Lucerne University of Applied Sciences and Arts

Marketplace Lending Report Switzerland 2023

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The Study

The Marketplace Lending Report represents the third comprehensive overview of debt capital financing for companies, public corporations and private individuals in Switzerland via the Internet. This analysis delves into the field of online platforms that connect lenders and borrowers, essentially bypassing the traditional financial intermediary role played by banks. The Institute of Financial Services Zug IFZ has been diligently studying the online debt capital market segment since 2012, focusing particularly on one segment of marketplace lending, the crowdlending market. In this space, individuals or professional investors fund other individuals or businesses. A distinctive aspect of this financing model is that loans are listed on platforms accessible to both private and professional investors.

Since 2018, there has been notable growth in platforms catering exclusively to professional and institutional investors. The Marketplace Lending Report encompasses platforms dedicated to institutional investors and borrowers (B2B business) as well as those open to private investors. This study is a collaborative effort between the Lucerne School of Business and the Swiss Marketplace Lending Association (SMLA). Its primary objectives are to emphasise the increasing economic significance of the Swiss online financing market and enhance market transparency. The valuable data for this publication has been generously provided by numerous Swiss platforms for research purposes. We would like to thank Apex Group for the financial support of the research. Also, we thank the marketplace lending platforms for their continuing support and expertise. Lastly, we thank our colleague Mariam Naseri, who contributed to this study.

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1 Objective and Structure of the Report

This study aims to illustrate and discuss the present state and emerging trends within the Swiss marketplace lending landscape, focusing specifically on platforms based in the country. Through the publication of market statistics, our objective is to enhance the transparency of the Swiss online finance marketplace, offering an encompassing view of pivotal trends. Moreover, this study attempts to provide an all-encompassing portrayal of each funding alternative and key market participants. The study's intended audience comprises not only professionals but also the general public.

The Institute of Financial Services Zug IFZ of the Lucerne School of Business collected data from most of the marketplace lending platforms operating in Switzerland in 2022. The data of certain subsegments are covered by the dataset of the annual Crowdfunding Monitor (Dietrich & Amrein).[1] The Swiss Marketplace Lending Association (SMLA) collected additional data from its members (risk and return figures, innovations and composition of institutional investors).

The report is structured as follows: After the introduction in Section 2, Section 3 discusses the evolution of the Swiss online lending market, outlining the market's volume as well as describing market participants. Section 4 shows the relevance of institutional investors and identifies investment barriers to institutional funding. Section 5 provides an overview of innovations driving the Swiss marketplace lending market. Section 6 closes with an outlook for the Swiss marketplace lending market.

[1] Dietrich, A. & Amrein, S. (2023). Crowdfunding Monitor Schweiz 2022. Rotkreuz: Verlag IFZ.

2 An Introduction to Marketplace Lending

The following section provides an introduction to marketplace lending. Moreover, the chapter offers a conceptual overview of business models in marketplace lending, which will be used as a framework for the market analysis in Section 3.

2.1 Financial Intermediation Through Marketplace Lending

Marketplace lending describes how debt capital is arranged between lenders and borrowers online. The intermediation occurs via credit marketplaces, referred to as platforms here. Borrowers can be private individuals, companies or public corporations. Lenders may be private individuals or professional and institutional investors such as insurances, funds, pension funds, banks, family offices, foundations, companies or other legal entities. The borrowed capital can be granted by only one or several entities. To meet a marketplace's criteria for this study, a platform must be accessible to more than one lender. For example, online platforms run by individual banks to distribute loans are excluded and out of the scope of this study.

Figure 1 visualises a simplified loan transaction process on a marketplace lending platform. Potential borrowers submit a loan application to a platform and must disclose various data. Investors can select and invest in loans on the platform. Once one or several investors have been found to finance the loan, a loan agreement is often concluded between the lender(s) and the borrower directly. Other business models also exist, where loan agreements are made through the platform (with the platform as the legal counterparty). The investors transfer the loan amount to the borrower. Subsequently, the borrower typically has to repay the loan amount and interest to the lenders over a predetermined period. The interest payment usually depends (among other factors) on the loan terms, the general interest rate level and the borrower's risk of default. The platform receives fees from borrowers and/or lenders for its brokerage services. The fees depend on the business model and the services provided.

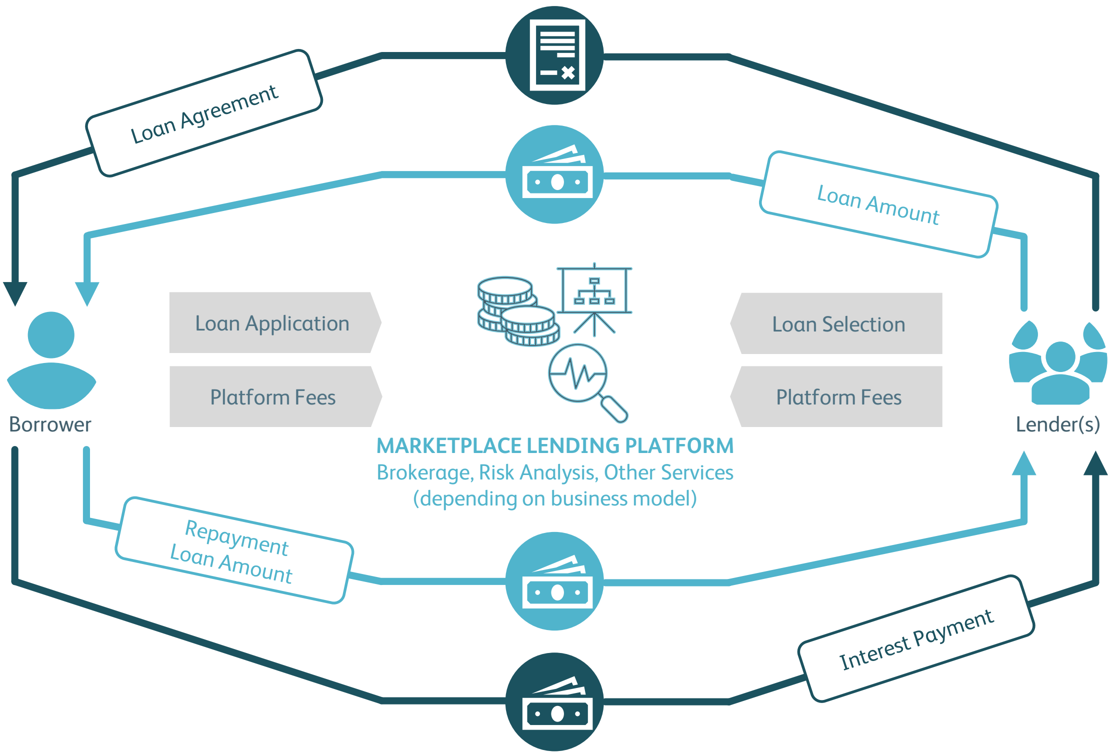

Figure 1: Capital Flows and Services of a Marketplace Lending Platform (illustrative)

Terminologies: P2P Lending, Crowdlending, Marketplace Lending and Online Alternative Finance

The existing literature and market participants use various terminologies for the online financing of loans to consumers, small and medium enterprises (SMEs[2]) and other entities. "Peer-to-Peer (P2P) lending" emerged as the first term to describe the online intermediation of loans. With the growing popularity of crowdfunding, however, the term crowdlending also became increasingly common. Crowdfunding was derived from a concept described as "crowdsourcing" by journalist Jeff Howe in Wired magazine in 2006.[3] Both P2P lending and crowdlending were often perceived as enabling the financing of a loan by one or more private individuals ("peers"). However, as lenders became more diverse and institutional investors gradually started to engage in online loan platforms, the basic concept of loan financing from peers was increasingly diluted.

The term "marketplace lending" allows a broader scope in defining loan financing through online platforms. Bearing in mind the involvement of various investors, the idea of marketplace lending as a marketplace for credit is more accurate in describing the business model of the respective platforms.

"Online Alternative Finance" is another term often used to describe business models relating to online capital-raising activities.[4] Similarly to crowdfunding, Online Alternative Finance has a broader scope, including debt-based, equity-based and non-investment-based financing activities (reward-based and donation-based crowdfunding). The idea of "alternative" signals that business models in this area typically operate outside of the traditional banking and capital markets. This study uses the term "marketplace lending". It is broad enough to cover a variety of platforms with various borrowers and lenders while focusing solely on debt capital intermediation through online platforms.

The first marketplace lending (at the time P2P) platform was Zopa, launched in the United Kingdom in 2005. The platform focused on servicing private individuals with consumer/personal loans. In 2006, the first platform in the United States, Prosper, was established. As Zopa, Prosper started by offering personal loans. The first Chinese marketplace lending platform, Paipaidai – also focusing on consumer finance – was established in 2007. In Switzerland, the first lending platform, Cashare, was launched in 2008. Since then, there has been a rapid increase in these platforms globally and locally. By the end of 2022, there were 29 marketplace lending platforms in Switzerland.

Banking vs. Marketplace Lending

Financial intermediation through marketplace lending platforms is fundamentally different from that of banks. While banks lend via their balance sheet, the platforms usually act as intermediaries without using their balance sheets. Banks traditionally provide lot size, maturity and risk transformation functions in financial intermediation. For example, banks convert savings from several lenders into one large loan or use short-term funds for long-term loans. Marketplace lending removes these roles of banks. Thus, lenders themselves bear the risk of credit default and must be concerned about portfolio diversification. In return, lenders receive direct access to an additional asset class. Moreover, the income of marketplace lending platforms is not based on interest income – as is the case for banks – but on fees and commissions. Therefore, this report explicitly excludes loans with a balance sheet entry by the intermediary from the definition of marketplace lending. Banks offering loans online through their website or online banking are excluded from our analyses. Additionally, the study does not encompass private debt investments with no involvement from online platforms.

[2] SME are defined as companies with less than 250 employees.
[3] Howe, J. (2006). The Rise of Crowdsourcing. Wired magazine. Issue 14.06.
[4] For a more detailed discussion of the term, see: Cambridge Centre for Alternative Finance (2020). The Global Alternative Finance Benchmarking Report, p. 30.

2.2 A Conceptual View on Business Models

Platform business models in the marketplace lending market are heterogeneous and can be categorised according to several characteristics. Figure 2 divides two relevant dimensions (borrower and lender type) into three sub-categories. Lenders can be i) private individuals, ii) professional or institutional investors (e.g. family offices, funds) or iii) banks. Borrowers may be i) private individuals, ii) SMEs, large corporates, public corporations or entities (e.g. municipalities, cities, cantons, public or near-public entities such as hospitals) or iii) banks.

A clear distinction of business models along the nine segments is not possible. For example, the investor base of some platforms is diverse and consists of institutional and private lenders. The same applies to the borrower side, where a platform might facilitate loans to various entities.

Nevertheless, the eight segments shown in Figure 2 serve as a conceptual guide to characterise business models among marketplace lenders in Switzerland. In addition to the lender and borrower dimension, various other characteristics can also be considered. These are, for example, loan duration and its collateral or the platform's service offering. In Switzerland, we currently identify eight different loan types brokered on platforms:

- i) consumer loans,
- ii) real estate loans,
- iii) business loans (for SMEs),
- iv) mortgage loans (brokerage),
- v) OERK & institutional loans,
- vi) loans to mid-sized and large corporations,
- vii) public bonds, and
- viii) money market loans.

The first three subsegments are often referred to as the crowdlending segment because investments are open to both private and professional investors.

