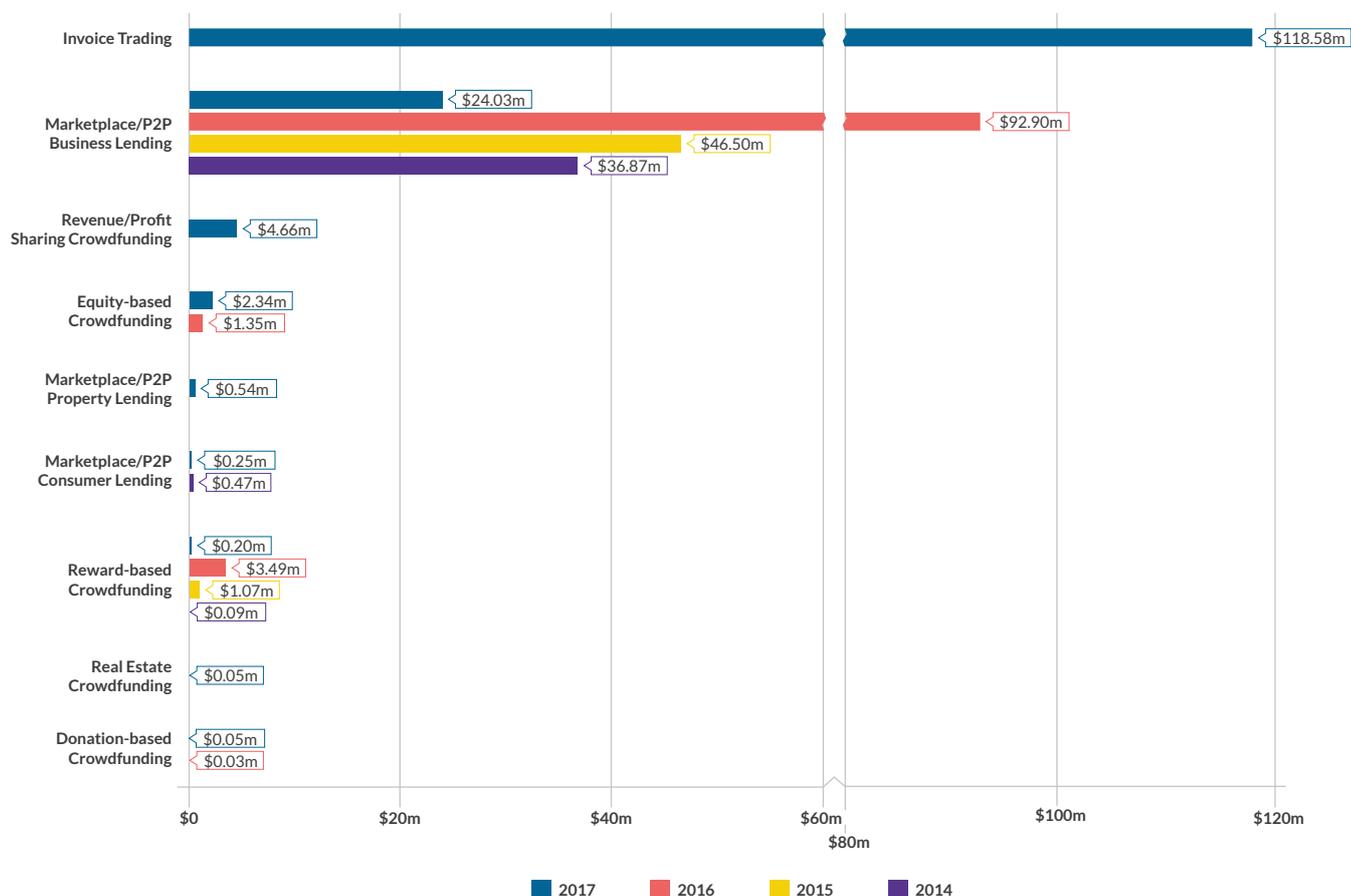


Accordingly, Marketplace/P2P Business Lending, of which incorporated Invoice Trading in its volume in previous years, has artificially shrank to \$24 million. Yet, when we correct the 2016 figure to isolate volumes attributed to the orthodox Marketplace/P2P Business Lending model, we see that the model actually grew 60% from \$15 million to \$24 million.

Other significant increases were seen in Revenue/Profit Sharing Crowdfunding which now stands at \$4.7 million or 3.1% of total volume. Equity-based Crowdfunding saw a 74% increase to \$2.3 million, while Donation-based Crowdfunding grew at an 87% rate to \$50,000. These are both in line with the overall trend in the region, which saw Equity-

based Crowdfunding spike 52% to \$11 million and Donation-based Crowdfunding increase 175% to \$27 million. Finally, Reward-based Crowdfunding in Chile decreased by 94% to \$0.2 million.

Chile Alternative Finance Market Volume by Model, 2016-2017 (\$millions)

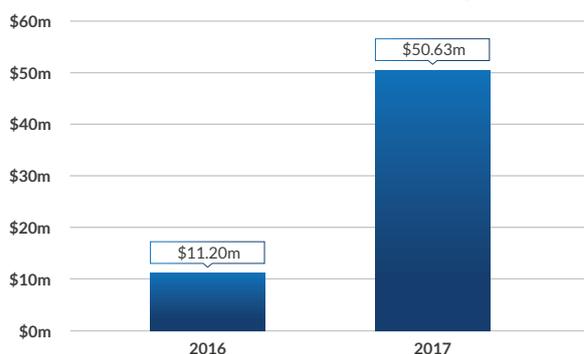


COLOMBIA

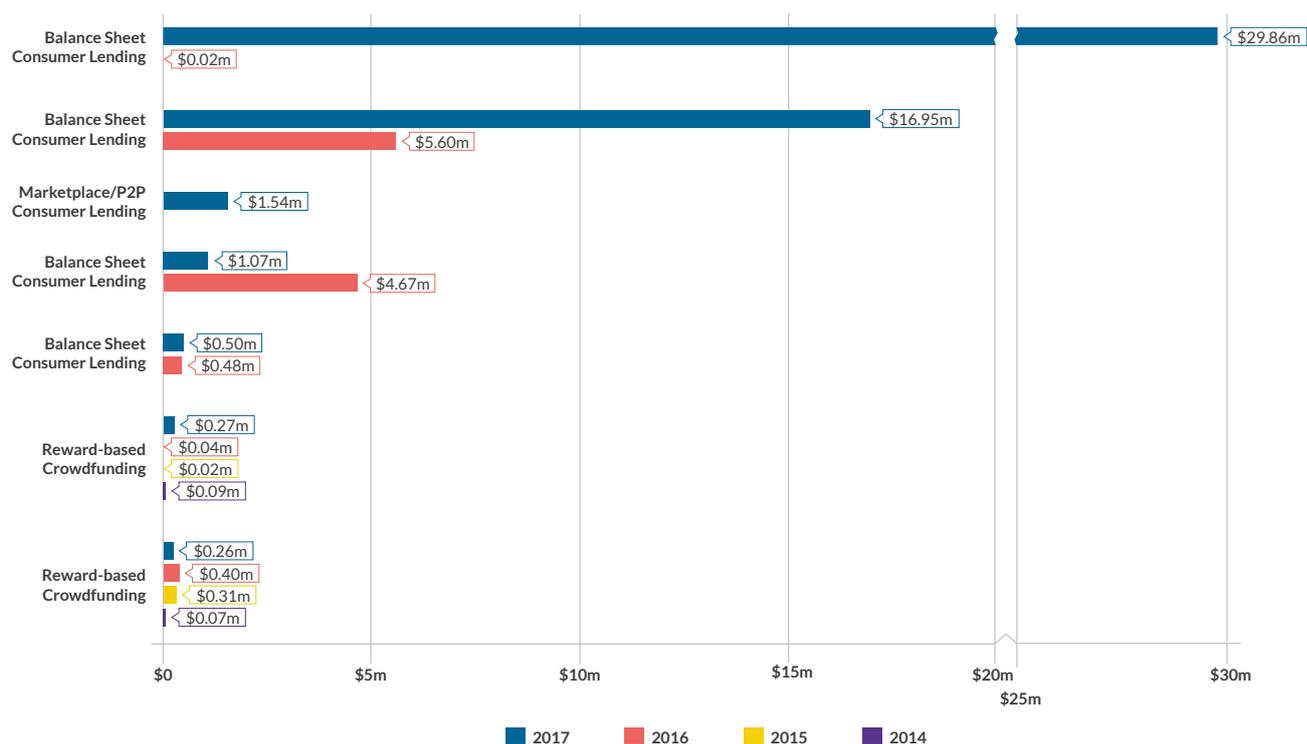
Though the Colombian alternative finance market could not maintain its astounding 2016 growth rate of 3,257%, it still saw an impressive 353% growth rate rising to \$50.6 million and making it the fourth largest LAC market in 2017. In 2016 the two largest contributors to that growth were

Balance Sheet Consumer Lending and Marketplace/P2P Business Lending, with volumes at \$5.6 million and \$4.7 million, respectively. The former has since increased at 203% to \$17 million, while the latter saw a contraction of 77% to \$1 million. Of course, a significant portion of Marketplace/P2P Business Lending volume was lost due to the separation of Invoice Trading, which accounted for \$1.5 million in 2017.

Colombia Total Alternative Finance Market Volume 2016-2017 (\$millions)



Colombia Alternative Finance Market Volume by Model, 2016-2017 (\$millions)

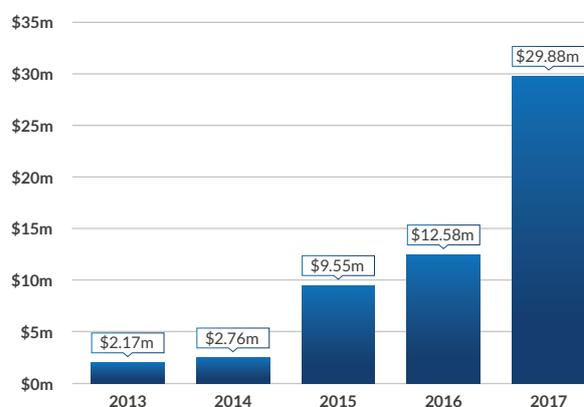


The single largest model this year, which gathered very little data in previous reports, was Marketplace/P2P Consumer Lending, which raised a total of \$30 million and accounted for 59% of the Chilean alternative finance market volume. This was also in line with overall development in the LAC market, which saw this model increase 880% year-on-year. While Reward-based Crowdfunding played a larger role in previous years, its overall volume fell by 94% from \$3.5 million in 2016 to \$0.2 million in 2017. Donation-based Crowdfunding, on the other hand, increased by 87% to \$0.05 million.

