CROWDLENDING – FACTORS DRIVING INVESTORS' DECISION-MAKING IN LATVIA

Authors: Gatis Šetlers
            Jānis Valdmanis

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Gatis Šetlers

and

Jānis Valdmanis

Supervisor: Aivars Timofejevs

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Abstract

The developments of technological innovations as well as the global financial crisis, both experienced over the last decade, have facilitated the emergence of new business models, disrupting and transforming various industries. Crowdlending is one of the examples of alternative business models affecting the financial industry. Crowdlending industry currently is in quite early stage of development, however, it is growing rapidly and having high potential in future.

Considering the rapid growth of the industry it is definitely worth to investigate the main drivers for such development. However, there is very limited research performed on crowdlending across Europe, including Latvia. Therefore, this research paper focuses on understanding the decision-making factors for investors' part of crowdlending business model in Latvia.

The research paper is based on cross sectional design. A comprehensive model was developed covering all the main aspects of investors' decision-making in crowdlending. The model was verified with the key relevant industry experts in Latvia and was further used for development of online survey questionnaire to obtain data on factors influencing investment decisions in crowdlending.

This research paper allows to answer which are the primary and secondary factors for investors as well as the factors that are neutral in decision-making process for investors. In total, 9 factors out of 21 were concluded to have primary importance for investors, thus providing valuable insights on crowdlending subject for all relevant stakeholders in the field.

1. Introduction

Currently we all are living in a rapidly changing economic environment. In the past decades we have evidenced fast developments of economies in different countries all over the world as well as in Europe. However, the development phase was followed by the global financial crisis reaching many countries in Europe and also Latvia. The crisis changed the rules of the game for all players in the economy, including companies, individuals, banks, governments, etc. (Adebambo, Brockman & Yan, 2015).

The recent financial crisis which probably has not ended yet but just started a new period of turbulence of global economies was closely followed by the major global credit crisis. As a result of the credit crisis the general loss of trust in financial services industry was evidenced. This started the era of hard times for the banking industry. Significant increase in banking regulation, e.g. implementation of Basel III rules for sector, in terms of higher capital requirements, liquidity restrictions, required leverage levels have significantly limited the flexibility of banking business including limiting the lending activities (Bank for International Settlements, n.d.).

All these events have led to considerable difficulties in borrowing possibilities for companies and individuals as the so called "funding gap" has been observed in many countries globally (Rao & Reddy, 2015). A logical trend has been observed in the industry showing that banks are becoming more and more risk averse, having lower risk appetites which in turn results in limited access to traditional bank lending services. In the recent years challenges with borrowing has been especially important for sub-prime borrowers including SMEs and individuals.

Considering the existing circumstances in banking sector other industries have been developing really fast offering other types of lending to the society e.g. microcredit industry offering payday loans, SMS credits. Microcredit sector that is primarily targeting sub-prime borrower segment is offering lending with relatively very high costs for consumers, reaching 100% or even more in some cases (4finance, n.d.).

The existing economic circumstances have led to substantial adjustments not only in lending but also in saving conditions for society. For example the traditional saving instruments for individuals are currently providing very low returns e.g. bank deposits are now showing close to 0% interest rates which is definitely out of the normal required return levels (Swedbank, 2015).

As a result of the above and with the development of IT technologies and web 2.0 emerging alternative lending models have been developing in the last decade. One

of the alternative models is crowdfunding which is a young concept but developing fast. One of crowdfunding sub-categories – crowdlending is a model creating new opportunities for individuals and companies to invest and borrowers to obtain different types of loans via online lending platforms without bank intermediation (Kirby and Worner, 2014).

It has been noted that information on crowdlending industry is currently relatively limited, however, new information is adding quite rapidly in the last years. One of the key elements for crowdlending business development is connected with understanding the behavior of the participants in the lending platforms, i.e. investigating the factors driving the borrower and lenders decision making process for participation in the lending platforms. The motives of participation for of borrowers are relatively clear considering the existing funding gap in traditional financing for certain segments of borrowers and the following necessity for lending. However, the motives of investors in decision making for participation in crowdlending platforms are not so evident. In addition it has been noted that there is almost no academic research done in the area of investors' motivation factors for participation in crowdlending, thus leading to a research gap in this area.

In addition, the interest on private individuals potential participation in crowdlending platforms is also driven from the perspective of current financial situation which has led to very limited possibilities for private individuals to perform the traditional saving / investing activities – investing their money in simple way, e.g. in a bank deposit and earn required level of returns. This thesis is not focusing on the decision making process of investors that are experts in investing and that are evaluating various investment alternatives including complex investment possibilities.

The research is narrowed to evaluate the crowdlending platforms development possibilities from the investors' perspective in Latvia. Currently private individuals in Latvia are facing the same challenges in relation to saving, investing and borrowing as already mentioned. Thus, according to the official statistics the total loan portfolio held by the banks in Latvia have been significantly decreasing from 21 954 million euro in 2009 down to 14 666 million euro at the end of 2014 showing the obvious limitation in obtaining loans from banks. In addition, the deposits held by banks in Latvia have considerably increased from 13 592 million euro in 2009 to 22 192 million euro in 2014 (of those 8 100 million euro household deposits), however, the interest rates for both long-term and short-term deposits for private persons in Latvia commercial banks are

currently not providing any return (The Association of Latvian Commercial Banks, n.d.). Moreover, a study carried out by the Finance and Capital Market Commission in 2014 has revealed that Latvian households 1) have become more used to using IT technologies, 2) are more focusing on saving and investments for future financial stability and 3) the borrowing / saving proportion is becoming more sustainable. According to the mentioned study 25% of Latvia inhabitants are doing regular savings and 25% from all people are willing to invest their free / saved funds (The Finance and Capital Market Commission, 2015).

As a result it can be concluded that saving and investment questions are relevant and topical for almost all households and private individuals in Latvia, and considering the recent establishment and development of crowdlending platforms in Latvia, e.g. Mintos, Twino, it has been decided to investigate the possibilities for crowdlending development in Latvia.

The research paper is focusing on the investment side of the crowdlending business model. The research question for thesis has been defined as follows:

Which factors determine the decision of private investors to invest through crowdlending platforms in Latvia?

The goal of this research paper is by doing the investigation and answering the research question to provide new and relevant information and insights on investor motivation to crowdlending industry participants including lending platform operators and current as well as potential private investors in Latvia.

2. Literature review

2.1. Concept of crowdlending

The term crowdfunding originates from two words "crowd" and "funding" which generally explains the meaning of pooling money from people to fund particular needs of individuals and organizations (Ahlers, Cumming, Gunther, & Schweizer, n.d.). According to Kirby and Worner (2014), "*Crowd-funding is an umbrella term describing the use of small amounts of money, obtained from a large number of individuals or organisations, to fund a project, a business or personal loan, and other needs through an online web-based platform*" (p.8). Basically, crowdfunding models are using online platforms which are serving as intermediaries between investors and parties seeking for funds thus replacing traditional financial institutions.

In the literature, crowd-funding is divided into four sub-categories, depending on the way the capital is provided and the form of rewards in exchange of invested capital – donation-based, reward-based, equity-based and lending-based crowdfunding.
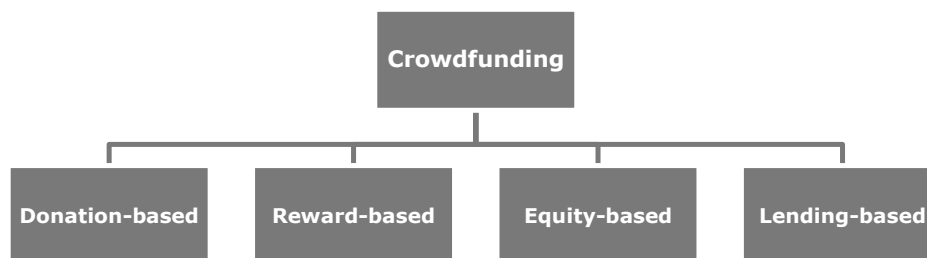

Figure 1: Sub-categories of crowdfunding; Source: Kirby & Worner (2014)

Donation-based crowdfunding exists in a form of support where no material return is expected, whereas in case of reward-based crowdfunding there is a possibility to receive a small reward in different forms, mainly non-monetary, e.g. thank-you letter or e-mail, publishing the names of donators, meeting in person in case supporting artists and other famous persons, receiving invitations to concert, exhibition, public event, etc. (Hemer, 2011).

In contrast, equity-based and lending-based crowdfunding provides a possibility to receive financial return according to predefined conditions. Equity-based crowdfunding relates to investing in start-ups or small businesses where the investment is made in exchange of a particular share of equity of a company, allowing the investor to receive compensation in a form of a profit share of that company. Lending-based crowdfunding is widely known through peer-to-peer lending where private investors are

lending their own money to private individuals allowing lenders to earn fixed interest on the loans. "*Peer-to-peer loans are direct transactions between investor(s) willing to lend money and borrower(s) seeking loans. These parties are brought together by an electronic platform which introduces and arranges the loan documentation between the lender and the borrower, and then manages the payment of interest and repayment of the principal according to the terms agreed between the parties.*" (HM Treasury, 2014). In addition, peer-to-peer lending platforms are also offering peer-to-business loans where similarly private investors are lending money to small businesses.