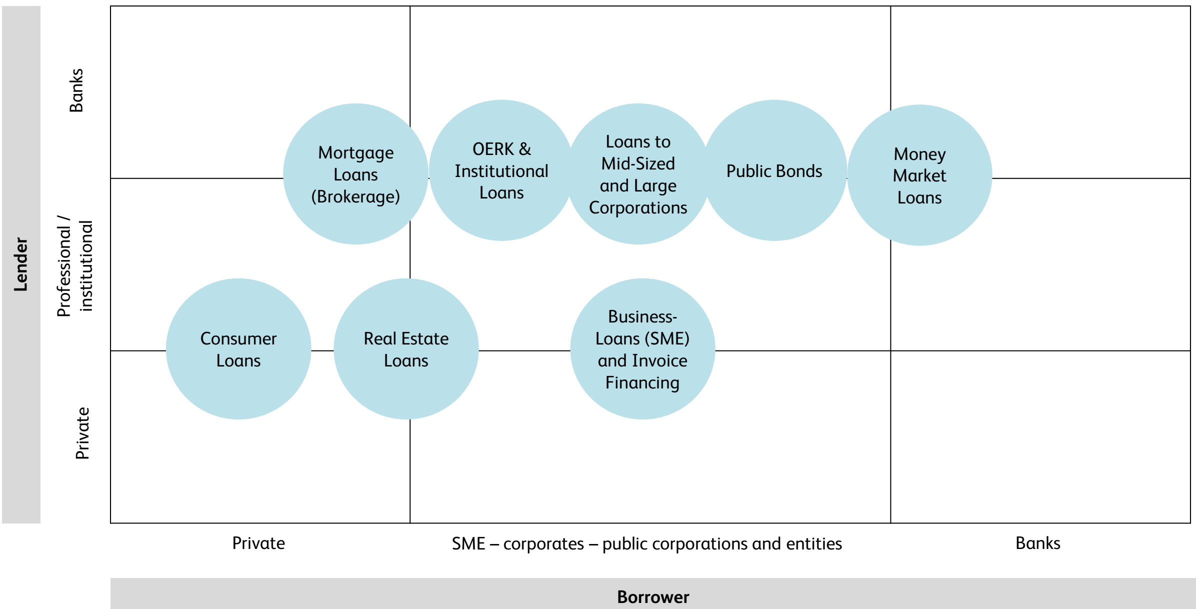

Figure 2: Conceptual Framework for Business Models in Marketplace Lending (bubble sizes do not indicate market volumes)

Marketplace Lending as a Part of Private Debt

There are various definitions for private debt. In the broadest sense, private debt includes any debt financing via a non-public market. In contrast to the public market (e.g. stock exchange), private debt instruments are typically illiquid. Therefore, the lender generally intends to maintain the exposure until maturity. Furthermore, there is usually no public market pricing for these instruments.[5] Per this definition, marketplace lending, as defined in Section 2, can be viewed as a part of private debt.

While marketplace lending is a new asset class, private debt already has a long track record. In spring 2023, Apex Group, supported by PitchBook Data, published a report on private markets' global and long-term evolution. The following paragraphs summarise the study provided by Apex, focusing on private debt.

Download Apex Group's report on private markets: The Growth and Evolution of Private Markets

The report provides insights on:

- Changing investor bases
- Fundraising challenges
- Unlocking opportunities
- ESG, Fintech and new asset classes
- Practical takeaways for fund management

Due to the heterogeneity of private debt instruments, measuring the market's size is challenging. One perspective to analyse the evolution of private debt volumes is to measure the fundraising activity of private debt funds. Figure 3 shows the fundraising activities of private debt funds from 2012 to 2022. In 2012, the total global fundraising volume reached USD 71.9bn. 2012 was followed by almost continuous growth of private debt volumes until 2021, reaching USD 264.4bn.

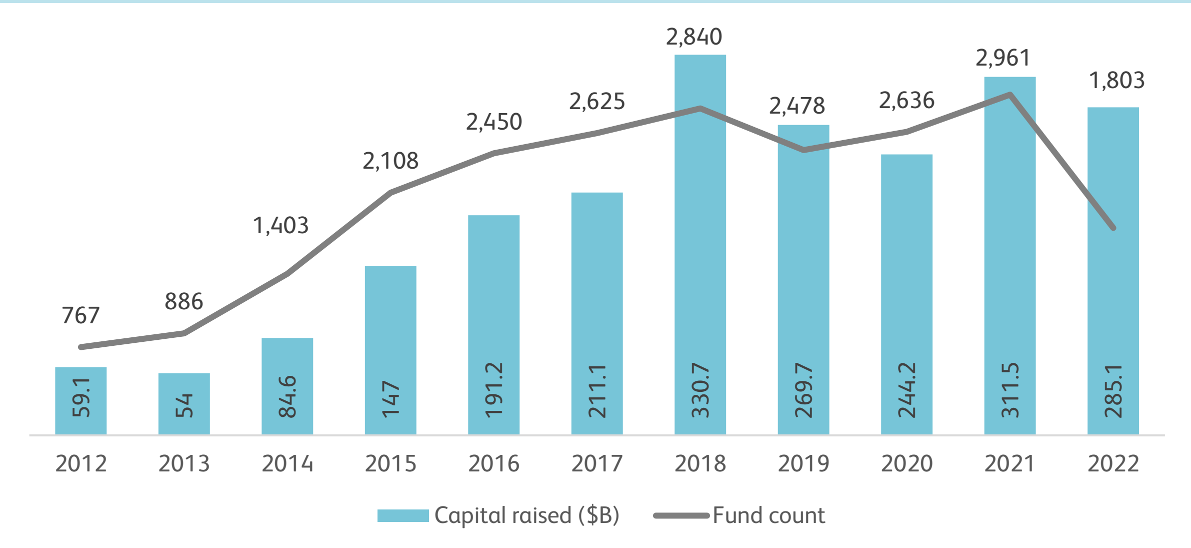

Figure 3: Private Debt Fundraising Volumes by Funds and Number of Fundraisings, 2012-2022 (Source: Apex Private Markets Report/PitchBook)

[5] For an overview of private debt in Switzerland, see: Birrer, T., Bauer, M. & Amrein, S. (2019). Unternehmensfinanzierung mit Private Debt in der Schweiz. Rotkreuz: Verlag IFZ.

The share of debt types within private debt has changed strongly since 2012. A decade ago, distressed debt and venture debt were the primary strategies within private debt. By 2012, private lenders were predominantly sought after in bankruptcy-related transactions, while riskier loans were directed towards start-ups. In contrast, today's dominant private debt strategy revolves around direct lending, aligning with traditional buyout transactions. In 2012, direct lending represented just 7 % of private debt fundraising. However, by 2021, it had surged to 46 %. In private lending transactions, investors provide loans directly to companies or borrowers without intermediaries such as banks. Thus, marketplace lending contributes to the growing share of direct lending within private debt.

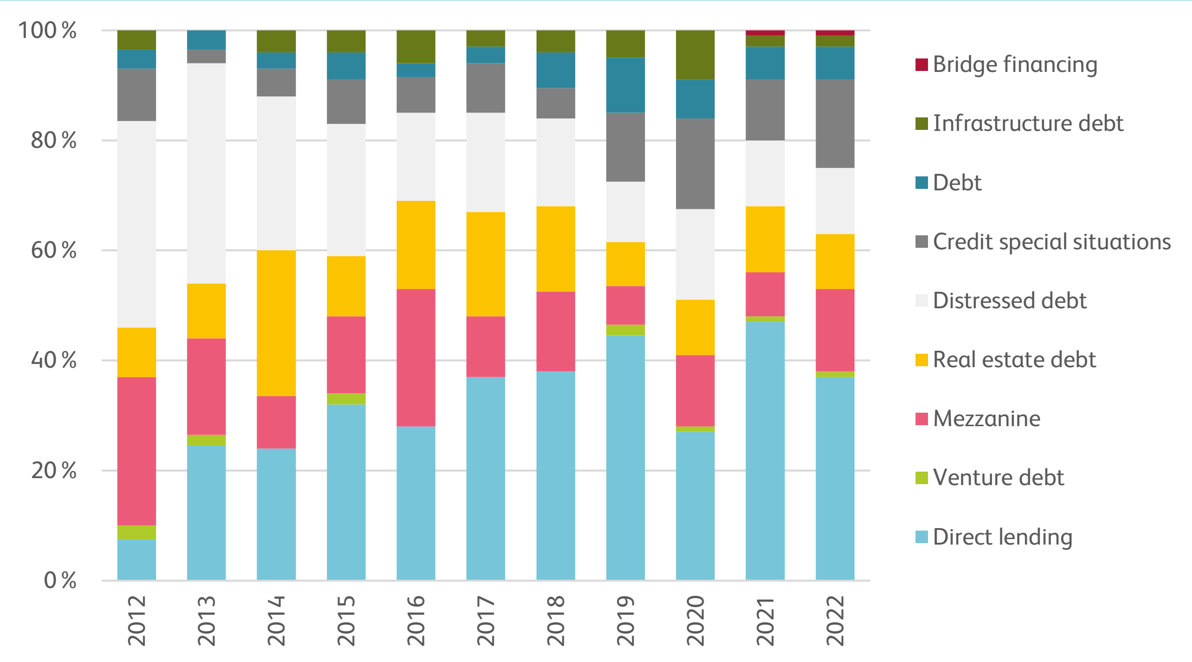

Figure 4: Share of Private Debt Capital Raised by Debt Type, 2012-2022 (Source: Apex Private Markets Report/PitchBook)

3 Marketplace Lending in Switzerland

Private individuals, SMEs, public corporations and public entities can access debt capital from different sources. A potential source of credit is marketplace lending. Before exploring the market participants, business models and market volumes in Swiss marketplace lending, we briefly discuss banks as Switzerland's most relevant players in the conventional financing market.

As of June 2023, Swiss banks' total domestic outstanding loan volume was CHF 1,357.3bn. Figure 5 shows the shares of different loan types within the total loan volume in banks' balance sheets. Mortgages secure a substantial amount (85.6 %) of the total loan volume. The borrowers are private individuals, corporations and the public sector. Private individuals accounted for CHF 849.7bn. CHF 25bn were loaned to the public sector. Corporates borrowed CHF 441.7bn from banks. 87.8 % of these corporate loans were for SMEs. The most significant part of SME loans is mortgage-backed, with a three-fourths share. Over the last few years, the bank's loan portfolio composition has been relatively stable, without any significant changes.[6]

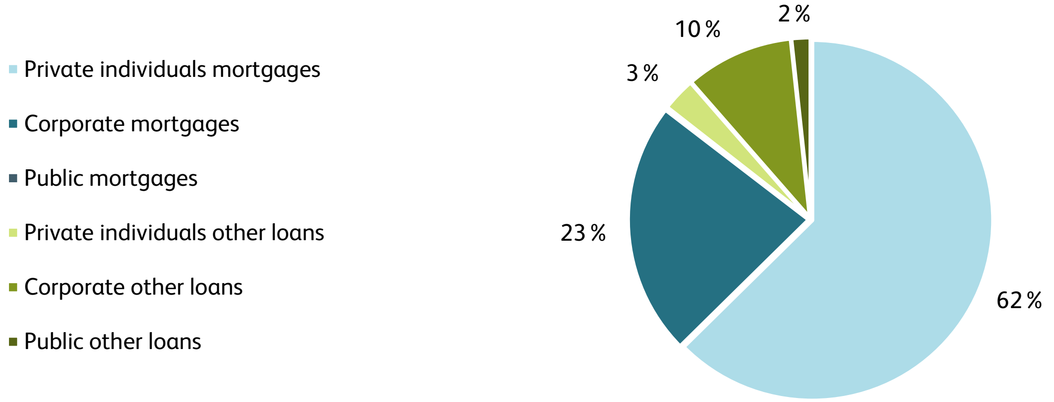

Figure 5: Swiss Banks' Share of Different Loan Types and Client Segments as of June 2023

The figures above refer to outstanding domestic loan volumes. The annual volume of new loans facilitated by Swiss banks is only public for domestic mortgages. In 2022, CHF 80bn of mortgage loans were issued to its private and corporate clients.[7] The distinction between new loans and credit extensions is essential, as the statistics in the following sections will refer primarily to new loans (flow vs. stock figures).

[6] SNB (2023). Datenportal der Schweizerischen Nationalbank. Online (08.09.2023): https://data.snb.ch/
[7] SNB (2023). Datenportal der Schweizerischen Nationalbank. Online (08.09.2023): https://data.snb.ch/

3.1 Deep Dive – Consumer, SME Loans and Real Estate Crowdlending Loans

The crowdlending segment is the "oldest" online financing market in Switzerland. The first platform, at the time, providing loans to consumers only, entered the market in 2008.[8] Currently, we identify three different loan types offered by Swiss crowdlending platforms:

i) Consumer loans are loans granted to private individuals to finance consumer spending. In Switzerland, consumer loans are regulated by the Federal Law on Consumer Credit. Among other rules, the law sets the maximum interest rate that can be charged for consumer loans. Currently, rates above the maximum interest rate of 10 % per year for cash loans and 12 % for card loans are not allowed (as of 1st May 2023: 11 % per year for cash loans and 13 % for card loans). Average loan volumes for consumer loans range from CHF 30,000 to 40,000, similar to those provided by consumer loan banks in Switzerland. Durations often range between two and four years.

ii) Business loans are offered primarily to SMEs. These loans are usually not secured by any collateral. The average volume of business loans brokered by crowdlending platforms is about CHF 250,000. Durations for SME loans are ordinarily between one and four years. Business loans are typically debt capital.

iii) A third loan segment is real estate crowdlending, which provides mortgage-backed loans to individuals and SMEs. Many of these loans are used to finance residential property, short-term and later redeemed by banks. The average loan amount in the real estate crowdlending subsegment is about CHF 900,000.

