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Peer-to-Peer-Lending through Crowdlending Platforms: An Analysis of New Investment Opportunities for Private Investors

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Peer-to-Peer-Lending through Crowdlending Platforms: An Analysis of New Investment Opportunities for Private Investors

A Thesis Submitted in Partial Fulfilment of the Requirements for the Degree of Bachelor of Arts of the European Business Programme (EBP)

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Abstract

The increasingly present alternatives to traditional lending are challenging the traditional finance industry. The global credit market cannot afford to ignore the influence of crowdlending. Hence, there must be several benefits for preferring crowdlending instead of applying and investing traditionally. Financing in the middle class is currently changing. The conventional house banks and thus, bank loans as such, will undoubtedly be confronted with more competitors in the future. Historically low-interest rates, stricter Basel regulations, branch and staff cuts in banks, and digitalization in the financial sector are making alternatives increasingly attractive. Given the prevailing circumstances, the question arises why private individuals barely make use of alternative forms of investing and financing, such as crowdlending to diversify their portfolio and to combine different instruments.

Despite the benefits of crowdlending, the recent developments have revealed risks which potentially have extensive consequences. One risk, the information asymmetries through crowdlending platforms, has been covered in the transfer module preceding to the bachelor thesis. The results of the transfer module showed that the platforms through their proprietary scoring systems pass on the risk associated with investing in crowdlending loans to the investor. Considering the persistent growth of the industry, it is beneficial to investigate the reasons for the development of crowdlending as there is insufficient research performed on crowdlending in Europe. Therefore, a survey of potential investors was carried out, and representatives of European crowdlending platforms have been interviewed for this work to get a more in-depth insight into the versatile crowdlending industry. It turns out that there is lots of interest in crowdlending and that the current reluctance of potential investors is due to the lack of regulation and education on the subject.

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List of abbreviations

B2B	Business-to-Business
ECSP	European Crowdfunding Service Provider
ESMA	European Securities and Markets Authority
EU	European Union
FinTech	Financial Technology
Mean	Arithmetic mean
NCA	National Competent Authority
P2B	Peer-to-Business
P2P	Peer-to-Peer
SOAR	Strengths, Opportunities, Aspirations, Results
STD	Standard deviation
SWOT	Strengths, Weaknesses, Opportunities, Threats

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1. Introduction

1.1 Motivation and aim of the thesis

This bachelor thesis aims to classify the current state of crowdlending in the landscape of investing and lending in Europe. Crowdlending covers a large part of the business areas that used to be reserved for traditional banks. With the various forms of crowdlending (consumer, business, and real estate crowdlending), the novel FinTech companies are competing with conventional banks. Due to the proportionally low share of crowdlending credits of the overall credit market, the question came up, how high the acceptance of crowdlending is in Europe and what keeps so many private investors absent from crowdlending.

1.2 Research question

Based on the considerations mentioned above, the following research question arose:

“What are the reasons for the reluctance of private investors to crowdlending as an investment opportunity?”

Due to the many stakeholders involved in the crowdlending process and the associated scope, the focus of this thesis is on the side of investors. The transfer module has already highlighted how crowdlending has a significant risk for investors. In addition to the research question, this thesis examines how the crowdlending business can increase in attractiveness for private investors.

To answer the research question, the existing literature is used and compared. A survey has been carried out to shed light on the mindset of potential crowdlending investors. Furthermore, interviews with employees from European crowdlending platforms have been performed in order to identify their view on why private investors are still reluctant to crowdlending. To define the success factors of crowdlending platforms, the SOAR (strengths, opportunities, aspirations, and results) analysis, a variation of the SWOT analysis, is used to assess the long-term importance of crowdlending platforms. While a SWOT analysis takes a look at the current positions of a company, SOAR endeavours to be forward-thinking to focus on the potential of the business. At the end of the thesis, a recommendation for action is made based on the literature research, the survey, the interviews, and the executed SOAR analysis.

2. Concept of crowdlending

2.1 Definition

Through capital raised by crowdfunding, projects, products, the implementation of business ideas, and much more can be realised. The lenders are a multitude of people. Because of the non-uniform definition, the term crowdfunding is an umbrella term for all participatory financing models on the internet, in which project ideas are funded by the support of many people (Danmayr, 2014). These projects can be both artistic and entrepreneurial projects (Koch, 2012, p. 42). In most definitions, crowdfunding is divided into four categories: social lending / donation crowdfunding, reward-based crowdfunding, equity-based crowdfunding, and lending-based crowdfunding, as shown in Figure 1.

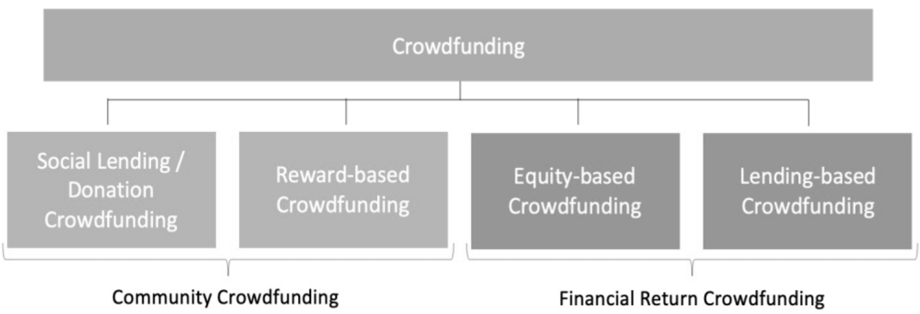

Figure 1: The various forms of crowdfunding activities

Source: adjusted from; Kirby / Worner, 2014, p. 8

Social lending / donation crowdfunding and reward-based crowdfunding are ways of fundraising for charitable purposes; they can be collectively referred to as community crowdfunding (see Figure 1). What differentiated these forms of crowdfunding and the other two is that community crowdfunding does not grant any financial return in the form of yield or return on investment. As this thesis takes a look at new investment opportunities for private investors, this part of crowdfunding will not be further deepened.

Equity-based crowdfunding is similar to Lending-based crowdfunding in the overall process, as many individuals can gain an equity stake by investing in a business through the platform. Consequently, lending-based crowdfunding and equity-based crowdfunding can be referred to collectively as financial return crowdfunding (Kirby / Worner, 2014, p. 4). Lending-based crowdfunding or crowdlending, how it is referred to in the following, can be defined as the use of an online platform provider that matches borrowers with lenders. The mediation aims to grant loans for private individuals or companies through the provision of capital from private individuals or companies. There are several models for crowdlending. If the lender is a private individual and the borrower a company, it is referred to as Peer-to-Business (P2B) lending. If two companies are involved the abbreviation Business-to-Business (B2B) is used. When one private individual lends money to another private individual, it is called Peer-to-Peer (P2P). A peer is someone with the same social positions or abilities as other people in a group and refers to private individuals within crowdlending (Cambridge Dictionary, 2020).

Crowdlending is characterised by the ability of lenders to provide money for small fragments of the overall loan, which enables the diversification of assets to lower the risk of default. The investment fragments from the crowd are then aggregated by the online platform until there is enough capital to cover the requested loan. Afterwards, the loan is originated and paid to the borrower. The platform sets the interest rate according to the risk assessment through its proprietary rating system. The borrower then pays back the loan with the additional outstanding interest payment. This interest rate is usually lower than a traditional loan available to the borrower and higher than the savings rates accessible to the lender. The interest is paid to the lender until one of the following situations arises: the borrower pays the loan back early, the loan matures, or the borrower defaults. Smaller crowdlending platforms also cater to niche markets. These include, but are not limited to, platforms with a specific focus specialising in transactions in real estate financing, venture capital or technological start-ups. The peculiarity about crowdlending is that no bank decides on lending (Sixt, 2014, p. 147-149).

Crowdlending loans can default if the borrower declares personal or corporate bankruptcy. As most platforms assume no liability for the loan, investors can suffer a total loan default, if the insolvency estate is insufficient. However, some platforms offer borrowers the ability to provide collateral that will be used in the event of loan default to service investors' claims. Furthermore, the information provided by all beneficiaries differs from conventional bank loans and bears risks for all parties that are difficult to assess (Beck, 2014, p. 28-31). Figure 2 shows the mechanism of crowdlending.