Considering the fact that this paper focusses on peer-to-peer / peer-to-business lending the further review will mainly focus on the last sub-category of crowdfunding, i.e. lending-based crowdfunding. In order to ensure consistency throughout this paper, the terms - peer-to-peer lending, peer-to-business lending, lending-based crowdfunding are replaced with a single term – crowdlending.

2.2.Industry development

During the review of industry related information it was concluded that there are two fundamental factors driving the development of crowdlending. The mentioned fundamental factors are: 1) technological innovations and developments 2) the global financial crisis.

The core element in the crowdlending models are online platforms, which serve as the marketplace for both investors and borrowers. Crowdlending in contrast to the traditional financial institutions would not be possible without the technological innovations. Innovations are disrupting the accepted business practices, once solid and stable industries and companies. Even more, technological innovations are changing economies and societies in general (WEF, 2015).

With the development of Web 2.0, instead of passive review of website content, users are capable to take an active participation in creation, modification and transmission of information. Lunenfeld (2007) notes that "Web 1.0 users' characteristic activity was surfing static Internet pages", whereas Web 2.0, on the contrary, is built on the "architecture of participation" (Chaffee & Rapp, 2012).

The "architecture of participation" today allows numerous possibilities for online users, including potential investors or borrowers. Just having access to the internet investors and borrowers can handle their crowdlending related activities in a seamless manner – open, manage and, if necessary, close an account, review loan

listings, historical information, statistics of loan performance, secondary market, etc. by using the online platforms. Basically, there are no limitations in performing all possible operations and transactions online without visiting physical location like a bank's branch, where a customer's service specialist provides all the required assistance. The speed and costs of setting up and maintaining an online platform that literally offers access to unlimited customer base is a fraction when compared to establishing and operating a physical infrastructure of traditional financial institutions (CNN Money, 2015).

Another factor that has fuelled the rise of crowdlending platforms is the experienced global financial crisis in 2007-2008 or so-called Great Recession. The scale and impact of the Great Recession have been compared with the Great Depression (Adebambo, Brockman & Yan, 2015). The collapse of financial players, including global ones like Lehman Brothers, was only the beginning of the financial crisis, followed by the close to complete distrust between financial institutions and freeze of credit markets (Rao & Reddy, 2015).

Both private individuals and legal entities experienced 180-degree shift in the ability to access funds from banks. If before the crisis banks were competing for every single customer, offering credits on very attractive conditions, afterwards many banks completely stopped issuing loans. Basically, money became a scarce resource (Carr, 2011).

The both mentioned fundamental factors, i.e. technological innovations and the global financial crisis, experienced in past decade led to significant changes in the financial industry, at the same time allowing other industries to emerge and develop, including crowdfunding industry and its sub-category crowdlending.

Therefore, the history of crowdlending is rather short starting in 2005 when Zopa introduced the UK based lending platform. Zopa was one of the first online lending platforms that got public's attention (Hulme & Wright, 2006). Shortly after establishment of Zopa other crowdlending platforms such as Prosper, CreditEase and Lending Club were launched.

However, the crowdlending industry is experiencing significant development only in past few years. As an example, Lending Club today being the leading global crowdlending platform with issued $16 billion loans since inception and issued $2.6 billion loans in last quarter of 2015. Lending Club is operating since 2006, however, only the last three years account for $14.8 billion loans issued (Lending Club, n.d.).

Though the countries of domicile for the biggest crowdlending platforms are USA, UK and China, there is one lending platform from Baltic States that has been relatively successful on a global scale. The name of this lending platform is Bondora (before "IsePankur") and it was established in Estonia in 2008. Similar to Lending Club, only since 2014 Bondora is increasing a number of issued loans rapidly, i.e. from 9.3 million euro in January 2014 to 48.7 million euro in January 2016 (Bondora, n.d.).

2.3. Crowdlending in Latvia

Crowdlending platforms in Latvia are at a very early stage of development. According to available information the first crowdlending platform called Mintos launched its operations in Latvia in 2015. At the same year another platform called Twino launched its operations (Twino, n.d.). It is important to note that both platforms provide investment opportunities for investors from the whole EU.

Mintos, the first crowdlending platform in Latvia, provides an opportunity for private individuals to invest funds in the different types of loans, including mortgage loans, secured car loans, business loans, personal loans and invoice financing. These investments are offered with different level of security for investors – loans secured with collateral, loans with guaranteed buy-back in case of default or certain days overdue and also unsecured loans, e.g. private loans, invoice financing (Mintos, n.d.).

Mintos developed crowdlending platform provides possibility for the investors to obtain sufficiently detailed information on loan terms, interest rate, loan amount, repayment status, security, etc. This information is available in all phases of investment. The process of registering, investing and tracking loan status and repayments in the Mintos platform is considered to be very convenient, intuitive, user friendly and in general rather straight forward.

The total amount of loans funded by private investors within one year has exceeded 10 million euro, evidencing high demand from both investors and borrowers.

Figure 2: Total loans funded (cumulative); Source: Mintos (n.d.)

The actual average annual interest rate earned by private investors is in the range from 10% to 16%, depending on the type of a loan. A number of registered investors has reached almost 6000 with an average investment per investor of approx. EUR 5000 (Mintos, n.d.).

2.4.Regulations

Since the industry of crowdlending is rather new, the regulatory framework is in a very early stage of development. Comparing to the banking industry being heavily regulated, the crowdlending industry experiences both the benefits and the challenges from being regulated to low extent. However, due to the fact that this industry is rapidly developing public authorities on different levels realize the significance of need to evaluate the risks associated with the growth of the industry, thus different governmental institutions are discussing the steps to be taken in relation to improve transparency and predictability for all industry stakeholders.

On European level the European Commission is currently in process of assessing the necessity and value added for the common regulatory framework for all member states (The European Commission, n.d.). The European Banking Authority, hawing responsibility for monitoring the European financial system and banking industry, has also been assigned to oversee the new financial activities, e.g. crowdlending, in order to ensure safety and soundness of the industry and convergence in regulations (The European Banking Authority, 2015). After conducting analysis started in autumn 2013, the European Banking Authority concluded that convergence of regulatory practices is recommended to contribute creation of common European market with equal conditions for all participants. Considering all the above mentioned, the European authorities are in process of developing unified regulations for the industry.

If looking at individual member states some of those have developed and implemented special / amended existing regulations for the crowdlending industry – UK, Germany Italy, France, Finland and Spain. In other member states, e.g. Austria, Rumania, Lithuania and Belgium the regulations are in the approval process. UK being regarded as the fintech hub for the Europe has a well-developed regulatory framework for crowdlending industry. The compliance with respective regulations is monitored by the Financial Conduct Authority. Industry participants are willing to comply with the

Financial Conduct Authority regulations in order to gain trust and increase the level of safety in the eyes of both investors and borrowers of crowdlending platforms.

Comparing to the UK, in Latvia crowdlending regulations are still undeveloped. There are regulations on consumer lending that are indirectly linked to the borrower side of the operations of crowdlending platforms. However, the Finance Capital and Markets Commission, overseeing the finance industry in Latvia, has started development of regulations for crowdlending industry (likumi.lv, 2016). Considering the rapid development of the industry it can be expected that quite some time will be needed until the industry reaches a certain level of maturity in terms of regulatory framework.

2.5. Investor's decision-making process

Utility theory is one of the main and the oldest concepts that deal with people decision making process. This theory looks at the idea of expected utility and states that individuals are rational utility maximizers. The basic idea of the theory is that individuals would select options that allow them to maximize 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 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" (Sultana and Pardhasaradhi, 2012). To make intertemporal choices, i.e. deferred consumption versus immediate consumption, utility theory outlines the connection between investor's rationality, risk-averseness and ability to face complex investment options.

Looking further to the investor's decision making process, it is relevant to discuss the importance of investment diversification. This topic is well covered in the modern portfolio theory of Markowitz. According to Markowitz, in order to either minimize risks associated with investments or maximize returns, investors can decide to

establish portfolios to diversify their funds between different investment options (Markowitz, 1952).

However, some researches performed in the area of investor's decision making have been questioning the fundamentals of the utility theory. It has been evidenced that the models advocating and substantiating rationality of investors in the decision making process in many cases cannot explain the actual observed investors behaviour. Within this context, behavioural finance approach has emerged applying cognitive psychological and behavioural theory in addition to generally accepted economic theory to investigate and explain the behaviour of investors.

The most well-known alternative theory which brings together a lot of behavioural concepts applicable also for investor's decision making is Prospect theory, developed by Kahneman and Tversky (1979). The theory suggests that people do not always behave rationally. Instead, there are various psychological factors which impact decisions of people in case of uncertainty. In addition to prospect theory, there are numerous researches devoted to studying psychological and other factors influencing investor's behaviour, e.g. Barnewall's study on "Psychological Characteristics of the Individual Investor" (Barnewall, 1987).

