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# Alternative lending market trends in Continental Europe in 2016

November 2016



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This report provides an overview of Alternative Lending industry trends in Europe in 2016. Please note that we provide summary information for the European region excluding United Kingdom and the focus of the research is on P2P Consumer lending.

In compiling this Report, we have relied on information compiled by AltFi Data and other publicly available information. The sources of information are listed throughout the Report. We take no responsibility for ensuring the accuracy or comparability of this information or for any errors in the Report which may have arisen from inaccuracies in the underlying information. We have not verified, nor are we responsible for, any of this information.

Our research is based on the following key sources, which are indicated throughout the report:

- AltFi Data dataset on Liberum AltFi Volume Index Continental Europe for the period 1Q 2013 – 3Q 2016 (hereinafter “AltFi Data”);
- 2<sup>nd</sup> Annual European Alternative Finance Industry Study Sustaining Momentum (hereinafter “Alternative Finance Study 2015”), prepared by the Cambridge Centre for Alternative Finance in partnership with KPMG and CME Group Foundation.

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# Alternative lending market

# Key highlights

### 1. European lending market

— European online alternative lending market volumes have grown steadily year on year between 2013 and 2015 (73% average growth), and increased further by 23% between 2015 and 3Q 2016 reaching EUR 0.6 billion in funded loans as at 30 September 2016 (AltFi Data). The fastest growing segment during 2016 as reported by AltFi Data has been P2P Consumer lending, which grew by 26% between 2015 and 3Q 2016 (invoice trading showed even higher growth of 124%, but it has been significantly lower in absolute terms).

### 2. European alternative finance leaders (all segments) and alternative lending leaders

— The ultimate leader in the European online alternative finance scene is the pioneer of alternative online lending, the UK, with 4 times higher volumes than in the rest of Continental Europe in aggregate.

— The top three countries in Continental Europe for overall online alternative finance market volume have been France, Germany and the Netherlands (Alternative Finance Study 2015 data), while AltFi Data show that 2015 leaders in alternative lending have been France, Germany and Sweden. Notably, in 2016 the picture has changed with Latvia breaking into the top 3 with the third largest volume of funded loans in 1Q-3Q 2016.

— The rise of smaller countries in alternative online lending is possible because country boundaries do not limit growth, and know-how of both investor attraction and lending can be applied across geographies. Although the key geographical market for European alternative online lending platforms is still Continental Europe, where they take up niches in both the subprime and prime unsecured lending segments, platforms also expand to other countries outside Europe.

— Given the example of the UK market development, Continental Europe expects further significant growth, as it now only makes up a minor part of the total unsecured lending in the region.

### 3. Alternative lending segments

— P2P Consumer lending is the largest component of alternative online lending market with 72% of the total in 1Q-3Q 2016. While P2P Business lending has been showing significant growth rates between 2013 and 2015 it has not surpassed the P2P Consumer market by volume and has grown only by 1% between 2015 and 3Q 2016 (according to AltFi Data).

### 4. P2P Consumer lending

— The P2P Consumer lending market grew from EUR 160 million to EUR 450 million between 2013 and 3Q 2016 and showed a 14% average quarterly growth rate between 1Q 2013 and 3Q 2016. Although the year 2015 did not report significant growth, the quarterly volume of loans funded has significantly increased in 2016, showing an average 25% quarterly growth rate.

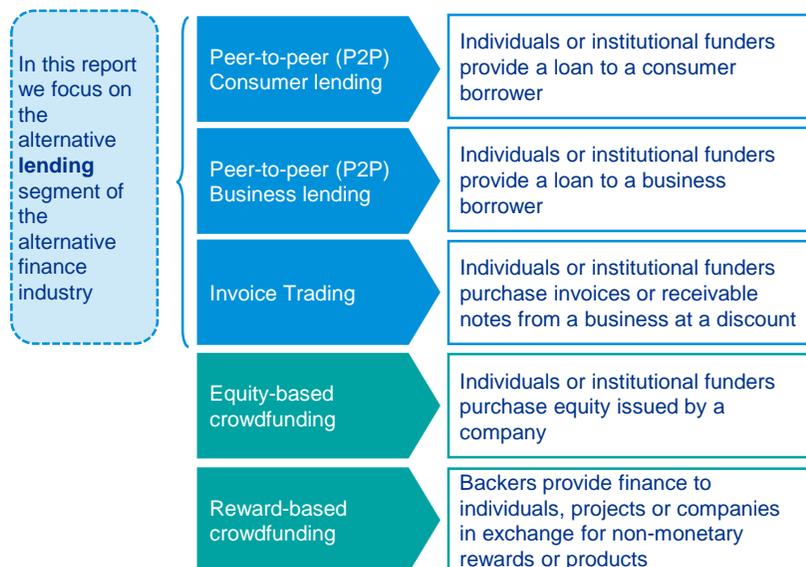
### 5. P2P Consumer lending platforms

— In terms of individual platforms, the top players in the P2P Consumer lending market are Younited Credit (France), Auxmoney (Germany) – the same leaders, as in 2015, followed by Mintos and Twino, both from Latvia. While France and Germany are represented by 1 leading P2P Consumer lending platform per country, in Latvia 2 online marketplaces – Twino and Mintos – share the market. The two market leaders from Latvia exceeded EUR 100 million in volume of funded loans during 1Q-3Q 2016, outgrowing Finnish players Fellow Finance and Fixura, as well as Estonian Bondora.