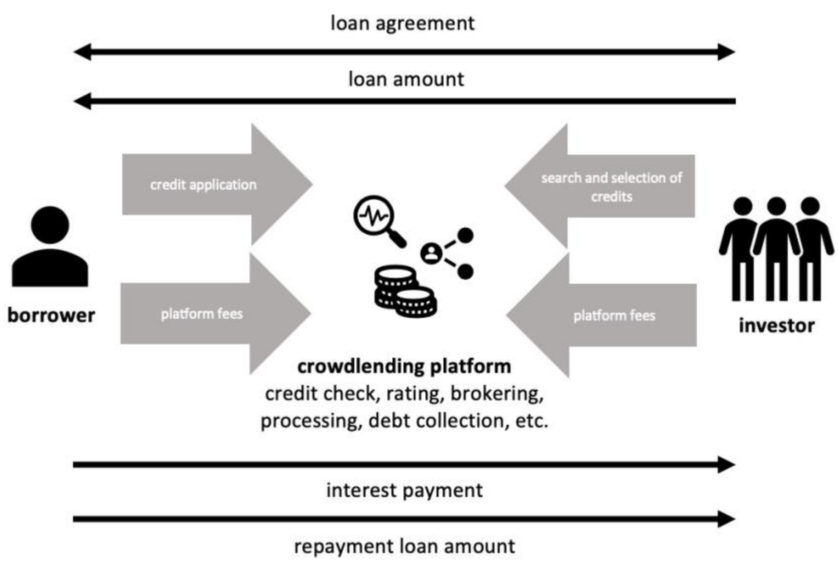

Figure 2: The process of crowdlending

Source: adjusted from; Dietrich et al., 2019, p. 7

This thesis focuses on peer-to-peer lending as a new investment opportunity for private investors. Nonetheless, it is essential to note the existence of the different subcategories of crowdfunding and to not take crowdfunding as being synonymous with either of the four subcategories. Lack of a precise definition can lead to legal differences and associated complications.

2.2 Development

During the process of research about the crowdlending industry, two fundamental factors stood out that have been driving and are still pushing the development of crowdlending. One fundamental factor being the technological innovation and developments which led to the overall topic of this work "How lending is changing through digitalisation in the financial services industry". The second factor was the global financial crisis from 2007 to 2008.

The core element in crowdlending models are online platforms, which serve as the marketplace for both investors and borrowers. Technological development made it possible for crowdlending platforms to exist. In the last decade, it became evident that innovations are disrupting the well-established business practices of the traditional banking landscape (WEF, 2015, p. 4). The digitalisation in the financial services industry today allows numerous possibilities for potential investors and borrowers. Opening a bank account or making an online transaction is performed without the need of visiting a bank branch or even relying on any personal assistance (Egan, 2015). Development, introduction and maintenance of online platforms come at minimal cost and can be scaled to a virtually unlimited customer base. Traditional brick and mortar bank branches are facing significantly higher costs forcing banks to close their branches because many tasks are carried out online.

The second factor that sped up the development and rose awareness for crowdlending platforms was the global financial crisis from 2007 to 2008.

The collapse of well trusted financial players, especially Lehman Brothers, was only the beginning of the financial crisis. The already far-reaching effects for the established financial institutions were followed by the close to complete distrust of customers and competitors (Seidel / Liebetrau, 2015, p. 7). The distrust of private individuals in financial institutions and between institutions led to difficulties in obtaining funds from banks. These circumstances allowed other industries to emerge and develop, including the crowdfunding industry and its sub-category crowdlending.

The UK is by far the largest market for alternative online financiers in Europe. 81% of the total online lending volume in Europe is from the United Kingdom, followed by France and Germany. In Britain, there is a greater willingness to lend money to private individuals, and compared to their European neighbours, the British have greater trust in fintech platforms. Cooperation between banks and platforms is increasing worldwide. For crowdlending providers, this is a great sign of trust. Such cooperation is also interesting for traditional financial institutions as they can integrate the automated processes for checking creditworthiness into their portals and address a customer group that so far has been rejected because of high consulting costs. In most European countries, the majority of loans are granted to private individuals via lending platforms. Companies receive significantly fewer loans through these platforms in total. However, both segments see significant growth in demand (Schneider, 2016).

2.3 Types of crowdlending

The loans granted in the crowdlending process differ significantly. Consumer crowdlending serves the consumer credit segment, while business crowdlending is aimed at small and medium-sized enterprises (SME) and mortgage-backed loans are granted in real estate crowdlending. Further, the differences between segments are evident in the average loan amounts. However, the average amounts can vary widely depending on the platform's business model. Platforms with very short-term loans, in particular, appear to be financing smaller volumes. Business crowdlending often focuses on project financing, debt restructuring or short-term loans for liquidity management. The urgency of professional investors for crowdlending is also increasing. Achieving a significant crowdlending market size is critical for the overall market as well as for individual platforms in order to be attractive to institutional investors. As can be seen in Figure 3, consumer lending grows significantly faster than business lending.

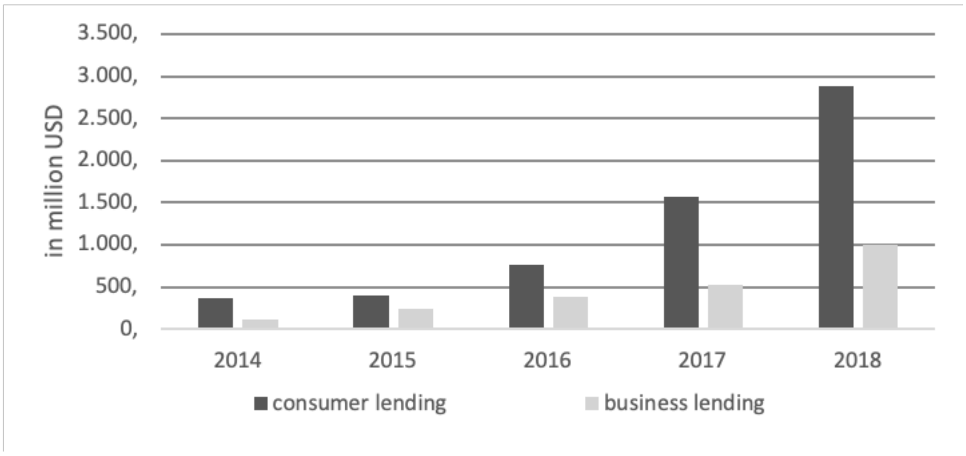

Figure 3: P2P lending platforms transaction value in Europe 2013-2018

Source: University of Cambridge Judge Business School, 2020, p. 78

The credit volume per crowdlending consumer loan is practically the same as an average consumer loan from a bank. It can be assumed that these average loan volumes will remain stable. In the consumer crowdlending sector, loans are primarily required for debt restructuring, education, cars, travel or weddings.

In the real estate crowdlending area, mortgages are usually granted to private individuals and sometimes also interim financing for real estate developers. Besides, mortgage-backed SMEs can also get loans here. Due to the use for homeownership, the significantly higher average loan amount compared to the other segments is understandable. Institutional investors, in particular, seem to be becoming increasingly important and are investing significantly higher volumes (University of Cambridge Judge Business School, 2020, p. 78-81).

2.4 Crowdlending in Europe

When choosing the crowdlending platform, investors also face the question of whether it makes a difference to choose an operator who is located domestically or abroad. An important point is undoubtedly the language in which the platform is available. Some providers are operated from abroad and are available in many other languages. Not every portal based abroad allows foreign investors or companies to invest. It is, therefore, not possible to invest everywhere. However, due to their international nature, investors are rarely denied access, but in most cases, companies are due to the different regulations of the countries for companies. If the platform is located in another country, the legal framework conditions might also differ from those in the investor's country of residence. Ultimately, the legal framework of the country in which the crowdlending platform is based is decisive. If the investor participates in a loan abroad, he will usually face significantly more difficulties in the event of a conflict, than it would be the case in his own country. Acquiring cross-border rights in the country in which the platform's headquarters are located is proven to be much more difficult than obtaining the rights of the investor then the platform is located in the investor's country of residence.

The regulatory regimes are dependent on authoritative choices in regulation. There currently is no cross-authoritative harmonisation in the regulation of these industries in Europe (Kirby / Worner, 2014, p. 6). Peer-to-peer lending can be regulated in four different ways. There can be an exempt or unregulated circumstance due to a lack of definition. Those platforms with an exemption only operate investment brokerage and final conclusion of contracts. The second form is platforms that are just acting as an intermediary and do not conclude any contracts or take on responsibility. Platforms in the European Union can also be regulated as banks depending on the country they are operating in and the task they carry out for their customers. The last possibility is that crowdfunding is not allowed at all (Brüntje / Gajda, 2015, p. 34).

At the latest, after the financial crisis in 2008 and the associated rise in popularity of crowdfunding, it became clear that uniform regulations must be imposed at the level of the European Union. The EU is aware that crowdfunding changes the public opinion on entrepreneurship. There is a broad range of investors, depending on crowdfunding. However, especially for young investors, crowdfunding often is the very first time they get in touch with entrepreneurship and start-ups. Young investors learn about being an entrepreneur and an investor at the same time, and that combination is unique to crowdlending.

