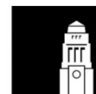

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FINANCIAL INNOVATION TODAY
TOWARDS ECONOMIC RESILIENCE

BY MARK DAVIS &
TIM BRAUNHOLTZ-SPEIGHT
2016

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Finally, our thanks are extended to our colleagues within the Bauman Institute who provided critical peer-review on various drafts.

We hope this report stimulates debate about the radical potential of alternative finance both inside and outside of the sector. The following report is the result of much collective endeavour, though some may not agree with everything they find here. Any errors of interpretation are ours alone.

AIMS OF THE REPORT

We aim to be a 'critical friend' to the alternative finance movement in the following way:

1. By assessing the potential of alternative finance to make a major contribution to building economic resilience;
2. By facilitating an evidence-based and principled debate amongst academic and non-academic partners that can subsequently inform the policy process, and identifying principles that could start to shape a code of best practice for the sector;
3. By acting as a catalyst for further research that will deepen knowledge of this area in the longer term, with a particular focus on realising the transformative step of a truly 'democratic finance'.

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FINANCIAL INNOVATION TODAY: TOWARDS ECONOMIC RESILIENCE

Mark Davis & Tim Braunholtz-Speight

Introduction

We are at the threshold of a cultural war over the meaning of money.

The events of 2007/8 were quickly framed within an Overton Window as a global 'financial' crisis *within* the system, rather than as a political or social crisis *of* the system. This set the scene for legitimising subsequent decisions to authorize a massive transfer of public money into the private banking system, in exchange for almost a decade of severe welfare cuts and state retrenchment of public services across Europe and around the world.

UK ministerial and shadow ministerial proclamations of working together to build a more 'responsible' (Miliband, 2013) and 'moral' (Cameron, 2012) form of capitalism were hastily redefined to include pushing forward an agenda that understood establishing economic sustainability in the narrow sense of still more public sector cuts and privatisation.

In this challenging political and economic climate, progressive forces have aimed to deliver a series of initiatives under the various banners of 'disruptive financial innovation', 'sustainable prosperity', 'green banking', 'financial services reform', as well as a broad spectrum of related social and environmental enterprises.

In their own way, each aims at stimulating local economies in ways that acknowledge the need to address growing wealth inequalities and to ensure investments contribute directly to the challenges faced by local communities in the context of national austerity policies.

Today, it seems there is a substantial appetite for innovation. Innovation is the primary solution to the challenge of preparing for future social, economic, and environmental shocks by striving to make local communities more resilient.

One such innovative response in the UK has been the rise of the 'alternative finance' movement, which we see as including both a self-identifying business sector specialising in financial innovation – e.g. *crowdfunding, peer-to-peer investment, community share schemes*, and so on – and as an active network of civil society organisations campaigning for progressive change to build a fairer, more democratic, and so resilient financial system.

Although far from a homogenous entity brought together easily under a single term, alternative finance typically seeks to harness the power of new forms of digital connectivity to create new ways of enabling money to flow transparently and efficiently towards particular businesses, projects and individuals that typically aim to deliver a social, as well as a financial, return.

The shared aim is to widen access to financial products, previously the preserve of a small, wealthy and financially-literate elite of investors keen to spread the risk of their portfolios, and instead to champion the idea of greater inclusivity and participation in the financial system.

It is in these terms – investing directly in ethical social and environmental projects for a local community, boosting engagement and participation in the wider financial system, and increasing transparency and public control over money – that the alternative finance movement claims to be 'democratising' finance.

In this way, it explicitly aims to provide a more 'moral alternative' to mainstream finance – represented by traditional high-street banks, who continue to be the principal villain on the stage of austerity in the public imagination.

For all these reasons, it has been argued that alternative finance has enormous potential – for increasing local economic resilience, financing community development projects, and in strengthening the resolve of the overall financial system by encouraging far greater levels of public engagement and participation (Berry et al, 2014; Floyd et al, 2015; Greenham et al, 2013).

In this small-scale Intelligence Report, we provide the very first independent evaluation of these developments in a way that gathers and evaluates insider perspectives within the alternative finance movement. We offer a unique qualitative evidence base that helps to understand the sector from the 'inside out', assessing the motivations of the people and companies involved, and developing an analysis of financial innovation in terms of its potential contribution towards building economic resilience.

We do this by asking some fundamental questions:

What is alternative finance? Can it hope to deliver on these noble ambitions? How feasible is it for the alternative finance movement to continue to be 'alternative' to the mainstream finance industry? And how far can alternative finance be seen to contribute to the task of building economic resilience?

As a second part of our unique contribution to research in this area, in what follows we seek answers to these questions from the perspective of sociology of money and finance.

We do this for three reasons: firstly, it is striking how little the profession of economics has had to say on the deeper implications and motivations of alternative finance; secondly, to show how alternative finance innovations have provided a radical challenge to what economists conventionally understand as 'money'; and thirdly, building economic resilience encompasses a range of social and political interactions at a variety of scales and so cannot be grasped fully by economics alone.

Drawing upon sociological and anthropological perspectives, we argue that alternative finance has the potential to reclaim money as a social good. Money has existed in myriad forms in different societies across the ages. We propose that one of the most significant contributions to building economic resilience is radically to rethink what we mean by money and how we need to reconnect it with a sense of moral purpose for the betterment of human communities.

It is in this sense that we are at the threshold of a cultural war over the meaning of money.

Structure of the Report

Chapter 1 outlines a sociology of money and finance, providing a systematic review of existing literature and establishing key principles by which to establish the context for evaluating the alternative finance movement. Here we focus upon the relationship between markets, states and societies, as well as outlining some sociological challenges to mainstream economic ideas.

Chapter 2 provides an industry report on the diversity, size, and scale of the UK's alternative finance movement before introducing the perspective of the companies themselves, which we identified as a gap in current research. Despite a growing body of work on alternative finance, there is a lack of knowledge about the ways in which different organisations see their role in democratising finance, or in building economic resilience, and how they interpret these ideas.

Alongside the desk-based research informing our project, we conducted semi-structured interviews with 12 senior members of alternative finance companies, carried out from November 2015 to March 2016. Through this qualitative approach, we gather and assess these insider perspectives on the current state of the sector, the potential contribution of financial innovation to building a more resilient economy, as well as the chances and dangers that lay ahead for alternative finance in the coming years.

Anonymity was guaranteed to our research participants, who were drawn from a wide-range of alternative finance business models: e.g. donation-based, debt-based and equity crowdfunding, peer-to-peer lending and peer-to-peer investment, and community shares; and across many different industry sectors: e.g. SME investments, renewable energy infrastructure, and property.

Chapter 3 brings this work to bear on the challenge of building economic resilience. In line with the stated priorities of *Friends Provident Foundation*, and drawing upon previous work at the Bauman Institute into the policy challenges surrounding the 'community resilience' agenda, we assess the capacity of the alternative finance movement to foster meaningful social change in ways that might lead to a more robust and democratic financial system working in common with communities to deliver for the public good.

We also identify a number of problems and drawbacks to this in order to offer a fully rounded assessment of financial innovation today.

Key Definitions

What do we mean by Financial Innovation?

Innovation has become the defining ambition of world economies, seen as the principal lever for increasing growth through driving efficiencies and releasing creativity. It is shaping policy at the international, national and local level in all sorts of ways and has become an unquestionable good – an autotelic value – in the age of financial capitalism.

For the purposes of this report, we navigate this vast arena of policy-making by following the typology of financial innovation developed by Anna Laycock (2016), Lead Strategist at the Finance Innovation Lab (UK), a leading member of the civil society organisations actively campaigning for a fairer, more inclusive and democratic financial system that operates in the interest of all.

As well as finding the typology particularly helpful for establishing links between financial innovation and resilience, we do so because it fits our method of drawing upon insider perspectives to understand more fully what alternative finance is doing and where it might go in the future.

Laycock's (2016) typology offers a distinctive take on financial innovation and identifies three separate but overlapping ideal-types, quoted below:

Status Quo Innovation creates greater efficiency without fundamentally changing the way finance works – essentially finding new ways to create more profit more quickly. This ideal-type is seen to map onto recent developments in financial technology ('FinTech'), which is dominated by mainstream finance and privileges innovations that can commercialize products and get them to market for quick sales.

