

Cambridge Centre for Alternative Finance

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# THE POTENTIAL OF INCLUSION IN ALTERNATIVE FINANCE

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Finance**



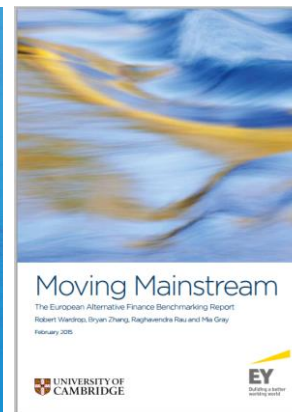
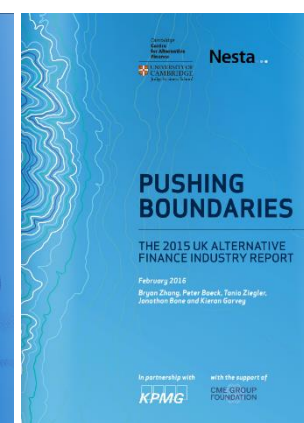
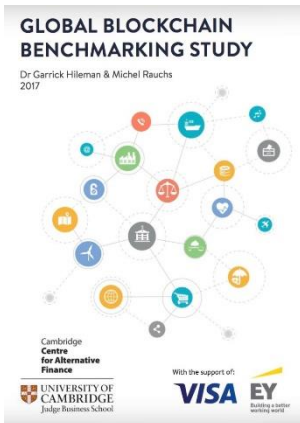
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# CCAF RESEARCH STREAMS

1. Alternative Finance Channels & Instruments (e.g. Crowdfunding & P2P)
2. Alternative Credit and Investment Analytics Using New Forms of Data
3. Alternative Payments Systems
4. Alternative Finance Regulations and Policy



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# CAMBRIDGE CENTRE FOR ALTERNATIVE FINANCE (CCAF) RESEARCH HIGHLIGHTS

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- 17 Industry Reports to Date and Academic Papers & Chapters
- 1600+ FinTech Platforms Surveyed in 2016
- Covering All Global Regions and More than 175 Countries
- 100+ Industry and FinTech Ecosystem Partners
- 20+ Academic Research Partners

## DATA:

- Over £10bn Worth of Granular-Level Transactional Data Collected
- 30 Million Micro-Transactions in the Dataset between Lenders/Investors/Backers and Borrowers/Fundraisers/

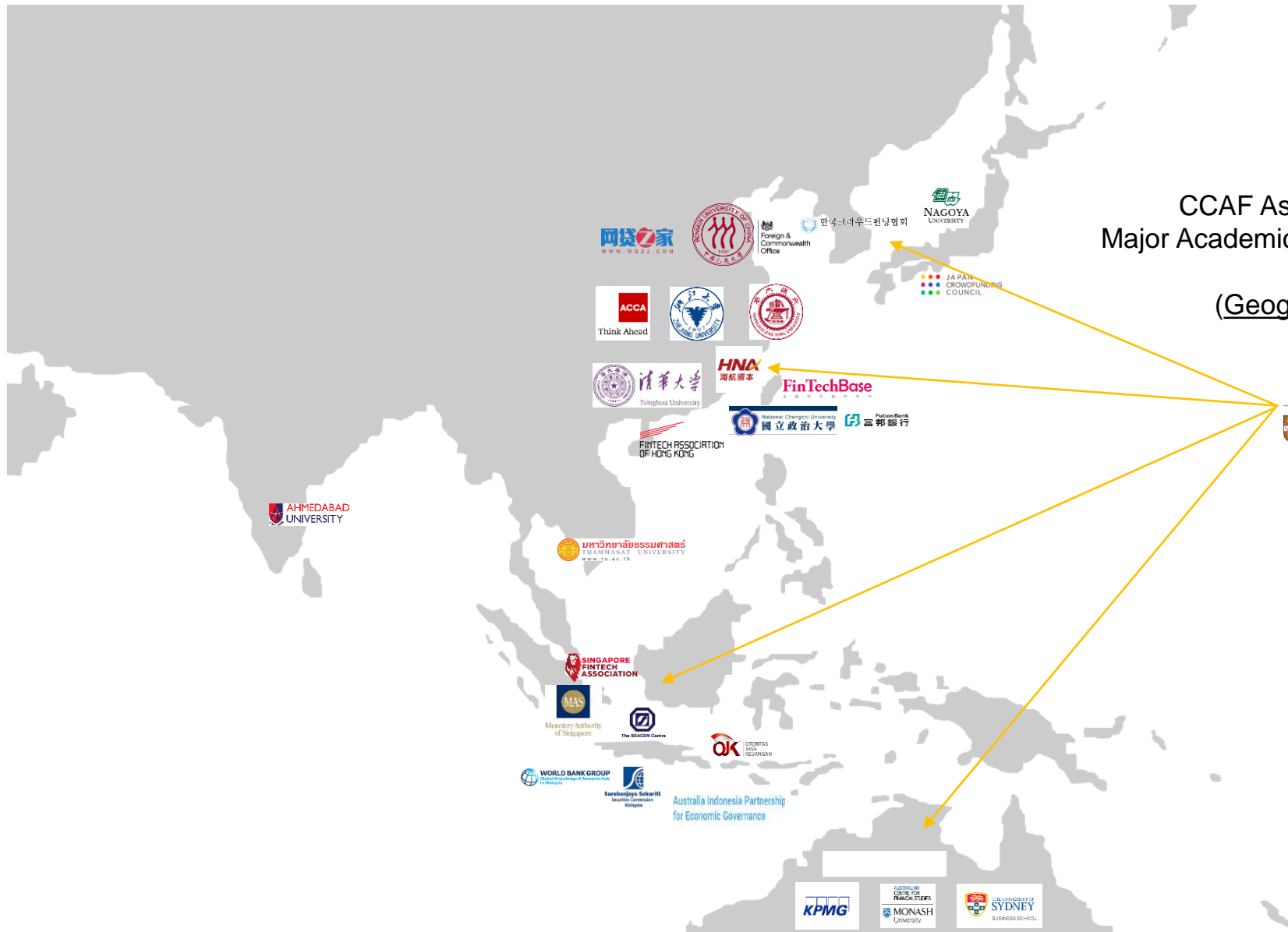
# POLICY IMPACT

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- FSB – [Financial Stability Implications from FinTech](#)
- Bank for International Settlements – [FinTech Credit Report](#)
- IOSCO – [Research Report on Financial Technologies](#)
- FCA – [Review of the UK Regulatory Regime](#)
- Reserve Bank of India – [Consultation on P2P Lending](#)
- Global Partnership for Financial Inclusion – [Crowdfunding at the BoP](#)
- OECD – [Disruption Innovation in the Financial Sector](#)
- Bank of England – [The Promise of Fintech: Something New Under the Sun](#)
- FSD Africa - [P2P Regulation in East Africa](#)
- GCAP – [Crowdfunding & Financial Inclusion](#)
- World Bank – [Crowdfunding's Potential for the Caribbean](#)
- UN Development Programme – [Alternative Financing Lab](#)
- Inter-American Development Bank – [Alternative Finance in LatAm & Caribbean](#)
- European Commission – [Crowdfunding in the EU Capital Markets](#)

CCAF Asia-Pacific Region  
Major Academic, Regulatory & Industry  
Partners  
(Geographical View)

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# What is financial inclusion?

# Where are we?

# Alternative Finance in

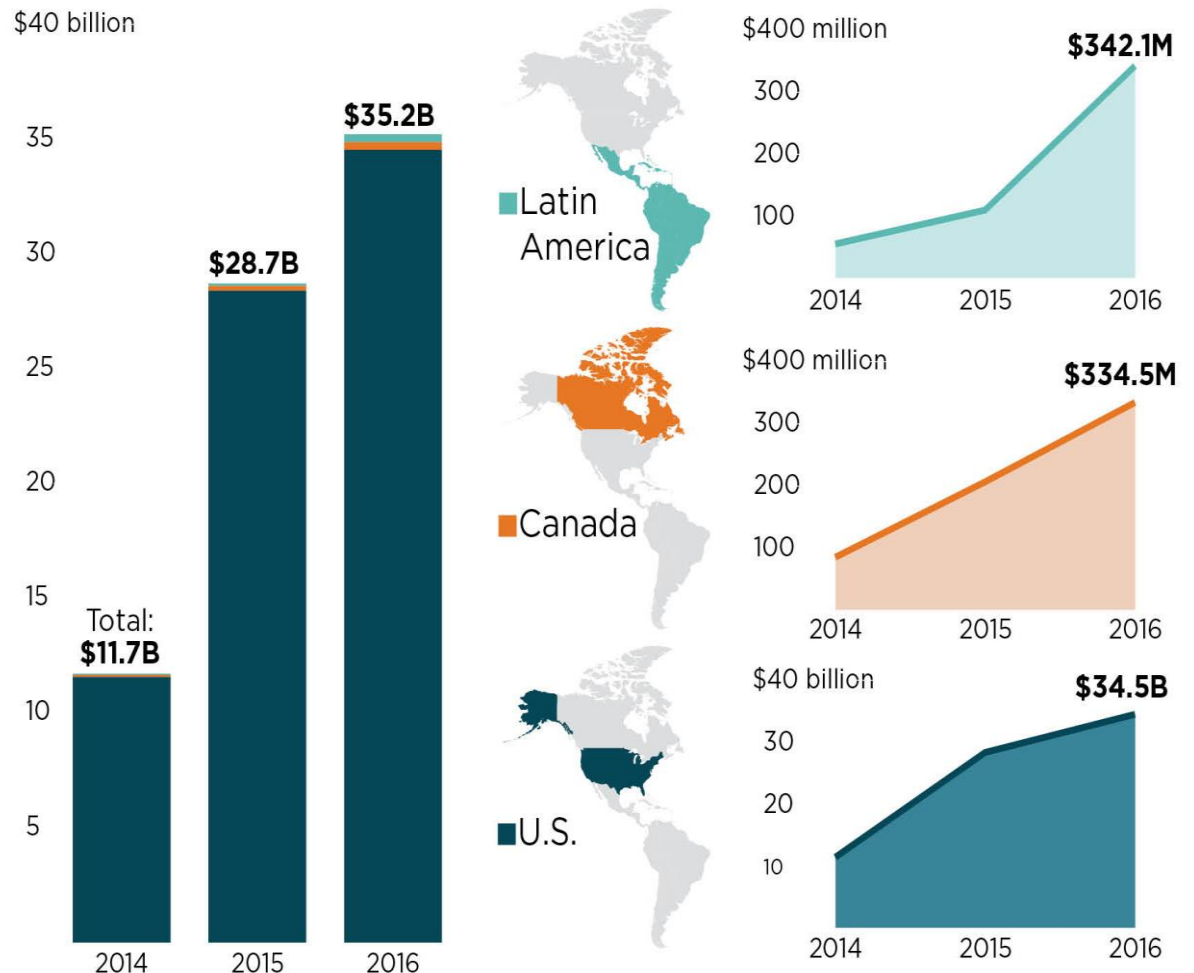
# Latin America



# OVERVIEW OF AMERICAN ALTERNATIVE FINANCE

- 23% total increase from 2015
- USA responsible for 98% of market
- LAC (\$342 million) increased by 209%
- Similar to Canada, but while Canada growth mostly NON investment
- LAC 70% dedicated to SME finance models