After the financial crisis in 2008, one trigger for the rise of digital lending via crowdlending platforms, the European Union (EU) published its Europe 2020 strategy in 2010. In the strategic report, the EU admits that economic conditions are developing faster than political ones. The increasing economic interdependencies require faster political reactions (European Commission, 2010, p. 2).

Three key takeaways from the Europe 2020 strategy:

- *Smart growth; developing an economy based on knowledge and innovation.*
- *Sustainable growth; promoting a more resource efficient, greener and more competitive economy.*
- *Inclusive growth; fostering a high-employment economy delivering economic, social and territorial cohesion.*
  (European Commission, 2010, p. 10)

Especially the agenda point about smart growth sounds very promising for the crowdfunding and therefore crowdlending sector. Through the strengthening of knowledge and innovation, the EU wants to ensure future growth. With the use of information and communication technologies, innovative ideas are supposed to be turned into products and services. Crowdlending combines the key factors stated in the strategic report. It offers services that create growth, jobs and helps challenged individuals or companies. Crowdlending has a focus on entrepreneurship, finance, user needs and market opportunities (European Commission, 2010, p. 11).

The European Commission adopted a package of measures to identify new and different ways of opening up long-term financing opportunities to support Europe's return to sustainable economic growth in March 2014. The EU Commission identified a rising awareness and the provision of project information as an important new measure. In this context, the Commission proposes the establishment of a group of experts for crowdfunding to advise the European Commission (European Crowdfunding Stakeholder Forum) to promote relevant best practices, raising public awareness and facilitating the development of a quality label. The Commission will closely monitor the development of crowdfunding markets and the relevant national legislation, to regularly check whether further measures are required on the part of development. The aim is to identify any obstacles that need to be addressed to support the development of crowdfunding. The EU's promised support for crowdlending platforms is an excellent help for the further development of the crowdlending industry. With the support of the EU, there is greater interest from investors and borrowers.

The money laundering regulations for crowdlending platforms vary greatly depending on the country in which the company is based. In this area, the European Commission points out that the individual EU countries react differently to the challenges; countries such as Germany, the Netherlands and Belgium are trying to eliminate the existing uncertainties in crowdlending by announcing financial supervisory authorities. Other countries are changing their financial regulations and categorize crowdlending under regular banking business in order to react to the situation and introduce more customer protection. (European Commission, 2014).

Until today crowdlending is primarily conducted on the premise of national legislation, crowdlending is in a situation of diverging rules. Platforms are relying on the country in which they are situated. This makes it notably difficult for platforms to provide their offerings cross-border, which all interviewees from the platforms also stated. Several EU states have adopted bespoke regimes for investment-based and lending-primarily based crowdfunding. A few different EU States do not have particular rules. However, many permit investment-based crowdfunding to be provided beneath Markets in Financial Instruments Directive (MiFID2) rules (European Commission, 2018).

In December 2019 the European Parliament published a press release with rules to boost European crowdfunding platforms. The parliament wants to tackle the protection of investors through clear information and transparency. The concept includes a crucial investment information sheet for investors drawn up at platform level. Crowdlending service providers would need to give clients clear information about the financial risks and charges they may incur, together with insolvency risks and project selection criteria. Besides, investors identified as non-sophisticated would be offered additional, comprehensive advice and guidance, including on their capability to bear losses and a warning in case their investment exceeds either 5% of their net worth or 1000 Euro, followed by a consideration period of four calendar days (European Parliament, 2019).
Furthermore, the authorisation and supervision functions were appointed. The European Crowdfunding Service Provider (ECSP) would need to inquire approval from the National Competent Authority (NCA) of the member state in which they are established. Through a notification scheme in a member state, an ECSP would be able to provide their services cross-border. Supervision would also be carried out with the European Securities and Markets Authority (ESMA) promoting and coordinating cooperation among member states (European Parliament, 2019).

It is desirable to create a regulatory environment in Europe that ensures the framework conditions for decentralised development of this form of financing, taking into account the interests of all parties involved. This would contribute to the feasibility of economies of scale in Europe. The work performed by policymakers is thus of high importance to reinforce the growth of alternative sources of funding, including crowdlending, and to ensure access for investors and borrowers in all European countries. One conclusion that emerges in response to the recent proposal of the European Commission is that regulatory harmonisation constitutes the basis for sustainable, stable and inclusive growth of crowdfunding and the associated sector of crowdfunding (Cicchiello, 2019).

2.5 Stakeholders in crowdlending

Three main stakeholders are involved in the process of crowdlending. In Figure 4, all necessary steps for stakeholders are shown, and their involvement in the different steps.

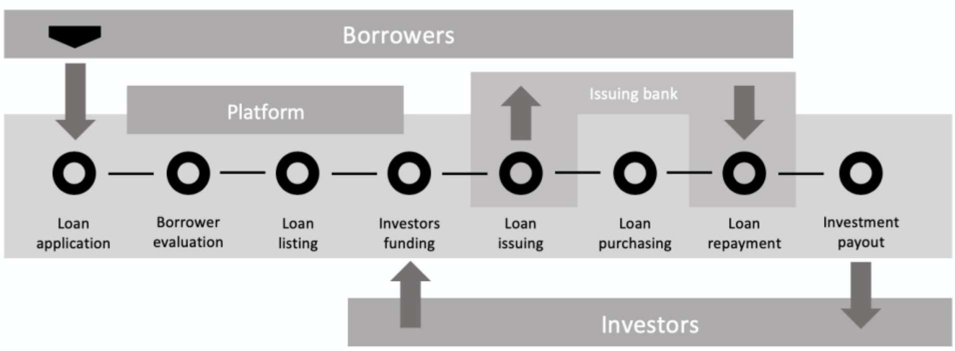

Figure 4: Step-by-Step process of crowdlending
Source: adjusted from Baron, 2020, p. 13

Borrowers

Capital seekers can have different motives that cause them to raise capital through crowdlending. However, an apparent motive is the lack of other financing options. Traditional credit institutions most likely rejected the loan seeker. Legal requirements and the banks’ general terms and conditions serve as the basis for the lending decision. If the applicant's solvency is considered unsafe due to negative entries at the tax authorities or because the creditworthiness is insufficient, the loan is rejected. The bank concludes that the applicant cannot repay the loan on schedule. In order to protect against the damage of default, the credit request is therefore rejected. However, it may well be that other financing options are available, but these have disruptive properties such as long terms or disproportionately high interest payments. As a first step, capital seekers check whether crowdlending is the best financing option for them (Beck, 2014, p. 71).

Platform

Platform operators are those who use an Internet platform to act as an intermediary between investors and those looking for capital. The platform operates websites, that function as an electronic marketplace. Information is initially made available to investors and capital seekers via the respective websites. The portal also serves as a basis for systematising and facilitating communication between investors and borrowers. In addition to the obligatory business plans, short image films about the projects are usually available on the platform (Beck, 2010, p. 64). The platforms generally provide a framework in which the legal relationships between investors, capital seekers and the platform are set. The typical objectives of the platforms are to:

- run as many, voluminous and successful projects as possible on the platform
- receive the highest possible payments (e.g. from commissions)
- have as little legal responsibilities as possible
- have as little effort as possible
- have a good reputation

The primary source of income for the portals are usually commissions, which are levied on the mediated financing amounts. This automatically stimulates the platforms to release many projects and pay attention to the highest possible funding amounts. In order to minimise their legal hurdles, the platforms generally provide clear business terms. The platforms will lay out the terms of business in a way that the other side either refrains from disputes because resistance would be futile in such a way that they, as a platform operator, have a better position in the event of any disputes. The platform has the least possible effort when the processes are mainly automated in terms of software technology and / or the actors, i.e. investors and borrowers, take on as much work as possible, i.e. create and exchange the necessary documents themselves. In order to have less effort, the platform can rely on leaving certain things undone, e.g. to refrain from reviewing the applicants and their submitted documents or to carry them out superficially (Beck, 2010, p. 115).

From the research, in particular, from the interviews carried out, which are discussed subsequently, it can be seen, that crowdlending platforms check the borrowers' thoroughly. Keeping a good reputation is one of the main goals of platforms. Having a good reputation overrides the objective of operating with little effort. The conscientiousness is entirely in the interest of the investors since the information presented on the platform must be reliable (Beck, 2010, S. 115).

Investors

The investors who appear in the context of crowdlending are also referred to as financiers, crowd- or micro investors (Koch, 2012, p. 50). The question comes up if lenders are a cross-section of the population; in this case, the population of all people who are able and legally allowed to carry out online transactions. Before the literature research, assumptions were made about what the typical crowdlending investor looks like. He is familiar with the online world, so he already has some experience with the internet. He is ready to complete transactions over the internet, so he is not opposed to online payments and contracts. He has liquidity and thus aims to invest it profitably and usually does so with other investment opportunities. He is not entirely risk-averse and can tolerate putting his money at risk to open up the possibility of high profits.

