Cambridge
Centre for Alternative Finance

UNIVERSITY OF CAMBRIDGE
Judge Business School

CHICAGO BOOTH | Polsky Center
for Entrepreneurship and Innovation

BREAKING NEW GROUND

THE AMERICAS ALTERNATIVE FINANCE BENCHMARKING REPORT

In partnership with

KPMG

CME GROUP FOUNDATION

With the support of

IDB

BDC CAPITAL

CPAMERICA INTERNATIONAL

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FOREWORDS

Robert Wardrop
Executive Director, Cambridge Centre for Alternative Finance

This report is the first of what will be an annual research collaboration between the Cambridge Centre for Alternative Finance and the Polsky Center for Entrepreneurship and Innovation at the Chicago Booth School of Business, analyzing online alternative finance activity across the Americas. It follows similar studies the Cambridge team have previously undertaken for the UK, Europe, and the Asia Pacific regions, providing an opportunity to compare the development of this rapidly-evolving industry across the globe. The research team collected data from more than 250 online alternative platforms in the Americas, taking the total number of platforms which participated in our studies to more than 1,000 around the world. The scale and scope of this project was daunting from the outset, and could not have succeeded without the support of our many research partners from across the region.

In contrast with other markets that we have analyzed, the Americas region stands out for its complexity. This reflects, in part, the region containing the country with the deepest and most sophisticated financial market in the world – and which has a correspondingly complex regulatory environment. But it also illustrates the proficiency of the entrepreneurship ecosystem in this region for the deployment of technological innovation at scale. Our title for this year's report, *Breaking New Ground*, attests to outcomes produced by this innovation. While alternative channels of finance can enable innovation, creativity and inclusion in an economy, the challenge for industry stakeholders is to ensure that breaking new ground does not entail breaking public trust. We hope the research findings contained in this report will assist those addressing that challenge.

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Robert Rosenberg
Director, Entrepreneurial Programs, Adjunct Associate Professor, Polsky Center for Entrepreneurship and Innovation

Breaking New Ground is a bookend. The first comprehensive study of alternative finance across the Western Hemisphere. With our partners at Cambridge University, we seek to create a long bookshelf, a longitudinal database that tracks the growth of this industry and serves as a resource for academia and industry, for policymakers and pundits. As the first report, Breaking New Ground establishes baselines for the annual surveys that will follow. Surveys that will chart the impacts of technological and societal change, not to mention competition, economic conditions and government regulation.

We have built this study on broad shoulders, namely the groundbreaking work done by Bob Wardrop, Bryan Zhang and Raghu Rau and their team at the Cambridge Centre for Alternative Finance, Cambridge Judge Business School. Over the last two years the Cambridge Centre for Alternative Finance has surveyed the E.U. and provided the intellectual and infrastructure foundations for our parallel study of the Western Hemisphere. They are superb partners and trusted friends, and we look forward to expanding the scope of our collaborations.

The Polsky Center for Entrepreneurship and Innovation at the University of Chicago Booth School of Business encouraged this project, fostering a supportive atmosphere and providing the resources that got it off the ground. Ellen Rudnick and Steve Kaplan, executive director and faculty director, continue to build a program recognized for educational and research leadership. If you have questions or thoughts, please contact us at altfin@chicagobooth.edu. Many thanks for joining us at this end of the bookshelf.

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Fiona Grandi
Partner, U.S. FinTech Leader, KPMG

This past year, 2015, was an impactful year for Financial Services disruption. As we move deeper into 2016 and peer into the future, the pace of disruption is sure to accelerate, forging the need and appetite for collaboration among incumbents and non-bank innovators. While insurance technology and real estate marketplaces are among some of the recent hot-spots in the world of FinTech and alternative finance, the marketplace lending space continues to steal the show. How has online unsecured lending rattled the banking world? Consider the impact of these game-changing drivers of transformation:

Speed: Using algorithmic technology, credit decisioning and underwriting happens in minutes, not days.
Transparency: Investors and borrowers alike gain visibility into the loan portfolios, including risks and rewards.
Customer-centric: Platforms bring the 'brick and mortar' branch into the on-demand/mobile app generation.
Data: Platforms have re-engineered the definition of credit-worthiness. FICO may still be a factor, but it is no longer THE factor.

These changes are permanent benchmarks that banks must now rise up to meet. You may argue whether today's unicorns will be here tomorrow; however, the shift towards the digital bank is indisputable. Thus, other than a guarantee that further changes will come, what can be expected from these platforms? Many questions abound in the conferences, the publications and social media:

- What will be the impact of an economic downturn in this space? Will platforms fail and investment pipeline dry up when returns are not as lucrative?
- Will globalization be a focus as the platforms look to other addressable markets?
- Has the industry moved from 'disruption' to 'partnership' as platforms and banks see common ground for mutual success?
- Will regulators turn their examination focus to platforms employing their "look through" capability?
- Will platforms increase their risk retention and "skin in the game"?
- Will marketplace lending become commonplace such that every sale will include an unsecured loan option?

Although many questions persist, one point is clear: innovation will continue. As noted in *Breaking New Ground*, we are optimistic about 2016 and beyond, with both challenges and opportunities ahead for FinTech and marketplace lending.

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CME GROUP FOUNDATION

Rumi Morales
Executive Director, CME Ventures, CME Group

Remember when a cloud was a visible mass of condensed water vapor floating in the atmosphere? Just now, I typed the word "cloud" into Google and clicked through page after page without actually ever coming across that definition and finding computing services instead. And how about words like "crowdfunding," which didn't broadly exist until just a few years ago, or completely new practices like invoice trading or peer-to-peer real estate loans? In the Americas, financial innovations and the technologies that enable them have exploded by 9x in just two years, from a total market size of $4.5bn in 2013 to $36.5bn in 2015, transforming our landscape and introducing completely new ways of accessing capital for a growing audience.

While the United States is the clearest leader in alternative finance development in the Western Hemisphere, Canada, Latin America, the Caribbean, and South America are all witnessing important developments of these innovations. Particularly for historically underbanked populations and for women, who traditionally have been underrepresented users of financial products, the potential of alternative finance models to transform the ways consumers and businesses transact, has major economic and societal benefits.

These are but a few of the many important areas researched in this comprehensive benchmarking survey on alternative finance in the Americas. The CME Group Foundation is proud to support the University of Cambridge Judge Business School and the University of Chicago Booth School of Business in developing this report. CME Group is the world's leading and most diverse derivatives marketplace, offering the widest range of global benchmark products across all major asset classes. CME Group has been "breaking new ground" since 1848, and welcomes the important findings in this report to continue to help spur financial innovation to improve access to capital, mitigate risk, enhance livelihoods and advance the global economy.

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Juan Antonio Ketterer
Division Chief, Capital Markets and Financial Institutions
Inter-American Development Bank

Improving access to finance for the private sector, particularly Small and Medium-sized Enterprises (SMEs), is a key development objective for Latin America and the Caribbean (LAC). Not only access to finance levels are low compared to developed countries, but they are even below what would be expected given the countries' per capita GDP, thereby constraining productivity and growth. These restrictions particularly affect SMEs, which receive less than 15% of total credit in the region, despite accounting for a significant share of the employment. This lack of adequate access to finance limits the firms' capacity to invest in technology, processes optimization and other tools that can boost their productivity or help them scale-up their businesses. It is in this context that the potential offered by new tools and technologies to provide financing through alternative channels is becoming increasingly relevant for LAC. By broadening investor access to projects that would otherwise not receive attention from traditional sources, alternative finance can contribute to narrow the financing gap affecting SMEs and entrepreneurs, especially those at the early stages of business development.

During the past five years, the alternative finance industry has been gradually developing in some LAC countries yet a consolidated snapshot of the industry in the Region has been lacking. The America's Alternative Finance Benchmarking Survey thus represents an important milestone as it constitutes the first effort to have a complete and detailed view of the industry across LAC. By supporting this project, the Inter-American Development Bank (IDB) aims to provide the first reference and a baseline to understand the industry in the region, to foster further studies, and to offer policy makers with the information required to start a policy dialogue regarding how to adequately regulate this promising industry without suppressing innovation.

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Harry Cendrowski
Principal
Cendrowski Corporate Advisors LLC

We live in ever-adapting and unprecedented financial times. Equity-based crowdfunding, online alternative financing via new technologies enter the market with the primary purpose of disrupting the mainstream financial structures. Mainstream financial institutions will be monitoring and studying closely their new competition in an attempt to understand the potential impact on their institutions. The impact will include relationship culture, relevancy and possibly trying to establish relationships or platforms with their new competitors. The new millennia generation has participated in online and community-based platforms which makes this part of their social fabric. Turning to these platforms for business will become second nature.

Mimicking this disintermediating force will be culturally difficult for main street financial institutions. Critical to this process will be the starting point of selecting new vendors in a market which is new with the key players not having long established track records. Creativity, speed and strong cybersecurity will be key components. In a recent sea change in finance, Elio Motors raised $17 million dollars in a regulation A+ financing from over 6000 investors. They did not use a broker dealer and did the complete raise on the internet using primarily advertising and social media.

Financing platforms are changing very quickly and companies are finding attractive viable alternative forms of financing. In some cases the cost of raising the capital has been reduced substantially. In 2016, look for this industry to expand and gain acceptance – albeit slowly in the mainstream financial industry.

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We would like to acknowledge the generous support received from the following research partners

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We would like to thank the following platforms for their contribution

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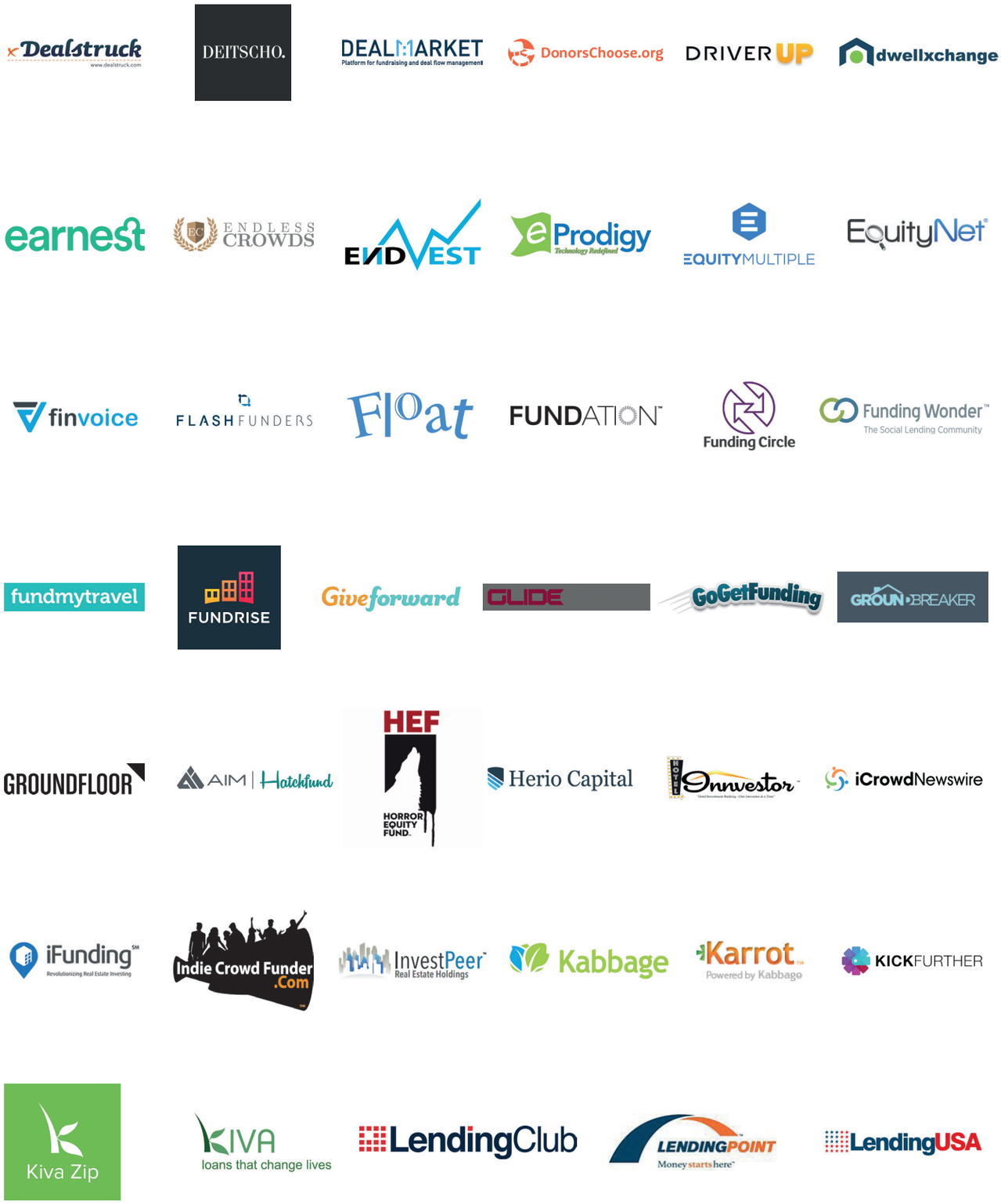

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EXECUTIVE SUMMARY

Over the last few years, an array of crowdfunding, marketplace/peer-to-peer (P2P) lending and other online alternative finance platforms have emerged that use technological innovations to change the way people, businesses and institutions access and invest money. Increasing numbers of consumers – raised on ATMs, credit and debit cards and online money transfers – are embracing the speed, convenience and transparency offered by these platforms.[1] Furthermore, businesses, limited by nearly a decade of tight credit and declining loan approvals from banks and traditional lenders, are turning to online alternative sources of commercial loans.[2]

The impact of alternative finance is rippling through the financial services industry—and the economies of the Americas. While capital access via alternative finance platforms remains a small part of the overall markets for debt and equity,[3] online alternative finance addresses demands unmet by traditional sources. Banks and other established players are feeling competitive pressures, recognizing new opportunities and responding with technology investments and strategic partnerships.[4] Over the last two years, an influx of institutional funding has prompted the growth of marketplace-originated securitization of alternative finance assets in the United States (US),[5] although the pace of marketplace/P2P lending securitizations is (at the moment) decelerating and spreads are widening.[6] At the same time, leading alternative finance platforms are trying to attract more retail investors and diversify their funding base, for instance, by making it easier for online financial advisors to offer their loans.[7] Changing SEC regulations in 2016 will also open up market participation to non-accredited investors and draw additional retail investment online. The Americas alternative finance market is going through a state of consolidation and transformation, dealing with new challenges in an uncertain macroeconomic environment, embracing institutionalization and reconsidering its P2P and crowdsourcing roots. Online alternative finance continues to break new ground with market growth, product innovation, technological advancement, corporate partnerships, international expansion and regulatory recognition.

Breaking New Ground: The Americas Alternative Finance Benchmarking Report is the first comprehensive study of this fast-evolving online alternative finance market in the Americas. Focusing on marketplace/ P2P lending and crowdfunding activities, the report captures an estimated 80% of the visible online alternative finance market (by transaction volumes) in the Americas. This report aims to provide independent, robust, reliable and up-to-date aggregate-level alternative finance market data for the reference of academics, industry, business communities, policymakers, regulators and the general public.

Spanning eight months, this large-scale study was conducted by the Cambridge Centre for Alternative Finance, the University of Cambridge Judge Business School and the Polsky Center for Entrepreneurship and Innovation at the University of Chicago Booth School of Business (Chicago Booth), in partnership with KPMG and with the support of the CME Group Foundation, the Inter-American Development Bank (IDB), the Business Development Bank of Canada (BDC) and CPAmerica. Working with multiple leading industry research partners, the research team surveyed 257 online alternative finance platforms operating in the Americas, out of which, 178 were from the US and Canada.

Highlights of The Americas Alternative Finance Benchmarking Report

Market Size and Growth: In 2015, the Americas online alternative finance industry grew to $36.49 billion, a 212% annual increase from the $11.68 billion in 2014. Between 2013 and 2015, alternative finance platforms across the Americas have delivered over $50 billion in funding to individuals and businesses, with the US market contributing 99% of the total funding volume. With $36.17 billion in total transaction volume in 2015, the US is the world's second largest online alternative finance market behind Mainland China.[8] The US has the highest total online alternative finance market volume per capita in the world at $113.43 in 2015 (China's per capita volume is $74.54), far higher than the $5.82 achieved in Canada – the second highest in the Americas region. The Latin American and the Caribbean regional market is small in comparison, but it achieved a 130% average growth rate over the last three years to reach $110.46 million in 2015, with Chile accounting for nearly half of that total.

Prevailing Online Alternative Finance Models in 2015: Marketplace/P2P consumer lending is the largest market segment in the Americas, with $25.74 billion accrued in 2015. Balance sheet consumer lending is in second place with $3.09 billion, followed by marketplace/P2P business lending at $2.62 billion in 2015. Reward-based crowdfunding reached $658.37 million in 2015, narrowly beating equity-based crowdfunding which registered $598.05 million in the Americas.

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Real Estate Models are Scaling Rapidly: Already developed in the US, real estate alternative financing models (including real estate crowdfunding and marketplace/P2P lending) have generated just over $1.26 billion in the US for 2015. Real estate crowdfunding is also a fast-growing segment of the Latin American and the Caribbean market, generating $14.86 million of transaction volume in 2015 and a total of $19.37 million between 2013 and 2015. Across the Americas, the marketplace/P2P real estate lending model grew at a rate of 471% over the three-year period.

Businesses are Increasingly Tapping Alternative Finance: In the US, between 2013–2015, online alternative finance platforms have facilitated over $10.81 billion worth of growth, expansion, working and venture capital to 268,524 small and medium enterprises (SMEs). In 2015 alone, online alternative business funding reached $6.88 billion in the US. In Latin America and the Caribbean, thanks to prevailing models such as marketplace/P2P business lending, over $120 million of business funding was facilitated by online alternative finance platforms over the last three years. In 2015, online alternative business lending reached $5.61 billion, which is equivalent to 1.26% of all business lending from traditional sources in the US.

Entrenched Institutionalization in the US Market: Between 2013–2015, over 72% of marketplace/P2P business loans and 53% of marketplace/P2P consumer loans were funded by institutional investors via online alternative finance platforms in the US. Furthermore, almost 83% of the invoice trading model and 74% of marketplace/P2P real estate loans were also funded by institutional investors, typically including mutual funds, pension funds, hedge funds, family offices, asset management firms and traditional banks. This level of institutionalization stands in contrast to the UK market, where funding is primarily provided by retail investors. The dominance of retail investors relative to institutional investors on Latin American and Caribbean platforms, however, is very similar to the UK market.

Market Participation by Women is Growing: Women seem to be dominating both the funding and fundraising sides of donation-based and reward-based crowdfunding models, representing approximately 60% of these marketplaces on average. Around 42% of the consumer borrowers and 24% of the SME borrowers on marketplace/P2P lending platforms are women. In contrast, our data suggests that 20% of the lenders on marketplace/P2P consumer lending platforms and 9% of lenders on marketplace/P2P business lending platforms are women. Women appear to be less engaged in equity-based crowdfunding, given only 12% of the fundraisers and 13% of investors in this segment are women.

No Consensus on Regulation: According to the survey, 51% of US lending platforms and 43% of equity platforms consider current regulations "adequate and appropriate." However, 34% of equity platforms and 15% of lending platforms see current regulation as too strict or excessive. 40% of lending platforms and 49% of equity platforms in the US, favor the new regulations proposed by the SEC, while around a third of both debt and equity platforms perceive proposed regulations negatively. In Latin America, over three quarters of surveyed platforms perceive there to be no specific regulations in their respective countries.

Looking at the market trends illustrated in this benchmarking report, we see a nascent, rapidly-growing industry that is moving into the mainstream. This industry will need to continue innovating in technology, credit risk modelling, user experience and customer service in order to compete and scale. As the online alternative finance market in the Americas develops, we hope that this report – and successive reports in 2016 and beyond – will shed light on this diverse, dynamic and intriguing industry.

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INTRODUCTION

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Research Rationale and Objectives

Crowdfunding and marketplace/P2P lending, particularly in North America, has entered the mainstream, attracting growing numbers of consumers, entrepreneurial start-ups, established SMEs and institutional investors. Not surprisingly, alternative finance has also drawn the attention of industries, governments and academics who are studying everything from platform formation to appropriate regulatory frameworks, from short-term risks to the long-term impact on regional and global economies.

As this new market evolves, stakeholders have a need for independent, systematic and reliable data on the size, growth and diversity of the various online alternative finance markets around the world. Insights from this research will help inform policy makers, brief regulators, update the media and educate the public.

This project aims to track the growth and development of key alternative finance markets in the Americas, to identify emerging trends and to analyze the market dynamics of specific alternative finance models in the region.

Methodology

This report, *Breaking New Ground: The Americas Alternative Finance Benchmarking Report*, covers the alternative finance markets across countries in North America, Latin America and the Caribbean. North America includes aggregated data from Canada and the US, while Latin America and the Caribbean includes Argentina, Brazil, Chile, Colombia, Curacao, Mexico, Paraguay, Peru and Venezuela. Building on a similar study focused on the United Kingdom, the Cambridge Centre for Alternative Finance, University of Cambridge and Booth Chicago's Polsky Center for Entrepreneurship and Innovation, carried out a survey administered to online alternative finance platforms active at the end of 2015 to collect aggregate-level data on the emerging industry.

A large number of industry research partners contributed to the project by identifying online alternative finance platforms within the region and promoting the survey. We thank AlliedCrowds, the Crowdfund Intermediary Regulatory Advocates (CFIRA), the Crowdfunding Professional Association (CfPA), CrowdfundInsider, Crowdnetic, Fintech Mexico, KoreConX, LendIt/LendAcademy, the National Crowdfunding Association of Canada (NCFA), Orchard and Queens University-Smiths Centre for Social Impact for their generous help and support throughout our research process.

The survey collected data on both transaction and model-specific volumes based upon survey information provided by individual platforms across North America, Latin America and the Caribbean. The survey was designed to capture the size and type of alternative finance activity in the Americas between 2013 and 2015. The survey was written and distributed in English, Spanish and Portuguese.

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The survey incorporated a platform-model taxonomy derived from previous benchmarking exercises in the UK and Europe, and was further refined to reflect model developments specific to the Americas region.

The team initiated a soft launch of the survey on October 15, 2015. Full launch began on November 16, 2015, and closed January 16, 2016. A total of 257 leading online alternative finance platforms participated in the survey, of which 178 operate from the US and Canada. While we did not reach universal coverage in terms of the number of platforms surveyed, we estimate that our benchmarking study captured more than 80% of the visible online alternative finance market in the United States and Canada. In Latin America and the Caribbean, the 2015 survey represents approximately 90% of this region's visible online alternative finance market.

The research team communicated directly with surveyed online alternative finance platforms, explaining the study's objectives and providing a copy of our research proposal and questionnaire. The survey was hosted on a dedicated site accessible only to the research teams in Cambridge and Chicago. 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 used python scripting and widely used web-scraping methodologies for confirmatory data and as a complement to the survey. We then verified this by matching it against platforms' self-published figures for the past six years.

The research team cleaned and verified all gathered datasets before aggregating. For online alternative finance platforms that offered "mixed" or "other" finance models/products, or operated in more than one of the designated countries encompassed in this study, the team broke down transaction volumes further and added these to their associated model(s)/country(ies) based upon the information the platform provided. Whenever necessary, the research team validated responses by reaching out directly to the platform for clarification or to acquire detailed data breakdowns in various geographies.

The research team anonymized and cleaned the data by deleting all platform-identifying information. For all average data points (e.g. funder sophistication), the team applied weightings (by transaction volume) in order to produce the most accurate estimates; significant outliers were removed to maintain the accuracy and validity of the dataset.

At completion, data was encrypted and stored for retrieval exclusively for the use of this project and was accessible only to the research team.

