

# NewFinance

Financial Innovation through Technology

[www.newfinance.org](http://www.newfinance.org)

## A Guide to Crowdfunding in the UK

v1.0

FREE

9<sup>th</sup> September 2013

### About this Report

This report considers how Crowdfunding has developed over the past 12 months.

There has been a boon in Crowdfunding sites on the internet, over \$10m has been pledged and raised for individual projects. Crowdfunding has segmented into two main areas: firstly commercial, and secondly social capital building through charity, giving and collective community building schemes. Is Crowdfunding a viable source of capital, or is it too risky for investors, and will it ever produce a payback for its protagonists? Will the goal of disintermediation of expensive sources of finance ever be achieved? Who is behind Crowdsourcing platforms and what are their motivations? Is it ever going to be possible to use Crowdfunding to fund projects in any field or is the scope limited? Does Crowdfunding have liquidity? It is impossible to answer these questions as the sector is emerging but this guide's objective is to give readers a good feel for the current Crowdfunding scene and pointers to where it is headed.

## Table of Contents

Legal Disclaimer .....	3
1.0 Preface and Executive Summary .....	5
2.0 The Emerging UK Crowdfunding eco structure .....	6
2.0.1 What is Crowdfunding.....	6
2.0.2 History and who uses Crowdfunding .....	6
2.0.3 Does Crowdfunding Deliver .....	6
3.0 What is the Crowdfunding process.....	7
3.1 Crowdfunding: Process and project management (See appendix 4) .....	7
3.2 What does a Crowdfunding platform deliver .....	7
3.3 Where does Crowdfunding create its value? .....	7
3.4 How has Crowdfunding changed in the last 12 months in the UK? .....	8
3.5 The Future of Crowdfunding .....	8
3.6 Crowdfunding Market Segments .....	8
3.7 Crowdfunding using existing Company Acts Legislation .....	9
3.8 Regulation of Crowdfunding – UK .....	10
<a href="http://www.fca.org.uk/static/documents/handbook/policy-development-update-issue-3.pdf">http://www.fca.org.uk/static/documents/handbook/policy-development-update-issue-3.pdf</a> .....	10
4. Crowdfunding Company examples by segment .....	10
4.1 Rewards .....	10
4.2 Donations.....	11
4.3 Equity .....	11
4.4 Loans .....	11
4.4.1 Personal Peer to Peer Loans .....	12
4.4.2 Business Peer to Peer Loans.....	12
4.4.3 Invoice Discounting Peer to Peer .....	12
4.4.4 Asset Backed P2P Lending.....	13
4.4.5 Property P2P Lending.....	13
4.5 Renewable Energy.....	13
4.6 Community Interest .....	13
4.7 White label Software Platforms .....	13
4.8 Eco System - opportunities .....	13
5. Conclusion.....	14
7. Innovation and Entrepreneurial Opportunities* .....	14
Appendix 1 Crowdfunding Resources .....	15
Appendix 2 Open Source Software Crowdfunding resources .....	16
Appendix 3 The Crowdfunding Process .....	17
Appendix 4 Crowdfunding success factors a checklist	
Appendix 5 Average interest rate paid to Lenders by P2P Lenders .....	19
Appendix 6 List of Crowdfunding companies.....	21
Appendix 6.1 List of Crowdfunding companies	

## Legal Disclaimer

NewFinance Innovations Ltd, IC Dowson and William Garrity Associates Ltd (the Authors) make no assertion to the correctness, validity or usability of any of the information or comments in this document. The Authors responsibility for any third party references made from this document: any third party source should be checked by and validated by any user of this document who should make their own considered assessment. Any user of this document does so at his or her own risk and assumes full liability thereof for any decisions made upon the basis of any information included in this document in whatever legal jurisdictions. In any event the Authors accept no legal liability to any third party, or duty or implied duty of care in any manner whatsoever unless a specific signed contract exists. By using this document any third party agrees to these conditions. This document has been written for academic and theoretical debate purposes only. Any third party using this document agrees to these conditions and will not use any information extracted from this document which numbers 21 pages without expressly communicating these conditions to any other person. Under no circumstances will any user of this report use any of the information contained within to specifically identify any specific individual and use any of the information contained within this report to generate email lists 'spam' or any other automatic mail email generating system. All users confirm that information contained within this report shall be stored and used in accordance with the data protection act 1998 and will not use any information contained in the document as the basis of any investment decision.

If any reader of this report is considering any form of investment he or she should not rely on any of the information contained in this report, it has been written for academic and theoretical purposes only. Any person or organisation considering investment should seek advice from an FCA\* (Financial Conduct Authority) approved professional financial investment adviser and conduct in depth independent diligence. Nothing contained in this report, or third party references constitutes investment advice or any incentive or inducement to invest in the FinTech asset class. Investment in this asset class is only suitable for professional or high net worth investors as determined by the FCA. Investment in FinTech companies is very high risk and in the majority of cases results in complete loss of capital and should only be undertaken by Professional investors as defined by the FCA who take extreme care in diligence and have made the appropriate risk assessments required by the FCA and have had received independent advice from a professional FCA qualified investment adviser. For the vast majority of investors this asset class contains too much risk, you will lose all of your capital invested, do not invest in this asset class. Please speak to your Accountant, Lawyer, Stockbroker or other FCA qualified adviser. The Authors are not FSA registered financial advisers and do not hold themselves out to be so. For any forward-looking statements contained in this document, The Authors claim the protection of the safe harbour for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. \* Financial Conduct Authority, FPA (Financial Policy Committee) and PRA (Prudential Regulation Authority) regulations.

No endorsement or recommendation is made of any of the companies, systems or procedures mentioned in the report; any reader must make their own appropriate due diligence before considering any form of business arrangement. Under no circumstances can the Authors have any liability for any actions that result in loss to any third party. The opportunities listed are theoretical academic evaluations and are not any form of investment advice. None of the material displayed in this guide is an endorsement or inducement for any persons or company or organisation to use Crowdfunding as a method of funding any project.

### Copyright

Copyright is claimed under UK and international copyright law by NewFinance Innovations Ltd, IC Dowson and William Garrity Associates Ltd (the Authors) All rights are reserved.

Rights Holders - the copyright of any material used from public domain sources is acknowledged and remains the property of the copyright holder; all trademarks are the property of the trade mark owner and are acknowledged.

By using this document numbered pages 1-21 any third party automatically agrees to these conditions.

**© sign indicates copyright claimed by NewFinance Innovations Ltd, IC Dowson William Garrity Associates Ltd (the Authors) 10 September 2013** All rights are reserved.

### **Notice to all users**

This report is exclusive to Members of the NewFinance Meetup Group and should only be used for educational and academic purposes. Under no circumstances should it be used as the basis for investment purposes. If investment is contemplated advice should be sourced from an IFA (Independent Financial Adviser) approved by the FCA (Financial Conduct Authority) in accordance with FPC (Financial Policy Committee) and PRA (Prudential Regulation Authority) regulations. There is no endorsement of the correctness, financial standing or capacity of any of the organisations or technologies mentioned by the authors.

### **Financial Values Stated in the report**

All financial values stated in the report are illustrative only and at best guidelines as they have been sourced from public domain datasets. Financial reporting of investment and acquisition values can be seriously inaccurate; any financial values contained in this report are illustrative. When a value has been required to complete a dataset and there has been no reporting of that value an estimate has been made, this estimate could be highly inaccurate. Examples are that net transaction values may be reported that eliminate liabilities, losses, debt, bank loans, clawbacks, share options, ratchet payments and earn outs. This is not an exclusive list; this could result in material over or under reporting of real transaction value. Litigation and escrow resolution and taxation can affect transaction values as well as IP and ownership disputes.