In literature research, it is not easy to collect information about investors in crowdlending. In the rather young industry and the discretion associated with financial transactions, information about investors is rare. The crowd-investing portal Innovestment collects data about their investors and released it for “The Journal of Banking Law and Banking” (JBB) in 2013. The following characteristics were collected when evaluating the data from 1.422 users. The registered users are 93.7% male, and on average, 39 years old. Almost half of the people are self-employed and work in the information technology, consulting or financial services industry. The majority of users have experience with the capital market; 82% have already invested in stocks. Two-thirds said they were familiar with funds and certificates (Hornruf / Schwienbacher, 2015, p. 6-9).

A more recent survey from the crowdlending platform Mintos of 2.294 investors on their platform in April 2020 came to the following results. 92% of the investors surveyed are currently investing in crowdlending. 90% of respondents are male, 8% are female, which corresponds to the overall investor gender split on Mintos. 70% of investors in the survey are between 25 and 44 years old. 45% of all respondents have invested with Mintos for more than one year. Based on their self-assessment, the largest group of participants (53%) said they have “some experience” with investing (Mintosblog, 2020). However, no data was raised on the professional background.

The narrowing of the currently active investors on crowdlending platforms served to define the target group of the survey for this thesis in order to be able to narrow down in advance who is a potential investor. With this proceeding, the research question “What is holding private investors back from investing through crowdlending platforms?” can be answered. In the next section, the motivation of investors is discussed in more detail.

3. The investor perspective

3.1 Motivation of crowdlending investors

In the following, the monetary objectives of the investors are primarily taken up and described, although there are other motives for their engagement that are of social or emotional nature. The lenders have an essential goal that harmonises with the aims of the platforms. The focus is on the successful implementation of lending with the associated returns or commissions. Also, in most points, it is the case that the objectives of capital seekers and investors are in opposite directions. The goals of investors are generally to get the:

- right to participate
- highest possible returns concerning the capital invested
- information needed and control rights over the investment
- most of the investment with as little administrative effort as possible

The returns to the investor depend on three essential components. The amount of capital invested, the risk associated with the loan and the period in which the loan is repaid (possible penalties for late repayment from the borrower might occur) (Sixt, 2014, ß. 28- 33).

In order to be able to assess which yields arise in which conceivable scenarios, the investor has to deal with the proposed conditions for the particular loan. Utility theory is one of the primary and oldest concepts that deal with the decision-making process. This theory looks at the idea of expected utility and states that individuals always want to maximise their capital. The basic idea of the theory is that individuals would select options that allow them to maximise the expected value of possible choices. Expected value is determined by multiplying the potential outcomes with the probabilities of occurrences for each of the outcomes and then adding up all the calculated values.

In the context of the investment decision making process;

> *"Utility theory views the individual's investment decision as a trade-off between immediate consumption and deferred consumption. The individual investor weighs the benefits of consuming today against the benefits that may be gained by investing unconsumed funds in order to enjoy greater consumption at some point in the future. If an individual chooses to defer consumption, he/she will, according to theory, select the portfolio that maximizes long- term satisfaction."* (Nagy / Obenberger, 1994, p. 63)

The utility theory outlines the connection between investors rationality, risk-averseness and ability to make sophisticated investment options.

Now that the investor has decided to use his capital for investments and not for direct consumption, he should consider whether he is investing in a single loan or whether he is spreading the risk by investing in several or even many promising loans. This topic is covered in the modern portfolio theory of Markowitz. According to Markowitz, in order to either minimise risks associated with investments or maximise returns, investors can decide to establish portfolios to diversify their funds between different investment options (Markowitz, 1952, p. 77).

In addition to extrinsic influencing factors, such as the current loss of confidence in banks and their systems, intrinsic motives, in particular, can be the deciding factor in participating in the common forms of financing.
In any case, one of the main reasons why lenders and those looking for finance are active on crowdlending platforms is the income or cost component. Investors expect higher income from direct lending, while borrowers can expect lower interest expenses compared to conventional financing options. A social component occurs. The community as a whole at least partially replaces the disadvantage of the lack of (bank-)advisors. The

advisory of investors is carried out, apart from the platform, for example, through forums or other communities. Depending on the platform, the element of cooperation is limited. Carrying awareness of social responsibility by platforms can also motivate investors to participate. This is not primarily about earnings, but to create funding opportunities in a community and in cooperation with other people that would otherwise not be possible (Koch, 2012, p. 37).

3.2 Key risks for crowdlending investors

When investing in crowdlending, the investment is not made in the platform, but in the pro-rata lending of a third party that the platform has included in their offer. Advertising, professional presentation and confidence-building measures by the platform operator as an intermediary should not obscure the trust in the borrower. This applies in particular if the platform issues, independent from other institutes, evaluations for projects in whose realisation it is interested due to high commission.

With the subordinated loans often offered in crowdlending, the invested capital can also be used to prevent the total loss of other creditors and a total loss of the invested funds is possible. The platform can refuse the repayment and interest payment if this would trigger a bankruptcy reason. In other words, a platform can use all of its subordinated capital before it even has to file for bankruptcy. In the worst case, if the crowdlending platform fails, all deposited funds will be lost because no buyback guarantee can occur. Young crowdlending companies, in particular, are at greater risk of bankruptcy than companies that have already established themselves on the market. Despite the short life of crowdlending, there have already been cases of crowdlending platforms closing, leaving no evidence on contracts behind and resulting in a complete investment loss.

The risk of fraud is significantly higher than it is the case in traditional lending. The facilitated anonymity by the online aspect of the industry is a risk that should not be underestimated. The anonymity is a problem for both the investor and lender, through which the opportunity to defraud is the constant reality. Since the entire business model is carried out online, it also brings with it the risks associated with the internet as the whole process is vulnerable to cyber-attacks. In the additional transfer module, the lack of transparency due to the proprietary scoring system was carefully assessed, and it turned out, among other things, that the general risk associated with the process is often not even disclosed until the lender or investor is a member of the platform. Additionally, the transparency concerning the classification criteria within the scoring systems leaves a lot to be desired with many providers (Kirby / Worner, 2014, p. 23-28).

Investors generally have no influence on their investment after they made it. The investor makes his money available to the company like a shareholder without receiving legally comparable information or control rights. In contrast to a partner, investors also have no voting, participation and instruction rights. Therefore, the exact structure of the crowdlending contracts needs to be assessed.

The length of lending varies from project to project. Especially with long-lasting terms, the investor should check whether he can dispense the money for the investment period. It must always be observed that it is often not possible to get out of the investment, before the investment period ends, at all or only at a loss, especially if the borrower gets into a crisis. Investors should inform themselves about the conditions under which shares in the loan granted can be sold in advance (BaFin, 2012).

What happens to the investment if the amount required for a loan does not materialise, for example, because there are not enough investors, should be clarified in advance. Platforms may keep a certain amount to cover their costs. As with all investments, an overview of the cost and fee construction of the respective offer should be provided. There has been a combined effort by the industry to reduce default rates. While there have been some achievements in decreasing the default rate, the actual default rate in many cases is not disclosed as many of the platforms only exist for a few years, and the loans mediated by them have only recently started to mature.

Most platforms act as financial investment brokers within the meaning of the trade regulations. These offers can thus be assigned to the grey capital market. Investments in the grey capital market are not inherently riskier. They are by no means dubious per se, but unfortunately, it is also made it more accessible for dubious providers to sell their products or to misappropriate deposited funds. Besides, providers of the grey capital market are not subject to statutory security schemes (Sixt, 2014, p. 205).

Before making an investment decision, investors should carefully consider the opportunities and risks associated with it. If it is not possible to gather enough information despite their research with neutral and trustworthy sources, investors should be particularly careful. It is the investors' responsibility to choose a product that matches the personal risk tolerance and investment objectives. The form of financing and the investment object influence the investment decision. In particular, not only the comparison of different crowdlending projects is necessary when making investment decisions, but also other forms of investment should be considered and be weighed against each other (Kirby / Worner, 2014, p. 23-28).

Another factor that should not be overlooked is herd behaviour. If the financing of a loan starts very quickly, which is often visible through the status bars on most websites, one quickly gets the impulse to get involved. It quickly leads to the opinion that so many investors cannot be wrong. This effect goes in both directions; it also affects the massive exit from credits, which sometimes even triggers panic-like behaviour. An immediate exit is not possible on all platforms because not all providers offer a secondary market for the loans, and the investor cannot liquidate the investments. There are apparent differences from loan to loan concerning the speed of financing. Defaults can also appear in the sense that for some loans, there are insufficient funds. However, a particular herd behaviour related to the platforms can also be observed. The already larger platforms are getting much attention from investors, although smaller platforms also offer attractive loans and returns (Beck, 2014, p.114).

