

# *Debt Crowdfunding Regulatory Space*

Key considerations and international approaches

Dr. Martin Liebi LL.M., attorney-at-law, University lecturer, Judge

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## *What is crowdlending?*

Lending-based crowdfunding platforms are

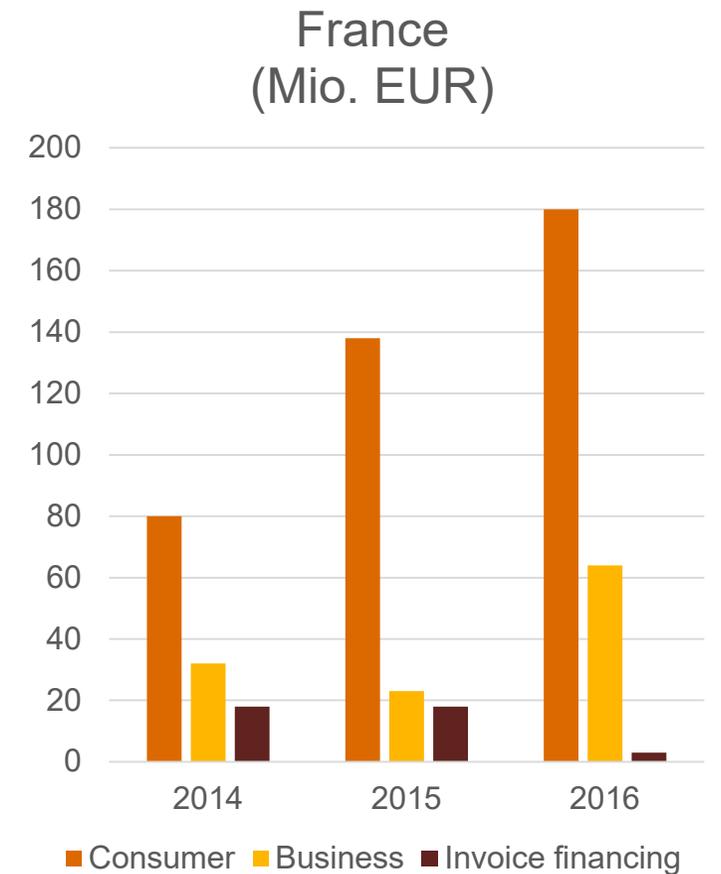
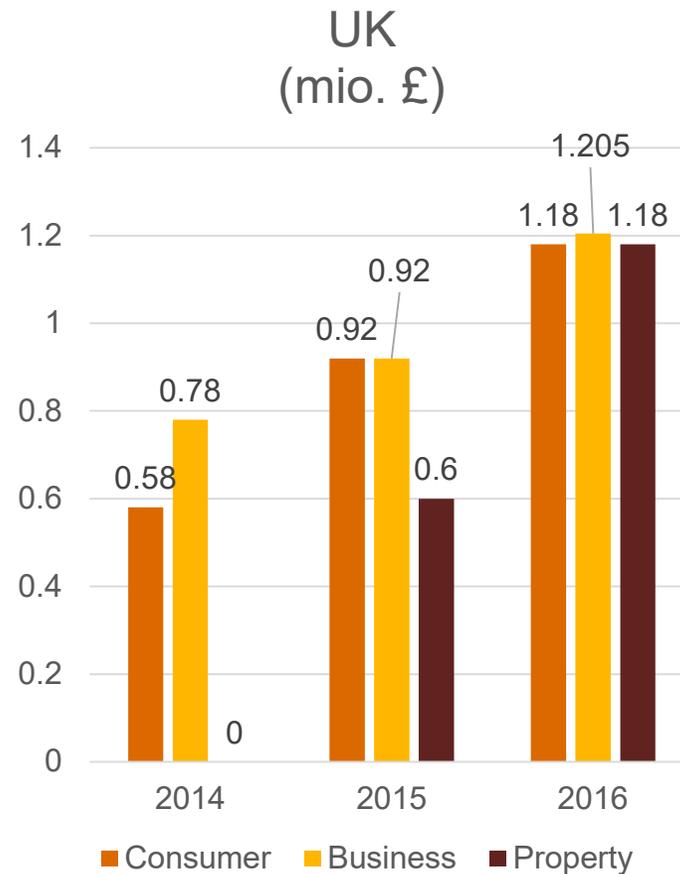
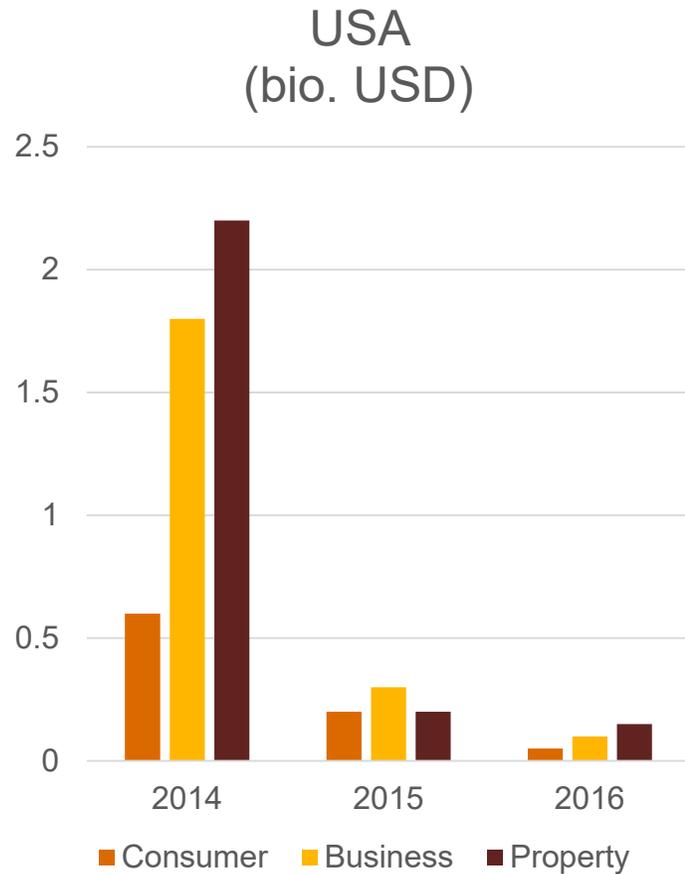
- a new model of financial intermediation
- by connecting directly lenders and borrowers
- via FinTech (internet) platforms.