Disruptive Innovation changes the relationship between the customer and the business. This type of innovation has the potential to shift power relationships but within the system. An example would be different forms of crowdfunding. By connecting people more closely to the assets they invest in without the need for long-chains of hidden financial intermediaries, it can enhance transparency and offer greater control within the system. This ideal-type would map most closely onto many aspects of the current alternative finance business sector ('AltFin').

Transformative Innovation changes the relationship between the financial system and wider society. This type of innovation has the potential to redefine the purpose of finance and shift power relationships within and beyond the system. It includes all forms of alternative finance that take an explicit moral position on the world it is helping to create.

For example, this might be to promote renewable energy infrastructure or create community ownership structures; personal loan businesses that see their purpose as supporting, rather than exploiting financially-vulnerable households; community currencies that exist to support the local economy; or mutuals with democratic business structures that put the general public in charge of governance and financial decision-making.

This ideal-type maps most closely onto the ambition for a truly democratic finance ('DemFin') that realizes the noble ambitions of the 'moral alternative' proposed by many in the alternative finance sector, and resists further entanglement with the mainstream as represented by 'FinTech' (Ventura et al, 2015).

As helpful as this model is, we would also raise a note of caution here. As already stated, there is a blanket prominence given to 'innovation' within today's political discourse that we would question. We share the reservations expressed by David (2012) and Morozov (2014), amongst others, that there has developed something akin to an 'innovation fetish' that has gripped businesses and policy makers across the political left and right.

Innovation has come to mean everything from further deregulation to evermore technologically-driven solutions to social problems, but seldom is it acknowledged that constant innovation itself may be driving systemic instability.

We will explore this point further in Chapter 3, but for now we wish to state that deferring everything to the mystical 'black-box' properties of 'innovation' is no substitute for a robust, long-term and research-led social and economic policy that seeks sustained public investment in productive projects within the 'real economy' that will benefit all across civil society.

Constant innovation is not the same thing as sustained investment. There is a danger that too often we conflate the two, privileging the former at the expense of the latter. We will return to this point in Chapter 1.

What do we mean by Resilience?

"It means standing on your own two feet doesn't it?"

(Interview 4)

There is now a considerable volume of excellent work published on resilience, understood as a property of multiple social, economic and environmental systems and operating at multi-level scales (Chandler, 2014; Greenham et al, 2013), and with an emphasis on the need for local communities to become better able to adapt to changing circumstances (Berry et al, 2015; Broadbridge and Raikes, 2015; Cox et al, 2014; Martin and Sunley, 2015).

Drawing upon the work of Katy Wright (2016), the resilience of local communities is typically understood as a capacity to "resist, absorb, accommodate to and recover from the effects of a hazard in a timely and efficient manner", in such a way that preserves "essential basic structures and functions" (UNISDR, 2007: 4).

The UK government's *Community Resilience Agenda* encourages the public to "help themselves in an emergency" (Cabinet Office, 2011: 4) and to take "responsibility for their own … recovery" (Cabinet Office, 2011: 7).

In line with the UK Coalition Government's *Big Society* agenda (Cabinet Office, 2010; Norman, 2010), the community resilience agenda forms part of a broader shifting of responsibilities to local levels and attempts to encourage individual and collective self-sufficiency amongst the public (Bauman, 2001; 2000; Wright, 2016).

Policies and strategies informed by the idea of resilience increasingly look to localities and citizens for solutions to wider social problems. No dedicated funding is provided by the UK government, which has rather identified its role in promoting community resilience as being simply to "remove the barriers to [public] engagement" (Cabinet Office, 2011).

In the context of severe welfare cuts and state retrenchment of public services driven by political choices to inflict austerity measures on the population, the lack of economic support for an increased transfer of social responsibilities away from the state and onto individuals and communities is highly-significant (Evans and Reid, 2014). At the same time, smaller businesses have also faced declining appetite for lending from high-street banks (British Business Bank, 2016).

These factors are at least a part of the explanation for why building specifically economic resilience (Cox et al, 2014) has become so urgent, especially at the local level (Broadbridge and Raikes, 2015; Greenham et al, 2013).

Informing this approach to economic resilience is a desire to see greater circulation and control of money and resources retained within a local area, be it a given community or local authority area.

This appears to suggest that there is a potentially significant role for the alternative finance sector to play, stepping in to a space vacated by the state and mainstream finance in order to offer solutions to local social, economic and environmental challenges – the very things that citizens are being asked to be resilient to – in a more inclusive and democratic way.

Local participation in financial decision-making, and shared control over the flow of resources, are therefore taken to be key components of building economic resilience and puts community participation – and thus democracy and public accountability – at the heart of this agenda (Cox et al, 2014;

Greenham et al, 2013).

An important component of building economic resilience is taken to be directing this flow of money away from speculative practices through financial vehicles or property assets, as is the case with traditional mainstream finance, and instead into productive investments in the 'real economy' (also called 'positive investing', see Ethex, 2015; 2013).

In her excellent study of community resilience, Wright (2016) develops a typology to argue persuasively that there is a clear temporal dimension to understanding the relationship between the risk of 'shocks' and the response to them.

In the short-term, this is through immediate response and recovery techniques that try to keep the status quo afloat; in the medium-term, through adapting to and accommodating altered circumstances as a result of the shock; and in the longer-term, through transforming existing social systems and structures in order to remove the cause of the shock at source.

Given that our capacity to be resilient can only be accurately measured post hoc, once the given 'shock' has occurred, it is only through taking this transformative step to change wider social systems that we can be said to be resilient in any sustainable sense over time.

As a result of our research, we feel it is important to hold to this broader understanding of resilience. We do not believe that 'economic' resilience is possible without both social and environmental resilience as part of the mix. Although our focus is necessarily on money and finance, to regard these and specifically 'economic' resilience as somehow existing in a separate, natural sphere of the human world, would be to repeat the same mistake made by mainstream economists.

Since a self-understanding of the alternative finance movement is to resist the privileging of economic benefits over and above social and environmental benefits, in order to strike a fairer balance along the 'triple bottom line', we draw upon Wright's (2016) understanding of community resilience to reflect this.

We cite this here because there are clear affinities between Wright's (2016) typology of community resilience and Laycock's (2016) typology of financial innovation. We deliberately bring their work together in this report to offer a single framework – acknowledging that both authors are thinking beyond purely economic benefits, to include social and environmental dimensions – in order to assess the alternative finance movement in terms of its capacity to deliver the two transformative steps needed to provide truly democratic finance as the principal way to build economic resilience.

CHAPTER 1: BEYOND ECONOMICS? SOCIOLOGY OF MONEY AND FINANCE

1.1 introduction

The alternative finance movement in the UK has emerged in a particular context. Following the multiple crises of 2007/8, many of the world's problems were quickly framed as 'financial' – both in terms of their immediate cause and their professed solution – rather than as a mix of political, social and environmental.

The crisis of liquidity, caused by a break down in the mechanisms of trust within the financial system, was seen as a technical issue that required the resources of the state (i.e. the ability to create money) to fix. The financial system didn't run out of money. It ran out of the trust which makes money flow around it.

And it raised an important question: *what is the political or social legitimacy of our financial system to control the way money works and how it is used?* Arguably alternative finance, in all its forms, is the attempt to answer that question.

Therefore, we investigated how alternative finance provides a range of options for addressing the grand challenges of today, first through changing the way we understand and use money, and second how this can contribute to building economic resilience by acknowledging that many of the orthodoxies of mainstream economic thinking are fundamentally incorrect.

Perhaps because of the social and cultural imagination of the alternative finance movement, mainstream economics has to date largely ignored it, unwilling to notice the 'black swan' making so much noise on its calm lake of ornithological purity. We propose this is because in order fully to grasp alternative finance, it needs to be approached *sociologically*.

In this Chapter, we begin by outlining the social context within which alternative finance has emerged as a response to the global 'financial' crisis, before sketching out areas of sociology of money and finance relevant to this report.

1.2 Markets, States, and Societies

"We have socialized the risk of innovation, but privatized the rewards"

Mariana Mazzucato

As Mazzucato (2013) has demonstrated in her landmark study, in seeking innovation-led growth it is fundamental to understand the important roles that both the public and private sector can play.

The assumption that the public sector can at best incentivize private sector led innovation (through subsidies, tax reductions, carbon pricing, green investment banks and so on) – a claim being propagated heavily in the UK in recent years – fails to account for the many examples in which the leading entrepreneurial force came from the state rather than from the private sector.