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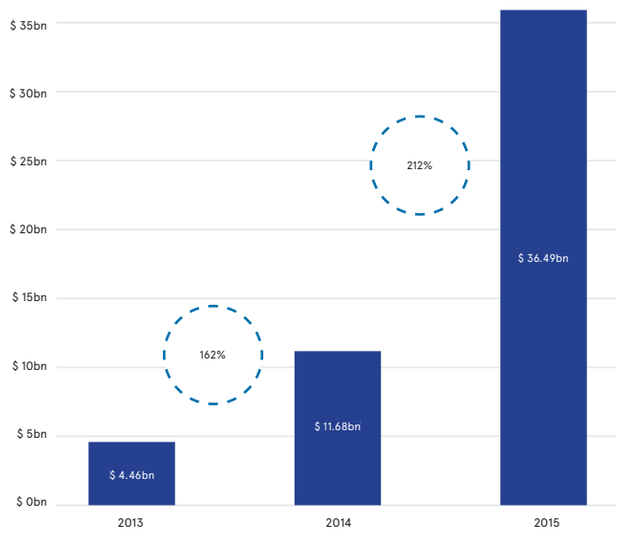
THE SIZE AND GROWTH OF THE ONLINE ALTERNATIVE FINANCE MARKET ACROSS THE AMERICAS

In 2015, the online alternative finance market continued its rapid growth across the Americas, generating a total market volume of $36.49 billion, and $52.63 billion over the three-year period (2013–2015). Volume in 2015 increased by 212% from the $11.68 billion in 2014. This growth rate is a significant increase over the 162% growth on the 2013 volume of $4.46 billion.

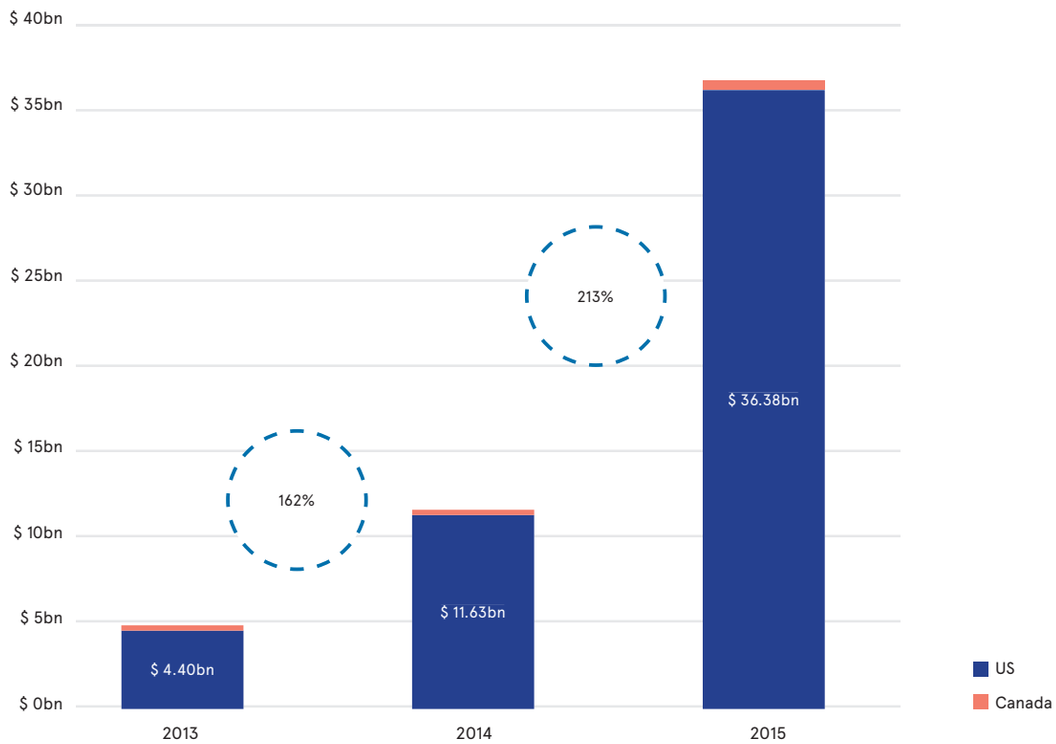
Figure 1: Americas Online Alternative Finance Total Volume 2013–2015 ($USD)



North America

North America (which constitutes the US and Canada) represents one of three primary markets (alongside Europe and the Asia-Pacific region) for advanced, technology-enabled, online alternative finance channels and instruments. Continued innovation, combined with growing demand from consumers, SMEs and institutional investors, more than doubled the North American volume to $36.38 billion in 2015, up 213% compared to the $11.63 billion recorded in 2014.

Figure 2: North America Online Alternative Finance Total Volume 2013–2015 ($USD)



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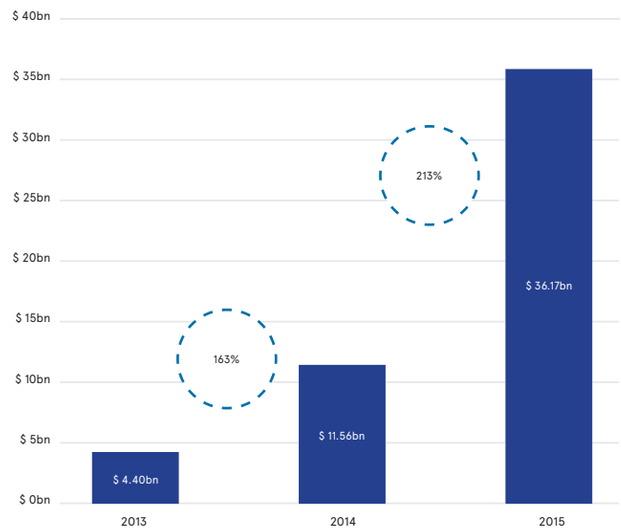
United States

In the US, the online alternative finance market continued to surge, generating $36.17 billion in funding in 2015, up 213% from the $11.56 billion recorded in 2014. In contrast, the US market recorded a 163% annualized increase between 2013 and 2014. The US is responsible for 99% of all online alternative finance activity in the Americas. As a result, this report highlights key findings from the US separately from the rest of the region, wherever possible.

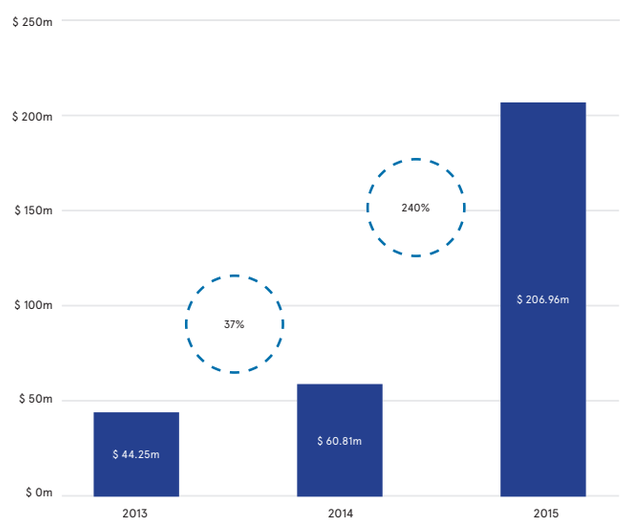
Figure 3: US Online Alternative Finance Total Volume 2013–2015 ($USD)



Canada

In Canada, online alternative finance continues to build momentum. In 2015, the platforms surveyed generated $206.96 million in transactions, up 240% from the $60.81 million recorded in 2014. This follows the market's 37% growth in 2014 from a 2013 base of $44.25 million. Canada's economy continues to be served by a traditional banking system dominated by five large banks, all of which have a reputation for being relatively cautious lenders. Demand from entrepreneurs, SMEs and underbanked consumers is fuelling the growth of alternative finance.[9] Despite being the world's 8th largest economy, the Canadian online alternative finance market is much smaller than the US market on both a per capita and total alternative finance volume basis.

Figure 4: Canada Online Alternative Finance Total Volume 2013–2015 ($USD)



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Latin America and the Caribbean

Online alternative finance in Latin America and the Caribbean is still a relatively nascent industry with a limited number of platforms spread across many countries. Alternative finance is becoming increasingly attractive in places where traditional banks, beset by lending constraints and regulations, find it difficult to serve all segments of the market. [10]

High volume markets include Argentina, Brazil, Chile and Mexico; low-volume markets include Colombia, Paraguay, Peru and Venezuela. After recording 164% year-on-year growth in 2014, the market almost doubled in 2015 with a growth rate of 97%. The platforms surveyed represent an estimated 95% of the market in 2015, which generated $110.46 million in total volume. By way of contrast, the market transaction volume was $56.07 million in 2014 and $21.26 million in 2013. In Latin America and the Caribbean, the alternative finance marketplace is driven by business finance. Of the $110.46 million 2015 total, $72.88 million (or 66% of the total transaction volume) came from alternative finance platforms that provide finance to businesses.

Figure 5: Latin America & the Caribbean Online Alternative Finance Total Volume 2013–2015 ($USD)

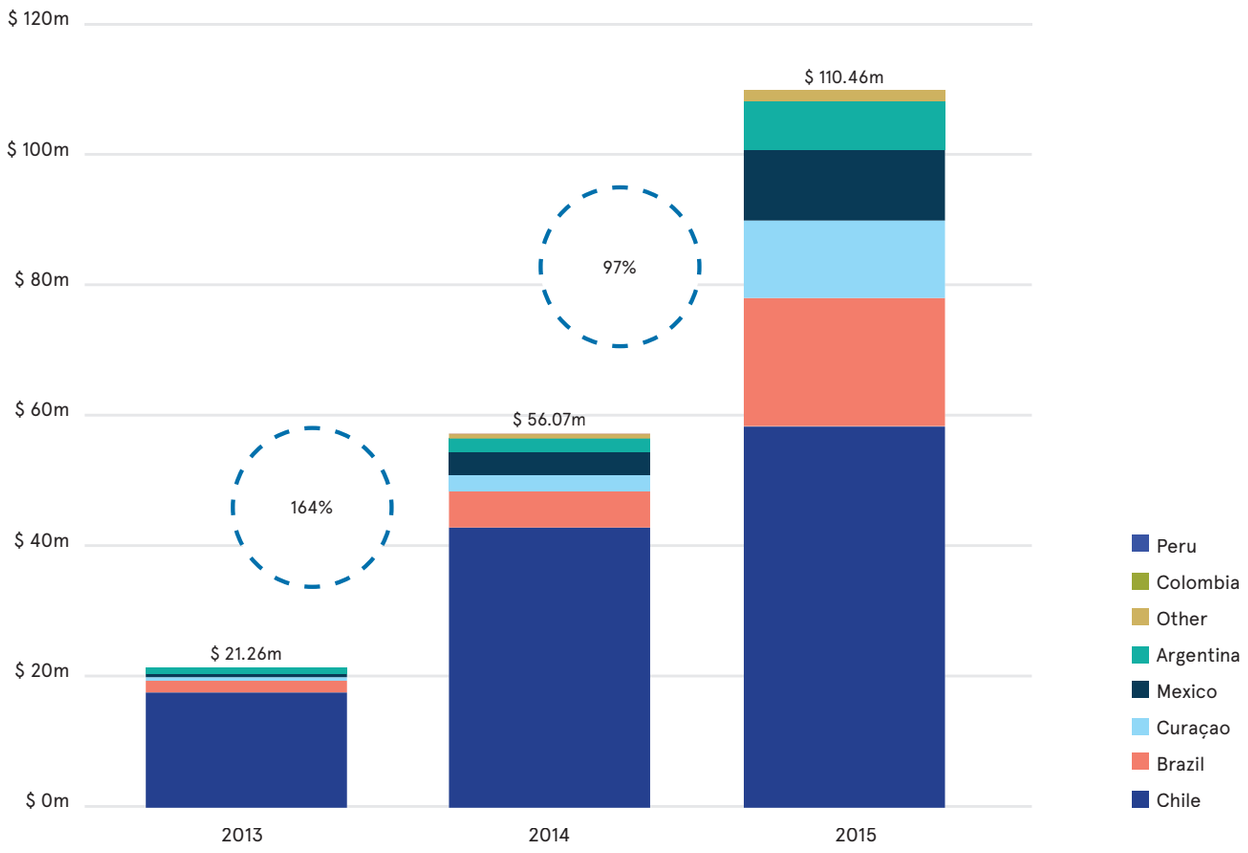

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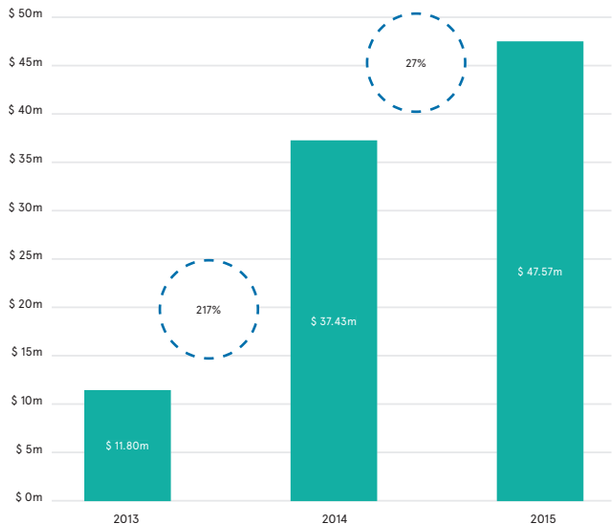
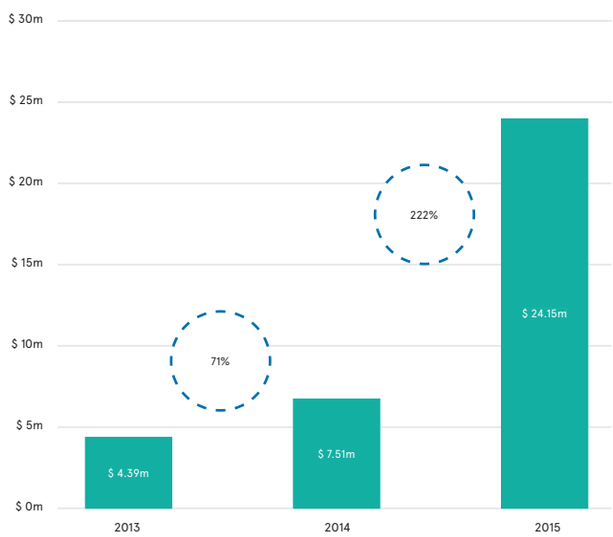
Figure 6: Chile Online Alternative Finance Total Volume 2013–2015 ($USD)



Chile

Chile accounted for the highest total alternative finance market volume in the Latin American region, raising $96.80 million between 2013–2015, representing an average growth rate of 122%. In 2013, Chile's total volume was $11.80 million, growing by 217% to $37.43 million in 2014. From 2014 to 2015, Chile's online alternative finance market grew to $47.57 million – a growth rate of 27%.

Figure 7: Brazil Online Alternative Finance Total Volume 2013–2015 ($USD)



Brazil

Brazil is one of the leading countries in terms of the adoption of online alternative finance as a source of consumer and business capital in Latin America. In 2015, the platforms surveyed accounted for $24.15 million in transaction volume. This represented a 222% increase from the $7.51 million recorded in 2014. In 2013, online alternative finance transaction volume increased by 71% from a base of $4.39 million. Over the three-year period, Brazil has grown at an average of 146%, raising $36.05 million in alternative finance volumes.

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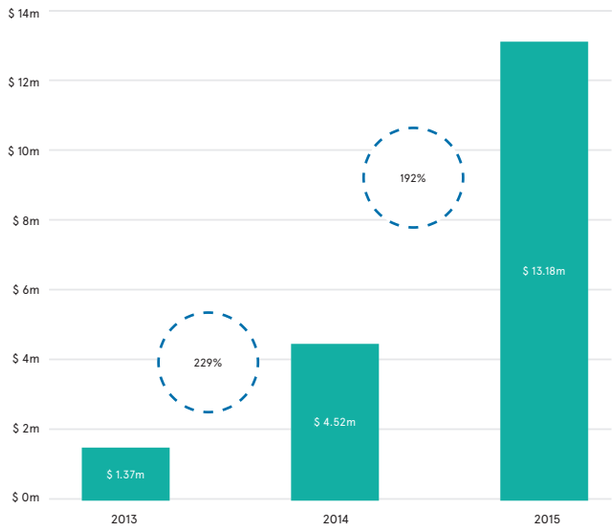
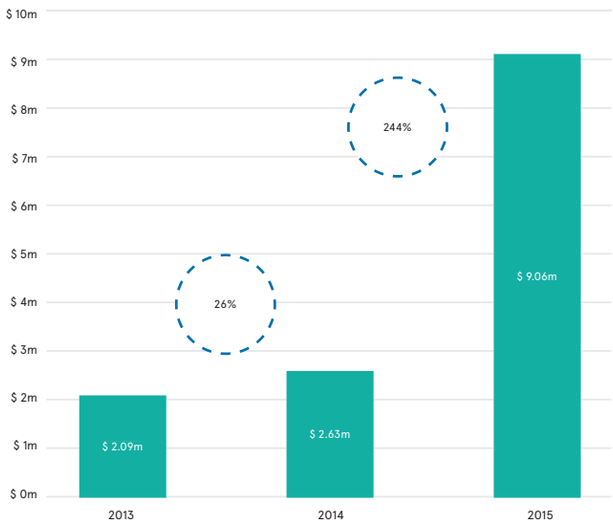
Figure 8: Mexico Online Alternative Finance Total Volume 2013–2015 ($USD)



Mexico

Between 2013 to 2015, Mexico increased its online alternative finance volume from just $1.37 million to $4.52 million, representing an increase of 229%. In 2015, Mexico raised $13.18 million, growing by 192% over the previous year. Though Mexico has facilitated less online alternative finance transaction volume than Brazil and Chile, over the three-year period, the Mexican market has grown at an average 210%.

Figure 9: Argentina Online Alternative Finance Total Volume 2013–2015 ($USD)



Argentina

Between 2013 to 2015, the average annual growth rate in Argentina was 135%, raising $13.78 million over the three-year period. In 2015, Argentina raised $9.06 million, a 244% increase from the previous year. Prior to 2015, alternative finance in Argentina was significantly smaller, with a 2014 total volume of $2.63 million – a modest increase from 2013's $2.09 million.

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THE DYNAMICS OF THE AMERICAS ONLINE ALTERNATIVE FINANCE MARKET

The Diverse Taxonomy of Online Alternative Finance

The term *alternative finance* means different things to different people. Investment bankers use it in the context of alternative investments, such as non-traditional asset-class, alternatives to stocks and bonds, or in reference to shadow banking activities like private placements of corporate debt funded by institutional investors instead of banks. Economists studying developing economies use it to describe the sources of financing and payment channels that emerge to address the needs of individuals and businesses in economies lacking a functioning banking system. Our definition of alternative finance incorporates elements common to both uses of the term: instruments and channels of finance that emerge outside of the regulated banking system in both developed and developing economies.

This report analyzes a subset of the alternative finance market, specifically the technology-enabled online channels or platforms that act as intermediaries in the demand and supply of funding to individuals and businesses outside of the traditional banking system. We therefore exclude platforms that facilitate payments, cross-border remittances or foreign exchange transactions outside of the banking system. We also exclude platforms only acting as information bulletin boards, providing information about financing opportunities to investors without facilitating *actual* financing transactions.

Online alternative finance can be broken down by specific types of funding model. This study of the Americas region adopted a working taxonomy of alternative finance models developed between 2013 and 2016 by the Cambridge Centre for Alternative Finance at the University of Cambridge and its research partners[11] for studies of the United Kingdom, the European Union and Asia-Pacific market regions. By utilizing a taxonomy that is comparable to wider regional studies, researchers will be able to compare and track the online alternative finance landscape at a global scale. Cambridge and Chicago Booth have further refined the taxonomy to clarify three loosely-defined terms commonly used to describe online alternative finance activity in the Americas, and in particular the US market: crowdfunding, P2P lending and marketplace lending. In particular, we distinguish between the various types of alternative finance on the basis of (i) the source of financing; (ii) the use of proceeds provided by the financing; and (iii) the instrument used to provide the financing.

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Table 1: A Working Taxonomy of Online Alternative Finance Models

Alternative Finance 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 Real Estate 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.
Invoice Trading	Individuals or institutional funders purchase invoices or receivable notes from a business (at a discount).
Equity-based Crowdfunding	Individuals or institutional funders purchase equity issued by a company.
Reward-based Crowdfunding	Backers provide finance 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.

Broadly speaking, the taxonomy consists of marketplace/P2P Lending models, balance sheet lending models and various crowdfunding models as illustrated in Table 1.

The taxonomy is based on the evolving characteristics of online alternative finance models. One of the key differentiators in the taxonomy presented for the Americas study compared to the taxonomy used in the UK and European reports is how we categorize lending models in the United States.

Crowdfunding is a general description for all non-debt forms of financing provided by individuals (the "crowd"). Sub-segments of crowdfunding include equity-based crowdfunding, reward-based crowdfunding and donation-based crowdfunding. Real estate crowdfunding, a sub-segment of equity-based crowdfunding, is a separate category in our taxonomy because real estate crowdfunding typically funds asset-backed projects, an asset class that is likely to perform differently to equity-based crowdfunding, typically used to finance operating companies.

Marketplace/P2P lending is a general description of financing provided by way of a loan, regardless of whether the lender is an individual or an institutional investor. Platforms can employ different intermediation models. However, for funding loans, some platforms act solely as intermediaries between borrowers and lenders, in a role that is more akin to asset management than banking, with a business model that avoids taking on credit risk related to lending and relies on fees paid by the investor/lenders. These platforms typically screen and analyze the creditworthiness of loan applications, assign credit ratings to loans, and can allocate loan investments to the portfolios of individual and institutional investors on their platform.

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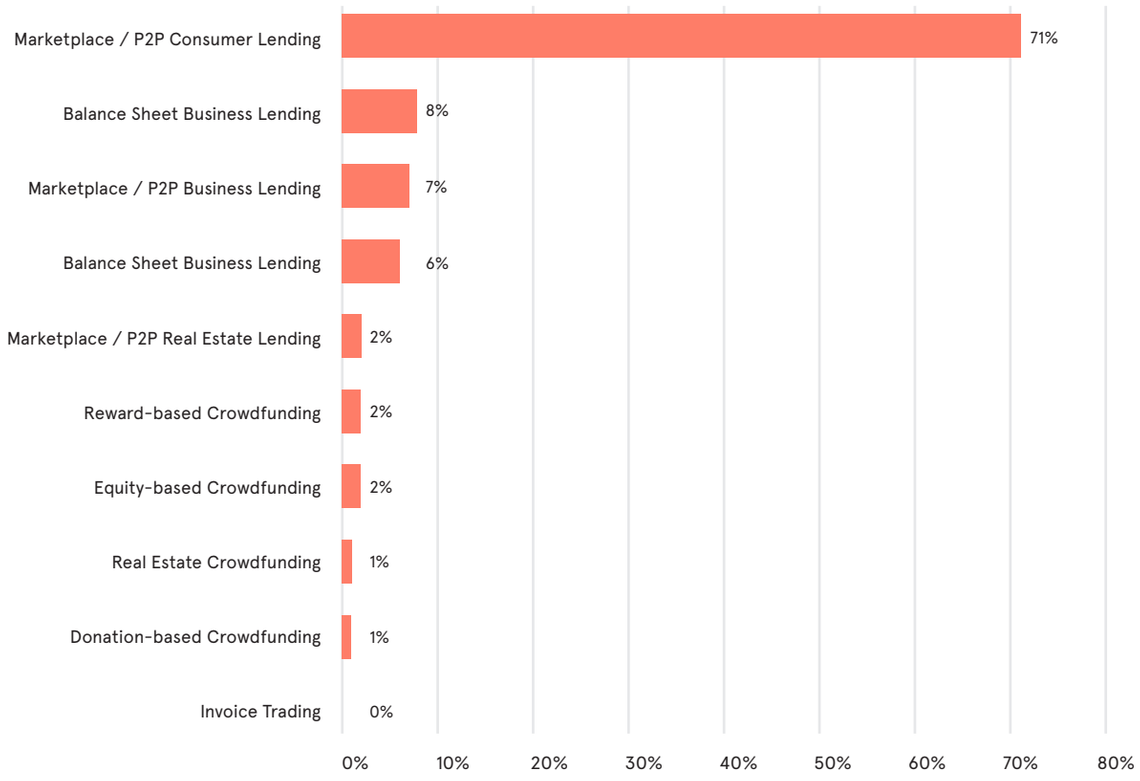
Peer-to-Peer (P2P) lending is a sub-segment of marketplace lending that is more akin to asset management, and refers to the funding of loans to individual or small businesses by individuals (the "peers"). The use of the term P2P in a finance context originated in the UK market in 2005, following the launch of Zopa, the world's first marketplace lending platform, which facilitated consumer loans funded by individuals. The term P2P remains in use as a catch-all description in the UK to describe most types of marketplace lending, regardless of whether loans are funded by individuals or institutional investors, because individuals continue to fund a much larger share of loans than institutional investors in that market.