### **This report will always be in Beta**

This report is a work in progress. If you know additional sources of data please inform us and they will be incorporated into the next edition.

### **An Apology in advance**

As many Members of NewFinance are involved intimately in FinTech transactions you may have much more additional information on the detail of specific transactions. A full and complete and unreserved apology is offered in advance for any misreporting, please contact the Authors to report any inaccuracies.

### **Collaboration**

An open call is made for Collaboration on data sources and ways to enhance the value of this report to Members.

### **Finally**

Do not use the information contained in this document for professional, commercial and investment purposes. None of the information contained in this report is a solicitation, encouragement or guide to make investments in Crowdfunding. Investment in start-ups and Crowdfunding is extremely high risk and should only be undertaken by qualified professional investors advised by a FCA qualified independent Financial Advisor. Investment in Crowdfunding should not be undertaken by readers of this report.

### **Contact**

Please contact the authors:-

Eddie George  
NewFinance Innovations Ltd  
Email [eddie@newfinance.org](mailto:eddie@newfinance.org)  
Twitter @eddiegeorge  
+44 7951 613011

Ian Dowson  
William Garrity Associates Ltd  
Email - [icdowson@aol.com](mailto:icdowson@aol.com)  
Twitter - @iand47  
+44 7815 732637

## 1.0 Preface and Executive Summary

### Executive Summary

Crowdfunding, using the internet to seek finance directly from individuals, corporations, governments and institutions, has grown to become a \$2.76bn industry in 2012 and is forecast to rise to \$5.16bn in 2013 according to a report produced by Massolution<sup>1</sup>

The largest Crowdfunding platforms are to be found in the USA with successful funding being \$663m Kickstarter<sup>2</sup>, Fundly<sup>3</sup> \$319.6m, Indiegogo \$99.3m<sup>4</sup> and Giveforward<sup>5</sup> \$61m which funds medical expenses. In 2012 the split between the different categories (estimated by Massolution) is Donations \$1.4bn (51.4%), Loans \$1.2bn (43.2%), and Equity \$116m (4%). The European market is estimated in 2012 to be \$945m. The largest Crowdfunding commitment to date (Sept 2013) has been \$12.8m out of a \$32m target on Indiegogo, for the Ubuntu Edge Smartphone<sup>6</sup>.

The United Kingdom has 149 (c19%) Crowdfunding platforms or white label software offerings out of a total of the c800-900 platforms worldwide displayed by Crowdsurfer.

Half of the platforms are in rewards, (biased towards the creative industry) and donations focused at charitable giving and social enterprise

The UK has 31 Equity raising platforms and 18 Loan Platforms, mainly peer to peer or a variation.

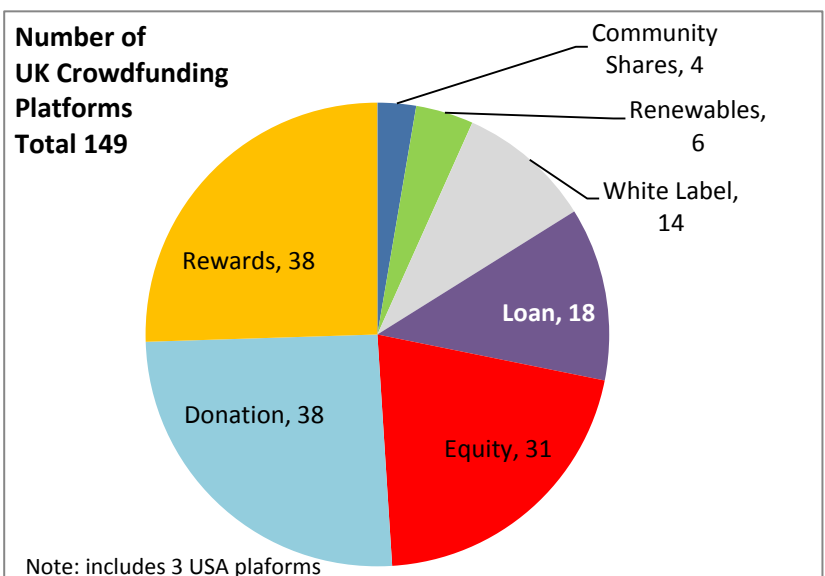
Some of the most well known UK platforms are:

- Equity: Crowdcube stating £12.4m funded and Seedrs with £1.8m
- Loans: Zopa stating £368.4m lent and Funding Circle stating £146.7m

Crowdfunding and peer to peer lending are very small compared to bank lending or total charitable donations, the number and variation of the platforms indicate an emerging financial services asset class. There appears to be an appetite amongst lenders, investors and givers for a more direct connection between their financial commitment and the recipient of the funds.

Rewards and donations are much smaller, the range and diversity illustrates a willingness to use Crowdfunding on behalf of donors and recipients. Cancer research has raised £2m via its site.

This report focuses on the UK market for Crowdfunding, other geographical areas will be addressed in later reports; note that some of the platforms and models discussed are not UK based.



<sup>1</sup> <http://research.Crowdsourcing.org/2013cf-Crowdfunding-industry-report>

<sup>2</sup> <http://www.kickstarter.com/help/stats>

<sup>3</sup> <http://fundly.com/>

<sup>4</sup> <http://techcrunch.com/2013/08/30/kickstarter-owns-indiegogo-with-around-6x-more-total-dollars-raised-average-success-rate-much-higher/>

<sup>5</sup> <http://www.giveforward.com/p/Crowdfunding>

<sup>6</sup> <http://www.indiegogo.com/projects/ubuntu-edge>

## 2.0 The Emerging UK Crowdfunding eco structure

### 2.0.1 What is Crowdfunding

Crowdfunding is a method of raising capital from the 'Crowd' i.e. Internet connected individuals and others such as corporations, investors or institutions; and applying the capital raised to a financial product, physical product, service or charitable donation. In essence, the 'Crowd' creates a pool of capital and then applies it to a commonly agreed project or cause.

### 2.0.2 History and who uses Crowdfunding

Peer to peer lending was established by Zopa in 2005, it evolved into individuals pledging funds to charitable or donation projects. It then progressed on to funding of products and equity and loan capital for start-ups. More complex peer to peer financial services have now emerged. It has rapidly developed into an asset class estimated to be worth c£550m in 2013 and expected to grow to £1bn by 2016. (Elaine Moore 16<sup>th</sup> July 2013 – Financial Times)

It is becoming increasingly sophisticated with hybrid funding vehicles. The UK Government through its Business Finance Partnership scheme funded [Market Invoice](#) with £5m to increase its peer to peer SME invoiced backed lending, [Funding Circle](#) with £20m to increase its SME lending; Zopa also received [£10m to fund SME lending](#). This lending is on an arm's length commercial basis the same as any other lender to the platforms.

Local Authorities have used Crowdfunding, [Lancashire County Council has tested £100,000](#) funding for regeneration.

Companies have used it to fund new product development such as the [Ubuntu Smartphone](#). Cancer Research UK has raised £2m for specific research projects through its [MyProjects](#) Crowdfunding site, [lancer](#) has raised £2m for cancer virus research. Every form and type of Charitable funding is represented, creative industry projects dominate the rewards segment.