Loans in the crowdlending segment are usually financed by a mix of private and institutional investors. Sections 3.2 and 3.3 discuss loan types financed by professional and institutional investors only.

Market Participants

At the end of 2022, 14 crowdlending platforms in Switzerland were active in the crowdlending segment. The last market entry was Neocredit in 2019. Various banks and insurance companies are involved in crowdlending platforms. The Lendico platform was acquired from PostFinance by Lend (Switzerlend AG) in 2019, and PostFinance has acquired a stake in Lend in a reciprocal move, entering into a cooperation agreement.[9] Neocredit was launched in 2019 by the French platform credit.fr and the insurance company Vaudoise. Since 2022, the Vaudoise Group has been the sole shareholder of neocredit.ch.[10] Basellandschaftliche Kantonalbank bought a stake in swisspeers AG as a strategic investor.[11] Funders is a platform provided by Luzerner Kantonalbank. However, as of 2024, Luzerner Kantonalbank will close the platform due to the unsatisfying cost-benefit ratio. Ongoing projects are still being processed.[12]

Not included in the list of crowdlending platforms is Systemcredit. The Systemcredit marketplace went online in 2018 and provided SMEs with several credit offers by banks, institutional investors and crowd lenders. Their business model is, to some extent, comparable to that of brokers in the mortgage market (see Section 3.2).

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[8] For an overview and data of the Swiss crowdlending market and its development in the long run, see also: Dietrich, A. & Amrein, S. (2023). Crowdfunding Monitor Switzerland 2022. Rotkreuz: Verlag IFZ. Selected parts of this chapter are taken from the Crowdfunding Monitor.

[9] PostFinance (2019). Press release: LEND acquires Lendico and enters into cooperation with PostFinance (translation). Online (01.04.2020): https://www.postfinance.ch/de/ueber-uns/medien/newsroom/medienmitteilungen/lend-uebernimmt-lendico-kooperation-mit-postfinance.html

[10] Neocredit (2022). neocredit.ch - une filiale de la Vaudoise Assurances. Online (17.08.2022) : https://neocredit.ch/fr/qui-sommes-nous

[11] Basellandschaftliche Kantonalbank. (2021). BLKB beteiligt sich als strategische Investorin an swisspeers AG. Online (09.12.2021): https://www.blkb.ch/news-article.html?id=264168ff-8721-47ec-a655-c9ca37c74ae3

[12] Funders. (2023). Einstellung Betrieb Funders.ch. Online (08.09.2023): https://www.funders.ch/news/Blog-Detailseite/einstellung-betrieb-fundersch~ba194.html

Loan segment	Platform
All loan segments	Cashare, CG24 Group, Lend
Business and consumer loans	Crowd4Cash
Business loans only	Acredius, Creditworld, Funders*, Neocredit, swisspeers
Consumer loans only	Lendora, Splendit
Real estate only	Foxstone, Raizers, Swisslending

Table 1: Swiss Crowdlending Platforms (*no longer active after 2023)

Various platforms and vehicles allow investors to invest indirectly in the Swiss crowdlending loan segment. The following organisations offer indirect investment solutions.

Lendity	Lendity is a Zurich-based company specialising in tech-enabled private debt.
NSF Wealth Management	NSF is a Liechtenstein-based asset manager that launched in cooperation with the start-up i2, the alternative investment fund (AIF) SME Lending Fund Switzerland SICAV in April 2021. Initially, the fund will invest directly in SME loans via the platforms Cashare, lend.ch and Crowd4Cash. NSF plans to cooperate with more platforms going forward.
1741 Group	1741 Group offers two funds: The "1741 Diversified Lending Fund" invests in consumer and business loans from the platforms CG24, lend.ch, and swisspeers. Additionally, 1741 offers a fund focusing exclusively on loans from the platform Lend.

Table 2: Investment Vehicles and Platforms for Investments in Swiss Crowdlending Platforms

Market Volumes, Risk and Return

The crowdlending segment reached a volume of CHF 497.5 million in new loans in 2022, marking a decrease of 18.0 % compared to the previous year (2021: CHF 607.0 million). As shown in Figure 6, the number of brokered loans remained stable at around 3,000.

Of the CHF 497.5 million raised, the largest share – CHF 282.7 million – can be allocated to real estate crowdlending. The major drivers were loans to companies in the real estate development business. Many of these loans are issued as short-term credits for later redeeming by banks. Platforms report that medium-sized and larger real estate investors are particularly interested in interim financing using subordinated mortgages on existing properties.

The second largest subsegment is business crowdlending (loans for SMEs), which reached CHF 141.9 million. In comparison to the previous year, the volume increased by 28.5 %. The volume of consumer crowdlending was CHF 72.9 million (2021: 78.7m).

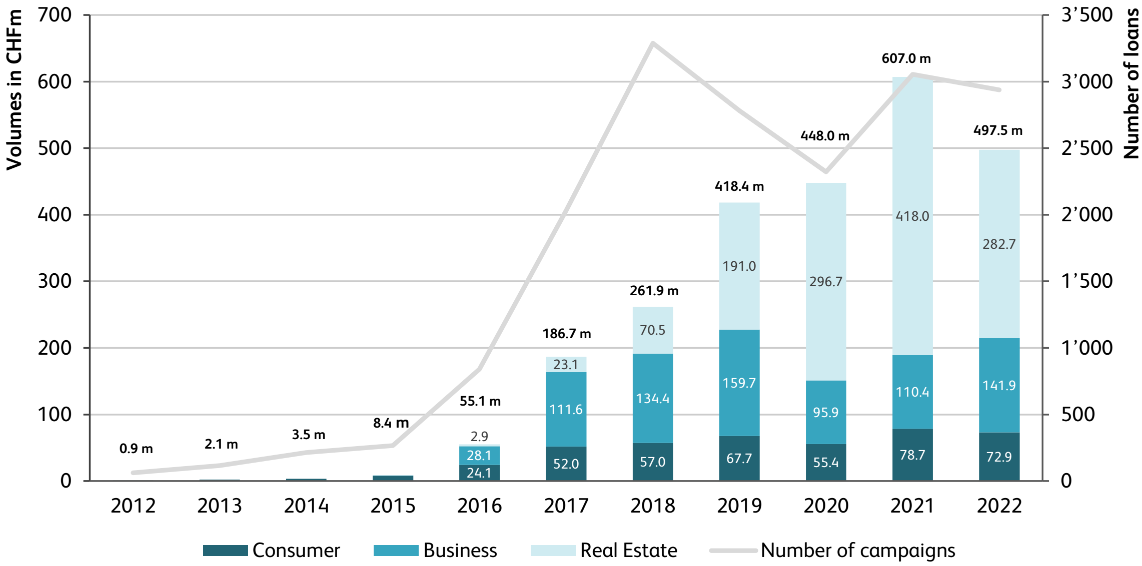

Figure 6: Crowdlending Volumes and Number of Loans in Switzerland, 2012-2022[13]

Depending on the subsegment, the average loan amounts vary. Not surprisingly, the largest loans are for real estate crowdlending, comprising CHF 880,000 in 2022. With an average loan volume of CHF 250,000, business loans are second. Compared to 2020, the average loan amount has decreased (2020: CHF 330,000). The smallest average loan amount is found in the subsegment of consumer crowdlending. With CHF 35,000, the amount has increased steadily since 2013, reaching the level of the average consumer loan in Switzerland.[14] For an overview of the role of institutional investors in Crowdlending see Section 4.

[13] Dietrich, A. & Amrein, S. (2022). Crowdfunding Monitor Switzerland 2021. Rotkreuz: Verlag IFZ.
[14] ZEK – Verein zur Führung einer Zentralstelle für Kreditinformation (Swiss central credit information bureau) (2022). Annual Report 2020. p. 13.

Number and Volumes of New Loans

The data presented above is based on the Crowdfunding Monitor study.[15] It covers the entire crowdlending market annually and is representative of the Swiss market. The Swiss Marketplace Lending Association (SMLA) collects data on monthly volumes from its member platforms. In contrast to the Crowdfunding Monitor, the SMLA data does not cover the whole market. However, the market share of the SMLA platform members is considerably large. The SMLA statistics, therefore, allow insights into monthly loan figures. Figure **7** shows the development of monthly volumes of SMLA members from 2018 to 2022.

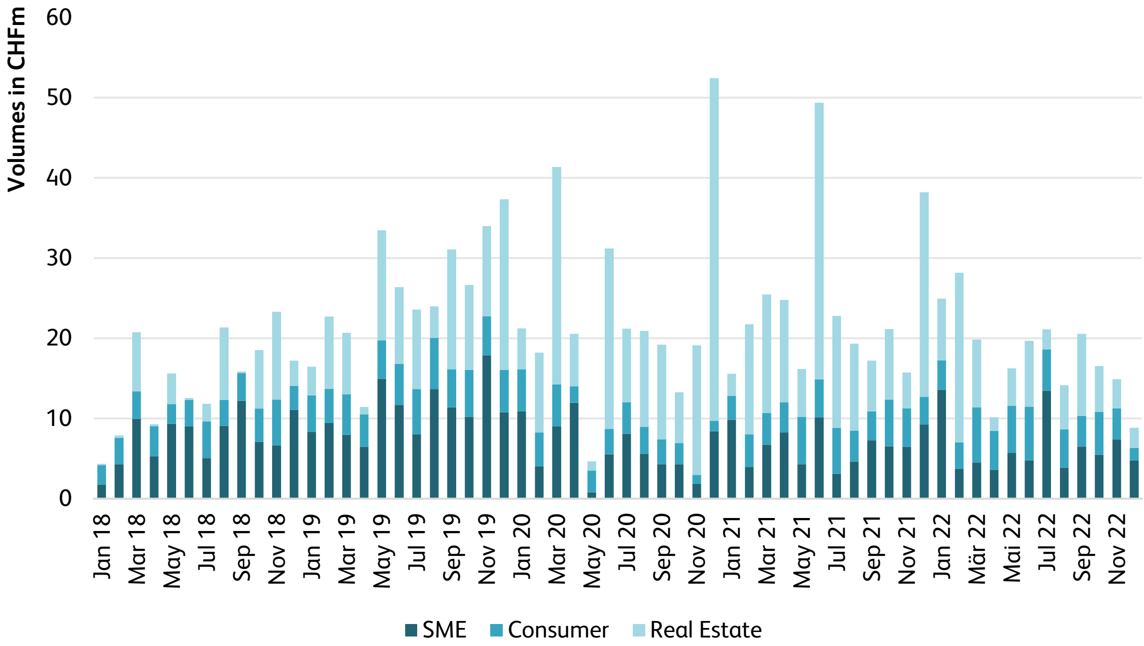

Figure 7: Monthly Volume (New Loans) by Segments of SMLA Member Platforms, 2018-2022

The monthly volumes of real estate loans exhibit considerable fluctuations, primarily due to the impact of a few large loans in specific months, such as February 2022. In contrast, consumer lending levels, while still subject to monthly variations, are not as volatile as those of real estate loans. From 2021 to 2022, the collective SMLA member platforms experienced an average increase in monthly consumer loans, rising from CHF 4.4 million to CHF 4.7 million.

SME lending volumes remained relatively stable throughout 2022, with two notable exceptions in January and July when exceptionally high volumes were recorded. The lower volumes observed in May 2020 can be attributed to the Swiss government's loan program aimed at assisting companies facing liquidity challenges due to the COVID-19 pandemic. This government-backed lending initiative had a substantial impact on SME lending through platforms. The total volume and the number of loans (see also Figure 6) experienced a significant decline from May 2020 onwards.

By integrating the monthly volume data from Figure 5 with the count of issued loans, a clear trend emerges: A greater number of loans are being issued but with reduced individual loan amounts. In this regard, achieving a more balanced ratio necessitates both borrowers seeking larger loan sums and lenders, including institutional investors, offering increased liquidity.

[15] Dietrich, A. & Amrein, S. (2023). Crowdfunding Monitor Switzerland 2023. Rotkreuz: Verlag IFZ.

