

Crowdlending Survey 2019

Lucerne University of
Applied Sciences and Arts

**HOCHSCHULE
LUZERN**



Prof. Dr. Andreas Dietrich, Simon Amrein, Falk von der Heyde, Adrian Heuermann and Manuel Rüdüsühli



www.pwc.ch



About this study

The Crowdfunding Survey 2019 is the only Swiss study to focus exclusively on the crowdfunding market. It is being conducted this year for the second time in collaboration with PricewaterhouseCoopers (PwC), the Institute of Financial Services Zug IFZ of the Lucerne School of Business, and the Swiss Marketplace Lending Association. The purpose of the publication is to draw attention to the increasing economic relevance of crowdfunding both in Switzerland and globally. It also sets out to highlight the key challenges and problems facing Swiss crowdfunding platforms. The study thus makes an important contribution to transparency in this market. Executives from 11 crowdfunding platforms took part in this year's study. We would like to thank the platforms for their support.



Contents

Executive Summary	4
1. Introduction to crowdlending	6
2. Crowdlending in Switzerland	8
3. Crowdlending in the international context	12
4. 2019 Survey	14
5. Authors and contact details	20

Executive Summary



1. Brokered volume of CHF 261.9 million in Switzerland

Swiss crowdlending platforms extended over CHF 260 million in loans in 2018. This corresponds to an increase of 40 % year-over-year, although growth slowed (2018: +240 %). We forecast that the rate of growth in 2019 will be on a par with that in 2018.

2. Institutionalisation requires critical mass

The importance of professional investors continues to rise. Whether talking about the market as a whole or a specific platform, the key to being attractive to institutional investors is reaching a critical size. We anticipate that the market could provide a further boost to growth again when annual growth reaches around CHF 1.0 billion, since the interest of institutional investors will revive when volumes hit this level.

3. Market concentration becoming more pronounced

The market share of the largest five platforms in Switzerland stood at 87 % at end-2018. We believe this could become even more pronounced as larger platforms benefit from better access to institutional investors. Partnerships and mergers between individual platforms are also possible in 2019.

4. Sector reputation remains fragile

Reputational risks resulting from potential misconduct on the part of other platforms are still regarded as a critical risk factor for the entire sector. A major case of fraud in 2018 not only created headlines in the media, but also attracted attention among the platforms.

5. Customer acquisition of major importance

Crowdlending platforms operate in a so-called two-sided market. The acquisition of lenders and borrowers is particularly important. This growth must also be roughly balanced between lenders and borrowers.

6. Off-platform deals gaining in importance

More and more platforms are conducting transactions between borrowers and lenders without a public tender. This trend is an initial consequence of increased institutionalisation. The market has already evolved in this direction on the international level.



How has crowdlending developed over the last year?
What do platforms expect for 2019?

1. Introduction to crowdlending



What is crowdlending?

Crowdlending is the brokering of a loan between lenders and borrowers over the Internet. Borrowers can be private individuals or companies, for example. Lenders are private individuals as well as institutional investors such as foundations, investment funds and family offices. Loans are granted by one or more partners in combination. Lenders receive interest on the amount loaned. Interest is generally determined by the term of the loan and the borrower's risk of default.

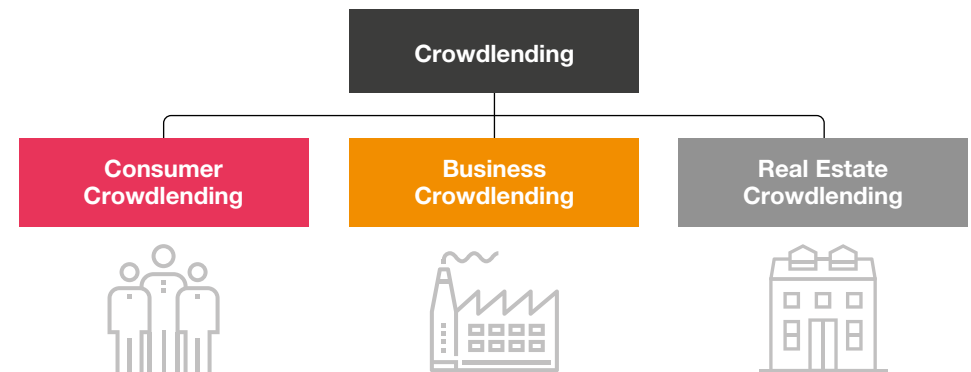
Terms: crowdlending, P2P lending, marketplace lending

The first term that was used to describe the process of brokering loans via the Internet was P2P (peer-to-peer) lending. As crowdfunding started to gain in popularity, however, "crowdlending" increasingly became the standard term. Finally, a third term "marketplace lending" was coined to better capture the idea of a digital credit marketplace. In Switzerland, crowdlending is the term most commonly used to refer to the market analysed below. It is therefore the term that has been adopted for this study. In the UK, P2P lending is still widespread, whereas in the US marketplace lending is frequently used.

Crowdlending: three different types

A distinction is drawn below between three basic types of crowdlending. Consumer crowdlending encompasses loans to private individuals. The business crowdlending category refers to loans to companies, generally small or mid-sized firms. The real estate crowdlending segment covers mortgage-backed loans via crowdlending platforms (see Figure 1).