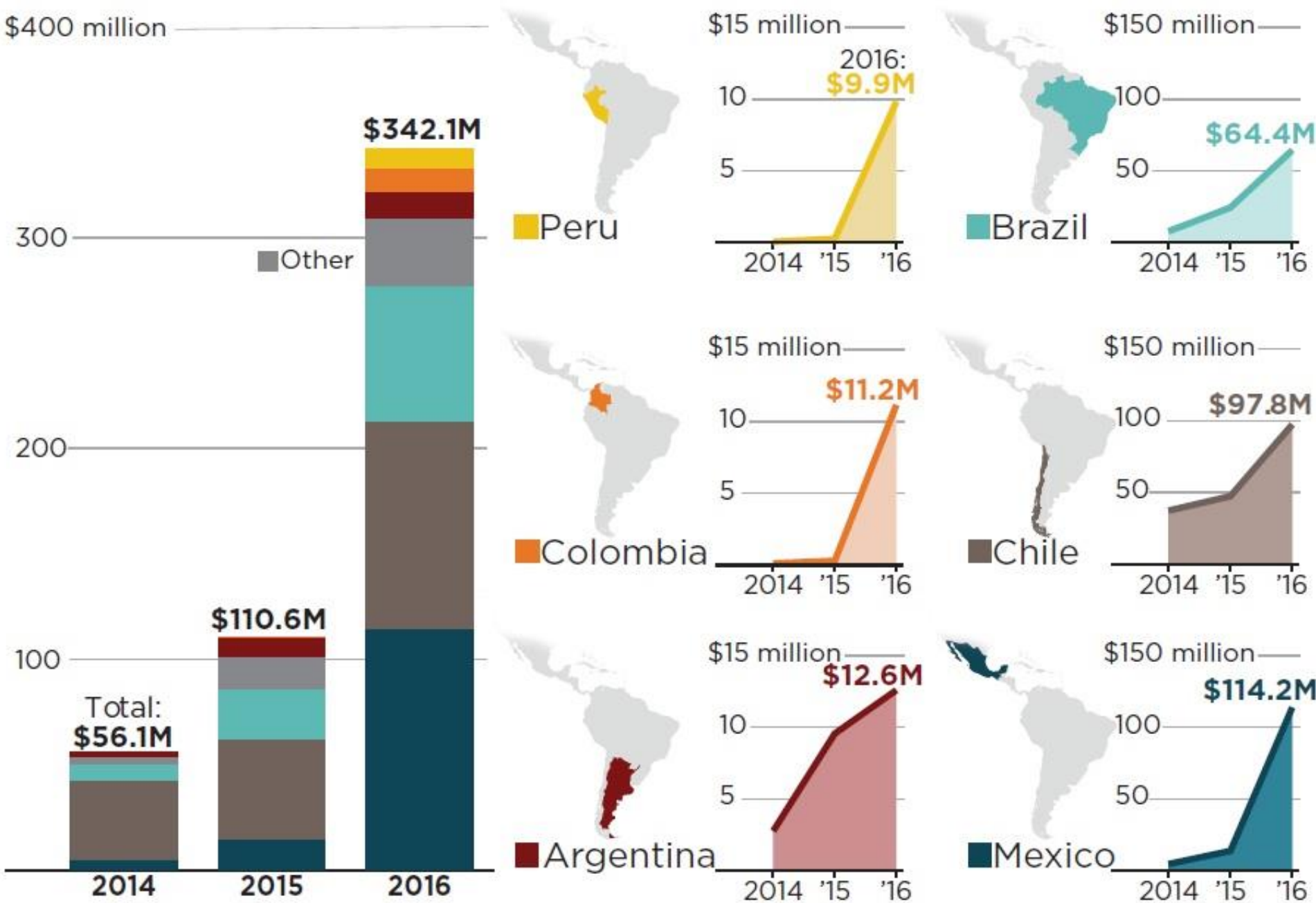
Americas Alternative Finance  
Total Volume, 2014-2016 (\$USD)



Source: The 2017 Americas Alternative Finance Industry Report (<http://bit.ly/2017AltFinAmericas>)

# LAC Alternative Finance

## Total Volume, 2014-2016 (\$USD)



# Institutional Investors

Presence of large institutional investors in LA

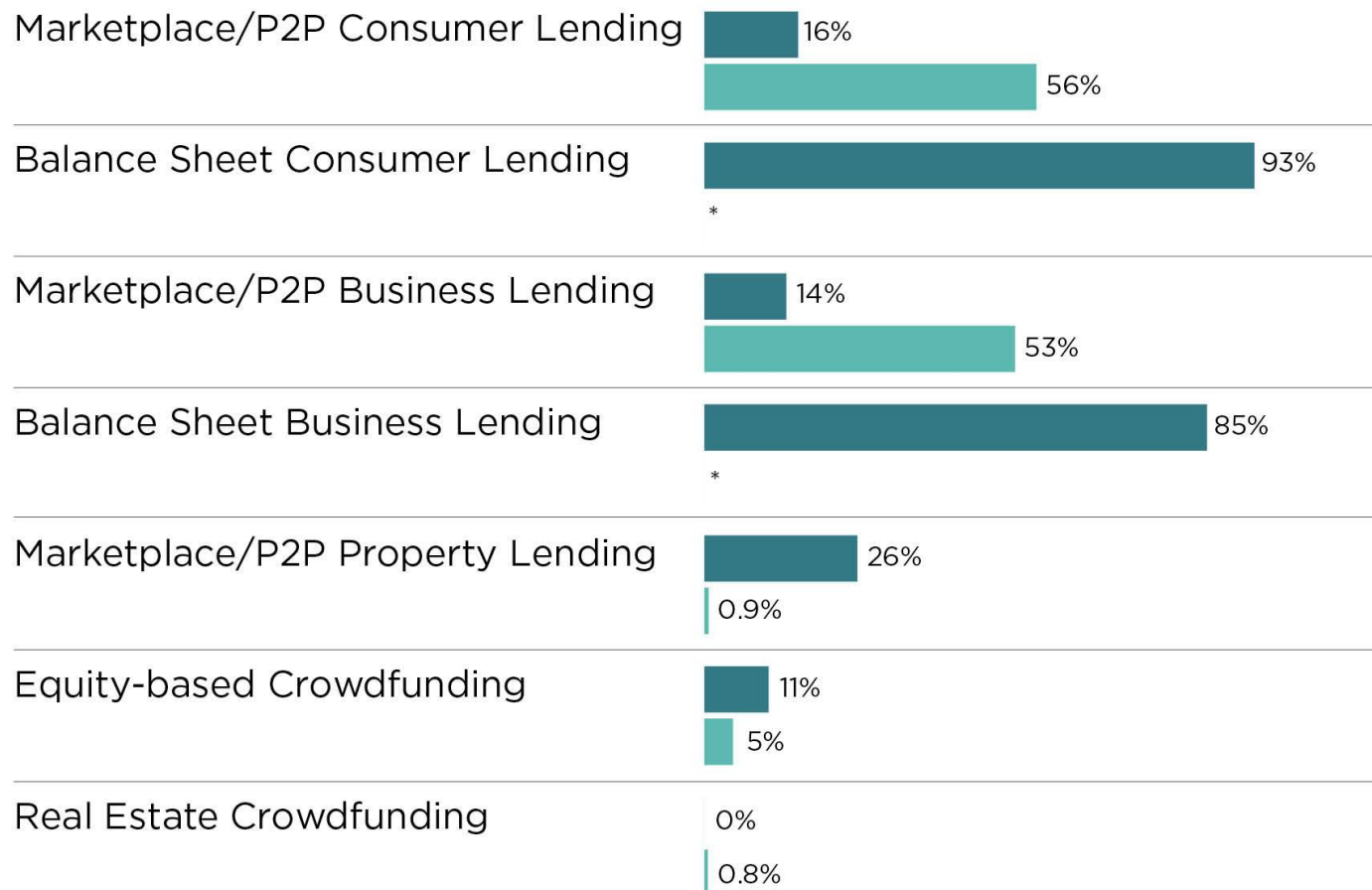
- 37% in 2014-15  
- 69% in 2015-16  
(\$236m) of total from Institutions

Particularly in balance sheet lending

## LAC Alternative Finance

### Proportion of Institutional Investor Activity by Model

■ 2015 ■ 2016



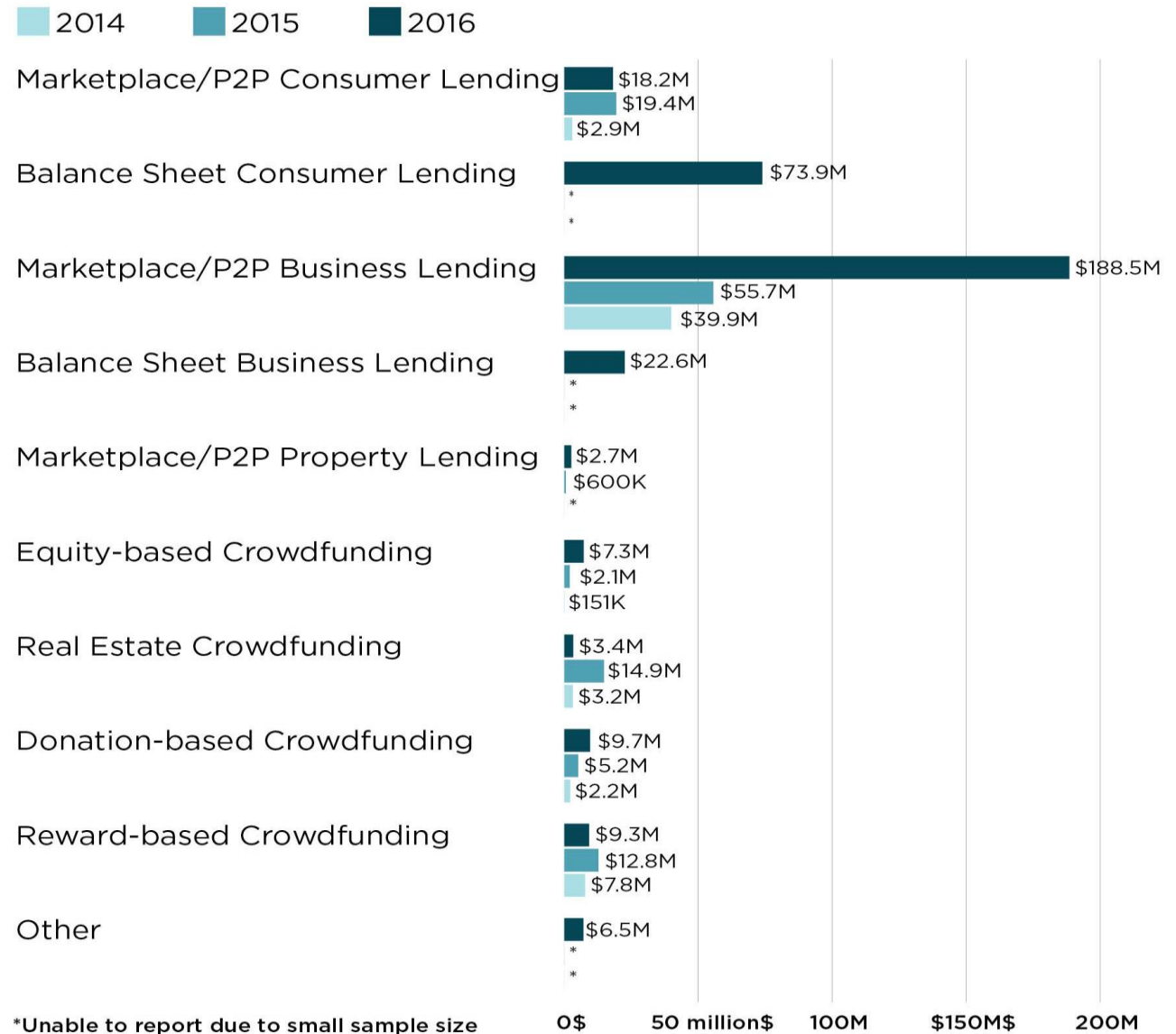
\*Model did not exist

Source: The 2017 Americas Alternative Finance Industry Report (<http://bit.ly/2017AltFinAmericas>)

# Key LAC Findings

- P2P Business is the largest segment-57%
- Fastest *growing* model is equity based CF-256%
- Donation & reward only 5% of market - growing slowly or contracting

**LAC Alternative Finance  
Total Volume by Model, 2014-2016 (\$USD)**



Source: The 2017 Americas Alternative Finance Industry Report (<http://bit.ly/2017AltFinAmericas>)

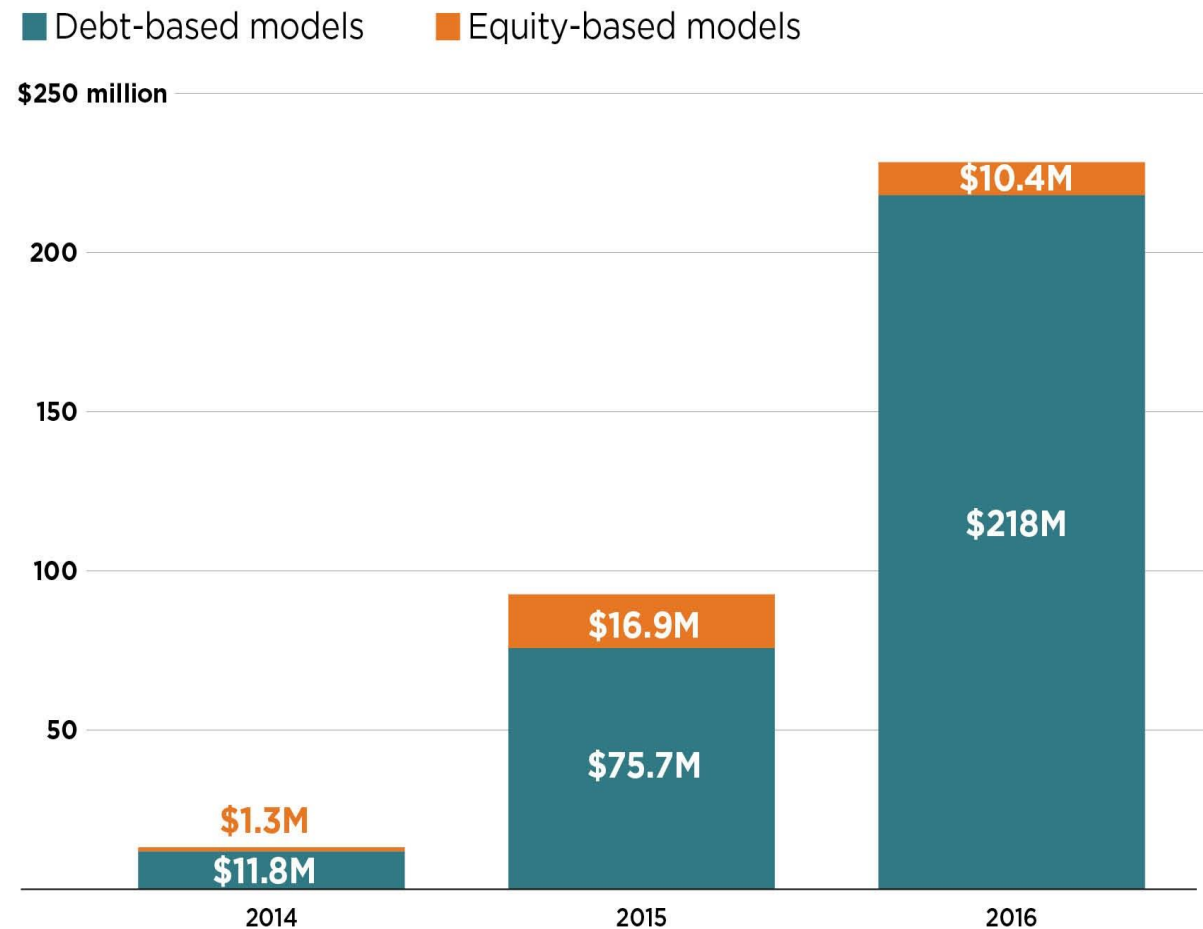


# LATIN AMERICA ALTERNATIVE FINANCE

## INVESTMENT-BASED MODELS

- \$234 million to 67,499 SMEs
- 98% from *investment-based models (\$228.4m)*
- 2/3 from Chile & Mexico
- Top Sectors: Technology (12%), Business Services (9%) and Mfg (9%)