4. Methodology

In order to obtain the information necessary for the defined research question, the research, beyond the review of literature, was based on two different approaches. The thesis includes a survey of individuals that fit into the target field of crowdlending platform investors (quantitative approach) and interviews along prepared questions of experts (qualitative approach). The procedure was structured as follows:

- Literature review of the aspects related to crowdlending and investors decision-making.
- Analysis of the available information on the mentioned topics related to the European Economic Area.
- Survey of potential crowdlending investors using the online survey conducting tool Umfrageonline (Appendix A).
- Interviews with experts from leading European companies representing the crowdlending industry (Appendix B).

The different approaches made it possible to obtain adequate information to be able to answer the research question in a well-founded manner. The data obtained during the research will be available for the interviewees and survey participants.

5. Perception of crowdlending of potential investors

5.1 Structure of the survey

- Conducted during June 2020
- Total amount of responses: 57
- Total valid responses (participants who answered all questions): 52
- Respondents targeted based on expected previous knowledge in the subject area
- Languages of the survey: German or English
- Type of questions: qualitative questions, answers quantified with the help of scales

5.2 Selection of the sample

The survey of potential investors in P2P crowdlending was set up after the literature research. During the literature review, the assumptions about already active investors in crowdlending, as discussed earlier in the section about investors, were confirmed. Since the majority of the participants are economics students, and most of the reached participants are in their early twenties, the age and areas of interest match those of the already active crowdlending investors. As a result, there is an informational advantage that is not negligible compared to participants that are foreign to the subject. As an introduction to the survey, a link to a video explaining the process of crowdlending was provided in the chosen language. The introduction video ensured that the participants could grasp the basic process of crowdlending. However, most of those asked to take part in the survey are friends or relatives that have a profession and / or private interest in finance. The survey, therefore, does not show an entirely representative opinion of private individuals.

The reason why this survey is carried out is the lack of information regarding the reluctance and needs of investors in crowdlending in literature. This approach is intended to close the information gap that is necessary to answer the research question. The questions were phrased and put together in such a way that they complement the missing information.

5.3 Evaluation of survey results

General overview of participants

A total of 52 valid responses are evaluated in the following. In this section, the general information about participants is analysed. The gender distribution of the participants is relatively balanced, with 44% female and 66% male participants. 13.5% of participants are already investing in crowdlending. The countries of residence of participants are Finland, Greece, Poland, France, the UK, the Netherlands and by far the most Germany. Looking at the age structure of respondents, it is not surprising that 60% of all respondents are in the age group 20 – 29. This age group was considered to be the leading target group relevant for this research, and accordingly, participants were also sought for the survey.

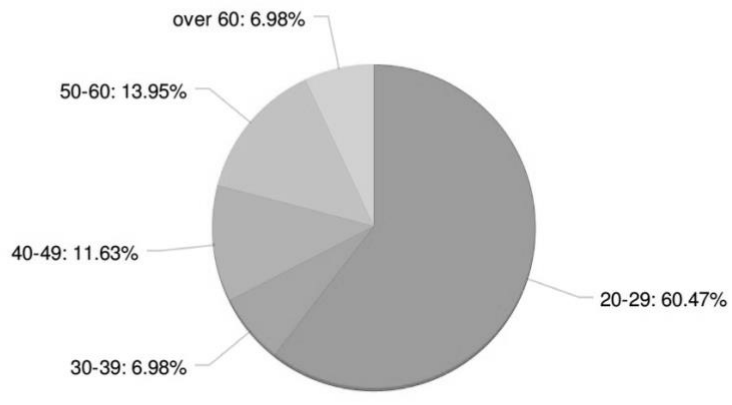

Figure 5: Respondents age group; Source: Compiled survey data

Since the goal of the survey was to gather information regarding the state of knowledge and interest in crowdlending platforms, the survey was conducted online, thus allowing to reach the right age groups. The provision only via the internet, however, also creates a hurdle for older participants who are not familiar with the internet.

Similar to the age groups, the highest level of education is quite concentrated. By far the most respondents, with 44% have a college degree. It can be assumed that most of the participants that chose a college degree as the highest current degree are currently in their bachelor's degree as also 44% of participants indicated to be students.

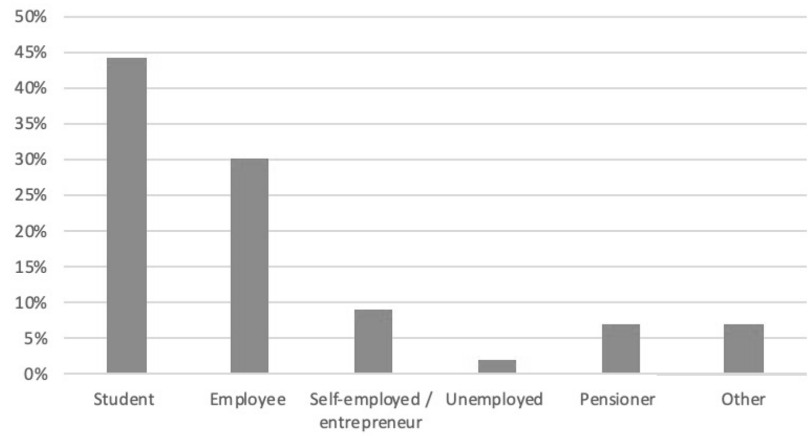

Figure 6: Occupation of participants; Source: Compiled survey data

The low response level in the categories of self-employed, unemployed and pensioners was to be expected since those were not the participants targeted for the research topic. Although most participants are relatively young, and due to the indicated occupation, their income is probably rather low, the number of participants taking investment opportunities is higher than anticipated. For the survey, the result is favourable as over 60% indicated to invest in stocks / equity funds. As those investments come at a higher risk, compared to the other investment opportunities indicated, it can be derived that participants are willing to take risk. As the profile of a crowdlending investor includes the willingness to take risk, the targeted respondents fundamentally fulfil that trait.

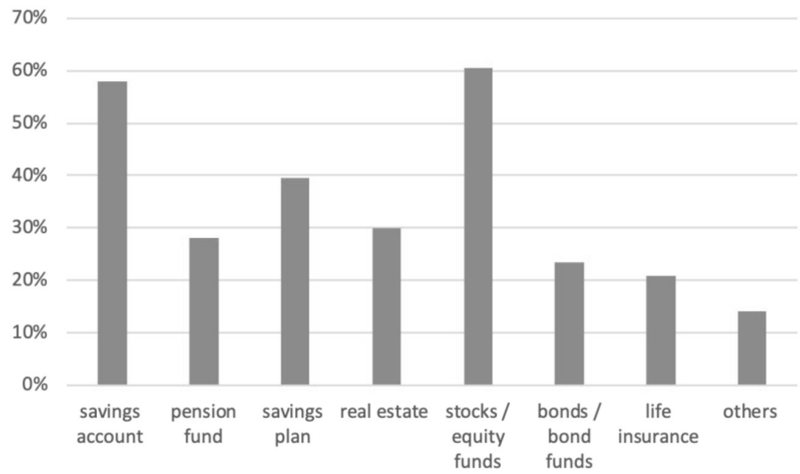

Figure 7: Types of investments by participants; Source: Compiled survey data

The favourable investment period for investors is between one and three years. However, a period of 3-6 months is the second most favourable investment period. Therefore, the ideal investment period varies a lot, and there is no coherent picture. Moreover, there are almost no focused investors that would be ready to invest for a very short period of one to three months nor a relatively long period of longer than three years.