ARGENTINA

The Argentinian alternative finance market grew substantially at 137% between 2016 and 2017. Though the market's growth slowed between 2015 and 2016, it has still maintained an average growth rate of 101% between 2013 and 2017. In 2017, Argentina's market accounted for \$30 million of total transaction volume in LAC. The largest

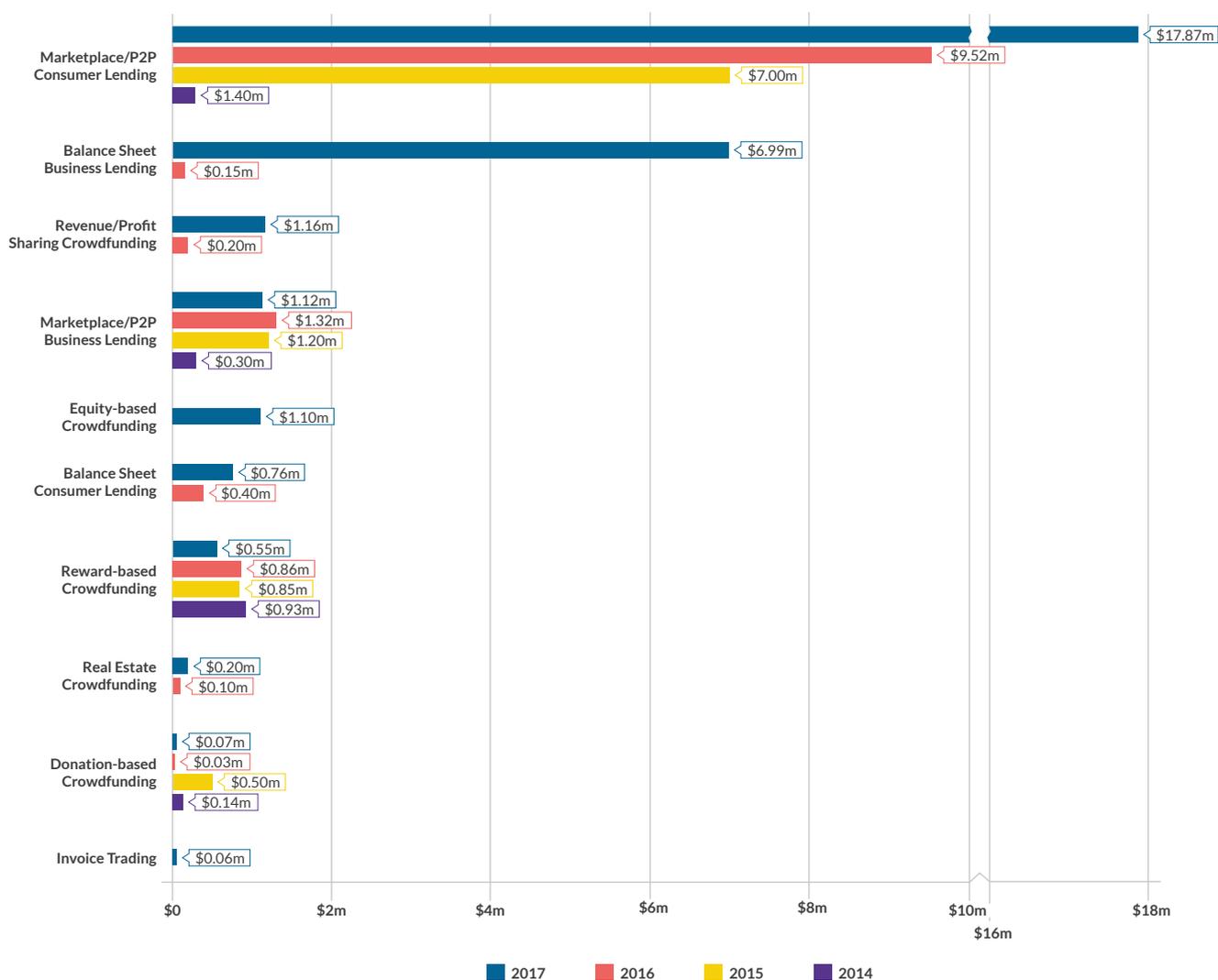
Argentina Total Alternative Finance Market Volume 2013-2017 (\$millions)



contribution to this continued to be Marketplace/P2P Consumer Lending. Overall, this model raised \$17.9 million, growing 80% from 2016. This model represented 60% of the overall Argentinian market, a slight decrease from its 76% market share in 2016.

The second-largest model in Argentina was Balance Sheet Business Lending, which grew an impressive 4,560%, from a modest \$0.15 million in 2016 to \$6.99 million in 2017. This represented 23.4% of Argentina's total market. Revenue Sharing/Profit Sharing Crowdfunding was the third-largest model in Argentina, accounting for \$1.16 million of transaction volume - an increase of 481% from 2016. Marketplace/P2P Business Lending decreased by 15% in 2017, raising \$1.12 million. Equity-based Crowdfunding was recorded for the first time and accounted for 3.7% of the market with \$1.1 million raised in 2017. Balance Sheet Consumer Lending grew 89% to \$0.76 million. Real Estate Crowdfunding grew 100% in 2017, accounting for \$0.20 million.

Argentina Alternative Finance Market Volume by Model, 2016-2017 (\$millions)



While Donation-based Crowdfunding grew by 113% in 2017, this was only a modest \$0.07 million. Additionally, Reward-based Crowdfunding decreased by 35% and accounted for \$0.55 million, shrinking its share of the Argentinian market from 7% in 2016 to 1.9% in 2017. Finally, Invoice Trading was reported for the first time, and accounted for \$0.06 million and making up 0.2% of the market.

PERU

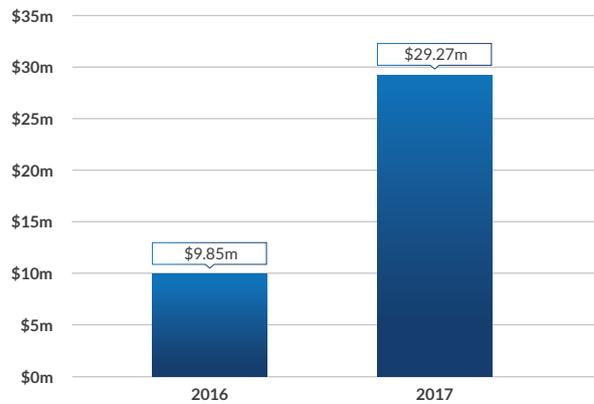
Peru's Alternative Finance Market grew by 197% over the last year, with a total transaction volume of \$29.27 million.

In 2017, the research team was able to capture 10 distinct models active in the Peruvian market. In comparison, Peru only had four model types in 2016. Overall, the largest model was Marketplace/P2P Consumer Lending which raised \$15.4 million in 2017, a significant increase compared to the \$3,045 in 2016 (up 500,375%). This

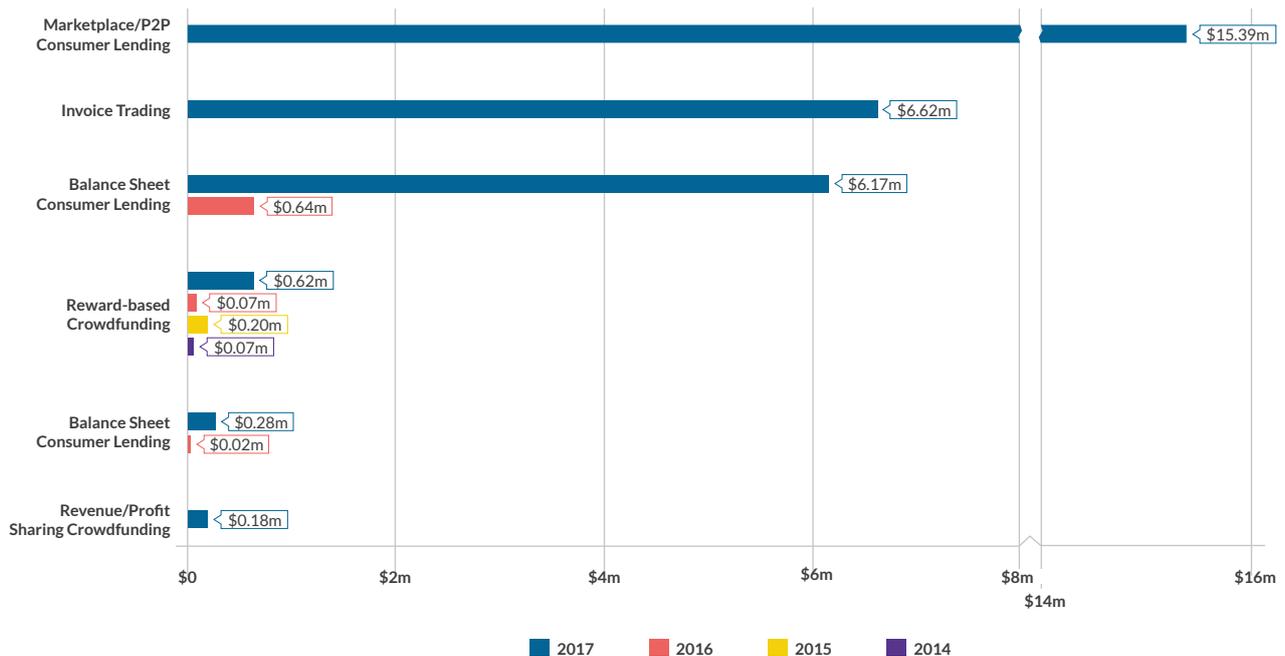
represented 52.6% of the overall Peruvian market. The next largest model was Invoice Trading, which accounted for \$6.6 million and represented a proportion of 22.6% of the market.

Balance Sheet Consumer Lending raised a total of \$6.62 million in 2017, an increase of 871%. This year was the first year its volume surpassed a million dollars. Overall this represented 21.1% of the total Peruvian alternative finance market. Reward-based Crowdfunding grew by 757% in 2017 raising \$0.62 million. This contrasts to the preceding year in which volume fell by 64%. Donation-based Crowdfunding accounted for \$0.28 million in 2017 (up 1,310%). Finally, Revenue Sharing/Profit Sharing Crowdfunding, a model that before 2017 had not yet been represented in the Peruvian market, raised \$0.18 million.