Figure 1: Three crowdlending segments



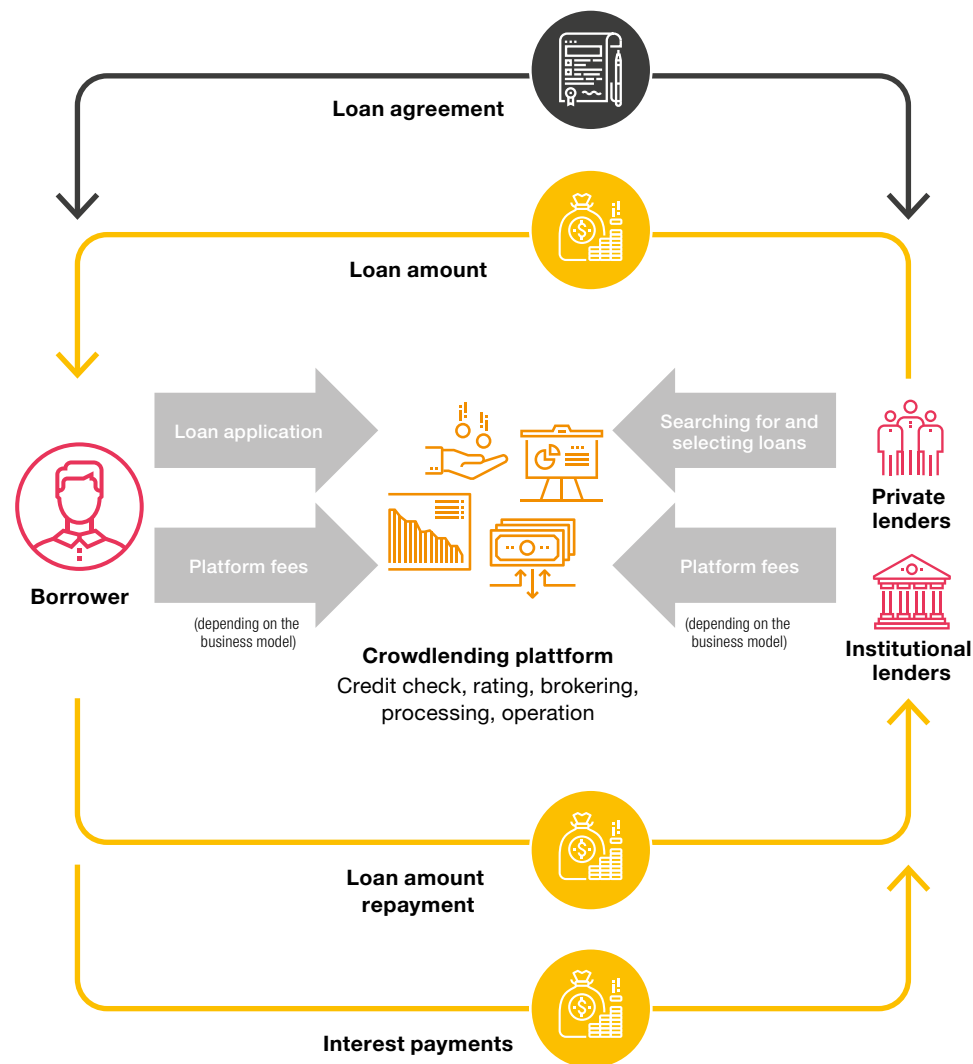
Crowdlending explained simply

As explained above, crowdlending generally involves private or institutional lenders loaning money to a borrower. For this, potential borrowers submit a credit application to the crowdlending platform and have to disclose specific data so the platform can check their rating and credit standing. Lenders go to the crowdlending platform to identify and invest in their chosen borrower. Once a borrower has found a sufficient number of investors to finance the amount they've requested, a credit agreement is concluded between the lenders and the borrower. It should be noted that there are other business models where credit agreements are made via crowdlending platforms. Investors transfer the prorated loan amount to the borrower, and then the borrower has to pay back the loan, typically plus the agreed interest to the lenders over a predetermined period. The entire process is conducted via the crowdlending platform. This means that any default or insolvency on the part of the borrower is processed by the platform without the need for active involvement by investors. The crowdlending platform receives a fee from borrowers and/or lenders for these services, depending on the business model employed. Depending on the platform, individual processes are outsourced to other companies (e.g. rating agencies or collection companies). A typical process is depicted in simplified form in Figure 2.

Methodology

This study uses data sourced directly from Swiss crowdlending platforms on loan volume and numbers. A detailed overview of data collection can also be found in Crowdfunding Monitoring, published annually by the Lucerne School of Business. The data are presented for Switzerland on an aggregate level (see Section 2). In addition to the market development statistics, questionnaires were sent to Swiss platforms asking about the challenges facing platforms in Switzerland (see Section 4). A total of 11 out of 15 platforms took part in this survey.

Figure 2: How crowdlending works



2. Crowdlending in Switzerland



There were 15 platforms active in Switzerland as of end-2018 (see Figure 3). The platforms usually focus on one or two crowdlending segments. In the areas of business and consumer crowdlending, there are also providers that offer loans secured by mortgages. Business crowdlending platforms are typically geared towards small and medium-sized enterprises (SMEs). Consumer crowdlending platforms are active in the consumer lending market.

The pace of growth of the number of new platforms has decreased significantly. In 2018 only one new crowdlending platform – Funders – entered the Swiss market, compared with seven new platforms in 2016 and three new platforms in 2017 (Acredius, Creditfolio and Crowd4Cash).

In addition, two providers each launched a sort of umbrella platform in 2017 and 2018, called Lendity and Impact Lending respectively, which invest on behalf of institutional investors in loans issued by Swiss crowdlending platforms. Lendity offers a bond for institutional investors. A corresponding fund offering was also launched by the 1741 Group, which currently comprises three different funds.

Two of the crowdlending platforms listed are owned by banks. Funders is operated by Luzerner Kantonalbank; it is additionally licensed at other cantonal banks and is likewise positioned in the field of crowdsupporting. The Lendico platform was acquired in full by PostFinance AG in 2018, resulting in Lendico Schweiz AG's complete separation from Lendico Deutschland. Lendico also collaborates with Cembra Money Bank, which finances loans on the Lendico platform and consolidates them directly in its own balance sheet.¹

Figure 3: Active crowdlending platforms by segment as of end-2018

Segment	Platform	Launched
Business*	Acredius	2017
	Creditworld	2016
	Funders	2018
	Lendico	2016
	Swisspeers	2016
Consumer	Creditfolio	2017
	Lendora	2016
	Splendit	2014
Consumer and business*	3 circle funding	2016
	Cashare	2008
	CreditGate24	2015
	Crowd4Cash	2017
	Lend	2014
Real estate	SwissLending	2016
	Hyposcout	2016

*In the business segments multiple providers also offer loans that can be secured by mortgages.

¹ Cembra Money Bank (2018). Press release: Cembra Money Bank unterzeichnet Partnerschaft mit Startup Lendico Schweiz AG [Cembra Money Bank signs partnership with startup Lendico Schweiz AG]. Online (28 March 2018): <https://www.cembra.ch/de/investor/news-medien/news-details/?nid=280317>

In contrast to last year, Advanon no longer appears in the market overview. This platform withdrew in full from the private investor business in 2018 in the wake of a major fraud case and is now only open to institutional investors. This means that it no longer falls under crowdlending as we define it. Advanon offers both short-term loans as well as so-called invoice trading, which allows businesses to sell their receivables at a discount. Tradeplus24 also operates a similar business model.

Volume and growth

The crowdlending market recorded a volume of CHF 261.9 million in 2018 (prior year: CHF 186.7 million), an increase of 40.3%. As Figure 4 shows, the number of successfully brokered loans rose from 2,035 to 3,290. Of the total volume of CHF 261.9 million, CHF 134.4 million was in the business crowdlending segment (SME loans). The prior-year volume in this segment was CHF 111.6 million. The volume in the consumer crowdlending segment (loans to private individuals) increased by almost 10% year-over-year and now stands at CHF 57.0 million, while the real estate crowdlending segment more than doubled by 206.0% to CHF 70.5 million.

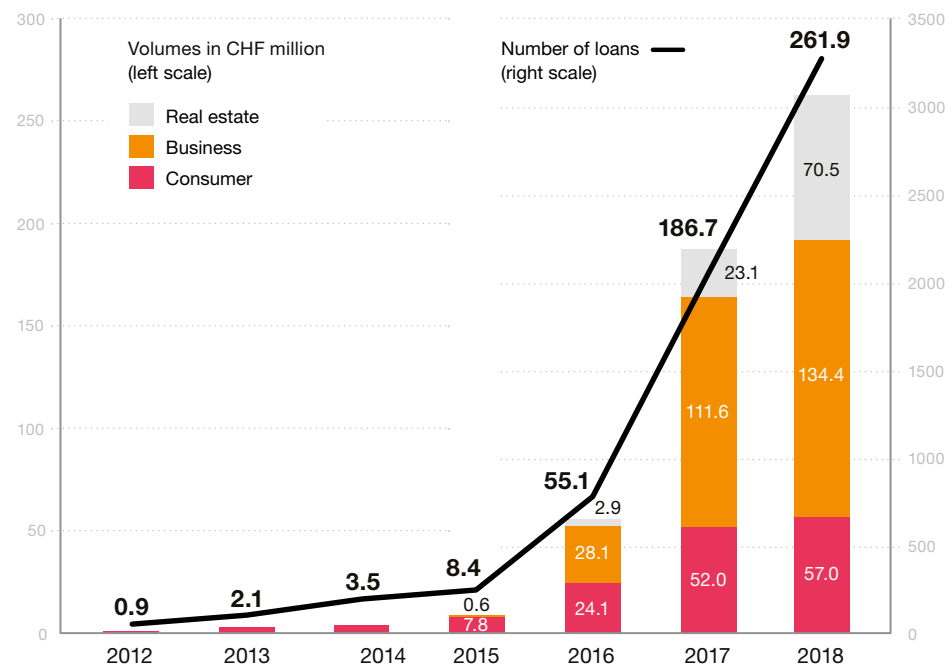
Figure 4 shows that growth has slowed considerably versus the previous year, most noticeably in the area of SME financing. This is due in part to a very large individual loan of CHF 8.7 million processed in 2017, which drove up the total volume recorded that year.² While the 20.4% growth in 2018 is still significant, it is well below the previous year's astounding level (+296.7%). Growth in consumer crowdlending was also comparably low.