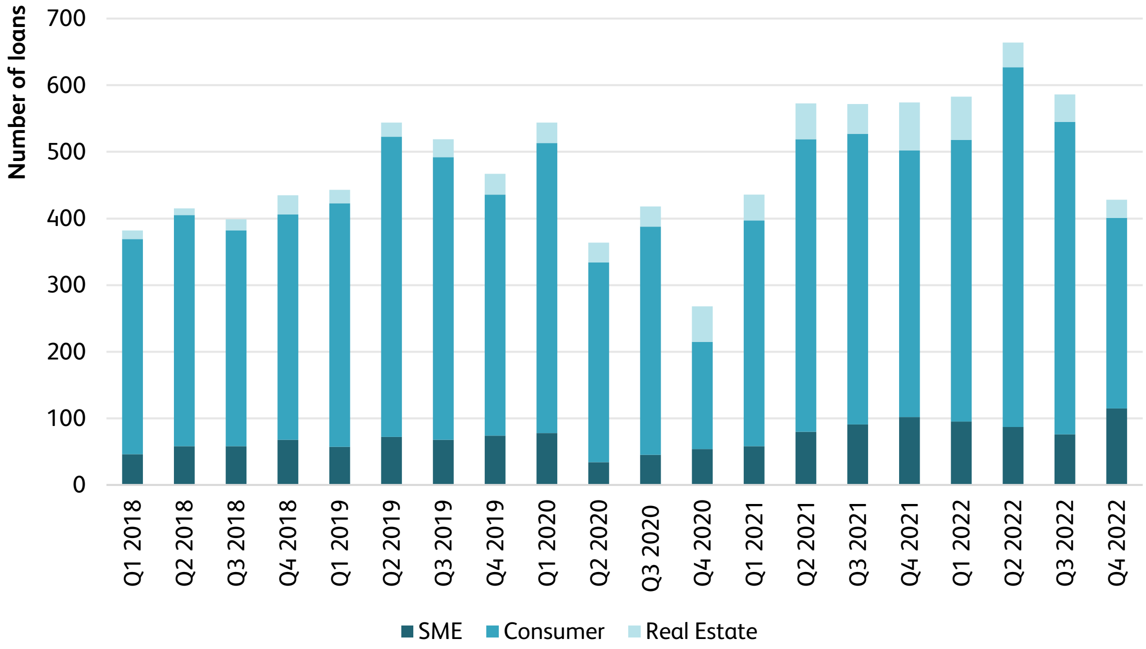

Figure 8: Number of New Loans (Quarterly) by Segments of SMLA Member Platforms, 2018-2022

Risk and Return in the Crowdlending Segment

Various approaches can be used to calculate risk and return figures. The SMLA has developed a standardised method to measure risk and return. All SMLA members report the data following the same methodology, aiming to increase market and asset class transparency. The detailed reporting on the level of individual loan vintages goes beyond what other financial service providers usually publish.

The risk is measured by the default rate. A loan is in default if the interest payment and/or the repayment of the principal amount is overdue for more than 120 days. The internal rate of return (IRR) calculates the return metric (see box for more detailed information).[16] Based on the IRR methodology, the return for every individual loan is calculated after fees and then weighted according to the loan volume. If a loan's cash flow (interest rate and repayment) is overdue for more than 120 days or the platform assumes there will be no future payments within the next 120 days, all expected future cash flows are set to zero for the IRR calculation. Thus, the SMLA follows a very conservative approach to calculating return figures, disregarding potential loan recoveries (even for loans with collateral) as long as recoveries do not materialise. If such recoveries materialise or borrowers resume payments, returns will improve again. Moreover, the calculations leave room for careful risk policies of individual platforms, as they can also declare a loan to be in default before the 120-day limit.

[16] The exact dates of cashflows are adjusted when calculating the IRR, as the dates of the payments vary quite often in the crowdlending segment. As a reinvestment rate, we use the interest rate of the corresponding loan contract.

Internal Rate of Return (IRR): Methodology

The SMLA uses the IRR as a metric to estimate the profitability of an investment in crowdlending loans. The IRR constitutes the discount rate at which all cash flows' net present value (NPV) equals zero. Using the IRR as a return metric comes with two significant disadvantages:

Firstly, the IRR considers the time value of money and compound interest but neglects the actual timing of the cash flows (i.e. it treats the time between the payments as exactly a monthly period). The only input factors for calculating an IRR are the cash flows.

Secondly, early repayments or defaults lead to extreme (very high or very low) return values. The reason for this is the assumption that cash flows are reinvested at the return of the IRR itself. This issue is usually solved using the so-called modified IRR (MIRR), where the reinvestment return can be set independently. We use the interest rate of the corresponding loan contract as a reinvestment rate. However, the MIRR does not adjust for irregular payment dates of the cashflows. Therefore, we have developed a methodology addressing both issues, the reinvestment rate and the exact timing of the returns (XMIRR methodology).

Figure 9 shows the returns of seven different loan vintages (loans issued from 2016 to 2022). The x-axis shows the date of the return calculation. Naturally, the returns are high at the beginning (representing an expected return at the beginning) and decrease over time, leading to the actual return after defaults and recoveries once all the loans of the respective vintages are paid back.

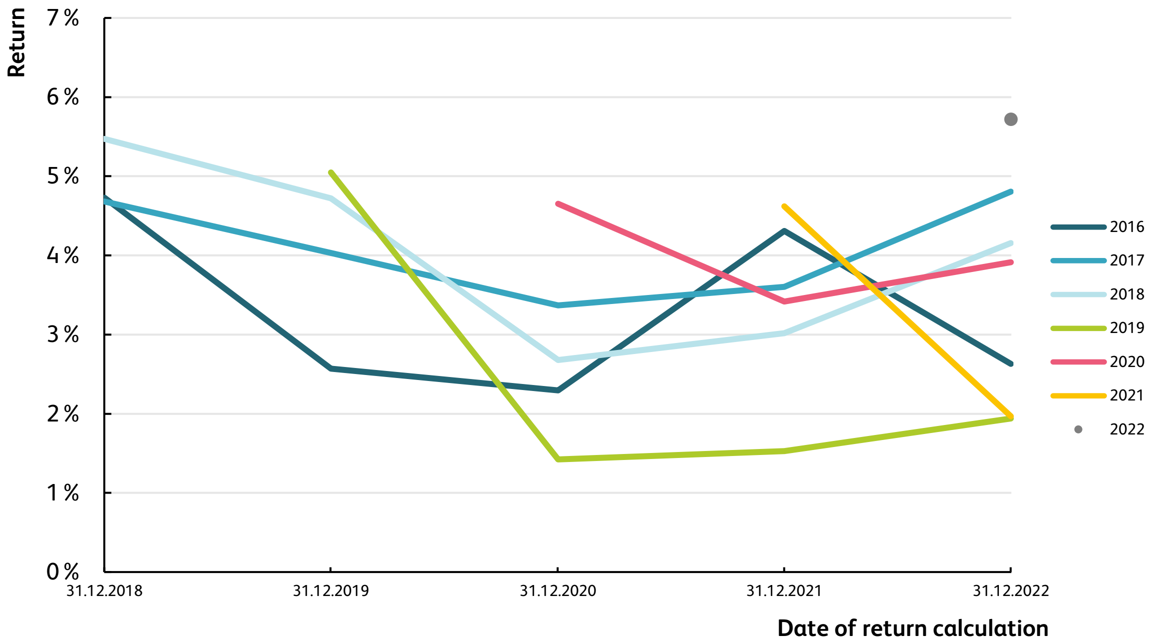

Figure 9: Returns of Crowdlending Loans (SME and Consumer) by Loan Vintage, 2018-2022

Table 3 shows risk and return figures for the loan vintages from 2016 to 2022 (SME and consumer loans combined) as of December 2022. In 2017, for example, the total of consumer and SME loans issued was CHF 74.4m. The 2017 loan vintage offered a return of 4.68 % by the end of 2018. The return decreased to 4.03 % until the end of 2019 and dropped to 3.37 % as of December 2020. The reason for the declining rate of return was defaulting loans. As outlined above, late payments for more than 120 days are also considered defaults. In this case, the methodology does not expect any further payments. As the 2017 loan vintage returns show, some borrowers have resumed payments and/or recoveries materialised, leading to an increased return of 3.6 % by the end of 2021 and even 4.8 % by the end of 2022. As 97.2 % of the loan volume was paid back already, the return of 4.8 % is likely to be a realistic return after losses (default rate: 2.0 %) for the 2017 loan vintage. However, until the outstanding 2.8 % is paid back, the IRR of the loan vintage 2017 might still change slightly. Therefore, the return estimates of the loan vintages are typically high at the beginning and are getting closer to the actual return with a decreasing outstanding loan volume.

Notably, the 2021 vintage cohort exhibits a significant reduction in returns from 2021 to 2022. The overall default rate stands at a relatively low 3.06 % . However, it is worth mentioning that some larger loans have not made any payments for more than 120 days. It is possible that these loans do not result in defaults, and the presence of collaterals will mitigate the likelihood of loan defaults (as previously described, the measurement approach is very rigorous and disregards existing collateral).

Overall, consumer and SME lending returns ranged between 1.94 % (2019) and 5.72 % (2022), and default rates are between 2.00 % (2018 loan vintage) and 5.55 % (2019 vintage). Due to the strict return measurement approach, returns of loan vintages might still change considerably.

	Loan Vintage						
	2022	2021	2020	2019	2018	2017	2016
Default rate as a percentage of loans issued in the respective year of origination	4.53 %	3.06 %	2.46 %	5.55 %	2.00 %	2.02 %	3.48 %
Return (XIRR) per year of origination	5.72 %	1.97 %	3.91 %	1.94 %	4.16 %	4.80 %	2.63 %
Loan amount outstanding (in TCHF)	114,814	73,267	34,202	41,896	10,188	2,087	1,506
Volume in the respective year (in TCHF)	133,028	113,799	105,054	154,105	112,072	74,385	23,185
Share of loans still outstanding (%)	86.3 %	64.4 %	32.6 %	27.2 %	9.1 %	2.8 %	6.5 %

Table 3: Risk/Return Metrics of Crowdlending Loans (SME and Consumer) in Switzerland by Loan Vintage (as of 31st December 2022)

Table 4 shows the extensive risk/return metrics for SME and consumer loans as of 31st December from year 2018 to 2022. The average return for the consumer segment by the end of 2022 was 4.4 % (median = 4.5 %) for all loan vintages. The returns ranged between 2.5 % and 6.1 % (depending on the vintage). In the SME loan segment, the average return was 3.23 % (median = 3.68 %) for all loan vintages. The returns range from -0.2 % and 6.2 % as of December 2022.

Comparing the risk and return metrics disclosed by the SMLA with the data provided by traditional banks presents several challenges. Firstly, traditional banks do not typically offer data that aligns with the information made available by the SMLA. For instance, there are no available statistics that display default rates by loan vintages. Secondly, the composition of loans within a crowdlending portfolio can differ significantly from those in a typical bank's loan portfolio. For instance, SME loans offered by banks often come with collateral, and banks possess greater flexibility to restructure loan terms. In contrast, crowdlending loans tend to transition into default status more swiftly, as renegotiating terms often requires the consensus and participation of multiple investors.

SME loans, as of 31.12.2022	2022	2021	2020	2019	2018	2017	2016
Default rate as a percentage of loans issued in the respective year of origination (%)	3.4 %	6.5 %	3.3 %	7.3 %	1.2 %	2.4 %	6.9 %
Return (XIRR) per year of origination (%)	6.2 %	-0.2 %	3.7 %	1.6 %	5.4 %	5.3 %	0.6 %
Loan amount outstanding (in TCHF)	38,142	15,473	9,613	10,801	1,472	617	1,506
Volume in the respective year (in TCHF)*	77,077	50,246	62,314	99,419	69,647	35,780	11,020
Share of loans still outstanding (%)	49.5 %	30.8 %	15.4 %	10.9 %	2.1 %	1.7 %	13.7 %

Consumer loans, as of 31.12.2022	2022	2021	2020	2019	2018	2017	2016
Default rate as a percentage of loans issued in the respective year of origination (%)	6.1 %	1.9 %	2.2 %	5.9 %	2.8 %	2.2 %	0.4 %
Return (XIRR) per year of origination (%)	5.2 %	3.6 %	4.2 %	2.5 %	4.7 %	6.1 %	4.5 %
Loan amount outstanding (in TCHF)	48,014	32,927	13,574	11,439	5,898	1,092	1,506
Volume in the respective year (in TCHF)*	55,951	52,746	42,740	54,686	42,425	38,605	12,165
Share of loans still outstanding (%)	85.8 %	62.4 %	31.8 %	20.9 %	13.9 %	2.8 %	12.4 %

SME loans, as of 31.12.2021		2021	2020	2019	2018	2017	2016
Default rate as a percentage of loans issued in the respective year of origination (%)		0.1 %	1.4 %	2.8 %	1.7 %	5.1 %	1.5 %
Return (XIRR) per year of origination (%)		4.7 %	2.9 %	1.2 %	4.0 %	3.5 %	4.4 %
Loan amount outstanding (in TCHF)		37,871	20,159	23,708	5,496	2,019	1,567
Volume in the respective year (in TCHF)*		50,246	62,314	99,419	69,647	35,780	11,020
Share of loans still outstanding (%)		75.4 %	32.4 %	23.8 %	7.9 %	5.6 %	14.2 %