Peru Total Alternative Finance Market Volume 2016-2017 (\$millions)



Peru Alternative Finance Market Volume by Model, 2016-2017 (\$millions)



CHAPTER 4: RISKS AND REGULATION

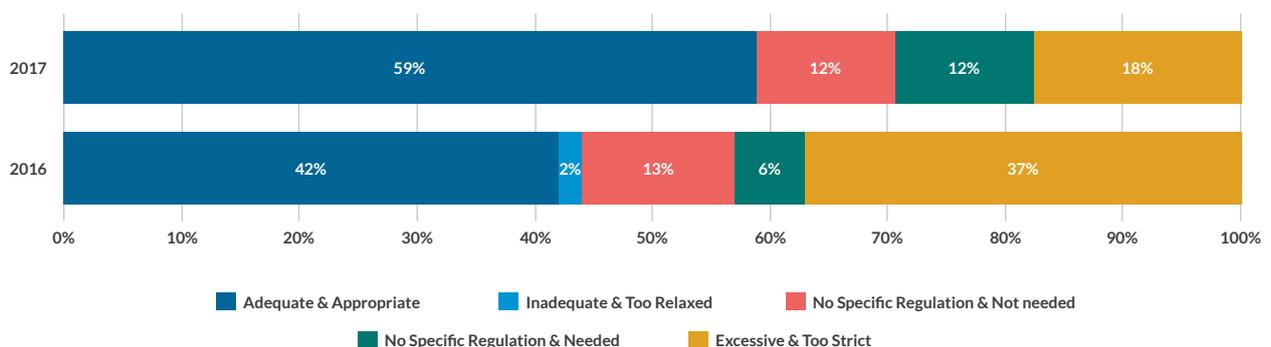
PERCEPTION TOWARDS REGULATION

As in last year's report, this year's survey included questions that sought to understand how platforms across the sector perceived regulations in their jurisdiction. For the purposes of this analysis, platforms were divided by type - loan-based or investment-based.¹⁰ As can be expected, platforms throughout the Americas have a diversity of opinions regarding existing regulations in their respective country of domicile.

USA PERCEPTIONS TOWARDS EXISTING REGULATION

Overall perceptions towards regulation in the USA have changed notably over the last year. First, 59% of loan-based platforms view existing regulation to be Adequate and Appropriate compared to 42% in 2016. None of the platforms perceived regulation to be inadequate or too relaxed. Conversely, 18% of the loan-based platforms in the USA see existing regulations to be Excessive and Too Strict. Between 2016 and 2017, a shift in opinion appears to have occurred - given the percentage of platforms that saw existing regulation to be too strict in 2016 was 37% - which is more than double this year's figure. Additionally, 24% of platforms believed that there was No Specific Regulation for their model-type, but their thoughts on how this should change moving forward were equally split between needing to be regulated (12%) and not needing any regulation at all (12%). Interestingly, the number of platforms that were not regulated, but thought that they needed to be, doubled in 2017 from 6% to 12%. Overall, it appears that loan-based platforms are increasingly viewing regulation to be Adequate and Appropriate for their sector.

Perceptions towards Regulation - Loan-based Models (2016-2017) USA

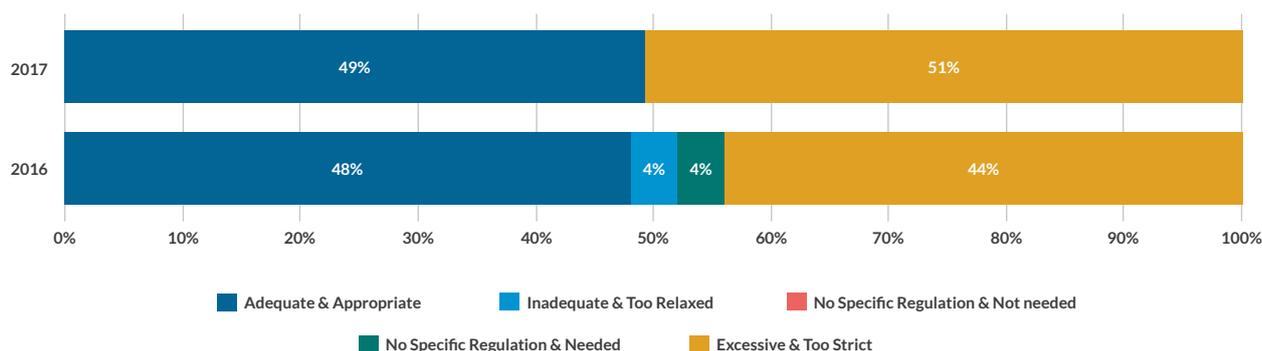


Investment-based platforms were clearly divided on their perception of regulation in 2017. Half of all platforms saw regulation as Excessive and Too Strict, while the other half believed that their regulations were Adequate and Appropriate. Overall though, for both loan and investment-based platforms, at least 50% perceived regulations to be Adequate and Appropriate.

For the overall US-based dataset, 76% of platforms were authorized and licensed to operate in their jurisdiction, while 6% were unauthorized but maintained a relationship with another licensed firm to cover their operations. Eighteen percent of firms indicated that regulatory authority was not required for their business activities.

All US-based platforms were also asked to indicate which title of the JOBS act their platform operated under in 2017. Though 34% of firms indicated that there was no applicable title with respect to their platform activities, 27% of firms fell under title II (Reg D), followed by 25% under Title III (Reg CF), then 7% under Title IV (Reg A+ Tier 2), 5% under Title IV (Reg A+ Tier 1) and 2% denoted 'Other'.

Perception towards Regulation - Investment-based Models (2016-2017) USA

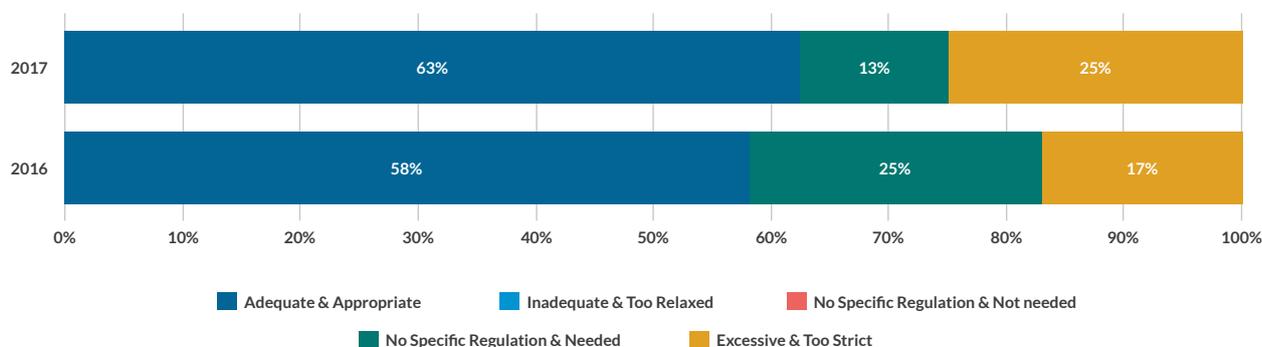


Given the significant volume decrease and platform flight from Equity-based Crowdfunding in this year's data-set, coupled with the significantly divided perceptions towards regulation, the research team wanted to understand the breakdown of the JOBS act with respect to firms operating this model. Forty-five percent of firms operated under Title III, followed by 30% under Title II, 12.5% under Title IV (Tier 1) and 12.5% under Title IV (Tier 2).

Finally, USA based firms budgeted approximately 6% of their budget towards obtaining authorization and regulatory scoping, and about 6% of their budget towards ongoing compliance.

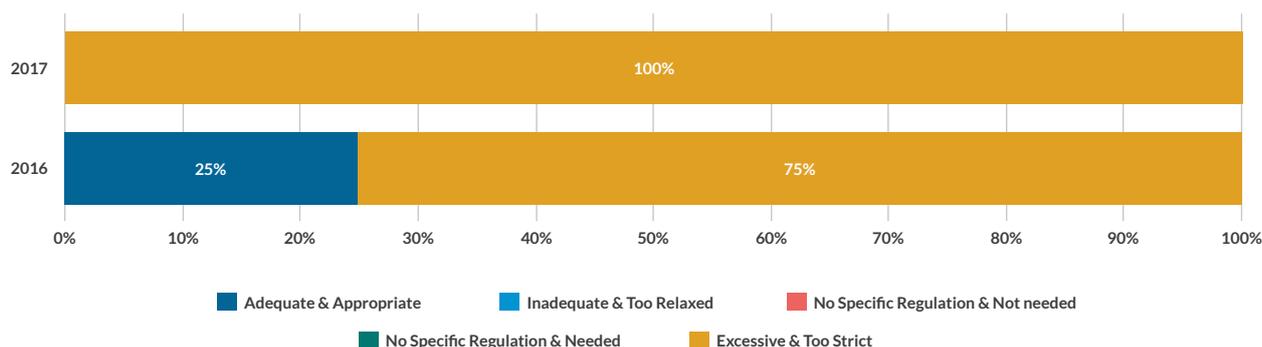
CANADIAN PERCEPTIONS TOWARDS EXISTING REGULATION

Perceptions towards Regulation - Loan-based Models (2016-2017) Canada



There was once again a stark difference in perceptions towards existing regulations between loan-based and investment-based models among Canadian platforms, though noticeable changes seem to also have taken place in each segment of the market. For Loan-based Models, the percentage of respondents that considered existing regulation as Adequate and Appropriate increased from 58% in 2016 to 63% in 2017, while the share of responses stating that No Specific Regulation was needed shrank from 25% to 13%. However, the share of respondents considering existing regulation Excessive and Too Strict also increased from 17% in 2016 to 25% in 2017.

Perception towards Regulation - Investment-based Models (2016-2017) Canada



Interestingly, for Investment-based Models, 100% of this year’s respondents considered existing regulation to be Excessive and Too Strict. In 2016, while 75% of platforms viewed regulation to be Excessive and Too Strict, 25% considered it Adequate and Appropriate.

With respect to platform authorization, 68% of Canadian firms were authorized by their regulator, while 32% indicated that no specific regulatory authorization was required for their operations. Firms dedicated approximately 9% of their budget towards authorization/regulatory scoping, and a significant 17% for ongoing compliance costs.

REGULATION IN LATIN AMERICA

Contributed Author: Diego Herrera - Financial Markets Lead Specialist, Inter-American Development Bank

The growth of alternative finance in the region shows how, in some of the LAC jurisdictions, the vertical is large enough to call the attention of policymakers and regulators. The former is now seeing alternative finance as a tool to increase the levels of financial inclusion and to fill some of the financing gaps, mainly for businesses. The latter understand the need of regulating a sector that touches at least one or more of the objectives of: (i) Protecting the financial consumers, (ii) protecting competition and transparency and, (iii) mitigating idiosyncratic or systemic risks that might affect financial stability. In particular, as explained later, all of the existing regulations in the region include or are specialized in creating rules for the crowdfunding platforms. The main development over the last year is the transition towards regulation for the Fintech industry.

Governments – many with the support of international institutions, such as IDB¹¹ – have issued or are in the track of issuing, specific regulations for Fintech and alternative finance. For instance, the National Banking and Securities Commission (CNBV) and the Ministry of Finance and Public Credit of Mexico issued a Fintech Law which specifically includes crowdfunding as one of four Fintech types of businesses regulated.¹² On the other hand, the National Securities Commission (CNV) in Argentina issued a General Resolution on crowdfunding within the framework of the Law on Production.¹³ Similar regulations were published by Brazil¹⁴ and Colombia, with the specific intention of creating rules for alternative finance. Finally, Chile has recently announced its intention of regulating the crowdfunding ecosystem, given its size.