By contrast, lending platforms in the US market promoted the term "marketplace lending", instead of "P2P", to describe their industry because the participation of "peers" in the lending activity in the US market was much less significant than it was in the UK market. Primarily, institutional investors participated and, to a lesser extent, certified accredited individuals, as SEC rules regarding qualified investors imposed additional due diligence burdens on platforms.

This report includes the addition of two new categories, balance sheet business lending and balance sheet consumer lending. In contrast to the marketplace/P2P lending described above, balance sheet lenders directly fund the loans originated on their platforms and therefore assume the credit risk associated with these loans. They operate with an intermediation model that is more akin to bank lending, by financing loans with equity and debt on their balance sheet and, like banks, periodically refinancing by securitizing pools of the loans they have funded. Unlike regulated bank lenders, however, these balance sheet lenders do not have access to deposits to fund their lending activity.

Figure 10: Alternative Finance Model Market Share in the Americas (2015)



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Market Volumes by Online Alternative Finance

According to the taxonomy described above, the following section details the market volumes of various online alternative finance models in the Americas.

Marketplace/P2P Consumer Lending: In 2015, marketplace/P2P consumer lending was responsible for $25.74 billion, up 237% from $7.64 billion in 2014. Over the three-year period, this model grew at an average annual rate of 204%. This model accounted for 71% of the total alternative finance volume in 2015 in the Americas.

Balance Sheet Consumer Lending: In 2015, balance sheet consumer lending accounted for $3.09 billion, up 346% from $691.95 million in 2014. Between 2013–2015, this model grew by an average annual rate of 492%. The model accounted for 8% of the total alternative finance volume in 2015.

Marketplace/P2P Business Lending: Between 2013-2015, this model grew by 173% on average annually. In 2015, this model was responsible for $2.62 billion, equating to a growth rate of 160% from the 2014 volume of $1.01 billion. This model accounted for 7% of the total market in 2015.

Balance Sheet Business Lending: In 2015, balance sheet business lending accounted for $2.27 billion, up 102% from $1.12 billion in 2014. Between 2013–2015, this model grew by an annual average of 115% and accounted for 6% of the total market in 2015.

Marketplace/P2P Real Estate Lending: This model was responsible for $782.61 million in 2015, up 480% from $134.83 million in 2014. Over the three-year period, this model has grown by an annual average of 471%. This model accounted for 2% of the total market in 2015.

Reward-based Crowdfunding: A market volume of $658.37 million was generated in 2015, up 22% from 2014's $513.96 million. From 2013–2015, this model grew by an annual average of 28%. This model accounted for 2% of the total market in 2015.

Equity-based Crowdfunding: A total volume of $271.95 million was facilitated by this model in 2014, and rose by 120% to $598.05 million in 2015. The total average annual growth rate over the period 2013–2015 was 168%. This model accounted for 2% of the total market in 2015.

Real Estate Crowdfunding: This model grew by 250% in 2015 to a volume of $483.77 million from 2014's $138.15 million. In the three-year period, this model grew by an annual average of 231%. This model accounted for 1% of the total market in 2015.

Donation-based Crowdfunding: The volume generated from donation-based crowdfunding in 2014 was $151.09 million, increasing to $215.56 million in 2015. This represents a growth rate of 43%. From 2013–2015, the average annual growth rate was 35%. This model accounted for 1% of the total market.

Invoice Trading: The total volume for 2015 for this model was $32.63 million, up 265% from 2014's $8.93 million. The average annual three-year growth is an impressive 641% for the region.

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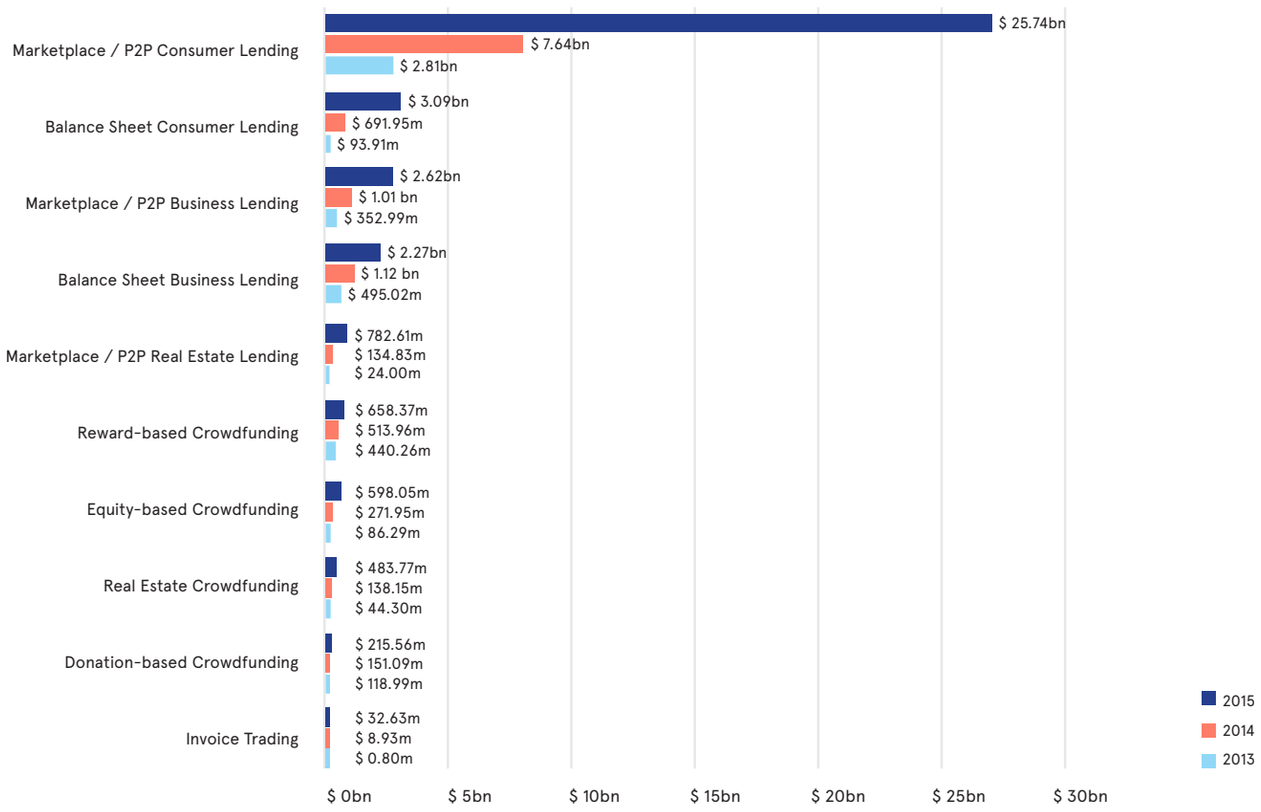
Invoice trading, balance sheet consumer, and marketplace/P2P real estate experienced the highest growth rate in the Americas over the 2013–2015 period, with growth rates of 641%, 492% and 471% respectively, but accounted for less than 1% of the total market.

Figure 11: Market Volume in the Americas by Alternative Finance Model 2013–2015 ($ USD)



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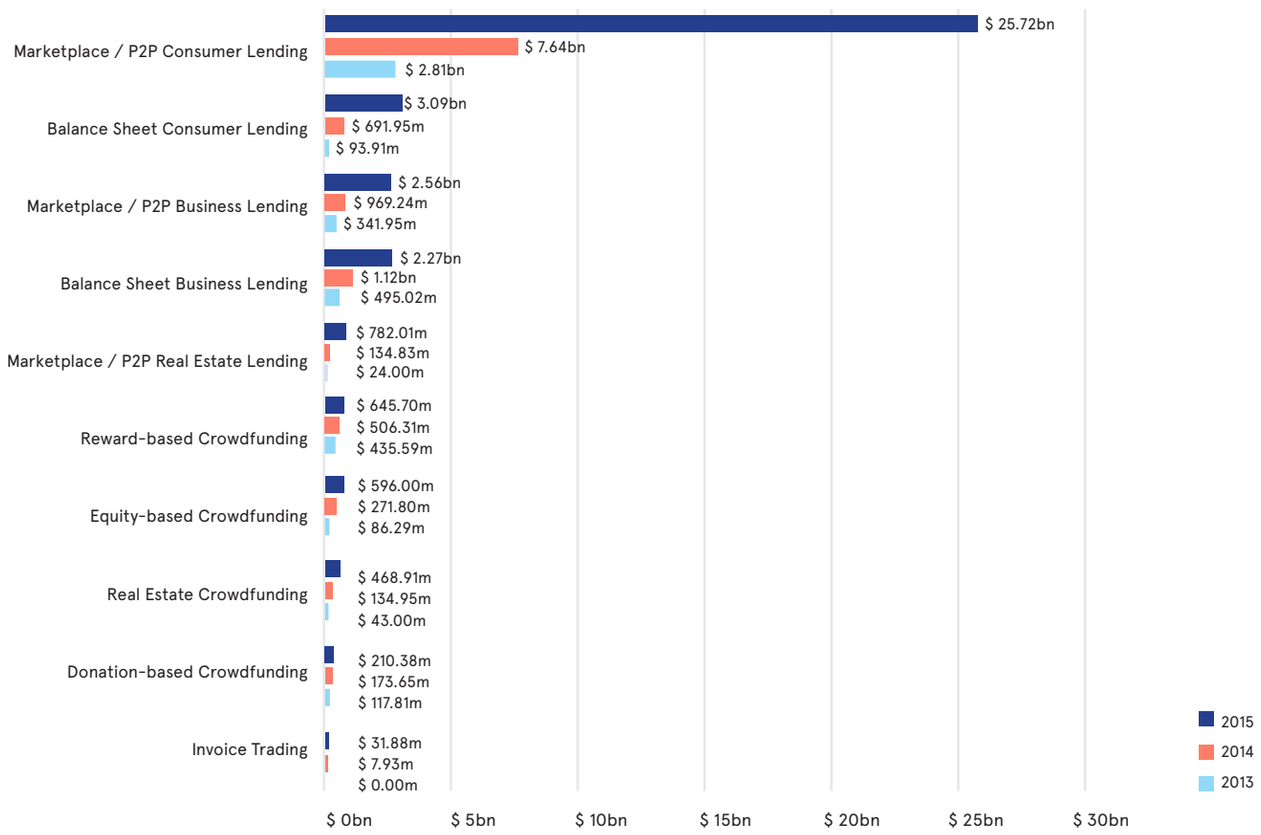
In the US and Canada, marketplace/P2P consumer lending consistently generated the most transaction volume over the three-year period 2013–2015. The volume created by this model of alternative finance over this period was $36.16 billion, a; 69% share of the total market. The highest growth rates over the same period for this region are balance sheet consumer lending with 492%, marketplace/P2P real estate with 471% and finally invoice trading with a growth rate of 302%.

Figure 12: Market Volume in North America by Alternative Finance Model 2013–2015 ($ USD)



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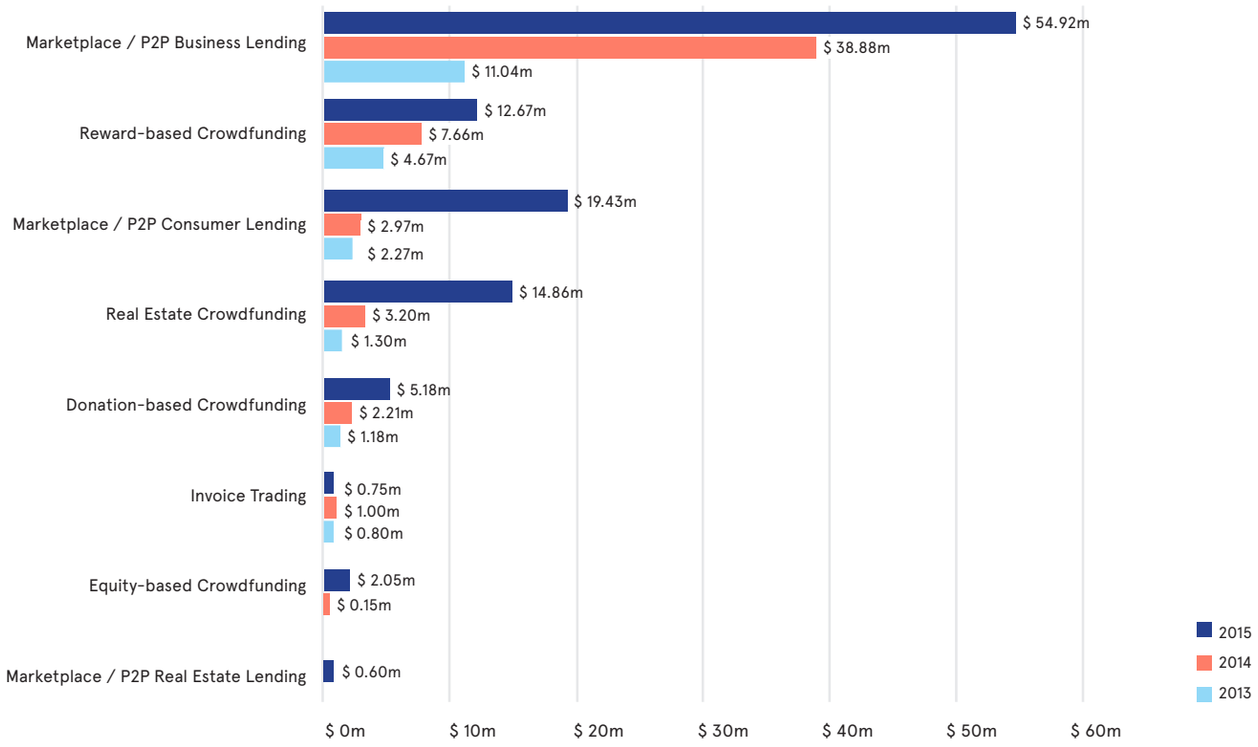
In Latin America and the Caribbean, the 2013–2015 online alternative finance market was dominated by marketplace/P2P business lending, with a 56% share of total market volume. In terms of growth rates, the top three models for the region were equity-based crowdfunding with 1258% from 2014–2015, marketplace/P2P consumer lending with 292% and real estate crowdfunding with 255% over the period 2013–2015.

Figure 13: Market Volume in the Latin America & Caribbean by Alternative Finance Model 2013–2015 ($ USD)



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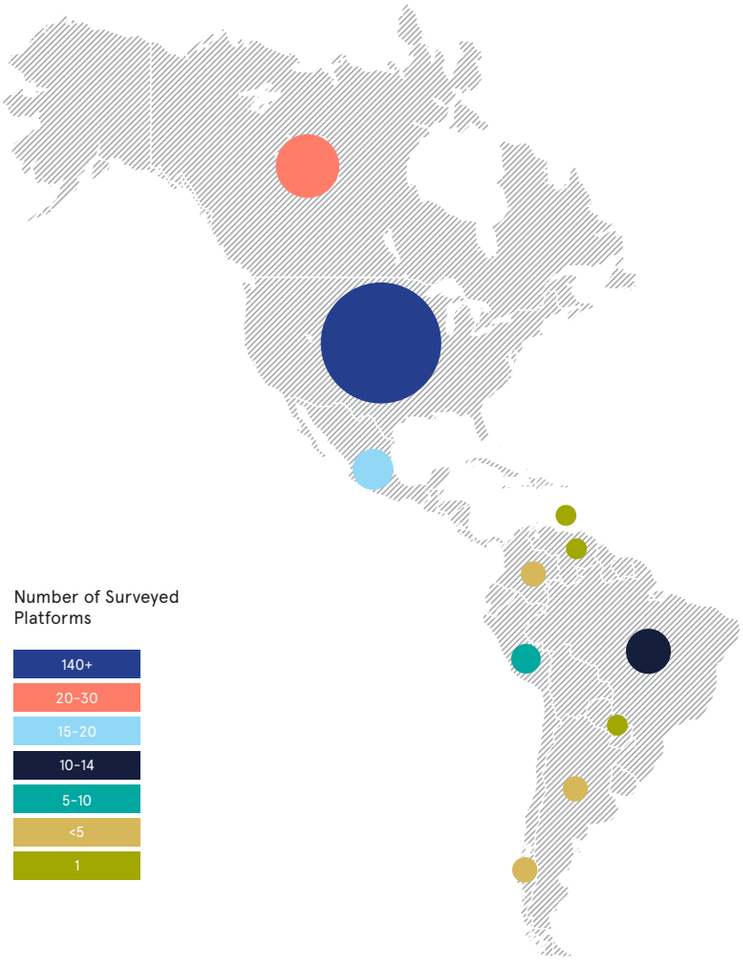
THE GEOGRAPHY OF ONLINE ALTERNATIVE FINANCE IN THE AMERICAS

While the online alternative finance market continues to expand across North America and the Latin American and the Caribbean markets, the US remains the largest contributor in terms of annual volume, product innovation, model diversity, institutional participation and number of active alternative finance platforms. In 2015, the US accounted for 99% of total market volume across the Americas. Within the Latin American and the Caribbean markets, Chile accounted for 43% of the market volume in 2015; Brazil was responsible for generating just over 20% of the total regional volume and Mexico for a further 12%.

These results are not surprising given the vast differences between the GDP of these countries. We think that other factors might also contribute to the success of specific alternative finance markets. These include comfort with online retail and e-commerce activities, high smart-phone penetration, early adoption of alternative finance models, an investment climate that funds and supports technological innovation, a culture of innovation in the financial services sector, strong adoption of online/mobile banking, dissatisfaction with traditional banks (often resulting from restrictive lending policies), pent-up demand from unbanked and underbanked consumers and businesses and a generally supportive political and regulatory environment.

Figure 14: The Geographical Distribution of Surveyed Platforms in the Americas (by Country)



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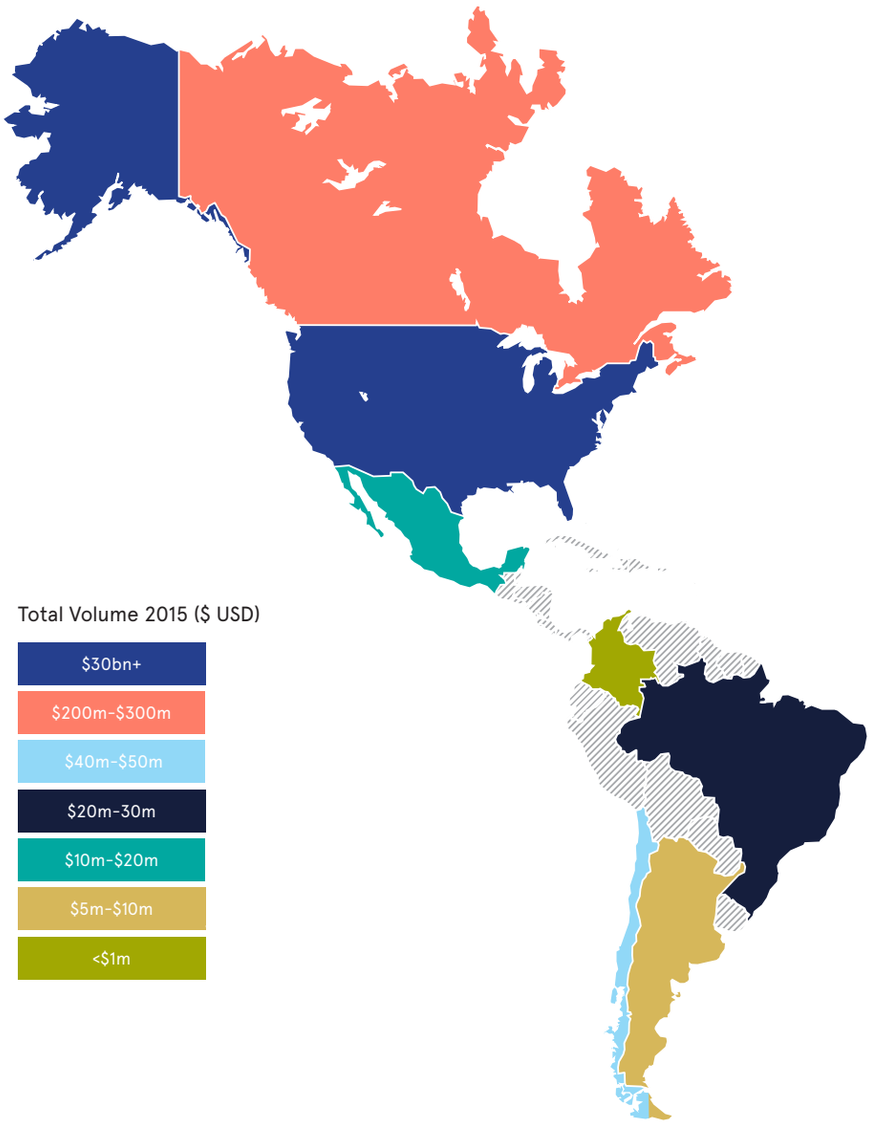
Since 2013, the US market has grown at an average rate of 188%, followed by Canada (139%). Latin America and the Caribbean (which has grown at 130%), Mexico (210%), Brazil (146%), Argentina (135%) and Chile (122%) continue to grow at a rapid pace.

As the geographic distribution of surveyed platforms illustrates, the online alternative finance markets are well developed in the US, Latin America and the Caribbean and Canada. The Brazilian and Mexican markets continue to build the diverse platform landscape necessary to support higher volumes.

Figure 15: Comparative Market Volumes of Alternative Finance Transactions in the Americas (2015)



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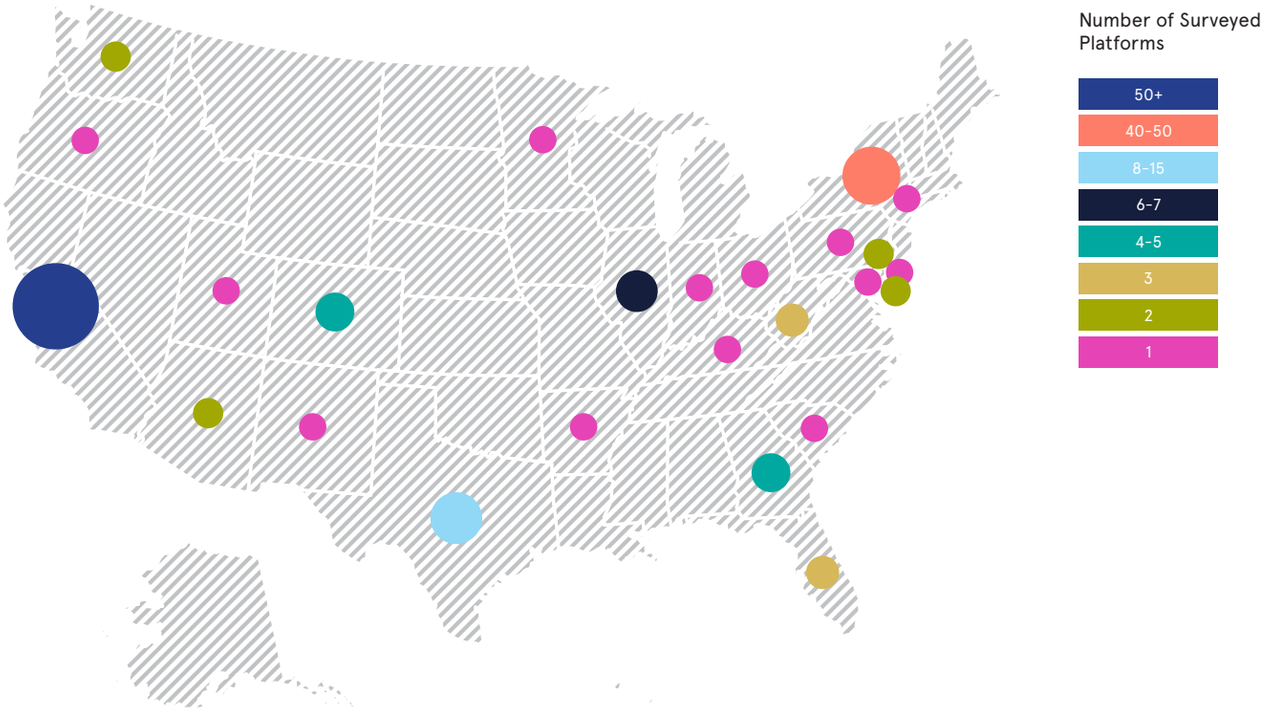
Although a majority of transaction volume occurs in the US, we find that there are significant volumes from Canada ($206.96 million), Chile ($47.57 million), Brazil ($24.15 million), Mexico ($13.18 million) and Argentina ($9.06 million) in 2015.