Consumer loans, as of 31.12.2021		2021	2020	2019	2018	2017	2016
Default rate as a percentage of loans issued in the respective year of origination (%)		0.0 %	1.2 %	5.4 %	6.9 %	2.3 %	2.0 %
Return (XIRR) per year of origination (%)		4.5 %	4.2 %	2.1 %	1.4 %	3.7 %	4.2 %
Loan amount outstanding (in TCHF)		48,333	23,627	20,603	12,380	2,608	202
Volume in the respective year (in TCHF)*		52,746	42,740	54,686	42,425	38,605	12,165
Share of loans still outstanding (%)		91.6 %	55.3 %	37.7 %	29.2 %	6.8 %	1.7 %

SME loans, as of 31.12.2020		2020	2019	2018	2017	2016
Default rate as a percentage of loans issued in the respective year of origination (%)		0.0 %	2.6 %	1.0 %	2.3 %	4.9 %
Return (XIRR) per year of origination (%)		4.6 %	0.8 %	4.1 %	3.2 %	0.4 %
Loan amount outstanding (in TCHF)		31,762	24,607	7,287	3,324	1,732
Volume in the respective year (in TCHF)*		54,277	91,495	66,387	35,580	11,020
Share of loans still outstanding (%)		58.5 %	26.9 %	11.0 %	9.3 %	15.7 %

Table 4: Risk/Return Metrics of SME and Consumer Loans in Switzerland as of 31st December 2018, 2019, 2020, 2021, and 2022 (continuous on next page; * total volume in the respective year can change from year to year due to changes in the SMLA's membership structure)

Consumer loans, as of 31.12.2020	2020	2019	2018	2017	2016
Default rate as a percentage of loans issued in the respective year of origination (%)	0.3 %	3.2 %	4.7 %	1.0 %	0.5 %
Return (XIRR) per year of origination (%)	4.8 %	2.3 %	0.4 %	3.5 %	4.1 %
Loan amount outstanding (in TCHF)	33,683	37,375	17,401	5,376	571
Volume in the respective year (in TCHF)*	38,228	60,640	42,745	38,605	12,165
Share of loans still outstanding (%)	88.1 %	61.6 %	40.7 %	13.9 %	4.7 %

SME loans, as of 31.12.2019	2019	2018	2017	2016
Default rate as a percentage of loans issued in the respective year of origination (%)	0.3 %	0.4 %	0.9 %	0.3 %
Return (XIRR) per year of origination (%)	5.1 %	5.2 %	4.0 %	2.0 %
Loan amount outstanding (in TCHF)	88,389	27,056	55,858	9,728
Volume in the respective year (in TCHF)*	111,371	92,999	86,541	18,984
Share of loans still outstanding (%)	79.4 %	29.1 %	64.5 %	51.2 %

Consumer loans, as of 31.12.2019	2019	2018	2017	2016
Default rate as a percentage of loans issued in the respective year of origination (%)	0.8 %	5.1 %	0.8 %	0.5 %
Return (XIRR) per year of origination (%)	5.0 %	3.4 %	4.0 %	3.8 %
Loan amount outstanding (in TCHF)	45,392	31,795	19,835	4,225
Volume in the respective year (in TCHF)*	48,481	37,626	29,462	9,650
Share of loans still outstanding (%)	93.6 %	84.5 %	67.3 %	43.8 %

SME loans, as of 31.12.2018	2018	2017	2016
Default rate as a percentage of loans issued in the respective year of origination (%)	0.0 %	0.6 %	0.6 %
Return (XIRR) per year of origination (%)	5.6 %	4.5 %	4.8 %
Loan amount outstanding (in TCHF)	49,763	60,591	11,335
Volume in the respective year (in TCHF)*	93,116	86,541	18,984
Share of loans still outstanding (%)	53.4 %	70.0 %	59.7 %

Consumer loans, as of 31.12.2018	2018	2017	2016
Default rate as a percentage of loans issued in the respective year of origination (%)	1.0 %	0.5 %	0.8 %
Return (XIRR) per year of origination (%)	5.1 %	5.2 %	4.6 %
Loan amount outstanding (in TCHF)	21,478	14,244	2,721
Volume in the respective year (in TCHF)*	44,363	38,605	12,153
Share of loans still outstanding (%)	48.4 %	36.9 %	22.4 %

Table 4: Risk/Return Metrics of SME and Consumer Loans in Switzerland as of 31st December 2018, 2019, 2020, 2021, and 2022 (* total volume in the respective year can change from year to year due to changes in the SMLA's membership structure)

3.2 Mortgage Loans on Brokerage Platforms

The mortgage market is the most relevant market for debt financing in Switzerland. In 2022, the total outstanding domestic mortgage volume reached an estimated CHF 1,217bn. 94.7 % of this volume is held by banks (CHF 1,152bn) and the rest by pension funds and insurance companies.[17] Private individuals borrow three-quarters of the mortgage volume, while companies and other entities borrow the other quarter.

In recent years, traditional banks and new market participants have increasingly invested in mortgage services on online platforms for private borrowers. However, platforms' business models in the mortgage sector differ considerably.[18] Two forms of online mortgages must be distinguished when analysing the market. Online mortgages, in the narrow sense of the term, are processed entirely digitally. In a broader sense, online mortgages refer to mortgages for which application processes are partially or entirely online. The signing, however, is not digital. This study considers both types of mortgages. Moreover, B2B platforms for mortgages have become more popular.

Regarding the structure of the lenders, there are platforms with one and platforms with multiple lenders. The former are usually platforms run by banks or platforms that cooperate with a bank. The study excludes such platforms. However, platforms with multiple lenders constitute a marketplace and are thus in the scope of this study.

Market Participants

The study considers twelve different platforms as marketplace lending platforms for mortgages. In contrast to crowdlending platforms offering mortgages, these platforms have an exclusively professional investor base, such as banks, insurance companies and pension funds as lenders.

UBS launched its Atrium platform in 2017 and integrated it in 2021 into the key4 platform, now called UBS key4 mortgages. On UBS key4 mortgages, UBS offers its own mortgages and mortgages from third parties. Valuu, launched by PostFinance in 2019, is another platform run by a bank. Valuu changed its business model and is now joining forces with the business customer mortgage platform of Credit Exchange AG (CredEx). The platform for end customers is only available until the end of September 2023.[19]

The platforms HypoPlus, Hypotheke and MoneyPark are independent of banks but are still attached to bigger institutions. MoneyPark, launched in 2012, is currently Switzerland's most established mortgage brokerage firm. However, in September 2023, MoneyPark announced that its sales network would be integrated into the network of the Swiss insurance company Helvetia.[20] Furthermore, several other independent mortgage brokerage firms exist, such as RealAdvisor, Resolve, topHypo, Hypohaus, PropertyCaptain and Hypo Advisors.

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[17] Sources: SNB (2023). Datenportal SNB. Online (11.09.2023): https://data.snb.ch/de/topics/banken#!/cube/bakredsekbm.
Eidgenössische Finanzmarktaufsicht FINMA (2023). Bericht über den Versicherungsmarkt 2022.
Bundesamt für Statistik BFS (2022). Pensionskassenstatistik 2021. Online (01.09.2023):
https://www.bfs.admin.ch/bfs/de/home/statistiken/soziale-sicherheit/erhebungen/pks.html.
For an in-depth discussion of the Swiss mortgage market, see: Lengwiler, C. & Amrein, S. (2020). Markt für Immobilienfinanzierungen in der Schweiz. In: IFZ Retail Banking Studie 2020. Rotkreuz: Verlag IFZ.

[18] For more information on market volumes of online mortgages until 2021, see: Dietrich, A. & Zollinger, M. (2022 Der Online-Hypothekarmarkt Schweiz wächst weiter – aber langsamer. Online (11.09.2023): https://hub.hslu.ch/retailbanking/der-online-hypothekarmarkt-schweiz-waechst-weiter-aber-langsamer/
The 2022 volume figures are based on estimates and informal discussions with market participants.

[19] PostFinance (2023). Gestärkte PostFinance-Hypothek – Valuu und CredEx entwickeln sich gemeinsam weiter. Online (28.09.2023): https://www.postfinance.ch/de/ueber-uns/medien/newsroom/medienmitteilungen/gestaerkte-postfinance-hypothek.html

[20] Helvetia (2023). MoneyPark und Helvetia bündeln Vertriebskraft und bauen ihre führende Stellung aus. Online (11.09.2023): https://mpcdn.ch/media/pdf/press_releases/20230905_MM_MoneyPark_DE.pdf

Market Volumes

Despite substantial volumes, the market for mortgages issued through platforms is still a niche market. The volume of mortgages brokered reached approximately CHF 6.2bn in 2022, growing by 5.1 % from 2021. Based on the assumption that new and extended mortgages total about CHF 160-180bn, the market share of mortgages brokered is about 3.5 %.

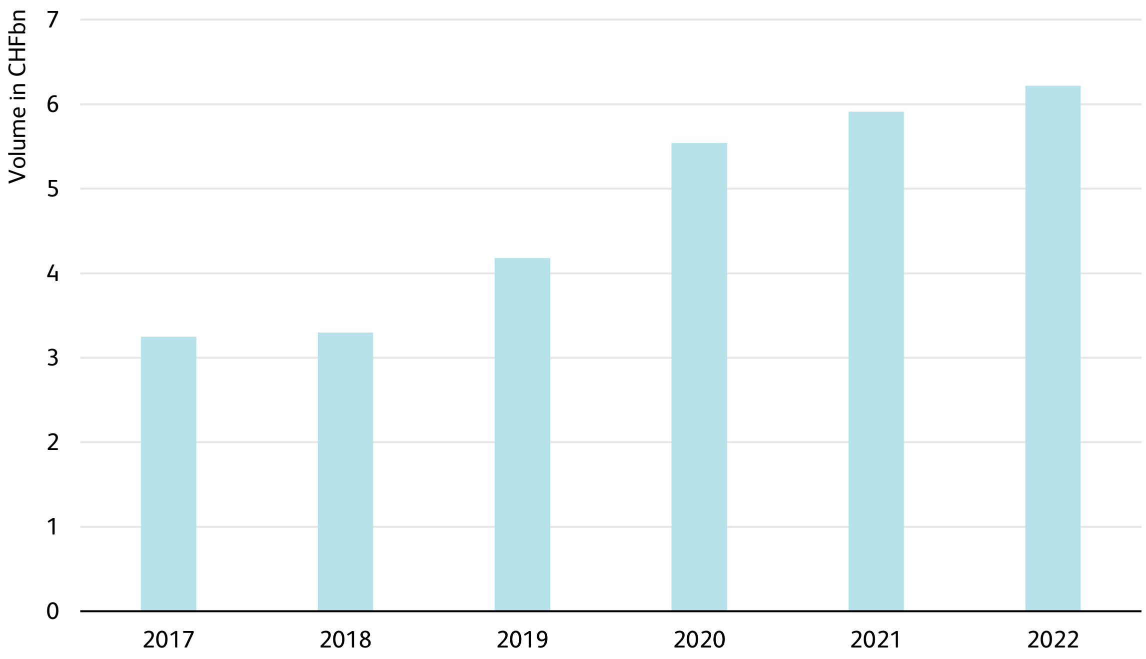


Figure 10: Volume of Mortgage Brokers in Switzerland, 2017-2022 (2022: estimated values[17])

3.3 Loans and Bonds for Public Entities, Mid-Sized and Large Corporations

This section includes two types of loans. Firstly, the online market for loans to public entities. Loans to public entities usually consist of uncollateralised loans to municipalities, cities, cantons or corporations under public law. In German, this segment is referred to as OERK loans (OERK: öffentlich-rechtliche Körperschaften). A second subsegment is loans to mid-sized and large corporations. Investors in both subsegments are banks and institutional and professional investors (asset managers, family offices and pension funds).

Some loans on these platforms are very short-term and are, therefore, similar to those in the money market. However, we will still categorise these loans in this category for loans and bonds for public entities. In the realm of the money market, there are dedicated platforms that operate exclusively in this segment. We will delve deeper into these in Chapter 5.4. The subsegment of bonds is not further discussed in this report. Bonds were only issued through platforms in 2020 but remain a conceptional subsegment.

Market Participants

Two market participants are currently active in this segment in Switzerland. Loanboox has been operational since 2016 and has grown rapidly in the loan market for public entities. Since then, the company has extended its product offering, including loans to corporates and, since 2020, the financing of housing cooperatives, real estate funds and companies. Initial pilot projects in this area have already been carried out.[21] The platform charges a fee of one to two basis points per year, depending on country and segment. The company is active in twelve European countries.