Mazzucato (2013) has gathered a wealth of evidence to show how the 'patient

capital' of long-term productive investment has enabled step-change innovation to happen as a sustainable process; and at the same time that 'impatient capital' from the private sector only arrives late in the process to ensure the rapid commercialization and market uptake for specific (product) innovations.

When we think about how the state, the market and society have interacted in the past and how that might be changing today, one of the key reversals that we have to make is to recognise that markets are outcomes. Challenging a cornerstone of economic orthodoxy, markets do not exist separate from society, as if in a pure state of nature, but are rather the outcomes of the many social interactions between public, private and civil society (Jacobs and Mazzucato, 2016; Mazzucato, 2013).

One of the key changes in the ways that public and private sector have interacted is that over time we have allowed the private sector to become evermore convinced that it is separate from the state and civil society, both in terms of its confidence that it should be solely responsible for steering the way and setting the agenda for everyone else, and in terms of its gradual slippage from democratic control and accountability to the public good.

A simple proposition captures this situation: should a society be fundamentally remodelled and forced to adapt to the needs of an economy, or should the economy be fundamentally remodelled and forced to adapt to the needs of a society? If society is not to be the master of the market, then the market will continue to be the master of society (Lawson, 2010).

This is not to label the private sector in any pejorative sense. As noted in the Introduction, the state has been responsible for the most destructive retrenchment of welfare services since 2007/8 and continues to transfer evermore responsibilities onto a largely under-resourced public.

But it is to say that the state and civil society have been unwilling or unable (unwilling because unable?) to work as equal partners with the private sector, developing ambitious visions for the betterment of society and then working to entice the private sector to share responsibility with the public sector for working towards these shared mission-oriented ambitions.

In the current economic and political climate, societies are not short of grand challenges. One of the principal ambitions today is not just to foster more growth in financialized capitalist economies, but to generate a particular type of smart, sustainable, and inclusive growth that reconfigures the priorities of economies in order to tackle climate change, the democratic deficit, and ever-widening inequalities in wealth and opportunity (Crouch, 2004; European Commission, 2010; Jessop, 2014).

With these challenges set for society, the private sector could offer a firm commitment to shoulder the burden and become both interested and proactive in directing their energies and investments in such a way that shares responsibility for the long-term public good of societies (Davis 2011; Jacobs and Mazzucato, 2016; Mazzucato, 2013).

The response from both policy-makers and the private sector, however, has been largely to exclude civil society from any debate over how to address these shared challenges. Through evermore regressive welfare reforms and public sector cuts, the scope of possible reforms and potential futures has been to prioritise little more than a return to 'business as usual' (Berry et al, 2016).

With frequent reference to 'what works' and 'common sense', those alternative voices both inside and outside of mainstream economics are frequently silenced. Alternative theories of economics – heterodox, feminist, Marxist, right through to sociological and anthropological approaches – are held at the periphery of debates over economic life.

This is to say nothing of the way in which the public understanding of economics is further deteriorating in the evermore complex and algorithmic world of hyper-financialization (Lash and Dragos, 2016; Lapavistas, 2011; Mirowski, 2014). Without a richer, deeper understanding of economics within public life, it is impossible to see how economic decisions that affect us all could ever be considered democratic and in the public interest.

As the economist Ha-Joon Chang (2016) has highlighted, people frequently have their own theories and beliefs on climate change and the existence of deities without holding advanced degrees in ecology or theology. Yet when it comes to economics, they are somehow more reluctant to profess an understanding and still happier to leave this area of life to the (self-proclaimed) economic 'experts'.

Alternative approaches need to do far more than simply criticise mainstream economics. They need to embrace new forms of democratic and political debate, foster greater knowledge sharing, and forcefully make the case for the benefits of resisting mainstream economic orthodoxies as being capable of delivering for the public good and meeting those grand challenges highlighted above.

Building resilience, as we explore further in Chapter 3, will only come from a broader and deeper public confidence in discussing economic issues in a language that is accessible and translatable across different social groups, with a view to ensuring that all economic decisions affecting communities are democratically accountable.

Enriching the wider public understanding of this process, and revealing how everyday financial decisions impact upon and reshape the overall economic system, is a profoundly *sociological* challenge focused as it is upon the interdependency of individuals and wider social systems.

Too often, economics appears as a malevolent external force that *happens to* people, rather than a system that *they already help to create and to sustain* through their habitual financial behaviours. Sociology takes private troubles and reveals them to be public issues, undermining common sense assumptions and exposing the vested interests that powerful actors have in maintaining the status quo (Bauman, 1990; Mills, 1959).

This would seem to be of particular significance in rebalancing the relationship between markets, states and societies as we seek to build economic resilience for the public good.

1.3 Sociology of Money and Finance

"When you put your money in a bank, they then are the owner of that money and they can lend it to whoever they like. They can lend it to arms dealers in Indonesia, they can finance sweat shops in Burma! I'm not saying that's what they all do, but the point is you don't know where your money's gone, it's up to the bank. When you come to a platform [in the alternative finance sector], you have a much better idea of where your money's going, and what's more, you never relinquish ownership of that money."

(Interview 8)

There is a vast and substantial body of research in this area to which we cannot hope to do justice in this report. What follows is necessarily a highly-selective overview of some of the key ideas from this field of academic research as pertinent to the arguments we develop here.

There have been notable challenges to the orthodoxies of mainstream economics in recent years: from rethinking money and credit (Carruthers and Ariovich, 2010) to exploring the relationship between morality and markets (Sandel, 2012; Zak, 2008); from research into Islamic Finance (Maurer, 2005) and human economies (Hart et al, 2010) through to alternative currencies in Africa (Hart, 2005); and from direct challenges to the private creation of money (Ryan-Collins et al, 2014), through to assessments of its role in driving indebted societies, increasing inequalities, and furthering environmental degradation (Jackson and Dyson, 2013).

Sociology of money and finance is frequently informed by anthropological and ethnographic research observing how people understand and actually use money in their every day lives, which quickly reveals how little mainstream economists know about the *social life of money* (Dodd, 2014).

People behave irrationally, counter-intuitively to economic models of human behaviour, and can often have a very poor grasp of what money is, what it is for, and what it can do. There are no 'iron laws' of economics, and no set of markets exist in nature, but they are rather human-made constructs that can be remade in all sorts of ways, if only we act collectively to do so.

Through sociology, both money and economics are revealed as powerful social constructs that endure because social and cultural customs ensure that they do, relying upon habitual forms of understanding and behaviour to go on reproducing the social and economic system within which they exist (Wherry, 2012; Zelizer, 1994). As a first step in this process, we must reclaim money as a social good that can bring about genuine and meaningful social change in the future (Mellor, 2010).

Money has existed in various forms throughout history and across many different societies and cultures, in order to manage transactions between kinship members, friends, and between strangers, helping to ensure an appropriate transfer of 'value' around a social system.

Money is the social object we have designed to embody this value in a way that is easily measurable, but mainstream economics makes a fundamental mistake when it conflates value with price. To cite a well-known axiom, "mainstream economists know the price of everything and the value of nothing".

Let us offer one example, drawing upon research by Ole Bjerg (2014: 24-27) at Copenhagen Business School. One of the key functions of a market is to establish the value of assets in terms of price. According to Bjerg, there is a clear discrepancy between value and price because the seller and the buyer both need to leave the exchange feeling like they got 'the better deal'. Hence, trading is only possible insofar as prices precisely are *not* able to represent the value of an asset in any absolute sense.

In financial markets, it is the fundamental discrepancy between price and value that allows for a multitude of price formations to co-exist and hence for trading to take place. Neither buyer nor seller can ever confront value directly, it forever eludes her in an endless game of estimating value based upon a constant volatility of price formations.

The only true test of the value of an investment in these fluctuating financial markets, is to subtract the purchase price from the eventual sale price (whether that be immediate or over a lifetime). Crucially, there is no easy way to assess value directly using price.

In other words, because any calculation involving price cannot provide an adequate guide to value, then true value is based upon an entirely uncertain future. Money is thus intimately linked to time and value can only be determined when a myriad of imaginary potential futures collapse into a single moment of actual real time, i.e. the sale price.

Whilst we may not agree fully with Bjerg's conclusions, his assessment that value is fundamentally so much more than just price provides two useful insights relevant to our evaluation of the potential of alternative finance to contribute to building economic resilience.

First, the instability of the financial system is (at least in part) caused by these structural problems at the heart of economics. As Bjerg (2014: 26) explains: "… the impossibility of pricing is the condition of possibility for the market. Only in so far as the value of assets cannot be unambiguously determined does trading take place".