Consumer crowdlending serves the consumer loans segment, while business crowdlending is geared to SMEs and real estate crowdlending makes mortgage-backed loans. These differences are clearly visible in the average loan amounts. In the case of SME loans, this value was around CHF 300,000. The average amounts can, however, vary widely depending on the platform's business model. Platforms offering very short-term loans, in particular, only tend to finance smaller volumes.

In consumer crowdlending, the average loan amount was virtually unchanged at about CHF 30,000. In 2013 this value was just CHF 18,000, and showed a constant year-over-year rise until plateauing last year. This average loan volume is expected to remain stable since it is practically on a par with the average consumer loan in Switzerland.⁴

In the case of real estate crowdlending, the average loan volume was approximately CHF 650,000 CHF (prior year: CHF 850,000). The much higher average loan amount in this segment compared with other segments can be explained by the fact that these funds are used to finance residential property.

Figure 4: Crowdlending volume and the number of loans in Switzerland, 2012–2018³



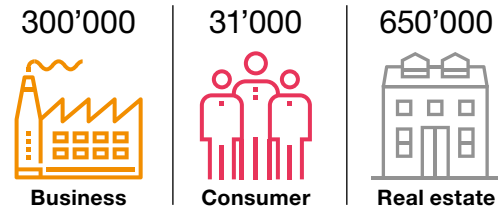
Lenders invested an average of CHF 17,000 in an SME loan in 2018 (2017: CHF 25,000). For loans to private individuals, the investment amount remained unchanged year-over-year at around CHF 4,000. It would, however, be wrong to read too much into these figures. Institutional investors in particular seem to be more and more important and are investing much larger amounts. While no precise figures are available on the proportion of institutional investors, most of the crowdlending platforms in Switzerland included in the survey report that the proportion of institutional investors has risen slightly versus 2017 (see Section 4).

² See Crowdlending Survey 2018.

³ The statistics still include the figures from Advanon, since its business model only switched over to institutional investors (B2B) during the course of the year. See also the discussion in the text.

⁴ ZEK – Verein zur Führung einer Zentralstelle für Kreditinformationen [Central Office for Credit Information] (2019). Annual Report 2018. p. 13.

Figure 5: Average loan amount 2018



There are also major differences in the purpose for which the loans are used. When it comes to business crowdlending, the emphasis is often on project financing, debt rescheduling or short-term loans for liquidity management. In the case of consumer crowdlending, the most common reasons for loans are debt rescheduling, education, cars, travel or weddings. Unfortunately there are no detailed data available on these intended uses for Switzerland. The real estate crowdlending segment generally deals with mortgages for private individuals and sometimes with bridging finance for real estate developers. Mortgage-backed SME loans may also fall into this category.

Other business models in marketplace lending

In addition to the classic crowdlending business models mentioned, the past two to three years have seen the emergence of a number of other platforms geared primarily to institutional investors.

Bank Vontobel launched the platform Cosmofunding in September 2018. The Cosmofunding offering is aimed at entities governed by public law (ÖRK) and private companies. The platform works in collaboration with the Swiss rating agency fedafin, which compiles ratings for the borrowers concerned. Only professional investors are admitted. Since its launch the platform has registered credit applications totalling over CHF 1 billion. The average loan issue volume currently stands at CHF 17.6 million, while the average term is 2.9 years (volume-weighted average: 0.65 years).

Another active player on the ÖRK market is the Loanboox platform, which has been online since September 2016. From its launch until September 2018, Loanboox had brokered loans amounting to CHF 6.5 billion.⁵ Like Cosmofunding, Loanboox exclusively pursues a B2B approach and accepts only institutional and professional investors. On the borrower side, the platform is open to municipalities, cities, towns and cantons to finance loans between CHF 500,000 and CHF 500 million. Most loans have just one counterparty. Loanboox limits itself to providing pure brokerage services and charges a one-time fee

for borrowers of one basis point per year for which the loan runs. Loanboox expanded to Germany in 2017, followed by Austria and France in 2018. In January 2019 the platform procured equity totalling CHF 22 million. Investors included Deutsche Kreditbank AG and the LGT Group. Loanboox has valued its company at CHF 122 million.⁶

Another example of the B2B business model is Remaco with its direct lending platform that matches companies with qualified investors. Instimatch global is likewise geared to institutional investors. In contrast to the platforms mentioned, instimatch places a greater focus on short-term transactions and strives to attract part of the traditional money market to its platform. Alongside institutional investors, instimatch is also open to larger companies that want to optimise their liquidity via the platform.

At the end of 2018 Systemcredit went online, a start-up seeking to establish a marketplace for SME loans. Systemcredit brokers credit offers on its platforms for SMEs from multiple potential lenders. The lenders targeted by the company are primarily banks, institutional investors and crowdlending platforms (or their investors). Partnerships are currently in place with Bank Cler as well as with the crowdlending platform Swisspeers.



⁵ Finanz und Wirtschaft (2018). Rund 15 Mrd. Fr. über Loanboox nachgefragt (Approx. CHF 15 billion requested via Loanboox). Online (31 December 2018): <https://www.fuw.ch/article/rund-15-mrd-fr-ueber-loanboox-nachgefragt/>

⁶ Loanboox (2019). Loanboox sammelt 22 Millionen Franken ein (Loanboox collects CHF 22 million). Press release of 30 January 2019. Online (14 April 2019): <https://www.loanboox.com/landing/ch/news/posts/series-b-01-19>

Balance sheet lending in Switzerland

A question that always arises when analysing crowdlending volumes is the relevance of the respective crowdlending segment. One way of classifying the figures is to compare the sub-markets where the crowdlending platforms are active. Below we show how overall trends in the consumer lending market (consumer crowdlending), in the SME lending market (business crowdlending) and in the mortgage market (real estate crowdlending) have evolved and their respective shares of the total crowdlending market.

The outstanding volume of consumer loans in Switzerland was CHF 7.7 billion effective end-2018 (up CHF 419 million on the prior year).⁷ In addition, there was CHF 8.8 billion in leasing volume (CHF +136 million). New loans totalling approximately CHF 4.4 billion were granted in the consumer loan segment in 2018. Consumer crowdlending of CHF 57.0 million in 2018 is still small compared with the overall market (around 1.3 %, prior year: 1.2 %)

Total lending by Swiss banks within Switzerland amounted to CHF 1,173 billion in 2018, a large portion of which – CHF 1,005 billion – is secured by mortgages. Borrowers include private individuals, companies and the public sector. As of end-2018 CHF 788 billion of the loan volume was accounted for by private individuals, CHF 355 billion by companies (of which 87 % was to SMEs with fewer than 249 employees) and CHF 29 billion to public entities.⁸



All of these values are balance sheet figures, i.e. volumes that were outstanding on the balance sheets of Swiss banks at the end of 2018. Annual lending can only be estimated. With that in mind, we estimate that each year loans totalling between CHF 150-180 billion are extended or newly granted to private individuals in the Swiss mortgage market. The crowdlending volume in the mortgage segment in 2018 of CHF 70.5 million is therefore not relevant in terms of the overall market.