Renewable energy as a standalone Crowdfunding segment is starting to appear as a viable, community involving economically sustainable propositions. The community enterprise or Industrial Provident Association Crowdfunded projects have established the concept of a mutual, NFP (Not for Profit) Crowdfunded platform and projects.

The 14 Crowdfunding white label platforms, both open source and commercial, provide a frictionless software resource. Some are FCA approved; the barrier to entry to start Crowdfunding platforms has been lowered.

### 2.0.3 Does Crowdfunding Deliver

Nesta estimates the UK Crowdfunding market to be worth £200m-£240m pa in 2012<sup>7</sup>; other estimates suggest a growth in 2013 to c£500m pa (FT 16<sup>th</sup> July 2013). This is small when you compare it to established financial services but it's fast growing, with a high public profile.

---

<sup>7</sup> [http://www.nesta.org.uk/blogs/assets/features/Crowding\\_in](http://www.nesta.org.uk/blogs/assets/features/Crowding_in)

### 3.0 What is the Crowdfunding process

Crowdfunding is usually conducted via an established platform. Projects are put on the platform and the Crowd (Internet users) decide whether or not to fund the project. For peer to peer lending the process is more complex, the investor can vary interest rates, length of loan, credit quality, and there may be a bidding auction for a loan or part of a loan with secondary markets for the resale of loans. The platform operator usually takes a fee; this can be a % of the amount raised, a % of the investment when sold, plus any transaction costs. In the case of donations i.e. charity Crowdfunding these fees can be very low.

There are a number of closure processes:

- i) Fully funded, the proposer gets all the funds asked for less fees
- ii) Partial completion, if the proposer gets pledges over a set percentage, maybe c 50%-60% they get the value of the pledges made
- iii) All or nothing, if the pledge target is not met the promoter gets nothing and all monies are returned
- iv) Oversubscribed, the proposer can receive the excess amount if included in the conditions of the offer

An illustration of a Crowdfunding process infographic is illustrated in appendix 3

### 3.1 Crowdfunding: Process and project management (See appendix 4)

Crowdfunding needs to be managed and thought through by project promoters otherwise it will fail like any other poorly managed project. One of the key success factors appears to be the use of an existing community. "Escape the City" had a 65,000 community of supporters before it sought to raise finance from Crowdcube and achieved £600,000 funding. HAB Housing Ltd a sustainable housing project backed by Kevin McCloud a television personality, is currently raising funds and stands at £1.3m pledged against a target of £1m.

### 3.2 What does a Crowdfunding platform deliver

- Its brand and internet reach
- A mechanism to raise funds
- Use of its existing Crowd
- Diligence and antifraud
- Regulatory compliance
- Cash collection, escrow and transmission
- Registrar and shareholder management facilities
- Governance, relevant for developing country projects
- Project credibility due to diligence and appraisal skills
- Project process management and implementation
- Project, Loan, and Equity that delivers the stated returns.
- Filtering out bad projects

Not all of these elements are provided by all platforms but the best equity and loan platforms are close to all of these deliverables. The formation of industry trade bodies has the capacity to increase standards further.

### 3.3 Where does Crowdfunding create its value?

- Disintermediation of an expensive or underperforming Financial services, and charitable value chain

- Discovery, reach and distribution – worldwide, of project details
- Engagement and involvement – the lenders, equity participants, and donors are instantly involved, the best platforms and projects keep them involved
- More profitable investment options in the loan P2P segment, better rates of interest are offered than by competing high street financial services companies.
- Utilises internet and cloud technologies to keep costs low and to be able to collect small values of investment and to consolidate and distribute these funds
- Financial inclusion, particularly in charitable giving to developing countries, cash can be targeted precisely at an individual's funding needs

### **3.4 How has Crowdfunding changed in the last 12 months in the UK?**

There has been a large increase in the funds raised estimated to have doubled to a £500m running rate in 2013. There has also been a large increase in the number and variations of sites and projects. There is a lot of innovative use of Crowdfunding in all segments both commercial and non-commercial.

### **3.5 The Future of Crowdfunding**

Estimates suggest a doubling of the UK marketplace by 2016, to c £1bn.

UK Government funding of the peer to peer loan sector gives Crowdfunding credibility.

Crowdfunding has established itself as an asset class, its processes have been proven, money has been raised and an investor base established.

Crowdfunding is now entering a phase where it will start to come across more competition from established financial services companies, will the management of the Financial Services Crowdfunders be professional enough to scale and can the rapid growth of the donation and rewards segment be maintained?

### **3.6 Crowdfunding Market Segments**

**Rewards:** Rapid growth with 38 platforms, the sector needs greater professionalism in project proposal and delivery of projects. The range and complexity of projects indicate wide consumer interest. Some of the music, publishing and film platforms have the capacity to develop into major alternative funding methods for creative content.

**Donations:** 38 Platforms, there is a wide range of donation, and charity based platforms and projects. The hook into the donor appears to be the high level of engagement with the specific projects i.e. you can see the direct impact of a £100 donation. This level of engagement can only improve as charities get better at delivering stories and narrative via their websites and there are illustrations of medical research advances.

**Equity:** 31 Platforms, now matured to a £1m funding proposition level, equity is at an earlier point in its development than Loans. USA equity funding has now reached \$10m plus, this level has to be the next goal for UK platforms.



**Loans:** 18 Platforms, the most developed sector of the Crowdfunding market. They are on the way to achieve scale and new segments in property and invoice factoring have emerged, SME lending has also been successful to date. The challenge is to scale, to increase the number of investors while maintaining loan underwriting quality and customer service propositions. The higher interest rates offered by P2P (Peer to Peer) Crowdfunding will bring in more investors; the segment appears to be able to maintain its growth rate.

**Renewable Energy** – the 5 operational and one beta platforms validate the business model, although at a small level the hybrid, commercial, community, Co-op model for energy generation has been proved to be workable. These projects have a very long lifecycle, 15 – 50 years. It is too early to say if they can be sustained without institutional support over that timeframe.

**Community Interest** – such as a Football club and fair trade, are at a very early stage of development

**White label Platforms and software:** 14 platforms offer a frictionless entry point to launch new sites. As these platforms become more professional, FCA authorised, and build advisory and marketing expertise, the use of these platforms will expand; there is no economic sense for a startup Crowdfunding company to develop its own platform.

#### **Crowdfunding using existing Company Acts Legislation**

Crowdfunding can be done using the existing company law and FCA regulations by a company issuing a prospectus to the public and inviting subscription for shares.

Brewdog Plc and Trampoline Systems Ltd are illustrations that equity Crowdfunding can be done quite legally within existing securities laws.

Brewdog Plc– “Equity for Punks”<sup>8</sup>

Brewdog is a brewing and bar operating company, it raised “2m from 6,000 subscribers in 2011 and now has issued a prospectus offering £4m, a package of rewards are attached to each share, press reports [suggest £3m has been raised](#). Brewdog is a case study in how to manage and engage a Crowdfunding community using entirely conventional share issue funding methods.

[Trampoline Systems Limited](#) – Charles Armstrong raised £500,000 in two tranches from a share issue in August 2009.

Using existing legislation to Crowdfund takes longer to process and is more difficult than using an Equity funding platform, however as can be seen from these examples, it can be done.

Bonds have also been issued to captive customer audiences, [Hotel Chocolat](#) raised a £3.7m bond from its 100,000 tasting club members in July 2010, similar bond issues have been done by Cantonfx and Mr & Mrs Smith travel site, and King of Shaves. [Ecotricity](#), green energy, has issued two bonds of £10m each.