Regulation in Latin America and the Caribbean is not an easy task, mainly due to the Civil Law tradition inherited by many countries, which makes the mandates and powers of financial regulators and supervisors binding and specific. Regulators must innovate to keep the pace with the changes that Fintech incorporates: new mandates and powers, new registered and authorized activities within the regulatory perimeter, different regulatory environments, dialogue and much coordination among public agencies. For example, in the case of alternative finance, a group of essential principles replicable for other segments of Fintech is recommended.¹⁵

However, it will be of particular benefit for the region to share a group of essential principles on which the regulations of each jurisdiction can adhere to. Countries within the Pacific Alliance have started to create a series of guiding principles for Fintech regulation in the sub-region.¹⁶ This effort constitutes the first of a group of countries focused in this regard. This idea reinforces the possibility of regulatory convergence, facilitating Fintech to scale in other countries than the one of origin, by reducing regulatory uncertainty.

It is also very relevant to share two supervisory experiences which show innovative ways to collaborate with the ecosystem. First, Brazil, as a part of the Financial Innovation Laboratory Initiative¹⁷ established a “Fintech Working Group” led by the Brazilian Association of Development (ABDE), the Commission of Transferable Securities (CVM) and the Inter-American Development Bank. The Working Group has 78 members from 38 institutions, which represent different government agencies, regulators, Fintech associations, guilds and representatives of the financial sector, as well as other key actors of the ecosystem. The Working Group has two main focuses: (i) Study and evaluate new financial technologies and business models and (ii) design joint action proposals (governance rules, services offered). A highlight of this initiative is the potential launch of a regulatory sandbox, the first implemented in the region. Another example is the Financial Superintendency in Colombia (SFC) which launched Innovasfc, a Fintech space led by its Financial and Technological Innovation Group. Innovasfc encompasses three tools with the objective of facilitating the processes of innovation of the financial industry: (i) a supervisor sandbox to test innovations from the already supervised institutions; (ii) a Fintech Hub to meet up and create dialogue with the industry; and (iii) a regtech mechanism for supervision.

There is still a huge challenge for the policymakers and regulators across the region in terms of creating the proper conditions for the Fintech industry to develop. Furthermore, an additional challenge

comes from the fact that many of the countries have developments with regard to open banking that bring over additional innovations. There is also the challenge of coordination among different financial and non-financial regulators, such as data protection agencies who have a massive role in the alternative finance sector either through credit scoring or identity. Overall, the public sector is aware of the advances of the industry in the region, but a lot of more work is required to comply with the objectives mentioned above.

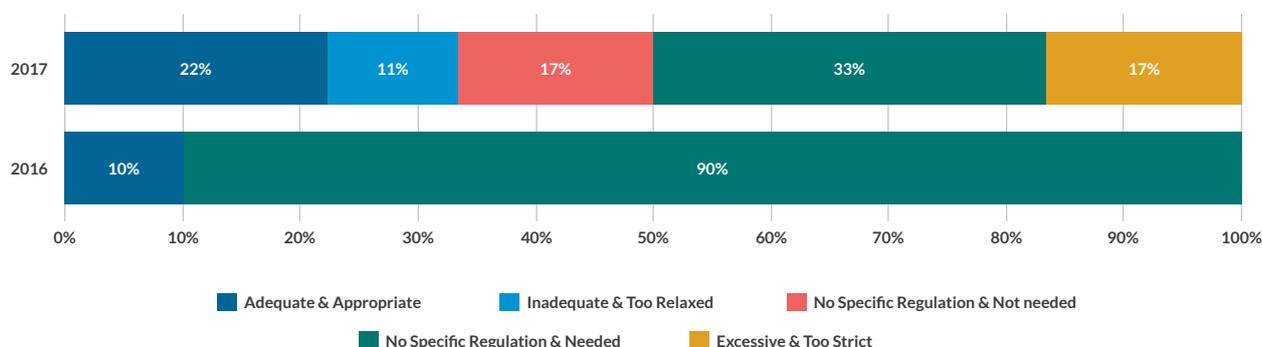
LAC PERCEPTIONS TOWARDS EXISTING REGULATION

Perceptions towards Regulation - Loan-based Models (2016-2017) LAC



When looking at Loan-based platforms active in the LAC region, there is a clear increase in platforms that considered regulation Adequate and Appropriate, increasing from 19% in 2016 to 38% in 2017. Platforms that perceived regulation to be Excessive and Too Strict also increased from 17% to 29%. While in 2016, 6% of platforms perceived existing regulation to be Inadequate and Too Relaxed, this view disappeared entirely in 2017. Additionally, the overall percentage of platforms that noted a lack of Specific Regulation decreased from 57% to 34%, reflecting of the fact that LAC governments attempted to adequately regulate the growing alternative finance industry. Of this 34%, however, 27% believed that regulation was needed for their model.

Perception towards Regulation - Investment-based Models (2016-2017) LAC



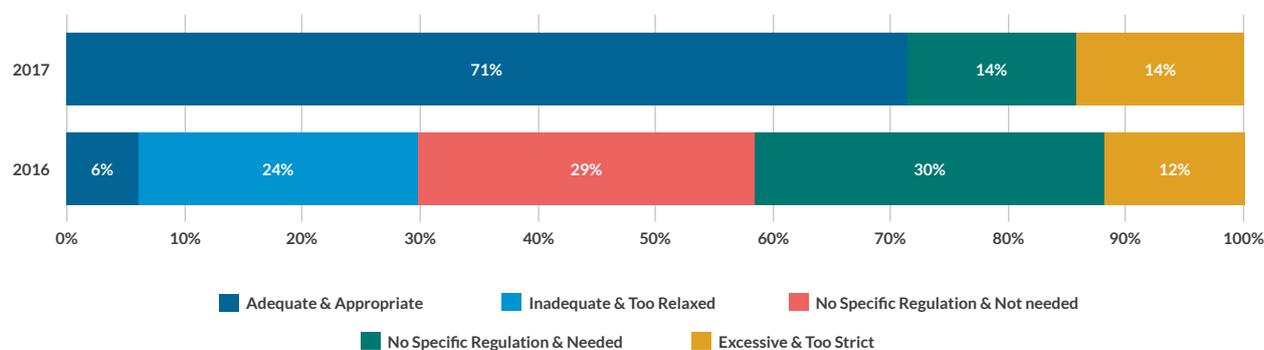
The perceptions of regulation in LAC by Investment-based models paints a very different picture compared to the perceptions of Loan-based models. Overall, the number of platforms that viewed existing regulations to be Adequate and Appropriate increased from 9% in 2016 to 22% in 2017. This increase should be viewed in context: 90% of platforms in 2016 reported that there was No Specific Regulation but that it was needed. In 2017, this segment still represented the largest share of responses at 33% but thoughts on regulation were much more varied. A total of 17% of 2017 respondents thought that while there was No Specific Regulation it was not needed. Additionally, 17% viewed regulation to be Excessive and Too Strict, while 11% viewed it as Inadequate and Too Relaxed. Therefore, when combined, 61% of LAC investment-based platforms thought that existing regulation needed to be altered because it was either inadequate or too strict.

It is also worth noting the budgetary impact that regulatory requirements may have on LAC platforms; in 2017, LAC platforms reported that an average of 6% of total spending was designated for scoping regulatory requirements and obtaining licenses, while an additional 3% was allocated for ongoing reporting and compliance.

BRAZIL

In 2017 the Brazilian Central Bank held a Public Consultation for Fintech regulation that was to be implemented in 2018.¹⁸ This was done in order to foster the development of the sector and clarify what companies, investors and stakeholders could and could not do. As a result, regulations were implemented that were narrowed and refined by the active participants in Brazil's alternative finance market and allowed for experimentation through the utilization of a regulatory sandbox.

Perceptions towards Regulation - Loan-based Models (2016-2017) Brazil



Perceptions regarding the adequacy of regulation towards Loan-based platforms in Brazil changed dramatically between 2016 and 2017. In particular, there was a substantial increase in the number of platforms that viewed regulation as Adequate and Appropriate (71%), up from only 6% in 2016. The share of platforms that viewed regulations as Excessive and Too Strict rose slightly as well, from 12% in 2016 to 14% in 2017. Notably, none of the platforms viewed Brazil's regulation to be Inadequate and Too Relaxed whereas 24% of platforms in 2016 reported as such. Likewise, whereas 29% of platforms in 2016 considered there to be no regulation for their model and that it was not needed, no platforms thought this to be the case in 2017. Additionally,

there was an overall decrease in platforms that perceived No Specific Regulations for their model, but thought that regulation was needed, down from 30% in 2016 to 14% in 2017.

Similar to Brazilian Loan-Based platforms, an increasing percentage of Investment-based platforms in Brazil viewed existing regulation to be Adequate and Appropriate, rising from 25% in 2016 to 50% in 2017. The portion of platforms that thought there were No Specific Regulations for their model but that it was needed shrank from 75% in 2016 to 25% in 2017. Additionally, platforms that viewed regulations as Excessive and Too Strict increased from 0% in 2016 to 25% in 2017.

Perception towards Regulation - Investment-based Models (2016-2017) Brazil



Regulators in Brazil have continued to develop regulatory frameworks throughout 2018. Following the 2017 Public Consultation, in April 2018 the Brazilian Central Bank issued new regulations and created two taxonomies: ‘Direct Credit Company’ (SCD) and ‘P2P Lender’ (SEP).¹⁹ As a result, platforms operating in these spaces will now need to follow new cybersecurity rules and specific guidelines for investors.

Brazilian platforms were asked to indicate their current authorization/licensing status. Seventy-five percent of firms were licensed in their jurisdiction, 9% were operating under an appointed representative, 8% were unauthorized but had interim permissions, and 8% did not have a license but noted that their activities did not require regulatory authorization.

MEXICO

Perceptions towards Regulation - Loan-based Models (2016-2017)



The perceptions towards regulation for Mexican platforms has only slightly changed since 2016. While the share of Loan-based platforms that perceive regulation to be Adequate and Appropriate has remained unchanged at 50%, an increasing number of platforms view existing regulations to be Excessive and Too Strict, increasing from 17% in 2016 to 25% in 2017. Additionally, the share of platforms that did not have any Specific Regulation but saw it as Needed decreased from 28% to 17%.

Perceptions on regulation for Investment-based models in Mexico, on the other hand, saw a clear change. While 100% of respondents in the 2016 survey stated that No Specific Regulation was present despite being Needed, this dropped to 25% in 2017. Additionally, 50% of respondents considered existing regulation Adequate and Appropriate, while 25% viewed it as Excessive and Too Strict. With the enactment of Mexico's first Fintech Law in March 2018, it can be expected that changes in the perception of regulations will continue, particularly with regards to Investment-based models.

Perception towards Regulation - Investment-based Models (2016-2017) Mexico



With respect to current authorization status, 15% of Mexican firms noted that authorization or licensing was not required, while 64% of firms were currently authorized. Twenty-one percent of firms also noted that they had interim-permissions.