«Investment-based» crowdfunding means that investors invest in unlisted debt securities issued by borrowers.

«Lending-based» crowdfunding means that funders invest in loans.

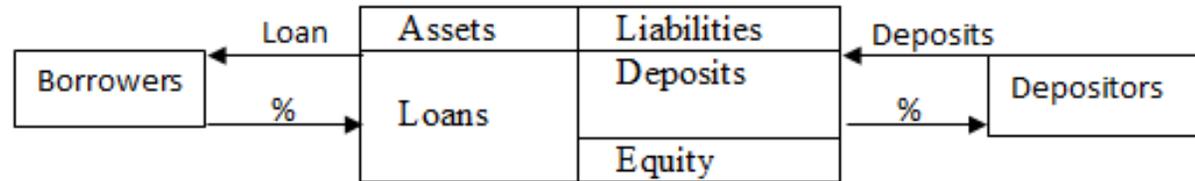
- Crowdlending is an alternative financing mechanism to traditional bank financing.
- Addresses either underserved banking customers or higher risk client groups.

# Size of the crowdlending market

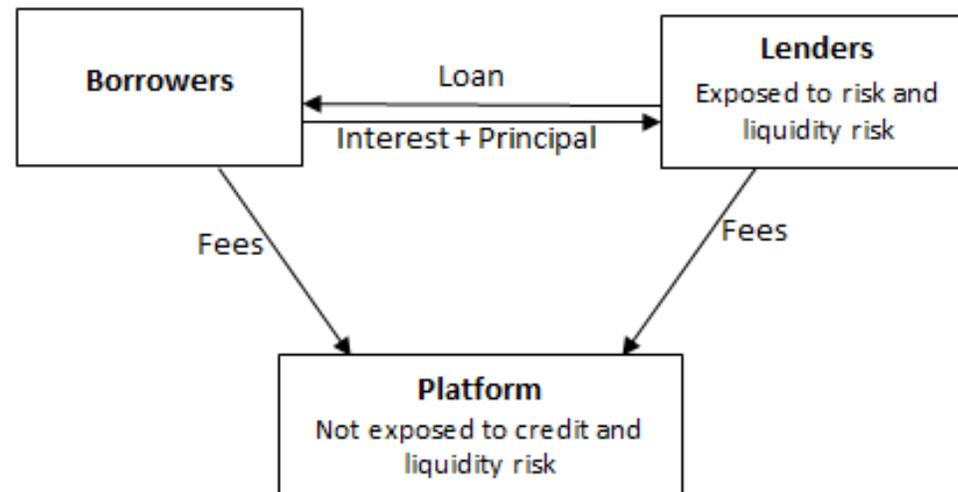


# Key differences between a bank and a crowdlending platform

## Bank



## Loan-based crowdfunding platform platform



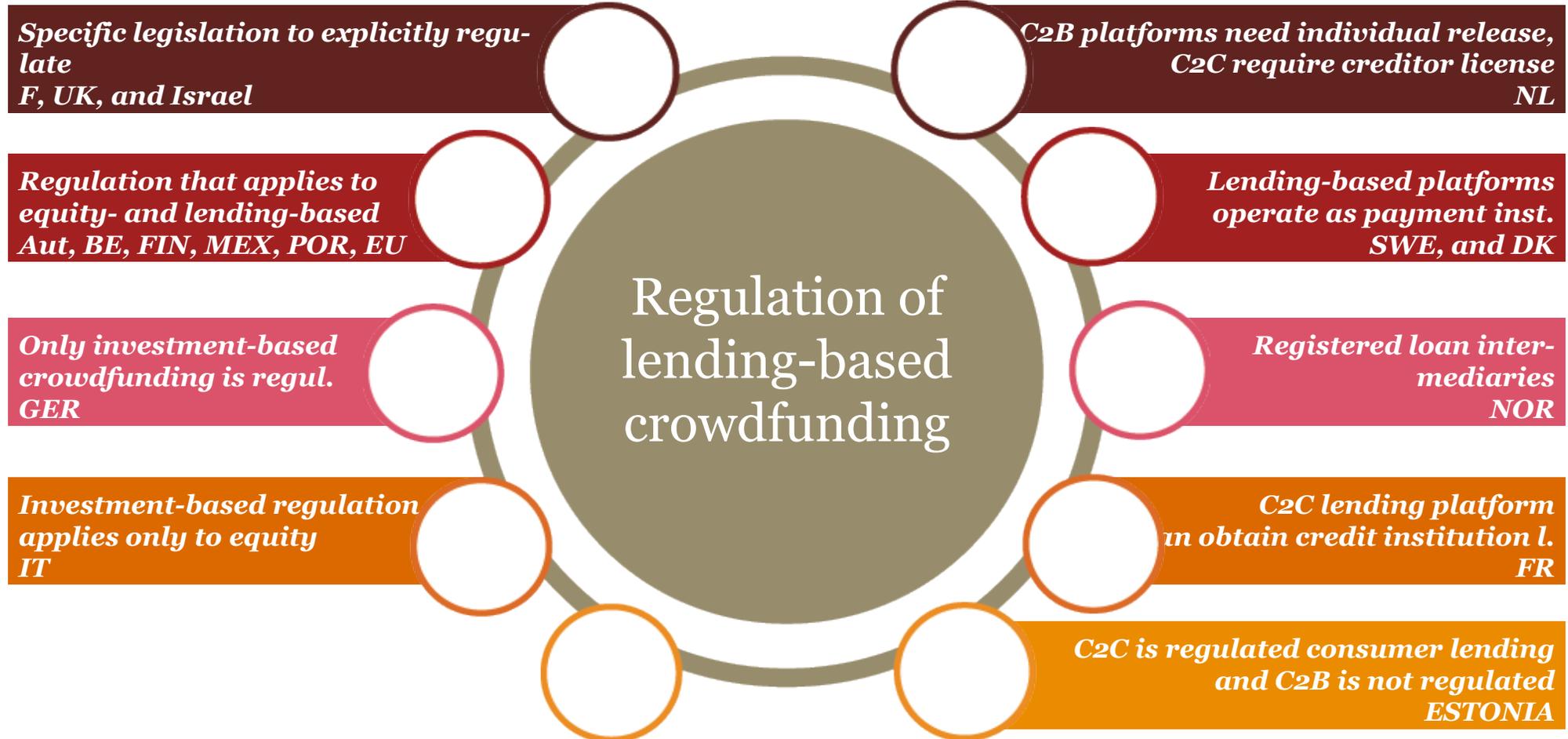
## *Differences between crowdlending and a bank*

	<b>Lending-based crowdfunding</b>	<b>Bank</b>
Brokerage Function	Direct lending via a platform. No balance sheet intermediation. Orderly resolution	Intermediated lending. Orderly resolution is difficult.
Bank as delegated monitor	Possible cost duplication if lenders have to monitor borrowers and platforms. Moral hazard problems.	Banks act as monitors due to risk-free deposit contracts.
Risk transformation	No, losses are borne by lenders (unless return smoothed via provision fund).	Yes.
Liquidity provision and maturity transformation	No (unless secondary market). Not subject to bank runs.	Yes, which makes them very fragile to self-fulfilling bank runs without government guarantees.
Money creation	No.	Yes.

## Regulation of lending-based crowdfunding

Specific lending-based regulation

No Specific lending-based regulation



# ***Key concern 1: Coordination problem and secondary markets***

## **Problem**

Platforms are not subject to «bank runs», because they are no coordination problems in terms of maturity of deposits and loans.

The direct relationship between lender and borrower suffers however from illiquidity.

## **Countermeasures**

Secondary markets could be a cure for missing liquidity.