Cosmofunding is a platform owned by Bank Vontobel, which launched this offering in 2018. The company focuses on public and corporate borrowers. Bank Vontobel generally assumes the role of a lead manager on behalf of investors, acts as the paying agent for private placements and bond issuances, and orchestrates the platform and various stakeholders. The issuer places their project on the platform, where it is presented to investors through an auction format for a specified period and, upon successful completion, is securitised with just a few clicks ("Private Placement"). Typically, it takes two to five days from the auction's conclusion to the disbursement. Customers can define all financing parameters, including the disbursement, to tailor their financing according to their needs. Securitisation allows for potential further trading on the secondary market, although this is currently less common. To ensure a level of market liquidity, Bank Vontobel provides market-making functions. Moreover, Cosmofunding collaborated with the Swiss rating agency Fedafin for borrower ratings and partnered with Innergia Group in 2021 to advance infrastructure and energy transition financing via public-private partnerships.[22]

Market Volumes

Figure 11 shows the market volumes from 2017 to 2022 issued in Switzerland. The volumes grew from CHF 2.0bn in 2017 to 14.7bn in 2022. The 2022 volume consists of loans issued on Loanboox and Cosmofunding. The data for 2021 and 2022 is based on estimates, as the share of Switzerland-related transactions is not publicly available.

[21] Loanboox (2022). Immobiliengesellschaften refinanzieren sich neu via Loanboox. Online (15.09.2022): https://loanboox.com/ch/de/blog/neu-refinanzierung-von-immobiliengesellschaften/
[22] Bank Vontobel (2022). Geschäftsbericht 2021, p. 19.

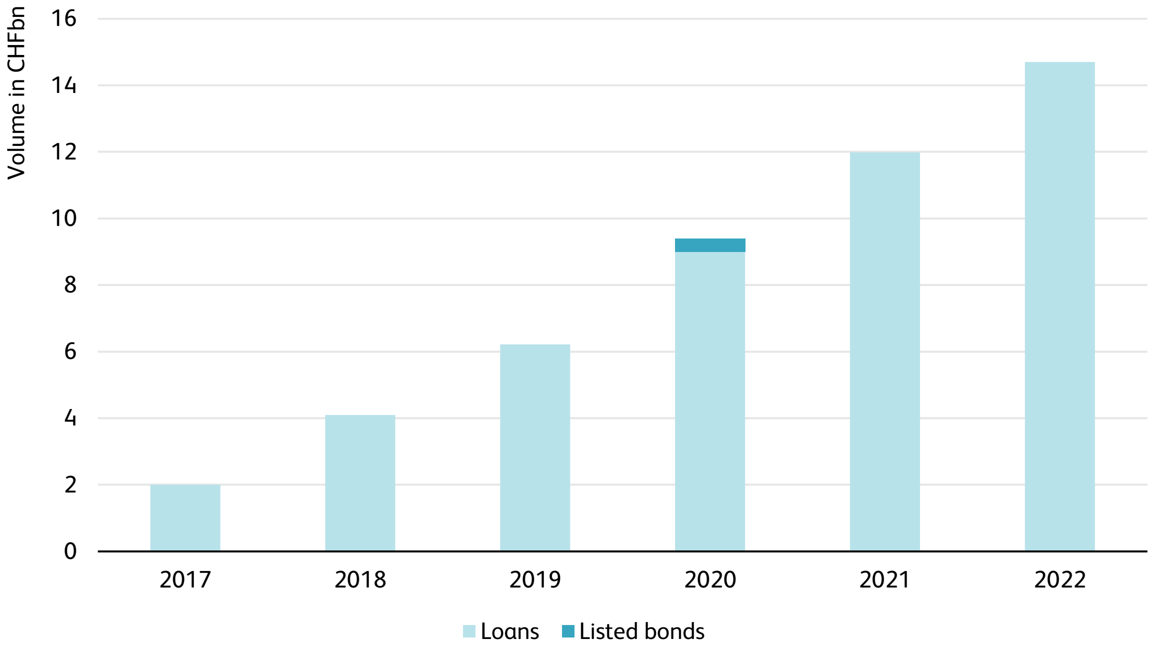


Figure 11: Loan Volume to Public Entities and Mid-Sized and Large Corporations, 2017-2022 (2021/2022: estimated values)[23]

[23] Data: Estimates based on publicly available figures. For 2022 figures, see: Loanboox (2022). 3'000 abgeschlossene Deals mit einem Volumina von CHF 30 Milliarden. Online (15.09.2023): https://loanboox.com/ch/de/blog/3000-abgeschlossene-deals-mit-einem-volumina-von-chf-30-milliarden/; Bank Vontobel (2023). Geschäftsbericht 2022.

3.4 Money Market Transactions

The traditional classification of money market instruments is their maturity of less than one year. Within this duration, there are many subsegments and submarkets. Furthermore, money market transactions are unsecured and typically institutional-size trades that allow banks, corporates and other institutional counterparties, including public authorities, to manage their liquidity.

Compared to traditional money market trading, which is often done via phone or established financial information systems, money market platforms have several advantages. Price discovery and trading can be made more efficiently through platforms, serving the needs of “best execution”. Furthermore, such marketplaces offer more potential counterparties, which allows for increased price transparency and better diversification of counterparty risk.

In Switzerland, only one money market platform is active. Instimatch Global is a Swiss-based FinTech founded in 2017. It offers a platform for the digital trading of cash products, which includes digital price discovery, negotiation, counterparty diversification and automated execution of money market products across various sectors and countries. Typical counterparties on Instimatch’s platform are Tier 1 and Tier 2 banks, mid-sized and large multinational corporates and public and near-public entities (Transportation, Energy, Healthcare, etc.). Instimatch has more than 260 customers across 32 countries and arranged for deposits worth USD 280 billion in 2022. The volume for January to August 2023 already reached USD 245 billion.[24]

[24] Instimatch (2022). Product Portfolio. Online (15.09.2022):
https://www.instimatch.ch/assets/images/20220617_Product%20Portfolio.pdf

3.5 Market Volumes – An Overview

The sections above have explored various segments in Switzerland's online debt capital market. Table 5 shows the volumes of the different segments from 2017 to 2022 (annual volumes of new loans). The total volume of new debt capital issued on online platforms in 2022 reached approximately CHF 21.4bn. Market volumes in 2022 are close to four times higher than in 2017, representing an annual average growth rate of about 32 %. The total money market volume is not included in Table 5, as the maturities of such transactions are substantially lower than in any other loan segment, making comparisons difficult. Moreover, the publicly available volumes include transactions worldwide, whereas the market figures of all other loan segments cover Switzerland only.

In total, the crowdlending segment has reached a volume of CHF 497.5m in new loans in 2021 (2021: CHF 607.0m). The market decreased by 18.0 % as compared to 2021. Among the different crowdlending subsegments, a reduced number of real estate loan transactions was the main reason for the decline. The market segment of mortgage loans brokered on platforms and financed by institutional and professional investors (see Section 3.2) has continued to grow. Growth rates, however, are substantially lower than in previous years. For 2022, we estimate a new loan volume of CHF 6.2bn, representing a growth rate of 5.1 % compared to 2021. The segment of loans and bonds for mid-sized and large corporations as well as public entities (see Section 3.3) reached a volume of CHF 13.7bn in 2022 (+22.6 %).

When looking at the market figures of the different marketplace lending segments, one must remember that the average duration of debt instruments within these segments varies. For example, many consumer and SME loans in the crowdlending segment have a duration of between two to four years. The average duration of a mortgage loan in Switzerland is about four to five years. In contrast to these segments, the segment of online loans and bonds for mid-sized corporations, large corporations and public entities have maturities ranging anywhere between one month and ten years. Debt instruments with short maturities are often renewed, leading to higher turnovers and driving the annual volume of new transactions. The volume in the money market segment, as outlined above, has the lowest duration. Typically, money market instruments are defined as instruments with a maturity below one year. However, many transactions probably have maturities between one or several days to a few months.

In CHF million	2017	2018	2019	2020	2021	2022
Crowdlending Loans	**186.7**	**261.9**	**418.4**	**448.0**	**607.0**	**497.5**
Consumer Loans	*52.0*	*57.0*	*67.7*	*55.4*	*78.7*	*72.9*
SME Loans	*111.6*	*134.4*	*159.7*	*95.9*	*110.4*	*141.9*
Real Estate Loans	*23.1*	*70.5*	*191.0*	*296.7*	*418.0*	*282.7*
Brokered Mortgage Loans	**3,250.0**	**3,300.0**	**4,179.0**	**5,541.0**	**5,913.0**	***6,217.3**
Online Loans for Mid-Sized Corporations, Large Corporations and Public Entities	***2,000.0**	***4,100.0**	**6,200.0**	**9,400.0**	***11,986.7**	***14,700.0**
Loans	**2,000.0*	**4,100.0*	*6,200.0*	*9,000.0*	**11,986.7*	**14,700*
Listed Bonds	*0.0*	*0.0*	*0.0*	*400.0*	*0.0*	*0.0*
Total Volume Swiss Marketplace Lending	**5,436.7**	**7,661.9**	**10,797.4**	**15,389.0**	**18,506.7**	**21,414.8**

Table 5: Total Volume Swiss Marketplace Lending, 2017-2022 (in CHF million; * Estimate)

Figure 12 illustrates the importance of the new online lending segments. The y-axis shows the average growth in volume over the past four years, providing insights into the growth dynamics of the subsegments. The x-axis indicates the estimated market share of the different subsegments within the respective markets.[25] The market shares below are based on estimates and discussions with market participants.

We estimate that online loans for public entities have reached the highest relevance measured by market share. The evolution is driven by financing municipalities, cities, cantons and near-public entities (e.g. hospitals). A study by Lengwiler and Frey (2020) on municipalities has shown that about 15 % of the surveyed municipalities used platforms for financing purposes in 2019.[26]

Mortgage loans from brokers have reached annual growth rates of about 14 % (2017-2022). The market share has reached around 3.5 %. The crowdlending market has shown impressive growth rates (2017-2022: 22 % p.a.) but has a lower significance compared to the total underlying market (consumer and SME lending).

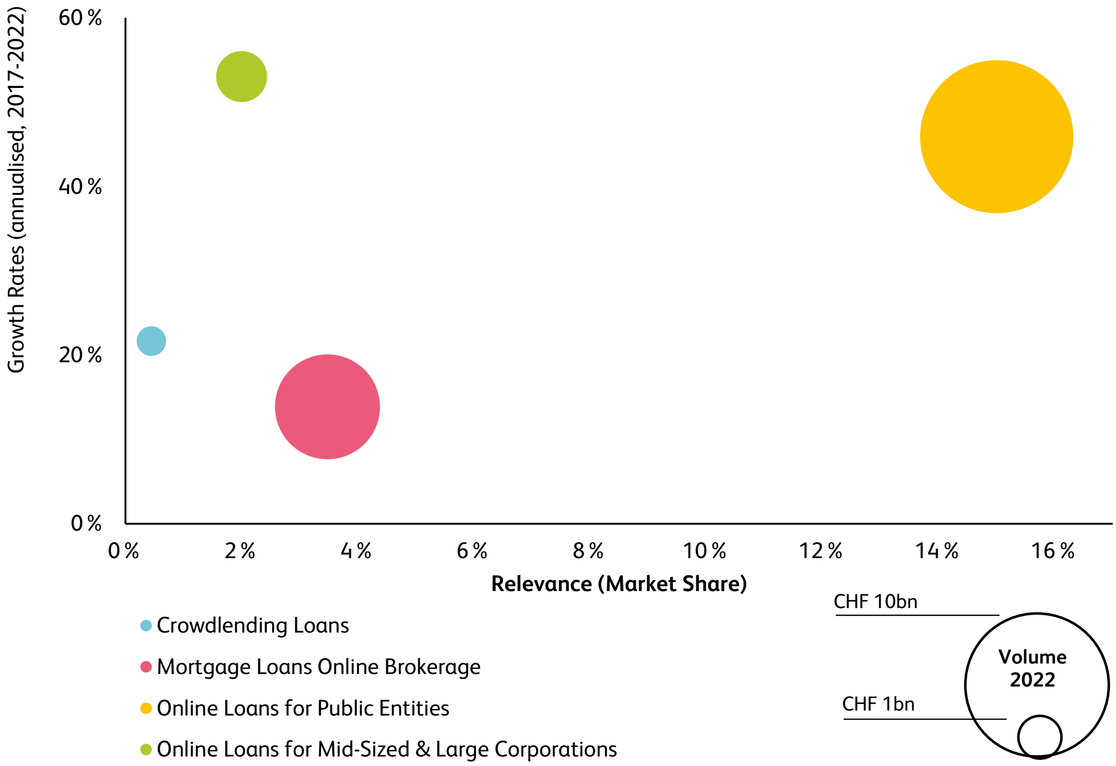


Figure 12: Market Growth vs. Relevance (Indicative, Estimated Values, Issued Annual Volumes) in Different Market Segments

[25] The market share is defined as the total volume issued on marketplace lending platforms in 2022 as a percentage of the total loan volume issued by all financial service providers in Switzerland in 2022 (in the respective loan segment).
[26] Lengwiler, C. & Frey, P. (2020). Finanzierung von mittelgrossen Gemeinden 2019. Erhebung bei 238 Gemeinden mit 4'000 bis 30'000 Einwohnern in der Deutsch- und Westschweiz per 31.12.2019. Rotkreuz: Institut für Finanzdienstleistungen Zug IFZ.