Were there to be a definitive authority – a centralizing Government, or the figure of a Deity – dictating the definitive price tag on various assets, then most of the trading in the world would cease because it would be unnecessary.

Second, and most significantly, Bjerg's insight opens up the possibility for expanding our understanding of value beyond the narrowly financial. Once we realise that price is not a sufficient measure of value, not only can we challenge the primacy of economics in deciding upon value, but we open up a space for realising that social and environmental value – the 'triple bottom line' (Elkington, 1999; Slaper and Hall, 2011) – not only exist but ought to carry at least equal weighting with economic value.

This is especially important for understanding the mix of returns offered by many of the alternative finance companies that we interviewed. As we will see in the next Chapter, the alternative finance movement is motivated by a desire to offer far more than a financial return on investment and aims to motivate people to 'move their money' out of mainstream financial institutions and into their platforms precisely in order to deliver wider social and environmental benefits.

In so doing, alternative finance aims to overcome the instability of a financial system based upon self-interested speculation by directing investment into a productive 'real economy' that has a chance of building economic resilience in a fair, inclusive and democratic way.

This is one of the motivations behind the drive to truly *democratize* finance. As Bruce Davis (2013) explains: "We make the markets that we deserve and, in terms of being able to move our money away from institutions and practices we dislike and towards those that better reflect our ethics, we are still in charge of that whole process. You can remake markets, but you have to act differently to do so."

One of the biggest barriers to acting differently are the patterns of social behaviour that people are 'locked-in' to from an economic life dominated by traditional mainstream finance, such as high-street banks. A first step in reshaping these patterns of behaviour is in the intellectual battle over the meaning of money as a social object capable of delivering public good.

In terms of our democratic citizenship, we vote in local and national elections, taking decisions that can have extraordinarily dramatic impacts upon our lives. We shoulder the responsibility of that in part because we are familiar with the process. When it comes to financial decision-making, and shouldering the burden of what to do with our money, we typically hand over the power of our money to bankers and surrender control over our financial futures.

Alternative finance would seem to represent an opportunity to rebalance that power relationship, and possibly to transform it in the radically democratic way that Laycock (2016) suggests.

Through interviewing the sector directly, we aim to understand how its own practitioners see their role, and how far it is feasible and desirable to deliver social and environmental value, in order to evaluate the potential of alternative finance to realise these ambitions for financial innovation held within the wider movement.

CHAPTER 2: UK ALTERNATIVE FINANCE MOVEMENT

2.1 Introduction

“it is an alternative investment, it’s not like putting cash in a bank! You have to be able to understand the risks and understand the principles behind it, so we have to be careful that we’re not opening it up to people that just don’t appreciate that side of things.”

(Interview 5).

With *NESTA* (Baeck et al, 2012) and the *Cambridge Centre for Alternative Finance* (CCAF) (Zhang et al, 2016; 2015; 2014) leading the way, a growing body of excellent research has started to investigate alternative finance in various ways: at an aggregate or quantitative level, surveying the sector as a whole in terms of different types of business models and size of funds raised for various projects; as well as in-depth research on particular sub-sections of alternative finance, such as community share schemes (Community Shares Unit, 2015; Ward, 2014; Ward et al, 2010).

There is no need to repeat this material here. The most obvious question for us at the outset was rather: alternative to *what*?

This question informs the analysis throughout this chapter, but we can state here that the alternative finance movement proactively seeks to distance itself from what it identifies as traditional, mainstream financial institutions. These are primarily high-street banks, part of a financial system taken to privilege circulating money within itself in order to generate a financial profit (i.e. through speculation and other ‘non-productive’ financial activities).

Alternative finance instead prioritises direct productive investment in what is often called the ‘real economy’ – local businesses, infrastructure, and community projects that are intended to generate social and environmental benefits, as well as a financial return.

The distinctions between alternative and mainstream finance are increasingly difficult to draw – as we assess further in Chapter 3 – and so our research was interested first in establishing how the sector itself understood the differences; how the claims to providing a ‘moral alternative’ to mainstream finance might be preserved; and how this relationship might develop in the future.

Two questions we were unable to answer here are ‘who’ is investing in alternative finance platforms, and ‘why’. This was partly due to the availability of information – which was either not known or not available via the companies themselves – and partly because we were interested specifically in understanding the ‘self-identity’ of the alternative finance movement.

The impressions of investor motivations we accessed through our interviews are included in 2.4 below, but we start with a portrait of alternative finance in terms of its diversity, size, and scale.

2.2 DIVERSITY, SIZE, AND SCALE

"It's a very small world, so we all know each other very well!"

(Interview 5)

There is a diverse range of alternative finance models and platforms, which often overlap but that can be very different from each other in size, structure, operational practice, and stated objectives.

As we will see, there are *insider* reasons for the sector to see itself as a single (if diverse) alternative finance movement, but it is important to stress that alternative finance is far from a homogenous entity.

Some companies are now ten years old (e.g. *Zopa*), and the volumes of money lent range from the low millions (e.g. *Abundance, PropertyMoose*) to well over one billion (e.g. *Zopa, FundingCircle*).

There is currently a marked regional bias as the sector is overwhelmingly based in London and the South-East of England, both in terms of the location of the companies themselves and the projects being funded through alternative finance platforms (Zhang et al, 2016: 31).

The online nature of the sector suggests an openness and inclusivity for anybody to invest, especially as financial barriers to entry are lowered, but this has not yet resulted in overcoming the marked concentration of alternative finance in the South.

"… we have a bias to the South-East, in terms of where the money is […] it's all in Hampshire! But where do they need the money? Newcastle. [So there's] no point me having a local financial institution with only Newcastle investors because I won't raise enough money for Newcastle borrowers".

(Interview 1)

Although it is still a relatively small part of the overall financial services market, the sector has grown rapidly in the UK over the last 10 years leading to changes in the types of financial instruments used by the companies (Collins et al, 2013; Zhang et al, 2016).

These include loans, tradeable shares, non-tradeable community shares, rewards- and donation-based crowdfunding, peer-2-peer investments, peer-2-peer lending, debt-based securities (i.e. debentures), and so on. Some companies continue to concentrate on one type of product, but as the sector grows and becomes more assured there is a tendency to offer a greater mix of products to their investors (Zhang et al, 2016).

In 2015, the total size of the alternative finance market was £3.2BN, almost five times that recorded in 2013. The majority of this was in peer-to-peer lending. However, £61M was in community shares issued across 97 organisations. £6M in debt-based securities (i.e. debentures), although this number excludes 'mini-bonds' that are exempt from regulator status in a manner similar to community shares. The total size of the debt securities market is closer to £100M in the UK alone. And finally, £12M was in reward- or donation-based crowdfunding, with the latter being the fastest growing subsector of alternative finance (Zhang et al, 2016: 9-15).

"I wouldn't be surprised if, in three to five years, alternative finance is a fifty-billion-pound industry. At that point, it's going to be a significant player!"

(Interview 11)

"I don't think it's unreasonable to think it'll soon be equivalent to about the size of the building society industry"

(Interview 1)

To grasp the size and scale of this activity, these figures need to be understood in relation to £53BN lent by high-street banks to SMEs in 2015, as opposed to just £1BN by peer-to-business lenders (British Business Bank, 2016: 12), although the latter provided almost 14% of new loans in 2015 (Zhang et al, 2016: 19). However,

"…the whole industry has to scale-up, otherwise it won't survive."

(Interview 3)

Although a diverse sector, alternative finance companies serve to match funders with fundraisers through online platforms. Some are generalists facilitating loans to various small and medium-sized enterprises (SMEs) (*FundingCircle, Ratesetter, Crowdfunder*), whereas others specialise in particular sectors: renewable energy infrastructure (*Abundance*), property (*LendInvest*), improving local public spaces (*SpaceHive*), supporting legal action (*CrowdJustice*), and promoting digital currencies (*BnktotheFuture*).

They vary in terms of the type of return that they offer – from the narrowly financial, to include broader social and environmental benefits – and frequently communicate this fact as part of their claim to embody a 'moral alternative' to traditional, mainstream financial companies, such as high-street banks, with varying degrees of success (Belleflamme, 2013; Davies, 2015; Lehner, 2013; Murtagh and Goggin, 2015).

Indeed, it is in helping to diversify the financial sector through helping to build a 'moral economy' that has been a defining feature of the movement to date. All alternative finance companies offer a way to 'move your money' out of traditional lending and borrowing practices in order to disrupt habitual financial behaviours.