---

<sup>8</sup> None of the material contained below should be considered as any inducement or encouragement to participate in any share or bond issue made by and person or company, persons seeking to make any form of investment investments must seek the advice of a FCA approved independent financial advisor and be made aware of the risks inherent in any form of investment.

### 3.8 Regulation of Crowdfunding – UK

Less than 10% of the 137 Crowdfunding platforms studies had visible FCA approval. The FCA has stated that it intends to regulate the sector and in the meantime will deal with individual applications for registration. From reviewing the FCA’s website a regulatory framework appears to be timetabled for the first half of 2014.

Extract FCA – Policy Development update June 2013 -Business standards

Future publications	Intended audience	1 Module^	Expected date	Consultation Period	Expected Date of Feedback
Regulation of investment-based Crowdfunding and peer to-peer lending – CP (3 star)	investment firms, retail clients, consumer groups	COBS	October 2013	3 months	February 2014

<http://www.fca.org.uk/static/documents/handbook/policy-development-update-issue-3.pdf>

The [UKCFA](#) (UK Crowdfunding Association) has been formed by industry participants in order to establish common standards. It has 14 full members and 5 affiliated members and has a [code of practice](#) that members have agreed to observe.

There are serious regulatory issues concerning investor protection, platform operation, security of funds and investment holding. The sector’s regulatory challenge involves charity law and regulation (donations), investment in very high risk equity, Peer to peer funding of blind loans and asset backed, usually property, investments. Clear investor protection and diligence standards from the regulator and Government need to be established to allow the asset class to develop into a mainstream financial services product. Investor education is also necessary as Crowdfunding investment products have much higher and very different risk profiles than traditional investment products.

## 4. Crowdfunding Company examples by segment <sup>9</sup>

### 4.1 Rewards

The rewards Crowd funding segment has 38 websites and has burgeoned with a focus on the creative industries as well as product and technology funding. The following are examples:

[Sponsorcraft](#) – Crowdfunding for all those involved in education – 54 projects funded with 106 on the site.

[AudaCity of Fashion](#) for funding of fashion projects, two projects funding with two running.

[Detour – Songkick](#) – funding of bands and gigs, make a pledge and if enough fans do so the band will play. 52 pitches for gigs in London progress with 20 confirmed or played gigs. Top of its leader board is “Flight of the Concordors” with 857 pledges to play a gig in London.

<sup>9</sup> None of the material contained below should be considered as any inducement or encouragement to participate in any form of investment by and person or company, persons seeking to make any form of investment investments must seek the advice of a FCA approved independent financial advisor and be aware of the risks inherent in this form of investment, see legal disclaimer.

## 4.2 Donations

Crowdfunding for donations has 38 websites. Donation giving is made for Crowdfunding because it has a much higher level of engagement than giving to a large charity or an anonymous institution.

Examples are:

[MyProjects \(Cancer Research United Kingdom\)](#) 61 projects on the site, all of them are examples of very serious projects to improve treatment of Cancer. The sums per project can be large, as an example £108,734 has been committed for clinical trials for Bowel Cancer. The real power of Crowdfunding to make change for the good is illustrated in this website.

[Global Giving UK](#) 1,463 different projects posted on the site, they state on the website through their global network of sites that £55.6m has been raised since 2002 with 334,000 donors into 8,426 projects. There is an exceptional array of projects open for contribution.

[Igniter Vinspired](#) 16 projects on site with 11 funded; UK young people funding social projects.

## 4.3 Equity

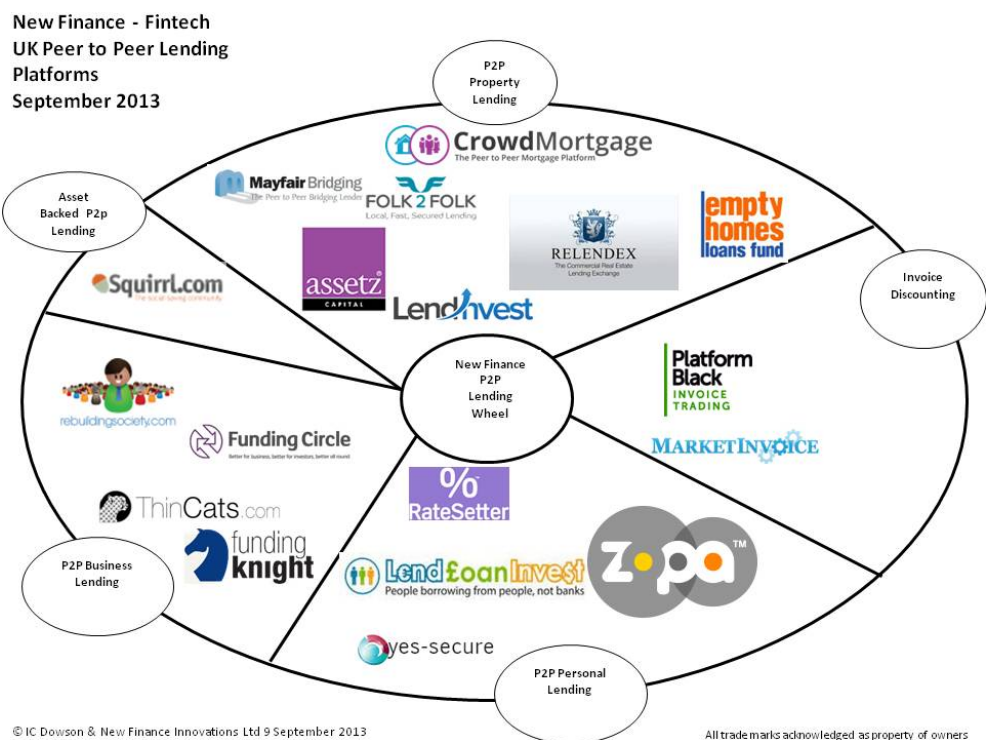
[Crowdcube](#) started Crowdsourcing for equity funding in 2010 in the UK, it has raised £12m in equity funding for start-ups. It has breached the £1m for a single project barrier with HAB Housing £1.3m and Rushmore Group £1m, it has also funded itself through its own platform , £1.8m in total. Equity Investments can be SEIS and EIS compliant, Crowdcube is FCA compliant. There are 40 live projects looking for £6.7m, see their [infographic](#) for further details

[Seedrs](#) was the first platform to gain FCA compliance, Jeff Lynn the Founder spent more than a year achieving this accreditation. They have been operating for just over a year and have funded £1.4m from 29 projects, all but one of the projects were SEIS and EIS compliant, see their [infographic](#) for further details.

[Crowdbnk](#) a newer entry into the market with FCA compliance for equity investments currently have 12 live or about to go live projects.