Based on the above, besides traditional return and risk aspects, there are many other factors identified that influence investor's decision making. Remarkable and comprehensive work in this area has been done by Nagy and Obenberger, 1994. In their study they identified 34 variables, further grouped in 7 relatively homogenous groups that influence individual investor behaviour (Nagy and Obenberger, 1994).

3. Theoretical framework

3.1. Overview of Nagy and Obenberger model

Nagy and Obenberger carried out research on investment decision making process in order to look on this matter from the different perspective: *"Previous studies of retail investors behavior have examined motivation from economic perspectives or studied relationships between economic and behavioral and demographic variables. Examination of the various utility-maximization and behavioral variables underlying individual investor behavior -provides a more comprehensive understanding of the investment decision process."* (Nagy and Obenberger, 1994).

To investigate investor decision making process Nagy and Obenberger performed a survey asking the investors to evaluate the importance of particular 34 variables when they are making investment decisions. The mentioned variables were grounded by handling extensive testing beforehand. The 34 variables covered different areas potentially influencing investors decision making starting from traditional ones like expected earnings, minimizing risk and diversification needs, and ending with not so typical variables like friend or coworker recommendations, coverage in general press, environmental record and time before funds are needed. Through the survey respondents confirmed which of the variables are important, secondary and ignored during their investment activities.

Although, Nagy and Obenberger noted that investors have based their decisions to the great extent using classic economic utility theory, they also pointed out that investors use various criteria rather than a standard classical approach for investment decisions. In addition, during the study Nagy and Obenberger were seeking to identify if there are any groups consolidating the variables. As a result, Nagy and Obenberger came up with the conclusion that there are seven relevant groups of factors influencing investment decision making process of individual investors.

Groups of factors
Neutral information
Accounting Information
Self-Image / Firm-Image
Classic
Social Relevance
Advocate Recommendation
Personal Financial Needs

Table 1: Groups of factors influencing investors' decisions; Source: Nagy & Obenberger (1994)

The outlined framework developed by Nagy and Obenberger has been used by different other researchers, e.g. Sultana and Pardhasaradhi (2012) to investigate and study factors influencing investment decision making process.

3.2. Adaptation of Nagy and Obenberger model

The framework was developed by Nagy and Obenberger more than 20 years ago, thus there is a high probability that factors discussed in the framework might not be fully applicable in the current economic setting and for investment factor decision analysis for crowdlending in particular. It is obvious that classical investment decision factors mainly related to wealth maximization of investors like expected earnings, minimizing risk, diversification need, etc. have survived through the time, nevertheless, there are also factors that have become less important, disappeared or vice versa emerged because of development of technologies.

In order to adapt the Nagy and Obenberger model to the research topic of this paper, the three consecutive steps were performed. First, information obtained during the literature review regarding crowdlending was analyzed and applied. Next, the information from available secondary research done recently about similar research topic was used to test the application of the framework to investments in crowdfunding. Finally, the factors from the framework developed by Nagy and Obenberger as well as the adjustments made during the two previous steps were verified and confirmed by relevant key industry experts for application of the framework in the context of crowdlending within Latvia.

As a result of comprehensive literature review in relation to crowdfunding it was identified that significant technological development has been one of the main drivers for rapid crowdfunding industry development. Thus, the factors that derive from the mentioned technological development were considered as important and relevant to be used for supplementing the framework. In addition, considering the decreased trust of the society to the financial sector resulting from the global economic crisis as well as emerging crowdlending business models, the factors related to financial stability and transparency were reviewed and adjusted in the context and for the purposes of investor's decision making framework.

During the literature review, a detailed search was performed to identify the existence of available secondary research that would be as close as possible to the research topic of this paper. Consequently, the study about crowdinvestor's decision-

making was identified, confirming the application of the framework, developed by Nagy and Obenberger (Ebert and Schondorfer, 2014). After the review of the study work it was concluded that the Nagy's and Obenberger's framework is suitable for analysis of factors influencing investor's decision making regarding crowdlending. Moreover, the study work revealed an additional factor related to early adoption of new technologies that might be relevant to be included in the model.

Consequently, semi-structured interviews with the key industry experts were carried out reviewing in detail all the factors from the framework developed by Nagy and Obenberger, as well as supplementary factors added after review of literature and secondary research. Moreover, two additional factors related to regulations and business locations were added based on the strong recommendation from the experts. Thus, after the interviews the final model to be used for analysis of investors' decision making in crowdlending was established.

3.3. Final model used in research

Based on the steps outlined above, the table has been developed indicating the groups of factors that comprises all the key factors that are further used as a basis to create the survey questions to be distributed to respondents. All the mentioned factors were confirmed by external experts to be used in evaluating investment decision making factors in crowdlending in Latvia.

No.	Groups of factors	Key factors	NO	LR	SR	EI
1.	Neutral information	▪ General press coverage ▪ Financial press coverage	x x			
2.	Financial information	▪ Information sufficiency & transparency ▪ Performance reporting		x x		
3.	Self-image / platform-image coincidence	▪ Platform's reputation, trust and status ▪ Feelings about product / service ▪ Perceived ethics of platform	x x x			
4.	Classic	▪ Expected return ▪ Investment thresholds ▪ Risk minimization ▪ Tax consequences ▪ Regulatory framework	x x x x			 x

No.	Factor		NO	LR	SR	EI
5.	Social & personal relevance	▪ Platform's residence country				x
		▪ Solution convenience and simplicity		x		
		▪ Innovative investment		x		
		▪ Early adopters			x	
6.	Advocate recommendation	▪ Friends / family / coworkers	x			
		▪ Industry experts	x			
7.	Personal financial needs	▪ Competing financial needs	x			
		▪ Time before funds are needed	x			
		▪ Diversification needs	x			

NO – factors from the framework of Nagy and Obenberger
LR – factors added after literature review
SR – factors added after secondary research
EI – factors added after expert interviews

Table 2: Summary of final model; Source: Compiled by authors

Neutral information: Factors that are included in this group are related to the information covered in the mass media about crowdlending. In particular, it is important to understand if investors are seeking for and / or following information reflected both in general and financial press. Both of these factors represent external source of information that might influence investment decisions to a certain extent at the discretion of investors.

Financial information: Factors that are included in this group are related to availability, level of detail, sufficiency and transparency of information provided and maintained by crowdlending platforms. Existing platforms offer wide range of information on whole platform level, including the number of registered investors, average investment per investor, average return for investor, statistics on secondary market transactions, delayed payment information, etc. In addition, platforms are distributing personalised regular information on investment portfolio and actual performance of investments to existing investors.

Self-image / platform-image coincidence: Factors that are included in this group are connected with the overall image of the platform as it is perceived by the potential and existing investors. This covers reputation, status, moral principles and compliance with generally accepted code of business ethics of platforms, resulting in certain level of trust / mistrust towards platforms in the eyes of investors. Another element from this

group of factors is the investors' attitude towards platforms products and services, and the importance of clarity and credibility of its descriptions.

Classic: Factors that are included in this group are related to conventional aspects of investors' decision making comprising expected returns, minimum levels of investments, risk minimization, tax and regulatory consequences. These have traditionally been perceived as the main factors considered by investors during their investment activities. However, it is important to understand the relative importance of these factors compared to other outlined in the subject framework. Nowadays, the expected returns are in the centre of discussion for investors considering limited investment opportunities with reasonable risk and return combination. Since the application of income taxes might differ substantially depending on the country of residence of the investor and the tax compliance is the direct responsibility of investor, this might affect investors' willingness to participate in crowdlending platforms. Furthermore, the early stage of development of regulatory framework for crowdlending industry compared to well-regulated banking industry can be seen as a barrier for investments.

Social & personal relevance: Factors that are included in this group are connected to personal preferences of investors in terms of velocity and convenience in relation to investment processes. Most of these factors have emerged in line with trends of rapid technological development and consequential increase of people's expectations towards up-to-date ways of handling their daily needs including also investment activities. This group includes also a factor of social relevance covering the importance of location of base country for crowdlending platform.

Advocate recommendation: Factors that are included in this group are linked to opinions and recommendations received from various sources with different level of knowledge and expertise in the investment area containing friends and coworkers as well as industry experts. Another aspect is related to the potential herding behaviour of investors, i.e. potential investors are observing and following the trend of other investors' activities.

Personal financial needs: Factors that are included in this group are mainly related to ability to select and manage investment activities with needs of personal consumption. Flexibility in managing investments and choice of selecting between various investment terms and opportunities allow to capitalize and utilize the benefits of fast paced investment environment as well as unforeseen investment options.

4. Methodology

In order to obtain information necessary for defined research questions, the research part of this paper was based on cross sectional design. The paper includes both qualitative (semi-structured interviews of experts) and quantitative (potential investors survey) research methods. The mentioned methods and the application sequence (starting with the semi-structured interviews followed by the survey) ensured a sufficiently detailed study allowing to obtain adequately grounded answers to the research question.

The data collection included following steps covering both theoretical and empirical research parts:

1) Literature review of the aspects related to crowdlending and investors decision-making.

2) Analysis of the available information on the mentioned topics related to Latvia.

