



New Business Models: Innovation, competition and consumer protection – getting the balance right

CEPS ECRI – Consumer Protection in Financial Services: The Challenges of Innovation and Capital Markets Union
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A TRADITION OF
INDEPENDENT
THINKING



UCC

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Coláiste na hOllscoile Corcaigh

Definition of Crowdfunding

- Crowdfunding refers to the efforts by entrepreneurial individuals and groups – cultural, social, and for-profit – to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries.
- Crowdfunding has emerged as novel way for entrepreneurial ventures to secure funds without having to seek out venture capital or other traditional sources of venture investment
- President Obama in his 2012 remarks upon signing the JOBS Act (Jumpstart Our Business Startups Act) to legalize equity crowdfunding stated that *“for start-ups and small businesses, this bill is a potential game changer.”*

Crowdfunding Types & Community

- **Collective lending investment** – peer to peer investing in return for financial repayment in the future at some agreed upon rate of interest
- **Collective equity investment** – peer to peer investing in return for equity/future income
- **Collective patronage** – peer to peer investment in return for some benefits from a product or service to be developed (acknowledgement, free product, early access, etc)
- **Collective charity** – peer to peer investment in support of some project without expectation of meaningful returns to the investor

Lending	Equity Investment	Patronage	Charity
www.lendingclub.com	www.fundedbyme.com	www.kickstarter.com	fundrazr.com
www.zopa.com	www.microventures.com	www.indiegogo.com	www.causevox.com
www.prosper.com	www.crowdcube.com	www.rockethub.com	www.fundraise.com
www.smava.de	www.earlyshares.com	www.sellaband.com	www.donorschoose.org
www.ppdai.com	www.aswarmofangels.com	www.fundanything.com	www.justgiving.com/

Small Talk: Crowdfunding can flourish but it still needs a watchdog

David Prosser

Monday, 1 July 2013

Small Talk: Crowdfunding must now be taken seriously by rivals

Private equity and venture capital firms, in particular, are relaxed about the threat crowdfunding poses

David Prosser

Tuesday, 13 January 2015

Small Talk: The crowdfunding industry has had three years of dramatic growth

This is an industry that has posted, on aggregate, compound annual growth of more than 100 per cent over the past three years

David Prosser

Monday, 27 April 2015

Small Talk: Is crowdfunding good? Depends which government arm you ask

The FCA has insisted that these sites are only suitable for the most sophisticated investors

David Prosser

Monday, 9 February 2015

February 3, 2015 3:15 pm

FCA rebukes equity crowdfunding companies

Judith Evans and Emma Dunkley



The City regulator is cracking down on equity crowdfunding after finding that most companies in the fast-growing sector were misleading investors about the risks.

investment” while attracting retail customers with little experience of investing.

The [Financial Conduct Authority](#) found that crowdfunders were giving a “misleading or unrealistically optimistic impression of the



The warning is the second in a week after the watchdog said it would clamp down on the marketing of [peer-to-peer lending companies](#) amid concerns that some were mis-selling their products as risk-free savings.

More

ON THIS TOPIC

[John Gapper HSBC should move to Hong Kong](#)

[Comment Precarious London](#)

The FCA has previously warned investors “it is very likely you will lose all your money” in equity crowdfunding, which involves taking stakes in unlisted

March 18, 2015 5:16 pm

Budget 2015: Consultation launched on crowdfunding in Isas

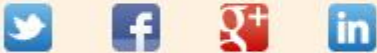
Judith Evans



The government is to consult on whether to include equity and loan crowdfunding within tax-efficient individual savings accounts (Isas) in its latest move to bring alternative finance into the mainstream.

This follows a [promise to include peer-to-peer loans in Isas](#), which is expected to take

effect early next year. Both types of finance form part of the UK's fast-growing financial technology scene, which ministers are keen to foster.