## 4.4 Loans

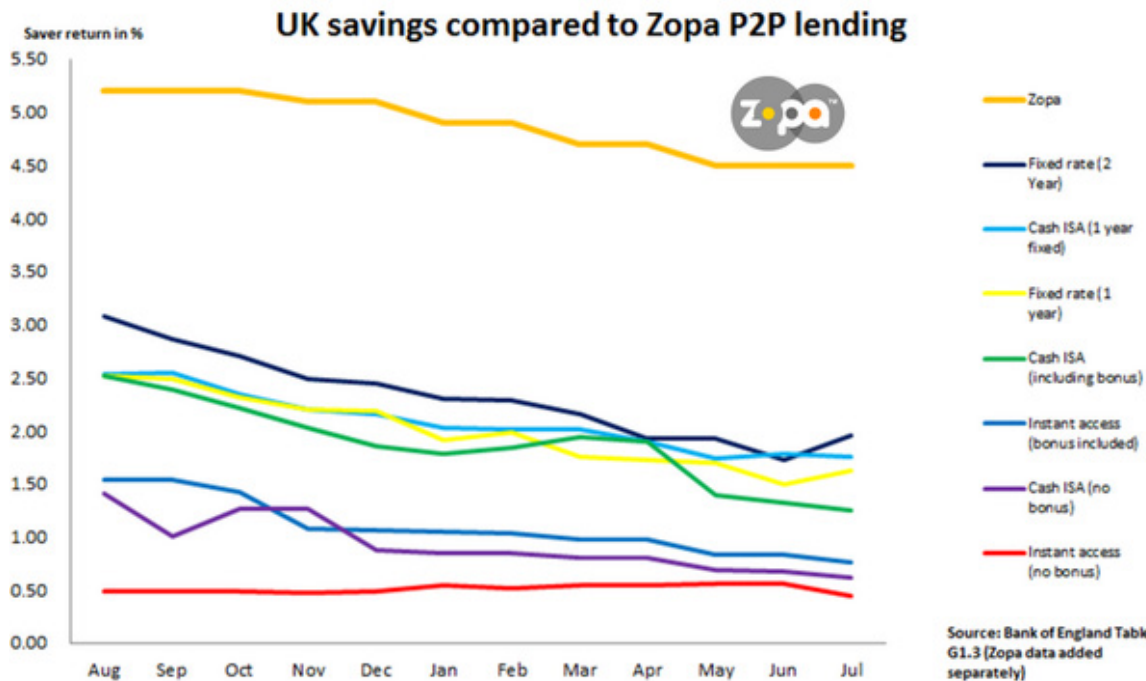
Crowdfunding of loans, commonly called peer to peer lending is the most developed segment of Crowdfunding in the UK by value. The segment has developed from peer to peer lending, to invoice financing, property financing and now on to asset backed financing. The segment has had funding provided by Government on commercial terms to encourage SME lending.



#### 4.4.1 Personal Peer to Peer Loans

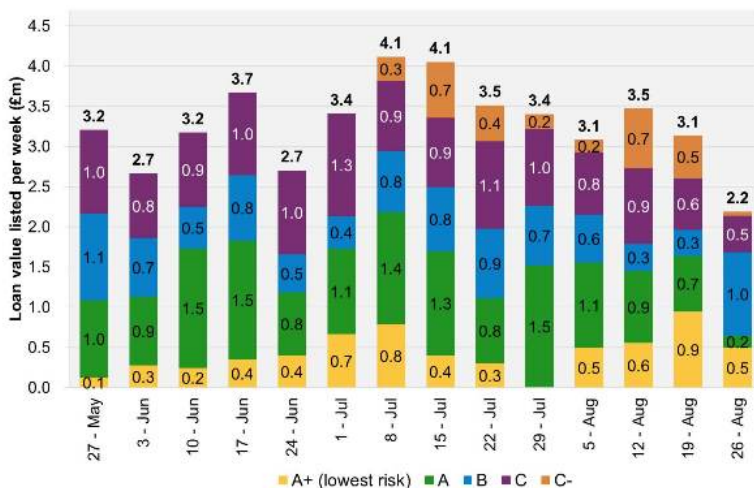
Zopa has lent cumulatively £369m, and Rate Setter £104m.

The value proposition to Lenders is illustrated below from a chart produced by Zopa, the interest rate that it delivers has been approximately double that of alternative lending opportunities, this is the economic equation that has drawn in savers.



The industry wide (Zopa + Rate Setter + Funding Circle) interest rate to lenders seems to be slightly higher in the range of 5.9%-6.8% - (See Appendix 5)

#### 4.4.2 Business Peer to Peer Loans.



This sector has loaned £182m since inception. Funding Circle has lent £146.7m and states investors have made a net return of 5.8%, Thin Cats £33.39m and Rebuilding Society £1.8m. Funding circle is transparent with its data, adjacent is an analysis of loans offered by credit risk. The level of transparency enables lenders to fully understand risk. More statistics are published on their [blog](#)

#### 4.4.3 Invoice Discounting Peer to Peer

The segment has lent c£81m on invoice factoring transactions. Market Invoice has lent £60m, and Platform Black £21m. The concept has been proven in practice with both companies further developing their services and refining their processes. The message that comes from these two businesses is one of providing customer service and frictionless lending processes.

#### 4.4.4 Asset Backed P2P Lending

There is one company [www.squirr.com](http://www.squirr.com) offering asset backed P2P lending where the Crowd funds office machinery.

#### 4.4.5 Property P2P Lending

Seven companies occupy this space. Three of the seven publish lending figures and interest rates, these three have loaned £22m. Folk to Folk has lent £11.4m, rates w/e 6/9/2013 [quoted as 7%](#), Lend Invest lent £6.4m at interest rates of between [8% and 18%pa](#) and Assetz lent £4.11m quote an average rate of 10.3%, its list of completed and current auctions show rates [between 5 and 18%](#)

#### 4.5 Renewable Energy

The renewable energy segment consists of 5 operational and one beta projects. The largest offering has been the £20m worth of bonds for [Ecotricity](#), although not 100% Crowdfunding they did make a retail bond offering. In Crowdfunding terms [Abundance Generation](#) is the largest with £3.2m raised, [Osney Lock Hydro](#) raised £540k for generator on at a Thames lock, [Gen Community](#) raised £450k for a solar panel project in Newport, [Solar Schools](#) raises funds for Solar Panel installations.

This sector is still very much at the initial innovation stage, the model for Crowdfunding green power generation works.

#### 4.6 Community Interest

There a small number of Community interest companies, mainly Industrial Provident Associations covering ownership of a football club, [Slough Town FC](#), Fair Trade – [Shared Interest](#) , a platform for community interest funded projects, [Microgenius](#) . Industrial Provident Associations can be used as a mutual vehicle for Crowdfunding.

#### 4.7 White label Software Platforms

The ability to source a platform to enable Crowdfunding to take place cuts the time to market. If that platform comes with all the services and FCA investment approvals embedded the Crowdfunding entrepreneur/social entrepreneur can focus their time on making the platform and projects successful.

Commercially available 11 Platforms see Appendix 6.1, [Crowd fund Magic](#) offer a complete package for the Crowdfunder, Crowdcube, Rebuilding Society, Skipso and Sponsorcraft repackage their platform for other users.

For Open Source see Appendices 2 and 6.1

#### 4.8 Eco System - opportunities

The development of any new Fintech market segment also brings with it a series of opportunities with the new eco system for service and aligned service producers:

Examples are:

Due Diligence – [D Risk it](#)

Escrow – [Banc Box Crowd](#) – API escrow service (USA example)

Mentors and Crowdfunding integrated [You-olo](#)

## 5. Conclusion

Crowdfunding has moved beyond personal loans to a wide range of new and innovative applications of Crowdsourced capital.

Loans, Peer to Peer and Equity Crowdfunding are evolving to become a recognised financial services market segment. Donation Crowdfunding as used by large professional charities has become part of the charitable funding mix. Rewards Crowdfunding spearheaded by the success of Kickstarter and Indiegogo in the USA has bloomed in the UK. Social enterprise and green Crowd funding models have been proven.