The same applies to the SME lending market. The volume of CHF 310 billion on bank balance sheets is significantly higher than the CHF 134.4 million in business crowdlending in 2018. Moreover, a representative study by the Swiss State Secretariat for Economic Affairs (SECO) and the Institute of Financial Services Zug IFZ has shown that there are no credit supply bottlenecks in Switzerland. Only 5 % of SME credit applications are rejected by banks. Aside from these SMEs, however, there are also companies that are in need of financing but do not submit a credit application to a bank. This group of “discouraged” SMEs makes up about 6 % of all Swiss SMEs or 27 % of SMEs with financing needs.⁹ These SMEs could be an interesting potential customer base for crowdlending platforms.¹⁰

In addition, the statistics on loans to companies do not take into account loans brokered by non-banks on a non-public basis through the private debt market. Lenders in these cases include private debt funds, family offices, insurance companies and pension funds.¹¹

In terms of the volumes in all three crowdlending segments, crowdlending is still a niche market. At the same time, the comparatively low loan volumes in all three segments indicate that there is significant potential for crowdlending as an alternative financing option. The market share of crowdlending in the respective markets can be expected to rise sharply in future. The UK in particular is an example of a market with strong crowdlending platforms, with 9.5 % of all new financing arrangements in the SME segment processed via online platforms in 2017, up considerably on the share of just 0.34 % in 2012. Very small companies in particular make use of this financing option.¹² The following section explores the leading markets in the UK, the USA and China in greater detail.

7 ZEK – Verein zur Führung einer Zentralstelle für Kreditinformationen [Central Office for Credit Information] (2019). Annual Report 2018. p. 12.

8 SNB (2018). SNB data portal. Online (1 April 2019): <https://data.snb.ch/>

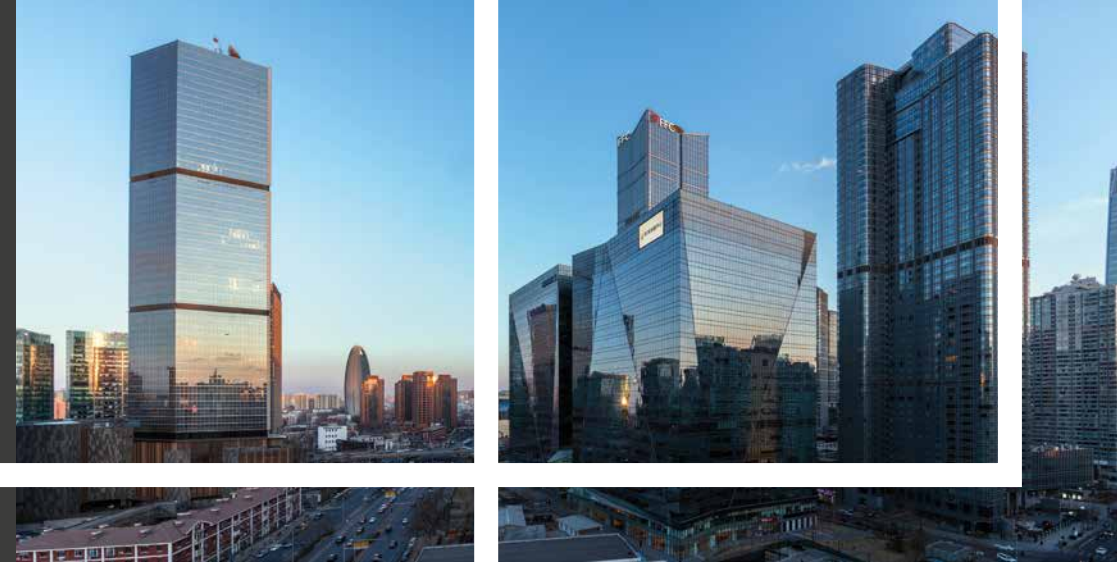
9 Lucerne University of Applied Sciences and Arts/SECO (2017) – Institute of Financial Services Zug IFZ & SECO. Studie zur Finanzierung der KMU in der Schweiz 2016 [Study on SME financing in Switzerland 2016].

10 Dietrich, A. & Amrein, S. (2018). Welches Potenzial hat Crowdfunding in der Schweiz? [What potential does crowdfunding offer in Switzerland?]. Blog of 5 March 2018. Online (1 April 2019): <https://blog.hslu.ch/retailbanking/2018/03/05/welches-potential-hat-crowdfunding-in-der-schweiz/>

11 A study by the Institute of Financial Services Zug IFZ due to be published in summer 2019 will provide an initial insight into the private debt market in Switzerland. For more information, see Birrer, T., Bauer, M. & Amrein, S. (2019). Unternehmensfinanzierung mit Private Debt in der Schweiz [Corporate financing with private debt in Switzerland].

12 University of Cambridge (2018b). The 5th UK Alternative Finance Industry Report. Cambridge Centre for Alternative Finance.

3. Crowdlending in the International Context



The Swiss crowdlending market again recorded respectable growth in 2018. The volumes for other countries for 2018 were not available at the time of publication of this study, which is why the international comparisons relate primarily to 2017. Figure 6 illustrates the crowdlending volumes for the USA, UK and China for 2017. As in 2016, China was the largest crowdlending market worldwide in 2017, with an equivalent of CHF 345.1 billion in total loans brokered via crowdlending platforms, up 48 % on the previous year. In the USA, the volume in 2017 was CHF 38.7 billion (+21.4 %), while in the UK it was CHF 5.9 billion (+25 %). In Switzerland, volume reached CHF 186.7 million in 2017. Last year, loans were brokered totalling CHF 261.9 million. Consumer crowdlending is especially widespread in the USA and China, where in 2017 it made up 76 % and 68 % of the overall crowdlending market respectively.