## Introduction

### Background of alternative finance

- Alternative finance that emerged outside of the traditional financial system has thrived since the global financial crisis and was driven by the digitalization process within the financial industry.
- The most developed alternative finance markets are the US, the UK and China. Despite that the European alternative lending industry is still in its early years, the volume of issued funds in 2015 increased to more than EUR 5 billion, with volume outside of the UK exceeding EUR 1 billion.
- Alternative lending (a segment of alternative finance industry) has reached EUR 0.66 billion in 2015 according to the Alternative Finance Study 2015 (AltFi Data reported EUR 0.5 billion lending market for 2015).
- The alternative finance industry in Europe may be split into:

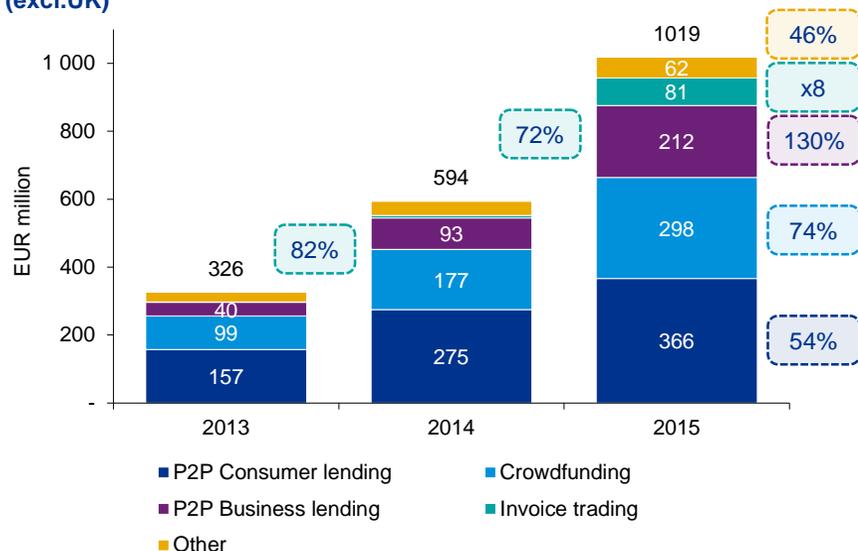


### Methodology and data sources

- In our analysis we refer to all alternative finance segments as “Alternative finance” and the lending segment of the industry as “Alternative lending”.
- For our analysis we use the following main data sources:
  - The dataset provided by AltFi Data on Liberum AltFi Volume Index Continental Europe (hereinafter “AltFi Data”) – used for detailed analysis of P2P Consumer lending and alternative lending trends in 2016;
  - 2nd Annual European Alternative Finance Industry Study Sustaining Momentum (hereinafter “Alternative Finance Study 2015”) – used for analysis of the overall alternative finance market during 2013-2015;
- The dataset data from AltFi Data used in our analysis represent the volumes funded through online marketplaces by 3 lending segments:
  - peer-to-peer lending to individuals (P2P Consumer lending);
  - peer-to-peer lending to SMEs (P2P Business lending); and
  - volume figures for invoice financing platforms which represent invoices traded.
- AltFi Data collects volume data from the 29 largest online platforms in 13 European countries (excl. UK) and estimates a market coverage of around 80-90%. The AltFi Data volume indices are based on public disclosure of data and therefore exclude certain platforms such as the German P2P lending platform Lendico whose European market coverage is estimated at around 10%.
- We note that for P2P Consumer lending (on which we focus our analysis) total volumes funded in 2013-2015 do not differ materially from amounts reported in the Alternative Finance Study 2015.
- The difference between presented data for volumes funded by P2P Business lending and Invoice trading in 2013-2015 by AltFi Data and the Alternative Finance Study 2015 might be material as AltFi Data cover mainly the larger platforms. In this report we therefore assume that AltFi Data objectively represents y-o-y development trends both for P2P Business lending and Invoice trading for major market players.