4 Institutional Investors in Marketplace Lending

Institutional investors are the most relevant funding source for loans on marketplace lending platforms. Most segments within marketplace lending are open to institutional investors only. Only the segments of consumer, SME and real estate loans (crowdlending) can be accessed by private investors, too. The study offers first-time insights into the composition of institutional investors in crowdlending. The analysis is built on a survey of all SMLA crowdlending platforms. Beyond that, we have analysed the advantages of marketplace lending as an asset class and identified potential investment barriers for institutional investors by surveying all SMLA member platforms (all MPL segments).

4.1 The Role of Institutional Investors in Crowdlending

Figure 13 shows the share of private and institutional investors in the crowdlending segment (share of institutional investors = 100 % in all other segments). In 2022, private investors accounted for 42.4 % of the volume, while institutional investors comprised 57.6 %.

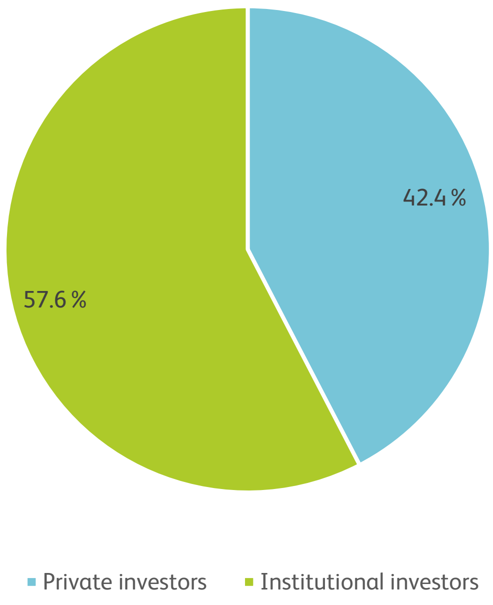


Figure 13: Share of Private and Institutional Investors in Crowdlending Segment, 2022

Figure 14 outlines the investor types within institutional investors in crowdlending. Pension funds held a dominant share, accounting for 36.4 % in 2021. This share gradually decreased to 25.0 % in 2022 but then experienced a slight rebound to 33.2 % in the first half of 2023. These funds remain a consistent and substantial presence in crowdlending. External asset managers (EAM) also contribute significantly, comprising about 22 % throughout the observed period. After pension funds and EAM, banks played a notable role, occupying 15.2 % in 2021, which subsequently decreased to 11.5 % in 2022. Investment funds exhibit a fluctuating trend, with 14.2 % in 2021, rising to 22.1 % in 2022, before declining to 15.1 % in the first half of 2023. Endowments and foundations show a gradual decline, from 5.8 % in 2021 to 2.1 % in the first two quarters of 2023. Corporate investors show some variability, representing 3.1 % in 2021, which subsequently increased to 8.6 % in 2022 before dropping to 1.5 % in the first half of 2023. Family offices contributed 9.7 % of all funding in the first half of 2023. Insurance companies display a gradual rise, from 1.4 % in 2021 to 4.7 % in 2023.

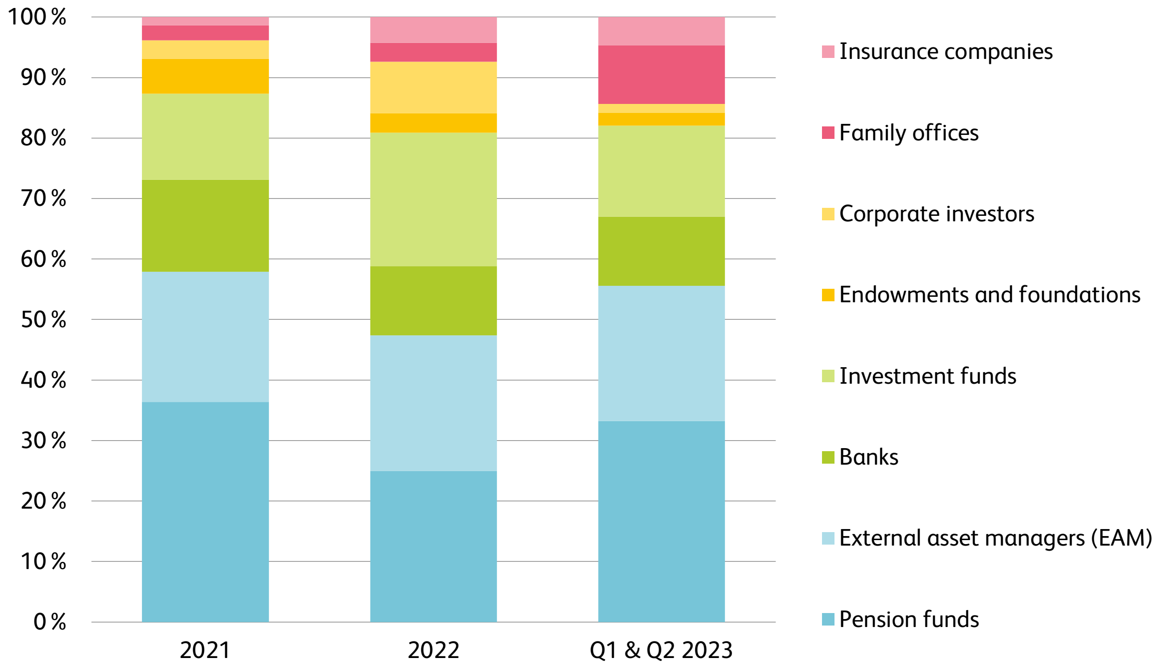


Figure 14: Composition of Institutional Investors in Swiss Marketplace Lending[27]

4.2 The Value of Marketplace Lending for Institutional Investors

Marketplace lending as an asset class offers a range of advantages to institutional investors. Its potential to enhance portfolio diversification, provide access to risk premiums of private markets and deliver steady income with competitive net returns underscores its relevance in the investment landscape.

Direct Access to Loans and Other Debt Products

Marketplace lending offers direct access to the risk premia associated with private markets, such as loans to small enterprises, private clients and homeowners. This access is significant as it empowers investors to tap into risk classes that are still a traditional domain of banks.

Marketplace Lending Creating a Steady Cashflow

A cornerstone of marketplace lending's appeal to institutional investors is its ability to generate a steady income stream with competitive net returns. The structure of marketplace lending platforms and the underlying vehicles facilitate regular monthly payments, creating a predictable cash flow for investors. The short duration of many investment segments within marketplace lending loans further heightens the appeal of these consistent returns. This short-term nature not only ensures that funds are not locked up for extended periods but also contributes to the stability of the investment, particularly in comparison to assets with longer maturities.

Portfolio Diversification

One of the key arguments for marketplace lending is portfolio diversification. As an alternative asset class, investing in marketplace lending can potentially mitigate risks associated with market downturns.

[27] Pension funds incl. collective foundation and investment foundation; every investor connected to BVV2

4.3 Increasing Institutional Funding in Marketplace Lending

How can marketplace lending as an asset class attract more funding? Being a growing asset class, enabling better asset-class access is pivotal for long-term success. However, attracting more funding from institutional investors requires a multifaceted approach focusing on reputation, professionalism, credibility and efficiency. Moreover, creating tailored investment vehicles, independent verification and embracing technological advancements collectively contribute to market growth.

Improved Reputation and Increased Awareness

The power of positive word-of-mouth remains critical in fostering credibility. The endorsement of existing investors can serve as a powerful catalyst in attracting more institutional interest. Establishing a reputation for reliable returns and risk management among current investors can naturally lead to heightened visibility and credibility within the broader investment community. To appeal to institutional investors, marketplace lending platforms must position themselves as facilitators of lending for borrowers and as trustworthy and robust investment opportunities for investors.

Creating Investment Vehicles for Institutional Investors

Introducing more sophisticated investment vehicles tailored to institutional preferences is pivotal. These vehicles should offer features that meet institutional requirements, such as high-volume investment, diversification and liquidity at the same time. Also, regulatory compliance, risk management and reporting transparency of the investment vehicles could help assuage institutional investors' apprehensions about entering the marketplace lending arena. Creating tradeable instruments, for instance, listed on established exchanges, can significantly enhance the attractiveness of marketplace lending. Enabling secondary liquidity enhances flexibility and provides an exit strategy for institutional investors, further stimulating their interest in engaging with the asset class.

Fostering Credibility

To build trust with institutional investors, independent evaluations of the credit assessment procedures and loan portfolios of marketplace lending platforms could further foster credibility. These audits can act as an external validation of their risk assessment processes, reassuring investors of the robustness of the presented investment opportunities.

Streamlined processes facilitated by automation and Application Programming Interfaces (APIs) can significantly enhance the efficiency of interactions between marketplace lending platforms and institutional investors, reducing investment barriers. Seamless integration of investment processes through technology simplifies the investment journey and demonstrates a commitment to staying at the forefront of innovation.

4.4 Navigating Investment Barriers in Marketplace Lending

Addressing specific investment barriers for institutional investors is essential to develop the market further. By educating investors about the nuances of marketplace lending, building a strong track record, further enhancing transparency, fostering liquidity solutions and building credibility, marketplace lending platforms can gradually overcome the current barriers and attract a broader spectrum of institutional investors who recognise the value and potential of the asset class.

Addressing Illiquidity

The illiquid nature of investments in marketplace lending platforms is a factor that detracts institutional investors. Unlike readily tradable assets like stocks or bonds, marketplace lending instruments lack the convenience of daily tradability and an immediate secondary market. This limitation can deter investors who prioritise liquidity and the ability to exit their positions swiftly.

Scale Is Key

The issue of scale also emerges as a hurdle. Some marketplace lending platforms struggle to provide the substantial investment volumes that institutional investors often require. A limitation in offering sizable investment opportunities can discourage large institutional players from committing to the platform. As mentioned, an investment vehicle with proven track records and significant volume could help overcome these barriers. Institutional investors often seek the assurance of historical performance data and a reliable investment structure before committing their capital.

A New Asset Class Requires Even More Transparency and Professionalism

For many institutional investors, marketplace lending remains a novel and unfamiliar territory. The asset class is still relatively new, and some investors might not have extensively considered its potential benefits or thoroughly understood its mechanics. The absence of a longstanding track record can result in a cautious approach, as investors may need time to observe before confidently committing funds. Perceived reputation risk associated with marketplace lending can also hinder investments. The fear of being associated with potential controversies or defaults can discourage investment even when fundamentals are favourable.

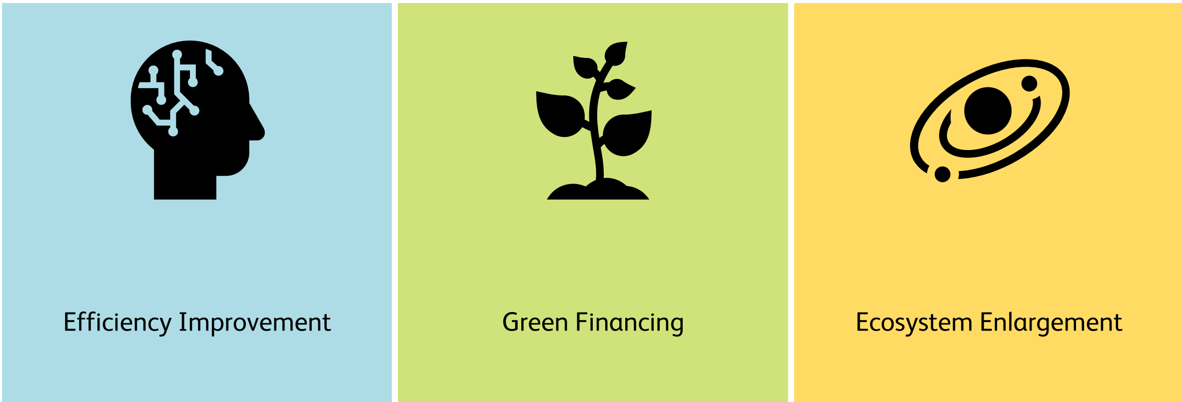
Knowledge, Knowledge, Knowledge!