3) Interviews with experts from leading companies representing the crowdlending industry as well as other financial industry experts related to subject matter of the thesis:

   - Mārtiņš Valters, Co-founder and CFO of Mintos (crowdlending platform);
   - Ramona Miglāne, Chairwoman of Supervisory Board of Mintos;
   - Armands Broks, Founder and CEO of Finabay;
   - Jevgeņijs Kazaņins, CEO of Twino and former CMO of Bondora (crowdlending platforms in Latvia and Estonia respectively);
   - Anita Bērziņa, Board Member and Retail Vice-president of DNB bank;
   - Aldis Paegle, Board Member and CFO of Citadele Banka.

4) Survey of Latvia economically active inhabitants using the online survey conducting tool Qualtrics (list of survey questions attached in the Appendix A):

   a) Conducted during March 2016;

   b) Total amount of respondents >200;

   c) Respondents targeted based on reference list of authors;

   d) Languages of survey – Latvian;

   e) Type of questions: qualitative questions, answers quantified with the help of Likert scale (from 1 to 5);

   f) The main results of the analysis of the survey discussed with relevant experts.

The above mentioned data collection ensured sufficient answers to the research question and allowed to make substantiated conclusions for the paper. The data obtained during the research will be available to the banks, non-bank lenders, crowdlending platforms, state institutions and other organisations to whom it might concern for further analysis.

Following the theoretical framework described in the previous section and the developed factors of investors' decision making on participation in crowdlending platforms were further analyzed using the descriptive statistics analysis method. This method allowed to analyze the importance of the defined factors for investors decision making on participation in crowdlending platforms.

As a result it was assumed that the descriptive statistics analysis is the method that can be applied in analyzing the investors' preferences and decisions making process for participation in crowdlending. Therefore the survey of potential investors in crowdlending platforms was constructed based on list of factors defined in the previous sections in a way that it required the respondents to assess the importance of the defined factors.

5. Analysis of results

5.1. General overview of respondents

As a result of the distributed survey 208 valid responses were gathered that will be further analysed in this section. The gender distribution is quite equal with having 57% female and 43% male from all respondents.

If looking at the ageing structure of respondents it's obvious that main age group is 25 – 39 years having 60% from all respondents. The next largest group of respondents fits into 40 – 55 years old with 27% from all respondents which combined with the previous group amounts to 87% in total. These two age groups were considered to be the main target groups relevant for this research paper.
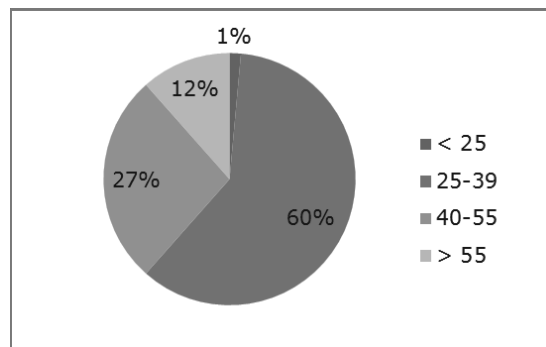

Figure 3: Respondents age groups; Source: Compiled by authors based on survey data

The youngest population below 25 years have provided very little response (only 1%), that seems to be logical since people from this age category have limited amount of funds available for investing, therefore reducing the interest to respond to the survey. Moreover, people from age group above 55 years constitutes 12% of respondents which is also relatively low and can be explained by the reason that this category of people is outside the age of average internet user in Latvia (Turība University, 2016). Since the goal of the survey was to cover questions regarding usage of online crowdlending platforms the survey was conducted in the internet, thus allowing to reach the right age groups.

Similarly to the age groups the education level of respondents concentrates in two main groups – respondents with bachelor and master degree level of education, reaching 90% in total of all respondents.
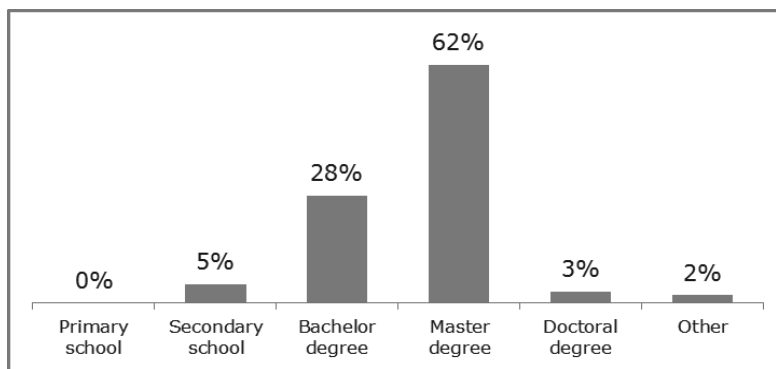
Figure 4: Respondents education level; Source: Compiled by authors based on survey data

The obtained results are in line with the expectations to approach and gather responses from people with higher education, however, the proportion of master level of education for respondents being double compared to bachelors exceeded the initially anticipated results, thus allowing to reach the targeted group even more precisely.

As concerns occupation of respondents there is a strong dominance in the group of employed people, totalling 76% of all respondents.
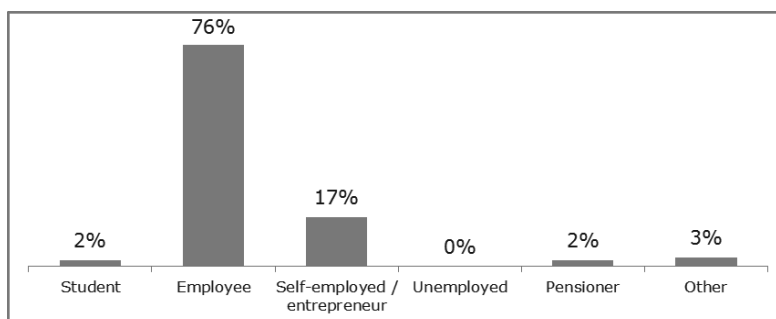

Figure 5: Respondents occupation; Source: Compiled by authors based on survey data

The low response level in the categories of students, unemployed and pensioners is logical since those were not in the audience targeted for this research topic.

When analysing the distribution of respondents between different income groups it can be concluded that there is no single group dominating, however, income levels of respondents inclines towards higher level income. Based on the assumption that has also been validated by the banking experts – the minimum required level of income for person in Latvia to start saving and considering further investing would be at least EUR 1000 gross monthly. This is also confirmed by the general statistics: "Population claims that the amount needed to pay for usual necessary expenses of one household member accounts for at least EUR 483 monthly" (Central Statistical Bureau of Latvia, 2016). Average number of people per household is 2.4 which supports the above outlined assumption.
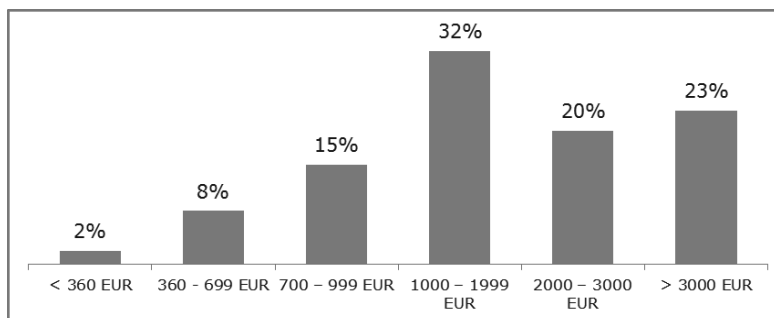
Figure 6: Respondents income levels; Source: Compiled by authors based on survey data

The obtained responses from respondents within the income group above EUR 1000 gross monthly represent 75% from all respondents.

It can be concluded that respondents from relevant income groups have been targeted successfully as only 21.3% from total population in Latvia have income above EUR 1000 compared to 75% representation from survey and only 4.1% having income above EUR 2000 compared to 43% representation respectively.

Looking further on the potential for the investments from the respondents it can be concluded that almost 70% of respondents have more than EUR 500 per year funds available for investment, giving around EUR 3000 potential annual investment per respondent. This goes in line with the information obtained from the experts regarding average investments in crowdlending platform in Latvia. The 32% of respondents with potential annual investment below EUR 500 correlates with the proportion of 25% for lower level income group below EUR 1000 gross monthly.
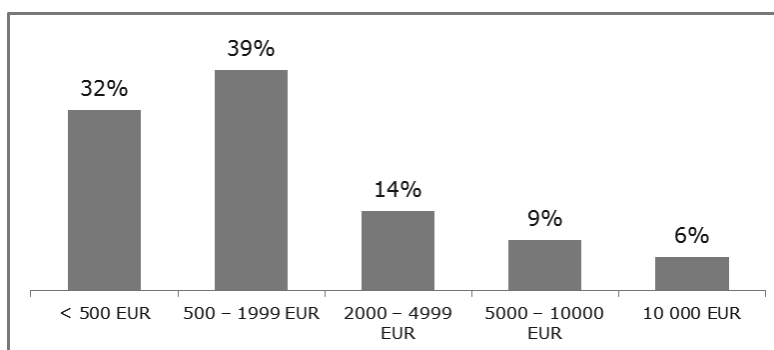

Figure 7: Potential investment level; Source: Compiled by authors based on survey data