# Alternative lending market overview

European online alternative finance market volumes 2013-2015 (excl. UK)

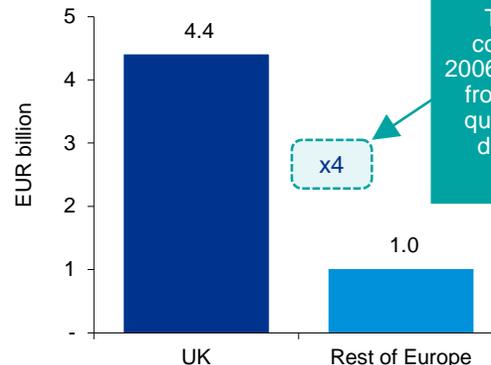


Note: Percentage on the right demonstrates average y-o-y growth  
 Source: 2<sup>nd</sup> Annual European Alternative Finance Industry Study Sustaining Momentum

## Alternative finance market

- According to the Alternative Finance Study 2015 the alternative finance market in geographic Europe is covered by 32 countries and 367 online alternative finance intermediaries, 273 of which are operating outside the United Kingdom. This captures an estimated 90% of the visible market.
- The total online alternative finance market volume in 2015 reached EUR 5.4 billion with a UK share of 81% of the total European marketplace.
- Excluding the UK, the European alternative finance market has been showing high growth rates since 2013 and the total financed volume reached EUR 1 billion in 2015.

Alternative finance market in 2015



Source: 2<sup>nd</sup> Annual European Alternative Finance Industry Study Sustaining Momentum

The alternative finance market concept was coined by the UK in 2006, with active development started from 2010. Currently UK develops quicker and shows larger volumes due to the active involvement of institutional investors.

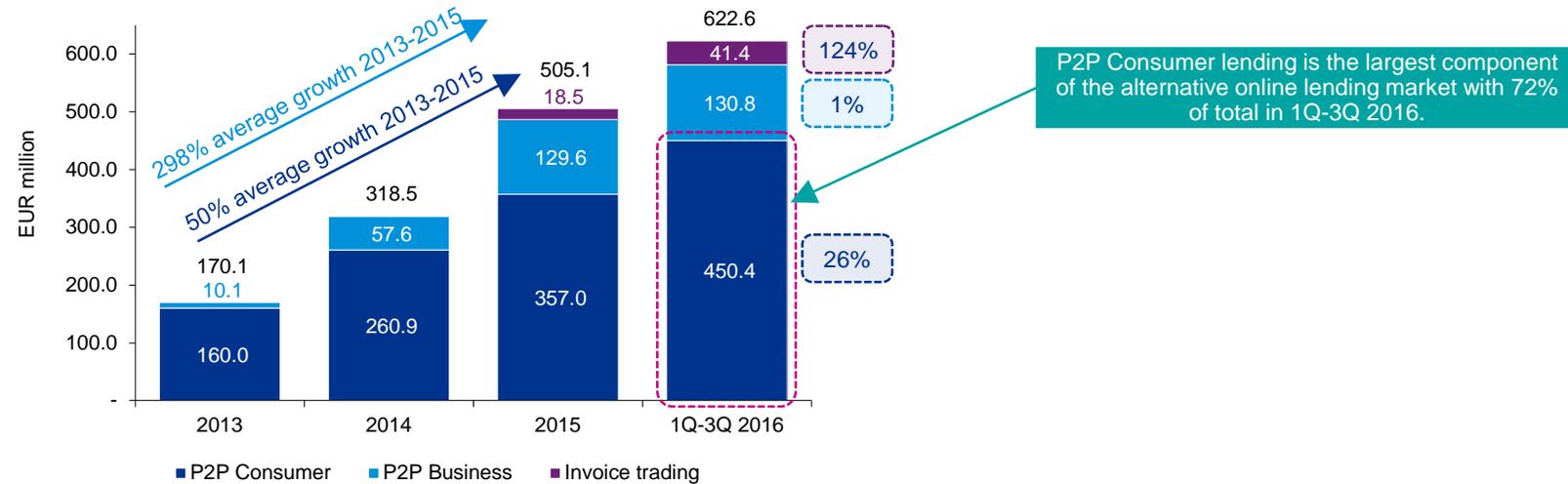
## Alternative lending market (continued)

- In 2013-2015 the largest share of the alternative finance market (excl. UK) was taken by P2P Consumer lending and P2P Business lending, which in 2015 covered 57% of the European market.
- While P2P Consumer lending made up the largest part of the alternative finance market, P2P Business lending grew at higher rates between 2013-2015 expected to become the largest alternative finance lending segment in Europe (although latest AltFi Data covering the largest P2P platforms show different trends; please refer to the next page for details).
- The third significant alternative finance lending segment is crowdfunding, including both equity- and reward-based crowdfunding, which showed a 74% average growth rate in 2013-2015.
- Invoice trading has developed in 2015 showing the great opportunity for new alternative finance lending segments to develop.

## Alternative lending market

# P2P market in Europe (excl. UK)

European online alternative lending market volumes 2013-3Q 2016



P2P Consumer lending is the largest component of the alternative online lending market with 72% of total in 1Q-3Q 2016.