CHILE

In 2016, all Chilean Loan-based platforms perceived that there was a lack of specific but needed regulation. This has reduced in 2017, although 67% of platforms still believed the market required regulation. The remaining 33%, on the other hand, considered existing regulation for their models to be Excessive and Too Strict.

Perceptions towards Regulation - Loan-based Models (2016-2017) Chile



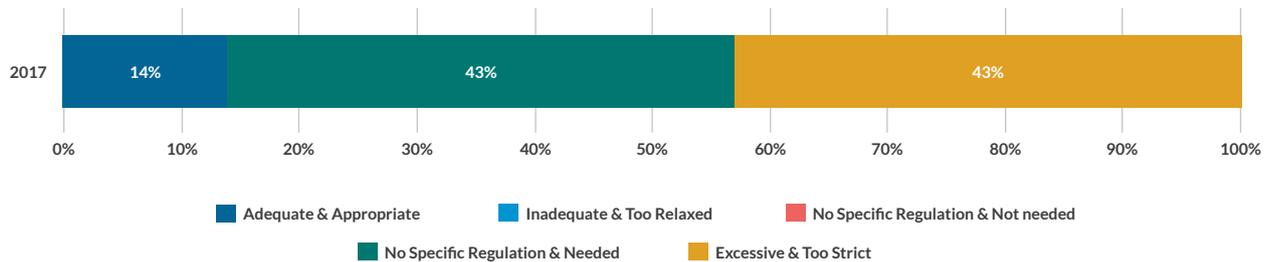
Perception towards Regulation - Investment-based Models (2016-2017) Chile



Similar to Loan-based models, 100% of Investment-based platforms in Chile in 2016 also stated that No Specific Regulation was present, although it was needed. This dropped to 60% in 2017, with an additional 20% stating that No Specific Regulation was present and that it was not needed. Additionally, 20% of platforms believed that regulations were Excessive and Too Strict. When considering the current status of authorization, 54% of firms are licensed, 31% are not and 15% have interim permissions.

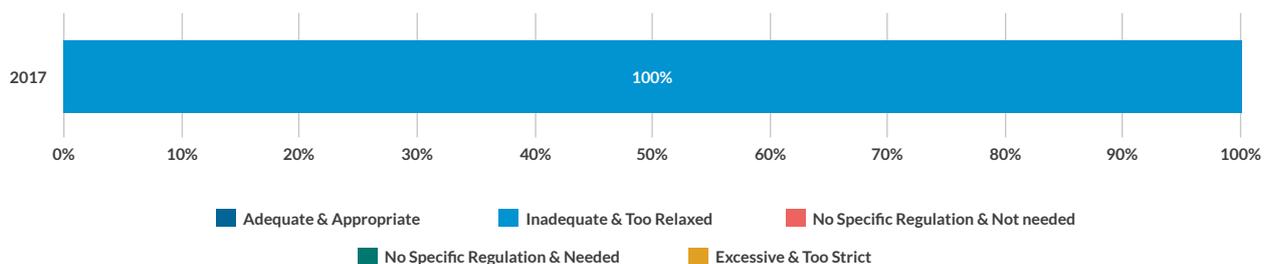
COLOMBIA

Perceptions towards Regulation - Loan-based Models (2017) Colombia



There is stark difference in perceptions toward regulation for Loan-based and Investment-based models in 2017 among Colombian platforms. Overall 43% of Loan-based platforms saw a lack of specific but needed regulation, while 43% considered existing frameworks as Excessive and Too Strict. The remaining 14% were satisfied with current practices as they described their perception towards existing regulation as Adequate and Appropriate.

Perception towards Regulation - Investment-based Models (2017) Colombia

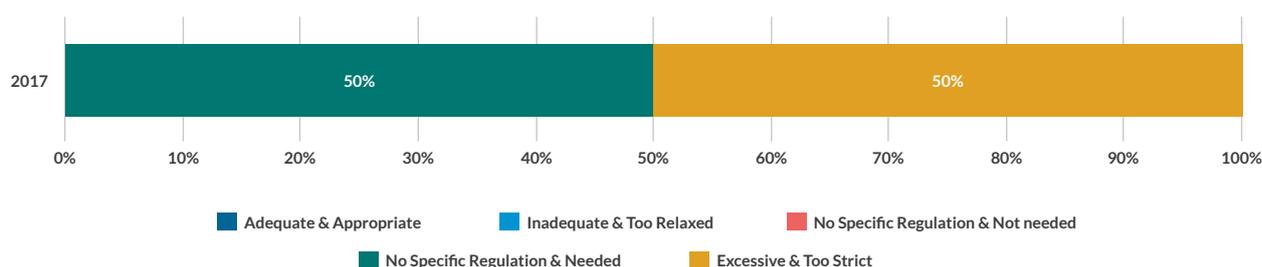


Perception towards regulation for Investment-based models, on the other hand, was seen as Inadequate and Too Relaxed across the board.

ARGENTINA

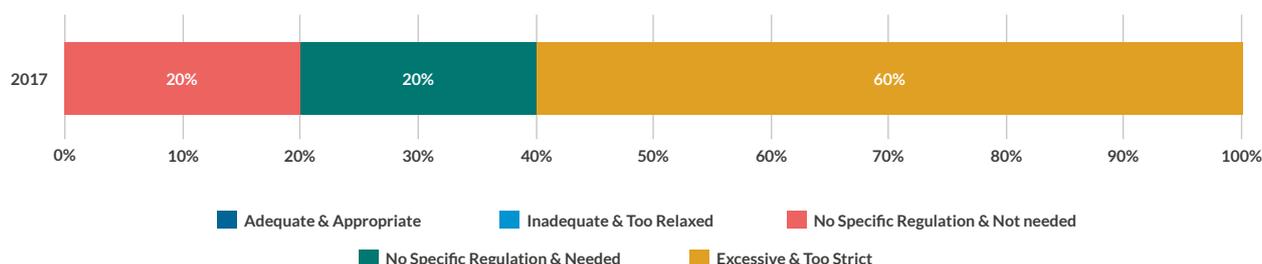
Although Argentina is one of the largest economies in LAC, the last few years have been characterized by economic instability. As a result, policymakers and the Central Bank of Argentina have been concentrating on other issues, with little ability to focus on the rapid development of the Argentinian alternative finance market. Platforms in the sector have called for regulation²⁰ or some sort of governmental action.²¹ While the Argentinian Central Bank is aware of the faced paced growth of the industry, there have been few attempts to regulate the space.²²

Perceptions towards Regulation - Investment-based Models Models (2017) Argentina



This is consequently reflected in the responses from Argentinian platforms. For both Loan and Investment-based models, no platform perceived the existing regulations to be Adequate and Appropriate or Inadequate and Too Relaxed. Overall, 20% of Loan-based platforms viewed the market to have No Specific Regulation and Not Needed. Additionally, another 20% agreed that there were No Specific Regulations, but that they were needed. The remaining 60% of platforms viewed existing regulations to be Excessive and Too Strict, reflecting a potential hurdle for development.

Perceptions towards Regulation - Loan-based Models (2017) Argentina



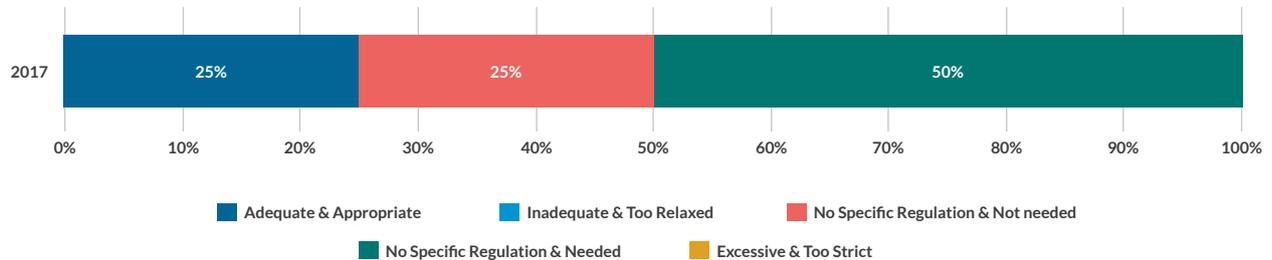
Investment-based respondent platforms equally viewed the state of regulation in Argentina to be either - No Specific Regulation and Needed (50%) or Excessive and Too Strict (50%).

Additionally, 55.6% of Argentinian platforms specified they were operating with authorization, 33.3% stated that they do not need authorization to operate, and 11.1% acknowledged that while they are not authorized to operate in their jurisdiction, they do have interim permission.

PERU

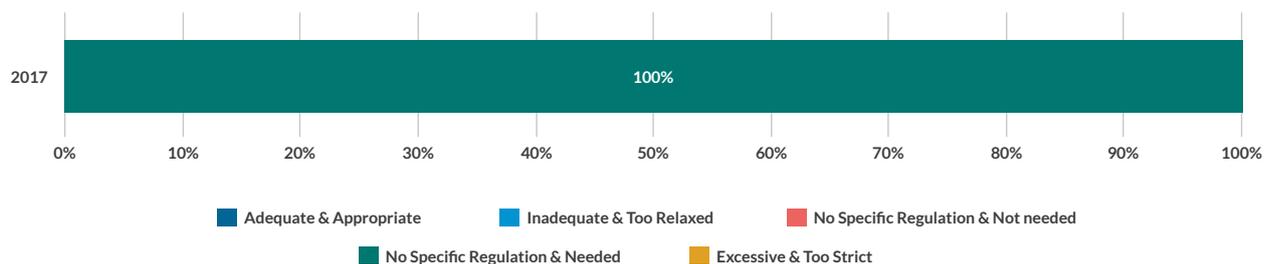
Regulatory authorities and policy-makers are working to create better regulation to encourage growth in the Peruvian alternative finance sector.²³ Peru initially decided to not regulate the sector, but rather to allow it to develop and thereafter determine where regulation would work best.

Perceptions towards Regulation - Loan-based Models (2017) Peru



Half of Loan-based platforms reported that there were No Specific Regulations, but that regulation was needed. The remaining 50% were split evenly, with 25% of platforms finding regulation in Peru to be Adequate and Appropriate, and another 25% stating that there were No Specific Regulations, but that they were Not Needed. On the other hand, all Investment-based platforms viewed that they had No Specific Regulation, but that it was Needed.