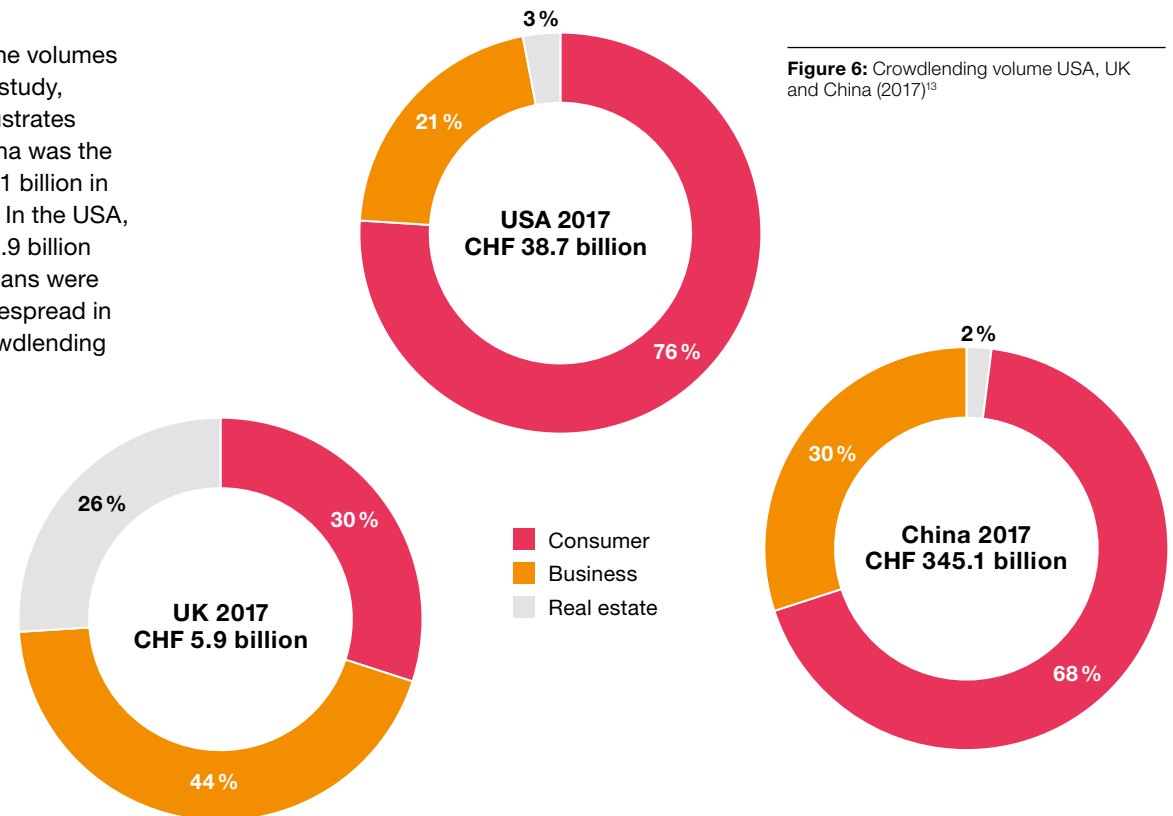


Figure 6: Crowdlending volume USA, UK and China (2017)¹³

To ensure consistency of data, the international data contained in all charts has been sourced from the Judge Business School of the University of Cambridge.¹⁴ However, other studies with more recent market data are available for certain countries. For example, the data provider Brismo puts the volume in the UK in 2018 at CHF 8.1 billion, which would constitute year-over-year growth of approximately 24.6%.¹⁵ This would mean the growth rate for 2018 would be roughly level with 2017.

No reliable overall market data are available for China for 2018, but a significant slowdown in growth is expected. Following several years with tremendously high growth rates, multiple cases of fraud came to light in 2018, which resulted in street protests in some cases. The announcement of more stringent regulation further increased uncertainty in 2018, and numerous platforms withdrew from the market. The number of platforms is likely to have fallen by over half in 2018 to some 1,000 platforms.¹⁶

Given the differing size and economic output of the countries listed above, statements on the absolute volumes concerned are of limited value. One starting point for assessing the relevance of crowdlending is the ratio of volume to economic output. As Figure 7 shows, China also exhibits a high value, with crowdlending equivalent to an impressive 2.86% of gross domestic product. In the UK and USA, this ratio is around 0.2%. Figure 8 shows the ratio of 2017 crowdlending volume to population. In China, per capita crowdlending investment was CHF 249, compared with CHF 119 in the USA and CHF 89 in the UK. In Switzerland, an average of CHF 22 per inhabitant was invested in crowdlending in 2017, rising to CHF 31 in 2018.

Figure 7: Crowdlending volume compared to gross domestic product 2017 (Switzerland: 2018)

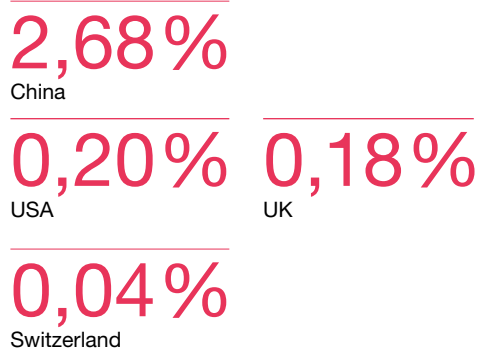
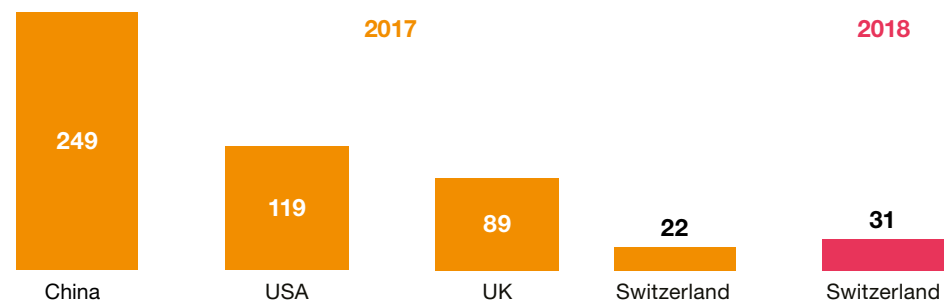


Figure 8: Crowdlending volume per capita (in CHF)



The role played by institutional investors in the UK and USA has gained markedly in importance in recent years. In the UK, this figure was around 40% in 2017. The year before (2016), institutional investors accounted for 28% in the business crowdlending segment and 32% in the consumer crowdlending segment. The share of institutional investors is much higher in the USA, where 97% of funds in consumer crowdlending in 2017 (2016: 70%) and 76% in business crowdlending (2016: 67%) came from institutional investors.¹⁷

Another model, balance sheet lending, has gone from strength to strength in the USA and has also been incorporated into the statistics and figures. Under this model, the platform itself extends direct loans to companies. The financing needed is frequently provided by an investment fund or by institutional investors. The advantage of partnerships like these is that the financing arrangements can be made much more quickly since the traditional brokerage process between lender and borrower to finance the loan no longer applies. Once credit approval has been granted, the loan can be paid out immediately. Most crowdlending platforms in the USA now also offer balance sheet lending. Since 2016 in particular, a lot of the “traditional” crowdlending platforms have evolved in this direction.¹⁸

14 University of Cambridge, Judge Business School (2019). Publications. Online (11 April 2019): <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/>

15 British Business Bank (2019). Small Business Finance Market. Online (11 April 2019): https://www.british-business-bank.co.uk/wp-content/uploads/2019/02/British_Business_Bank_Small-Business-Finance-Report-2019_v3.pdf

16 Financial Times (2018). China’s P2P lenders say regulation will cause industry collapse. Online (15 October 2018): <https://www.ft.com/content/eac2c2de-d050-11e8-a9f2-7574db66bcd5>
Bloomberg (2019). China P2P Lending Crackdown May See 70% of Firms Close. Online (1 January 2019): <https://www.bloomberg.com/news/articles/2019-01-02/china-s-online-lending-crackdown-may-see-70-of-businesses-close>

17 University of Cambridge (2018a). The 3rd Americas Alternative Finance Industry Report. Reaching New Heights. Cambridge Centre for Alternative Finance. University of Cambridge (2018b). The 5th UK Alternative Finance Industry Report. Cambridge Centre for Alternative Finance

18 University of Cambridge (2018a). The 3rd Americas Alternative Finance Industry Report. Reaching New Heights. Cambridge Centre for Alternative Finance.