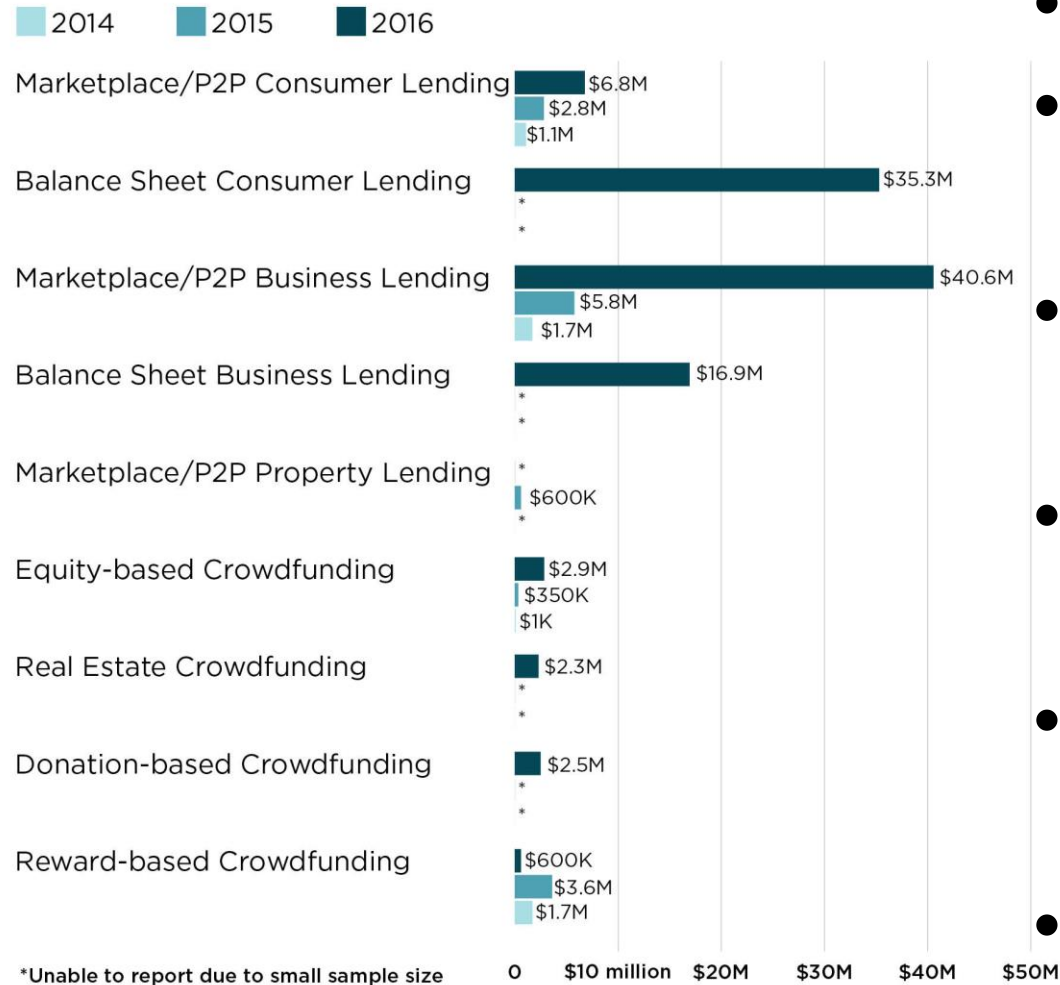
Alternative Finance provided to Businesses through Investment-based models 2014-2016 (\$USD)



Source: The 2017 Americas Alternative Finance Industry Report (<http://bit.ly/2017AltFinAmericas>)

# Mexico

## Mexico Alternative Finance Market Volume by Model, 2014-2016 (\$USD)



Source: The 2017 Americas Alternative Finance Industry Report (<http://bit.ly/2017AltFinAmericas>)

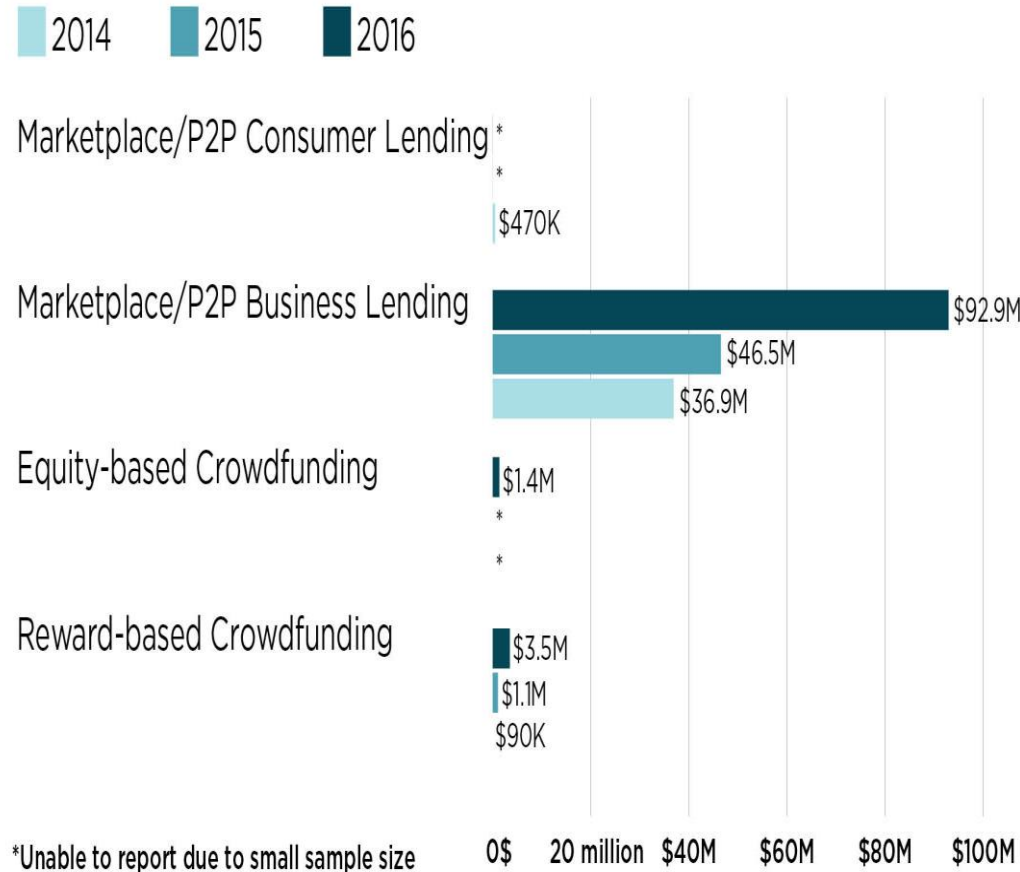
## Regional Leader \$114.2 m

- Annual growth of 730%
- Growth pushed by introduction of regulation
- 31% volume attributed to Institutions
- 6% Investors utilise automation
- 59% of Applicants Onboarded
- 78% Successfully Raise Funds

# Chile

## Chile Alternative Finance

### Market Volume by Model, 2014-2016 (\$USD)



Source: The 2017 Americas Alternative Finance Industry Report (<http://bit.ly/2017AltFinAmericas>)

## Chile 2<sup>nd</sup> Largest, \$97.8 m

- Annual growth of 106%
- 28% total volume attributed to Institutions
- <10% Investors Utilise Automation
- 22% of Applicants Onboarded
- 94% Successfully Raise Funds

# SME Profiling Study: Mexico & Chile



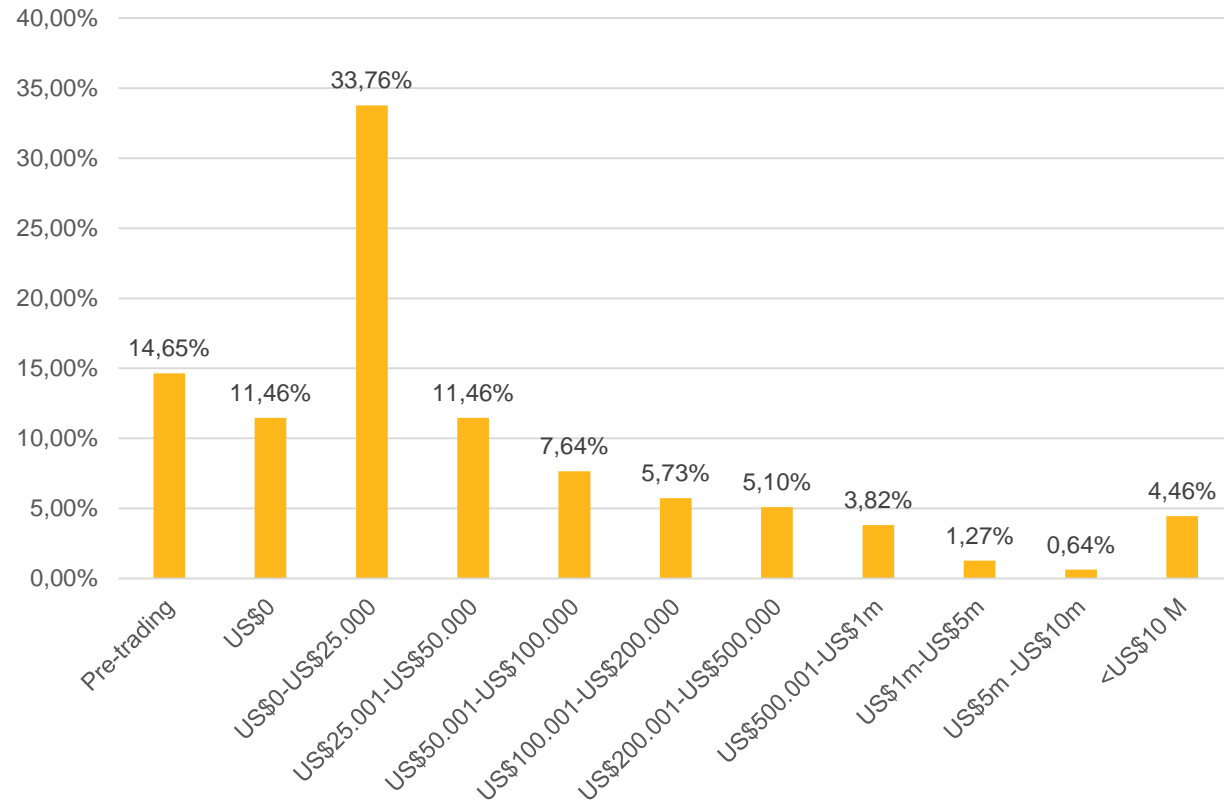
- 19 Platform Outreach Partners
- 243 Entries
- 83% from Mexico
- 72% from P2P Lending
- 15 In-depth Interviews