Perception towards Regulation - Investment-based Models (2017) Peru



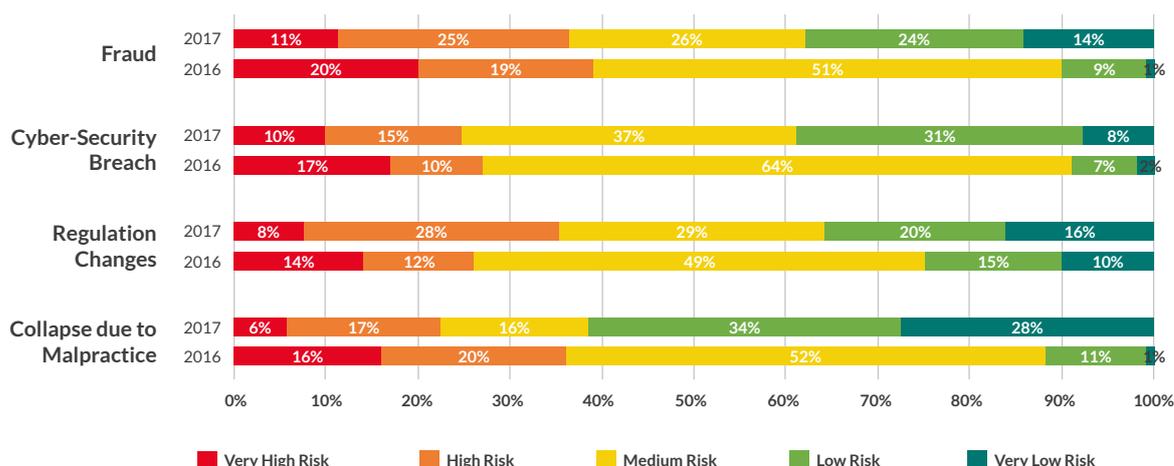
Overall, 81.8% of Peruvian platforms reported that they were authorized to operate in their jurisdiction, 9.1% were not authorized but had interim permission and an additional 9.1% stated that authorization was not necessary.

PERCEIVED RISK FACTORS

OVERALL REGIONAL COMPARISON

The perception of various risks remains relatively high throughout the alternative finance industry in the Americas. In 2017, only one of four key risk factors were largely considered to be of low to very low risk - the 'risk of collapse due to malpractice'. Nonetheless, the overall trends indicate that the perception of risk is decreasing, with all four factors being viewed as having lower levels of risk in 2017 compared to 2016.

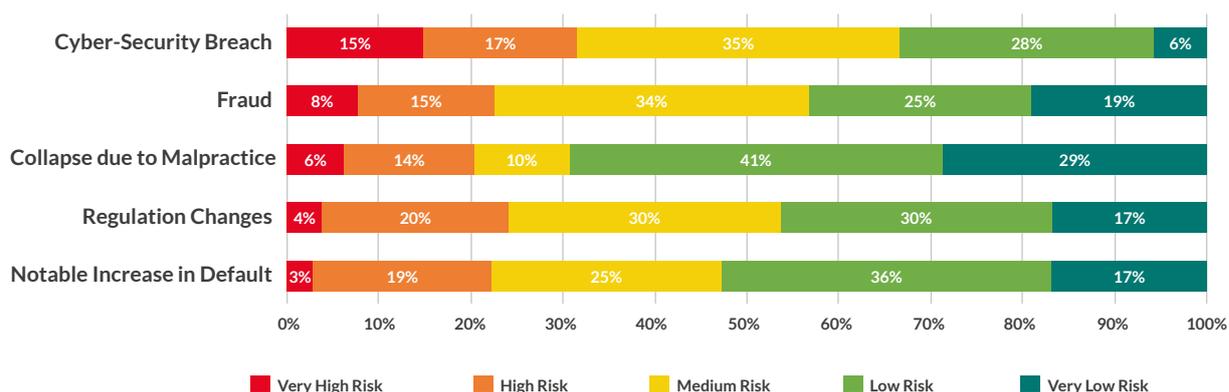
Americas - Comparison of Perceptions towards key Risk Factors (2016-2017)



Alternative finance platforms remain cautious about various risks. For instance, 62% of platforms associate medium to very high risk to ‘fraud’, albeit down from 89% in 2016. The perceived risk of a ‘cyber security breach’, which was considered medium to very high by 91% of platforms in 2016, and decreased to 62% in 2017. ‘Regulatory changes’, in line with platform perceptions, have changed year-on-year as well. While the overall share of responses describing it as medium to very high risk decreased from 75% in 2016 to 64% in 2017, the number of platforms considering it to be of high to very high risk grew from 26% to 36%. Finally, the risk of ‘collapse due to malpractice’ seems to have seen the greatest improvement. While only 12% of platforms considered this to be of low to very low risk in 2016, this grew fivefold to 62% in 2017.

PERCEPTIONS TOWARDS RISK IN THE USA

USA - Perceptions towards key Risk Factors (2017)

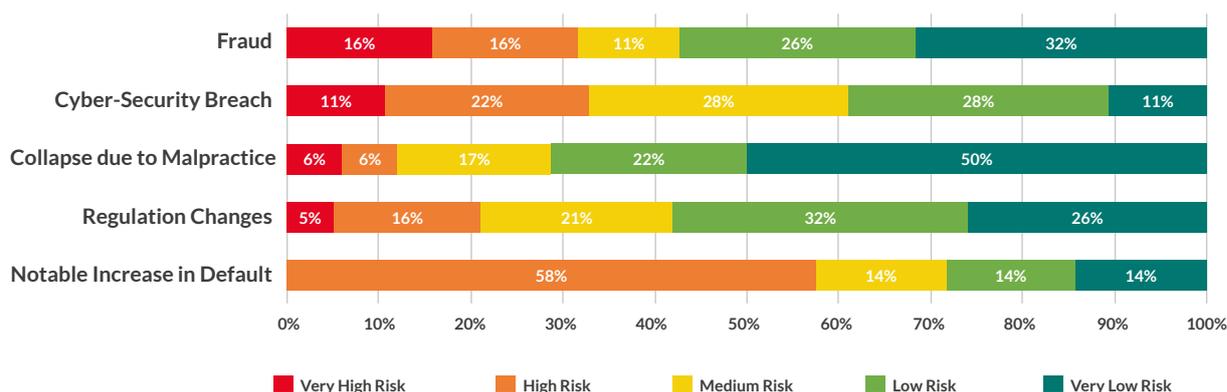


Overall sentiment towards these risk factors by USA platforms was above the average of the overall Americas region, with only two out of the five factors seen as predominantly low to very low risk. In contrast to most other nations in the Americas, the highest risk factor was considered to be that of a ‘Cyber Security Breach’, with 32% of platforms viewing it as high to very high risk, compared to 34%

who saw it as a low to very low risk. It is also worth noting that USA platforms tend to have higher amount of their budget dedicated to cybersecurity costs, with an average of 6% of their total expenses dedicated to Cyber-Security costs, and 11% towards overall IT costs. Furthermore, 'Fraud' was viewed as a high to very high risk by 23% of platforms, although 44% of respondents saw the risk as low to very low. In accordance with overall development in the Americas, the risk of 'collapse due to malpractice' was ranked as one of the least significant factors, with 70% describing the risk as low to very low.

PERCEPTIONS TOWARDS RISK IN CANADA

Canada - Perceptions towards key Risk Factors (2017)



In 2017, one of the most widely indicated risks for Canadian platforms was a 'notable increase in default', which 58% of platforms described as a high risk and 14% as a medium risk. 'Fraud', on the other hand, was seen contrastingly; while 32% saw it as a very low risk, 32% of platforms also considered it a high to very high risk.

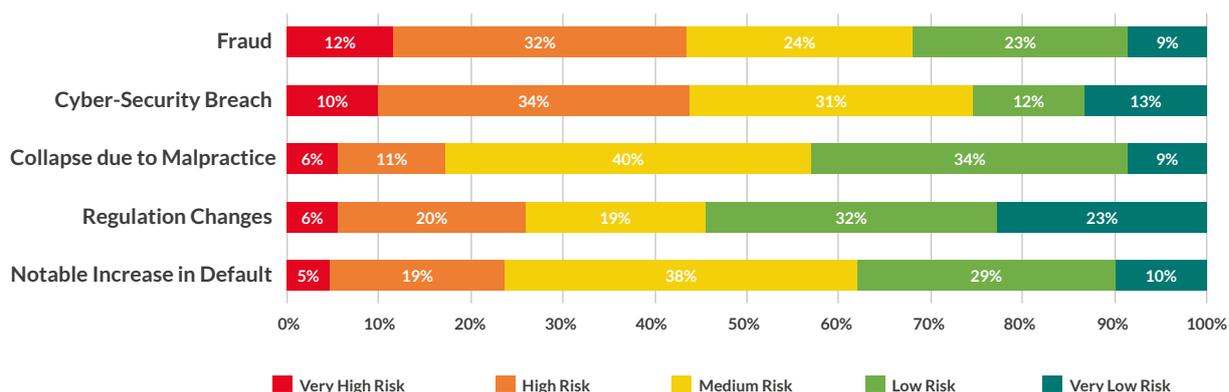
Canadian platforms viewed the risk of a 'Cyber-Security breach' in a similar fashion as their USA counterparts. Overall, the percentage of platforms that saw it as a high to very high risk was comparable to platforms that considered it a low to very low risk, at 33% versus 39% respectively. On average, Canadian platforms dedicated 10% of their budget towards IT costs, with an additional 2% specifically towards Cyber-security. 'Collapse due to Malpractice' was considered a very low risk on average, with half of all platforms viewing it as a very low risk and only 12% as a high to very high risk. Regarding 'Regulation Changes', 58% of platforms saw it to be a low to very low risk, and 21% perceived it as a very high to high risk.

PERCEPTIONS TOWARDS RISK IN LAC

Similar to last year's results, platforms in LAC on average perceived these risks as being medium-high risk. With the exception of 'collapse due to malpractice', over 50% of platforms in LAC perceived all of the risks as medium, high or very high risk.

'Fraud' remained the greatest 'very high' risk, with 12% of platforms considering it as such and 68% of platforms seeing it as at least medium risk. Platforms across LAC spent approximately 12% of their budget on IT, and a further 4% on Cyber-Security. 'Regulation Changes' were seen by 10% of platforms as very high risk. Additionally, 75% of platforms saw this as a medium or higher risk - 21% greater than last year.

LAC - Perceptions towards key Risk Factors (2017)



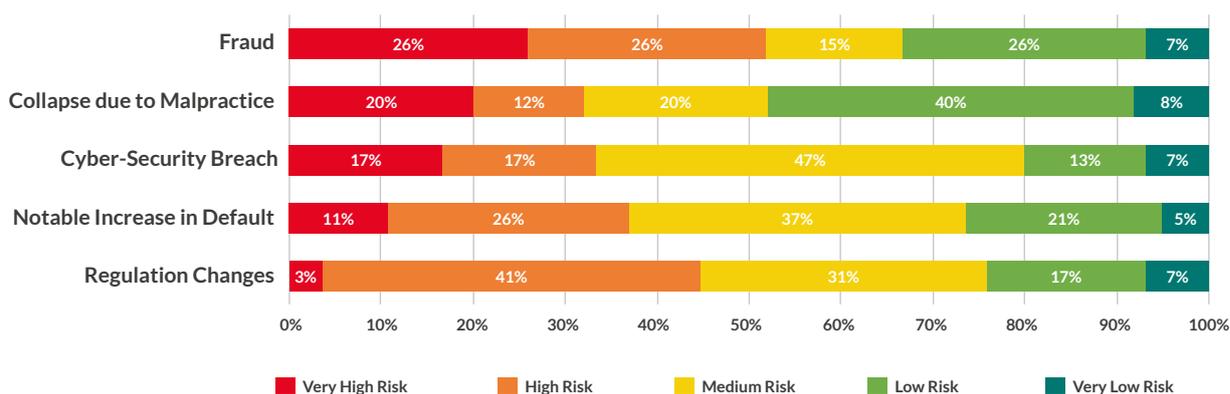
Compared to 2016, the overall perceived risk associated with a ‘cybersecurity breach’ was down by 19%. A total of 57% of platforms saw this as a medium or greater risk, potentially indicating that some platforms are better prepared to deal with such risks. Fewer platforms perceived ‘malpractice’ and ‘default’ to be an overall risk, with 45% and 52% respectively viewing these as a medium or greater risk.