Note: a) Percentage figures to the right demonstrate growth between 2015 and 3Q 2016 for respective segments  
 b) The percentage figures on arrows show average growth by segment (please refer to legend)

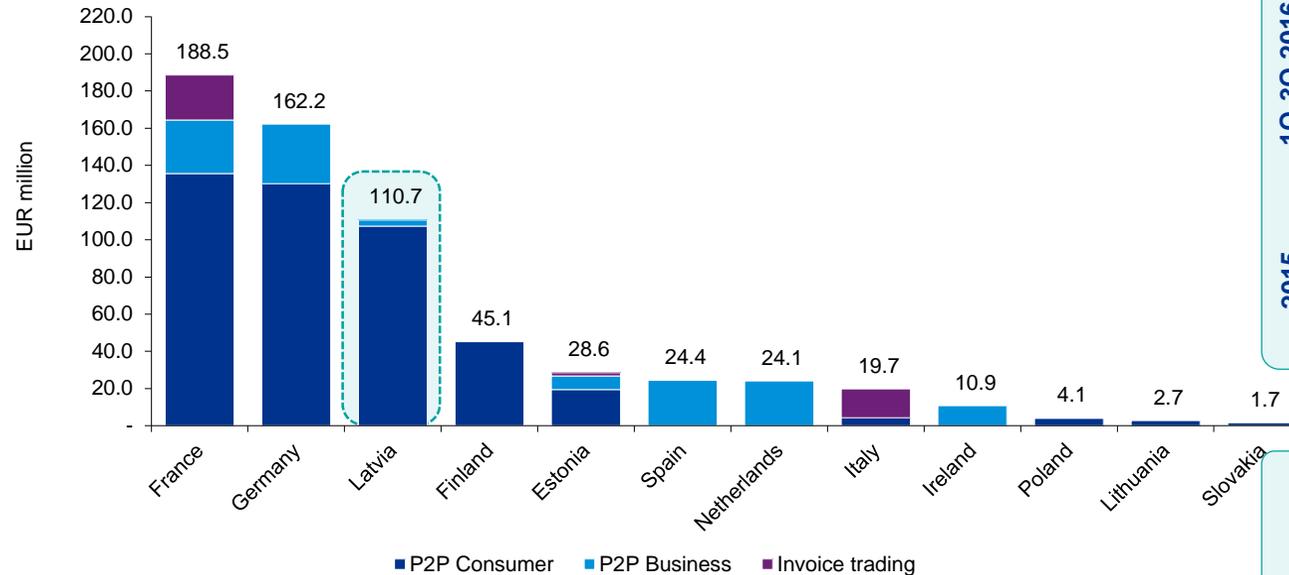
Source: AltFi Data

- The European alternative lending market in the first three quarters of 2016 maintains the growing trend. The total market volume in 1Q-3Q of 2016 has increased by 23% compared to 2015 and amounted to EUR 623 million.
- The total volume of P2P Consumer lending funded in 1Q-3Q 2016 amounted to EUR 450 million showing a consistent growth trend.
- While P2P Business lending grew thirteen times between 2013-2015, P2P Consumer lending volume in the same period more than doubled. Despite tremendous growth rates in 2013-2015, the P2P Business lending grew only by 1% between 2015 and 3Q 2016 compared to 26% growth of P2P Consumer lending in the same period.

## Alternative lending market

# P2P market in Europe by country (excl. UK)

P2P market funded volumes by country, 1Q-3Q 2016



Note: The numbers for Latvia incorporate the data for Viventor platform (P2P Business lending marketplace), registered in Latvia, but positioning itself as a Spanish platform. Volumes funded in 1Q-3Q 2016 amount to EUR 3.4 million.

Source: AltFi Data

— The leader of European P2P lending market in the first three quarters of 2016 is France followed by Germany and Latvia.

— In 2016 Latvia broke into the top 3 countries by the size of alternative lending volume with the third largest volume of funded loans achieved in 1Q-3Q 2016.



Source: AltFi Data



Source: Alternative Finance Study 2015

# Key risks of alternative lending market

### Business risks

- As the volumes funded through the online platforms are increasing and the industry has outgrown the “start-up” level it is now being recognized as a distinct market for alternative lending. As the industry is evolving the platforms are accumulating industry and business risks that can make a significant impact on their future operations.
- The main risks associated with the future growth of the alternative lending sector are:
  - Collapse of one or more well-known platforms due to malpractice;
  - Fraud involving one or more high-profile campaigns/deals/loans;
  - Cyber security breach;
  - Changes to regulations both at national and European level;
  - Notable increase in default rates/ business failure rates; and
  - Potential “crowding out” of retail investors as institutionalization accelerates.
- In addition, since the industry is relatively young it has not yet proven whether and how it could survive an economic downturn.