# P2P Lending – Demographics, 2016

## P2P

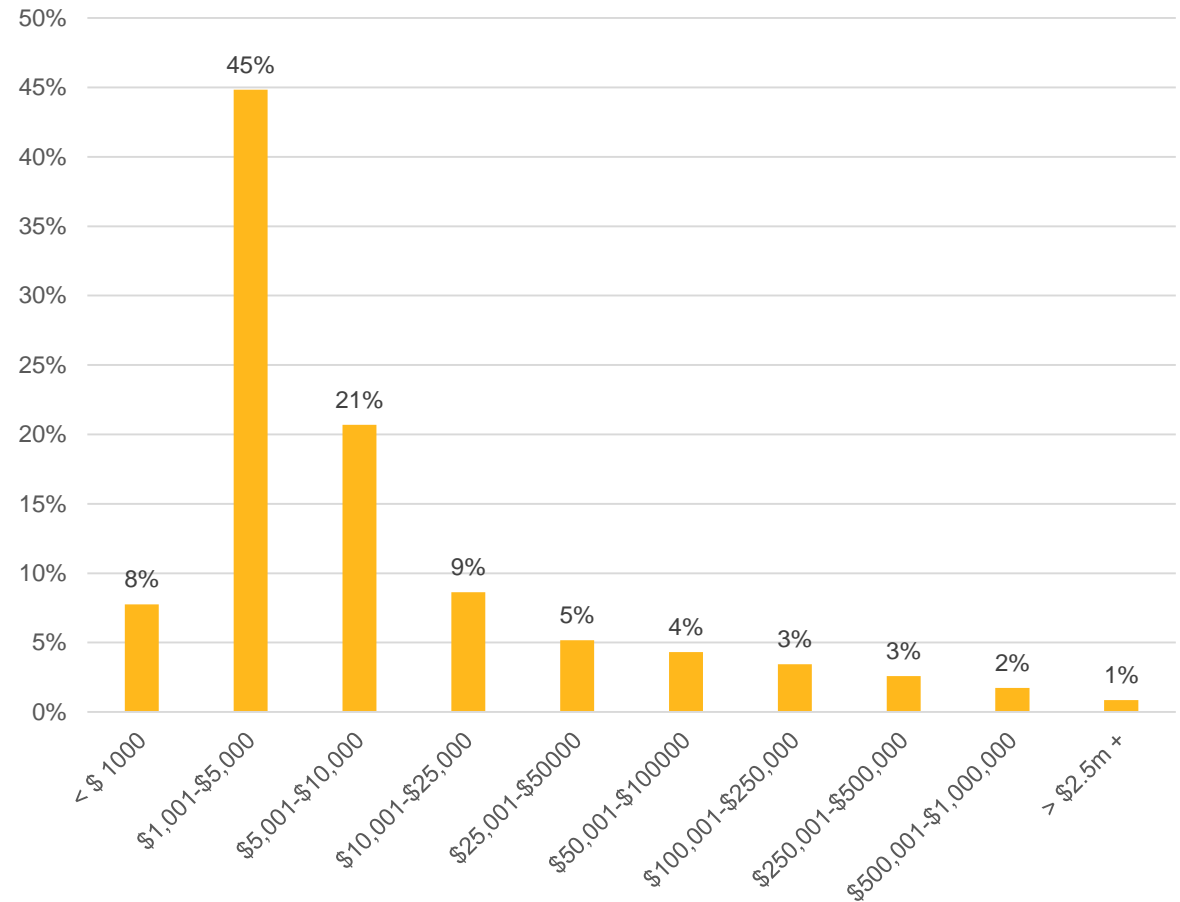
- Small firms – 75% sole proprietors
- 60% are small firms with a turnover  $\geq$  \$25k
- 35% had 2-3 employees
- Sector: 17% in mfg (clothing)



# P2P Lending – Amount Raised

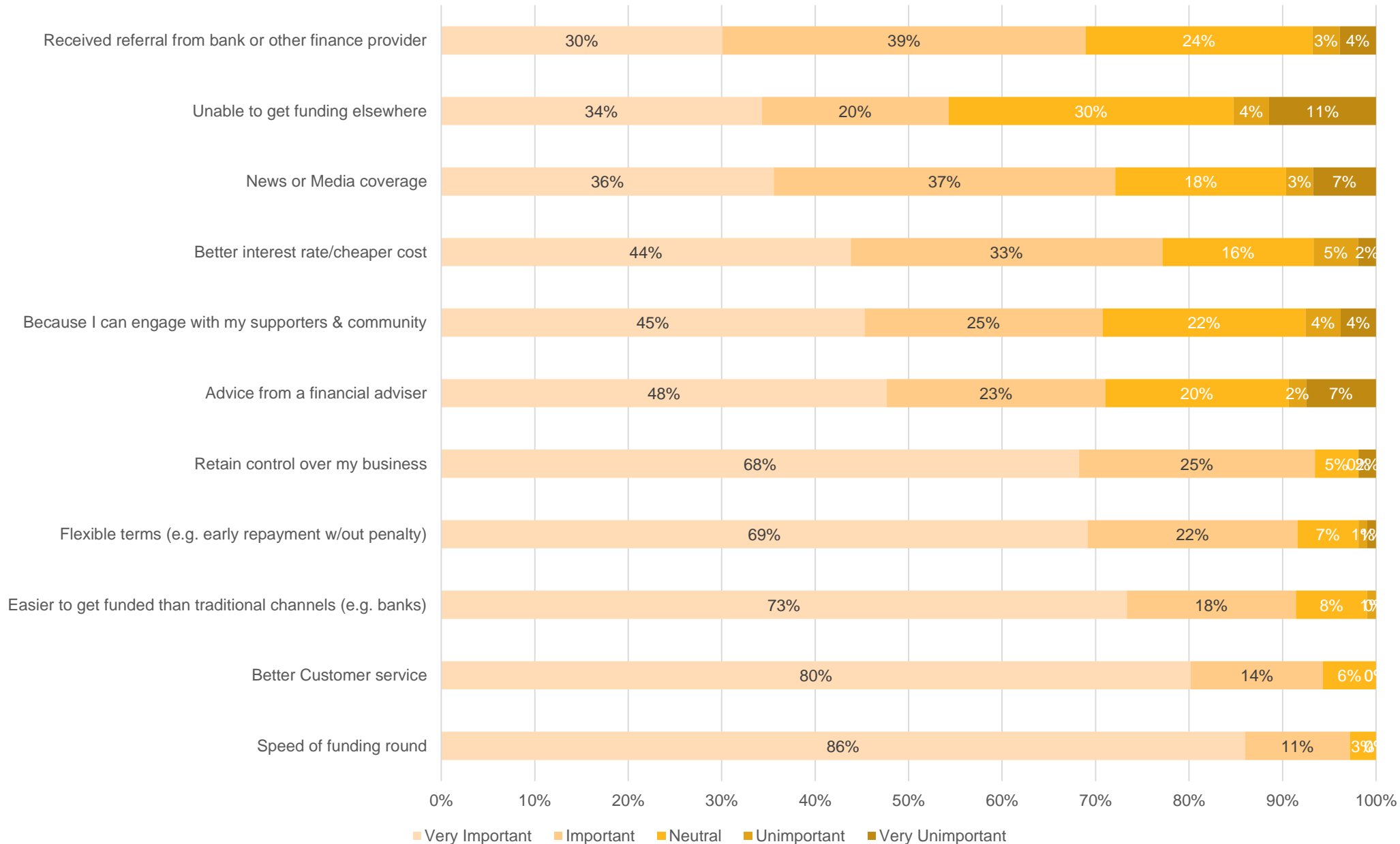
## P2P Amount Raised:

- 53% only borrowed between \$1-\$5k
- 83% are repeat borrowers



# P2P Lending – Attraction of Model

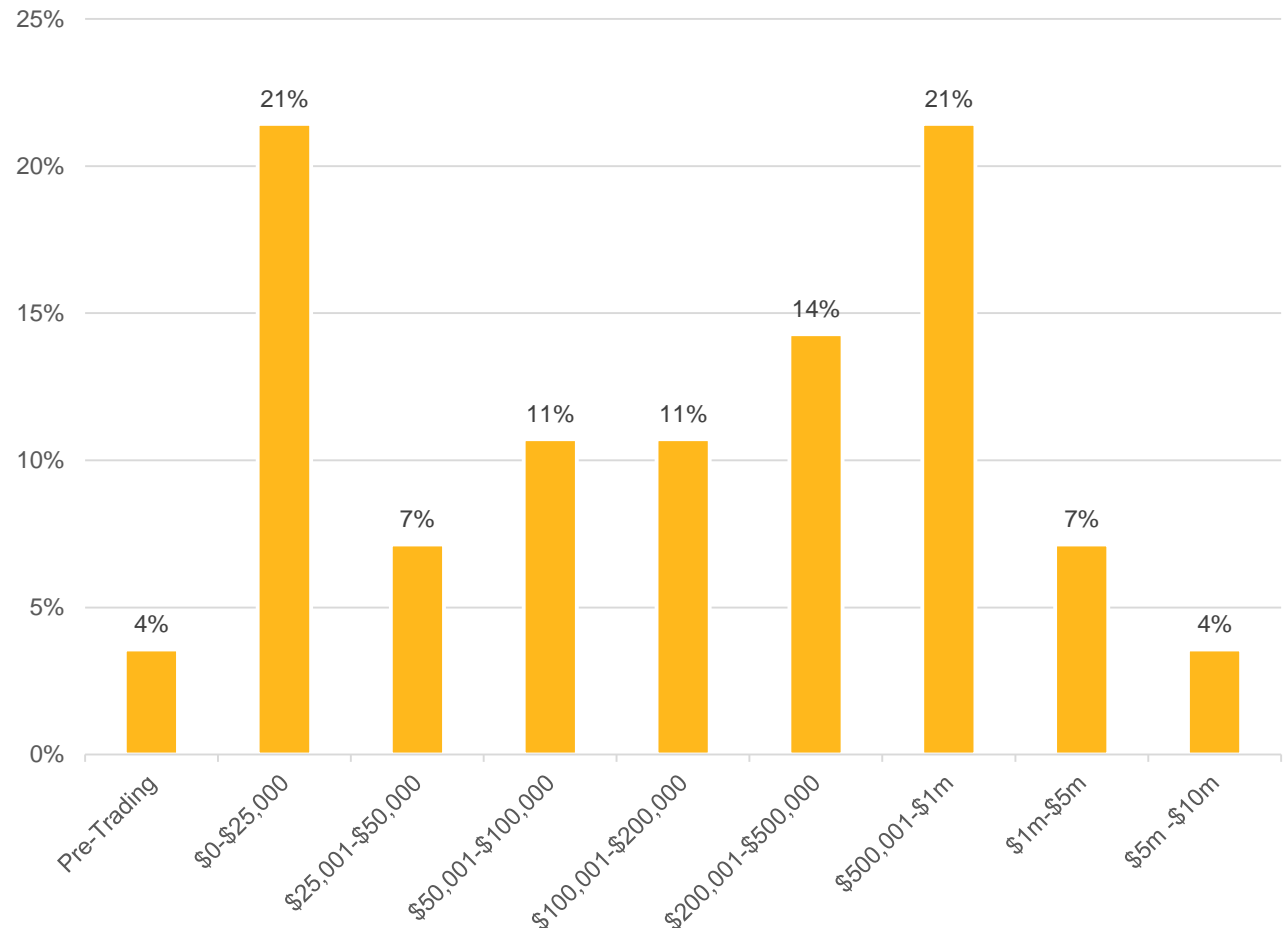
## Decision Factors When Opting to Use P2P Lending



# Invoice Trading – Demographics 2016

## Invoice Trading Annual Turnover:

- Wider spread of turnovers
  - 21% \$25-50K
  - 21% \$200-500K
- 32% - 6-10 employees
- 28% - 11-50 employees