## 6. Innovation Opportunities\*

### 6.1 For Existing Market Participants

- Engagement – study how the Crowdfunders get such a high level of consumer engagement
- New Channel opportunity
- New product opportunities
- Study Crowdfunder cost and marketing models
- Explore partnerships and co-branding
- Angels – look at co funding opportunities
- Crowdfund/Source your next product development
- Accountants/Lawyers/Financial advisors develop your own Crowdfunding community from your existing financing sources or pool it with a platform.
- Use the auction concepts of Peer to Peer loans to fund very much larger commercial loan requirements from existing banking and finance capital sources.
- Use Crowdfunding to test product and business model concepts
- Financial advisors and brokers can use Crowdfunding both ways for their clients

### 6.2 For New Entrants

- The Loan and Peer to Peer market has been established and there are many other forms of asset backed finance and market segments that are suitable for P2P financial models.
- The Invoice factoring market is still massive and has been hardly touched by the innovators
- Blend Equity Funding with Private Equity and other established methods of funding
- Introduce Crowdfunding platforms to other segments
- Extend Crowdfunding cross border.
- Service provision around the Crowdfunding eco system
- Charitable/donation segment's use of Crowdfunding is just at its commencement

\*see legal disclaimer on page 3.

## Appendix 1 Crowdfunding Resources

Name	URL	Kind
Crowdfundbeat	<a href="http://Crowdfundbeat.com/">http://Crowdfundbeat.com/</a>	News
Crowdsurf		Database of Crowdfunding Sites
Seedingfactory	<a href="http://seedingfactory.com">http://seedingfactory.com</a>	Source of information
Crowdfund Insider	<a href="http://www.Crowdfundinsider.com/">http://www.Crowdfundinsider.com/</a>	News, information and comment
Crowdfundbeat	<a href="http://Crowdfundbeat.com/">http://Crowdfundbeat.com/</a>	News and information
Crowdsourcing.org	<a href="http://www.Crowdsourcing.org/">http://www.Crowdsourcing.org/</a>	Information on all things Crowdsourcing
UKCFA – UK Crowdfunding Association		Association of Crowdfunding sites
Crowdfund UK	<a href="http://Crowdfunduk.org/">http://Crowdfunduk.org/</a>	Workshops Crowdfunding for NFP sector
National Crowdfunding Association of Canada	<a href="http://www.ncfacanada.org">www.ncfacanada.org</a>	Canadian Crowdfunding Association
NCFA – India	<a href="http://ncfaindia.org/">http://ncfaindia.org/</a>	Indian Crowdfunding Association
National Crowdfunding Association	<a href="http://www.nlcfa.org/main.html">http://www.nlcfa.org/main.html</a>	USA – Crowdfunding association
The Crowdfunding Centre	<a href="http://theCrowdfundingcentre.com/">http://theCrowdfundingcentre.com/</a>	Source of Crowdfunding information
Crowdfunding platform accreditation	<a href="http://www.Crowdsourcing.org/caps">http://www.Crowdsourcing.org/caps</a>	Platform accreditation from Crowdsourcing.org
FCA – Financial Conduct Authority	<a href="http://www.fca.org.uk/consumers/financial-services-products/investments/types-of-investment/Crowdfunding">http://www.fca.org.uk/consumers/financial-services-products/investments/types-of-investment/Crowdfunding</a>	FCA Advice on Crowdfunding
Seed&Spark	<a href="http://www.seed&amp;spark.co.uk/">http://www.seed&amp;spark.co.uk/</a>	Information source
European Crowdfunding Network	<a href="http://europeCrowdfunding.org/">http://europeCrowdfunding.org/</a>	Network and lobby group for European Crowdfunders
European Crowdfunding Association	<a href="http://Crowdfunding.is/">http://Crowdfunding.is/</a>	European Crowdfunding Body
Peer2Peer Finance Association	<a href="http://www.p2pfinanceassociation.org.uk/">http://www.p2pfinanceassociation.org.uk/</a>	UK Peer to Peer trade body

## Appendix 2 – Crowdfunding open source software resources

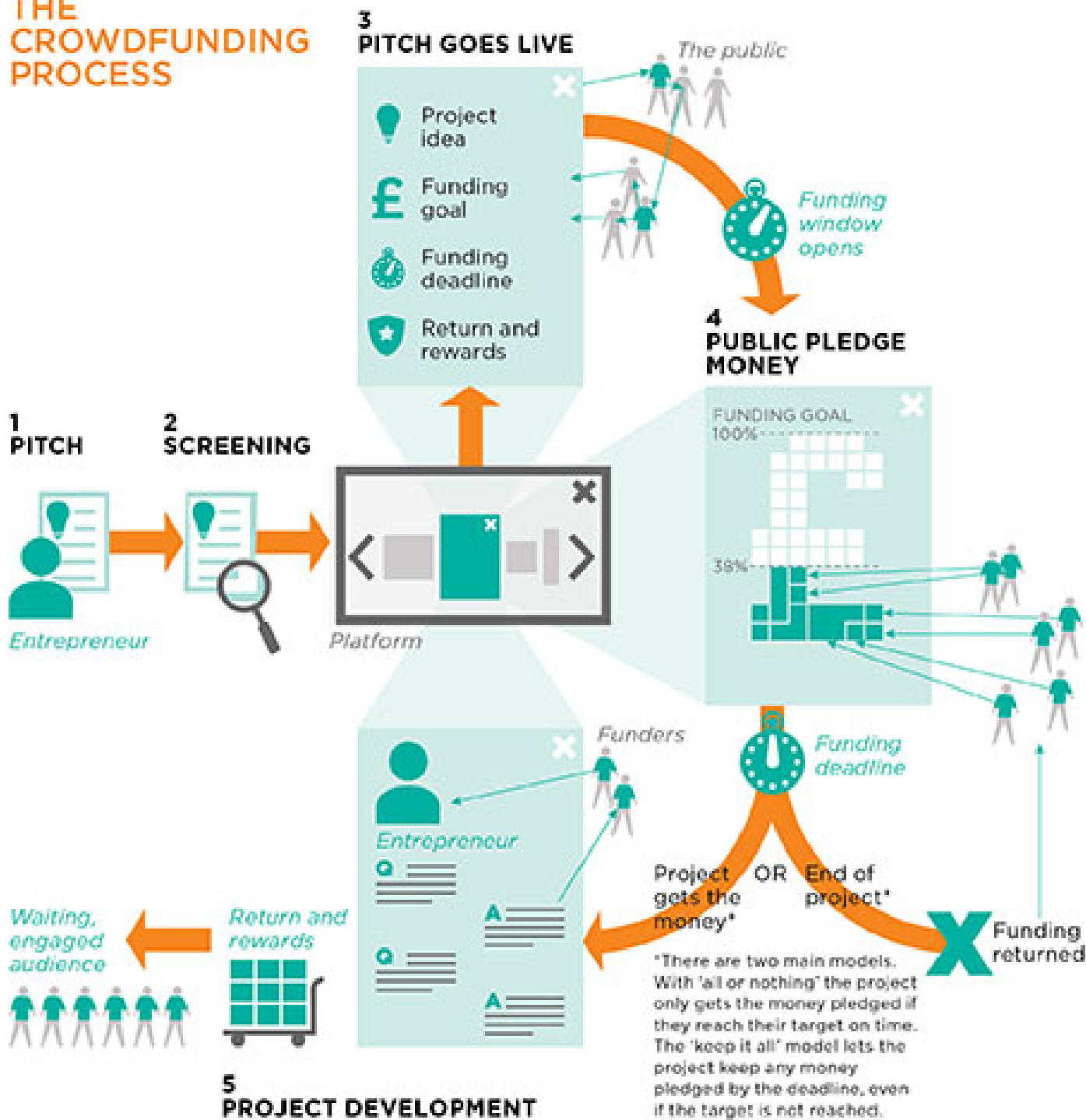
Platform	Licensing type	Payments	Type of Crowdfunding
Selfstarter Ruby on Rails	MIT License	Amazon payments, stripe or wepay	Ideal for rewards or donation-based Crowdfunding single projects. Could be developed further into equity or loan-based Crowdfunding, but would require significant development for investor protection.
Catarse Ruby on Rails	MIT License	MoIP, Paypal Ideal	if you want to start a kickstarter or indiegogo competitor. Could be developed further into equity or loan-based Crowdfunding, but would require significant development for investor protection.
GoTeo Apache/php/mysql	GNU	Paypal	Designed to Crowdfund projects aiming for the greater good, with an open and free nature. Caveat: developer docs are in Spanish
GitTip (The Gittip original platform is a way to give small weekly cash gifts to people you love and are inspired by.)	CCO license	Bitcoin credit cards currently used by gittip.com	to Crowdfund and support individual talent. Can be used to Crowdfund a person instead of a project Crowdfunding (Joomla php plugin)GPL LicensePaypal, bitcoin currently used to Crowdfund open source community projects. Can be added to a Joomla installation
Freedom sponsors	DjangoAffero General Public License	Paypal	Designed to Crowdfund Free Software / open source community projects.
Thrinacia php-based framework. Contribute and sponsor the project so development continues	GNU	Stripe, paypal, authorize	Could be used for equity, loan, rewards or donation Crowdfunding
Spot.Us Ruby on Rails	GNU	Active Merchant allows many payment options: Authorize, Braintree, Paypal	Designed to Crowdfund media reporting, in media
Akvo Python framework	GNU	Affero	See <a href="http://www.akvo.org/">http://www.akvo.org/</a> for examplesDesigned to support projects in developing countries. Note: code is all over the place, not trivial to use