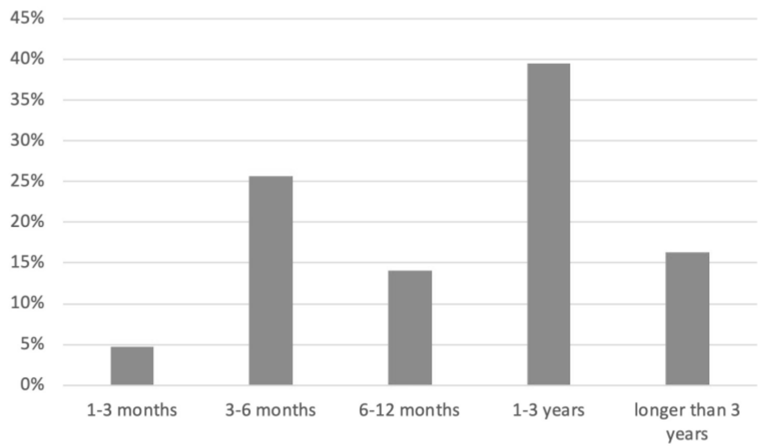

Figure 8: Investment period of participants; Source: Compiled survey data

Investment characteristic of participants

The results of the survey, which are explained below, are shown in detail in Appendix A. Altogether 70% of the participants in the survey stated that they had a reasonable amount or a lot of confidence when making financial decisions. With the previous information on the investment opportunities used, this result was to be expected. When participants were asked to indicate their assessment of their willingness to take risk compared to other people on a scale from 0 (affinity for risk) to 100 (risk-averse), there was a widespread of results. The arithmetic mean is 50.77. Thus, on average, the participants rate themselves as no more or less risk-averse or less risk-averse than others. However, there is a standard deviation of 23.92, so the estimates differ quite a lot from one another. The distribution of the willingness to take risk is also noticeable when it comes to the preferred investment mix in their portfolio.

Participants were asked to choose one of the seven portfolios that came closest to their needs. The portfolios contain different financial instruments that can be assigned to different risk levels (Appendix A; Question 9). Portfolio 4 was chosen most frequently with a share of 37.2%. The portfolio is most balanced in terms of risk diversification. However, the distribution of risk appetite can also be seen here and comes close to the personal statements about the willingness to take risks. Another finding is that 14% of those surveyed choose a portfolio that does not contain high risks. All other participants have shares in high-risk investments in the portfolio, albeit at different proportions. Since crowdlending investments are generally seen as risky investment opportunities, many of those surveyed could, therefore, include these investment opportunities in the investment mix.

Crowdlending specific questions

Investing through crowdlending can have a wide range of potential returns. Depending on the risk class, most platforms have investment opportunities with a return of up to 12%. 5% of the survey participants stated that they would invest with a return of less than 5%. 42% expect a return of at least 5-10% and 37% expect a return of 10-15%.

Crowdlending platforms can be split into 3-risk/return categories:

- Lower-risk platforms: 4% to 10% ROI
- Medium-risk platforms: 10% to 14% ROI
- Higher-risk platforms: 14% to 20% ROI

Thus, the majority of those surveyed already find providers who can meet their expected return on investment (ROI) (P2P Lending, 2020).

The respondents tend to take care of their finances online. However, the deviation of the results was quite high, which was surprising for the rather young respondents. There is still interest in being able to directly address someone personally, as is the case in a classic bank branch when it comes to investments. Restraint is shown when tapping innovative and new investment opportunities. The respondents tend to be more cautious about new investment opportunities. This reluctance is particularly fatal for crowdlending as platforms have to be particularly persuasive as caution is exceptionally high when it comes to managing financial assets. If the young audience is already reluctant, the results of a survey of older investors would certainly show even more hesitation. In order to gather information to make an investment decision in the area of crowdlending, most of those surveyed would look for information in the financial media. However, general media, as well as the experiences of colleagues and friends, also play an essential role in the procurement of information.

To find out what essential information needs to be provided by crowdlending platforms from the perspective of the investor, the participants were asked to rank different options. As all the answers are relevant for the investor, the question was asked to narrow down what the platform has to focus on. However, according to the survey results, for the investor, it is equally essential to get sufficient information about investment opportunities and information about the historical performance of other investors. An additional regular and detailed report on investments made would increase investors willingness to invest. The mentioned results illustrate how complex the task of the platforms is. It can be assumed that the platform that can best fulfil these points, among other things, is ultimately the most successful.

To specify carefully what is important for investors when choosing a crowdlending platform, it was asked about the approval or rejection of various statements about platforms. All participants either strongly agreed or agreed that solid and understandable product and service descriptions are relevant when investment decisions are made. One of the most significant difficulties for crowdlending platforms can be derived from this. The business model is challenging to explain, and the lack of transparency is a deterrent for many investors. Especially the different risk classifications which differ from platform to platform make it difficult to make comparisons between platforms. In general, it can be said that the investor demands transparency that the platforms do not want to or cannot deliver. Another critical factor is the reputation of the platform. The readiness to invest would increase when the platform has a good reputation among its competitors is strongly agreed or agreed upon by 87.5% of the participants. How important word of mouth is for the platforms became apparent in the interviews with the crowdlending platforms; this will be discussed in more detail later on. The platform's consent with the generally recognised business behaviour has a significant effect on investors decision making as the results show. Although that statement is less agreed upon compared to the previous ones, it is of high importance for investors. The problem for the platforms is to show their consent with the general business behaviours cross-border in different markets if there is no uniform regulation. The lack of uniform regulations makes it difficult to gain the trust of investors.

Various factors play a role in an investment decision. The questions asked in the survey should encourage the participant to reflect on various crowdlending investment considerations to find out how potential investors value them. The results show that the expected return on crowdlending investments matches the associated risk of investors. Platforms increasingly offer the repurchase of loans that are not serviced. The results show that this service is asked for by investors. That this option is of interest to the customer is also reflected in the results. IT security is a focal point that platforms hardly illuminate at all. Especially since most providers are based abroad, there is a great interest in a secure infrastructure. Here, too, it becomes clear how investors are currently demanding more regulation.

6. Opinion of established crowdlending platforms

6.1 Structure of the questionnaire

To understand what opinion crowdlending platforms have regarding potential investors and how they try to reach them, first-hand information was gathered, which was collected through interviews. When looking for interview partners, more than 130 European crowdlending platforms were contacted. The platforms reached included not only P2P lenders but also operators in the real estate and business credit segments. Two of the three platforms interviewed serve the consumer credit segment. The insights are needed to assess the perspective of a crowdlending platform and to get involved with future-oriented platforms' procedures. It is only possible by querying opinions from direct reference persons of the platforms to grasp the current position and to be able to make suggestions for action at the end. Qualitative interviews were conducted with open questions to give respondents more freedom in their answers. The result needed to answer the research question are derived from the collected answers.

Interviewees:

- [redacted]
- [redacted]
- [redacted]

6.2 Evaluation of the feedback

General Information about the Platforms

Lenndy is a P2P lending marketplace, where investors can invest in loans by buying out prior issued loan rights. Using the platforms infrastructure, non-banking loan administrators have the option to transfer rights of a claim arising from any credit agreement. Loans at Lenndy are sold by loan originators, that are issuing business loans or personal credits. Loan originators transfer their issued loan documentation, and Lenndy presents them in loan lists, after successful valuating the documentation (Lenndy, 2019) Through Cashare, individuals can invest in loans from other individuals, SMEs, and real estate loans. The platform again acts as an intermediary (Cashare, 2020). Debitum Network offers direct investments in small and medium-sized businesses in Europe. Although their business falls under the category of P2B, the side of investors, which is considered in this work, is largely the same as with P2P. The platform works together with various brokers, non-bank lenders, that provide multiple loans to businesses, and mediates the loans to private investors (Debitum Network, 2020). All platforms have in common that they offer investment opportunities for private individuals with a small investment amount and flexible investment periods. Additionally, they all have their own proprietary credit scoring system for their due diligence process.

Future development of crowdlending

Since crowdlending is increasing in size, the question is how the distribution of lending will look in 5-10 years. The statements regarding the distribution of credit through traditional banks and crowdlending platforms were mostly uniform. The regulations for crowdlending will increase and get closer to the regulations for banks. The increasing regulations are not a problem for reputable providers; on the contrary, with more regulation, they are hoping for more trust from investors. With stricter regulations and the expected increase in confidence, the platforms are forecasting a market share for the entire lending business through crowdlending platforms in Europe of around

25% of the entire credit market for private individuals. The estimates differ sharply between loan segments. Platforms anticipate that for SME loans, banks will lose more of their market share than for loans to blue-chip companies.

Customer acquisition

A countermovement against traditional banking characterises the motivation behind their work. Offering a great alternative to financially worse doing individuals and companies, that do not get cheap loans from banks, is the niche they want to fill. Additionally, the lower management costs, compared to asset managers from banks, and the diversification of investment portfolios for private investors, is a strong motivation to provide their services. That the crowdlending segment lives from the enthusiasm of employees and investors alike is proven by the fact the platforms heavily rely on affiliate programs, bloggers and general word of mouth in terms of customer acquisition. The survey of potential investors also showed that word of mouth has a high impact. As the risk affinity, a trait most P2P investors have is mostly found in younger, self-driven, private investors that are in their twenties and are familiar with novel technologies; customer acquisition is also made through online ads on Google, Facebook and similar sites.