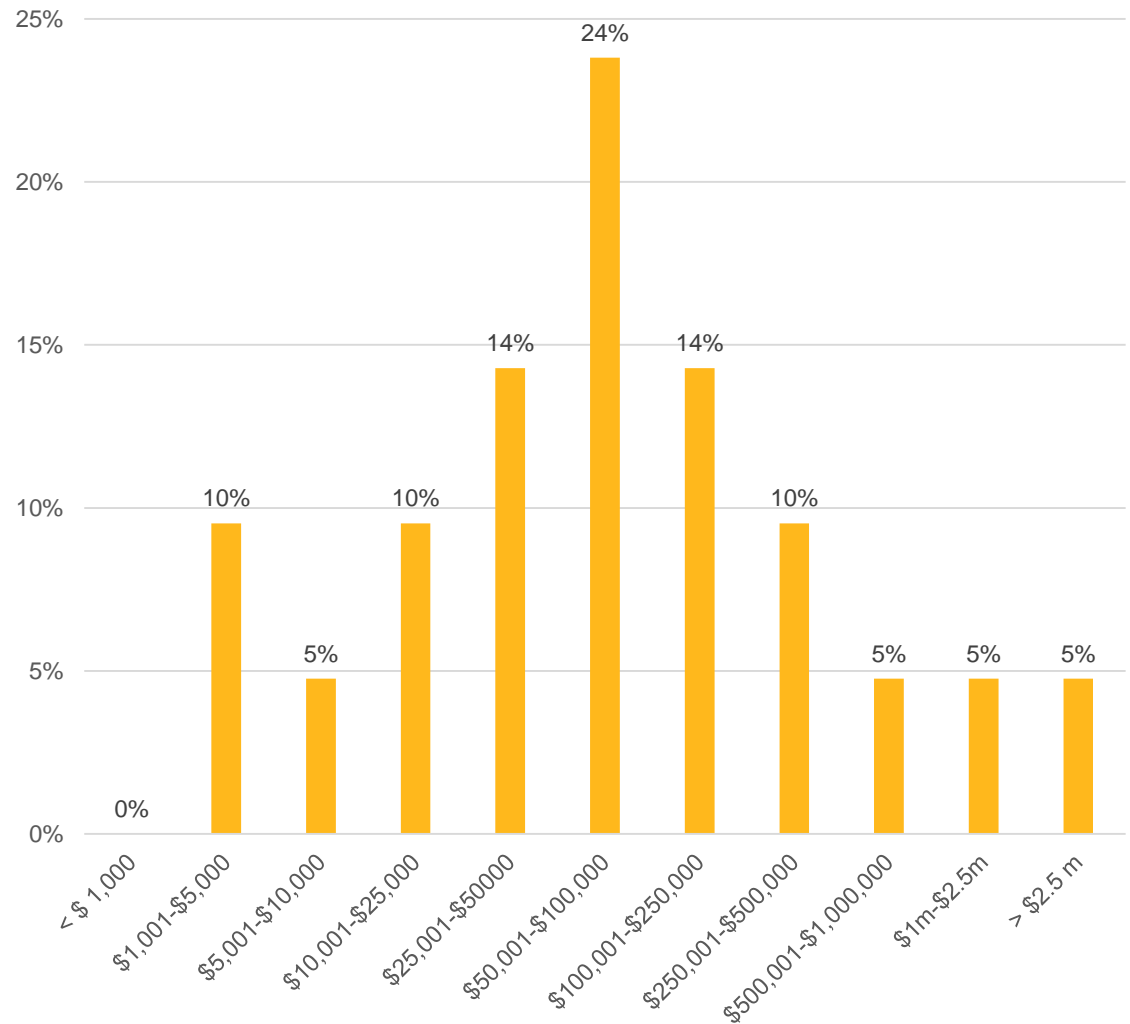




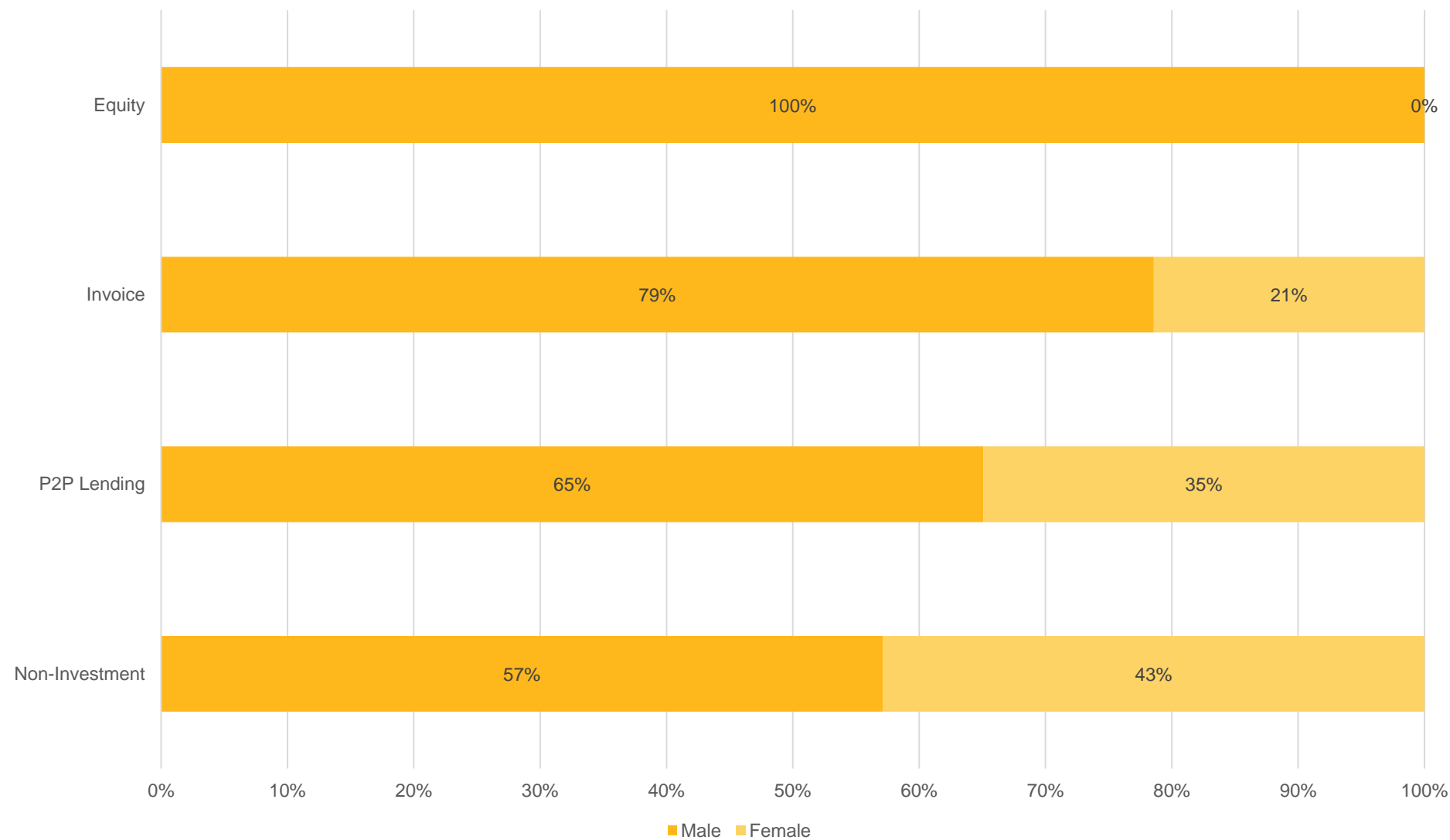
# Invoice Trading – Amount Raised:

Larger amounts, repeat users:

- 24% raised \$50-\$100k
- 64% repeat borrows and had used the facility in the previous 30 days.
- Over 60% used facility 5+ times