All in all, the percentage of platforms that perceived each of these risks as medium to very high risk decreased for all factors with the exception of ‘regulation changes’. This implies that platforms across the region do not consider the current regulatory environment or market structure as settled.

Throughout the LAC region, Mexican platform perceived these risks to be the highest risk in general, followed by Brazil. Interestingly, the countries that have the highest volumes also perceive there to be the highest risks. As both countries have history of issues with cyber-attacks, fraud and political instability, skepticism and caution with regards to a rapidly developing market are to be expected.

Mexico

Mexico - Perceptions towards key Risk Factors (2017)

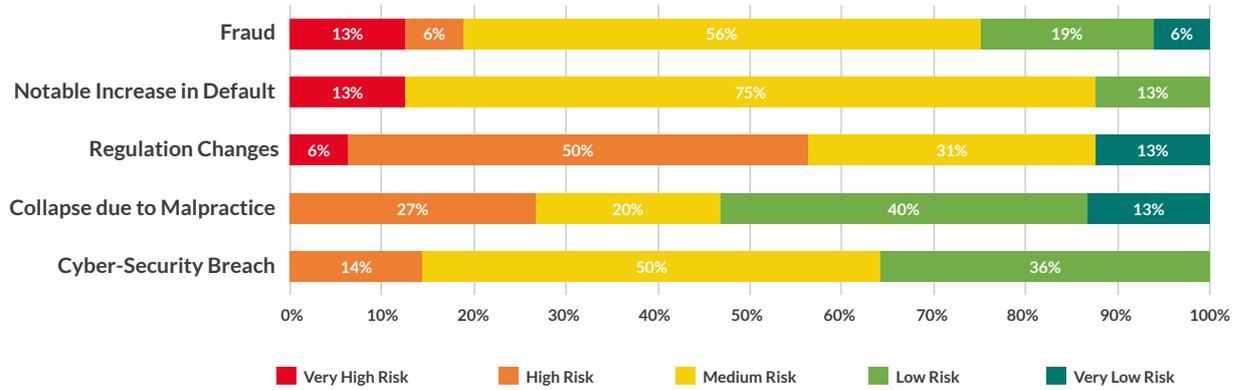


In Mexico, the highest perceived risk was ‘fraud’ with 26% of platforms considering it very high risk and 67% believing it to be at least medium risk. The risk of a ‘cyber-security breach’ was seen by many Mexican platforms to be a medium risk (47%) and, when combined with those considering it a high and very high risk, this rose to 81%. The potential

'collapse due to malpractice' was also viewed by 20% of platforms to be very high. Finally, 74% of platforms considered 'notable increase in default' to be at least a medium risk. While only 3% of platforms viewed 'regulation changes' to be a very high risk, 41% of platforms viewed it as a high risk and 31% as a medium risk, meaning 75% platforms perceived it as at least a medium risk.

Brazil

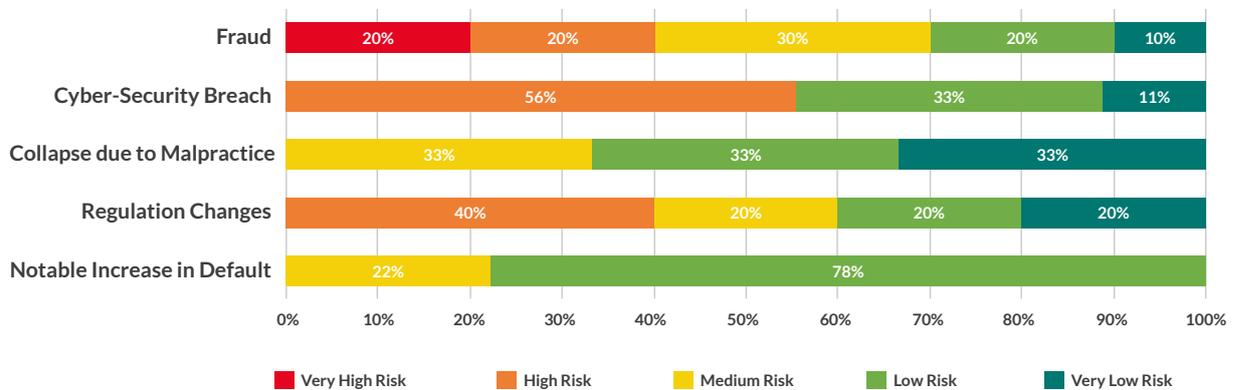
Brazil - Perceptions towards key Risk Factors (2017)



Like in Mexico, most platforms in Brazil viewed most of these risk factors to be between medium and very high risk. In particular, the risk of 'regulation changes' was perceived to be high or very high by 56% of platforms. 'Fraud' and 'notable increases in default' were both seen to be a very high risk by 13% of platforms. For 'fraud', 62% of platforms also viewed it to be at least medium risk. While no platforms saw 'notable increases in default' as a high risk, 75% viewed it to be a medium risk. With regards to the risk of a 'cybersecurity breach,' 64% of Brazilian platforms viewed it to be a medium-high risk. Finally, platforms saw 'collapse due to malpractice' to be the lowest overall risk with 27% perceiving it as high risk, 20% as medium risk, and the remaining 53% viewing it to be low or very low risk.

Chile

Chile - Perceptions towards key Risk Factors (2017)

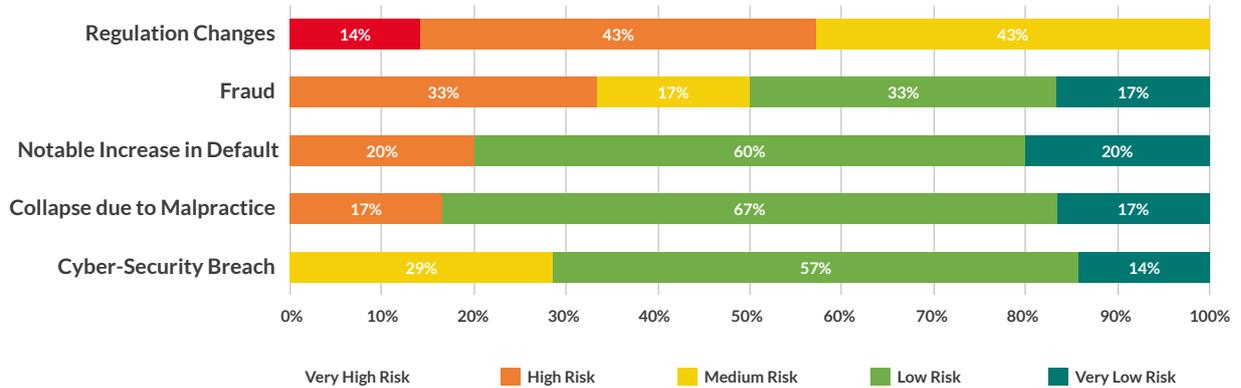


In contrast to Mexico, where at least some percentage of platforms perceived that all risks were very high risk, the only risk factor in Chile that was seen to be very high was 'regulation changes' with 20% of

platforms viewing it to be a very high risk and 70% believing that it was at least a medium risk. 'Fraud' was seen by 56% of platforms to be a high risk and 40% of platforms viewed 'collapse due to malpractice' as high risk. Overall, many platforms in Chile viewed these risks to be comparably low risks. For example, 78% of platforms saw the risk of a 'cybersecurity breach' to be low and 66% considered 'notable increases in default' to be a very low to low risk.

Argentina

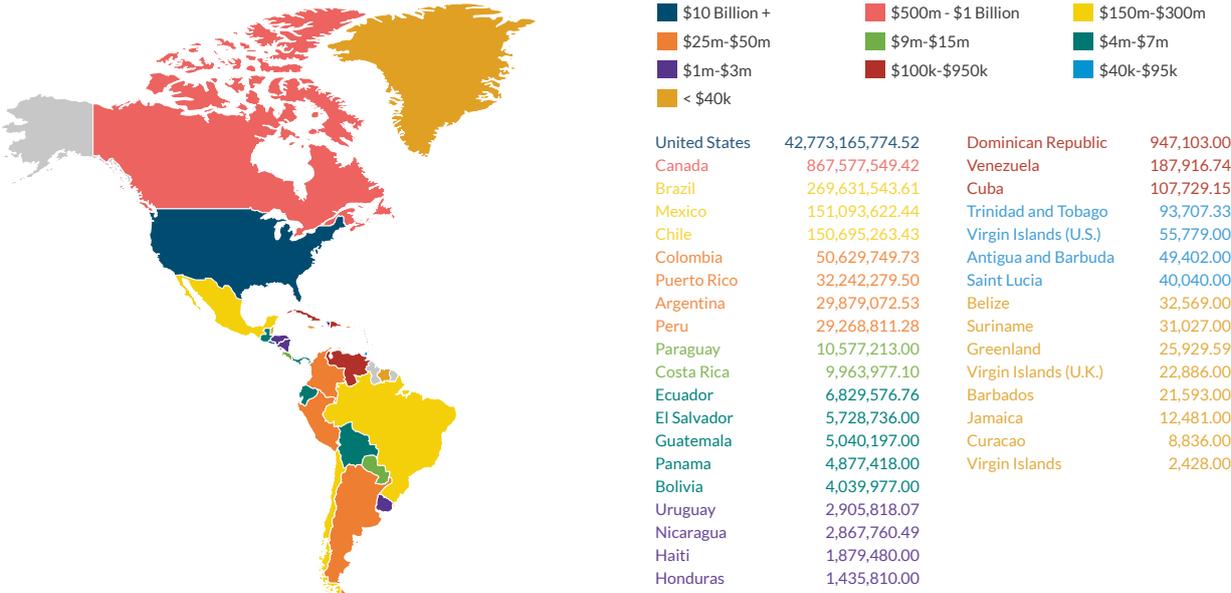
Argentina - Perceptions towards key Risk Factors (2017)