Use of loans

The biggest problem is the misinformation of investors about crowdlending and the accompanying lack of trust. Therefore, it is critical to assess the differences of lenders that borrow from crowdlending platforms and lenders from traditional banks. Only if investors can classify the other end of the procedure, the trust will increase. All interviewed platforms emphasise their transparency as they know that this is crucial to gain investors trust. Platforms borrowers have a worse financial situation than other bank borrowers and are therefore rejected by banks. However, the use of the loan is hardly different from loans that are issued to borrowers from banks. Credits are used for consumption, liquidity and investments. The interviewed platforms say that most investors who stay away from crowdlending think that borrowers are highly indebted private individuals. However, this is rarely the case. To eradicate this cliché, the platforms try to clarify through their proprietary rating system.

The lending processes

The most significant difference of the answers is seen in the time until the credit is approved. As some platforms can provide loans in about a week, others need up to a month, which is significantly longer. Since the time that elapses before a loan is approved can be assessed, the time of the due diligence process and the resulting ratings can also be inferred. Some providers argue that taking more time for the process is a quality feature. However, since no platform gives direct information about the exact duration of the due diligence process and the transparency of the scoring systems is not provided by all platforms, it cannot be examined in more detail. The overall outcome of fulfilled loan requests is about the same at all platforms. After the due diligence process, the platforms offer about 10% of requesting lenders a loan. In the interviews, it came across that this is seen as a prove for quality by investors and that platforms, although they are in an intense growth phase and want to grant new loans, do not let themselves dissuade from granting loans that speak against their risk assessment.

The interviewed platforms handle credit default differently but independently from that they all are the mediator between the loan originator or the lender directly and their investors. Communication with investors if a repayment should fail is essential to all platforms and, according to their statements, distinguishes them from the competition. Initiating lending is one task, communicating with investors and keeping them up to date when things are not going as expected is another essential task of a platform. Depending on how the internal scoring system is structured, the reserves that have to be formed for good ratings are similar to those that a bank would require. Nevertheless, the borrowers are on crowdlending platforms because they cannot offer the collateral expected from the bank. Thus, the crowdlending platforms communicate transparently that they cannot provide the same security as a bank.

The reasons for crowdlending

As this thesis analysis, the new investment opportunities for private investors through crowdlending, this section deals with why the platforms interviewed think crowdlending is interesting for private investors. Here too, the answers from the platforms are mostly congruent. The good return rates relative to the accompanying risk are the primary reason for why platforms private individuals should invest. Adding to that is the chance to pick the investment, choose the lending term, and the access to credit as an asset class diversification of the investment portfolio. Providers also want to point out that the process of crowdlending is safe, easy to use and more professional than anticipated by many investors. Following up on this question, it is interesting to hear, from the perspective of the platforms, why many investors are still reluctant. The different profiles of investors explain the modest interest in crowdlending. The risk affinity and investment strategy differ broadly and often, crowdlending does not even come into consideration due to those factors. There is still no widely available information about investment opportunities, and many investors have difficulties understanding the sector. The platforms see a large part of their work as educating potential investors. In the end, many investors rely on “experts” in brick and mortar banks when it comes to deciding on investments. Individuals with financial liquidity are often at an age in which they think about saving plans as a retirement provision which quickly excludes crowdlending as an investment opportunity due to the accompanying risk.

7. Success factors for crowdlending platforms

SOAR-Analysis

In contrast to the more widely used SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis, the SOAR (Strengths, Opportunities, Aspirations, Results) model uses an appreciative inquiry to focus on what is known to work and what it wants to achieve in the future. The result of a SOAR analysis is an array of actions to strive for shared aspirations with measurable results. It provides a basis in-depth analysis and is especially used for growing businesses or in this case for the novel industry of P2P crowdlending. A SOAR analysis is a useful tool to bring stakeholders together to recognise the potential of the organisation and conceive a mutual vision of the future. Building on strengths requires fewer resources and effort than trying to straighten out weaknesses. The technique is more process-oriented than a SWOT analysis and is focussed on outcomes. The tool helps with exploring new initiative, developing a strategic plan, focus and redirect efforts and resources (Lu, 2019).

Strengths

Crowdlending makes it easy to spread risk; the majority of investors on most platforms are individuals with investments filled in small incremental amounts. Therefore, diversification is easy, and crowdlending is an additional opportunity to include another asset class in the portfolio. Another benefit is the high return for investors and the low cost of capital. Crowdlending provides a low-cost alternative to channel savings to the real economy and to support individuals that would most likely not have the chance to raise capital. Crowdlending provides an affordable and attainable option for raising capital. Crowdlending can help economic recovery by financing many private individuals at a time, which are in their entirety a vital part of the economy. Helping those affected more efficiently access capital for their development and expansion can contribute to job creation and economic recovery.

Opportunities

The following constitutive characteristics can be determined through the digital network economy, an umbrella term for the influence of network effects on consumer demand, compatibility decisions and standardisation, technological progress in strongly connected industries, bilateral markets, information networks and intellectual property as well as the economics of social networks. Communication networks now connect the active knowledge carriers so that information can be disseminated faster and easier. A private investor is no longer reliant on the bank advisor in a branch but can get information online and form a comprehensive picture of investment opportunities. The digital network economy is a potential global economy with fewer spatial and linguistic barriers. The rapid development of the underlying basic technologies accelerates economic development, as new areas of application are continually opening up. Access to resources and competencies are essential prerequisites for taking action on the internet that digital natives, that grew up with the internet, already have. Building relationships with investors is now possible at an entirely new level. Small investors can now be reached through digital networking, which makes up a large volume at a low cost. Through digitalisation, a dialogue between people and companies is possible at any time, which makes collaboration easier or even possible in the first place. By working with users, it is possible to agree on common goals with personal benefits. Investors increasingly want to take personal responsibility for their investment decisions and at the same time, invest as little time as possible.

Aspirations

The next few years will be decisive for the development of crowdlending. It would be desirable on the part of everyone involved, as was clear from both the survey of platforms and the survey of potential investors, that the rapid creation of a regulatory environment in Europe would ensure the framework conditions for the development of this form of financing, taking into account the interests of all involved. Further aspirations are the feasibility of economies of scale in Europe, which are currently directly limited by the inconsistent regulations. The use of digital currencies in the crowdlending area could minimise the high transaction costs, especially with the many small transactions that occur across borders. The secondary markets should also be further developed. Investors may want to repay the loans during the term, and without these options, many potential investors have already been put off. The further development of transparency is also an important point. Here, crowdlending platforms can particularly stand out from traditional banking. The black box of the scoring systems of individual providers must open in order to gain the trust of investors. Only with the capital of investors, loans can be made that cannot be granted elsewhere. Ultimately, this is still the protruding motive of the industry. With increasing trust, the platforms can compete more successfully with traditional banks.

<u>Results</u>

The platforms must see themselves as service providers who coordinate lending by using their online presence and management tools. With the increasing number of crowdlending platforms, the variety of services offered also varies due to a large number of providers. To date, neither the business model nor legal and social demands and requirements for the platforms have been finalised. Due to different national regulations but also due to language boundaries, there is a considerable fragmentation of the market and far-reaching legal requirements. However, the level and, above all, the quality of the crowdlending providers concerning the technical infrastructure is crucial for the long-term success of the crowdlending financing method. In connection with the increasing availability of data through digitalisation in the financial sector, the success and failure of financing projects can be analysed in a form that has not been possible before. The most significant innovation compared to traditional lending and at the same time the unique selling point of crowdfunding and thus crowdlending is the assessment by the crowd, i.e. the swarm intelligence that ultimately decides which loan is funded. In any case, already evident critical success factors for existing crowdlending platforms are functioning social channels, a high degree of transparency concerning the division of tasks between the platform, investors and borrowers, transparent presentation of the loans, adequate provision of data for investors and functioning communication channels between the participants.

8. Conclusion

The goal of this research was to determine what the reasons are for the reluctance of private investors to crowdlending as an investment opportunity. In addition to the traditional credit supply from banks, there are new emerging financing options for private individuals. Through the developments in the digitalisation in the financial services industry, the novel field of crowdlending developed. The business model mediates private lenders with private borrowers. The new investment opportunity that is of great interest in an environment of low- interest rate policy. The reluctance of private investors is the reason why the amount of lending by P2P crowdlending on the overall credit market is still quite low.

The hesitation on the part of private investors depends on several factors. Most survey participants show a pronounced awareness of the emergence of this new type of investment opportunity. Existing borrowers value the services of platforms due to the low regulatory hurdles and fast process handling. The lack of regulation, on the other hand, makes investors cautious in their use, especially since there are largely unknown platform providers. The European Union has noticed the developments in the financial industry and presented the strategy 2020 for uniform regulation. However, the framework conditions specified therein have not yet been implemented. It was clear from the conversations with crowdlending providers that uniform regulations are desirable. The reputable providers have no problem with regulations and hope that this will result in more trust from investors as well as from borrowers. Because there are no industry standards, it is not easy to create transparency. Since the business model is also based on online platforms, it is still a deterrent for many potential investors. In order to take away the fear from investors, the platforms have to do educational work to convince with their business model. Investors show the need for further investment opportunities, but people like to weigh themselves in safety when making financial decisions.