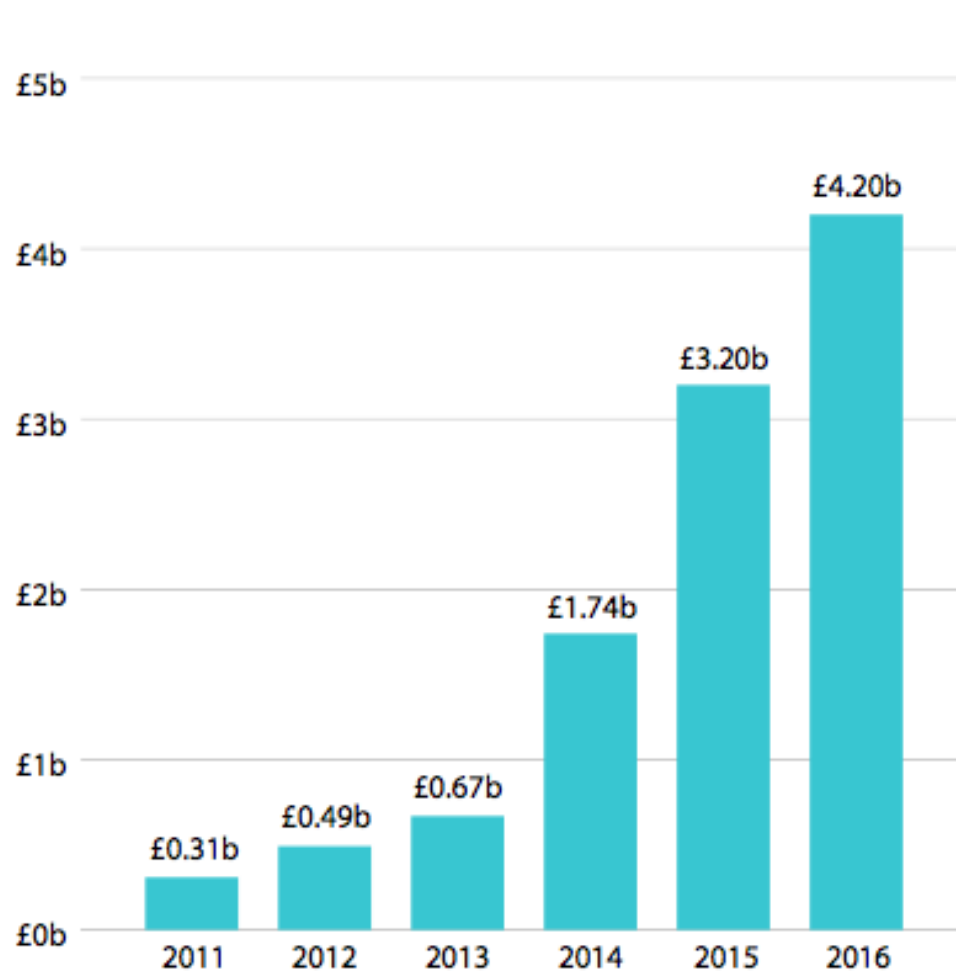


# Gender of Lead Fundraiser by Model

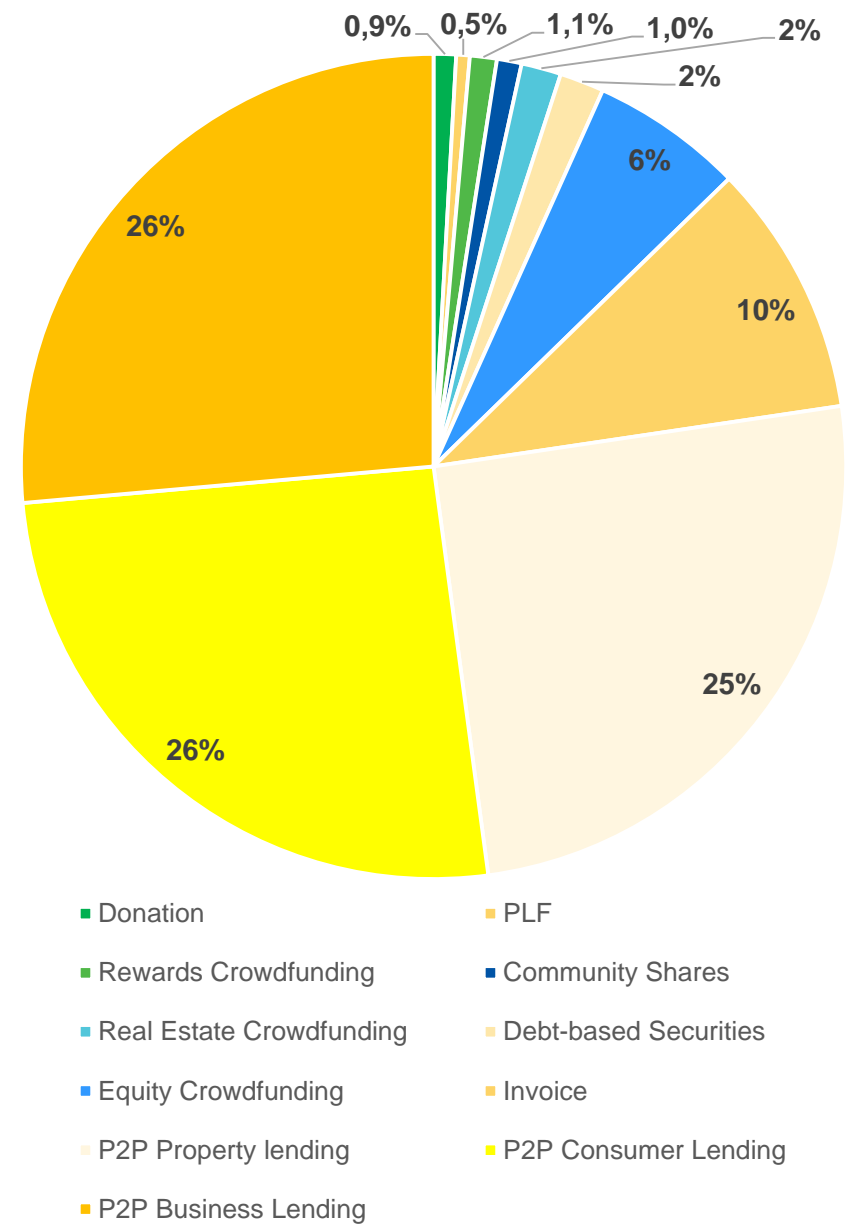


# Lessons from the UK: potential of inclusion?

# UK Alternative Finance 2011– 2016

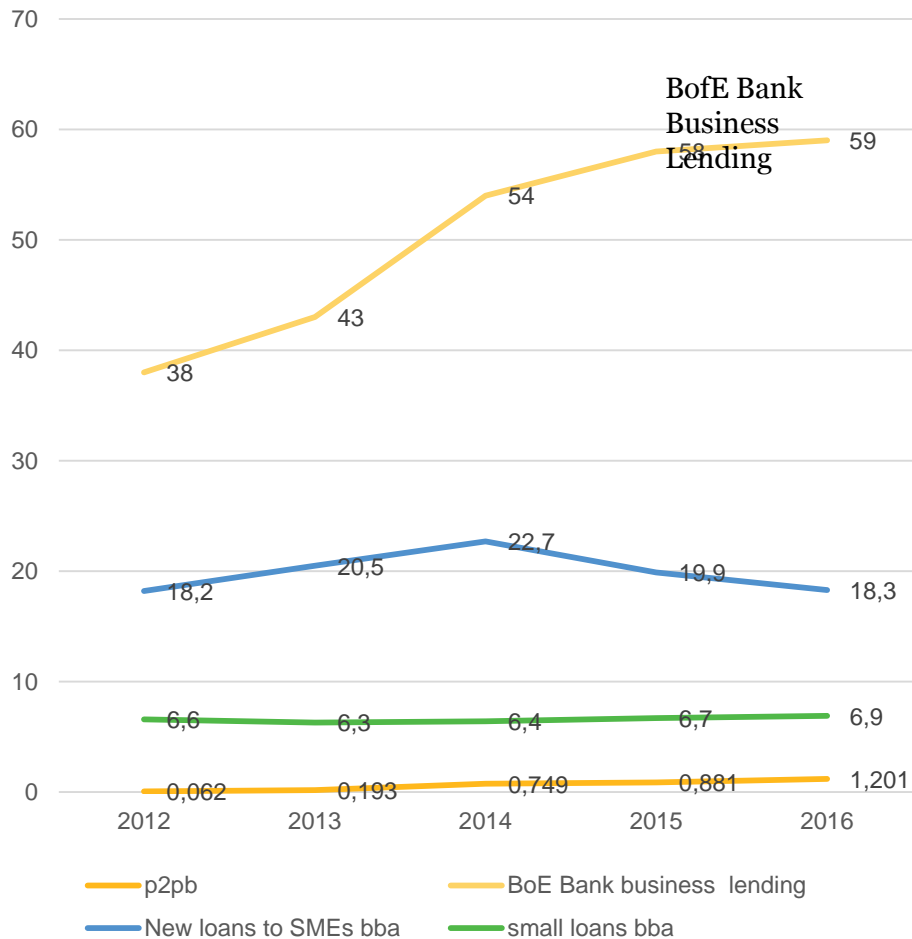


Debt	89.6%
Equity	8.5%
Non-Investment	1.9%

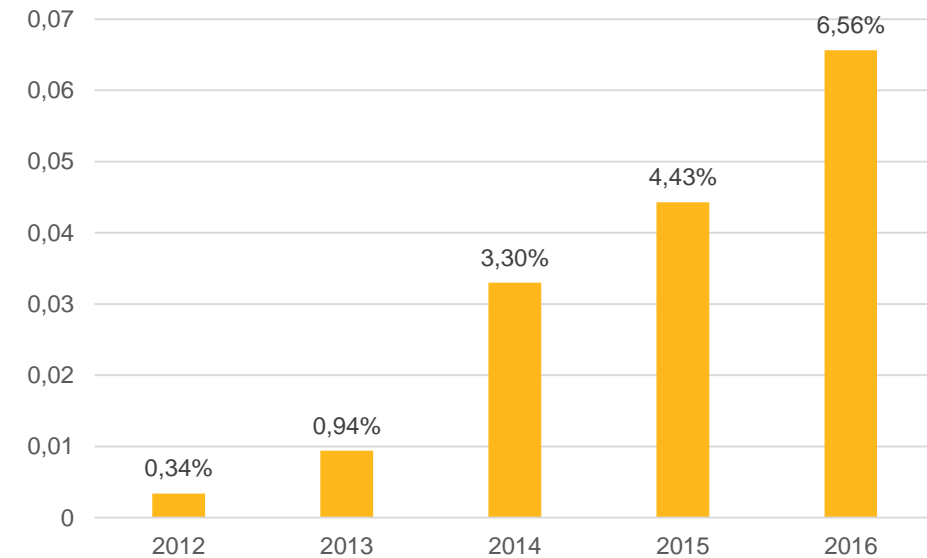


# UK BUSINESS FINANCE – P2P LENDING

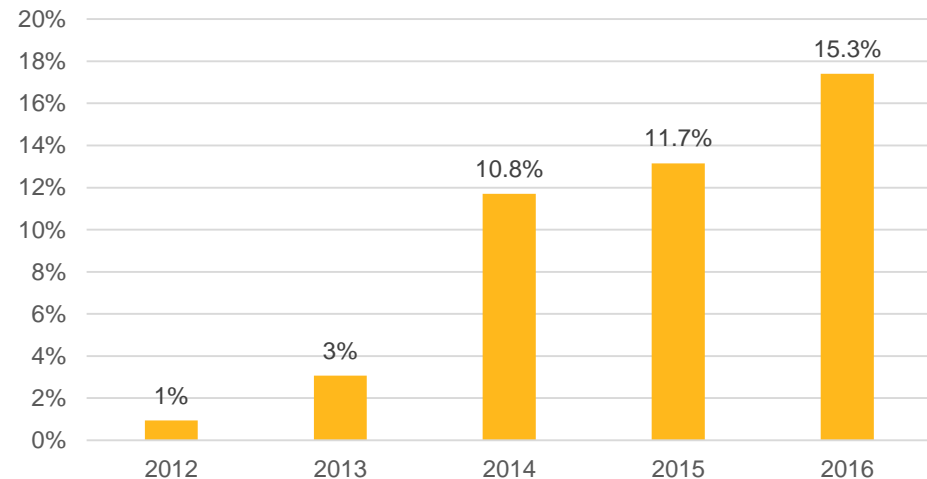
## P2P Lending Compared to Bank Lending (2012-2016 £bn)



## P2P Lending as Proportion of SME Bank Lending (2012-2016)



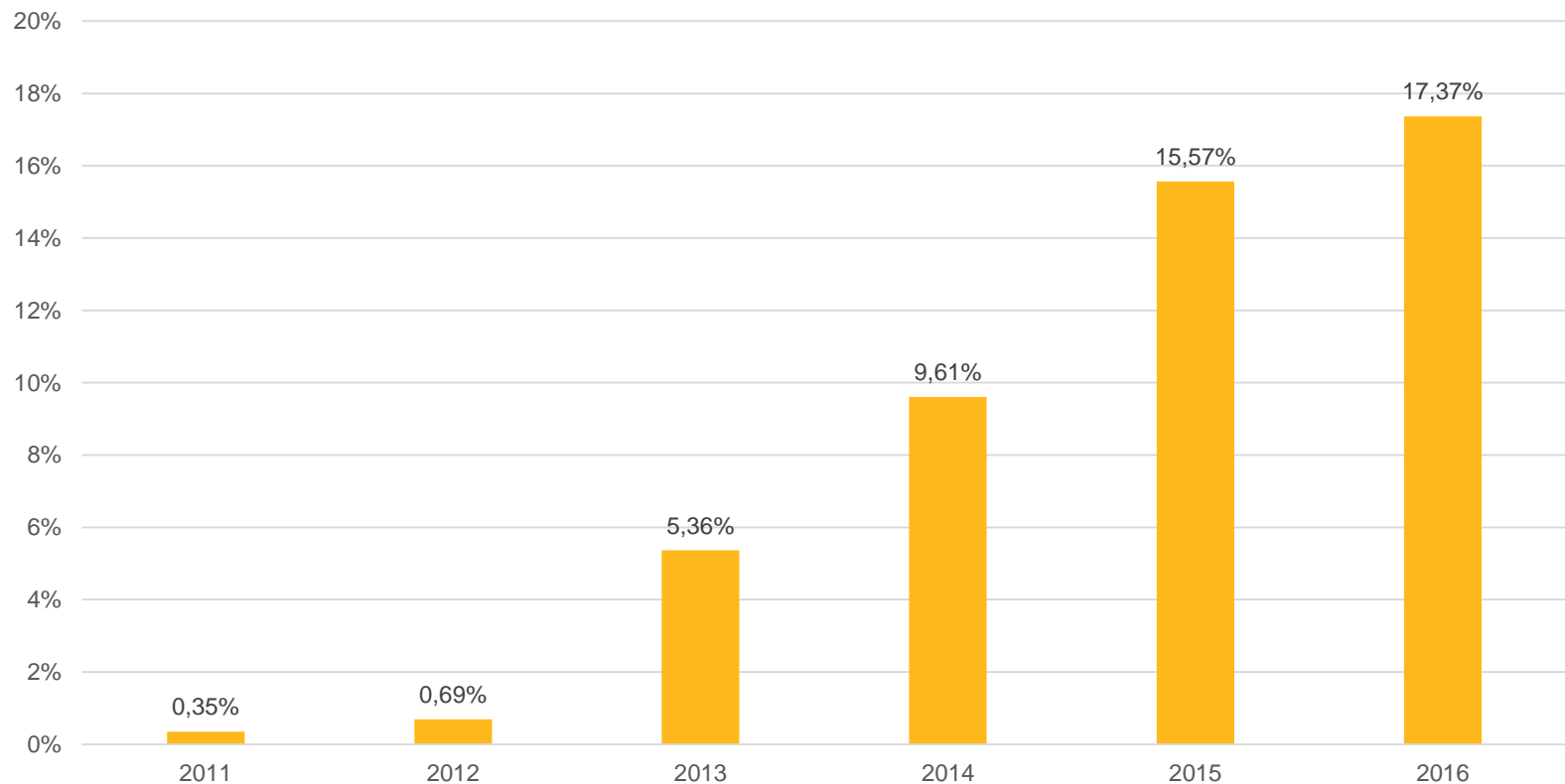
## New Loans to Small Businesses



\*BBA Annual Data/ BOE

# **BUSINESS FINANCE – Equity-based Crowdfunding**

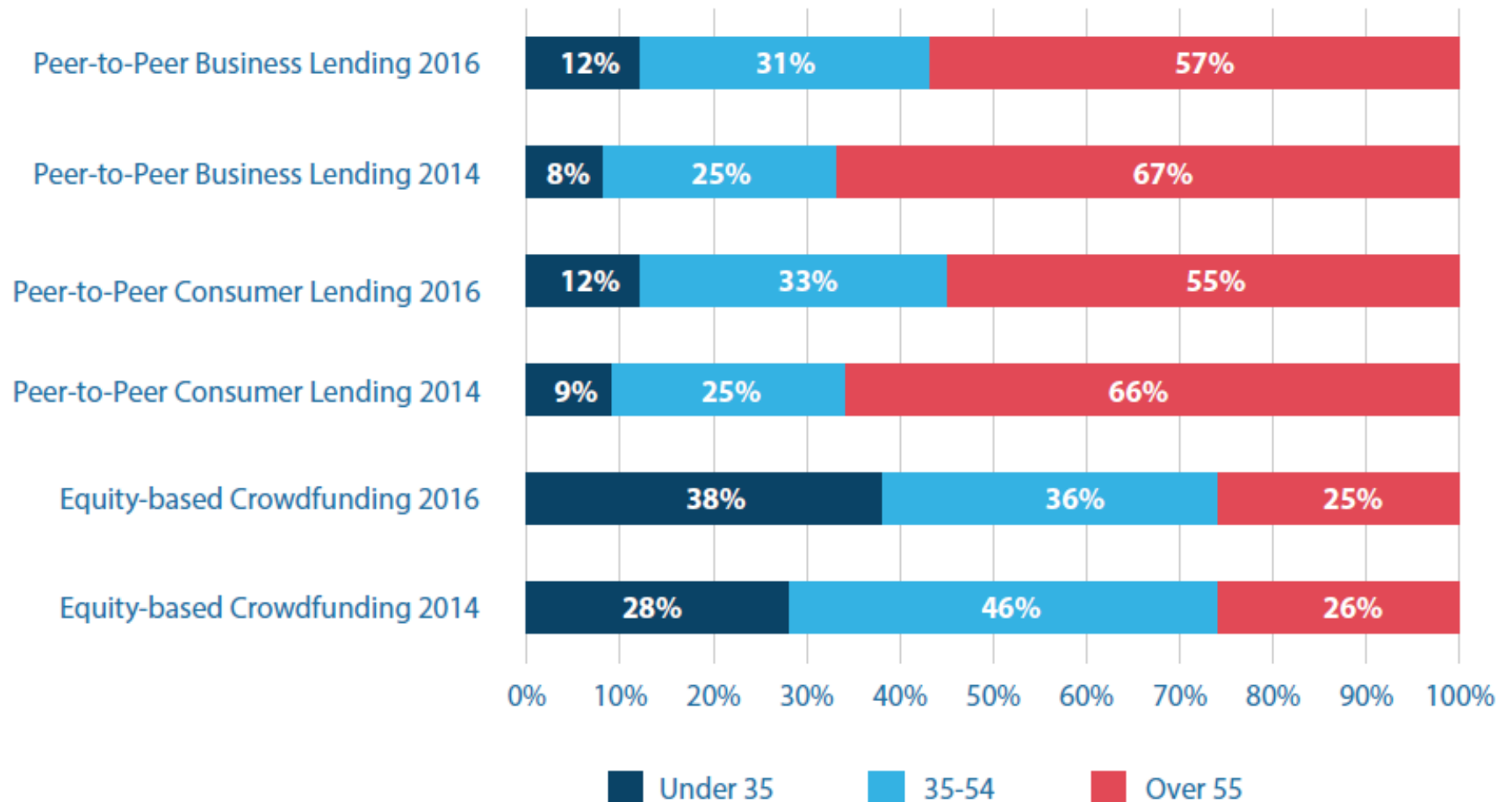
Equity Crowdfunding as a Proportion of Total Seed & Venture Stage Equity  
2011-2016 (Beauhurst)