4. 2019 Survey

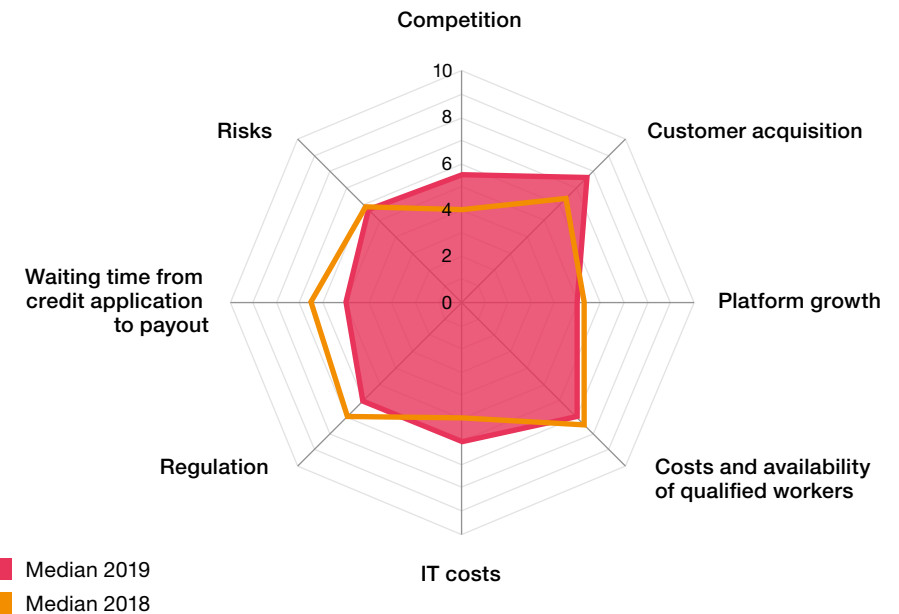


As in the previous year, executives of Swiss crowdlending platforms were asked to rank eight key topics in order of importance. The subject areas are competition, customer acquisition, platform growth, cost and availability of qualified workers, IT costs, regulation, wait time from credit application to disbursement of the loan, and risks. In some cases several questions were asked for a subject area.

Figure 9 summarises the key findings, aggregated for the eight key topics. The values in the figures below are the median in each case. A total of 11 of 15 platforms took part in this year's survey, which covers the majority of the Swiss market.¹⁹ The section that follows presents the findings of the individual sub-topics, analyses the results, and compares these with the results of the previous year.

The areas "Customer acquisition" and "Cost and availability of qualified workers" continue to pose particular challenges for the companies surveyed. The importance of regulation has declined somewhat, while that of customer acquisition seems to have increased in relevance.

Figure 9: Average importance for Swiss platforms (10 = very important, 1 = not at all important)



¹⁹ We would like to thank 3 Circle Funding, Acredius, Cashare, CreditGate24, Creditworld, Crowd4Cash, Lend, Lendico, Lendora, Splendit, SwissLending and Swisspeers for taking part in the Crowdlending Survey 2019. Lend and Splendit submitted a joint response due to their shared parent company, Switzerland AG.

Customer acquisition

This year, Swiss crowdlending platforms again continued to view customer acquisition as the greatest challenge overall. On a scale of 1 to 10, customer acquisition was given a median rating of 8 (10 = very important, 1 = not at all important). Within the different customer segments, the acquisition of institutional investors is perceived as being very important and rated 9, while the acquisition of private investors is rated 8. By contrast, acquisition of borrowers showed slightly decreasing importance with a rating of 7. The changes on the previous year are, however, minimal overall and do not suggest any fundamentals (see Figure 10).

Of the 11 Swiss crowdlending platforms surveyed, five said that the share of institutional investors in 2018 was between 0% and 20% (2017: 7/11). Two stated that the share of institutional investors was between 20% and 40% (2017: 1/11), three between 60% and 80%, and one between 80% and 100% (2017: 1/11).

This indicates that the share of institutional investors in the overall volume has risen slightly. Larger platforms tend to have a higher share of institutional investors and have increased this further (see Figure 11). It follows from this that institutional investors prefer platforms of a certain size when looking for partners. Platforms that work with institutional investors are also able to focus more on acquiring borrowers.

The analysis shows that the investor structure of Swiss platforms is extremely heterogeneous. Although the loans on some platforms are attributable in large part to private investors, on other platforms institutional investors account for a major share of financing.

The two figures below illustrate the ratio of new customers to loan volumes for lenders (see Figure 12) and borrowers (see Figure 13). It is clear that a significant number of new investors have been attracted to the platforms overall. At the same time, however, it is clear that the platforms have regular investors. On the borrower side, the share of first-time customers is, understandably, considerably higher. But there are borrowers here as well that have used crowdlending for financing purposes on multiple occasions.