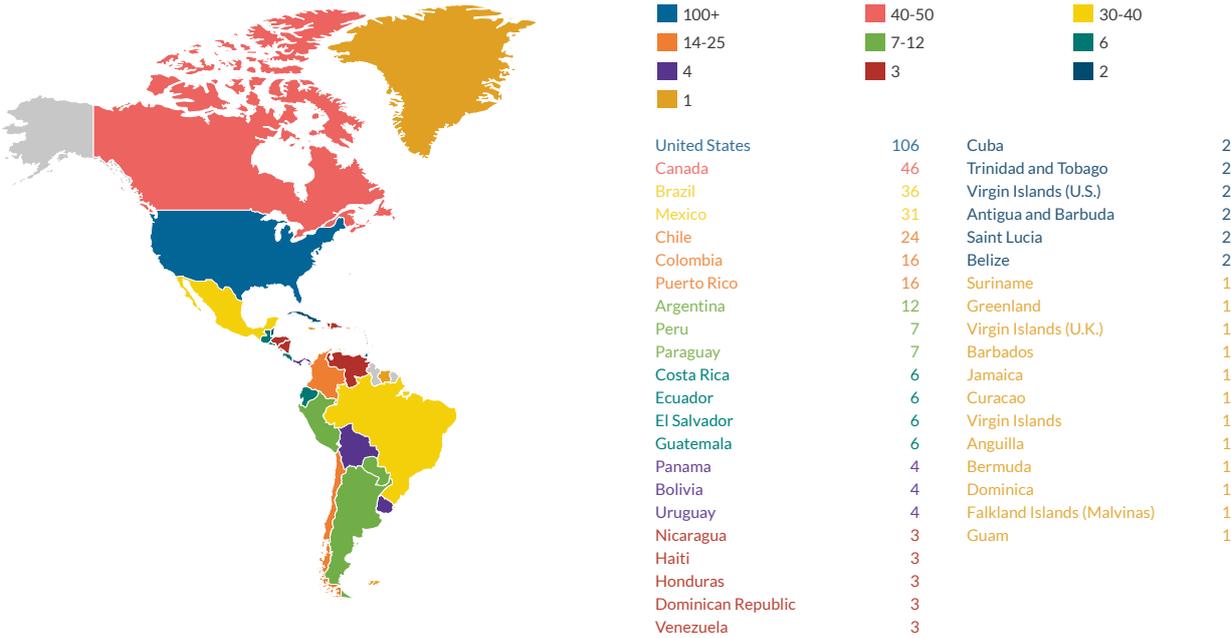
As in Chile, Argentinian platforms only saw potential 'regulatory changes' to be a very high risk (14%). Interestingly, no platform saw 'regulatory changes' as low or very low risk as the remaining 86% were split between high risk (43%) and medium risk (43%). Next, the risks of 'fraud', 'notable increase in default' and 'collapse due to malpractice' were perceived as high risk by 33%, 20%, and 17% of platforms, respectively. Additionally, only 'fraud' and 'cybersecurity breach' were seen to be a medium risk at 17% and 29% respectively. Half of the platforms in Argentina viewed 'fraud' to be a low or very low risk. In general, the overall perception of risk in Argentina was low, with a clear majority of platforms seeing 'notable increase in default' (80%), 'collapse due to malpractice' (84%) and 'cyber security breaches' (71%) to be a low or very low risk.

APPENDIX A

Geographic Distribution of Alternative Finance Volume by Country, 2017



Geographic Distribution of Respondent Platforms, 2017



APPENDIX B

	TOTAL BUSINESS FUNDING	BUSINESS VOLUME		
		of which Debt-based Models	of which Equity-based Models	of which Non Investment-based Models
United States	\$10,103,808,084.11	\$8,739,820,416.14	\$1,223,120,323.09	\$140,867,344.88
Canada	\$531,498,327.32	\$509,363,020.43	\$13,826,302.47	\$8,309,004.41
LAC	\$565,725,102.79	\$522,447,525.30	\$39,439,216.92	\$3,838,360.57
Chile	\$150,623,068.40	\$143,395,439.53	\$7,051,415.00	\$176,213.87
Brazil	\$57,723,946.92	\$48,139,784.96	\$7,497,798.88	\$2,086,363.08
Mexico	\$54,811,877.59	\$32,122,615.04	\$22,073,897.04	\$615,365.51
Puerto Rico	\$19,129,149.33	\$18,997,204.00	\$-	\$131,945.33
Argentina	\$13,093,741.55	\$10,160,855.26	\$2,461,740.60	\$471,145.69
Peru	\$11,876,890.65	\$11,476,861.02	\$181,985.40	\$218,044.22
Costa Rica	\$9,275,778.69	\$9,259,000.00	\$-	\$16,778.69
Colombia	\$6,763,664.86	\$6,496,562.29	\$172,380.00	\$94,722.57
Uruguay	\$1,824,439.19	\$1,534,736.19	\$-	\$289,703.00
Ecuador	\$933,582.52	\$919,850.00	\$-	\$13,732.52
Guatemala	\$577,745.75	\$567,300.00	\$-	\$10,445.75
Haiti	\$190,200.00	\$190,200.00	\$-	\$-
Trinidad and Tobago	\$32,797.57	\$-	\$-	\$32,797.57
Cuba	\$24,535.75	\$-	\$-	\$24,535.75
Nicaragua	\$17,856.12	\$-	\$-	\$17,856.12
Antigua and Barbuda	\$17,290.70	\$-	\$-	\$17,290.70
Saint Lucia	\$14,014.00	\$-	\$-	\$14,014.00
Greenland	\$6,948.41	\$-	\$-	\$6,948.41
Barbados	\$5,290.95	\$-	\$-	\$5,290.95
Panama	\$5,116.30	\$-	\$-	\$5,116.30
Honduras	\$4,782.40	\$-	\$-	\$4,782.40
Venezuela	\$2,877.96	\$-	\$-	\$2,877.96
Dominican Republic	\$862.75	\$-	\$-	\$862.75
Virgin Islands	\$849.80	\$-	\$-	\$849.80
Belize	\$637.00	\$-	\$-	\$637.00
El Salvador	\$461.30	\$-	\$-	\$461.30
Paraguay	\$348.00	\$348.00	\$-	\$-

ENDNOTES

- ¹ China's alternative finance market reached \$358 billion in 2017. <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/3rd-asia-pacific-region-alternative-finance-industry-report/#.XAsQ9Gj7SM8>
- ² Last year we included Invoice trading in Marketplace/P2P Business lending due to a small sample size, but this year we were able to split it out into its own category.
- ³ The Federal Reserve Banks survey refers to online providers as 'a range of nonbank online providers, including retail/payments processors, peer-to-peer lenders, merchant cash advance lenders, and direct lenders.' Their report, therefore, does not distinguish alternative finance models (i.e. P2P or Balance Sheet activities) from their larger 'online lender' category. As such, it is important to note that their figure encompasses activities that go beyond the remit of our analysis.
- ⁴ Federal Reserve Banks, (2017) Small Business Credit Survey : Report on Employer Firms, Available at <https://www.fedsmallbusiness.org/medialibrary/fedsmallbusiness/files/2018/sbcs-employer-firms-report.pdf>
- ⁵ Due to considerable over-lap from platforms operating in both countries and a smaller sample size of firms who responded to this question, the research team has reviewed Innovation Priorities for both the USA and Canada in conjunction to one another.
- ⁶ Invoice Trading platforms secure lending against invoices or receivable notes from a business at a discount, while Marketplace/P2P business lending firms typically provide unsecured loans. Invoice Trading platforms will perform additional credit analysis based upon the quality of the receivable, in addition to their assessment of the business borrower.
- ⁷ Brazil I Financing SMEs and Entrepreneurs - 2018." OECD ILibrary, read.oecd-ilibrary.org/industry-and-services/financing-smes-and-entrepreneurs-2018/brazil_fin_sme_ent-2018-16-en
- ⁸ Ibid
- ⁹ Though our previous report did not specifically refer to this model on its own, we have provided a breakdown of this model as related to 2016 in order to highlight its considerable growth. From 2016 to 2017, the model grew by 52% from \$78 million to \$119 million.

MODEL	2016 ISOLATED MODEL VOLUME	ANNUAL CHANGE (2016 TO 2017)
INVOICE TRADING	\$78 MILLION	52%
P2P BUSINESS LENDING	\$15 MILLION	60%

- ¹⁰ Loan-based Models include Marketplace/P2P Lending models, Balance Sheet Lending Models, Invoice Trading and any other credit focused models. Investment-based models include Equity-based Crowdfunding, Real Estate Crowdfunding, Profit/Revenue-sharing Crowdfunding.

- ¹¹ The IDB has taken the initiative to support governments in the identification and support of regulatory policies and initiatives for crowdfunding, Fintech and regulatory sandboxes in countries such as Mexico, Argentina, Chile, Brazil, Peru and Paraguay. The Bank also collaborated with the drafting of principles for the regulation of Fintech in the countries of the Pacific Alliance: Chile, Colombia, Mexico and Peru.
- ¹² Comisión Federal de Reforma Regulatoria: MIR de alto Impacto con Análisis de impacto en la competencia. Available at: <http://www.cofemersimir.gob.mx/mirs/43560>.
- ¹³ Comisión Nacional de Valores de Argentina: “CNV reglamenta el Sistema de Financiamiento Colectivo”. Available at: <http://www.cnv.gob.ar/web/secciones/prensa/comunicados.aspx?id=213>.
- ¹⁴ Comisión de Valores Mobiliarios. 2017 Instrucao CVM 588. Available at: <http://www.cvm.gov.br/noticias/arquivos/2017/20170713-2.html>
- ¹⁵ Herrera, D. 2016. Alternative Finance (Crowdfunding) Regulation in Latin America and the Caribbean: A Balancing Act. Washington, D.C.: Banco Interamericano de Desarrollo. Available at: <https://publications.iadb.org/en/publication/12539/alternative-finance-crowdfunding-regulation-latin-america-and-caribbean-balancing#sthash.krHqWzzx.dpuf>
- ¹⁶ Ministerio de Hacienda Chile. 2018. Principios Orientadores para la regulación Fintech en la Alianza del Pacífico. Available at: <http://www.hacienda.cl/mercado-de-capitales/documentos-y-presentaciones/principios-orientadores-para-la.html>.
- ¹⁷ LAB.” Laboratório De Inovações Financeiras (LAB), www.labinovacaofinanceira.com/
- ¹⁸ Central Bank of Brazil Publishes Consultation on Credit Fintechs.” Regulatory Big Data: Goals and Initiatives | Moody's Analytics, www.moodyanalytics.com/regulatory-news/aug-30-central-bank-of-brazil-publishes-consultation-on-credit-fintechs
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- ²² Pedotti, Ana Clara. “Fintech: Qué Tiene y Qué Le Falta Aún a Argentina En Materia De Regulación.” El Cronista, El Cronista, 18 Sept. 2018, www.cronista.com/finanzasmercados/Fintech-que-tiene-y-que-le-falta-aun-a-Argentina-en-materia-de-regulacion-20180916-0017.html
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