Source: Seedingfactory.com Canadian based Crowdfunding consultancy



Appendix 3 The Crowdfunding Process

# THE CROWDFUNDING PROCESS



Source: Nesta [http://www.nesta.org.uk/areas\\_of\\_work/economic\\_growth/Crowdfunding/assets/features/working\\_the\\_Crowd](http://www.nesta.org.uk/areas_of_work/economic_growth/Crowdfunding/assets/features/working_the_Crowd)

## Appendix 4 - Crowdfunding success factors a checklist

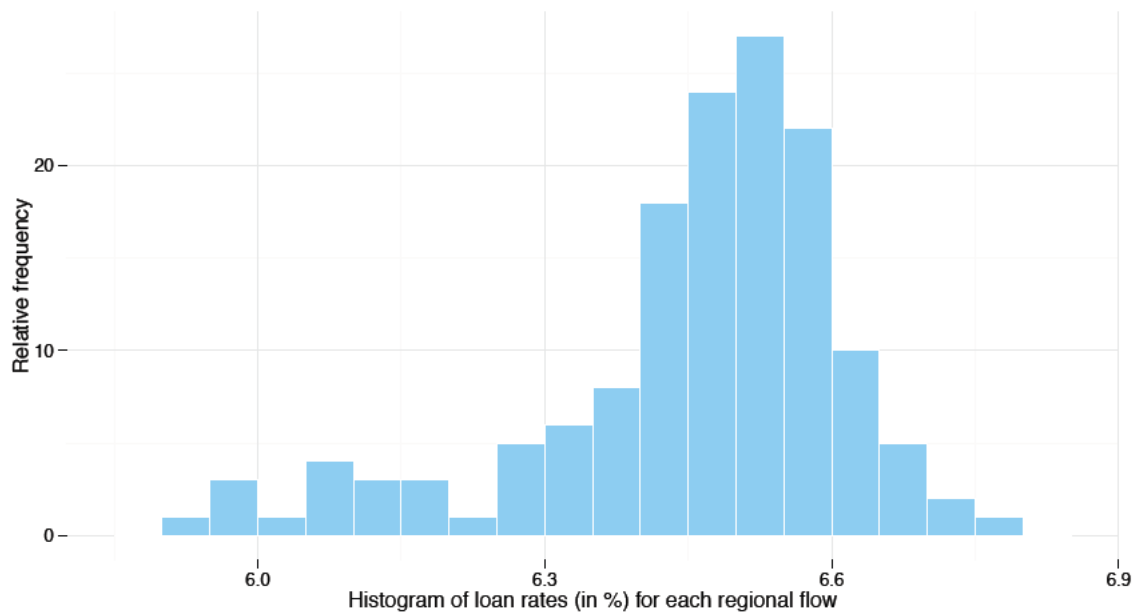
- 1) Is the proposition credible?  
\$2m for a 10% stake in a product that does not even have a blueprint?
- 2) Does a Crowd or community exist?  
The most successful Crowdfunding projects put a project out to an existing community
- 3) Engagement  
Can the project ever engage with an audience? Have you explained properly what need is it fulfilling, what outputs will it achieve, is it sustainable, will it ever work is there proof of concept?
- 4) You cannot Crowdfund a wish  
Crowdfunding campaigns raise finance because they have very well worked out business or charitable case presentation.
- 5) Business Plans and Financial presentations.  
A clear costed and timelined business plan showing where the cash will be spent and what will be achieved by when.
- 6) Need to market  
You cannot ride on the back of a platforms web traffic, a publicity plan and networking engagement strategy is necessary to drive clicks specifically to your project.
- 7) You and your team are not credible  
The team has to have the skill set and motivation to produce and deliver the product, service or charitable project.
- 8) Differential  
Is your project different, does it stand out?
- 9) Video  
Videos work, a good video is estimated to double traffic.
- 10) Compelling narrative  
You have to have a compelling narrative to differentiate your project
- 11) Analytics, measurement transparency  
How do you propose to measure progress and report project performance back to your Crowd.
- 12) Delivery and time to market  
How is the product, service, or donation to be delivered to its market, has this been costed ? What will be the response of competitors?
- 13) Exit Strategy  
All projects end, what is the exit strategy?

These points represent a very basic project diligence and represent minimum prerequisites before considering using a platform.

## Appendix 5 Average interest rate paid to Lenders by P2P Lenders

Analysis of October 2010 to May 2013 - £378m peer to peer loans data from Zopa, Funding Circle and Rate setter undertaken by the Open Data Institute.