Figure 10: Importance of customer acquisition for crowdlending platforms

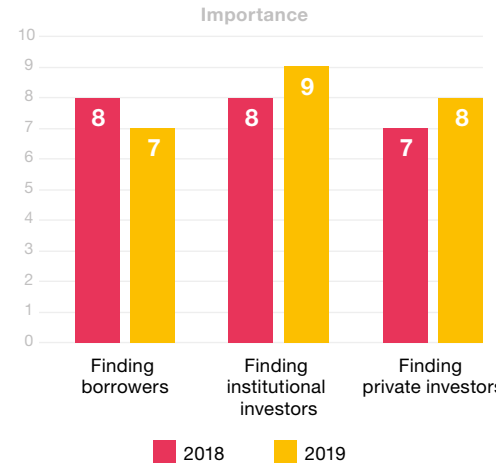


Figure 11: Share of institutional investors in loans

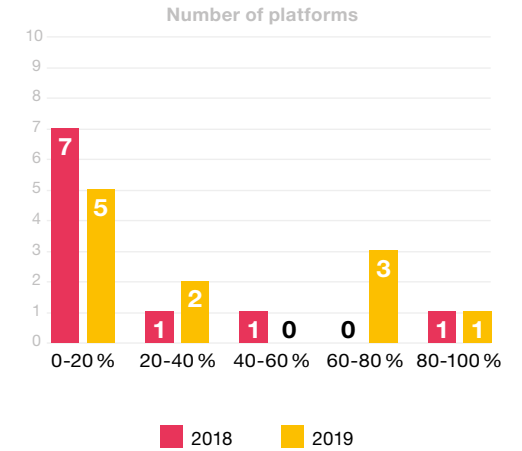


Figure 12: Share of new investors in 2018

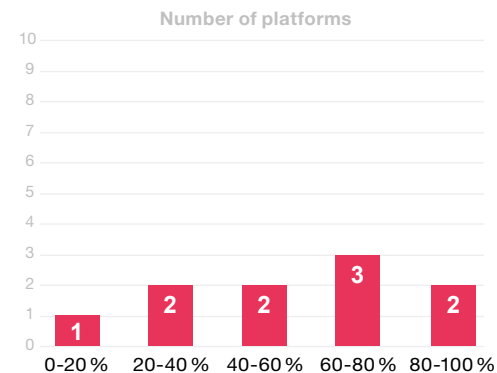


Figure 13: Share of new borrowers in 2018

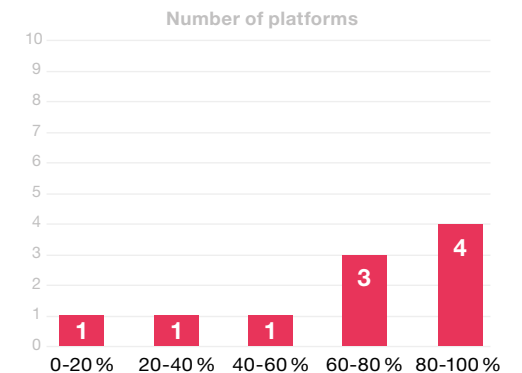
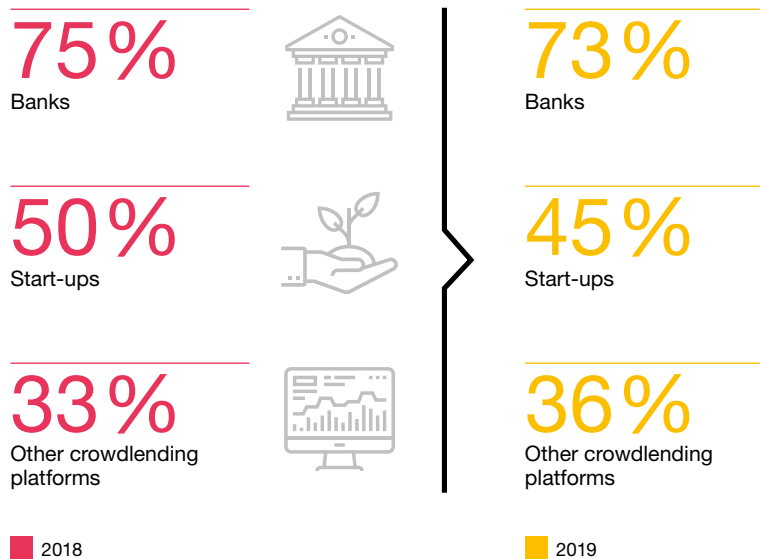


Figure 14: Strategic partnerships



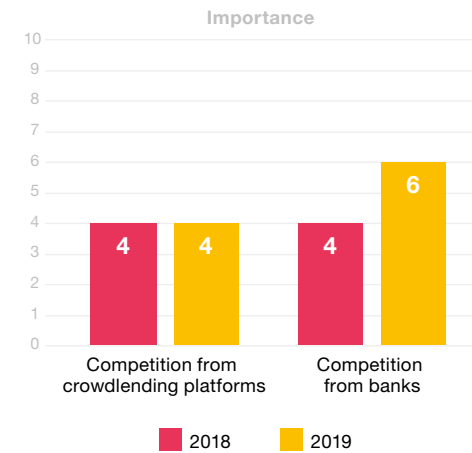
Strategic partnerships

In this year's survey 82 % of all platforms (2018: 75 %) said they are seeking a strategic partnership. Figure 14 shows the entities with which the platforms would consider entering into a strategic partnership (multiple answers possible). All the participating platforms seeking a strategic partnership but one state they would like to enter into such a partnership with a bank. Approximately half the platforms seeking a partnership also indicated they would be interested in working with other crowdlending platforms or start-ups.

Competition

The risk posed by other crowdlending platforms is deemed to be negligible (median of 4 out of 10 possible points). The analysis shows that larger Swiss platforms regard banks as major competitors, while smaller crowdlending platforms perceive competition from within the sector as a greater risk. Last year, competition from other platforms was accorded a low level of importance overall.

Figure 15: Perception of competition



The crowdlending market in Switzerland is already relatively concentrated. 72 % of market volume is consolidated on just three platforms. The five largest platforms have a market share of 87 %.

Platform growth

Swiss crowdlending platforms continue to regard increasing recognition as very important for the growth of their platform. Accordingly, the median importance attached to improving recognition was 8 out of a possible 10 points. Respondents said that improving their public profile would in particular make it easier to attract new borrowers and lenders. Like last year, customer pressure on fees was perceived to be of little significance. The same is true for international expansion, which is again deemed not to be very urgent (2018: 2.5/10). None of the platforms surveyed made any move abroad in 2018.

Personnel costs and availability

Larger and fast-growing Swiss crowdlending platforms find themselves increasingly faced with a shortage of employees and rising costs for qualified workers. This is due in part to the fact that crowdlending platforms often have to compete with banks for workers in high demand, and banks are generally in a position to pay higher salaries, as well as the general challenge posed to start-ups by the high level of Swiss wages.

Costs and automation

Compared with last year, Swiss crowdlending platforms rate the importance of IT costs as slightly higher than in the previous year (2018: 6/11). It is also striking that larger platforms feel this issue is more important than smaller market players. Overall, Swiss crowdlending platforms rate their degree of automation at 6 out of a possible 10 points (1 = manual, 10 = fully automated). The change versus the prior year is insignificant.

Figure 16: Personnel costs and availability

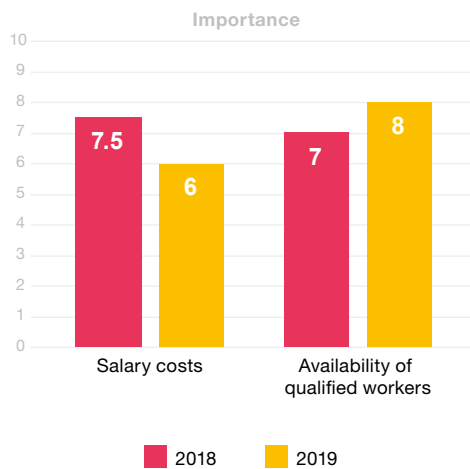
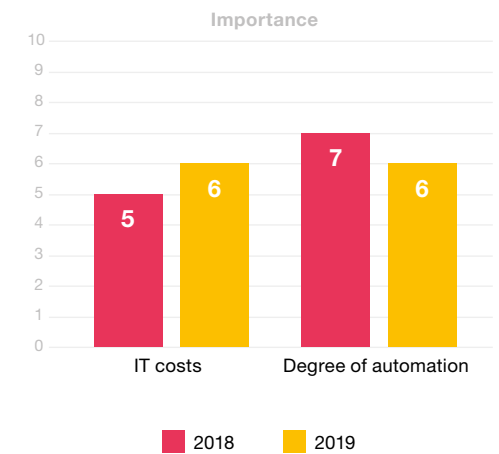


Figure 17: Costs and automation



Regulation

In summer 2017 the Federal Council eased the regulatory framework by introducing the so-called FinTech regulation. Its provisions included an extension of the deadline for taking receipt of funds for settlement purposes from seven to 60 days, as well as eliminating the so-called 20 Rule for loans to companies up to CHF 1 million.²⁰ In November 2018 the Federal Council additionally revoked this 20 Rule for loans to private individuals. The 20 Rule prescribed that loans could only be financed by up to 20 people. The amendments to the FinTech regulations entered into force on 1 April 2019.²¹ Swiss crowdlending platforms rated the importance of regulation as 6 out of a possible 10 points overall (see Figure 18), constituting only a minor change on the previous year.

Risks

All in all, not a great deal has changed on the previous year in terms of the perceived risks for Swiss crowdlending platforms. Both the default risk of other platforms as well as the risk of reputational damage due to misconduct by other platforms are seen as comparatively high (2018: 7, 7). Swiss crowdlending platforms give moderate importance to macroeconomic, interest rate, operational and default risks, which is not surprising given the stable economic environment and Switzerland's low level of unemployment. Default risk could become a more pressing concern over the course of the year, which is why platforms rated this as more important.