When further analysing the expected return levels for investments the majority, 63% of all respondents, have selected two options that fall in a range between 10% - 20%. According to the market information the offers currently available for crowdlending are in line with the expectations of respondents. It can be concluded from the survey results that people would not consider seriously potential investments in crowdlending if the expected return would fall below 5%. The distribution of responses

in the remaining categories is relatively equal reflecting the differentiation for the expected return from various respondents.
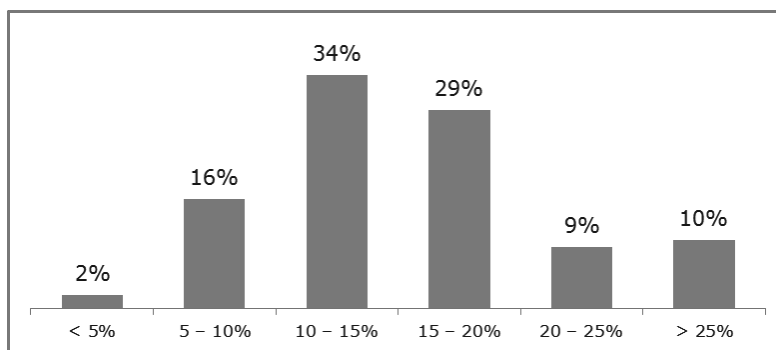

Figure 8: Expected returns; Source: Compiled by authors based on survey data

The investment period mostly selected by the investors is up to 1 year, clearly showing that investors prefer short-term rather than long-term investments, accounting for 79% of short-term focused investors. Moreover, there are almost no long-term focused investors that would be ready to set aside their funds for more than 3 years.
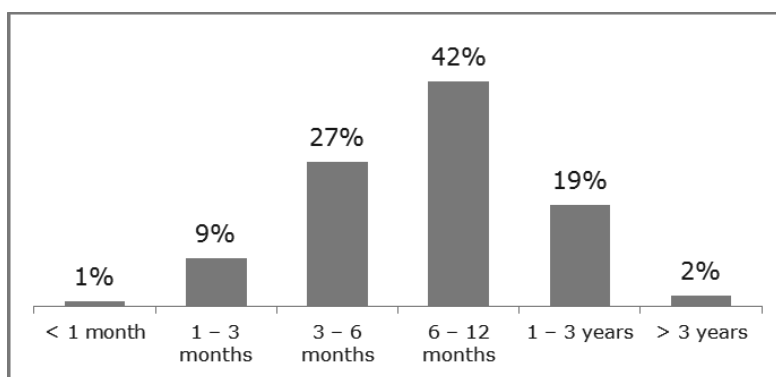

Figure 9: Expected investment periods; Source: Compiled by authors based on survey data

5.2. Analysis of investors' decision-making factors

The results of survey on investors' decision making were summarized based on 7 groups of factors according to the adjusted model. The summary table comprises the information on the mean and standard deviation for the responses. The mean is calculated considering the Likert scale used in the questions where respondents were asked to indicate their level of agreement / disagreement in relation to specific questions regarding crowdlending. The used scale allowed to select between 5 options for the provided statements: 1 – strongly disagree; 2 – disagree; 3 – neutral; 4 – agree; 5 – strongly agree. The mean of answers gathered is in the range between 2.86 and 4.45, showing the full spectrum of the responses averaging in tendency from disagreement to

strong agreement to the questions from the survey. The standard deviation for responses is in the range between 0.64 and 1.03 reflecting the distribution of the answers around the mean, thus indicating the level of confidence about the gathered data.
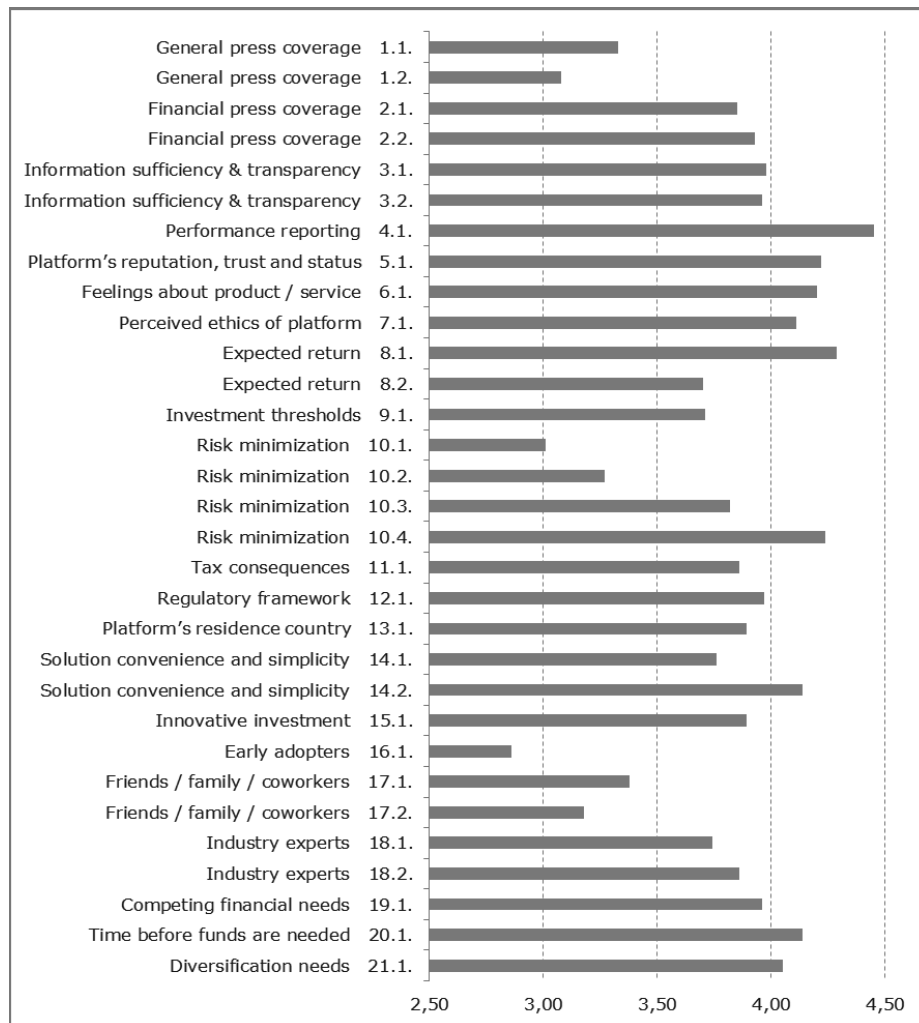
Figure 10: Summary of survey results; Source: Compiled by authors based on survey data

Neutral information

The results of the survey reveal that the respondents consider the importance of information in general press about crowdlending being relatively low. In addition, even if the information on the matter is obtained from general press it's almost neutral, having the mean 3.08 and doesn't influence the investors' decision on investing in crowdlending.

However, when it comes to the information that is reflected in financial press it appears that the potential investors perceive this information as valuable and useful. The respondents mostly agree having the mean 3.85 that they would follow information on

the crowdlending in financial press and would strongly consider that information when deciding about investing in crowdlending.

Thus, comparing both information sources general press and financial press it is clearly obvious that financial press plays more important role and is more useful for investors which can be perceived as a logical outcome.

Financial information

Overall, the factors' group of financial information has got comparatively high means. The survey results indicate that potential investors acknowledge when online crowdlending platforms offer comprehensive and sufficient information on investment opportunities. Additionally to the investment possibilities, potential investors' willingness to invest increases if online platforms provide information about historical performance on made investments by other people.

Moreover, according to the survey the respondents almost unanimously have pointed out the importance of receiving detailed and regular performance reporting in order to track the status on made investments. The mean has got 4.45 points and surprisingly is the highest comparing to all other factors exceeding even the expected financial return factor with the mean of 4.29. After performed interviews with the industry experts and subscription on Mintos and Twino platforms it can be concluded that the platforms take this factor into account and provide daily reports via emails to all investors.

Analyzing the responses by respondent income groups the slight tendency related to higher level of agreement to the three subject statements has been evidenced for respondents with higher income, i.e. above EUR 1000 gross monthly.

Self-image / platform-image coincidence

Thought to be the soft aspect, the Self-image / platform-image coincidence factor group is the only group where the mean for all factors is above 4 points and the standard deviation is rather low, i.e. in a range from 0.65 to 0.79, which means that most of the answers from respondents are very close to the average. The high mean for all factors indicates the importance of aspects related to the platforms reputation, product and service transparency and compliance with generally accepted code of business ethics in the eyes of potential investors. The importance of these aspects was confirmed during

interviews with the industry experts who highlighted the intensive work done to establish and maintain high level of platform's reputation.

Analysing the responses by respondent income groups there is a pattern for lower level of importance of all three subject factors respondents with lower income, i.e. below EUR 1000 gross monthly.

Classic

When looking at the classical factors of investors' decision making it is clear that the expected return on investments has almost always been the major factor for investors and when taken in a combination with the risk level this is often a topic on the top of the agenda when discussing investments possibilities.