### Regulatory risks

- As the online alternative lending industry is relatively young and significant increase of volume of loans funded has been seen only since 2014, there are weak or no local regulatory requirements applicable for the operations of online platforms. There are also no unified global regulations. So a number of countries undergo changes in regulation of alternative lending in order to control risks from investor and borrower perspectives.
- Although the direct impact of online lending to the traditional financial sector still has been very small, the industry volumes are measured in billions. This encourages policy makers and regulators to start defining limitations and implement complex rules in order to minimize the risks related to the following:
  - Consumer and data protection;
  - Investor/lender protection;
  - Application of accounting principles;
  - Competition principles;
  - Loan volumes, terms and interest rates;
  - Money laundering;
  - Solvency principles of online marketplaces, etc.
- Alternative Finance Study 2015 revealed that more than 30% of EU alternative financing market players consider that there is a lack of existing regulation. At the same time, the fact of “relaxed” regulatory requirements has allowed online lending to develop worldwide.
- It is expected that implementation of stricter policies and regulations may lead to a decrease in the growth rates of volumes funded through alternative financing. On the other hand, there is an alternative opinion that structured regulatory requirements might increase investors confidence that would lead to the increase in volumes of attracted capital.

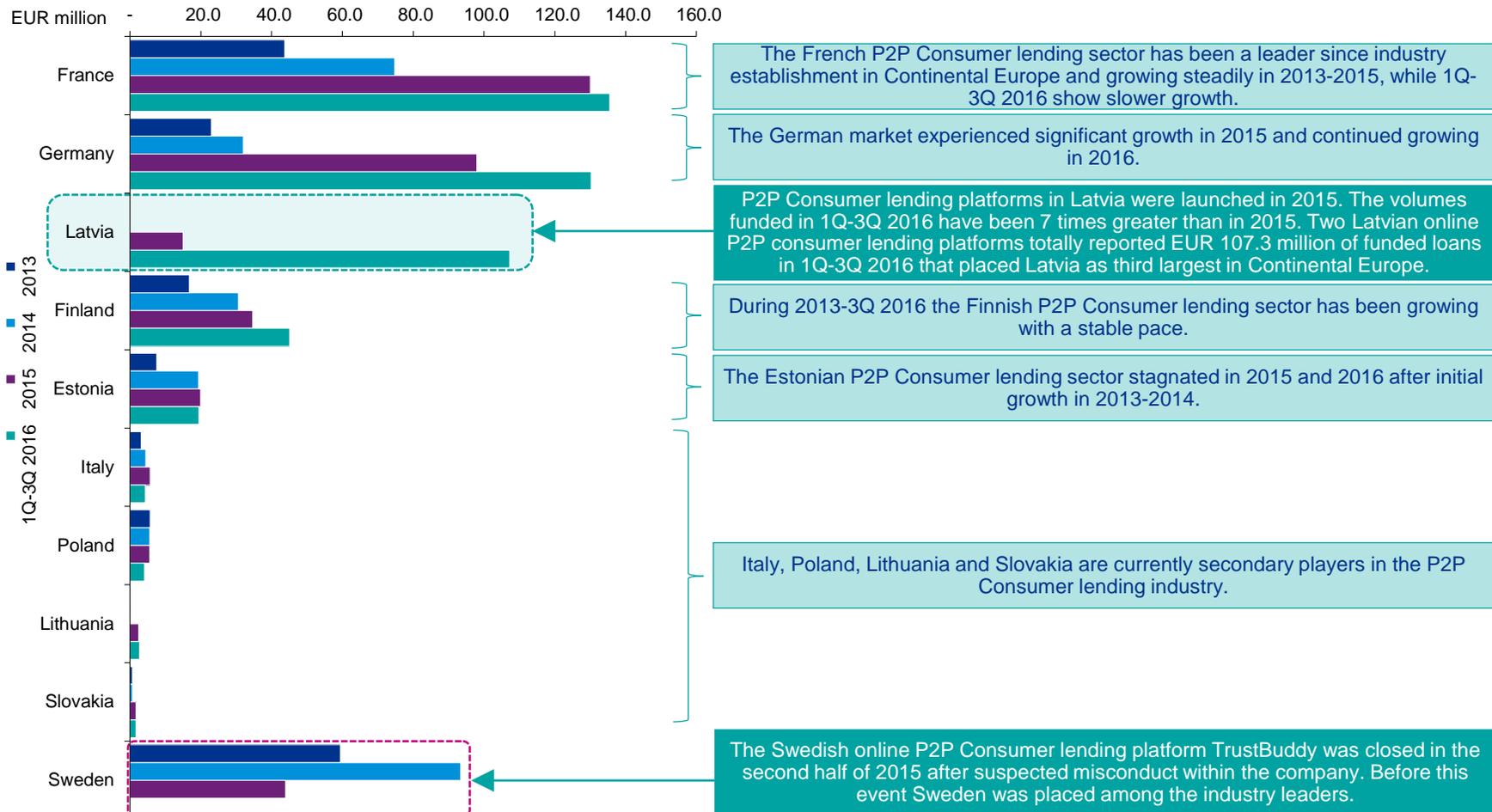


# P2P Consumer lending market

## P2P Consumer lending market

# P2P Consumer lending market in Europe (excl. UK) (1/2)

### P2P Consumer lending development since 2013



Source: AltFi Data

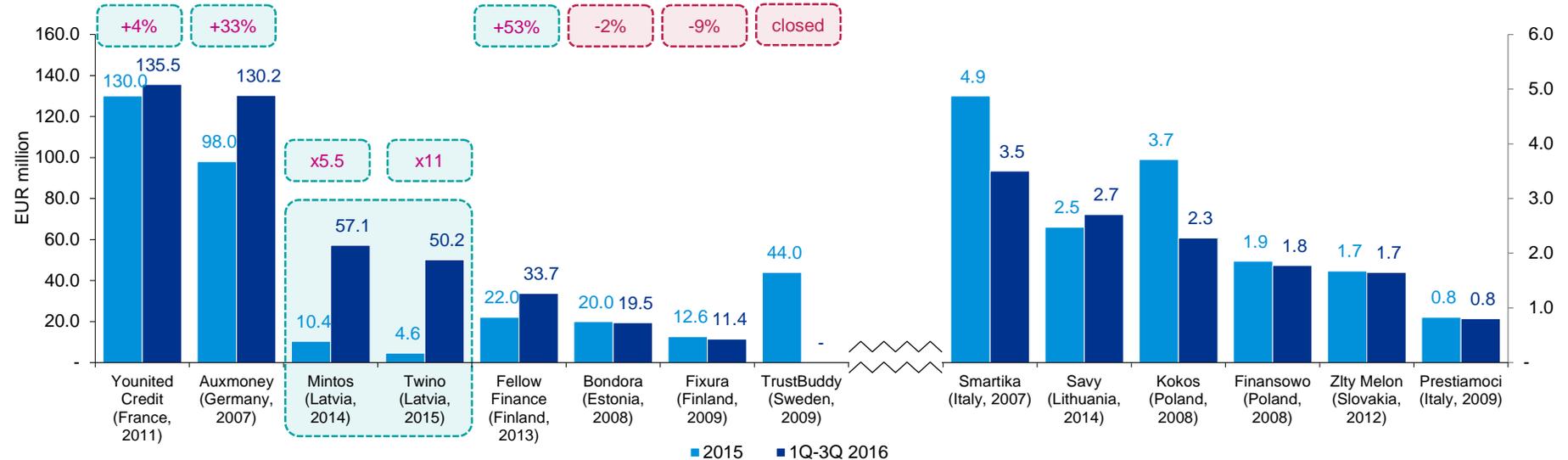


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## P2P Consumer lending market

# P2P Consumer lending market in Europe (excl. UK) (2/2)

P2P Consumer lending market in Europe by platforms



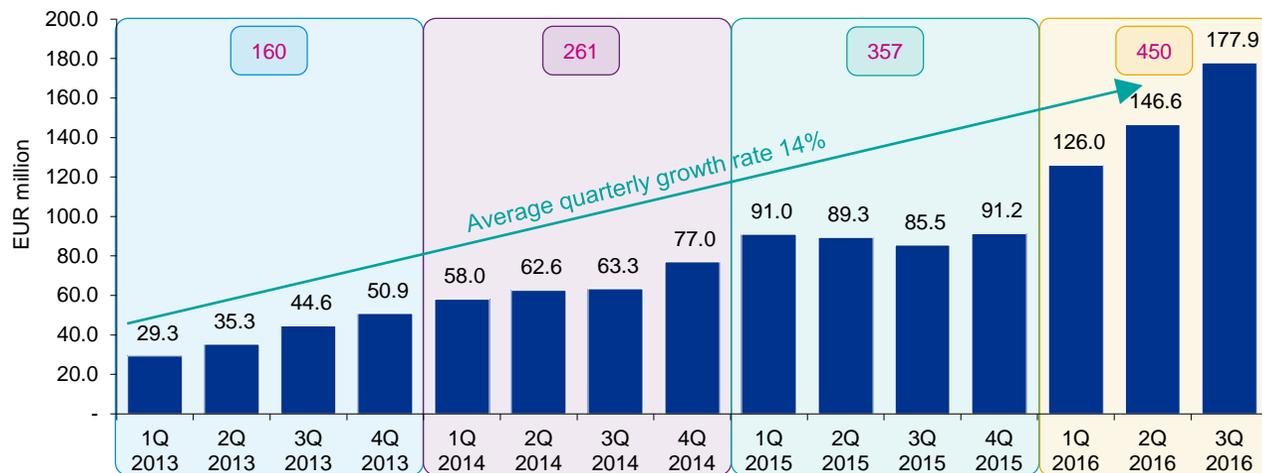
Note: Years in brackets mean years of platform launch  
 Source: AltFi Data