Figure 18: Regulation

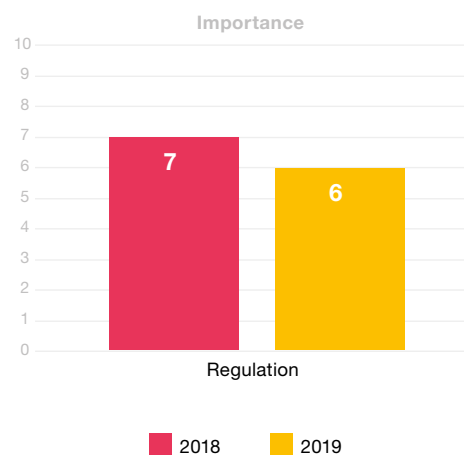
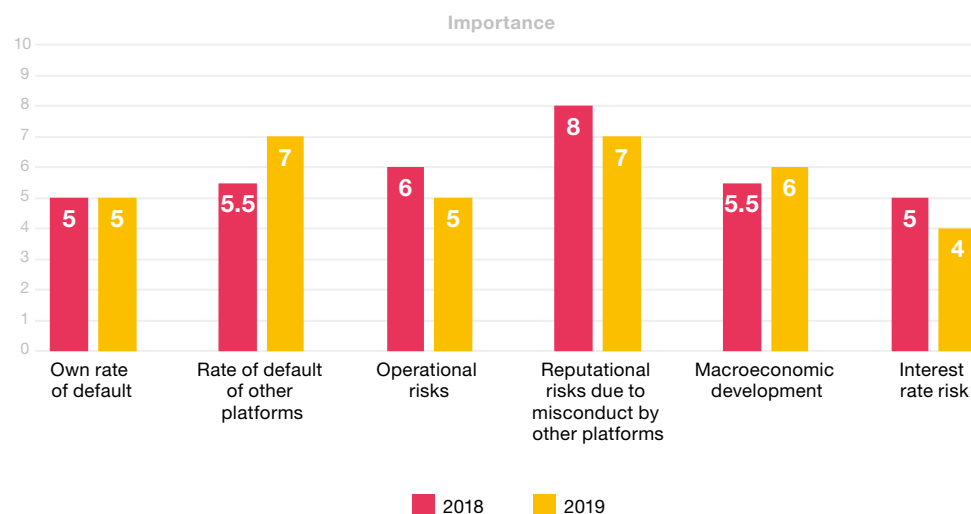


Figure 19: Risks



²⁰ Federal Council (2017). Federal Council puts new FinTech rules into force. Online (11 April 2014): <https://www.admin.ch/gov/de/start/dokumentation/medienmitteilungen.msg-id-67436.html>

²¹ Federal Council (2019). Federal Council adopts implementing provisions for FinTech authorisation. Online (11 April 2014): <https://www.admin.ch/gov/de/start/dokumentation/medienmitteilungen.msg-id-73186.html>



5. Authors and contact details

Authors



Prof. Dr. Andreas Dietrich

Professor in Banking and Finance
Head of Institute of Financial Services
Zug IFZ



Falk von der Heyde

Partner Deals Financial
Services PwC



Manuel Rüdüsühli

Assistant Manager and
M&A-Expert PwC



Simon Amrein

Senior Research Associate
Institute of Financial Services
Zug IFZ



Adrian Heuermann

Director and M&A Financial
Services Leader PwC



Gianluca Müller

Consultant and
M&A-Expert PwC

We would like to thank all those who made this study possible: Philipp Cirkel and Lukas Compagnoni

Contacts

Prof. Dr. Andreas Dietrich

Professor in Banking and Finance
Head of the Institute of Financial
Services Zug IFZ
+41 41 757 67 46
andreas.dietrich@hslu.ch

Christoph Baertz

Partner and Financial Services Deals
Leader PwC
+41 58 792 14 18
christoph.baertz@ch.pwc.com

Falk von der Heyde

Partner Deals Financial
Services PwC
+41 58 792 14 21
f.von.der.heyde@ch.pwc.com

Institute of Financial Services Zug IFZ

The Institute of Financial Services Zug IFZ of the Lucerne School of Business is the leading competence centre for banking and finance among the universities of applied sciences and arts in Switzerland. The IFZ offers research and consulting services and boasts a wide continuing education offering for specialists and managers from the financial sector. Its degree courses include a Bachelor of Science and a Master of Science in Banking & Finance, and it offers continuing education courses leading to the following degrees:

Master of Advanced Studies MAS

MAS Bank Management | MAS Controlling | MAS Corporate Finance | MAS Economic Crime Investigation | MAS Immobilienmanagement | MAS Pensionskassen Management | MAS Private Banking & Wealth Management | MAS Risk Management

Diploma of Advanced Studies DAS

DAS Accounting | DAS Bank Management | DAS Compliance Management | DAS Controlling | DAS Corporate Finance | DAS Economic Crime Investigation | DAS Pensionskassen Management | DAS Private Banking & Wealth Management | DAS Risk Management

Certificate of Advanced Studies CAS

CAS Accounting | CAS Anlageberatung | CAS Asset Management | CAS Commodity Professional | CAS Controlling | CAS Digital Banking | CAS Digital Controlling | CAS Enterprise Risk Management | CAS Financial Investigation | CAS Financial Management | CAS Financial Transactions | CAS Finanz- und Rechnungswesen für Juristen | CAS Finanzmanagement für Nicht-Finanzfachleute | CAS Führungskompetenz für Finanzfachleute | CAS Funding & Treasury | CAS Gesamtbanksteuerung | CAS Governance, Risk and Compliance | CAS Sales und Marketing im Banking | CAS Swiss Certified Treasurer (SCT®) | CAS Tax Compliance Management for Financial Institutions | CAS Turnaround Management | CAS Verwaltungsrat

PwC

PwC helps you on your path to success and shares responsibility with you. We put our creativity, long experience, proven tools and extensive PwC network to work for you. We develop targeted solutions with added value.

Our Advisory Team has extensive project experience in the financial services sector and supports you with strategic and operating decisions on all aspects of innovations to your business model, strategy, and financial and liquidity planning.

Below are just a few of the wide-ranging support and advisory services that we offer to help you achieve your goals:

- **Integrated financial planning and financial reporting**
- **Company analysis and business plan review**
- **Innovative business models and determination of your strategic options**
- **Advice on purchasing/sales and procuring funds**

List of figures

Figure 1:	Three crowdlending segments	6
Figure 2:	How crowdlending works	7
Figure 3:	Active crowdlending platforms by segment as of end-2018	8
Figure 4:	Crowdlending volume and the number of loans in Switzerland, 2012–2018	9
Figure 5:	Average loan amount 2018	10
Figure 6:	Crowdlending volume USA, UK and China (2017)	12
Figure 7:	Crowdlending volume compared to gross domestic product 2017 (Switzerland: 2018)	13
Figure 8:	Crowdlending volume per capita (in CHF)	13
Figure 9:	Average importance for Swiss platforms (10 = very important, 1 = not at all important)	14
Figure 10:	Importance of customer acquisition for crowdlending platforms	15
Figure 11:	Share of institutional investors in loans	15
Figure 12:	Share of new investors in 2018	15
Figure 13:	Share of new borrowers in 2018	15
Figure 14:	Strategic partnerships	16
Figure 15:	Perception of competition	16
Figure 16:	Personnel costs and availability	17
Figure 17:	Costs and automation	17
Figure 18:	Regulation	18
Figure 19:	Risks	18

www.pwc.ch

© 2019 PwC. All rights reserved. "PwC" refers to PricewaterhouseCoopers AG, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.