Over time, it will emerge which providers are considered trustworthy. Currently, the most successful offers are based in the same country as customers. This development is due to the lack of international regulation. However, it can be seen both from the side of the investors and from the discussions with the platforms that one is aware that the industry is not mature. Based on the increasing demand for crowdlending and against the background of today's developments, however, it can be assumed that the relevance of these alternative forms of financing increases due to the presence of exponentially occurring online-based financial service platforms and the interest of younger generations. From today's point of view, there are many indications that crowdlending becomes a serious alternative to traditional bank loans.

9. Appendices

Appendix A - Summary of survey results

Q1: How would you gather information about crowdlending platforms if you were interested in investing?

Choices	Total amount
I would get information about crowdlending from general media.	25
I would ask friends, family or colleagues about their experiences.	22
I would follow information about crowdlending in financial media.	36
I'm already investing through crowdlending platforms.	7

Q2: Please rank the following statements about crowdlending platforms.

Key factors	Mean	STD
I would invest if online platforms provide sufficient information about investment opportunities.	1,98	0,78
Information about the historical performance of other investors would increase my willingness to invest.	1,94	0,80
It is important to receive regular and detailed reports on investments made.	2,08	0,88

The answers for question 3, 4 and 5 are stated with the arithmetic mean (Mean) and standard deviation (STD) that refer to this legend:

1 - strongly agree

2 - agree

3 - neither agree nor disagree

4 - disagree

5 - strongly disagree

Q3: If you had to choose a crowdlending platform, how would you rate the following factors?

Key factors	Mean	STD
The platform's consent with the generally recognised business behaviour would have a positive effect on my investment decision.	1,98	0,81
Solid and understandable service and product descriptions are relevant for my willingness to invest.	1,56	0,50
My readiness to invest would increase if the platform has a good reputation among its competitors.	1,67	0,81

Q4: Please give your opinion on the following statements:

Key factors	Mean	STD
The risk of investing in crowdlending is too high for the expected return compared to other investments.	2,84	0,90
The risk is acceptable if the crowdlending platform guarantees the repurchase of outstanding loans.	2,03	0,63
The expected financial return is important for the assessment of investment opportunities.	1,71	0,68
The ability to invest with low seed capital is important when considering investments.	2,33	0,87
Given the high returns, crowdlending is an attractive option in comparison to other financial investments (savings plans, bank deposits, pensions, etc.).	2,48	0,64
Given the higher return, I can tolerate a higher risk of loss.	2,81	0,94
It is important that crowdlending platforms provide high standards of IT security.	1,40	0,77
The tax application to investment income affects my investment decision.	2,45	0,99
It is decisive that the activities of crowdlending platforms are regulated by responsible state institutions.	2,13	0,99

Q5: Suppose you want to invest via crowdlending or are already doing so, please indicate your consent/rejection in relation to the following statements:

Key factors	Mean	STD
I prefer to invest online rather than in a bank branch.	2,28	1,08
I like to be among the first to try innovative and new investment opportunities.	3,19	0,96

The speed, convenience and simplicity are decisive factors for me.	2,19	0,88
I like to use leading-edge digital technologies when investing.	2,56	0,96
The country where the crowdlending platform is based is important for my readiness to invest.	2,12	0,96

Q6: I would be willing to invest in crowdlending with the following expected return:

Return	**Percentage of total responses**
less than 5%	4,65%
5-10%	41,86%
10-15%	37,21%
15-20%	4,65%
20-25%	9,30%
over 25%	2,33%

Q7: How do you rate your financial willingness to take risks compared to other people?

0 = affinity for risk

100 = risk averse

Arithmetic mean: 50,77

Mean absolute deviation: 21,05

Standard deviation: 23,92

Q8: How much confidence do you have in your ability to make good financial decisions?

Return	**Percentage of total responses**
Not any.	6,98%
A little.	9,30%
A reasonable amount.	55,81%
A lot.	20,93%
Complete.	6,98%

Q9: Which investment mix appeals to you the most?

Possible answers:

Portfolio	High Risk / High Return	Medium Risk / Medium Return	Low Risk / Low Return
1	0%	0%	100%
2	0%	30%	70%
3	10%	40%	50%
4	30%	40%	30%
5	50%	40%	10%
6	70%	30%	0%
7	100%	0%	0%

Answers:

Portfolio	**Percentage of total responses**
1	4,7%
2	9,3%
3	23,3%
4	37,2%
5	23,3%
6	2,3%
7	0%

Q10: The most attractive investment period for me is:

Investment period	**Percentage of total responses**
Less than 1 month	0%
1-3 months	4,7%
3-6 months	25,6%
6-12 months	14,0%
1-3 years	39,5%
Longer than 3 years	16,3%

The results of the demographic questions are stated in in the evaluation section of the survey.

Appendix B - Answers from crowdlending providers

General questions:

1. What will be the role allocation between crowdlending platforms and banks in private and corporate finance in 5-10 years?
- Differs widely for each segment of the credit business, for SME loan banks will lose more for their market share than for loans to blue-chip companies (20% platforms, 30% other Fintech lenders, 50% banks)
- It will not change significantly, crowdlending should increase and get closer to the banking conditions, but will not replace them
- confidence will increase, partly because of stricter regulations (25% of investors will allocate funds to P2P platforms and similar services)

2. What is your estimated distribution of lending from traditional banks and crowdlending platforms in Europe?
- Less than 2% for crowdlending
- About 20% for crowdlending

3. Why are you convinced that crowdlending platforms will be relevant in the long term?
- Because banks are not doing a proper job and will be outcompeted by agile lending platforms
- Because it is an excellent alternative for financially worse doing individuals and companies, that do not get (cheap) loans from banks
- Low management and maintenance costs, growing expertise of platforms, accessibility, and ease of use will lead to long term relevance

4. Does your company work with banks or financial service providers?
- Only for payment services
- The platform lists loans of another loan originator (financial service provider); therefore, it does not require a banking license
- Work together with brokers that are cherry-picked by internal factors

Customer-related Questions:

1. How do you try to win new customers?
- Search engine optimisation (SEO) (Google ads etc.)
- Social Media Marketing (Facebook ads etc.)
- Blogs / Vlogs
- Press coverage
- Affiliate / cashback programs

2. Who is your target group for loans via crowdlending platforms?
- Companies and individuals
- Mostly males from 30 to 40 years old as they have a significant amount of funds available and experience with the internet
- Customers from 20 to 30 years ae the most active but bring the least funds

3. Who is your target group for investments via crowdlending platforms?
- Self-driven private individuals
- Independent asset managers via products
- Companies

4. Do borrowers of a retail bank differ significantly from those customers who use crowdlending platforms? If so, what are the differences?
- Yes, platforms appeal to self-driven clients
- Their financial situation is not as good as it is the case for clients from traditional banks. They are willing to borrow from more expensive alternatives (crowdlending)

5. Can investors and borrowers interact with each other via your platform?
- All the interviewed platforms work as a marketplace; investors chose from the offered projects. No interaction is possible.

6. What do borrowers use their loans for?
- Consumption (e.g. car loans)
- Liquidity (e.g. mortgage loans)
- Investment (e.g. business loans)

7. How long does it take to provide a loan on average?
- About one week if all required documents are handed in
- Quite a lot of documents needed, it takes about one month to fulfil the request

8. What percentage of loan requests can be fulfilled?
- All platforms interviewed fulfil less than 10% of loan requests

9. What happens if a loan is no longer serviced? How do you proceed?
- Start by reminding the borrower and end up with persecuting him
- Loan originators deal with the recovery of a loan and cover it when buyback guarantee kicks in

10. Do you have investors protected against credit default? If so, how does it work?
- There are personal guarantees (buyback guarantees), various collateral on the loans, however funds are not insured from default

11. What are the primary reasons why investors are investing specifically through your platform?
- Possibility to pick the investment
- Access to credit as an asset class (diversification)
- Higher yield (relatively to the associated risk)
- Ease of use and safety
- Ver conservative then choosing partners
- Professionality

12. Compared to other investment opportunities, the amount of capital invested in crowdlending platforms is modest. How do you explain investor reluctance to crowdlending?

- Not broadly known as an investment possibility
- The investor has to be literate
- Higher risk (different risk tolerances)
- Different investment strategies
- Lack of track record

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