In the United States, platforms tend to concentrate on the East and West coasts of the country. California and New York have the highest concentration of platform headquarters, with the rest of platforms distributed across the country.

Figure 16: The Geographical Distribution of Surveyed Platforms in the United States



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The Dynamics of the Market by Volume Per Capita

Between 2013 and 2015, online alternative finance platforms across the Americas have facilitated $52.63 billion in funding to individuals and businesses. Besides the US, which contributed $52.13 billion of this funding, the top four countries are Canada with $312.03 million, Chile with $96.80 million, Brazil with $36.05 million and Mexico with $19.08 million. The rest of Latin America and the Caribbean accounts for the remaining $132.67 million.

When adjusted for population, the 2015 data shows that the US outpaces the rest of the Americas, with a per capita volume of $113.04 based on a 2014 per capita GDP of $54,629.50 (World Bank data),[13] which is the highest in the world according to our studies.[15] Canada follows this with a much lower per capita volume of $5.82, with a per capita GDP of $50,235.40. However, a more nuanced picture emerges across the rest of the Americas. Chile

Figure 17: Online Alternative Finance Volume by Country 2015 ($USD)

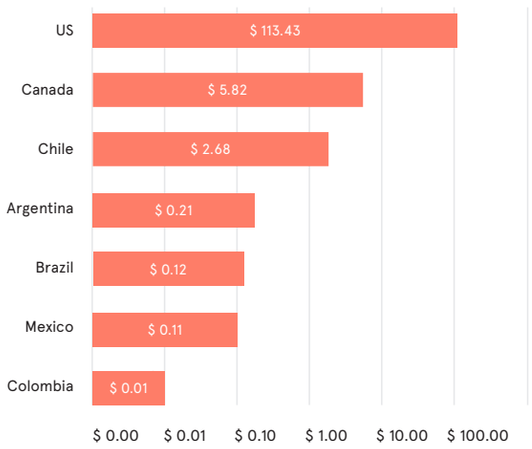

Figure 18: Online Alternative Finance in Market Volume by Country 2015 ($USD)

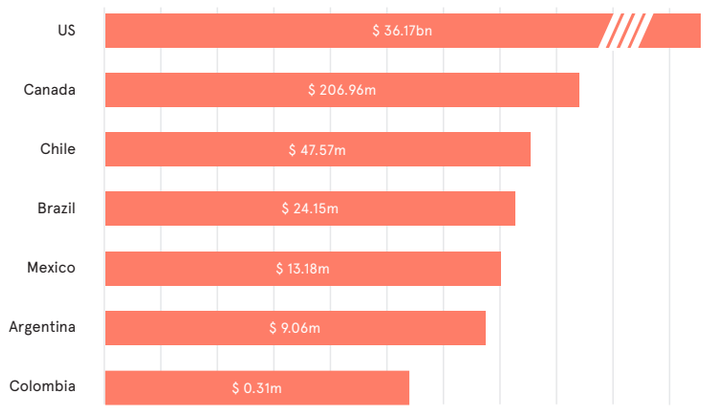

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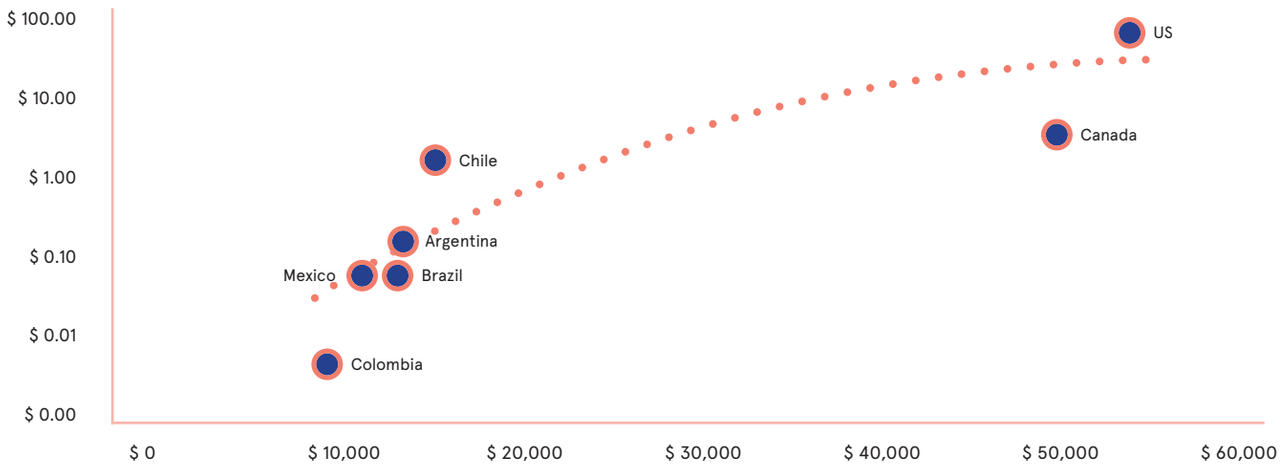
Figure 19: A Comparison of Alternative Finance Volume Per Capita vs GDP per Capita ($USD)



recorded the next highest per capita transaction volume at $2.68, with per capita GDP of $14,528.33, while Brazil, with a slightly lower per capita GDP of $11,384.43, produced a per capita transaction volume of just $0.12, likely due to their relatively high national population and lower alternative finance total market volume.

This performance may reflect the strength of Chile's top marketplace/P2P business lending platforms and their high average deal sizes (in addition to Chile having a smaller population). One could also see alternative finance in Chile as a part of its entrepreneurial culture; its high levels of social media usage; its generally favorable social, technological and investment climate and the government's commitment to building a supportive ecosystem.[16] In Brazil, reward-based and donation-based crowdfunding are dominant; these types of transactions raise smaller volumes compared to the "investment" models in some smaller countries that can drive higher per-capita volumes.

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THE USE OF ONLINE ALTERNATIVE FINANCE BY BUSINESSES

Across the region, online alternative business funding accounted for $7.01 billion in 2015, or roughly 20% of the entire alternative finance market. The US was responsible for $6.88 billion, while the rest of the region supplied $121.60 million to businesses including start-ups and SMEs. Over the three-year period, business finance grew at an average annual rate of 147%, starting at $1.15 billion in 2013 and reaching $2.86 billion in 2014.

In this report, alternative business funding includes transactional volumes from marketplace/P2P business lending, balance sheet business lending, invoice trading, equity-based crowdfunding, marketplace/P2P real estate lending models[17] and real estate crowdfunding.[18,19] We also attributed reward-based and donation-based crowdfunding to business finance volumes where so indicated by the surveyed platforms. In addition, 35% of our web-scraped, reward-based platform data was attributed to business finance.[20]

In the US, lending-models accounted for the vast majority of finance for businesses, generating $5.61 billion in 2015. Of business volumes from lending models, marketplace/P2P business lending accounted for the majority of the overall business finance volume in 2015, with $2.55 billion, followed closely by balance sheet business lending, at $2.25 billion. Invoice trading contributed a more modest $31.88 million in 2015, but was the fastest growing model, up 302% from 2014's $7.93 million. We expect this model to continue to grow rapidly in 2016, especially as US businesses become familiar with invoice trading outside of traditional factoring services.

Figure 20: US vs Rest of Region Total Online Alternative Business Funding Volumes 2013–2015 ($USD)

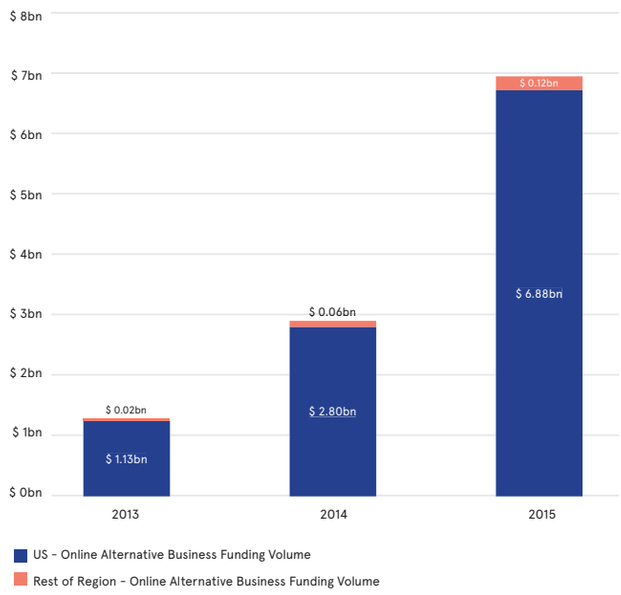
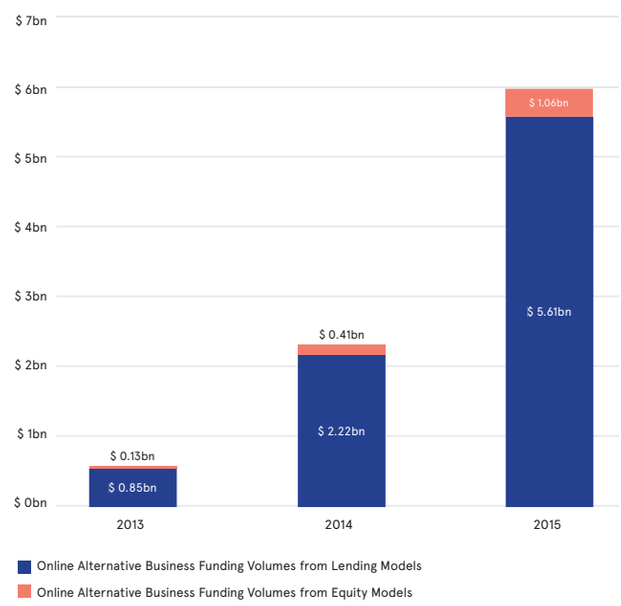


Figure 21: US – Lending vs Equity Online Alternative Business Finance 2013–2015 ($USD)



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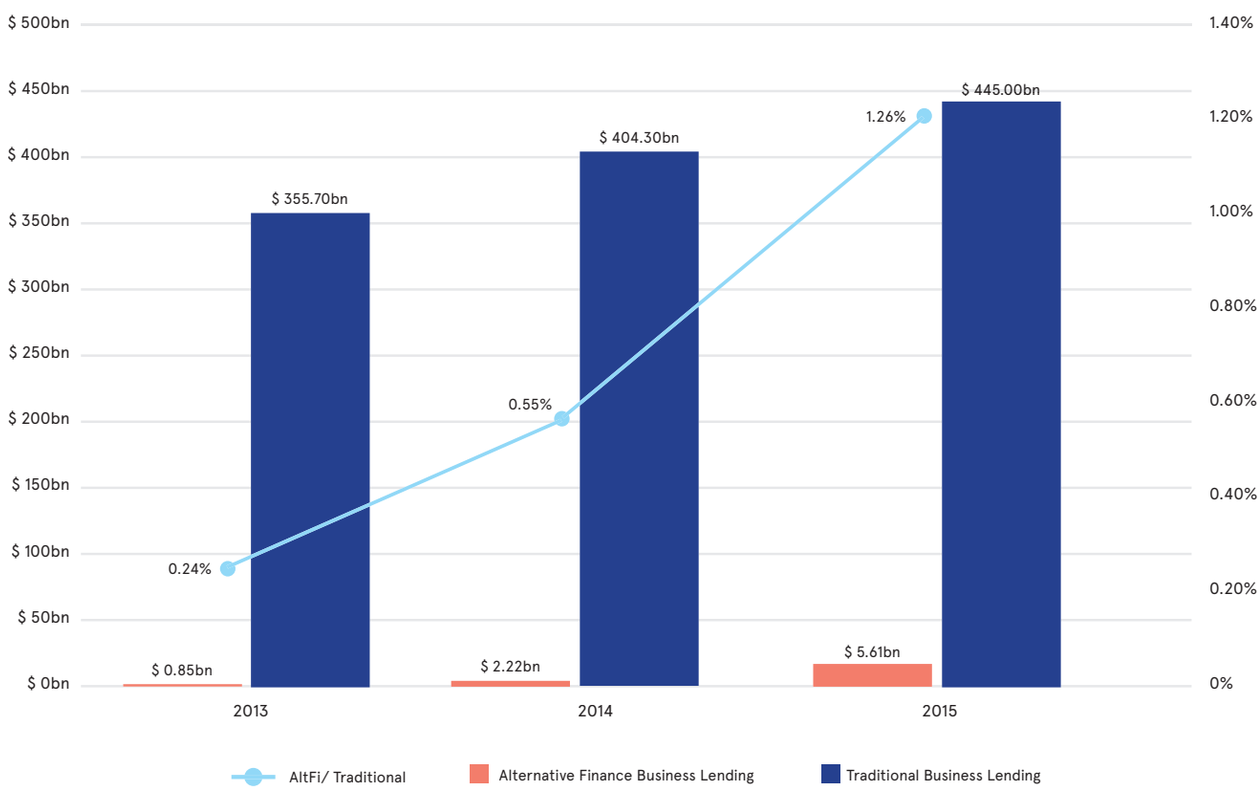
Marketplace/P2P real estate lending also accounted for a significant proportion of business volumes, with surveyed platforms attributing $782.01 million towards funds utilized exclusively by business borrowers, mainly in the form of bridging loans or commercial real estate mortgages. It should be noted that a number of platforms provided additional breakdown figures for total volumes attributed to joint-venture or preferred equity options, whose volumes were attributed to the crowdfunding real estate model.

As online alternative business funding continues to grow, it is worth considering the broader lending context. In 2013, lending volume from the online alternative finance sector in the US was equivalent to 0.24% of lending from traditional finance providers, such as banks.[21] Over the three-year period, the share of alternative funding has gradually increased, and is now providing an equivalent of 1.26% of business lending in the US.[23] While this looks relatively unremarkable, it is worth noting that alternative finance lending for business has grown at an annual rate of over 156% between 2013–2015, while lending volumes from the traditional sources grew at 14% from 2013–2014, and 10% from 2014–2015. We anticipate online alternative finance lending to sustain its rapid growth, expanding its impact on business' access to credit.

Figure 22: US Total Online Alternative Business Funding Volumes (2013-2015) VS US Business Credit Outstanding (Flows)



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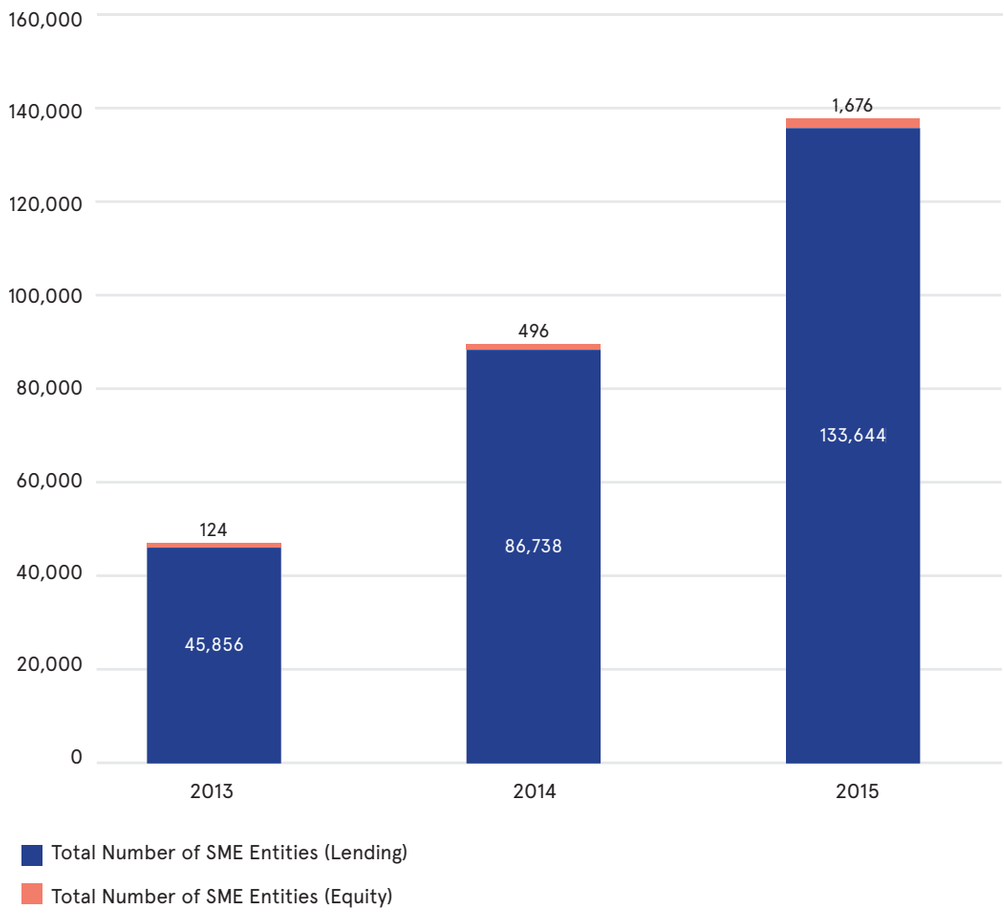
Equity models made up a smaller proportion of total business volumes in the US, accounting for a reported $1.06 billion in 2015 from surveyed platforms. Approximately 44% of equity volumes came from the real estate crowdfunding model.

In 2015, 135,320 businesses used online alternative business finance– via debt or equity funding – in the US, a 55% increase from the 87,234 in 2014. A total of 268,524 businesses used online alternative finance from 2013–2015.

When we look at 2015 business volumes in the Americas region, excluding the US, finance supplied to businesses totaled $121.60 million, with major volume contributions attributed to several key countries, including $59.13 million from Canada, $46.50 million from Chile, $6.83 million from Mexico, $3.36 million from Brazil and $1.51 million from Argentina. In Canada, 72% (or $42.57 million) of all online alternative business funding was in the form of loans, where balance sheet lenders provided 46% and marketplace/P2P lenders 26% of total business funding volume.

Figure 23: Number of SMEs Funded by Alternative Finance in the US (2013–2015)



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In the Latin American and the Caribbean region, 70% of the overall online alternative finance market was attributed to business finance, with 77% of business volumes coming from lending models and 23% via equity models. Marketplace/P2P business lending dominated, providing funding to more than 5,700 SMEs and accounting for 71% of the region's total online alternative business funding. Real estate crowdfunding was the second largest funding model for SMEs, accounting for 19% of the market and servicing more than 2,000 SMEs. It should be noted that, where applicable, surveyed real estate crowdfunding platforms provided debt-based volumes, which were attributed to the SME lending figures.

Figure 24: Latin America and the Caribbean – Lending vs Equity Online Alternative Business Finance 2013–2015 ($USD)

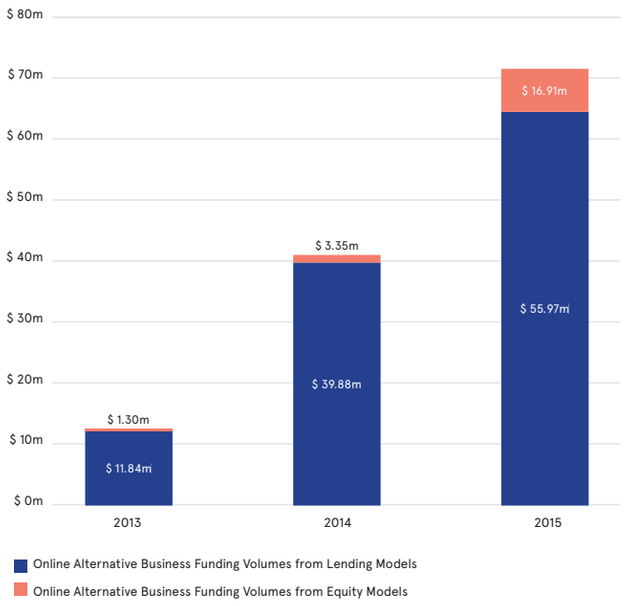
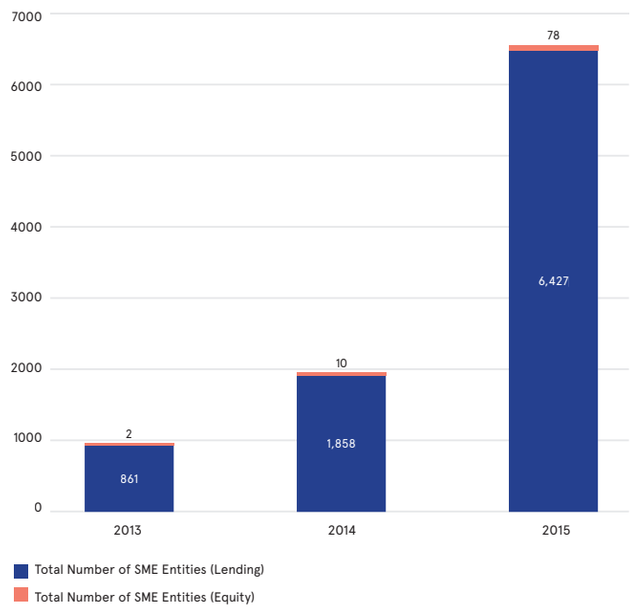


Figure 25: Number of SMEs Funded by Alternative Finance in the Americas (Excluding US) (2013–2015)



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Key Industries and Sectors Utilizing Alternative Financing

Looking in more detail at the businesses utilizing alternative finance in North America, the highest ranking industry sectors, measured by transaction volume, are Construction, Finance, Business & Professional Services, Technology and Retail & Wholesale. In Latin America and the Caribbean, Technology, Business & Professional Services, Construction, Health & Social Work and Arts, Music & Design were ranked highest.

Table 2: The Ranking of Prevalent Funded Sectors through Online Alternative Finance

US & Canada	Latin America & the Caribbean
Construction	Technology
Finance	Business & Professional Services
Business & Professional Services	Construction
Technology	Health & Social work
Retail & Wholesale	Art, Music & Design

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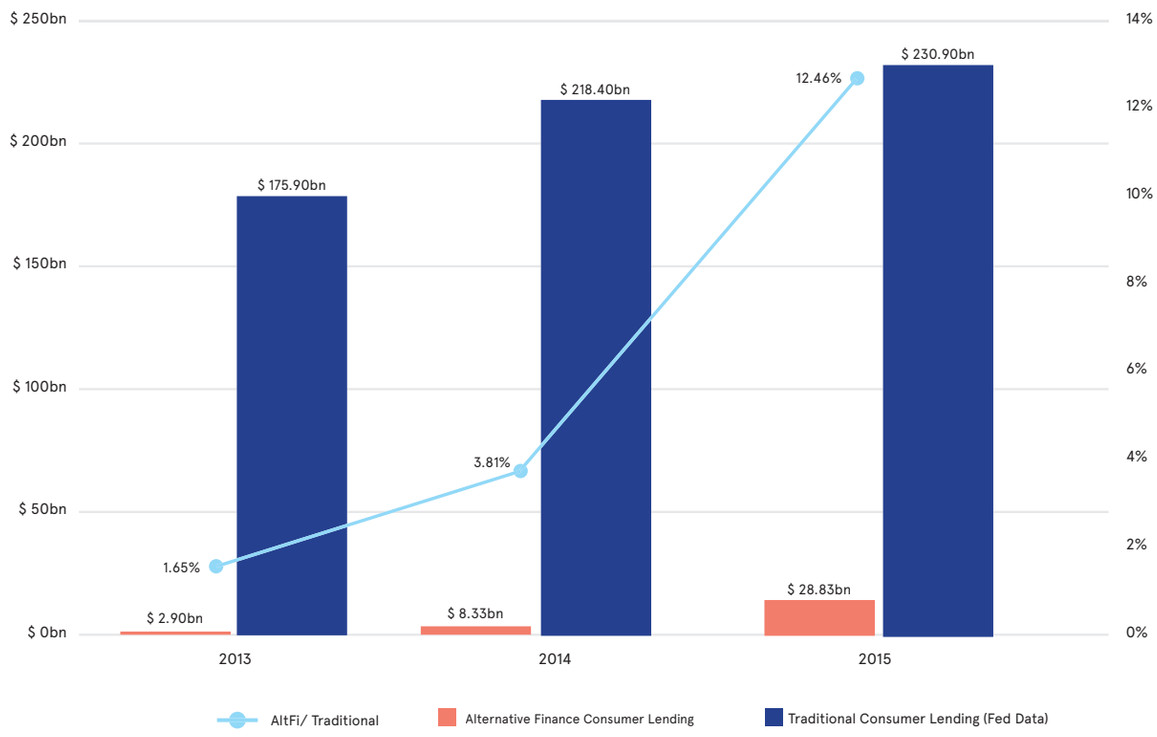
A Focus on Consumer Finance in the United States

Though the use of alternative funding models for businesses is rapidly growing in the US, the online marketplace caters predominantly to personal and consumer lending. This is different from how alternative finance has been used or characterized outside of the US. In the United Kingdom, for example, 69% of 2015 alternative finance volumes came from business-focused platforms.[25] Across the Asia-Pacific region, 61% percent of the market volume was also attributed to business funding.[26]

In 2015, in the US, $28.83 billion came from non-business focused models, by and large from marketplace/P2P consumer lending ($25.69 billion) and balance sheet consumer lending ($3.07 billion) platforms. We expect that a portion of consumer borrowing is being used to finance business ventures, either as personal loans taken out by small business owners or to finance micro-businesses that do not require traditional forms of business finance.