Institutional investors sometimes compare marketplace lending and traditional investment options, such as blue-chip bonds. Misconceptions about risk and return profiles can arise due to these direct comparisons, leading investors to perceive marketplace lending as riskier than it is. Clarifying the distinct characteristics of marketplace lending and dispelling misleading benchmarks is crucial in fostering accurate perceptions. A lack of familiarity with the intricacies of the Swiss market can also be a hurdle. Institutional investors unfamiliar with the specifics of the market may hesitate to engage due to a lack of in-depth knowledge. This barrier can be mitigated through educational efforts that provide investors with a comprehensive understanding of the Swiss marketplace lending landscape.

5 Innovation in Swiss Marketplace Lending

Marketplace lending has transformed the possibilities for both borrowers and potential lenders and has also led to various innovations in the Swiss market. Challenges, uncertainties, and continuous refinement often mark the road to innovation. Hence, it is vital to recognise that not every innovation will see immediate success. Innovation requires resources for development, the right timing in the market, and client acceptance. Setting priorities is, therefore, key to successfully implementing innovative projects in the financial industry.

Innovations from Swiss marketplace lenders can be grouped into three principal topics: Efficiency improvement, green financing, and ecosystem enlargement.



This section dives into the different innovations of Swiss marketplace lending platforms. By exploring concrete use cases of SMLA members, we aim to shed light on the role of marketplace lending in shaping modern finance.

5.1 Efficiency Improvement

The call for increased efficiency has sparked a big wave of innovation in the lending sector. Manual credit application handling, with its inherent complexities and delays, needs to become leaner to stay competitive. This critical need has driven marketplace platforms to find solutions that speed up loan evaluations, streamline decision-making and enhance resource allocation. By harnessing machine learning and automation, platforms improve efficiency, benefiting both borrowers and lenders alike. Examples of innovations can be found among SMLA platforms.

Using Artificial Intelligence to Improve Credit Analyses

The platform Lend addresses the challenge of accurate risk assessments with a machine-learning model. The so-called “XGBoost” provides scalable and instant credit analysis, significantly outperforming standard regression models in predicting default probabilities. The technology has been rigorously tested on historical data and demonstrated impressive results. Its deployment in early 2023 has streamlined credit evaluations, allowing for swift and accurate decision-making. This innovation directly benefits borrowers by expediting application processing and lenders by enhancing the accuracy of risk assessment.

CG24 introduced the “Loan Predictor”, an artificial intelligence-powered tool that speeds up business loan evaluations. By enabling companies to assess their loan prospects within seconds, both applying SMEs and CG24 can save time and effort. CG24’s approach enhances efficiency for borrowers by providing rapid insights into financing options and simplifying the application review process for lenders.

Automating Investment Decisions

Neocredit introduces the Neobot, a feature that automates investment decisions based on pre-defined preferences. This technology enables borrowers to set investment criteria in advance. When a project aligns with these criteria, Neobot automatically invests, notifying users via email. By automating investment processes, Neobot enhances efficiency for lenders, freeing them from manual investment decisions while aligning with their investment preferences.

5.2 Green Financing

As concerns about climate change and ecological impact grow, marketplace lending platforms are stepping up to address these challenges by offering financing solutions that align financial objectives with environmental goals for investors as well as borrowers. Sustainability is a broad topic that affects almost every asset class.

Enabling Emission-Reducing Projects of Swiss Municipalities Through Public-Private-Partnerships

Cosmofunding, in collaboration with Innergia Group, addresses the challenge of debt ceilings faced by Swiss municipalities striving to achieve carbon neutrality by 2050, as proposed by the Federal Council. The public-private partnership allows each district to finance off the balance sheet, empowering municipalities to develop green initiatives while maintaining their budget. Cosmofunding facilitates the transaction of locally issued bonds, providing municipalities with access to institutional investors and vice versa. Combining private funds with public industry expertise fosters collaboration between investors and local authorities for emission-reducing projects.

Green Scoring System: More Informed Investment Decisions, Factoring in Sustainability Considerations

Acredius has introduced a Green Scoring System tailored for businesses, particularly in the hospitality sector. Green scoring aims to provide a practical method for measuring how much a hotel integrates sustainability measures into its daily operations and adheres to environmental, social and governance (ESG) principles. It derives data from sources like TripAdvisor, booking.com, and social media platforms. Using different AI models, Acredius can generate a readily understandable score, empowering investors to make more informed decisions that factor in ESG considerations.

Green Mortgages

UBS key4 mortgages tackles the challenge of reducing emissions associated with financed buildings. The platform introduces the concept of “Green Mortgages”, which are exclusively available for properties meeting specific environmental criteria. This approach ensures that properties financed through the platform have a low-emission footprint. By encouraging investment in energy-efficient and eco-friendly buildings, investors benefit from the opportunity to support sustainable projects while aligning with their environmental goals.

5.3 Ecosystem Enlargement

At the core of marketplace lending lies the idea of building an ecosystem that reduces transaction costs by connecting lenders and borrowers. The SMLA members are enlarging the existing ecosystem in different ways.

Loan as a Service (LaaS)

Crowd4Cash introduced B2B2X services (Crowd4Cash Easy and Crowd4Cash Easy Business), bridging the gap between online and offline channels. This approach empowers individuals and companies to purchase directly through instalment payments in customer stores. Immediate credit decisions are facilitated using proprietary algorithms and automated queries with external business databases.

Start-up Financing With Debt Capital

Neocredit's strategic partnership with Cantonal Bank Bern (BEKB) has led to the launch of project financing for start-ups. This move is interesting as it brings an innovative approach to debt financing and venture debt, which is relatively scarce in Europe. Neocredit's focus on supporting start-ups through alternative financing options diverges from the conventional equity-based venture capital approach, enhancing access to funding for early-stage businesses.

Third-Party Trusted Services

Cosmofunding's financing ecosystem is a relevant and interesting advancement. By integrating third-party trusted services, the platform offers a comprehensive range of services beyond traditional lending. These services include credit ratings for financing requests, direct connectivity between issuers and investors through a user-friendly web-based solution and streamlined documentation processes. Furthermore, including digital auxiliary services like eSignatures, real estate development support, greenhouse gas balance evaluation, and expertise in energy infrastructure design creates an environment that caters to diverse needs.

Rental Vehicle Financing

Crowd4Cash has launched rental vehicle financing, expanding the business into a previously untapped field. It empowers companies across different sectors to unlock capital tied up in their rental businesses, including cars and e-mobility services. This can free up additional capital that companies can reinvest in their growth. It offers a user-friendly solution by simplifying the process.

6 Conclusion and Outlook

Institutional Investors Are Critical for the Long-Term Success of the Market

Institutional investors are key for future market growth, as they can allocate more substantial investments than private investors. Except for the crowdlending segment, marketplace lending can be accessed by institutional investors only. However, institutional investors account for about half of all investments, even within the crowdlending segment. The most relevant investors are pension funds and external asset managers.

The study shows that various investment barriers must be addressed if the marketplace lending sector wants to become more attractive to institutional investors. Firstly, illiquidity is an issue alongside most direct investments in marketplace lending. At the same time, however, there are also many investment opportunities with shorter durations. Secondly, the market still needs to grow further to absorb large-scale investments. Thirdly, marketplace lending is still a new and emerging asset class. Therefore, platforms must continuously focus on transparency, knowledge transfer and professional conduct to build trust among investors. On the other hand, it remains crucial to invest a significant amount of time in education. Based on our research and anecdotal evidence, it is clear that many, including professional investors, still have significant knowledge gaps.

Marketplace Lending Platforms Drive Innovation in the Swiss Financial Market

FinTechs in the marketplace lending sector are the source of many innovative products and processes. Successful cases range from using new technologies to sustainable financing products and ecosystem integrations of services. For small marketplace lending platforms, integrating into larger ecosystems allows them to scale their products. At the same time, some large platforms might opt for more active roles in ecosystems.

Brokered Mortgage Loans: Significant Shifts Expected

The growth rates in the mortgage brokerage business are decreasing. In 2020, the market was growing by 32.6 %. Since then, volume growth has fallen to 6.7 % (2021) and 5.1 % (2022). For various reasons (e.g. higher interest rate levels, the discontinuation of Credit Suisse, slow changes in customer behaviour), a few ambitious mortgage brokers have withdrawn from the traditional B2C business and adjusted their business models accordingly. Therefore, we expect that the platform business in the B2C sector will no longer grow in 2023 and 2024 and may even decrease in volume. The primary focus of efforts is shifting towards the B2B sector, with various platforms attempting to establish themselves and take the market lead. In our assessment, not all platforms will operate in this market long-term, and consolidation is expected. However, overall and long-term, we still anticipate a growing market.

Crowdlending Provides Solid Returns

Despite the rapidly changing interest rate environment, the return of the crowdlending segment remained relatively stable. Long-term returns between 2 % and 5 % (after losses) are realistic for the asset class. However, returns can exhibit significant variation between different loan vintages, primarily influenced by the market's size, and because individual defaults in larger loans can continue to substantially impact the overall risk-return profile of a given vintage. We expect a lower volatility of returns if the market continues to grow further. Furthermore, it will be interesting to observe the extent to which the impact of higher interest rates and the increased attractiveness of bonds will affect investor interest in crowdlending loans.

Sustainability Remains a Relevant Topic in the Online Debt Market

Sustainability has become increasingly important in the debt market. The topic is on the agenda of most platforms but not yet prioritised. However, the first initiatives have been launched. In the mortgage sector, for example, "green mortgages" are offered with an interest rate discount if the borrowers meet specified environmental criteria. In SME lending, some platforms integrate sustainability into their decision-making process. In the future, we expect the emergence of new, innovative, sustainable lending products and the integration of sustainability risk into risk assessment to become the new normal.

Authors

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Apex Group

Apex Group Ltd., established in Bermuda in 2003, is a global financial services provider. With 94 offices in 40+ countries worldwide and more than 12,000 employees, Apex Group delivers an expansive range of services to asset managers, financial institutions, private clients and family offices. The Group has continually improved and evolved its capabilities to offer a single-source solution through establishing the broadest range of services in the industry, including fund services, digital onboarding and bank accounts, depositary, custody, super ManCo services, corporate services, including HR and Payroll, and a pioneering ESG Ratings and Advisory solution. Apex Group's purpose is to be more than just a financial services provider and is committed to driving positive change to address three core areas: The Environment and Climate Change, Women's Empowerment and Economic Independence, Education and Social Mobility.

Institute of Financial Services Zug IFZ

HSLU Lucerne University of Applied Sciences and Arts

The Institute of Financial Services Zug IFZ, a department of the Lucerne School of Business, is the leading financial institute among the universities of applied sciences in Switzerland. The IFZ provides research and advisory services and offers wide-ranging continuing and executive education programmes for specialists and managers in the financial sector. It also offers Bachelor and Master of Science degree programmes with specialisations in banking and finance, financial management and real estate.

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Diploma of Advanced Studies DAS

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- DAS Bank Management
- DAS Controlling
- DAS Corporate Finance
- DAS Economic Crime Investigation
- DAS Financial und Cyber Investigation
- DAS Pensionskassen Management
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- CAS Economic Crime Investigation
- CAS Financial Investigation
- CAS Financial Management
- CAS Finanz- und Rechnungswesen für Juristen
- CAS Financial Management für Nicht-Finanzfachleute
- CAS Funding & Treasury
- CAS Future of Insurance
- CAS Gesamtbanksteuerung
- CAS Governance, Risk and Compliance
- CAS Group Reporting and Analysis
- CAS Real Estate Asset Management
- CAS Real Estate Development
- CAS Real Estate Investment Management
- CAS Sales und Marketing im Banking
- CAS Swiss Certified Treasurer (SCT®)
- CAS Turnaround Management
- CAS Verwaltungsrat

Swiss Marketplace Lending Association

SMLA
Swiss Marketplace Lending Association

The Swiss Marketplace Lending Association brings together all stakeholders of marketplace lending in Switzerland. The SMLA's goals are to increase the transparency of the asset class for professional and private investors, raise awareness for marketplace lending and foster cooperation within the sector. For further information, please visit www.lendingassociation.ch.

The following platforms, investors and institutions are members of the SMLA:

Platforms

acredius
CG24 Group
cosmofunding by Vontobel
CROWD4CASH
FUNDERS
LEND
MONEY PARK
neocredit.ch
splend!t
swisspeers
UBS key4 mortgages

Investors in marketplace lending

Lendity
NSF | Marketplace Lending Fund Solutions SICAV

Academic institution

HSLU Hochschule Luzern