# UK Funder Age by Model 2014 & 2016

Figure 30: Funder Age by Model, 2014 vs 2016



# UK Funder Income by Model 2014 & 2016

Figure 33: Funder Income by Model (2014 vs 2016)

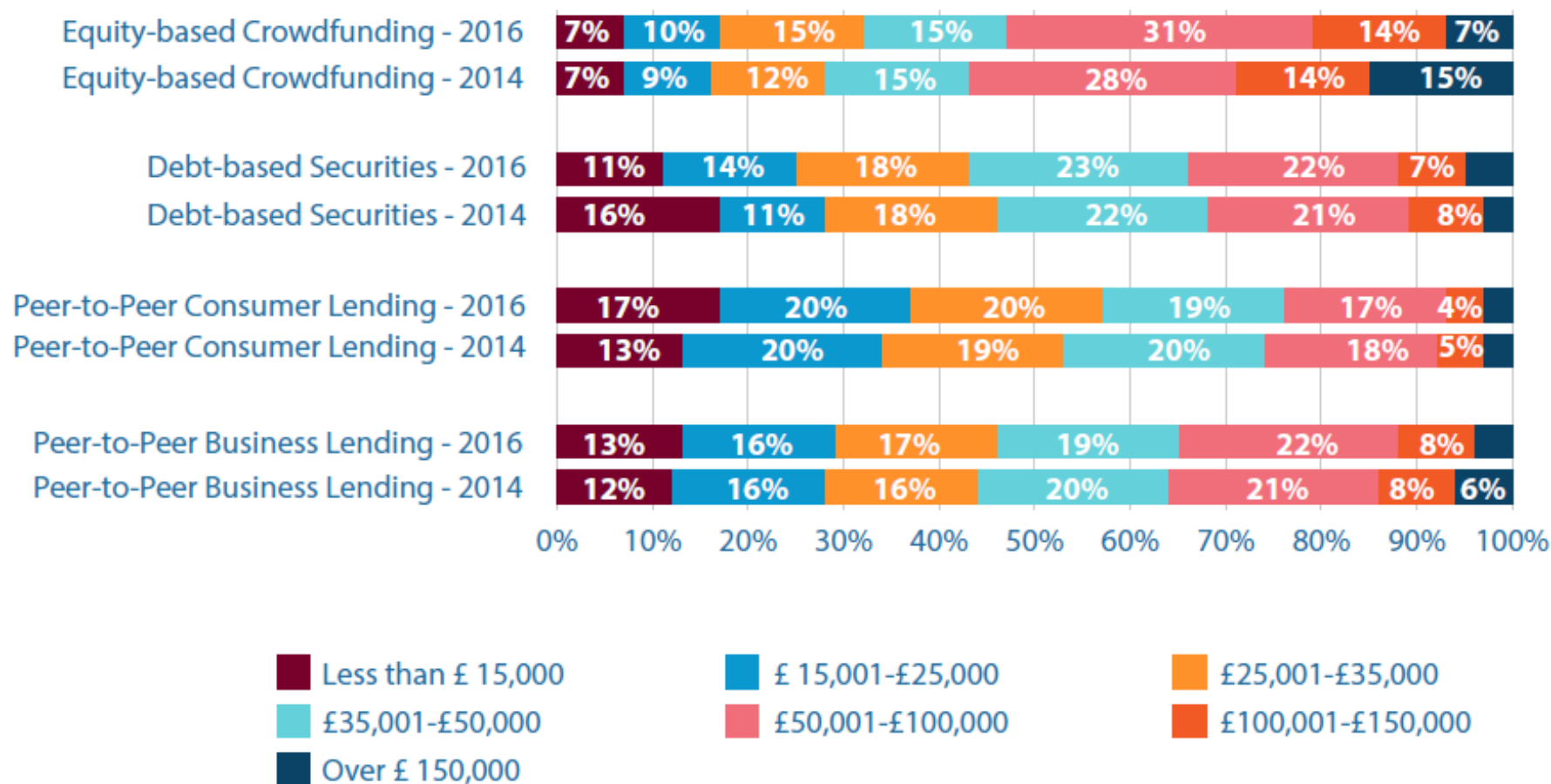
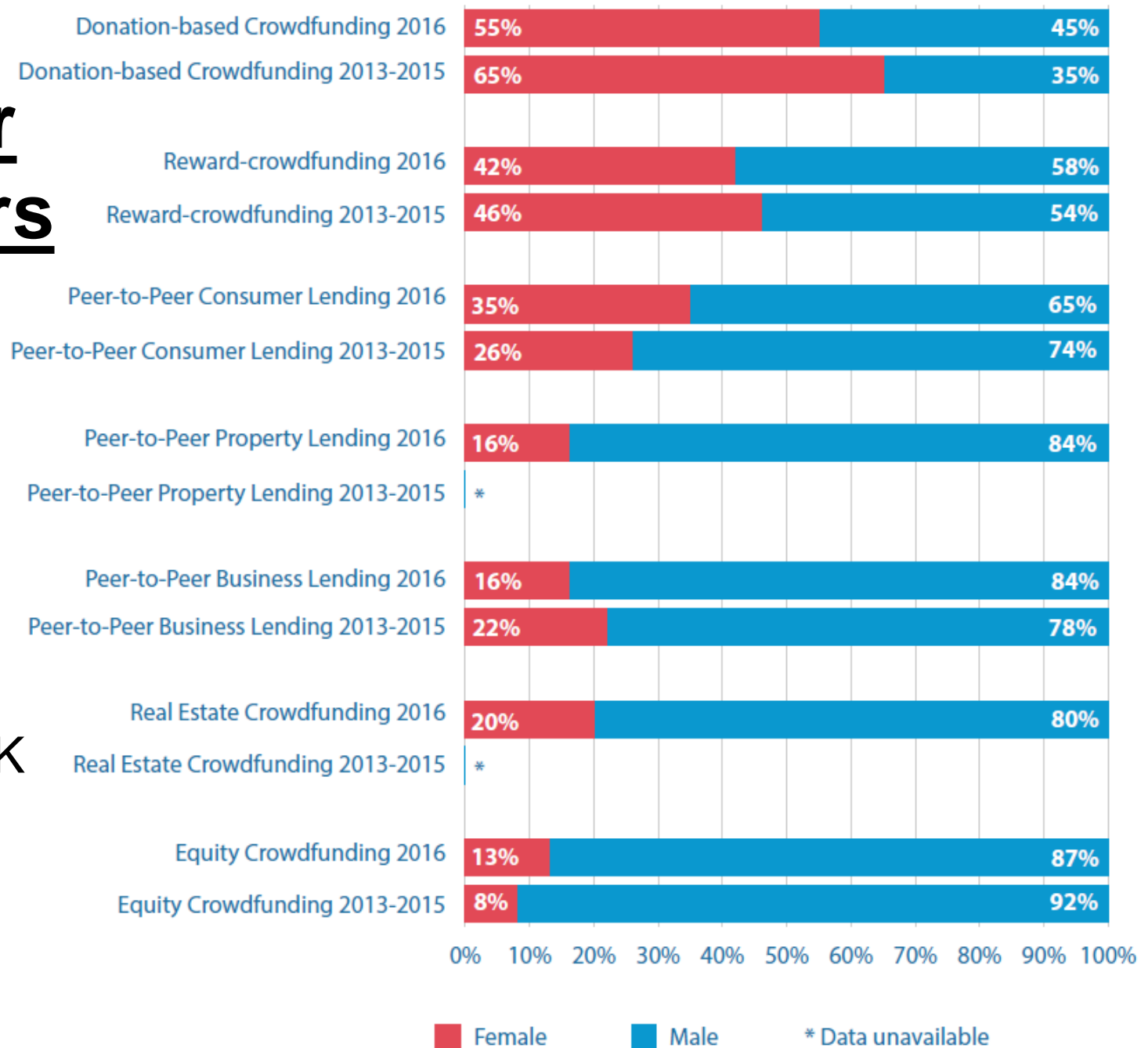


Figure 28: Percentage of Female Fundraisers (2013-2015 vs 2016)

# UK Gender Fundraisers

Compared to venture Capital 2016: women only received 2.19% of total VC funding in the UK



# Venture Capital and Gender

## Deal count and volume for female-founded companies

Female-founded companies as a proportion of the total number and dollar value of VC deals

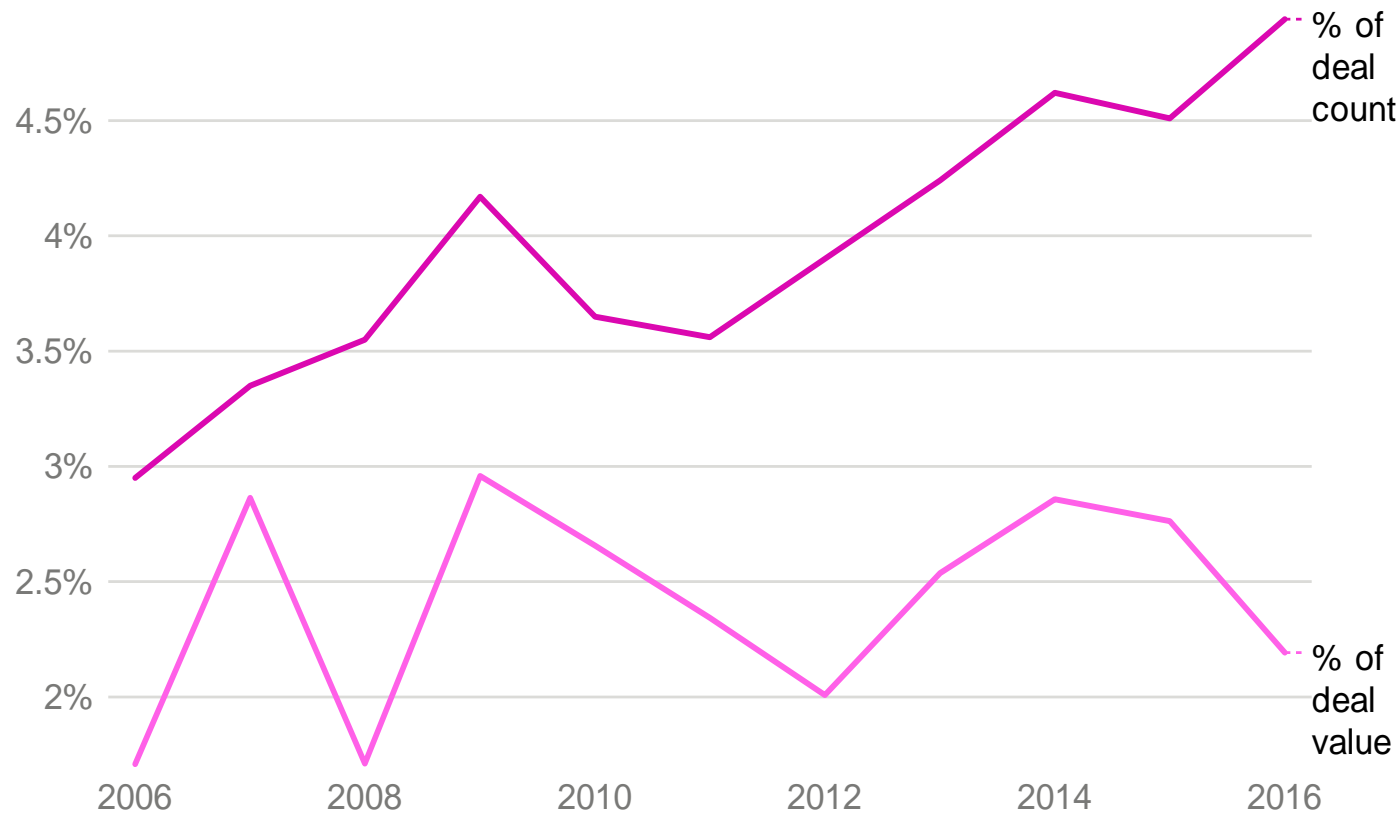
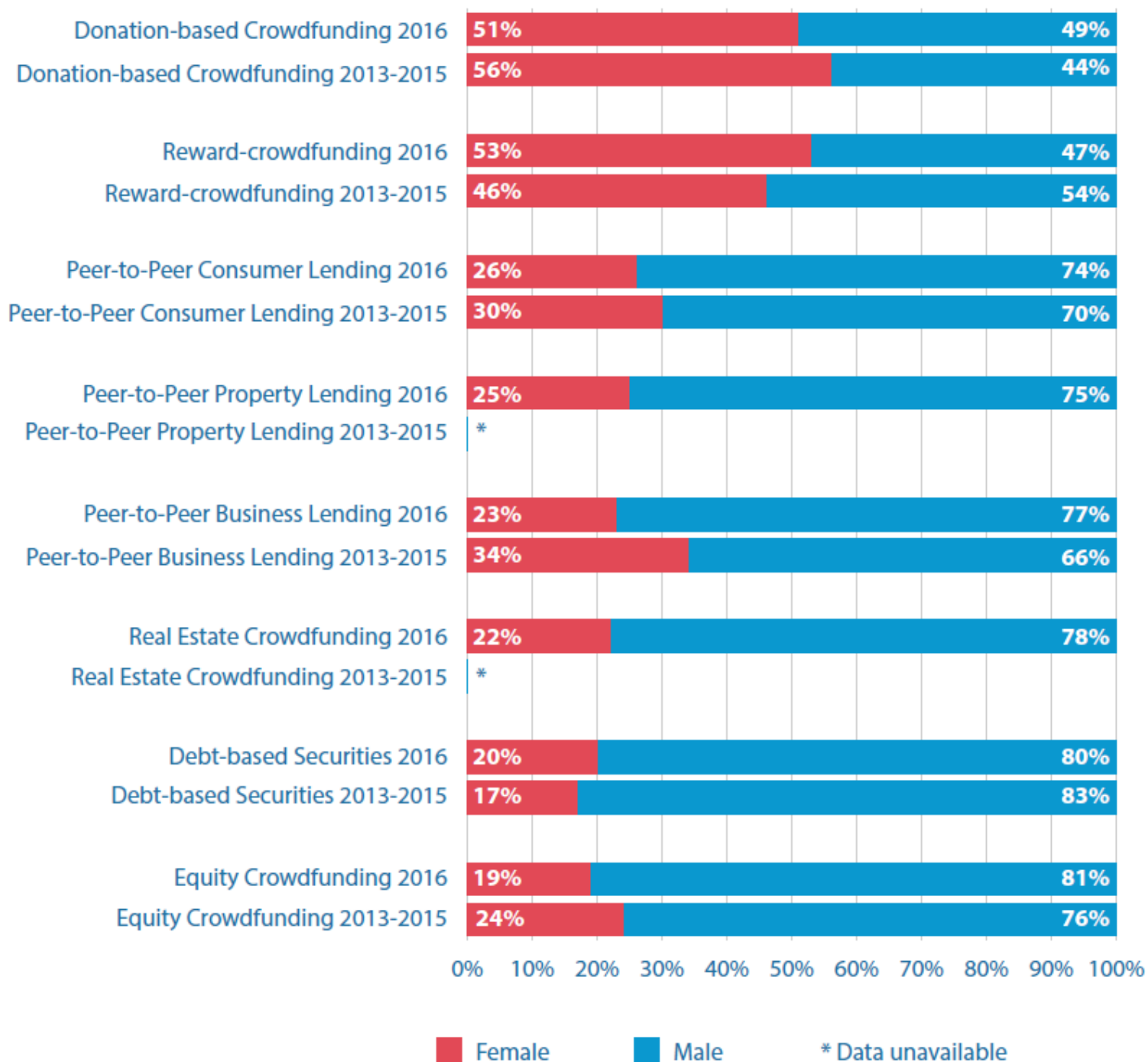