This is regarded as one of the principal ways in which the sector allows the public to take back control of the power of money to influence positive social and environmental change. In this way, the alternative finance movement can be understood as a *cultural* phenomenon aiming to disrupt the financial system.

This diversity impacts upon how different areas of the sector can contribute to building resilience. For example, a company like *QuidCycle* can be seen as aiming to increase the resilience of individuals through enhancing their personal finances and spreading the risk of their investments across a range of financial and social returns.

Zopa, on the other hand, is primarily concerned with making loans in a way that excludes traditional banking institutions. Both are part of the alternative finance movement, and share a commitment to providing a moral alternative to mainstream finance, but they approach the issue of 'building resilience' in very different ways.

This is also true for peer-to-peer investments, which prioritise building tangible infrastructure, and so can be seen as contributing less to individual-scale resilience and more to national-systemic resilience through positive investment in tangible material outcomes.

There are differences too in the crowdfunding subsector: equity-based crowdfunding, which is primarily interested in delivering financial returns, could be seen as building resilience in the more traditional sense of creating jobs; whereas donation-based crowdfunding, which is more interested in delivering social returns on investment, could be seen as building resilience through diversifying a local business sector, supporting SMEs to deliver on social and environmental benefits.

If the companies themselves nevertheless still self-identify as a single alternative finance sector, then they are also part of a much wider alternative finance movement in the UK that includes both trade associations – e.g. *UK Crowdfunding Association* (UKCFA), *Peer-to-Peer Finance Association* (P2PFA), *UK Business Angels Association* (UKBAA) – and civil society organisations campaigning for various financial and monetary reforms – e.g. *Finance Innovation Lab, Move Your Money, New Economics Foundation, Positive Money, Share Action*.

"I guess across the sector there's still quite a collegiate approach across the platforms … a united front when going to government, etc. There's still quite a lot of contact between the platforms, although as models are starting to diverge a bit, as objectives are starting to diverge a bit, it's becoming a little bit more fragmented than it probably was, all those years ago! But there's still a kind of – there's competition don't get me wrong – but there's cooperation on issues that matter to the sector and that ensure the sector's well-being as a whole, which is quite interesting."

(Interview 8)

This wider movement is highly-significant because it provides either a formal or an informal check on the claims being made by the alternative finance sector, playing a crucial role in establishing distance between alterative finance and the mainstream.

In terms of the trade associations, there is a concern with managing reputational risk and providing a series of branded kite marks to demonstrate the trustworthiness of companies within this sector (e.g. Community Shares Standard Mark).

In terms of the civil society organisations, as well as a wealth of creative energy and imaginative thinking, there is a concern with protecting the integrity of the sector by promoting more transparent, democratic, and inclusive processes in order to advocate for a financial system that operates for the public good, i.e. types of social and environmental returns, and giving the power of money back to the public.

One of the ways in which the sector aims to showcase its commitment to these ambitions, is through establishing a reputation of trust through adherence to financial conduct regulation.

2.3 Regulation and Reputation

The alternative finance sector is regulated by the *Financial Conduct Authority* (FCA), which adopts a 'light touch' approach, and there is wider oversight from a range of public sector bodies and government departments, such as the Treasury and the Bank of England (Osborne Clarke, 2014). Our interviewees stressed the importance of maintaining regular and positive contact with the regulator, and we highlight three key features of this relationship.

First, regulation by the FCA is relatively new and subject to being revised and updated. Full authorization of permission to trade was only formally approved in 2015 and entails more compliance effort on behalf of the companies.

Establishing positive working relationships is clearly beneficial for the sector to be able to have a voice in how these changes are developed and introduced.

"I think we have a very constructive relationship with the regulator, who takes a very pragmatic view of the world. Also with government – the government's been very supportive. And obviously the government and the regulator have an objective, to inject greater competition into financial services. So they like the idea that ourselves and other sectors like 'challenger banks' are coming along and shaking things up and trying to disrupt things a little bit, ultimately with the idea that customers get a better deal as a consequence. And I think government's attracted to us because we can move money around the economy in a very effective way. Importantly, a way that doesn't have any particular systemic risks, in the way that banks do."

(Interview 8)

Second, there is a clear concern of the FCA to protect customers and so it has frequently emphasised the need of companies to provide clear and accurate information and risk warnings, especially as there is a commitment on all sides to open up the sector to be more accessible to the public.

"People should understand the risk they're taking, but it's not the job of the regulator to say whether they can afford to take that level of risk … wealth is not a skill set! And it absolutely does not follow that because you've got a lot of money you're better able to assess risk than people without money, and vice versa. It's really lazy regulation to say well we're just going to make sure everybody who does this has to have a minimum of twenty grand! I think that's how they look at it – the more money you have, the less regulation you need."

(Interview 3)

Although some arrangements for compensation are in place, there remains an expectation of 'buyer beware' as customers assume ultimate responsibility for their engagement with alternative finance (to say nothing of the risk to the lenders). In this sense, the sector is expected to provide fewer safeguards than traditional, mainstream finance, and is not currently covered by the *Financial Services Compensation Scheme* (FSCS) in the same way as bank deposits and loans.

It does cover those platforms offering 'peer-to-peer investments' as well as 'peer-to-peer loans', which have been covered since 1 April 2014 by the FCA. This would seem to be positive in terms of offering some protection for productive investment in the 'real economy', but we found that there is typically confusion between the twin roles of FSCS in both protecting deposits and insuring against the misselling of investments.

To date, the FCA has been primarily engaged in scrutinizing the public declarations and promises made by alternative finance companies in their public promotions and marketing campaigns, one of the principal reasons why we were interested in evaluating the claims to being a 'moral alternative' in this research.

There are clear tensions, however, between a regulator that understands resilience in terms of systemic risk (i.e. consumer protection), and investors in alternative finance, who would be expected to understand resilience in more individual terms (i.e. diversifying risk across a personal portfolio).

Third, there is a recognition that the diversity, size and scale of alternative finance means that a 'one-size' regulation is currently likely to be insufficient to cover the range of activities underway in the sector.

"We've contributed to policy discussions around crowdfunding, because it has an impact on the market as a whole. We're very aware of the reputational risks around crowdfunding, and people tarnishing, using crowdfunding as a catch-all term, when there's very different applications of it."

(Interview 9)

To overcome this, there is currently an informal check on the behaviour of alternative finance companies by the sector itself, which has engaged in a form of 'self-policing' – with both the companies and the wider civil society organisations maintaining a very close watch of activities – in order to manage the risk of reputational damage to the whole by the misdeeds of single actors.

This is a central driver of the sector continuing to see itself as a single community, an *insider* motivation to present itself as an organic group of like-minded companies.

There was considerable awareness across our interviews of the risk of reputational damage that could result from a significant business failure or a

notable public scandal.

"… you're going to have some issues, some platforms are going to go bust, people are going to lose money, definitely. And that's going to have an impact."

(Interview 5)

As such, constant work is carried out to maintain close working relationships with the regulator as a protector of reputation, and to ensure that the 'moral alternative' dimension of the alternative finance sector is preserved.

"Crowdfunding is basically the domain of the wealthy. It is something that high-net worth people do and they do it for tax breaks, which is why the FCA doesn't worry about it so much, because they consider the people doing it are generally more high-net worth anyway – which means they don't have to worry so much about the poor granny in Stockport who puts all her life savings into some dodgy scheme!"

(Interview 4)

In parallel to this regulatory dimension, a growing number of comparison and brokerage websites have emerged in order to assist newcomers to the sector with navigating their way through this diverse and unfamiliar sector.

This ranges from more general guidance offered by *CrowdingIn* (facilitated by *NESTA*) and *P2PMoney*, through to brokers such as *ChoiceLoans* or *FindSMEFinance*. There are now also a number of ratings agencies, such as *AllStreet, CrowdRating*, and *CrowdSurfer*, who provide assessments of the different alternative finance options available dependent upon the nature and terms of funding sought by the customer.

These developments have to be seen as a further attempt by the alternative finance movement to establish a reputation for transparency and trust, at a time when faith in traditional high-street banks continues to be very low following the crises of 2007/8.

In the next section, we begin to develop more fully our analysis of alternative finance as a movement that offers a 'moral alternative' to those mainstream financial institutions by evaluating the motivations of investors and asking: *why would anyone put their money into alternative finance?*

2.4 INVESTOR MOTIVATIONS

"I spend half my time telling people, what you're doing with your money is a waste of time. It doesn't generate value for anyone!"