According to the Federal Reserve consumer credit outflow data,[27] 2015 outstanding credit flows from traditional finance providers equaled $230.90 billion. When putting this figure into context, online alternative finance consumer lending was equivalent to 12.5% of traditional consumer lending. This is a significant increase in market share during the three-year period, growing from 1.65% in 2013 to 3.8% in 2014. As lending models that focus on consumer finance continue to experience relatively high rates of growth, it is likely that 2016 will see alternative finance models for consumer finance continue to take up a larger market share of US consumer credit.[28]

Figure 26: US Online Alternative Consumer Lending Volumes (2013-2015) vs US Consumer Credit Outstanding (Flows)



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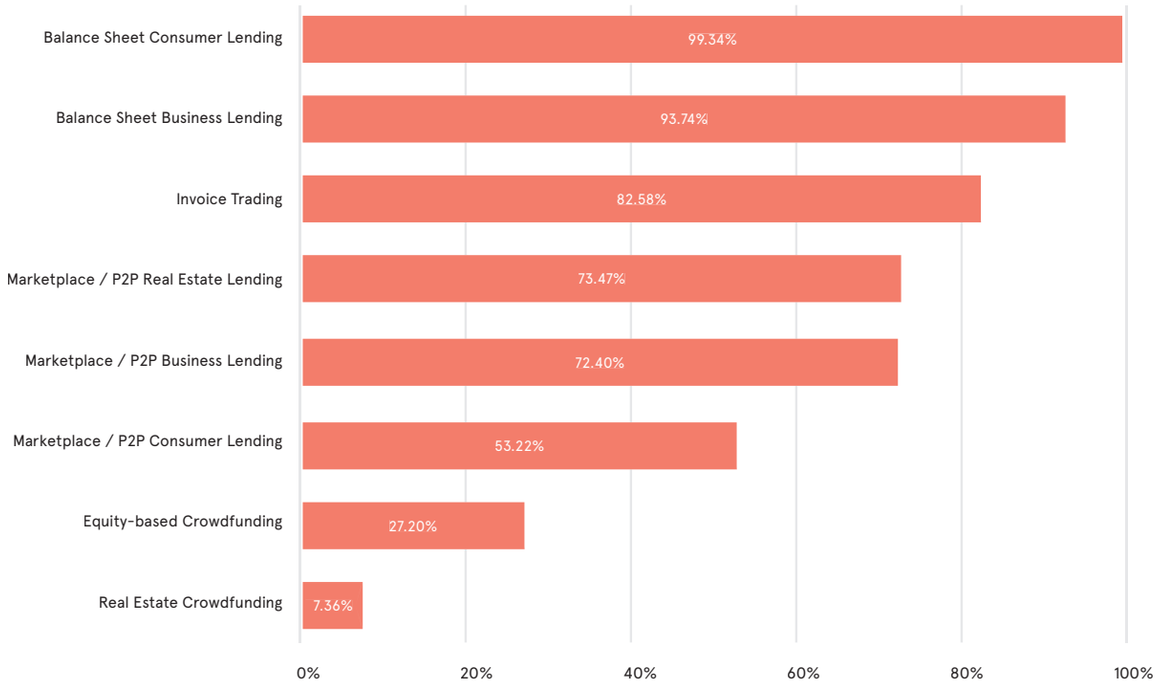
MARKET FUNDAMENTALS OF ONLINE ALTERNATIVE FINANCE

The dominance of institutional investors distinguishes the US market. Outside of the US, marketplace/P2P lending models have higher proportions of individual lenders, categorized as retail investors (with varying degrees of financial sophistication), fulfilling loans. In the EU and Asia, institutions (including hedge-funds, mutual funds, pension funds, family offices, asset management firms and banks) are assuming a larger role in supplying online debt.

In the US, the lending model has developed differently, with institutional investors participating in alternative finance early on, with less emphasis placed on individual investor participation. Our survey captured institutional investor market participation by model. In the US, both the balance sheet consumer lending model and the balance sheet business lending model reported over 93% of financing by institutional investors. The invoice trading model reported that 83% of invoices traded on their platforms are funded by institutional investors. In the case of marketplace/P2P lending, the three relevant models – real estate (73%), business (72%) and consumer lending (53%) – all showed high levels of institutional participation.

Marketplace consumer/P2P lending is the largest market segment in online alternative finance in the US, contributing $36.13 billion over the 2013–2015 period. During this period, institutional investors have funded just over half of all loan volumes – an equivalent of $19.22 billion. From 2013–2015, $3.86 billion has been generated by the marketplace/P2P business lending model. Of this, $2.79 billion (or 72%) has been supplied by institutions. Qualitative remarks from platforms, categorized as marketplace/P2P business lenders, suggest that a greater emphasis on institutional investment is related to the ability of institutions to fund whole individual loans that are typically larger in size than the loans originated on marketplace/P2P and balance sheet consumer lending platforms. In the US, the average size of a loan funded on a marketplace business consumer/P2P lending platform is $24,683 versus $85,902 for a loan funded on a marketplace/P2P business lending platform.

Figure 27: US Proportion of Total Funding by Institutional Investors by Alternative Finance Model (2013–2015)



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Additional qualitative remarks from surveyed platforms suggest that the current reliance on institutional investors has changed significantly over the three years, with platforms seeking a more diversified investor base and seeking to become less reliant on institutional investors relative to retail investors. At present, retail investor participation is constrained by regulation that limits the type of individual allowed to participate in marketplace/P2P lending.

While regulation will soon allow for greater inclusion, at the time of our survey, the vast majority of marketplace/P2P lending platforms indicated that individuals utilizing their platforms were categorized as accredited investors. In the marketplace/P2P consumer lending model, $16.98 billion was supplied by accredited investors over the three-year period, representing 47% of all transactions. For marketplace/P2P business lending, accredited individuals accounted for just 27% of all transactions – roughly $1.03 billion over the 2013–2015 period.

Non-accredited individual investors made up significantly smaller proportions of lending across both of these models, contributing only $14,467 to the total marketplace/P2P consumer lending volume, and $27.5 million to the total of marketplace/P2P business lending volume over the three-year period. With impending regulatory changes, it is anticipated that marketplace/P2P lending by non-accredited individuals will become a more significant proportion of the funding supply.

Across the entire region, excluding the US, a combination of accredited and non-accredited investors play a more significant role in supplying funding to borrowers and fundraisers. Overall, institutional funding makes up just half of all funding attributed to lending models, with higher proportions of accredited individuals contributing to total funding volumes.

Figure 28: US Proportion of Accredited Investor Activity by Alternative Finance Model (2013–2015)

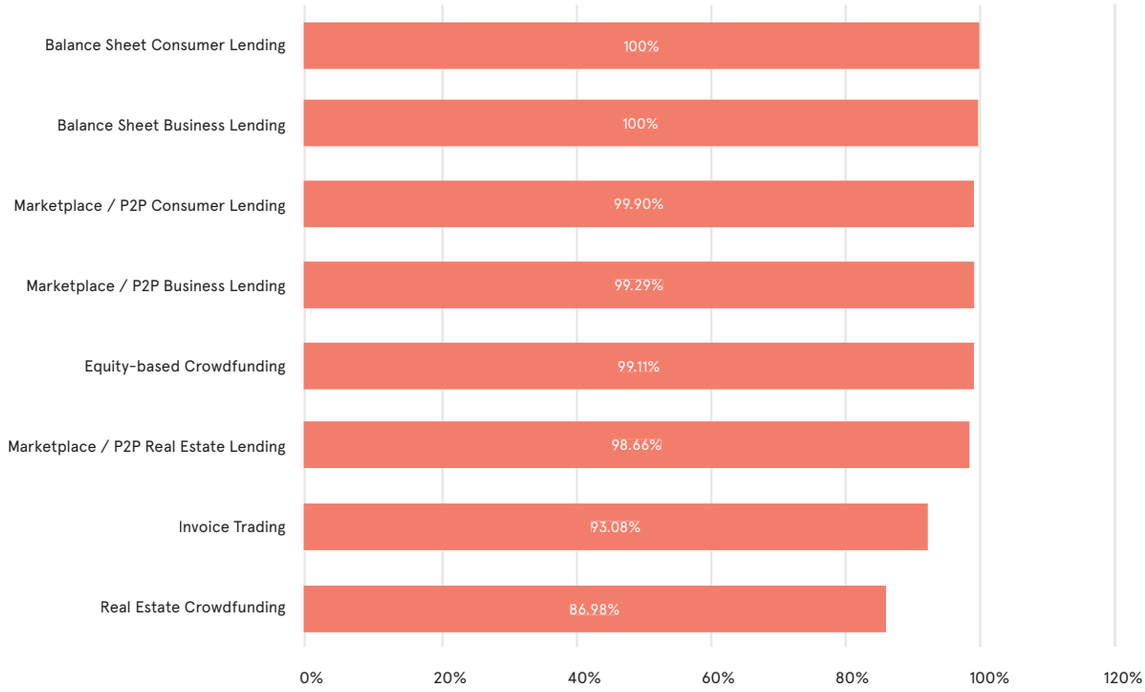

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Figure 29: Americas (Excluding US) Proportion of Total Funding by Institutional Investors by Alternative Finance Model (2013-2015)

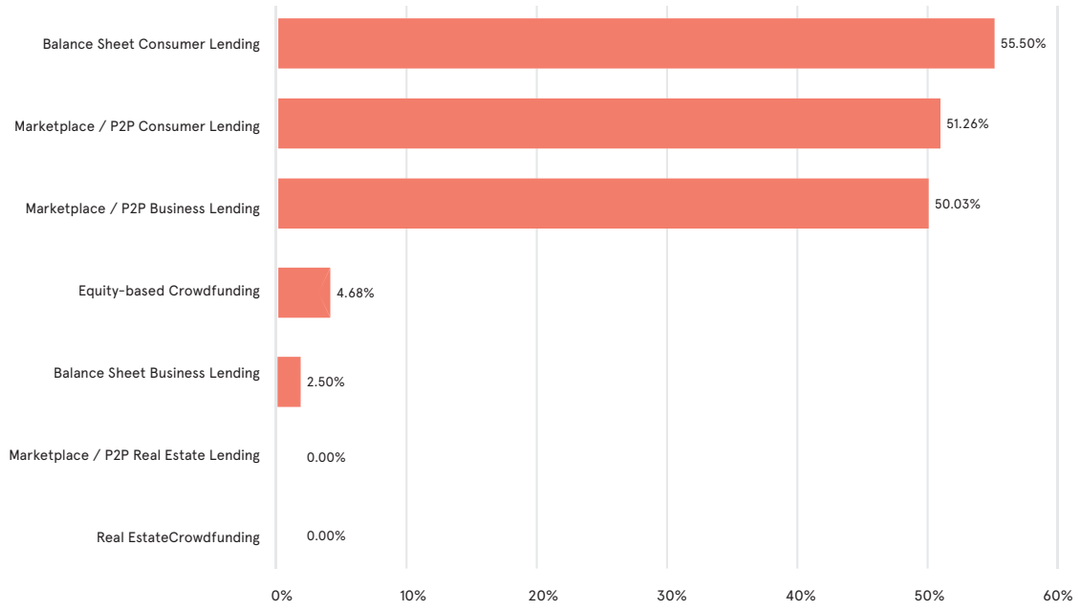
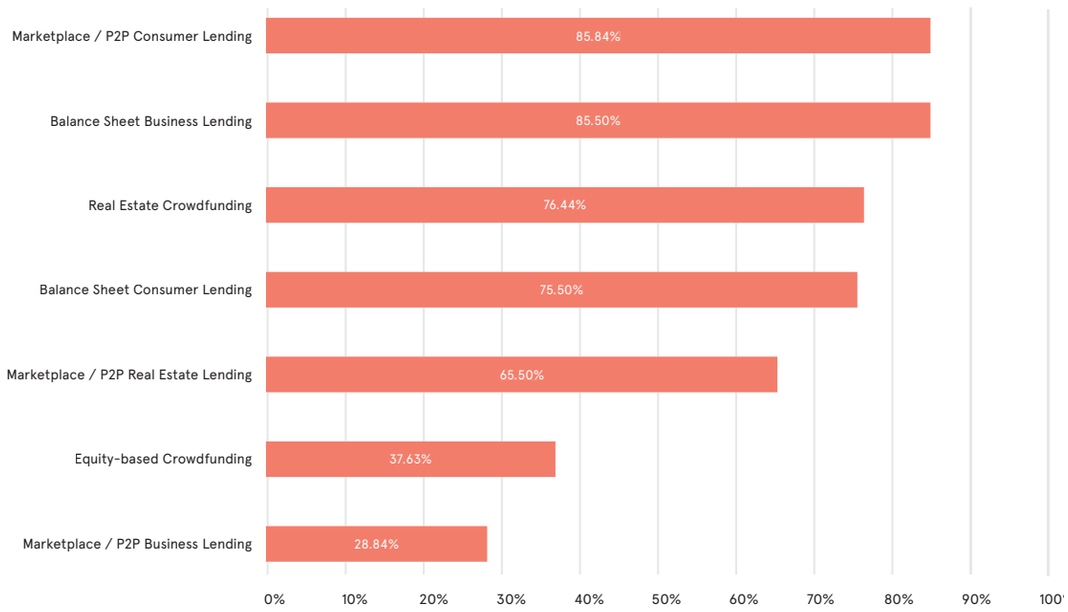


Figure 30: Americas (Excluding US) Proportion of Accredited Investor Activity by Alternative Finance Model (2013-2015)



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Within North America, Canada is also marked by significant proportions of institutional investor participation – particularly in the consumer lending model. Over the three-year period (2013–2015), marketplace/P2P consumer lending generated a total volume of $28.50 million, of which 87% was supplied by institutional investors ($24.80 million). Accredited investors make up the remaining 13% of finance attributed to this model, with negligible proportions of funding from non-accredited investors.

In marketplace/P2P business lending, accredited individual lenders account for 63% of the $17.15 million attributed to this model over the three-year period (2.9% is attributed to non-accredited retail individuals).

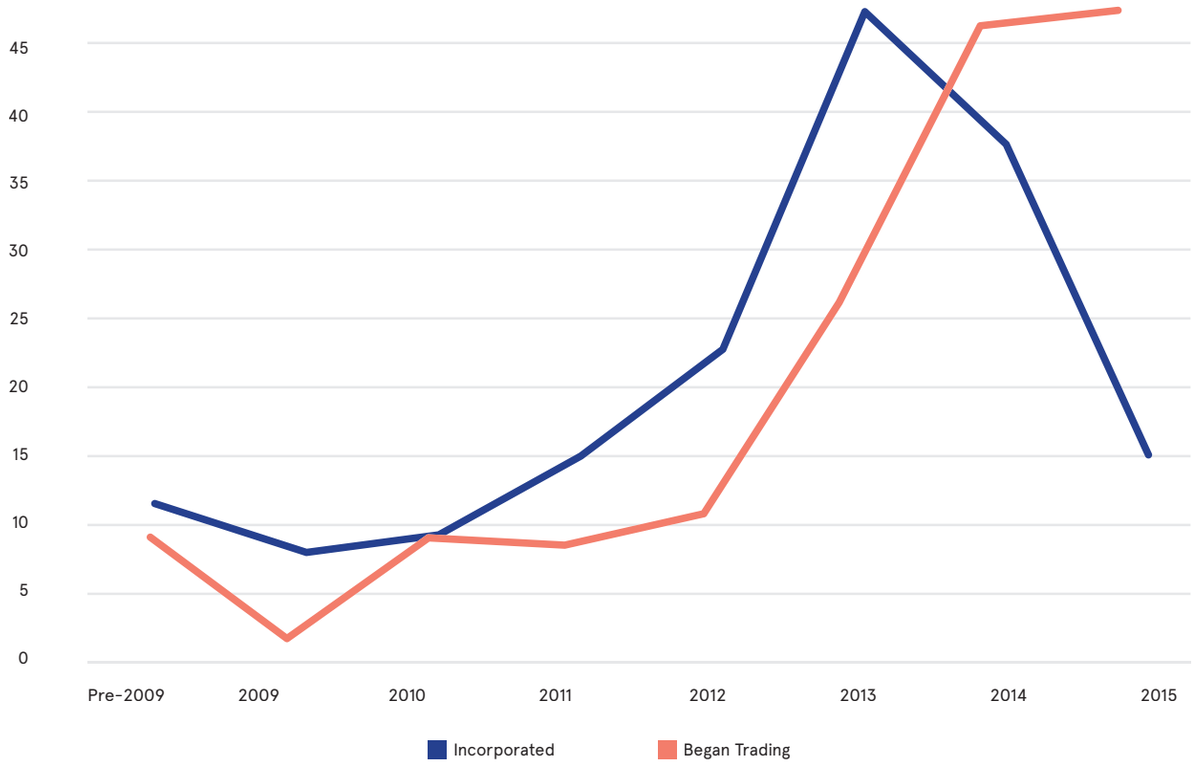
Latin America and the Caribbean are characterized by a significantly higher proportion of funding from non-institutional investors. The marketplace/P2P consumer lending model, for instance, is predominantly utilized by accredited individuals, representing 57% of the $24.67 million attributed to this model between 2013–2015. Non-accredited retail investors accounted for 34%, while institutions only made up 9.7%.

Marketplace/P2P business lending is represented significantly by institutional investors, who made up 53% of the $104.84 million attributed to this model in 2013–2015. Accredited investors made up 17%, while non-accredited retail investors made up 8.3% of the total volume from this model. For the overall region including all models, 32% of funders were categorized as accredited investors while only 14% of total funding came from institutional investors.

The Dynamics of Platform Entry and Exit

Looking at the platforms providing online alternative finance capital, data from 2013–2015 indicates a significant decline in the incorporation of new platforms and a steady increase in the number of platforms that began trading. Entry of new alternative finance platforms in the Americas peaked in 2013, when 47 surveyed new platforms were incorporated and 26 began trading. In 2014, incorporation declined to 37, while 46 surveyed platforms began trading. In 2015, only 15 platforms from our survey dataset were incorporated, while 47 platforms began trading. These trends may be indicative of evolving

Figure 31: Americas Platforms Providing Alternative Finance – Year Incorporated vs. Year Trading



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marketplace conditions and the regulatory developments in the Americas during the last few years. Several factors may contribute to the gap between platform incorporation and active trading, including regulatory/legal issues, technological and marketplace barriers, time to establish partnerships and investment of time and resources to build marketing and financing infrastructure.

Funders and Fundraisers on Online Alternative Finance Platforms

A growing number of institutional and retail investors look to this market for higher yields and portfolio diversification, while an increasing number of consumers and businesses view these platforms as alternatives to traditional banks and sources of venture capital. On the funder side, platform data shows that in 2015, around 9.7 million people invested, donated or lent via online alternative finance platforms across the Americas. The US market accounted for 8.6 million of them. Though this figure is likely to have included substantial double counting of individuals funding across different platforms and funding repeatedly on the same platforms, it does demonstrate the base of individual participation in funding the alternative finance market.

In 2015, an estimated 8.8 million consumers and businesses raised capital through online alternative finance channels across the Americas, with the US accounting for 8.7 million.

Female Representation within Models and Geographies

The 2015 America's Alternative Financing Survey was able to peer into market demographics and found that women made an important contribution to the sharp rise in fundraiser and funder participation over the last three years. Across most models, women participating as fundraisers outpaced those providing the finance.

Figure 32: Female Funders & Fundraisers by Alternative Finance Model (2013-2015)

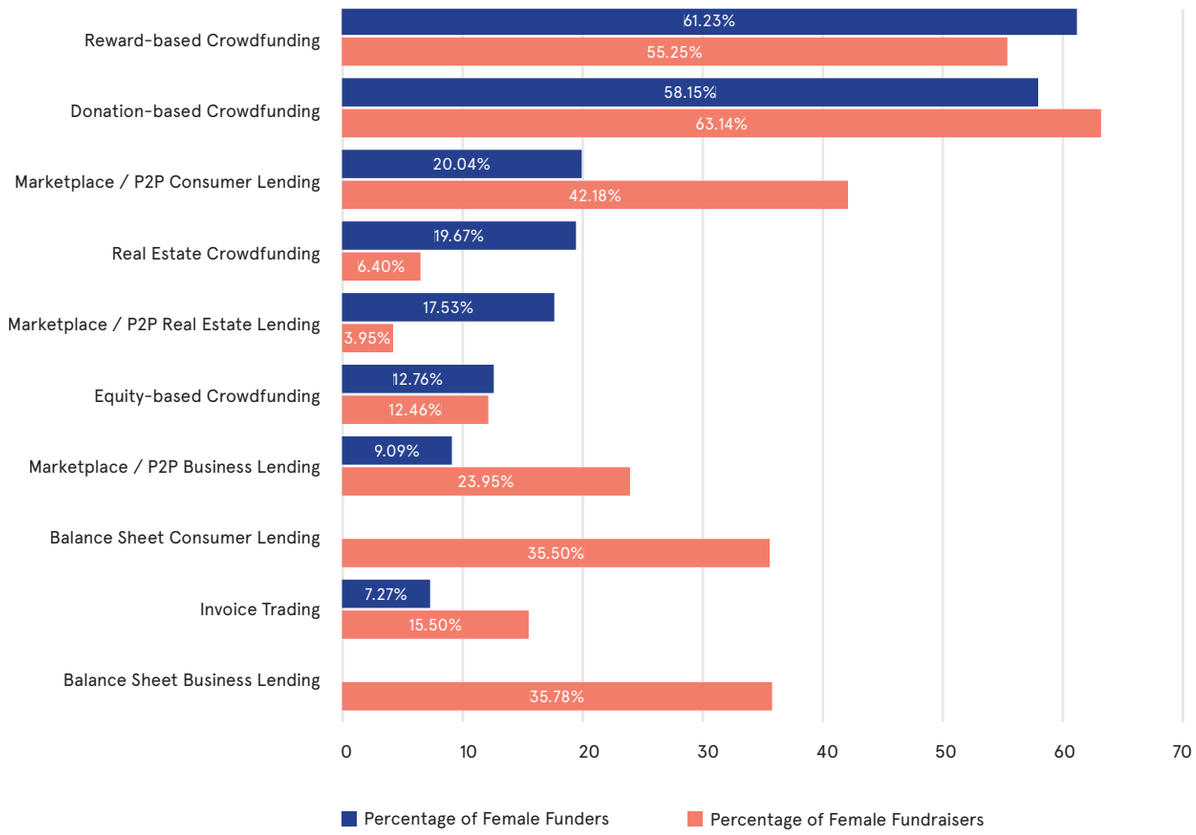

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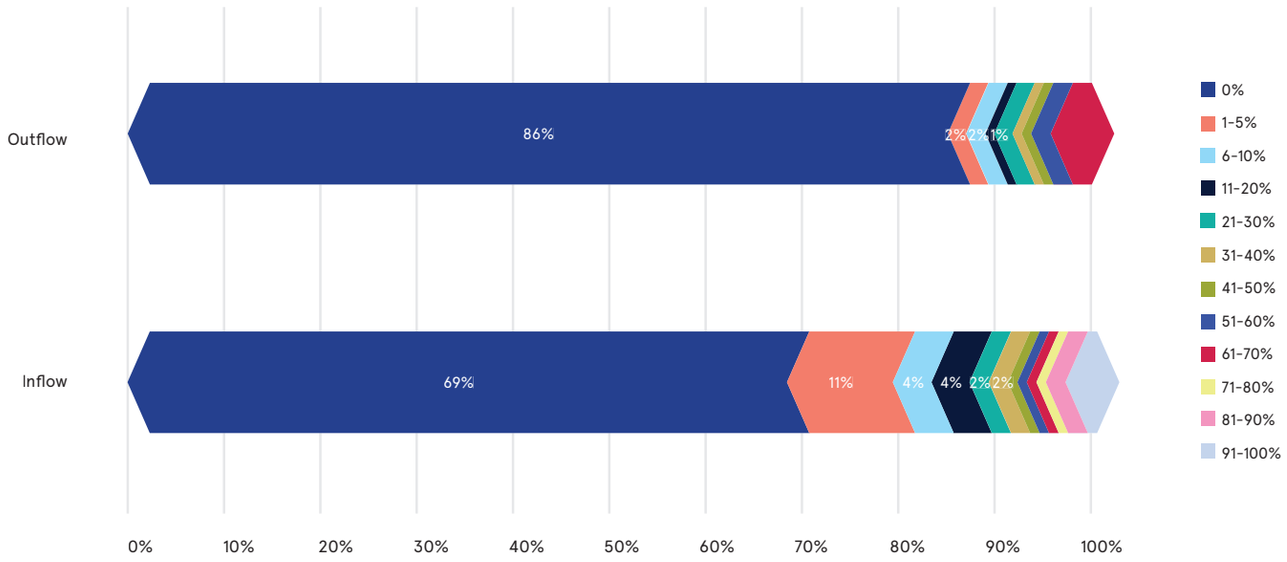
Figure 33: Americas Cross Border Funding Flows



According to our survey data, between 2012–2015, women represented 55% of the fundraisers in reward-based crowdfunding market and 42% of the borrowers on marketplace/P2P consumer lending platforms. Women also made up 36% of borrowers in balance sheet business lending and balance sheet consumer lending, as well as 24% of SME borrowers on marketplace/P2P business lending platforms. In contrast, 13% of fundraisers in equity-based crowdfunding and 6.4% of fundraisers using the real estate crowdfunding model were women. Women also made up 61% of backers in reward-based crowdfunding and 20% of lenders on marketplace/P2P consumer lending platforms.