- Currently the P2P Consumer lending market in Continental Europe is dominated by 13 online platforms located in 9 countries providing consumer loans in Europe and worldwide. (The Swedish TrustBuddy platform was closed in 2015)
- Only 6 from the 13 largest P2P Consumer lending platforms in Continental Europe have shown growth in volumes funded during 1Q-3Q 2016 compared with 2015. Both Latvian platforms have shown the highest growth rates, with Twino platform reporting eleven-fold growth.

## P2P Consumer lending market

# P2P Consumer lending market development by quarters (excl. UK)

P2P Consumer lending market volumes 2013-3Q 2016



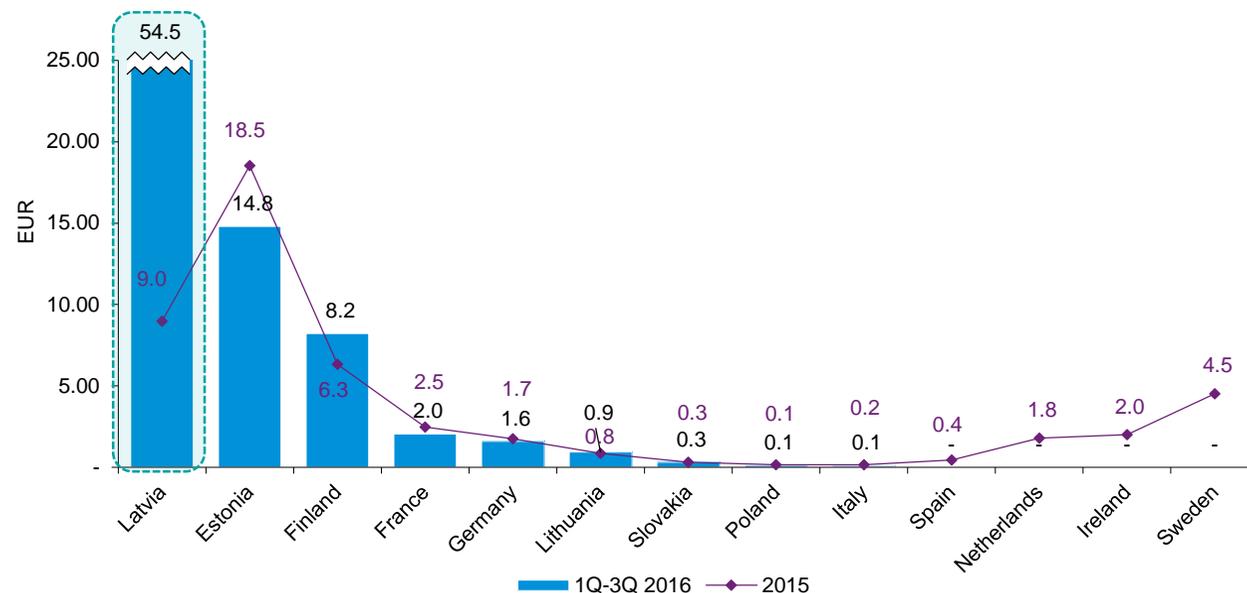
Source: AltFi Data, volumes funded by quarters

- Between 2013-2014 the alternative consumer lending segment demonstrated a threefold increase in volumes funded, while there was no significant growth in new volumes in 2015.
- The quarterly volume of loans funded has again significantly increased in 2016, showing an average 25% quarterly growth rate.
- As of 14 November 2016 the total accumulated volume of loans funded through P2P Consumer lending amounts to EUR 522.2 million. So the annual growth between 2015 and 2016 would be at least 46%.

## P2P Consumer lending market

# P2P Consumer lending market in Europe per capita (excl. UK)

P2P Consumer lending market volume per capita



Source: AltFi Data; Eurostat

- Based on the volumes funded by P2P Consumer lending platforms in the first three quarters of 2016, Latvia is the leader in volumes funded per capita with a value of EUR 54.5 per capita which is 3.7 times higher than Estonia, ranking second.
- Compared with the 2015 results, when the leader was Estonia followed by Latvia, Finland and Sweden, the volume per capita in Latvia in 1Q-3Q 2016 increased more than 7 times.