Some £84m was raised last year through [equity crowdfunding platforms](#), which individuals can use to buy small stakes in peer-to-peer lending and loan-based crowdfunding. [£749m of business](#)

February 27, 2015 5:07 pm

Property crowdfunding is a good idea — in theory



Merryn Somerset Webb

Liquidity is not the least of the risks

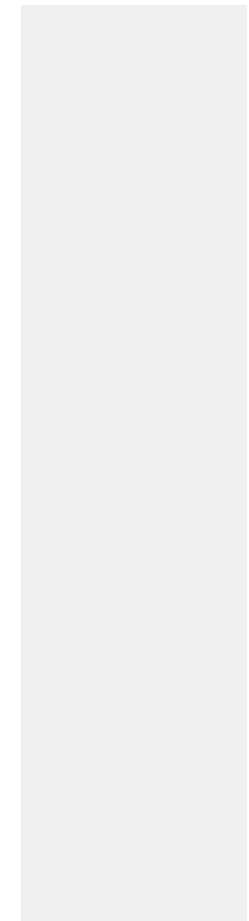
Who would want to buy a house in the UK at the moment? Look at the prices and you'd think the answer would be absolutely nobody. In London the price-to-income ratio is at a record high — 15.7 times, according to [Danny Dorling](#), a professor at the university of Oxford.

Other Initiatives

- To Authorise, or Not?
- Include in the Financial Services Compensation Scheme, or Not? (UK)
- More funds – eg Microfinance Ireland (MFI) state backed fund – initially only allowed businesses refused credit by a commercial bank to apply
- Invoice funding eg FundBox, BlueVine
- PayPal and Square offer loans to some merchants
- Bad debt relief for P2P investments (UK)
- Pass rejected loan data to external platforms (UK)

Table 1: Example FinTech emerging business models

CATEGORY	SUBSECTOR	CURRENT MODEL	EMERGING MODEL	EXAMPLE
Banking	Retail	Debit card	E-wallet	PayPal
Banking	Retail	Current account	Direct bank	ING Direct
Banking	Retail	Education loan	Education crowd lending	Prodigy Finance
Banking	Retail	Personal loan	Crowd lending	Zopa
Banking	Corporate	Business loan	Crowd lending	Funding Circle
Banking	Corporate	Invoice factoring	Invoice trading	Platform Black
Banking	Alternative assets	Bonds	Bond platforms	UK Bond Network
Banking	Corporate	Property loan	Crowd lending	Proplend
Insurance	Personal	Questionnaire	Telematics	Automatic
Insurance	Personal	Legacy infrastructure	Software-as-a-service	Guidewire
Asset management	Financial advice	FA consultants	Robo-advisors	Betterment
Asset management	Brokerage	Broker	Online trading accounts	TD Ameritrade
Asset management	Brokerage	Broker	Trading social networks	eToro
Asset management	Alternative assets	Venture capital	Crowd investing	Crowdcube
Capital markets	Securities	Human traders	High-frequency or algorithmic trading	HRT Europe
Capital markets	Research	Financial market data terminals	Streaming data sites	LSE Real Time Data
Capital markets	Research	Research reports	Peer-to-peer information	Stocktwits
Capital markets	Currencies	Opaque pricing	Low-cost aggregators	Currency Cloud
Capital markets	Currencies	Sovereign currencies	Digital currencies	Bitcoin
Charity	Corporate and personal	Giftng	Rewards and donations platforms	CrowdShed



References

- The dynamics of crowdfunding: An exploratory study – Ethan Mollick - Journal of Business Venturing 2013
- Crowdfunding: Tapping the right crowd – Paul Belleflamme, Thomas Lambert, Armin Schwienbacher – Journal of Business Venturing 2013
- Investigating the Wealth of Crowds: A Multiparadigm View of Crowdfunding Research – Rob Gleasure, Joseph Feller – Working Paper
- FT.com, The Independent, NY Times
- Banking for the 21st Century: driving competition and choice – HM Treasury
- FinTech Futures. The UK as a World Leader in Financial Technologies – UK Govt Office for Science