Cross-border Transactions

The 2015 survey revealed very little cross-border flows of alternative finance transactions. This trend applies not just to transactions across the US, but also among Latin American countries, where there is interest from regulators regarding cross-border flows. Across all regions, 86% of those surveyed reported no outflow of funds, while 69% reported no inflow of funds from outside national borders. Though there was more inflow activity indicated by platforms, the percentages indicated remain very low, suggesting that alternative finance is a localized activity, operating within national borders

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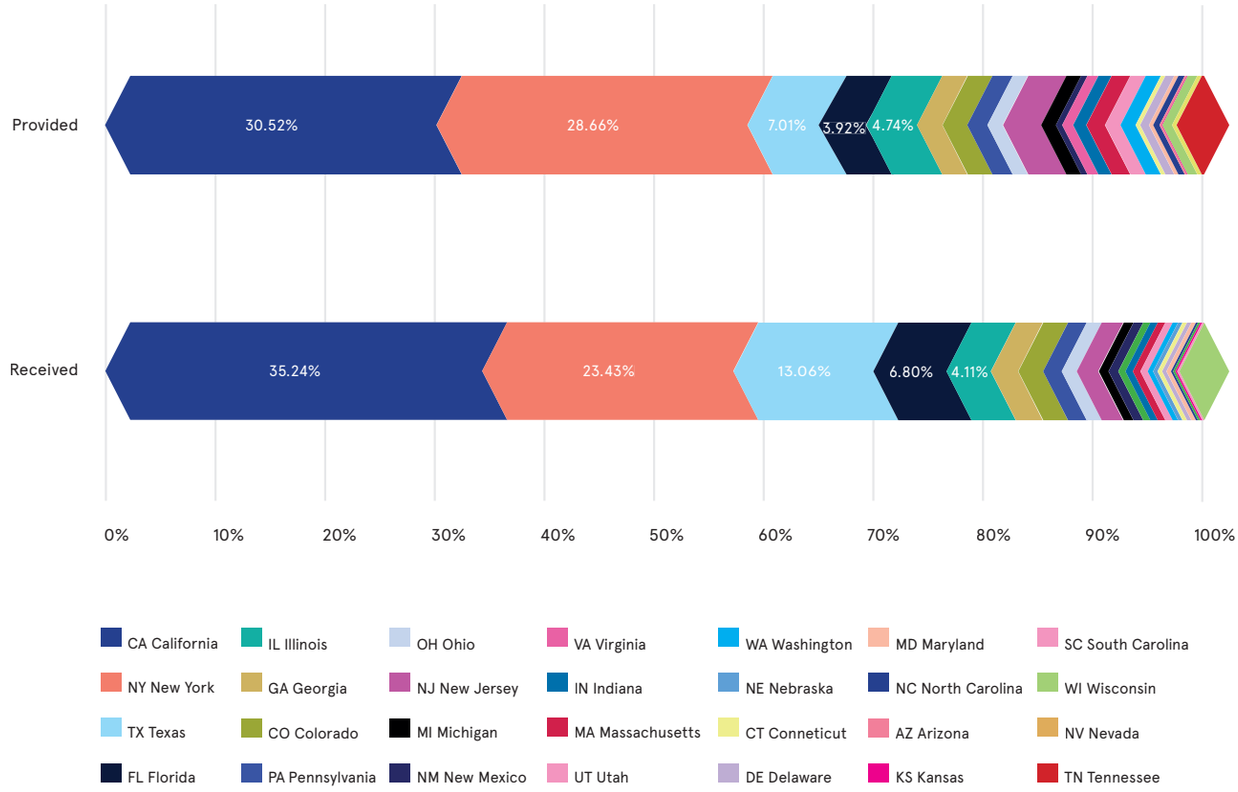
Figure 34: US States Providing and Receiving Funds (2013–2015)



Interstate Activity within the US

Currently, three states account for the majority of interstate online alternative finance activity; California, New York and Texas. These three states lead all states in both providing and receiving the largest alternative finance funding flows. Not surprisingly, California, New York and Texas also have the highest concentrations of platform headquarters.

New SEC regulation aims to stimulate an increase in interstate funding flows. For example, Regulation A+ will exempt platforms from state registration and qualification requirements, thereby making it easier and more cost-effective to operate across state lines. Real estate crowdfunding deals are still limited by regulations that restrict investors to projects within their same state of residence.

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COUNTRY AND REGION SPECIFIC MARKET TRENDS

The benchmarking survey revealed significant differences across the Americas regarding the manner in which online alternative finance transactions were funded, as well as the relative prominence of various models. While institutional investors dominate the funding in online alternative finance in North America, retail investors utilizing marketplace/P2P lending platforms are financing the majority of Latin American transactions. While consumer lending accounts for the majority of total market volume in North America, business lending accounts for nearly three-quarters of all online alternative finance activity across Latin America.

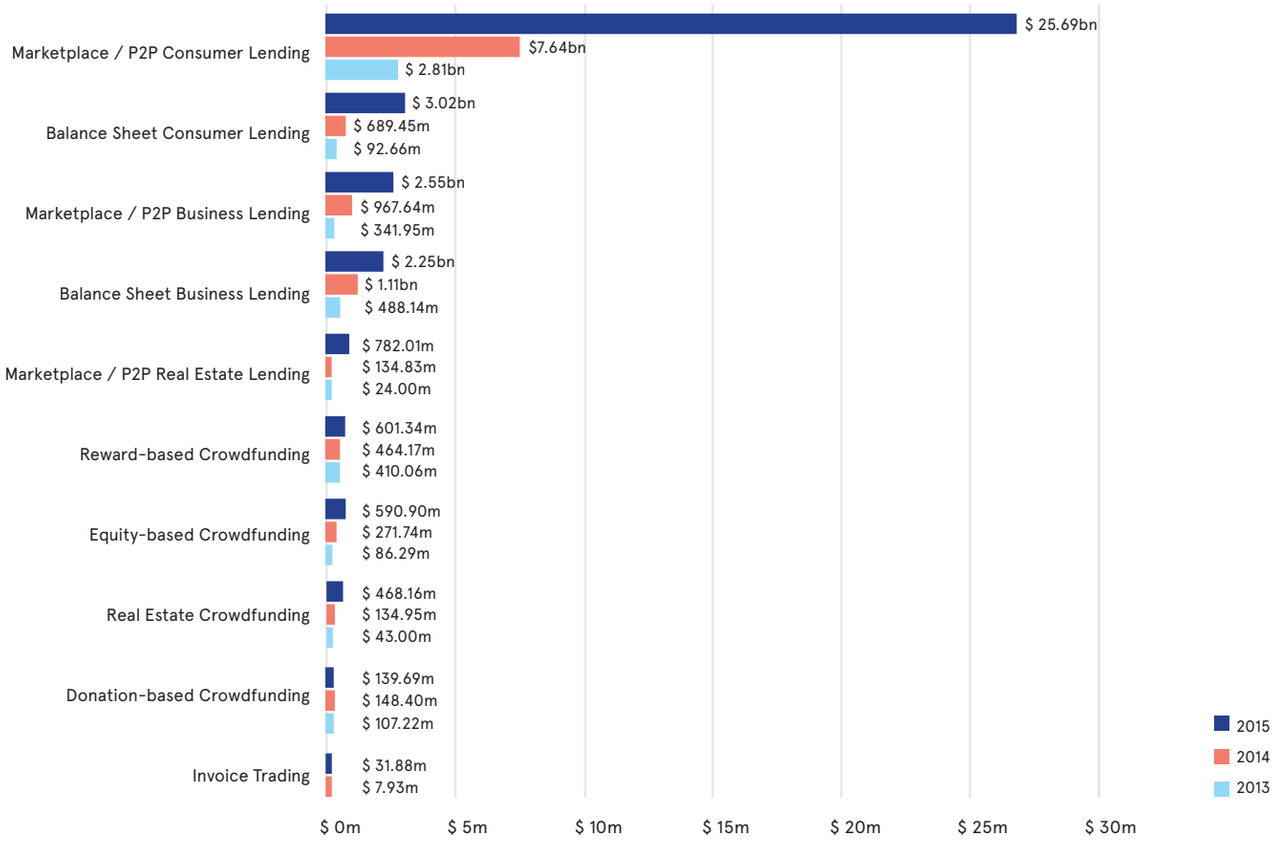
NORTH AMERICA

Consumer lending dominates the alternative finance market in North America, led predominantly by the US. Included within the North American region, Canada's performance, though at a smaller scale, mirrors many of the market dynamics that characterize the US, including emphasis on marketplace/P2P lending models, high levels of institutional funder participation and a relatively sophisticated and accredited investor cohort. In 2015, a total volume of $36.38 billion was raised in North America, with the US accounting for 99% percent of the total volume.

The United States

Marketplace/P2P consumer lending is the prevailing online alternative finance model in the US, accounting for $36.13 billion between 2013–2015. This model grew 204% per year from 2013–2015. Though this model contributed the lion's share of total market volume in the US, the fastest growing model over the same three-year period was balance sheet consumer lending, with a growth rate of 495%, followed by marketplace/P2P real estate lending, which grew by 471% annually from 2013–2015.

Figure 35: US Volumes by Alternative Finance Model 2013–2015 ($USD)



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In 2015, the average consumer loan size on marketplace/P2P consumer lending platforms was $24,683. Similarly, borrowers utilizing the marketplace/P2P consumer lending model raised an average of $24,374 per loan in 2015.

Marketplace/P2P balance sheet business lending also continued to grow steadily in 2015, though at a slower pace than consumer lending models. Marketplace/P2P business lending broke through the billion-dollar barrier, up 163% in the US, growing from $967.64 million in 2014 to $2.55 billion in 2015. SME borrowers raised an average of $85,902 per business loan, funded by an average of 16 investors. Balance sheet business lending increased from the $1.11 billion in 2014 by 102% to reach $2.25 billion in 2015. Borrowers raised an average of $48,342 per loan via this model. In contrast, the average loan size in marketplace/P2P real estate lending was much larger at $404,077 in 2015.

Equity-based crowdfunding grew by 117% to reach $590.90 million in 2015 from a base of $271.74 million in 2014. This model has generated a total volume of $948.93 million since 2013. Fundraisers raised an average of $965,360 per equity-based crowdfunding campaign, funded on average by 38 investors. Real estate crowdfunding in the US grew by 247% from the $134.95 million in 2014 to a record $468.16 million in 2015. For this model, the average number of investors per deal was 66.

Canada

The Canadian online alternative finance market is led by both donation-based and reward-based crowdfunding models. Donation-based crowdfunding is the largest model, with $70.69 million raised in 2015, which was a substantial increase from the $25.48 million raised in 2014 and almost seven times the 2013

Figure 36: US Average Fundraise Size by Model 2015 ($USD)

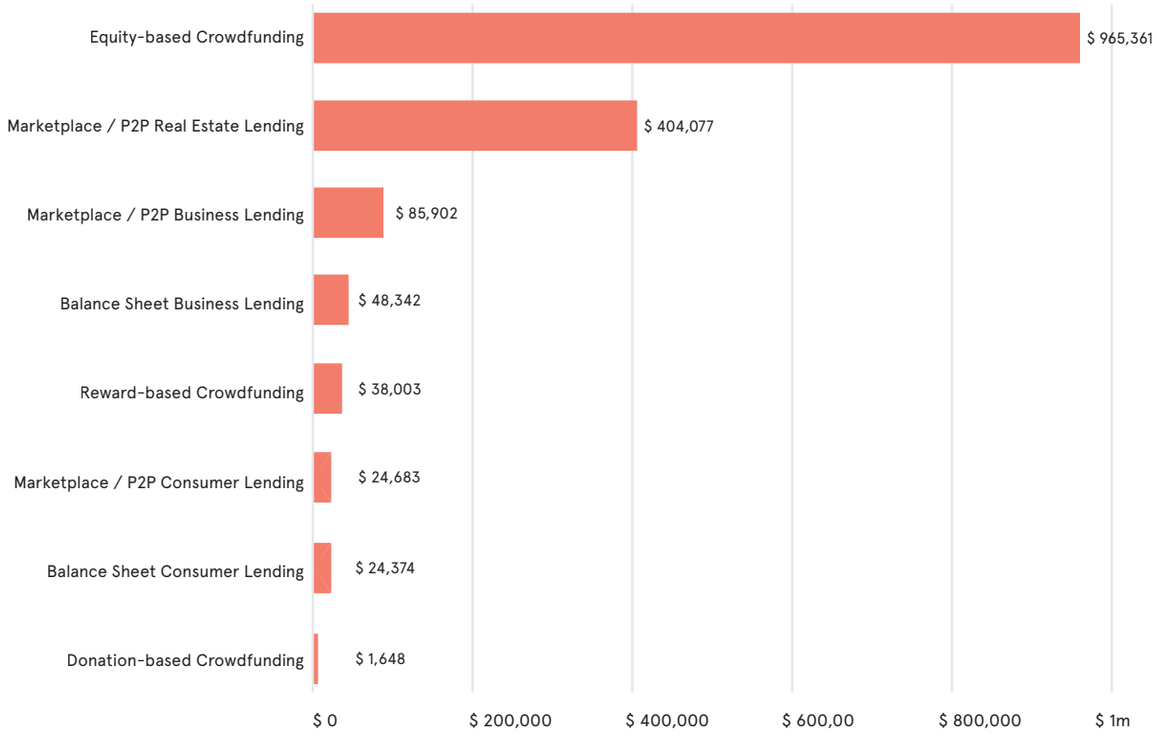

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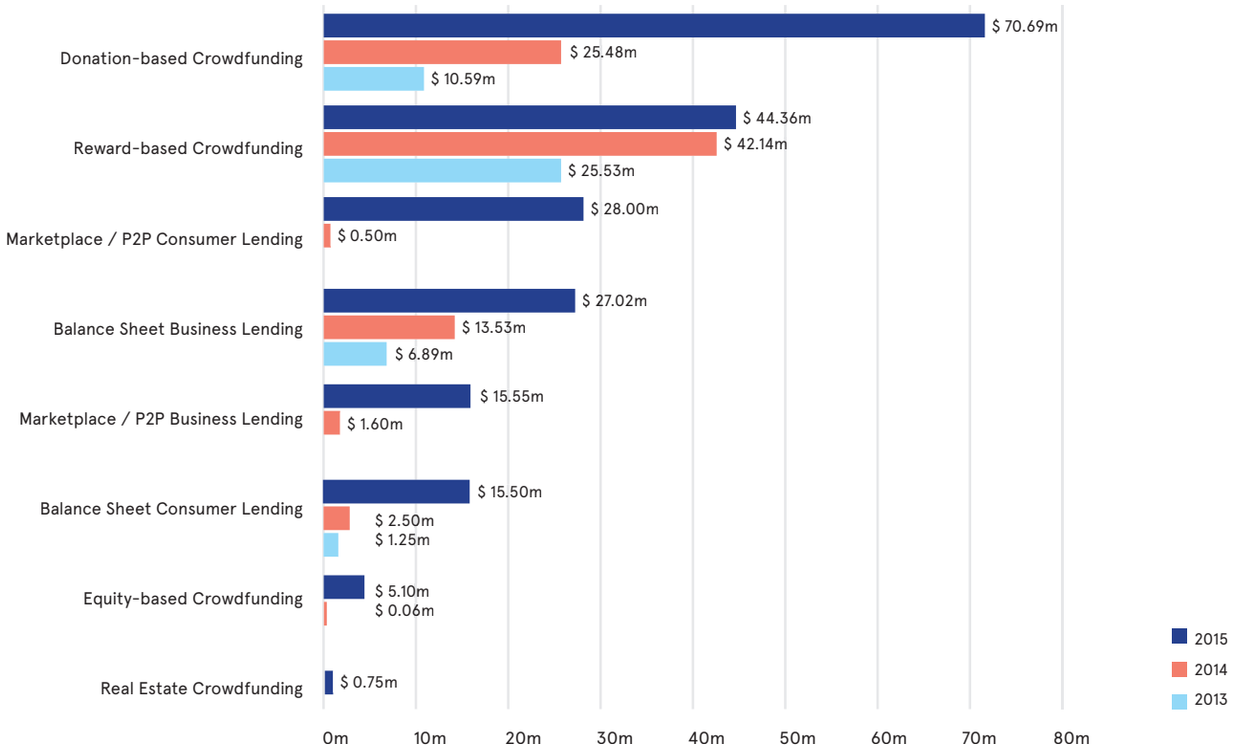
figure of $10.59 million. Reward-based crowdfunding raised $44.36 million in 2015. Although the average annual growth rate from 2014–2015 was less than that of donation-based crowdfunding, at only 5% with $42.14 million raised in 2014. The growth of reward-based crowdfunding in Canada appears to be decelerating over the period 2013–2015.

Marketplace/P2P consumer lending began in 2014 with only $0.5 million. This model took off over the last two years, growing by 5500% to register $28.00 million in 2015. Balance sheet consumer lending also experienced a high level of growth between 2013–2015 with an average growth rate of 310% over this period.

As for business lending models, balance sheet business lending grew steadily over the period of 2013–2015 at an average rate of 98% per year. In 2015, a total of $27.02 million was raised, an increase over the $13.53 million of 2014. Marketplace/P2P business lending has grown quickly, particularly between 2014–2015 at 872%, reaching a total of $15.55 million in 2015.

In 2015, equity-based crowdfunding emerged, raising a total of $5.10 million compared to $0.06 million in 2014. Real estate crowdfunding began in 2015 with a total of $0.75 million raised. According to our survey data, both marketplace/P2P real estate and invoice trading accounted for no market activity in Canada.

Figure 37: Canada Volumes by Alternative Finance Model 2013–2015 ($USD)



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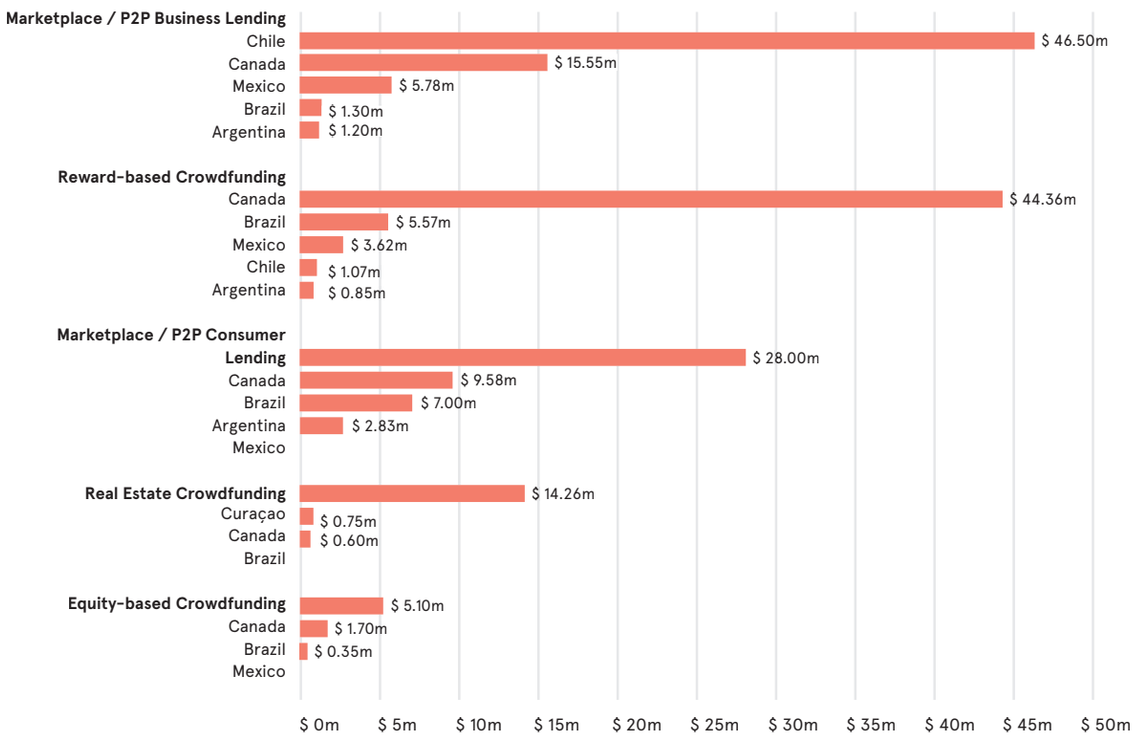
LATIN AMERICA AND THE CARIBBEAN

The largest online alternative finance markets in 2015 in Latin America were Chile with $47.57 million in transaction volume, followed by Brazil, Mexico and Argentina with $24.15 million, $13.18 million and $9.06 million respectively. In the Caribbean, Curacao contributed $14.26 million towards the region's total. In contrast to North America's consumer driven online alternative finance market, Latin America and the Caribbean region focuses largely on small business finance – representing 70% of the market.

Between 2013 and 2015, marketplace/P2P business lending was the region's most prominent alternative finance model, generating $104.84 million in transactions. In 2015, this model accounted for almost 50% of the region's total alternative finance volume, with Chile accounting for $46.50 million alone, followed by Mexico ($5.78 million), Brazil ($1.30 million) and Argentina ($1.20 million). By way of comparison, Canada's marketplace/P2P business lending totaled $15.55 million. The average business loan size was $57,200, with an average of 18.5 lenders funding each loan. Reward-based crowdfunding generated the second-highest volume attributed to the region, with a total of $25 million raised over the three-year period. From 2013 to 2014, the model grew by 64% from $4.67 million to $7.66 million. The following year, reward-based crowdfunding accounted for $12.67 million, growing by 65% from the previous year. The average reward-based crowdfunding campaign was $15,223 from an average of 349 backers. Reward-based crowdfunding was most prevalent in Brazil, generating a total of $5.57 million in 2015, and Mexico with $3.62 million.