Not surprisingly in the subject survey the respondents have clearly stated that expected financial return is important for them when evaluating investment possibilities with the mean of 4.29 and relatively low standard deviation of 0.69. In addition, when asked about expected returns in crowdlending in particular respondents tend to confirm that it is an attractive alternative compared to other types of financial investments, the mean for the answers amounts to 3.70.

Following the cross tabulation analysis it has been identified that male respondents show higher importance towards expected return on investments than female, having the means of 4.43 and 4.19 for male and female respondents respectively. In addition, male respondents are showing more optimistic attitude towards crowdlending compared to other investments. Similar trend for the higher importance on expected return and optimism towards crowdlending is evidenced for higher income level respondents. There is also a pattern that with the increase in age the importance of expected returns declines as well as the optimism related to crowdlending investments reduces.

In addition the respondents have provided a tendency that low investment thresholds are important for them when considering investment decisions, having the mean of 3.71. This goes in line with the indication by the respondents on how much money they can allocate for personal investments per year – approximately 70% of respondents stated that they are ready to invest up to 2000 EUR per year from which almost half responded that they can invest only up to 500 EUR per year.

Furthermore when it comes to the risk minimization the respondents have clearly shown that there is a strong need to balance properly the risk with the expected

return by providing a neutral answer to the question if they can tolerate a higher risk of losing my investment in consideration of higher returns. In addition when asked in particular about risk level in crowdlending the respondents have provided quite neutral answer with a slight tendency to agree with the statement that risk for investing in crowdlending is too high for the expected return if compared to other investments. Moreover there is a clear sign that respondents are willing to obtain some guarantees on made investments in crowdlending as they tend to confirm, with the mean for the answers of 3.82, that they would consider the level of risk acceptable if the online platforms would provide some guarantees in the possible form of buy-back of overdue loans, by issuing loans which are secured with collateral, etc.

Analyzing the risk factor of different age groups it can be observed that the respondents from the age group between 40 and 55 are more risk averse and in addition consider crowdlending as more risky compared to younger respondents. Another fact noted relates to female being more risk averse which correlates with male respondents seeking for higher return and consequently being ready to accept higher risk levels.

Looking from the IT risk perspective it is obvious that respondents have taken into consideration the potential IT risks associated with online platforms and with the mean of 4.24 have clearly emphasized the importance of high level IT security standards needed to be ensured by crowdlending online platforms. It is noticeable that female, respondents with higher income and elderly group of people consider IT security factor slightly less important than others groups.

Evidence has also been obtained from the survey results that respondents would prefer investing in crowdlending platforms if that industry would be regulated by applicable state institutions thus lowering the overall risk for the investment. The survey results reflect that female respondents as well as respondents in a higher age group consider regulation and monitoring of the crowdlending by the relevant state institutions more relevant than other respondents. The survey outlines that if the income from crowdlending investments would be taxable according to tax legislation that would influence their decision to invest.

Social & personal relevance

The respondents have overall showed the importance of social and personal relevance as important to their investment decision making process except for the early adopter factor. Thus survey results reflect that the residence country of crowdlending platform

plays an important role on investors' willingness to invest. As regards crowdlending platform provided solution the respondents have clearly stated that the speed, convenience and simplicity are important for them when performing investments transactions. In addition they have confirmed the preference of making investments online instead of having physical presence which is in favour of crowdlending investments. And also survey reflected that investors are willing to use the latest digital technologies when investing. However when asked about the early adoption factor respondents tend to disagree, having the lowest mean of 2.86, with the statement that they want to be among the first who tries out new and innovative investment possibilities.

Responses on Social & personal relevance questions reveals sound pattern for answers differentiating them based on gender, age and income level. Male, younger people and those with higher income are more willing to use the digital technologies instead of physical presence and they are more demanding for speed, convenience and simplicity when investing. This group is seeking to be early adopters and use the newest digital technologies in their investment process.

Advocate recommendations

Sound similarities and the same pattern can be observed after analysis of results gathered about factors related to the advocate recommendations and comparing them with neutral information factors.

Like with general press, potential investors are relatively neutral and moderate when considering advise from friends, family members, coworkers or in general from people and source of information with no particular experience and expertise in the field. With the mean of 3.38, respondents indicate that they are slightly more ready to invest if it is recommended by relatives and other people they know than to follow other people's behavior, where the mean is 3.18.

The survey reveals that when considering the relevance of recommendations provided by industry experts the potential investors' decision to invest increases apparently as is case of financial press coverage. The mean reaches 3.74 points, thus indicating that investors really care what people with particular expertise are saying and doing, i.e. concerning the potential herding behaviour of investors where potential investors are observing and following the trend of other investors' activities.

In relation to this factor group it stands out that people with lower income level believe more to the recommendations from family members and coworkers and they are also influenced more by what other people do in contrast of people with higher income level that tend to rely more on the opinions of industry experts.

Personal financial needs

Finally, when it comes to factors related to the personal financial needs, potential investors consider them as relatively important. According to the survey, the factor of competing financial needs, i.e. the ability to select and manage investment activities with needs of personal consumption has got mean of 3.96 and has close correlation with the factor related to choice of selecting between various investment terms, having the mean of 4.14.

Last, but obviously not least, with mean of 4.05, scores the factor related to ability to diversify investments between different loans. Luckily for investors, already now online crowdlending platforms like Mintos, Twino and Bondora allow to use auto invest, the convenient way to build a diversified investment portfolio.

6. Discussion of results

The developments of technological innovations as well as the global financial crisis, both experienced over the last decade, have facilitated the emergence of new business models, disrupting and transforming various industries. The financial industry, once being one of the most stable and solid, having the developed business models unaltered for a long time, is now in front of major changes, the total magnitude of which one cannot even estimate yet. One of the major issues associated with current financial industry is the existence of funding gap. As a result, alternative lending solutions, including crowdlending, have appeared with the focus to address this matter. In addition, crowdlending is not only closing the funding gap but also is taking away a part of the banking business and its customers, with the potential of considerable growth in future.

A year has passed since the topic of crowdlending has also appeared on the horizon of the financial arena in Latvia. Before 2015, hardly anybody in Latvia understood the concept and possibilities of crowdlending, also known as peer-to-peer lending. However, when it comes to new trends in the financial sector, currently the media is constantly bringing this particular subject to the attention. It seems that crowdlending is here to stay, because the current pace of investments in platforms is rather remarkable, reaching tens of millions of euros per month.

Understanding investors' decision making factors would be one of the main perspectives which could help to explain the rationale behind the increased willingness to invest in crowdlending industry. Apart from expected return, often considered as the main and driving factor, there are many other factors influencing the decision making of investors that are worth to be explored in detail. Crowdlending platforms focusing solely on expected return would not have reached the growth level for their business as they currently have. Moreover, to be able to establish scalable and sustainable business models and to create a long-term competitive advantage, crowdlending platforms need to successfully utilize all the relevant investment decision making factors.

When attempting to answer the research question – "*which factors determine the decision of private investors to invest through crowdlending platforms in Latvia*", it was found out that there are nine factors that should be considered as primary factors, having the mean above 4 points, influencing investors' decisions regarding investments in

crowdlending. These include factors that are important for investors both to make the investment decision as well as during the full investment period.

Not surprisingly, expected return has been reported as one of the main factors for investors. This has become even more important during the current times when the yields of investments for private investors have decreased significantly, reaching even zero level for traditional investment products, like bank's deposits. By offering the returns in range of 10 – 20 percent, online platforms will clearly be competitive to obtain a huge investment stream. However, it is of crucial importance for platforms to ensure that business models are developed in a way that allows to ensure sufficient demand from borrowers accepting and actually being able to pay higher interest than promised to investors. On the other hand, to ensure sufficient amount of the inflow of investments, platforms should target people which have higher expectations towards higher returns and according to the analysis those are men from younger age group and with higher income.

However, having the right business model which offers higher returns will not ensure the success of the platform, unless it is able to create and maintain solid trust, positive reputation and status, and comply with appropriate standards of ethics. The cornerstone of crowdlending business is definitely trust that should be created in the eyes of investors. This was strongly confirmed by the experts as during the interviews they emphasized that without trust in online platforms there would be no business at all. In order to increase the level of trust, platforms should consider several practical steps, e.g. ensuring the implementation and sound compliance with the standards set by the relevant and industry recognized financial regulatory bodies. Platforms residing in Latvia could consider registering in The Financial Conduct Authority (FCA) in the UK, thus increasing the trust level for both local and foreign investors. In the case of Latvia with currently no regulatory framework in place it would be advisable for platforms to cooperate with relevant state institutions to facilitate setting up and implementing appropriate local regulations.

The last main element that drives the motives of investors to participate in crowdlending is related to the actual offering of the platforms. The offering in this context comprises clear and sound information on products and services, investment timing and diversification possibilities. In general, the market participants in Latvia considering the lessons learned from other industry players strive to provide simplicity and clarity about their products and services. For example, Mintos and Twino, in

contrast to Bondora, have been better at developing and providing their offer to the investors, thus being one of the reasons allowing Mintos and Twino to outpace Bondora in terms of business growth. Another aspect of this element is the flexibility that is expected by investors who have clearly reported that investment timing and ability to diversify between different loans is critically important. Therefore, the platforms should continuously monitor the personal financial needs of the investors and adjust the investment options accordingly.