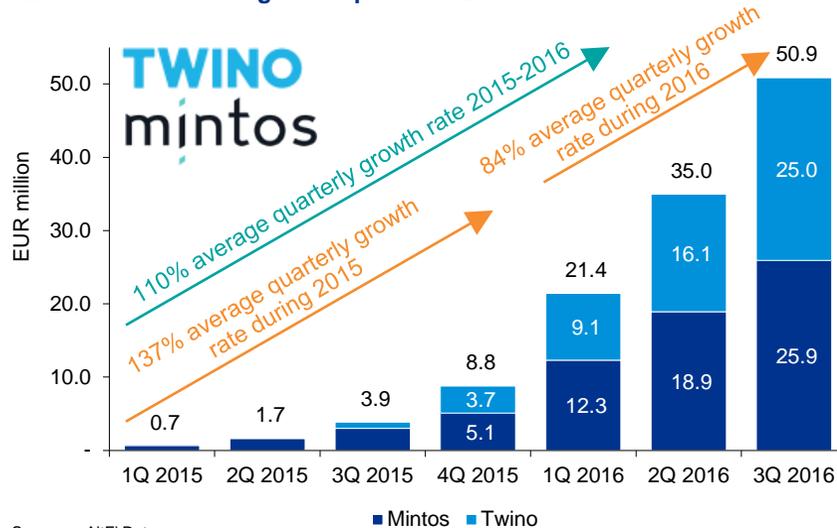


# P2P Consumer lending market in Latvia

## P2P Consumer lending market in Latvia

# P2P Consumer lending development in Latvia

### P2P Consumer lending development in Latvia



- Total loans funded by Latvia based platforms during 1Q-3Q 2016 amounted to EUR 107.3 million which is 7 times higher than comparable volumes during 2015, when the platforms were first launched (EUR 15 million).
- Average quarterly growth in volume of loans funded during 2016 has been 84%.
- Both Latvian platforms have prior offline experience in the lending market, which is one of factors for their tremendous growth.

### Alternative consumer lending platforms in Latvia

- The alternative lending industry in Latvia began to develop in 2009, but has shown a rapid growth in 2015 and 2016. As of November 2016 it is mainly presented by two peer-to-peer consumer lending marketplaces: Twino and Mintos.
- Another online platform Viventor, registered in Latvia and focusing on P2P Business lending, launched its activity in 3Q 2015, reaching EUR 3.4 million of funded loans in 1Q-3Q 2016.

#### Twino

- Twino is a privately-owned marketplace lender operating across Latvia, Poland, Georgia, Kazakhstan, Mexico, Spain, Denmark, Romania and Russia with the online investment platform managed from Latvia.
- Twino started its lending activity in 2009 under the name of Finabay and launched an online investment platform in 2015.
- The company's loan origination volume since 2009 exceeded EUR 352 million and the current number of employees globally is more than 550.

#### Mintos

- Mintos is an online marketplace launched in the beginning of 2015, operating across Europe working with both private and institutional investors.
- In 2016 Mintos submitted an application to obtain a license from the UK regulator, Financial Conduct Authority. The company expects to obtain the license in early 2017.
- The largest loan types by amount are personal loans, secured car loans and mortgage loans. The largest loan originators (together >50%) are Mogo (non-bank car loan provider in the Baltics and Georgia) and Creamfinance (consumer loans company operating in Latvia, the Czech Republic, Poland, Georgia and Slovakia).

# Alternative lending outlook in Latvia

### Future development of alternative finance in Latvia

- P2P Consumer lending is expected to remain the leading alternative lending segment in Latvia in the near future.
- P2P Business lending has growth potential, but it will take time for Latvia to accumulate know-how and start successfully compete in a P2P Business environment.
- To expand operations and ensure future growth, the Latvian platforms are entering new markets in Continental Europe where banks are offering relatively high interest rates, e.g. Poland, Czech Republic, Spain, Italy and Scandinavian countries. In addition, the Russian market, after economic difficulties and weakening of banks, has become attractive for development of P2P lending industry.

### Risks and regulations

- In Latvia the local regulator Financial and Capital Market Commission (FCMC) is developing a new regulation on alternative financing industry that is expected to be more detailed than in other European countries. The main intention of the regulator is to protect investors and ensure the sufficiency of capital in order to create the basis that will help the industry to develop. These are expected to be positive changes for Latvia based alternative lending platforms due to the greater opportunity to attract more investor money.
- The main restrictions that are expected to be set by the regulator are:
  - minimum amount of share capital;
  - obligation to partially invest a company's own money in issued loans;
  - requirements related to the management team.



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AltFi Data is the leading provider of data and analysis for the rapidly growing alternative lending sector. We allow originators to credibly represent asset performance and we allow investors to perform due diligence and review real time alternative asset market trends.

AltFi Data provide a number of alternative lending indices including:

- Liberum AltFi Returns Index;
- Liberum AltFi Volume Index UK;
- Liberum AltFi Volume Index Europe.

The AltFi Data Analytics tool allows loan originators to represent lending track records to encourage due diligence and investment and allows investors to review market trends.

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