There are two main concerns:

1. Transformation of lending-based crowdlending into securitisation
2. Insider trading and market abuse

Jurisdictions with secondary markets: USA, UK, Israel, EU, Portugal

Jurisdictions without secondary markets: France





## ***Key concern 3: Moral hazard***

### **Problem**

No supervision of the due diligence, credit scoring models, and no liability from the part of the platform could lead to moral hazard.

Platforms could increase risk taking, because the platform does not have to bear the costs.

### **Countermeasures**

Automated lending could decrease the risk by means of diversification.

«Skin in the game», an investment by the platform, or the building of provision funds could also alleviate the issue.

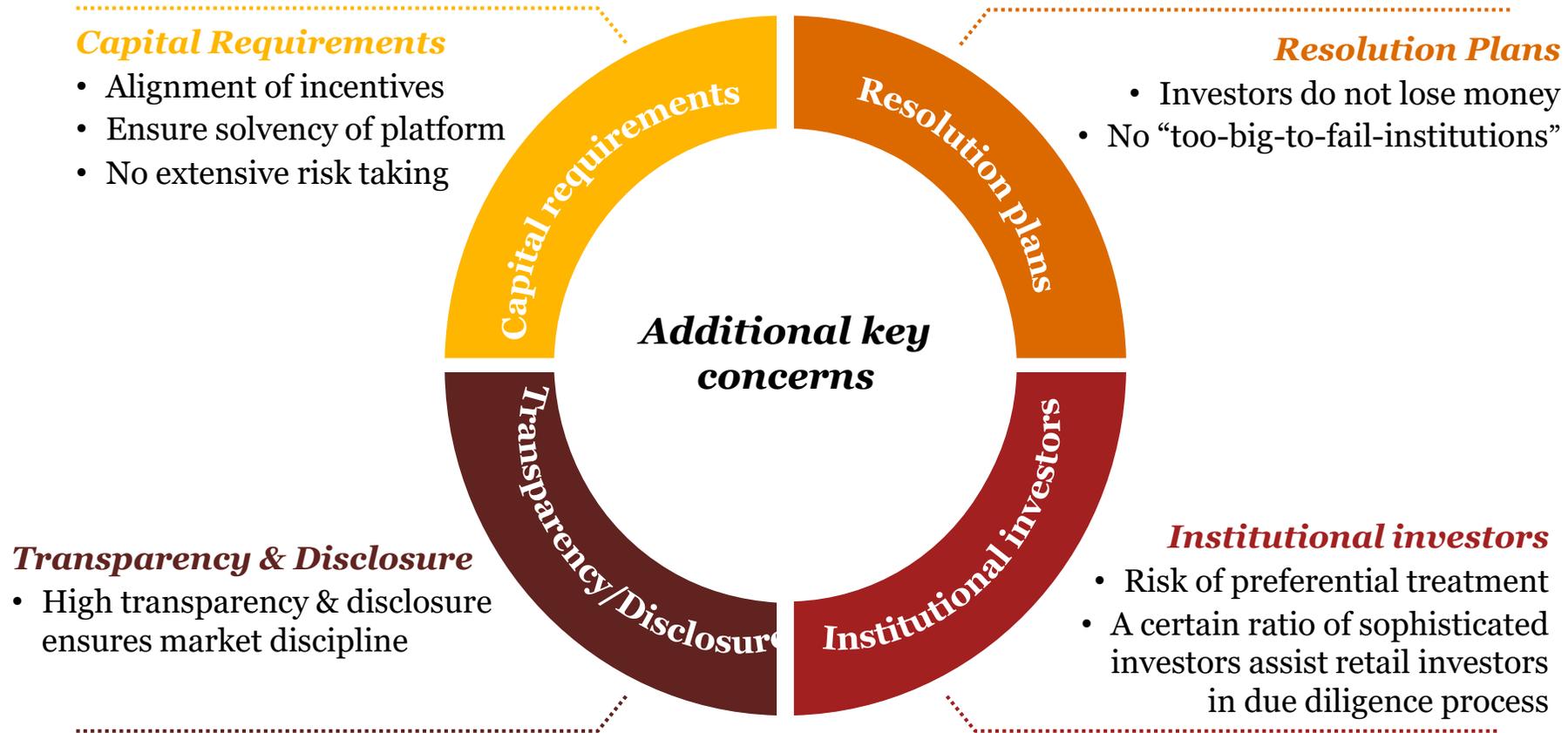
- Investments by the platform are not allowed in: France, Germany, Israel, and Portugal.

#### **Moral Hazard**

- the risk that one party to a transaction will engage in behavior that is undesirable from the other party's point of view.



## *Additional key concerns*



*Thank you very much for your attention!*