When it comes to the stage after investment decision, investors have emphasized the need for regular performance reporting on investments. Surprisingly, this factor has the highest mean above all others, but if taken into the context of trust to platforms, reporting is a measure that allows to increase confidence for investors on their investments, thus explaining the high rating for this factor. It seems that platforms in Latvia have really taken this into consideration as they are providing their investors with regular, various and detailed performance and status reports.

In addition to reporting, majority of current platforms are providing the possibility of automatic investing via specialized tool, called "auto invest", which facilitates the speed, convenience and simplicity when doing investment transactions. Not surprisingly, people who invest are in the higher income group and according to survey results, they value their time and consequently expect to have more efficient investment process. To ensure the efficiency of the process, platforms are highly dependent on proper IT solutions.

Besides the advantages, exploration of IT technologies comes along with associated IT security risks. The respondents have stated the importance of high level IT security standards, therefore platforms need to implement proper and up-to-date solutions to address this matter, including regular IT security audits, penetration tests, secure coding practices, etc.

Apart from IT risks, the credit risks for investors must be addressed properly. For Latvia market in particular, investors have indicated the strong need for guarantees on their investments in crowdlending. Although, local platforms are already offering buy-back guarantees for overdue loans and providing also collateralized loans, they need to continue development of additional guarantee schemes to cover the expectations of investors and create a perception into the eyes of investors that their investments would be secure even in the times of potential future crisis.

Finally, to attract the investors, platforms should contribute to spreading information through specialized financial press and finance industry experts because potential investors, those with higher income, have shown more trust to these information sources.

The main limitations for the methodology used in this research paper are the following:

1) The full completeness of the factors related to the investors' decision-making that are identified as relevant and used in this research paper can be questioned as the crowdlending industry is very new and there is relatively limited prior research done for this topic within the industry. Therefore, to address the limitation the used methodology for investment decision-making factor analysis were based on several independent resources - literature review, widely used Nagy and Obenberger model, secondary research in the industry as well as interviews with experts.

2) The experts to be interviewed were chosen based on their knowledge about crowdlending industry in Latvia. Therefore the co-founders & top managers of 2 main existing crowdlending platforms in Latvia were interviewed. It was assumed that mentioned representatives of crowdlending platforms possess significant amount of information regarding the industry however at the same time this might create a reason for bias when discussing industry related questions. Therefore, in addition to crowdlending, experts from the finance industry were interviewed to obtain the opinions from different perspectives. Moreover, to decrease the possibility for potential bias the questions to the experts were addressed requiring to respond with precise answers where possible (ref. to interview guide).

3) The overall understanding in the society about the crowdlending industry can be regarded as relatively low due to early stage of the industry development. This in turn can lead to lower quality of responses from respondents. In order to address this limitation a simple but sufficiently detailed description and visualisation were included in the first section of the questionnaire. Moreover, the questionnaire was pretested by a number of people without previous knowledge about the industry.

4) The respondents of the survey were targeted using the reference network of the authors including friends and relatives, co-workers, existing and alumni students

from the Executive MBA program at Stockholm School of Economics in Riga and other people in close social network with the authors. The results are showing that respondents from higher income segment have been targeted by the survey if compared to overall income levels in Latvia. Therefore, there is a probability that the responses obtained might be biased by one particular income segment and thus the results might not be possible to generalize to the level of general public. However, as discussed in the research paper the potential investor in crowdlending is a person from the segment with high income compared to average income level in Latvia, therefore the profile of survey respondents matches with the profile of potential investor in crowdlending.

5) There are general limitations for data obtained when conducting online surveys e.g. no control over data collection, low sample control and also low response rate. Nevertheless, there are significant advantages for using online survey as the main data collection method such as high efficiency in terms of low cost and very high speed, higher possibility to obtain sensitive information from respondents and also higher perceived anonymity by the respondents and other advantages that were considered when choosing this method as the main for this research paper.

7. Conclusions

The goal of this research paper was to identify which factors determine the decision of private investors to invest through crowdlending platforms in Latvia. By carrying out all the required methodological steps of the research paper, a model was developed that included 21 factor, covering all the main aspects of investors' decision making process. With the help of online survey the developed model was successfully used to obtain data that allowed to answer the research question of this paper.

It was confirmed that apart of classic factors, i.e. expected return on investment and risk, there is a number of other factors that drives investment decisions. With the help of this study an in-depth understanding has been developed on which are the primary and secondary factors for investors as well as the factors that are neutral in decision-making process for investors. In total, 9 factors out of 21 were concluded to have primary importance for investors, comprising expected return, platform's reputation, trust and status, perceived ethics of platform, feelings about products and services, solution convenience and simplicity, length of investment period, diversification possibilities, IT security standards and performance reporting.

Considering the rapid and continuous growth it is obvious that the crowdlending industry will become a more important part of the overall financial sector in future. Therefore, all the industry stakeholders should be interested to assess the opportunities and threats associated with crowdlending. Since there is no research done in Latvia about crowdlending and investment factors, this paper provides valuable insights in to the subject.

Due to the fact that this paper focuses on the investors' part of the crowdlending business model it is suggested that further research is done investigating the borrowers part of the model, thus allowing to obtain full overview on the subject industry.

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9. Appendices

Appendix A: Interview guide

1. <u>General questions</u>

    1.1. Why do you think the crowdlending industry has emerged?

    1.2. How do you see the further development of the crowdlending industry in terms of pace, scale, etc.?

    1.3. What are the main opportunities associated with the development of crowdlending industry?

    1.4. What are the main risks associated with the development of crowdlending industry?

    1.5. What are the main characteristics of people who invest in crowdlending?

    1.6. What are the main factors that influence the decision of private investors to invest in crowdlending?

2. <u>Questions related to the model</u>

    2.1. Please provide your opinion and discuss whether and how the following factors could influence the decision of private investors to invest in crowdlending:

    - General press coverage
    - Financial press coverage
    - Platform's reputation, trust and status
    - Feelings about product / service
    - Perceived ethics of platform
    - Expected return
    - Investment threshold
    - Risk minimization
    - Tax consequences
    - Friends / family / coworkers
    - Industry experts
    - Competing financial needs
    - Time before funds are needed
    - Diversification needs
    - Information sufficiency & transparency
    - Performance reporting
    - Solution convenience and simplicity
    - Innovative investment
    - Early adopters

    2.2. Are there any factors that should be excluded, and if yes, which ones and why?

    2.3. Are there any factors that are missing in the list and should be added?

Appendix B: Survey questionnaire

Questionnaire on investors' decision making

The goal of this survey is to obtain information regarding private investors' readiness to invest through crowdlending platforms and investment decision making factors.

This survey is anonymous and the results will be used only for the purposes of the Executive MBA program (2014 – 2016) in Stockholm School of Economics in Riga. The completion of this survey will take about 10 minutes. Thank you for your time! Your opinion on the matter is very important for us!

Background information about crowdlending platforms

By using crowdlending platforms, private investors can invest their free funds in loans to other private persons, seeking borrowing opportunities. Crowdlending platforms can be regarded as "a bridge" between two parties – lenders and borrowers.
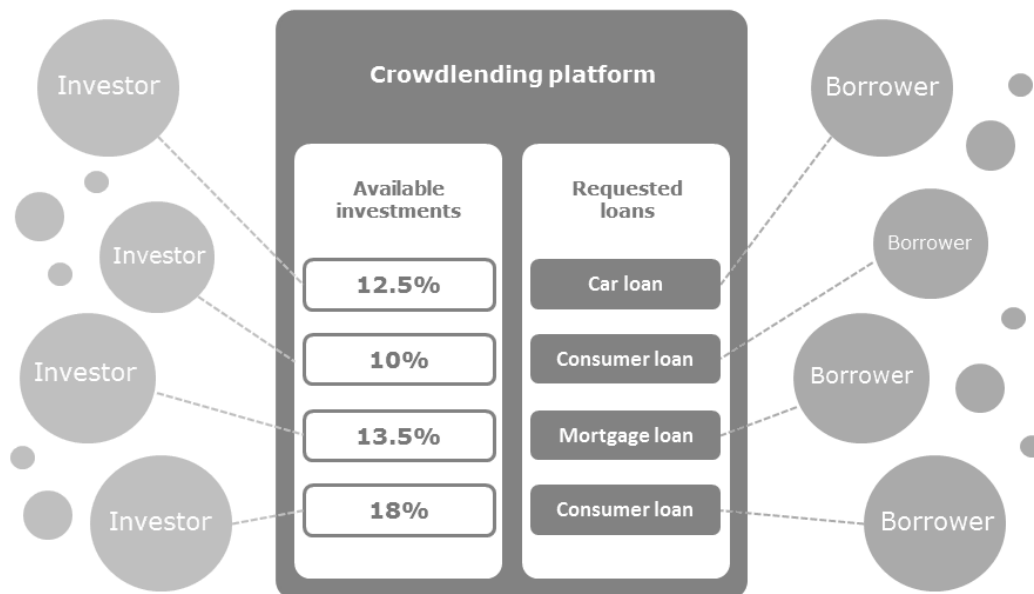
1. Neutral information

If you would consider investing through crowdlending platforms, please indicate your level of agreement / disagreement in relation to the statements below:

    1.1. I would follow information about crowdlending in general press.

    1.2. Information in general press would be important for decision to invest.

    1.3. I would follow information about crowdlending in financial press.

    1.4. Information in financial press would be important for decision to invest.

2. Financial information

If you would consider investing through crowdlending platforms, please indicate your level of agreement / disagreement in relation to the statements below:

    2.1. I would more likely to invest if online platforms provide sufficient financial information about investment possibilities.