**Figure 1.3 Histogram of loan rates for each regional flow**



**Source:** Paper Show me the money – Big Data in Finance – Open Data Institute (ODI) July 2013

<http://smtm.labs.theodi.org/ODI-P2P-report-16jul13.pdf>

Appendix 6 List of Crowdfunding Companies by Category			
Name	Type	Name	Type
<b>Community Shares</b>		<b>Equity</b>	
<a href="#">Community Shares Platform (Microgenius)</a>	Community shares IPA	<a href="#">AngelList</a>	Equity
<a href="#">Microgenius</a>	Community shares IPA	<a href="#">Capital Connected</a>	Equity
<a href="#">MyFC - Myfootballclub</a>	Community shares IPA	<a href="#">Capital List</a>	Equity
<a href="#">SharedInterest</a>	Community shares IPA	<a href="#">Capitama</a>	Equity
<b>Renewable Energy</b>		<a href="#">Crowdahouse</a>	Equity
<a href="#">GEN Community</a>	Community shares IPA	<a href="#">Crowdcube (UK)</a>	Equity
<a href="#">Osney Lock Hydro</a>	Community shares	<a href="#">Crowdmission</a>	Equity
<a href="#">Abundance Generation</a>	Debenture	<a href="#">Ecopropagator</a>	Equity
<a href="#">Ray's Fund</a>	Debenture Equity	<a href="#">Enterprise Den</a>	Equity
<a href="#">Trillion Fund</a>	Debenture Equity	<a href="#">Fundedbyme</a>	Equity
<a href="#">Skipso</a>	Debenture Equity Competitions	<a href="#">Funding Planet</a>	Equity
<b>Donations</b>		<a href="#">FundTheGap</a>	Equity
<a href="#">Flattr (UK)</a>	Donation Microdonation	<a href="#">GrowthFunders</a>	Equity
Fund My Venture	Donation, Equity, Loan, Rewards	<a href="#">Infinu</a>	Equity
Kubaru	Donation, Microfinance, Microloan	<a href="#">Investing Zone</a>	Equity
Halalfunder	Donation, Rewards	<a href="#">Matchcapital</a>	Equity
Prizeo	Donation, Rewards	<a href="#">Pitchfort</a>	Equity
<a href="#">WeSayWePay</a>	Donations	<a href="#">Racing Shares</a>	Equity
2020 Mission	Donation's	<a href="#">Raisedough (Crowdcube partner)</a>	Equity
Artha Platform	Donation's	<a href="#">Seedrs</a>	Equity
Believe.in	Donation's	<a href="#">SeedUps</a>	Equity
Bountysource	Donation's	<a href="#">ShareIn</a>	Equity
Charitykick	Donation's	<a href="#">Syndicate Room</a>	Equity
Crowdfund SW1	Donation's	<a href="#">The Propagator</a>	Equity
Crowdpatch	Donation's	<a href="#">Thehousecrowd</a>	Equity
Crowdrise	Donation's	<a href="#">Venture Giant</a>	Equity
<a href="#">Everyclick</a>	Donation's	<a href="#">BankToTheFuture</a>	Equity, Loan, Rewards
Funddy	Donation's	<a href="#">Crowdbnk</a>	Equity, Rewards
Fundedpets	Donation's	<a href="#">Ethex</a>	Equity/Loan
Fundrazr	Donation's	<a href="#">Homestrings</a>	Equity/Loan
Give as you live	Donation's	<a href="#">Squareknot</a>	Equity/Loan
Give2gether (UK)	Donation's	<b>Loans</b>	
Giveforward	Donation's	<a href="#">Assetz Capital</a>	Loan
<a href="#">GlobalGiving</a>	Donation's	<a href="#">CrowdMortgage</a>	Loan
Igniter	Donation's	<a href="#">EmptyHomes</a>	Loan
Jaro	Donation's	<a href="#">Encash - Yes secure</a>	Loan
Mercy Corps	Donation's	<a href="#">Folk2Folk</a>	Loan
My Fundraising (Unicef)	Donation's	<a href="#">Funding Circle</a>	Loan
<a href="#">MyProjects (Cancer Research United Kingdom)</a>	Donation's	<a href="#">FundingKnight</a>	Loan
<a href="#">Save Patches</a>	Donation's	<a href="#">LendInvest</a>	Loan
Share a Gift	Donation's	<a href="#">LendLoanInvest</a>	Loan
Solar Schools	Donation's	<a href="#">Market Invoice</a>	Loan
Spacehive	Donation's	<a href="#">Mayfair Bridging</a>	Loan
SPEAR	Donation's	<a href="#">Platform Black</a>	Loan
Spend and Raise	Donation's	<a href="#">RateSetter</a>	Loan
<a href="#">Buzzbnk</a>	Donations Loan	<a href="#">Rebuilding Society</a>	Loan
Deki	Donations Microloan	<a href="#">Relendex</a>	Loan
<a href="#">Lendwithcare</a>	Donations Microloan	<a href="#">Squirrl</a>	Loan
Microloan Fundraising (UK)	Donations Microloan	<a href="#">Thincats</a>	Loan
Microloan Fundraising (UK)	Donations Microloan	<a href="#">Zopa</a>	Loan

<b>Appendix 6.1 List of Crowdfunding Companies by Category</b>	
Name	Type
<b>Rewards and Benefits</b>	
<a href="#">AngelShares</a>	Rewards and Benefits
<a href="#">Bloom... Venture Catalyst</a>	Rewards and Benefits
<a href="#">Crowdfunder (UK)</a>	Rewards and Benefits
<a href="#">Kriticalmass</a>	Rewards and Benefits
<a href="#">Pubslush</a>	Rewards and Benefits
<a href="#">Unbound</a>	Rewards and Benefits
AudaCity of Fashion	Rewards, Benefits, Product
Beat Delete	Rewards, Benefits, Product
BuyACredit	Rewards, Benefits, Product
Civilised Money	Rewards, Benefits, Product
CoFundMe	Rewards, Benefits, Product
Crowdfund Cornwall	Rewards, Benefits, Product
<a href="#">DanceFunder</a>	Rewards, Benefits, Product
FootieFunder	Rewards, Benefits, Product
Fundervine	Rewards, Benefits, Product
Funding4Learning	Rewards, Benefits, Product
Fundit.ie	Rewards, Benefits, Product
Gambitious	Rewards, Benefits, Product
Imakethat happen	Rewards, Benefits, Product
<a href="#">Indiegogo</a>	Rewards, Benefits, Product
Investinme	Rewards, Benefits, Product
<a href="#">Kickstarter (UK)</a>	Rewards, Benefits, Product
<a href="#">lets crowd it</a>	Rewards, Benefits, Product
MoolaHoop	Rewards, Benefits, Product
My Fundraising Project	Rewards, Benefits, Product
NewFaceFilm	Rewards, Benefits, Product
Newsfreed	Rewards, Benefits, Product
PledgeMusic	Rewards, Benefits, Product
Pozible	Rewards, Benefits, Product
Songkick Detour	Rewards, Benefits, Product
Sponsorcraft	Rewards, Benefits, Product
<a href="#">Sponsume</a>	Rewards, Benefits, Product
StudentFunder	Rewards, Benefits, Product
TechnoFunding	Rewards, Benefits, Product
Thrillcapital	Rewards, Benefits, Product
Unbound	Rewards, Benefits, Product
Wefund	Rewards, Benefits, Product
PleaseFund.Us	Rewards, Microdonation, Other
<b>White Label</b>	
<a href="#">The Giving Lab</a>	White Label Donation
<a href="#">Virgin Money Giving</a>	White Label Donation
Ingitiondeck	White Label Cloud
Crowdcube (white label)	White Label Commercial
Crowdfund Magic	White Label Commercial
Hybrid Funding	White Label Commercial
ReBuildingSociety	White Label Commercial
ReBuildingSociety (white label)	White Label Commercial
Skipso (white label)	White Label Commercial
Sponsorcraft (white label)	White Label Commercial
<a href="#">JustGiving (UK)</a>	White Label Donations
Bountysource (code)	White Label OS
Joomla! Extension "Crowdfunding" (code)	White Label OS
Peoplefundit (code)	White Label OS