(Interview 1)

As we have stressed, the alternative finance movement have actively promoted the sector as a moral actor as well as an economic actor, setting out a range of different visions for what this means for any given company. We identify this 'moral alternative' as very much the unique selling point of the sector and so we were keen to investigate this in detail with our interviewees.

"We're seeing people who actually don't necessarily approach it as a way of diversifying their portfolio, but they invest in something they believe in! And then they come back, they see other things, and then they start to develop their portfolio, maybe a bit smaller, dip their toes in, and then realise the importance of investing further."

(Interview 7)

All companies emphasise their financial credibility, trustworthiness (as established by regulatory and other independent bodies), and the high-quality of service they are able to provide to customers by acting as a single intermediary between funder and fundraiser. But the particular way in which companies communicate their moral return varies greatly.

There is the direct appeal to customers to provide an alternative to dealing with the opaque, dark arts of high-street banks (*Ratesetter, Zopa*); to "take control" of your money and where it is invested (*PropertyMoose*); to build something real and tangible with your money through "investments you can touch" (*LendInvest*); to making "a better world" (*Abundance*); and to make "great ideas happen" (*CrowdFunder*), reflecting the perceived political and moral sensibilities of current investors:

"The simplest answer to that question [of who invests in the more 'moral return' areas of the sector] is that we don't know! But in so far as we do know, basically they are people who are 45 years and older, in the majority. People who have a bit of spare cash, so moderately well-off – and not necessarily rich, though they could be rich – and of a liberal-left, Guardian-reading inclination, but of a high-education. More likely to be resident in Hampstead than Kensington and Chelsea."

(Interview 4)

This whole approach to self-presentation by the sector is best captured by the slogans "invest in businesses you believe in" (*Seedrs*) and becoming "more directly connected to the business in which you are investing" (*Ethex*). There is clearly a shared commitment here to presenting alternative finance as a more democratic, empowering, and moral alternative to mainstream finance.

We argue that the claims being made here represent an acknowledgement that currently the public have very little, if any, direct say in what happens to their money once it is handed over to a mainstream financial institution. In the terms of our analysis, the process is fundamentally disempowering and undemocratic. The investor defers all responsibility to a financial institution and allows them to decide how their money is utilised, with no direct influence over the many potential outcomes that are created by that investment.

By investing in an alternative finance company, on the other hand, it is possible to ensure that there is a much more transparent relationship and for the investor to know precisely where and how their money is being used

and to trust in that process.

"What you will find is, at least thirty to forty per cent of the initial funding you receive [for a crowdfunding venture] will come from close friends and family. At least that amount. And if you're an unscrupulous character, or a fraudulent businessman, you will not hit your target, because those people won't come, they won't fund you, you won't gain the momentum that you need, and ultimately you won't be able to run away with the money […] It is based on trust, and that's why we focus so much on the local."

(Interview 2)

This may be in funding a small business enterprise in a local community, intended to diversify a high-street and resist the influence of multinational companies in a particular area; or investing in a renewable energy infrastructure as part of a wider commitment to green economic priorities stemming from concerns over the environment.

The key point is that, through alternative finance, it is far more possible to ensure that your money reflects your morals – that 'value' (money) is employed to deliver 'values' (morals) (Davis, 2011) – and in doing so to reveal the enormous power and influence the public can have in moving their money out of the mainstream financial system and into areas that can drive progressive social and environmental change.

If financial and moral endeavours can overlap, then surely everybody wins? Furthermore, in shifting the emphasis from 'what can you *get* with your money?' to 'what can you *do* with your money?', there emerges the potential radically to alter how money is understood and therefore used.

In establishing money as a *cultural* object to make things happen *socially* – rather than seeing it as nothing more than a neutral means of exchange, unit of accounting, or store of value – then a space is opened up to resist the dominance of mainstream economists in deciding what money is and how it should be used.

In this way, alternative finance provides a means of empowerment to the public by encouraging people to think differently about what money is for and how the financial decisions they make can deliver real, meaningful change.

This commitment to direct productive investment – building real social and environmental benefits, as opposed to speculating on abstract financial returns – is understood by the sector as the principal motivation of current and future investors, and they are wary of any threat or compromise to that message.

In the next chapter, we provide an analysis of alternative finance specifically in terms of its capacity to contribute to building economic resilience.

We’re transparent. You’re in control

Property Moose

Investments you can touch

Lend Invest

Investments that build a better world

Abundance

Working together for a positive social impact

Crowdfunder

Make money do good

Ethex

CHAPTER 3: BUILDING ECONOMIC RESILIENCE?

3.1 Introduction

"Resilience for me starts with diversity, and I know it's very trite but, this five banks that are too big to fail and too big to jail, that is the fundamental driver of opportunity for [alternative finance]. I don't think we'd be here if it wasn't for [the events of] 2008, and what that has meant in terms of the government waking up and saying we have to diversify financial services or it's going to happen again."

(Interview 3)

The idea of resilience has rapidly risen up the policy agenda in recent years, replacing sustainability as the principal driver of countless public and private interventions into social life.

Like sustainability before it, however, the concept is notoriously difficult to grasp but is used to justify a range of approaches aimed at successfully meeting the challenge of climate change, overcoming personal anxieties and insecurities, and managing an enormous range of particular vulnerabilities to which individuals and communities are exposed at any given point in time.

In this chapter, we draw upon our working definition of resilience established in the Introduction, but here with a particular focus upon 'building economic resilience' in line with the stated priorities of *Friends Provident Foundation*.

We evaluate alternative finance in relation to two key aspects of resilience we have identified in this report: its capacity to make the transformative step towards; and its capacity to build economic resilience through facilitating productive investment in the 'real economy'.

In the final section, we assess those concerns raised by our interviewees that there is a growing risk of further entanglement between mainstream and alternative finance.

3.2 Democratising Finance

"But 'democratic' is quite a loaded term and I think we need to be careful about how we use it. Because democracy, well, there's an inherent idea that it's about giving everyone an equal say, because we think about that in terms of our politics and how we're governed. So if you're then translating it into the corporate world, how's that manifesting?"

(Interview 9)

The democratisation of finance is generally seen as meaning the extension of greater oversight and control of the overall financial system by other democratic institutions, such as governments, but also by the citizenry more widely (Lawrence, 2014; Walby, 2013).

The growth of the alternative finance sector, as a (currently) relatively independent and culturally distinct industry, has the potential to strengthen the hand of public authorities in seeking to further regulate or influence the activities of mainstream finance (Block, 2014).

Although no firm evidence was shared with us to corroborate their claims, many of our interviewees spoke about democratisation in terms of widening participation in the financial system, opening up areas of financial activity that were previously the preserve of a small, wealthy and informed elite of investors.

"The idea of democratic finance is really about inclusion, and the idea that ninety-five per cent of the population are not high-net worth or [financially] sophisticated, but there's a very, very large number of people who have a small amount of money, and that money – if it's aggregated efficiently – can equally fund opportunities, and sometimes do better because of the wave of public support."

(Interview 3)

By lowering the barriers to participation – to as low as £5 in one case (*Abundance*), although as high as £25,000 in another (*Folk2Folk*) – opportunities are created for the wider public to lend or invest in businesses when they may previously have lacked the funds, knowledge or contacts to do so.

This stops short, it should be noted, of an ambition for full financial inclusion, as participation in online alternative finance platforms necessarily presupposes access to the internet and the right to a bank account. Even in our hyper-connected digital age, there are still large numbers of people without access to the internet or a regular bank account (Cabinet Office, 2014).

These companies do not generally claim to be addressing the problem of financial exclusion and so there is no expectation that alternative finance could address the problem of the 'unbanked', at least not in its current practices.

But those companies that privilege the more 'moral return' on investment do promote far wider levels of participation than peer-to-business or tradeable equity schemes allow (Zhang et al, 2016: 20).

Creating the opportunity for direct productive investment in local projects, ranging from small and medium enterprises through to significant infrastructure, was seen as a key driver for the public and also an important component in building resilience through inclusion in decision-making, empowerment to make change happen, and upfront engagement as an 'end user' in the businesses and projects that would result.

This practice of engaging your prospective market in the design, funding and implementation of a project as a measure of popular support for the venture has been seen to increase the chances of businesses succeeding (Goulden et al, 2014; Hall et al, 2016; Wright and Davis, 2014).