Marketplace/P2P consumer lending grew by 553% from 2014 to 2015, reaching $19.43 million. The average loan size was $3,539, with an average of 210 investors. Canada raised a large proportion of marketplace/P2P consumer lending as compared with the Latin America

Figure 38: Alternative Finance Volume Comparison by Model Excluding US 2015 ($USD)



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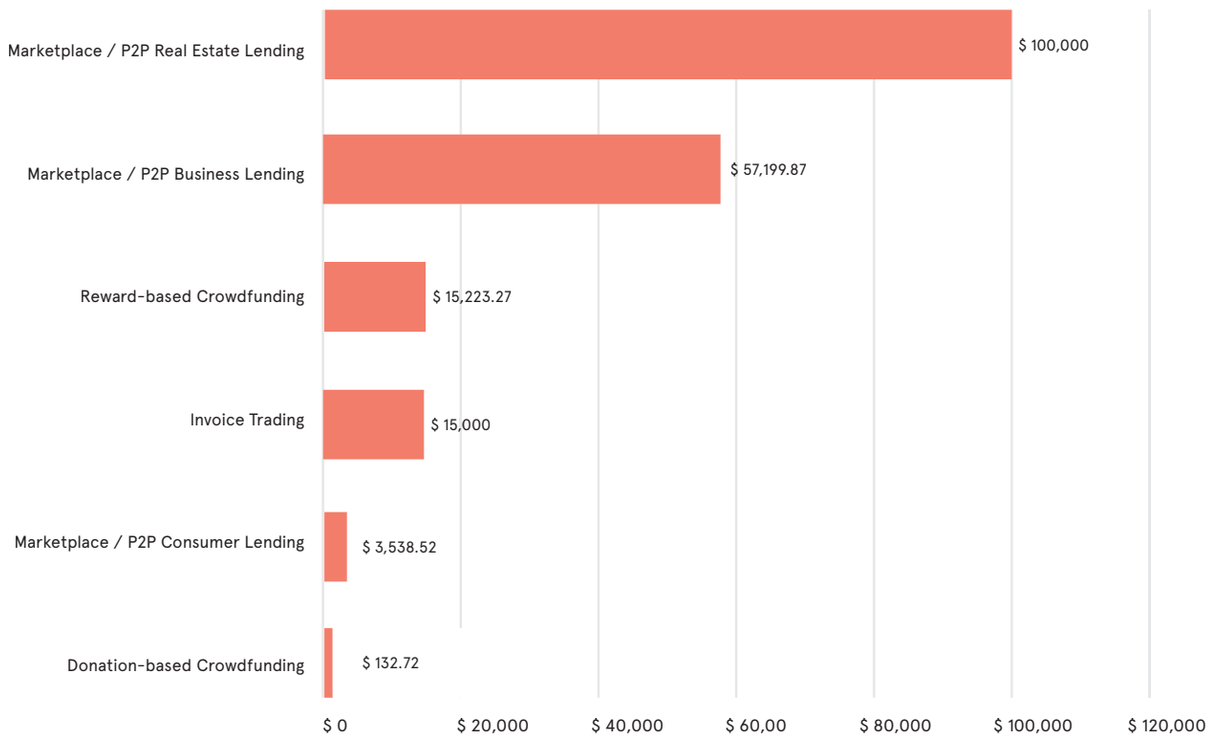
and the Caribbean markets, with $28 million lent in 2015. Brazil and Argentina had similar marketplace/P2P consumer lending volumes with $9.58 million and $7.00 million respectively. Mexico was smaller with $2.83million lent in 2015. Although marketplace/P2P consumer lending was the third largest model in the region, this model is the fastest growing, with a three-year average growth rate of 292%.

In Latin America and the Caribbean, real estate crowdfunding experienced sustained growth in the period from 2013–2014 and 2014–2015, with 146% and 364% annualized growth respectively. In 2015, real estate crowdfunding recorded $14.86 million in transaction volume, led by Curacao, which raised $14.26 million via this model. By way of comparison, Canada and Brazil produced similarly small funding levels for real estate crowdfunding with $0.75 million and $0.60 million respectively.

Equity-based crowdfunding is a new business model in Latin America and the Caribbean, with only Brazil and Mexico reporting relatively small volumes. However, the market is growing from $0.15 million in 2014 to $2.05 million in 2015 – an impressive 1258% rate from a small base. Brazil is the regional market leader with $1.70 million raised in 2015 compared to Mexico, with $0.35 million.

Donation-based crowdfunding platforms generated $5.18 million in 2015, with an average crowdfunding campaign of just $133 funded by 54 donors.

Figure 39: Latin America and the Caribbean Average Fundraise Size by Model 2015 ($USD)



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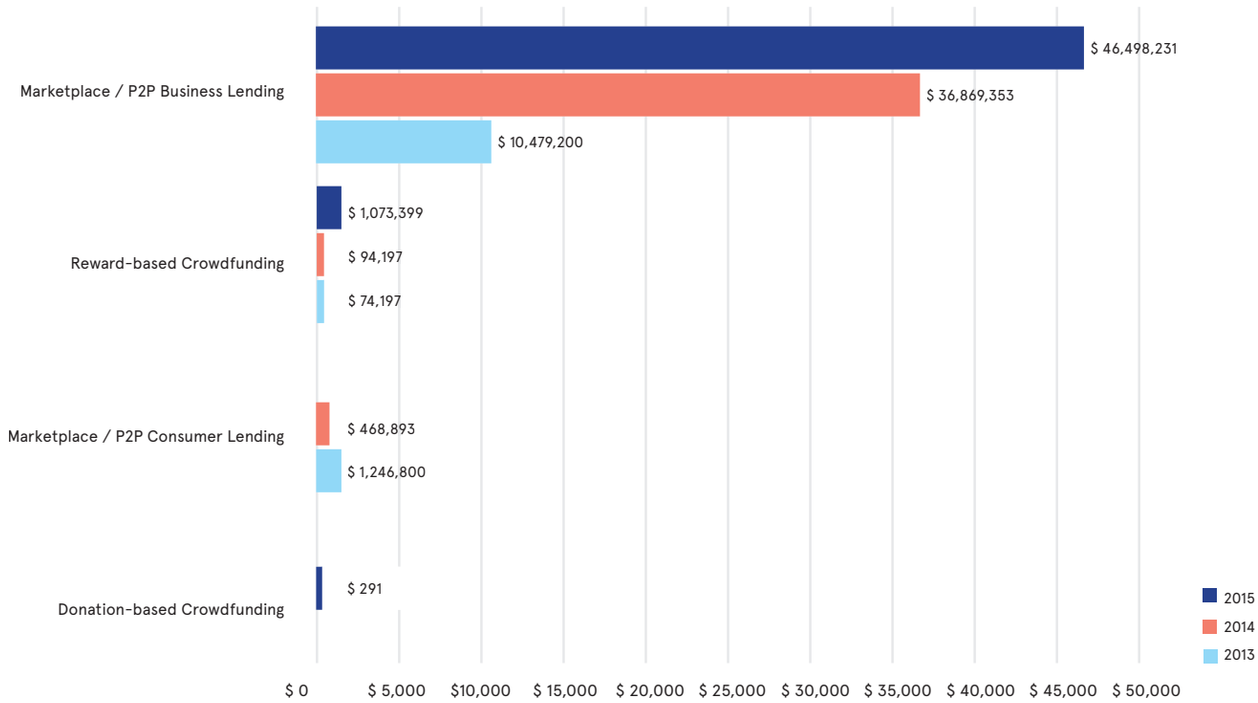
Chile

In Chile, the online alternative finance market is dominated by marketplace/P2P lending, which in 2015, accounted for almost 97% of total market activity in the country. As a result of such large levels of activity, Chile was actually the largest provider of online alternative finance across Latin America and the Caribbean in 2015 – primarily due to business lending activity. In 2013, this model accounted for almost $10.48 million and grew substantially in 2014 to reach nearly $37 million. The growth rate of marketplace/P2P business lending slowed between 2014–2015 to around 26%, reaching over $46.50 million in 2015. The second largest model in Chile was reward-based crowdfunding, which grew steadily over the period 2013–2014, reaching a total of almost $0.09 million before accelerating in 2015 to raise over $1.24 million. Marketplace/P2P consumer lending appears to have fallen markedly over the period 2013–2015. In 2013, a total of almost $1.07 million was raised before falling in 2014 to under $0.47 million. In 2015, there was no transaction data received from surveyed platforms.

Figure 40: Chile Volumes by Alternative Finance Model 2013-2015 ($USD)



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Brazil

According to our benchmarking survey data, Brazil accounts for almost a quarter of the online alternative finance market in Latin America and the Caribbean region. Brazil's market grew 222% in 2015, reaching $24.15 million. Much of this growth stems from marketplace/P2P consumer lending, which contributed $9.58 million in 2015 – equivalent to almost 40% of the country's total volume.

Reward-based crowdfunding grew at a rate of 28% in the period 2014–2015, reaching $5.57 million. Brazil remains the region's major player for reward-based crowdfunding, accounting for 50% of the total volume for this model in the region.

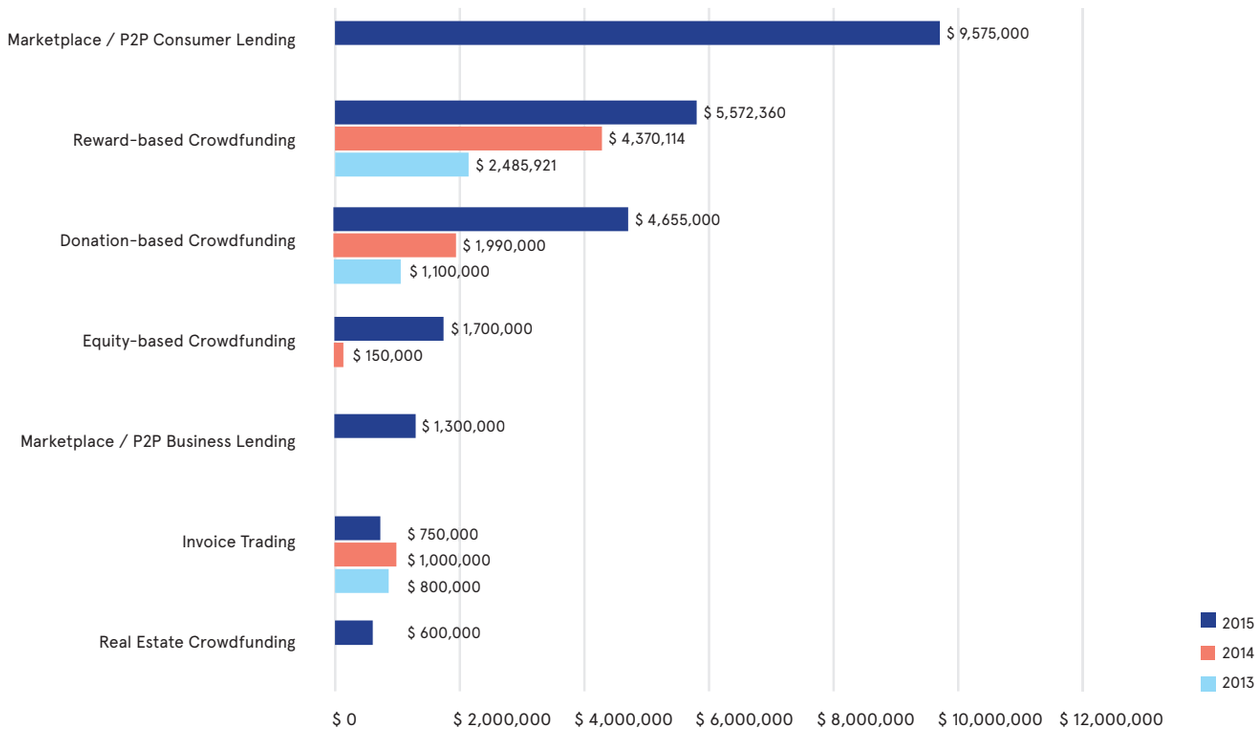
From 2014 to 2015, donation-based crowdfunding in Brazil doubled in size, reaching $4.66 million in transaction volume. Since 2013, Brazil has accounted for more than 90% of this model in the region.

Brazil is the only country in Latin America and the Caribbean with invoice trading activities, with a total volume of $2.55 million between 2013–2015. Across all models operating in Brazil, only invoice trading has experienced negative growth. The 2015 survey reveals a 25% decrease from 2014 to 2015 for this model.

Brazil is also the region's leader in equity-based crowdfunding, contributing 84% of the regional model volume in 2015. The Brazilian equity-based crowdfunding market grew 1033% from 2014 to 2015, increasing from a mere $0.15 million to $1.70 million.

Marketplace/P2P business lending and real estate crowdfunding emerged in Brazil in 2015. These models raised $1.30 million and $0.60 million respectively.

Figure 41: Brazil Volumes by Alternative Finance Model 2013–2015 ($USD)



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Mexico

Mexico's online alternative finance market accounts for 10% of the total volume in Latin America and the Caribbean. The Mexican market grew 229% from 2013 to 2014, and 192% from 2014 to 2015, increasing from $1.37 million in 2013 to $13.18 million in 2015. Since 2013, all online alternative finance models that are active in Mexico recorded triple-digit growth.

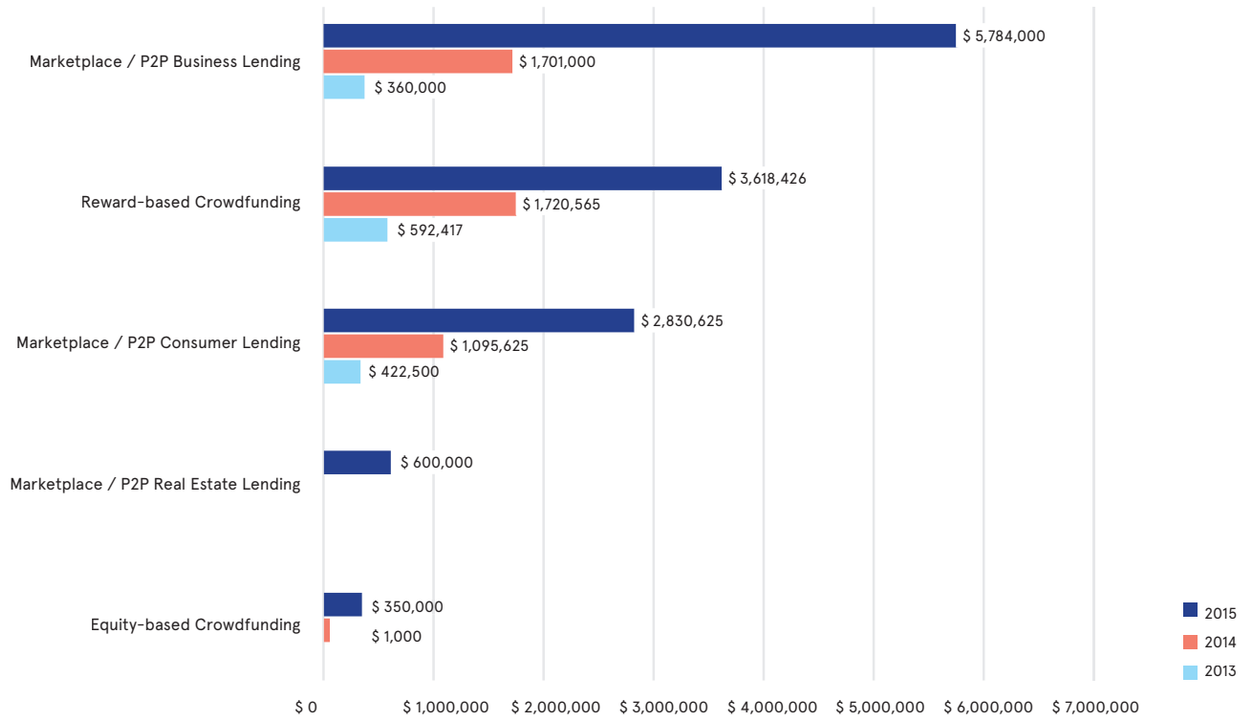
Marketplace/P2P business lending became the country's largest model, with growth of 240% between 2014 and 2015, reaching a total market volume of $5.78 million, of which 32% was funded by institutional investors. Even with steady growth in marketplace/P2P business lending, Mexico only accounts for approximately 7.5% of this category in the Latin America and the Caribbean region.

Reward-based crowdfunding is the second largest online alternative finance model in Mexico by volume, totaling $3.62 million in 2015 and growing 110% from the previous year.

Marketplace/P2P consumer lending has grown almost 160% every year since 2013, reaching $2.83 million in 2015 from a base of $0.42 million in 2013.

Equity-based crowdfunding and marketplace/P2P real estate lending began operations in 2015. Equity-based crowdfunding and marketplace/P2P real estate lending emerged in Mexico in 2015, with volumes of $0.35 million and $0.60 million respectively.

Figure 42: Mexico Volumes by Alternative Finance Model 2013–2015 ($USD)



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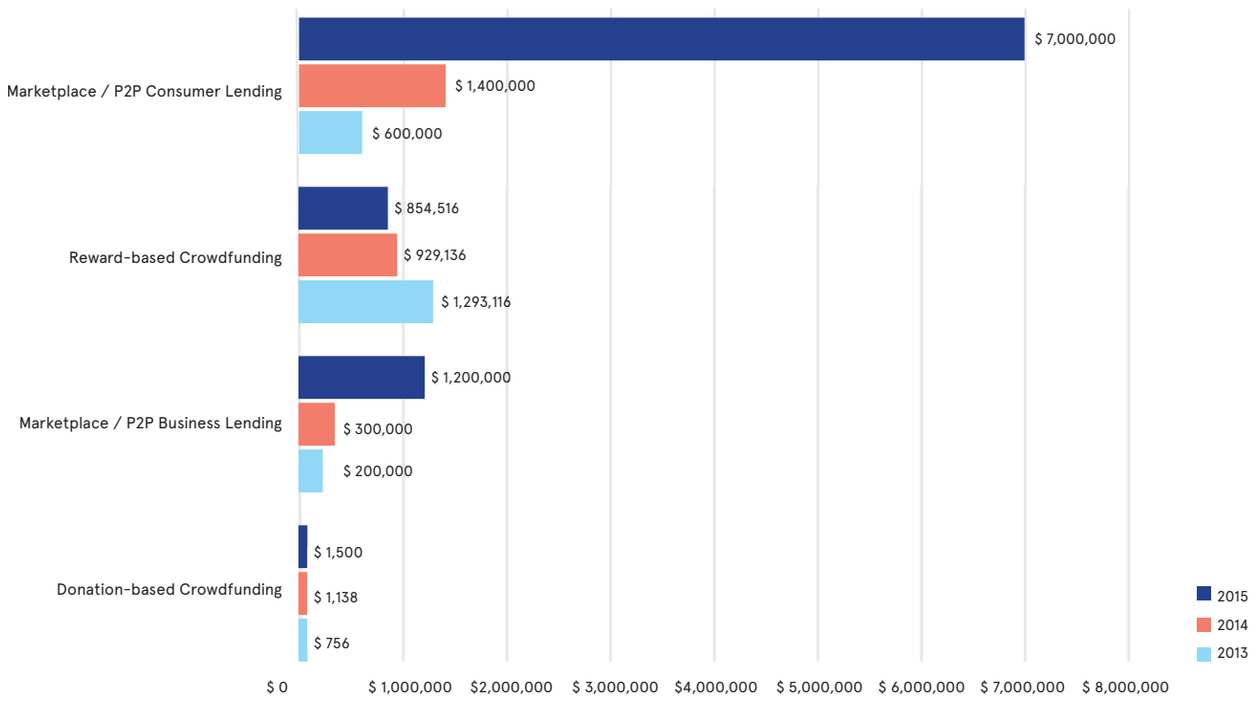
Argentina

Argentina is the fifth largest online alternative finance market in Latin America and the Caribbean. Its domestic market was dominated by marketplace/P2P consumer lending, which raised $7.00 million in 2015, accounting for over 77% of the total market volume. The marketplace/P2P consumer lending market grew rapidly between 2014–2015, up from $1.40 million in 2014 and $0.60 million in 2013. The second largest model in Argentina was reward-based crowdfunding, which accounted for over $0.85 million in 2015. The figures for reward-based crowdfunding suggest the market is contracting, with $0.93 million raised in 2014; a slowdown from the $1.29 million accumulated in 2013. For marketplace/P2P business lending, the story is quite different. In 2015 $1.20 million was borrowed by businesses, up from $0.30 million in 2014 and $0.20 million in 2013.

Figure 43: Argentina Volumes by Alternative Finance Model 2013–2015 ($USD)



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THE REGULATORY LANDSCAPE ACROSS THE AMERICAS

The regulatory landscape for online alternative finance across the Americas, like the rest of the world, is in a state of flux. In the US and Canada, existing regulations have been "stretched" to accommodate online alternative finance while the implementation of new regulation has somewhat stagnated. In Brazil, new regulations under discussion may place clear boundaries around the industry, while still in other countries (including Mexico), there has been little regulation of note. Given the diverse nature of the regulatory frameworks across the Americas, our survey attempted to understand the industry's perception of both existing and proposed regulations with regard to online alternative finance.

UNITED STATES

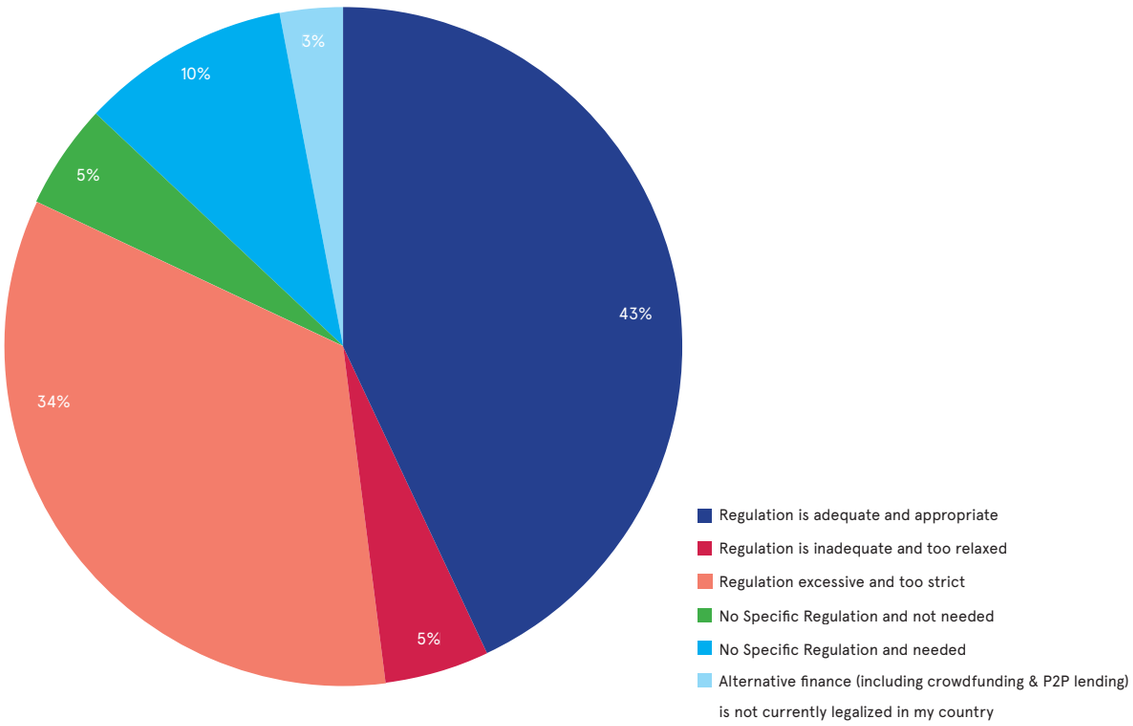
Despite the strength and vitality of the US online alternative finance market, uncertainty over regulation remains high among surveyed platforms. Online alternative finance platforms in the US are subject to federal laws covering credit, privacy and money laundering. They must also comply with the laws of the states in which their clients are located. In 2012, the JOBS Act was signed into law, with the Title III being approved in 2015. Critical to crowdfunding platforms, Title III allows both accredited and non-accredited investors to invest through platforms.[29] At this point, regulation of securities funding portals mirrors the regulation of brokers and dealers.[30] New SEC and FiNRA regulations seek to strike the balance between protecting investors and stimulating and facilitating financial innovation and capital growth.