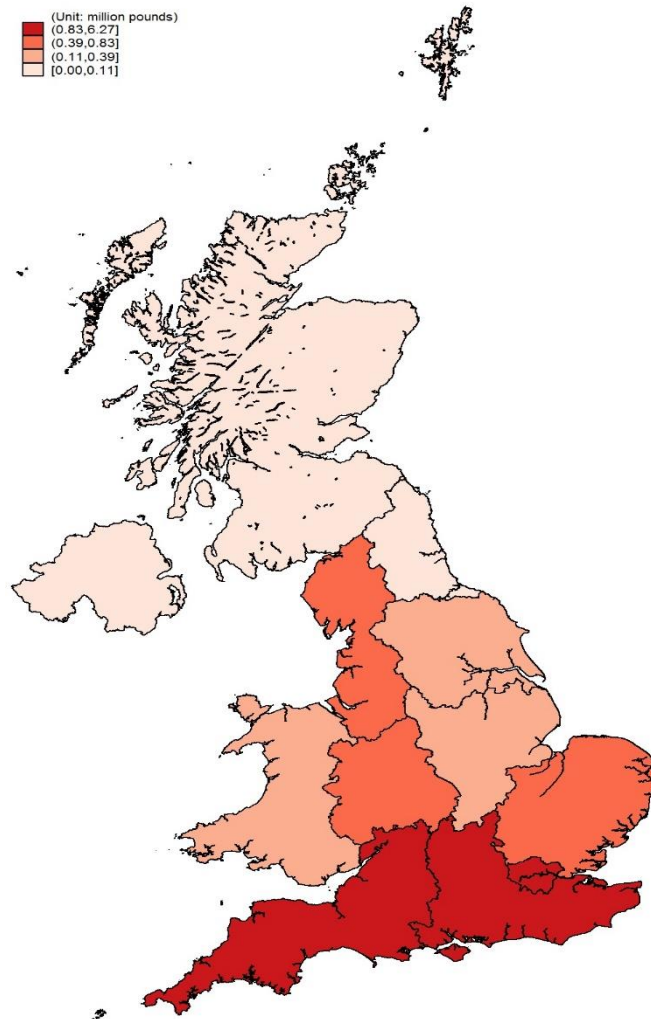
Figure 29: Percentage of Female Funders (2013-2015 vs 2016)

# UK Gender 2016 Funders

Patterns in bank lending: women asked for more collateral, charged higher interest rates and refused loans more frequently than men



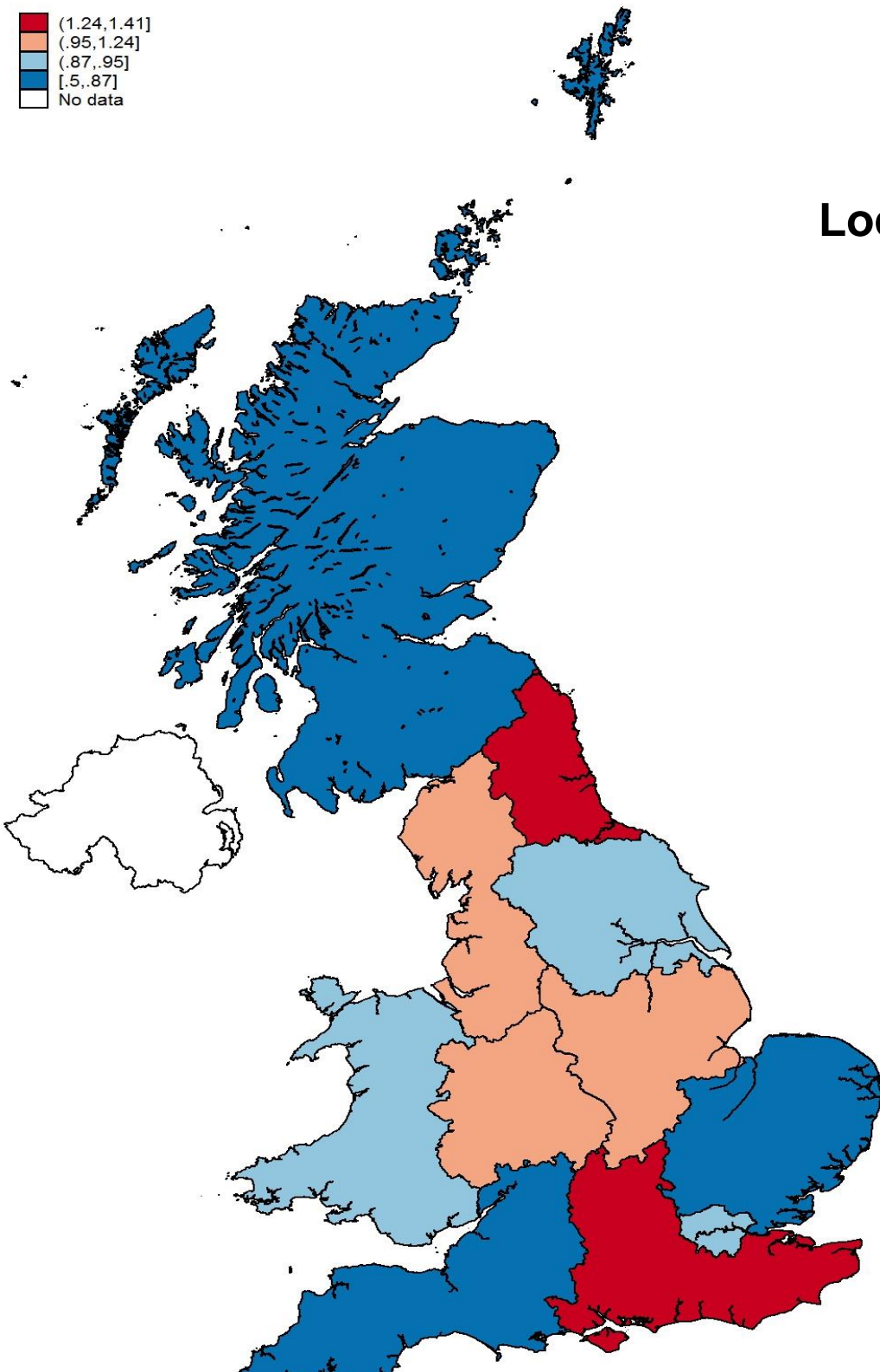
# Geographical Distribution of Equity-based Crowdfunding



# Geography of UK Equity-based Crowdfunding







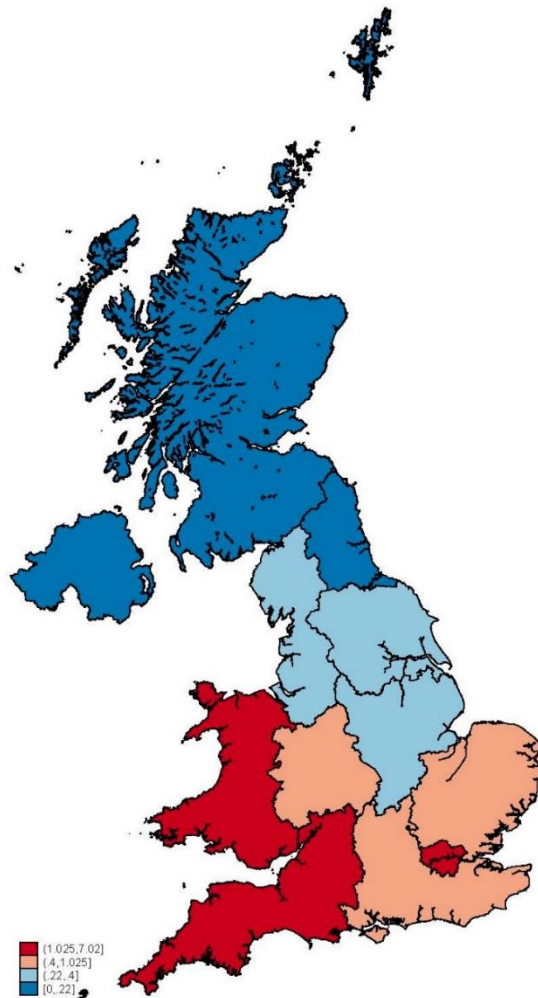
## Locational Quotient of P2P Business Lending vs. Banks: Regions

Blue:  $LQ < 1$ ; darker color, lower  
Red:  $LQ > 1$ ; darker color, higher

UK Regions	LQ
East Midlands	1.03
East of England	0.87
London	0.91
North East	1.41
North West	1.24
Scotland	0.5
South East	1.41
South West	0.72
Wales	0.95
West Midlands	1.14
Yorkshire & the Humber	0.93

London  $LQ < 1$ , some funds going elsewhere (some sign of decentralisation)

# Locational Quotient of Equity Crowdfunding vs. Venture Capital: Regions



Blue:  $LQ < 1$ ; darker color, lower  
 Red:  $LQ > 1$ ; darker color, higher

Region	LQ
East Midlands	0.39
East of England	1.02
London	1.12
North West	0.33
Scotland	0.11
South East	0.41
South West	7.02
Wales	1.03
West Midlands	0.86
Yorkshire & the Humber	0.33
North East	0.1

# **Conclusions:**

- Inclusion has many facets: low income, small firms, gender, region, sector
- Inclusion potential in alternative finance, but specific models show distinct patterns. Must tease out each model to understand inclusionary issues
- Potential to be more inclusive, especially in the growing equity models, showing itself to be an important source of funding for young innovative firms, in under-represented regions, often with more female entrepreneurs.

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