The wider literature suggests that a 'responsive public sector' is key for building local resilience and alternative finance can play a role in stimulating public engagement in projects that meet the needs of citizens in a given community and thus is more likely to be a partner in funding community, third sector, and local authority projects. (Cox et al, 2014; Greenham et al, 2013; Wright, 2016)

The extent to which these attempts to increase participation in the financial system actually constitute a meaningful democratising process is of course open to question. They are premised on a classic liberal view of democracy that involves 'openness', 'plurality', and sees markets as 'powerless mechanisms of coordination' (Held, 2006: 274), but ignores the inequalities and imperfections of markets as outcomes in the real, social world.

Yet the *process* of 'democratising' finance, pointing towards the ideal of realising a truly 'democratic finance', is surely a worthy ambition if it seeks to remedy the 'closed', 'single-interest', and 'powerful' market model of today's financial capitalism.

Democratisation, intended to build resilience, should be aimed at involving and empowering the public to make decisions within alternative finance companies themselves, in a more cooperative or mutual business model.

"[With community shares] it's one member, one vote, so when we talk about democratic finance it is the most clearest conception of what democratic finance might be about, which is actually giving everybody a stake in the enterprise, irrespective of [the size of] their financial contribution."

(Interview 9)

Yet with notable exceptions, the majority of alternative finance companies seldom see democratising finance in terms of introducing more inclusive governance models, based upon an equality of voting power, and continue to operate on a 'one pound one vote' basis, rather than a 'one member one vote' system that would help to manage imbalances in power and influence within an organisation.

Indeed, it is hard to escape the conclusion that those older models of cooperatives and credit unions get far closer to these ideals of democratising finance and building local economic resilience than many of the financial innovations of today.

"…the cooperative movement is probably much more democratic, or the credit unions, because it's about people coming together and using money they have, pooling it, to achieve some kind of objective. So it isn't intermediation at all, it's people doing things with their own money owned by them for themselves."

(Interview 4)

This response from one of our interviewees perfectly captures the spirit of democratising finance in a way that prioritises the needs of local people and empowers them to make decisions about how collectively to invest in what their community needs, all key features of building economic resilience. But this is achieved through existing cooperative and credit union models, rather than through the alternative finance sector.

That said, it is also important to resist the idea that cooperatives and credit unions are a panacea for building economic resilience. Although their governance models may be far more inclusive and their activities more closely linked to the needs of local people, it is not always the case that membership-based financial organisations make sound financial decisions or deliver on their business objectives.

"So cooperatives seem to work well at a small level, but when you go bigger, they seem to struggle. So the cooperative group being quite a good example […] although in theory the coops are more transparent and accountable, you seem to get a kind of diffuse responsibility effect in larger coops, [meaning that] you lose the transparency and accountability."

(Interview 4)

There is perhaps a trade-off needed whereby alternative finance companies can partner with local organisations to deliver both democratic business practices and greater effectiveness and chances of success in terms of outcomes (see Abundance 2016, for an example of how this might be achieved in practice).

Finally, a risk to this process of democratising finance is the relative lack of financial literacy amongst the general public.

"Democratising finance? It can't be done without financial education. You can't just hope people make better decisions, if you empower them to make those decisions, I don't think it's as simple as that."

(Interview 11)

As highlighted throughout this report, mainstream economics often works to obscure a better understanding of economic life such that the population is extremely risk-averse and willing to acquiesce to the wisdom of professional experts.

As such, to focus upon including ever more 'retail investors' – the woman and man in the street – in the alternative finance sector is unlikely to eliminate power imbalances and promote equality within the financial system until there is a greater understanding of economics and finance within the wider public.

We argue that a campaign for the public understanding of economics and finance is an essential part of any attempt to build economic resilience through creating a democratic finance model for investing in the 'real economy'.

3.3 Investing in the 'Real Economy'

"We made some money. But there was something rather unsatisfactory about it, which was, I didn't really think the money was doing anything. It was just earning fat fees, and not really putting the money to good use, [whereas now] the money is being put to work effectively – it is doing good things."

(Interview 6)

Not all alternative finance companies are motivated to provide a 'moral return' to their investors, taken as delivering social and environmental benefits to a local or national community.

Many continue to privilege financial returns to their investors ('FinTech') or operating in markets that are built upon making capital gains through speculation and rising prices, such as housing property ('PropTech') (Miller, 2014).

In terms of building resilience, our respondents generally focused heavily on contributions to the 'real economy' and 'productive' enterprises, standing apart from those more speculative and financially-motivated practices noted above. There was a genuine embracing of the idea of alternative finance as a collective movement, but – as we have shown in Chapter 2 – that the sector covers a diverse range of businesses, more or less committed to the ideal of democratising finance.

Facilitating more diverse financial connections within and across local communities, as well as working to retain the flow of money – from funder, through platform, to fundraiser – within a local area and in support of a local enterprise, was regarded as the most obvious way in which alternative finance contributed to this process.

"… everything we're doing is either a geographical community or a community of interest, or both, so that's a community talking about more direct, immediate, less-intermediated forms of investment. And we're talking about more of the wealth staying in that community, so I would have thought it was one hundred per cent in line with the concept of local economic resilience, so far as I understand it."

(Interview 4)

As such, this local focus upon direct productive investments in the 'real economy' is very often actively promoted and perceived as an attractive motivation for investing in an alternative finance company.

"… a good example is community shops and pubs. Because it's mainly the people that are investing for the immediate amenity value of having that shop or pub open, you're more likely that it's going to be more locally-centred."

(Interview 9)

SpaceHive, for example, delivers projects designed to improve designated public spaces for better use by local residents. Community share offers are typically made in relation to projects within a given area and are sometimes (though not always) restricted to investments from that local community.

Abundance, in partnership with Swindon Borough Council, raised £1.8M through its peer-to-investment platform to finance and build a 4.8MW solar park in the borough wholly owned by the Council (Abundance, 2016). *QuidCycle* campaigns for debt management in Croydon where it is based. And *Crowdfunder* (2016; 2014) develops regional networks by connecting users with key local institutions and authorities to decide upon local projects.

However, although this emphasis upon the local exists and is regarded as a cornerstone of building economic resilience, many alternative finance companies transcend geographical boundaries. Being overly-reliant upon local investment places very real limits on the amounts of money that can feasibly be raised for projects.

One of the opportunities presented by the sector's heavy reliance on the internet is to build decentralized finance networks to overcome these limitations of local fundraising, while at the same time avoiding every local group or business having to apply to a London-based organisation:

"Local resilience, I think is a red herring! I think it's about decentralized systems."

(Interview 1)

"The money does not have to all come down to London, have forty per cent chopped off in fees, and send it back up again!"

(Interview 3)

Nevertheless, the regional biases in the circulation of funds and the concentration of company headquarters in London, as already highlighted, suggests that the sector's practice has some way to go in this regard.

It is also the case that focusing upon managing financial flows *within* a local area can further exacerbate regional inequalities. Wealthier areas are able to invest more funds and so drive more projects to better their local communities, whereas those who lack resources to invest fall further behind.

"… the community guys like to keep it local as far as possible, and I think that if it's a relatively modest six-figure sum then it's entirely possible to raise that money from your local community […] The challenge is that there's a ceiling on how much can be raised locally and you have got to go out and find broader support […] So rather than working on a local level, we're trying to … bring it to the mainstream."

(Interview 3)

As we saw in Chapter 2, these regional inequalities go a long way to explaining the current London and South-East/West bias of many alternative finance companies and their investment activity.

"Yeah, it's still very locally-orientated. In that the majority of investors will come from there, especially where you've got communities of geography. So we've done a bit of research and we looked at certain share offers, [Project X] was a good example, which got national profile, but the majority of investors came from [the Project X Area] … There are certain regions that have embraced community shares more than others, the South West being an example."

(Interview 9)

Importantly, in striving to build economic resilience through empowering local communities to drive forward productive investment in their area, the relationship between alternative finance companies and the public is symbiotic – they need each other to make the process work. This is both in terms of providing the money to be moved into identified projects, and also in terms of goodwill, support, and devoting time and skills to delivering intended outcomes.

This raises several key analytical points for us. As outlined in the Introduction, in what now seems like a relatively quaint policy agenda the Coalition Government introduced (albeit in a tentative and piecemeal fashion) the idea of the *Big Society.*

This was intended to engage local people in building and running services in their communities, such as libraries, post offices, and small enterprises to meet local needs (Cabinet Office, 2010; Norman, 2010).