As regulation affects debt and equity models in differing ways, our benchmarking survey results highlight the key differences in perceptions among equity platforms which include the equity-based crowdfunding and real estate crowdfunding models, and also debt platforms which include the various iterations of marketplace/P2P and balance sheet lending models found in the US.

Regulatory Perceptions of Equity Platforms in the United States

In terms of perceptions of existing regulations by equity alternative finance platforms, 43% deem existing regulation to be adequate and appropriate while only 5% see them as inadequate and too relaxed. Over a third of surveyed equity platforms in the US actually see existing regulations as excessive and too strict, which is substantially higher than the proportion of debt platforms that perceive existing regulations in this way. 5% of surveyed equity platforms perceive

Figure 44: US Equity Platforms – Perception Towards Existing National Regulation



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there to be no existing regulations governing equity-based alternative finance activities (and believe that no regulations are needed), while 10% of surveyed platforms were not aware of any regulations regarding equity-based alternative finance activities (but did believe that they are needed).

Almost half of surveyed platforms see the new regulations as being adequate and appropriate. Only 2% of surveyed equity platforms deem proposed regulations to be inadequate. However, a substantial 35% of surveyed platforms see proposed regulations as excessive and too strict. 5% of equity platforms perceive no specific proposed regulations (and that they are not needed), while another 7% view no specific proposed regulations but that *they are* needed.

Regulatory Perceptions of Debt Platforms in the United States

In the US, 51% of surveyed debt-based online alternative finance platforms perceive the existing regulations to be adequate and appropriate, while only 5% perceive them to be too relaxed and inadequate. A total of 18% of surveyed platforms do not perceive their activities to be legal in the country. 7% of surveyed debt platforms perceive no specific regulations (and that none are needed), while 4% think regulations are non-existent but needed. Another 15% believe existing regulation to be too excessive and strict. This mixed response is underscored by the fact that almost one third of debt-based platforms surveyed perceive there to be no existing regulations for their alternative finance models.

Figure 45: US Equity Platforms – Perception Towards Proposed National Regulation

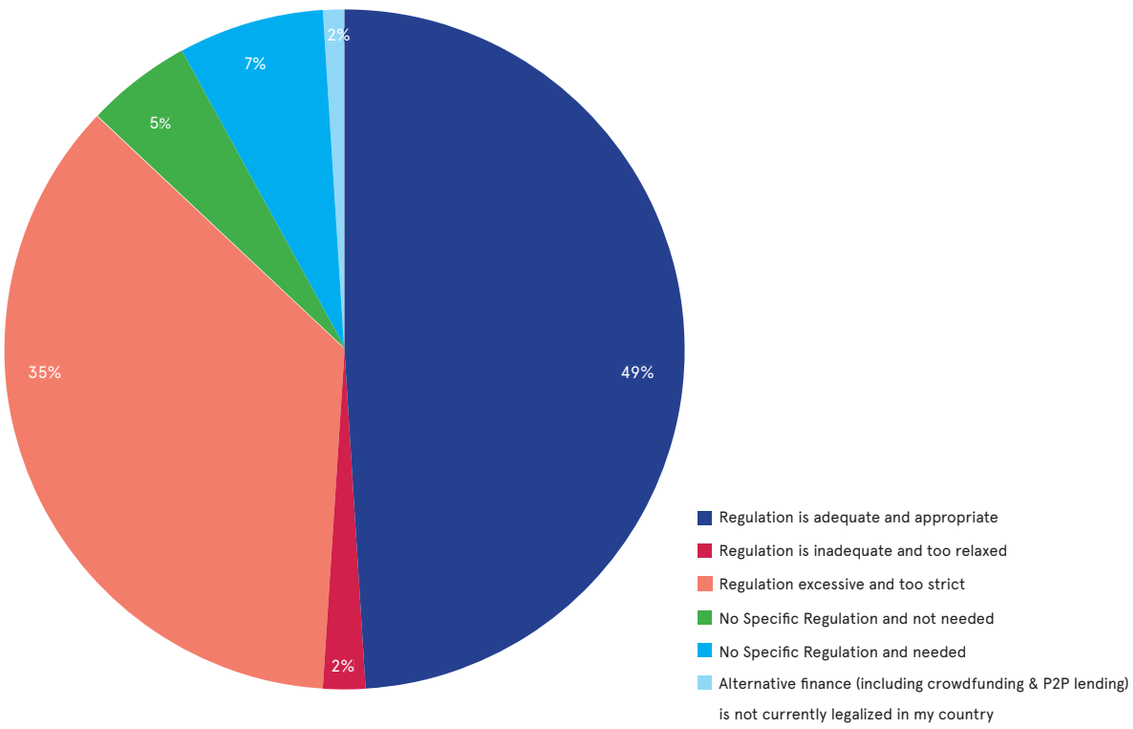

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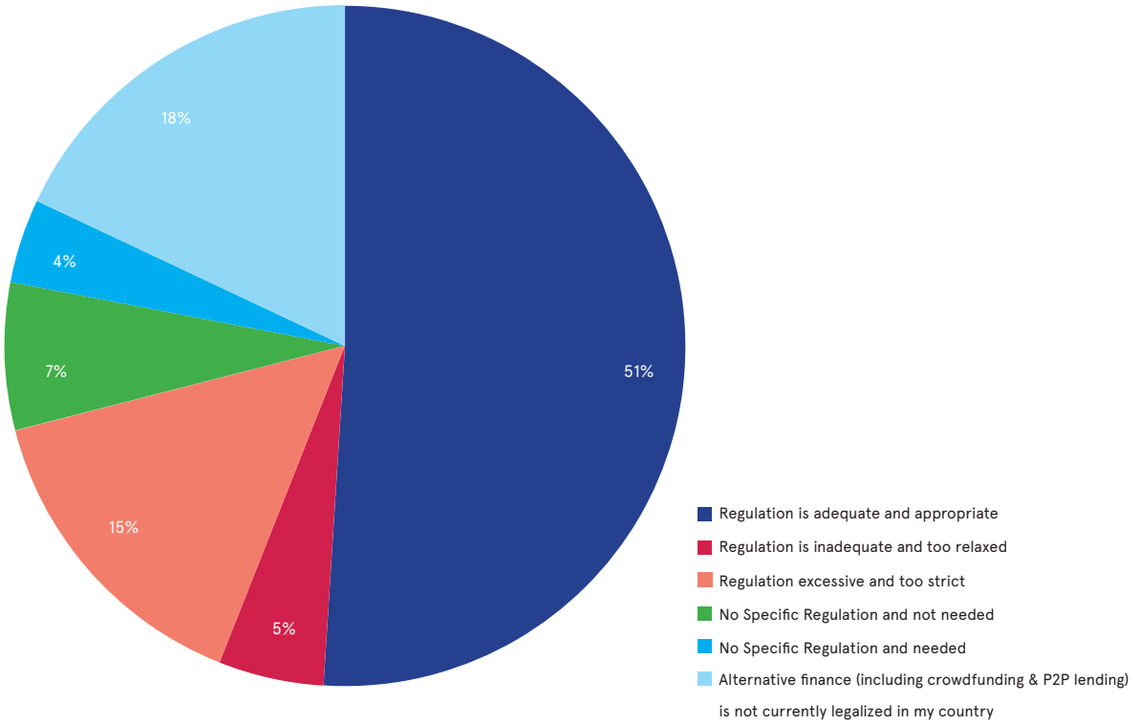
Figure 46: US Lending Platforms – Perception Towards Existing National Regulation



With regard to proposed national regulations for debt-based alternative finance platforms in the US, the story is somewhat different. 40% of surveyed platforms perceive proposed national regulations to be adequate and appropriate, while only 3% see them as being inadequate and too relaxed. However, 17% of surveyed debt platforms in the US see proposed regulations as too excessive and strict. A sizeable proportion of surveyed debt platforms deem proposed regulations not to be needed, while another 14% said the proposed regulations were needed. 12% of surveyed platforms see alternative finance as not being legal in the US even with proposed regulations.

Overall this survey suggests a range of conflicting and uncertain perceptions from both equity and debt platforms based in the US, concerning both existing and proposed regulations.

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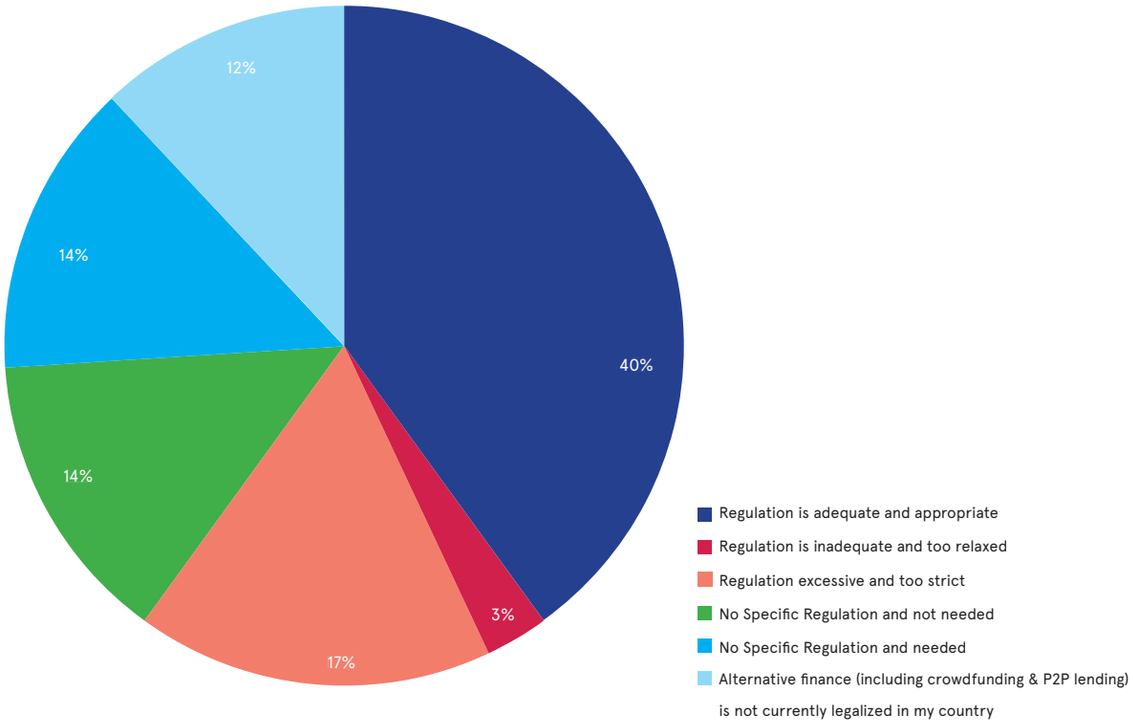
Figure 47: US Lending Platforms – Perception Towards Proposed National Regulation



An Overview of US Regulation

In 2012, the Jumpstart Our Business Startups (JOBS) Act included Title II crowdfunding amendments that allowed small and emerging businesses to solicit funding actively for up to $1 million per year from accredited investors, defined as those with a net worth of more than $1 million or who have earned more than $200,000 consistently for the last three years. Title II also retained certain important investor protections, which include investment limits and the requirement that offerings be made through a registered intermediary, either a conventional broker/dealer or a new type of registered firm – a "funding portal."[31]

In May 2016, new Regulation A+ (also known as Title IV) crowdfunding provisions will open the crowdfunding market to non-accredited investors (specifically those earning more than $100,000 per year).[32] This shift in regulation will allow for self-certification of investors, and will pre-empt state-level requirements.[33,34] It is predicted that this new regulation will significantly increase the number of equity platforms while providing a much-needed boost to the SME financing market.

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Recently, thirty states enacted their own intrastate crowdfunding exemptions that make it easier and more cost-effective for individuals and businesses to raise capital.[35] These exemptions eliminate many of the registration, certification and disclosure requirements of the federal provisions. However, issuers must still reside in the state of the issuance and can only accept funds from intrastate investors.

Participants in consumer credit markets are subject to the authority of federal and state regulations that apply to all aspects of the credit lifecycle. These include long-standing regulations aimed at protecting borrowers from unfair collection practices to misleading advertising and discriminatory practices. Marketplace/P2P lenders are also subject to SEC requirements to register the notes they issue as securities. These hurdles have limited the number of non-bank creditors who have entered the marketplace. Many are waiting for the less-restrictive SEC regulations to take hold in May 2016.

Given the importance of innovative credit scoring models to consumer-focused marketplace/P2P lending, existing platforms feel restricted by the regulatory burdens of US fair lending laws. These laws prohibit platforms from using demographic and other forms of data that could reveal age, gender, race or other protected traits in the credit underwriting process. This regulation creates a competitive disadvantage for US players, since many other countries allow access to this data for underwriting credit purposes.

An Overview of Canadian Regulation

In Canada, debt and equity platforms are subject to a mosaic of securities regulations that vary by province. With no central regulator, equity-based crowdfunding regulations must be negotiated independently in each of Canada's 13 provinces. In 2015, six provinces adopted new registration and prospectus exemptions that will make it easier for equity crowdfunding platforms to operate – and give Canadian consumers increased access to these alternative investments. The regulations cap the annual amount start-up and early-stage companies can raise each year through crowdfunding portals at $500,000 (with no more than $250,000 in one offering) and cap individual investments at $1,500 per deal. A number of registered platforms already operate or have announced plans to establish online platforms to facilitate the sale of these securities (both primary issuances and secondary trading) online.

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An Overview of Latin American and the Caribbean Regulation

Regulation is hard to characterize across the Latin American and the Caribbean region.[36] With regard to existing online alternative finance regulations, a large proportion (44%) of all surveyed platforms reported alternative finance as not currently being legal in their respective countries. 9% deem existing regulations to be adequate and appropriate, while only 4% see them as inadequate and too relaxed. 9% see existing regulations as excessive and too strict. 16% of surveyed platforms perceive there to be no specific regulations at present (and that none are needed), while a similar proportion, 18%, see regulations as non-existent but needed.

In terms of perceptions of proposed national regulations across Latin America and the Caribbean, 37% of surveyed respondents perceive no proposed regulations but state that they are needed, while only 7% think that they are not needed. 28% of surveyed platforms deem alternative finance to not be legal activities – even under proposed regulations. 17% of surveyed platforms see regulations as adequate and appropriate while a much smaller proportion, 2%, see them as inadequate and too relaxed. 9% of surveyed platforms see proposed national regulations as excessive and too strict.

Mexico

Crowdfunding has not been an easy sell in Mexico. According to INEGI, more than 70 million residents still lack access to the Internet, and the 40 million who do, have little comfort with web transactions. However, entrepreneurship is alive and well, and there is significant demand for capital to form and sustain small businesses. In the last two years, entrepreneurs and government officials have begun to view crowdfunding as a way to stimulate both economic growth and social impact. As early market entrants weigh the opportunity, the government is committed to building a regulatory scheme that will support this nascent industry. Current regulation limits private investments to accredited investors who earn roughly $160,000 in equivalent US dollars – a substantial hurdle. Ultimately, it will take new regulations (perhaps inspired by the JOBS Act in the US) to empower entrepreneurs to innovate new market-specific crowdfunding platforms and open investment to non-accredited investors.[37]

Platforms in Mexico hold diverse perceptions of the alternative finance regulatory environment. 56% of surveyed respondents believe that alternative finance is currently not legal in the country, while 13% believe that there are no current regulations but that the country needs them. In contrast, 13% of platforms believe there to be adequate and appropriate regulations, while another 13% believe regulation are excessive and too strict. 6% of platforms consider current regulations inadequate and too relaxed.

Brazil

Until very recently, Brazil's crowdfunding ecosystem has been confined to the country's many reward-based and donation-based platforms. Nevertheless a few equity-based platforms have now launched, and they operate in a comparatively light-touch regulatory environment. Public offerings are regulated by CVM Instruction 400 legislation, which passed in 2003. This rule features several exemptions that allow SMEs to forego registration requirements. Equity transactions are open to all investors and there are currently no limits on how much individuals can invest. Regulations cap annual capital raising at $690,000 per company. During 2015, platforms have been collaborating with CVM to discuss more stringent regulations that would apply specifically to equity-based crowdfunding. They are also discussing requirements for audited financials, new investment limits, tied to a percentage of annual income and stricter criteria for registration exemption.[38]

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Figure 48: Latin America & Caribbean Platform Perception Towards Existing National Regulation

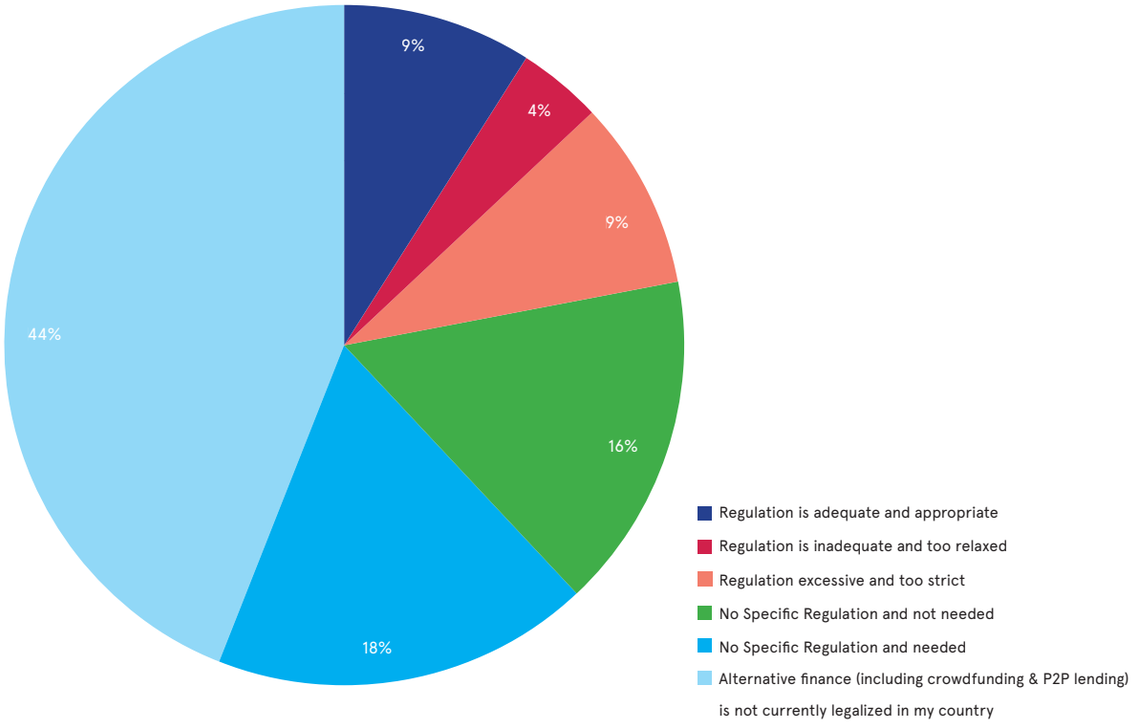
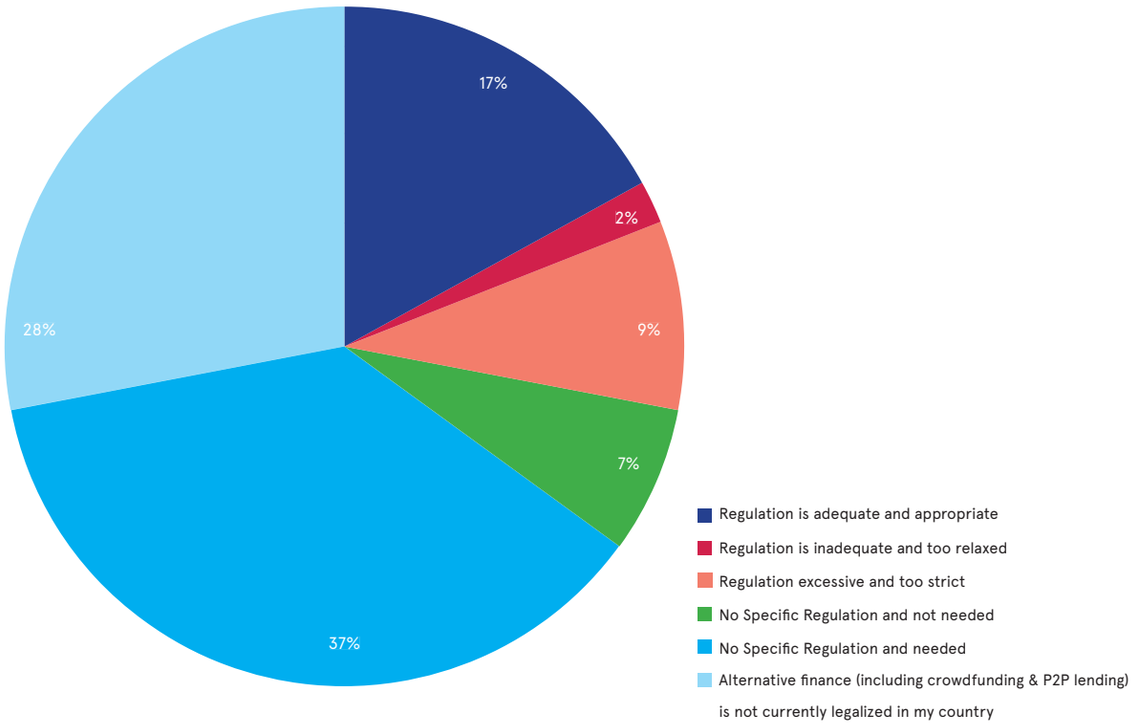


Figure 49: Latin America & Caribbean Platform Perception Towards Proposed National Regulation



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CONCLUSION

Our first study of the Americas online alternative finance market is titled *Breaking New Ground* because a number of the trends we observed across the region have the potential to reshape the landscape of financial services. The growth rate of finance provided to individuals and businesses via online alternative finance channels in the Americas accelerated between 2013 and 2015, producing a three-fold increase in transaction volume that exceeded $36 billion.

The growth and development of this market is being influenced by broader technological and societal changes, which suggest a structural rather than a cyclical change to how finance is being provisioned. We expect the industry will continue to break new ground in innovation, technology, credit risk modelling, user experience and customer service as platforms respond to growing competitive pressures and increasing compliance demands from regulators.

Our study findings from countries in the Americas, suggest that the significance of these developments is not universally appreciated. Some countries we studied have recently enacted new regulations that give large numbers of people, hitherto considered 'unsophisticated' in their understanding of finance, access to investments via online alternative finance platforms. Regulators in other countries are either ignoring or trying to play catch-up in this rapidly-evolving segment of the financial services market. Recent regulatory changes in the US market, such as Title IV (Regulation A+) of the JOBS Act, have the potential to produce a ripple effect across the region, and thereby make it increasingly difficult for policy makers to ignore or prohibit alternative finance activity.

The challenge facing policy makers is further complicated by trying to categorize types of online alternative finance using the same descriptions used to characterize more traditional financial services. The term 'crowdfunding' is often used to describe all types of online alternative finance. Today, marketplace/P2P lending is commonly seen as a derivative form of bank lending, albeit without accepting deposits, and thus frames the policy alternatives in that context. Our research suggests that marketplace/P2P lending activity has begun to look less like banking and more like asset management, as platforms increase their analysis of data to both improve credit outcomes and allocate loan assets to investment portfolios on their platforms (interestingly, curation, in the asset-management sense, has regulatory implications of its own). Challenging stereotypical descriptions of financial services introduces a fundamental question about what and how regulators should be regulating. It also raises challenging issues for incumbents other than banks, like asset managers, that also may need to assess the potential impact of alternative finance platforms on their business models.

Any pioneering activity that is developing as rapidly as online alternative finance presents conflicting challenges to policy makers and regulators trying to balance the fostering of innovation with a duty to protect investors. Erring too far in either direction is potentially costly. Operating at scale is increasingly important for platforms in this market, and therefore regulators need to decide whether they want to encourage the development of indigenous platforms in their home markets. A regulatory framework that fails to accommodate innovation will make it more likely that foreign platforms, operating at large scale, dominate the alternative finance activity in their respective economies. A framework that fails to incorporate sufficient protection for investors may foster innovation but can also increase the likelihood of malfeasance or incompetent practices by platform operators, which will ultimately lead to a loss of public trust. Finding the balance in a rapidly changing market will be difficult. We hope that this report will make a positive contribution to the debate about these important policy issues.

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Doug Monieson has been an extraordinary silent partner to the research team. His name does not appear on the masthead but his fingerprints are on every page.

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