    2.2. Information available on historical performance of other investors would increase my willingness to invest.

    2.3. It is important to receive regular and detailed reports on made investments.

3. Self-image / platform-image coincidence

If you would consider investing through crowdlending platforms, please indicate your level of agreement / disagreement in relation to the statements below:

    3.1. Positive reputation about crowdlending platform would increase my willingness to invest.

    3.2. Sound and understandable product and service descriptions are relevant for me when deciding on investing.

    3.3. Platform's compliance with generally accepted code of business ethics would positively influence my decision to invest.

4. Classic

If you would consider investing through crowdlending platforms, please indicate your level of agreement / disagreement in relation to the statements below:

    4.1. Expected financial return is important when evaluating investment possibilities.

    4.2. Considering high returns, crowdlending is an attractive alternative compared to other financial investments (bank's deposits, pension, saving plans, insurance schemes, etc.).

    4.3. I can tolerate a higher risk of losing my investment in consideration of higher returns.

    4.4. Compared to other investments, the risk of investing in crowdlending is too high for the expected return.

    4.5. I consider the level of risk acceptable if crowdlending platform guarantees buy-back of overdue loans, if issued loans are secured with collateral, etc.

    4.6. It is important for me that crowdlending platforms ensure high level IT security standards.

    4.7. Low investment threshold is important when considering investments.

    4.8. Tax applicability on earnings from investments influences my decision to invest.

4.9. It is important that activities of crowdlending platforms are regulated by relevant state institutions.

4.10. I would be ready to invest in crowdlending if the expected return would be:

- ○ < 5%
- ○ 5 – 10%
- ○ 10 – 15%
- ○ 15 – 20%
- ○ 20 – 25%
- ○ > 25%

5. Social & personal relevance

If you would consider investing through crowdlending platforms, please indicate your level of agreement / disagreement in relation to the statements below:

5.1. Crowdlending platform's country of residence is important my willingness to invest.

5.2. I prefer making investments online instead of physical presence.

5.3. The speed, convenience and simplicity are important when performing investments transactions.

5.4. I like to use the latest digital technologies when investing.

5.5. I like to be among the first that tries out new and innovative investment possibilities.

6. Advocate recommendation

If you would consider investing through crowdlending platforms, please indicate your level of agreement / disagreement in relation to the statements below:

6.1. I would more likely to invest if it was suggested by friends, family or coworkers.

6.2. I would be more likely to invest if it was recommended by industry expert.

6.3. I would be more likely to invest if many people do so.

6.4. I would be more likely to invest if I can observe other investors experience beforehand.

7. Personal financial needs

If you would consider investing through crowdlending platforms, please indicate your level of agreement / disagreement in relation to the statements below:

7.1. I prefer flexible operations with my funds when investing.

7.2. Possibility to choose between different investment terms would increase the likelihood of investment.

7.3. Option to diversify investments between different loans increases my willingness to invest.

7.4. The most attractive investment period for me is:

- o < 1 month
- o 1 – 3 months
- o 3 – 6 months
- o 6 – 12 months
- o 1 – 3 years
- o > 3 years

8. General information

8.1. Please indicate your gender:

- o Male
- o Female

8.2. Please indicate your age:

- o < 25
- o 25-39
- o 40-55
- o > 55

8.3. Please indicate your level of education:

- o Primary school
- o Secondary school
- o Bachelor degree
- o Master degree
- o Doctoral degree
- o Other (please specify)

8.4. Please indicate your current occupation:

- o Student
- o Employee
- o Self-employed / entrepreneur
- o Unemployed
- o Pensioner
- o Other (please specify)

8.5. Please indicate your income per month after tax:

- o < 360 EUR
- o 360 - 699 EUR
- o 700 – 999 EUR
- o 1000 – 1999 EUR
- o 2000 – 3000 EUR
- o > 3000 EUR

8.6. Please indicate your how much money can you allocate for personal investments

per year:

o < 500 EUR
o 500 – 1999 EUR
o 2000 – 4999 EUR
o 5000 – 10000 EUR
o > 10 000 EUR

8.7. If you have invested, please indicate your which platform(s) did you use:

o Mintos
o Twino
o Bondora
o Other (please specify)
o I have not yet invested using crowdlending platforms

8.8. If you have not invested, please indicate the main reasons for that:

o I am not familiar with crowdlending
o The risk is too high
o The return is too low
o The conditions are not attractive
o I do not trust crowdlending platforms
o I prefer other investments (please specify)
o Other (please specify)

8.9. Please indicate what kind of investment do you currently prefer?

o Bank's deposit
o Pension plan
o Saving plan
o Real estate
o Securities, shares, investment funds
o Other (please specify)

8.10. Please indicate your readiness to invest through crowdlending platforms:

o Generally I am ready to invest

Appendix C: Summary on survey results

Groups of factors	Key factors & Survey questions	Mean	STD
Neutral information	**1. General press coverage**		
	1.1. I would follow information about crowdlending in general press.	3.33	0.99
	1.2. Information in general press would be important for decision to invest.	3.08	0.90
	2. Financial press coverage		
	2.1. I would follow information about crowdlending in financial press.	3.85	0.96
	2.2. Information in financial press would be important for decision to invest.	3.93	0.88
Financial information	**3. Information sufficiency & transparency**		
	3.1. I would more likely to invest if online platforms provide sufficient financial information about investment possibilities.	3.98	0.79
	3.2. Information available on historical performance of other investors would increase my willingness to invest.	3.96	0.75
	4. Performance reporting 4.1. It is important to receive regular and detailed reports on made investments.	4.45	0.71
Self-image / platform-image coincidence	**5. Platform's reputation, trust and status**		
	5.1. Positive reputation about crowdlending platform would increase my willingness to invest.	4.22	0.65
	6. Feelings about product / service		
	6.1. Sound and understandable product and service descriptions are relevant for me when deciding on investing.	4.20	0.66
	7. Perceived ethics of platform		
	7.1. Platform's compliance with generally accepted code of business ethics would positively influence my decision to invest.	4.11	0.79

Classic	**8. Expected return**	4.29	0.69
	8.1. Expected financial return is important when evaluating investment possibilities.		
	8.2. Considering high returns, crowdlending is an attractive alternative compared to other financial investments (bank's deposits, pension, saving plans, insurance schemes, etc.).	3.70	0.87
	9. Investment thresholds	3.71	0.84
	9.1. Low investment threshold is important when considering investments.		
	10. Risk minimization		
	10.1. I can tolerate a higher risk of losing my investment in consideration of higher returns.	3.01	1.01
	10.2. Compared to other investments, the risk of investing in crowdlending is too high for the expected return.	3.27	0.87
	10.3. I consider the level of risk acceptable if crowdlending platform guarantees buy-back of overdue loans, if issued loans are secured with collateral, etc.	3.82	0.78
	10.4. It is important for me that crowdlending platforms ensure high level IT security standards.	4.24	0.74
	11. Tax consequences		
	11.1. Tax applicability on earnings from investments influences my decision to invest.	3.86	0.87
	12. Regulatory framework		
	12.1. It is important that activities of crowdlending platforms are regulated by relevant state institutions	3.97	0.99
Social & personal relevance	**13. Platform's residence country**		
	13.1. Crowdlending platform's country of residence is important my willingness to invest.	3.89	0.82
	14. Solution convenience and simplicity		
	14.1. I prefer making investments online instead of physical presence.	3.76	1.02
	14.2. The speed, convenience and simplicity are important when performing investments transactions.	4.14	0.71
	15. Innovative investment		
	15.1. I like to use the latest digital technologies when investing.	3.89	0.84
	16. Early adopters		
	16.1. I like to be among the first that tries out new and innovative investment possibilities.	2.86	1.03

Advocate recommendation	**17. Friends / family / coworkers**		
	17.1. I would more likely to invest if it was suggested by friends, family or coworkers.	3.38	0.99
	17.2. I would be more likely to invest if many people do so.	3.18	0.94
	18. Industry experts	3.74	0.87
	18.1. I would be more likely to invest if it was recommended by industry expert.		
	18.2. I would be more likely to invest if I can observe other investors experience beforehand.	3.86	0.79
Personal financial needs	**19. Competing financial needs**		
	19.1. I prefer flexible operations with my funds when investing.	3.96	0.73
	20. Time before funds are needed		
	20.1. Possibility to choose between different investment terms would increase the likelihood of investment.	4.14	0.64
	21. Diversification needs		
	21.1. Option to diversify investments between different loans increases my willingness to invest.	4.05	0.73