There has been much well-placed criticism of this agenda, not least the view that it was introduced alongside severe welfare and public sectors cuts that meant local people providing local services was the only option if they were to avoid being eradicated altogether.

For us, the interesting point is that the *Big Society* idea was founded upon a belief that the general public possess little pockets of essentially 'idle time', away from the workforce or domestic and caring responsibilities, such that they had the capacity to contribute more to their local area by 'getting involved' in projects and schemes designed to keep the community calm and carrying on in the face of austerity measures.

As Wright (2016: 159) explains, however: "resilience policy and practice has often overemphasised the autonomy and agency of citizens and focused on the utilisation of existing resources rather than considering how resources might be more equitably or usefully distributed."

We propose that alternative finance can be seen as trying to achieve something similar, and actually fits rather neatly into the same logic.

Whereas the *Big Society* focused upon time as an idle resource, alternative finance is in part founded upon a belief that the general public possess little pockets of essentially 'idle capital' that can be put to more productive use by engaging them in direct investment in the local 'real economy' enabling the community to manage their vulnerability in relation to a mix of social, economic and environmental challenges.

By pooling together these pockets of both 'idle time' and 'idle capital', the symbiotic relationship between alternative finance companies and local communities can be built and the chance of creating greater economic resilience significantly enhanced.

With a shared 'moral mission' and greater processes of democratising finance, the sector hopes that evermore people will be motivated to 'get involved' and help to build a fairer, more inclusive and resilient financial system.

“I suppose people talk about ‘trickle-down’ theory, [but] for me I always think that trickle-down theory is really ‘hoover-up’ theory, really … money passing up from poor people to rich people and growing inequality from quite some long period of time, and simply put, local economic resilience is about reversing that process.”

(Interview 4)

We are yet to be convinced of the transformative capacity of mobilising isolated pockets of ‘idle capital’ for single projects in a local area. Whilst such endeavours can bring significant benefits in terms of social and environmental returns on productive investments within communities, in line with Laycock’s (2016) typology we believe that ‘hoovering up’ ‘idle capital’ can at best deliver disruptive innovation by challenging the status quo of current financial orthodoxies.

In order to democratize finance as a truly *transformative* innovation within the financial system, we instead argue for the need of ‘patient capital’ (Mazzucato, 2013), understood as long-term investment in research and development as well as productive outcomes, in order to provide the financial stability necessary genuinely to build economic resilience into the system itself.

The lightening-fast world of mainstream finance, making several million trades per second thanks to technological innovation and algorithmic processes, is best resisted by moving money into the slower ‘real economy’ that delivers tangible outcomes for local communities.

As the typology developed by Wright (2016) demonstrates, we argue that for resilience to become a more tangible and meaningful concept it needs to imply the mobilisation of people and resources in such a way that goes beyond simply adapting to new circumstances. Building resilience cannot be about quickly returning to the status quo, but rather needs to involve an empowered capacity for communities to *transform* the social structures within which they live in order to reduce the likelihood of future ‘shocks’ in the first instance.

This is what a resilient economic system would do, and it would be based upon a genuinely transformative form of truly democratic finance.

At present: “Community resilience activities at local levels suffer from a lack of funding, which arguably limits the scope of what can be achieved as well as potentially reinforcing a lack of resilience amongst the poorest groups who have fewer material or financial resources to draw on in developing emergency plans” (Wright, 2016: 159).

In other words, we acknowledge that alternative finance has the potential to transform the financial system, but that this alone cannot build resilience. As we outlined in the Introduction, and following Wright’s (2016) analysis, resilience requires much more than the narrowly economic.

Building resilience also requires the production of social and environmental value that is genuinely co-produced between the market, the state and society in a fair, inclusive and democratic way.

Financial innovation has a hugely important role to play, but this should be working alongside the public sector and not working to replace it. This would be to repeat the mistake of the Big Society agenda, and to open the

door to further austerity, privatisation and erosion of the public good. But we are still to be convinced that alternative finance in its current form can deliver transformative innovation through mobilising enough 'idle capital' within local communities to make them more resilient, and it is unclear to us how feasible it is for alternative finance companies also to deliver sufficient 'patient capital' for long-term investments.

And given recent developments in the sector, this may be becoming less – rather than more - likely.

3.4 Entanglement with the Mainstream

Three clear themes emerged during our interviews when the future of alternative finance was raised.

Firstly, that there was a widespread anticipation that the recent boom in the sector would continue and that further growth and expansion was likely. However, this was not seen to be a straightforward or smooth process because, secondly, there was seen to be a high risk that the sector would soon experience a series of mergers amongst alternative finance companies or a series of takeovers by traditional mainstream finance.

"I think the shape of the industry, like all industries, will change […] it will consolidate, it will get bought out, it will get subsumed into the existing finance sector, and to some extent it may remain independent."

(Interview 4)

The high-street banks could simply buy-up whole areas of the sector, or they could leverage their significant financial and intellectual resource to launch their own online direct investment platforms.

This would result, thirdly, in the growing entanglement of alternative finance with the mainstream such that the unique selling point of providing a more democratic, empowering, and 'moral alternative' to high-street banks would be extremely difficult to maintain.

"I think that it's going to become a lot more institutionalised, with time, as it becomes more widely known. At the moment it's still very nascent – it's a new industry, across the board. Some of the platforms have been around for what, five or six years? But that's probably it. But as they develop and get more assets under their management, you'll start to see them becoming more like asset managers or small banks."

(Interview 5)

Reward- and donation-based crowdfunding is expected to strike closer working relationships with the public sector, especially local authorities raising funds for direct investment in the 'real economy' of community projects.

Likewise, community shares activity is more likely to seek collaboration with local and national government bodies to support significant infrastructure development, especially in renewable energy.

Due to the timing of our interviews, there was considerable anticipation

ahead of the launch of the Innovative Finance ISA (in April 2016), which allows individuals to make tax-free loans through accredited peer-to-peer platforms paying zero tax on the interest payments received. Individuals can now lend up to £15,240 tax free per annum.

Later in 2016, it is expected that other forms of debt-based securities (i.e. debentures) will become eligible. Changes in pensions regulation, allowing early withdrawal, was also seen to have potential in diverting the flow of money towards more social and environmental returns.

However, one of the principal drivers of growth within alternative finance has been the increasing flow of money from mainstream financial institutions channelled into these companies (Dunkley, 2016). As of February 2016, 45% of all platforms reported some level of institutional involvement (Zhang et al, 2016).

This growing entanglement has serious implications for the capacity of alternative finance to contribute to building economic resilience in the ways outlined above.

"I can see the attraction of talking about the democratic nature of it. I think when you scratch beneath the surface, with some models it becomes harder to keep talking about a democratic marketplace-type service. And that's largely because we're seeing so much more involvement of [mainstream] institutions in this whole space now. So when you have these really large hedge funds, or even the banks themselves, thinking 'where can we get a reasonably good return, less volatility than we see in equity and commodities, etc?' they're thinking that [alternative finance] is a good place to look. And some platforms have taken quite a lot of institutional money."

(Interview 8)

There was a sense that alternative finance had experienced an 'easy ride' so far and had not yet faced significant competition from the traditional large-scale financial institutions:

"The dragon is starting to wake up, and one thing I think our industry has been slightly complacent about, when it does wake up, it has a lot of money, it has a lot of resource and expertise that it can leverage, and I think, beware of someone disrupting the disruptors, it could well happen."

(Interview 8)

Not all of our interviewees shared this view, offering a more optimistic and hopeful perspective on the role the mainstream could play. Some felt that by becoming more entangled with traditional financial institutions there could be an increase in power and influence for the alternative finance sector to drive forward its disruptive mission from within, leading to a more efficient, responsive and inclusive mainstream.

“Would people view a collaboration between alternative finance and traditional finance as a compromise too far? I don’t know. It depends on whether alternative finance is allowed to continue to innovate. If innovation is stifled, then it’s probably not a compromise that you want to go for. But if it adds fuel to the fire of innovation then that will only accelerate the growth. So if innovation and change is what needs to happen, if its embraced by the traditional financial institutions, then we’ll get there a lot quicker. And everybody will get a better deal. So I’m all for traditional institutions changing!”

(Interview 11)

There are two key analytical points we wish to make in relation to the two framing quotes from our interviewees above.

The first point is to acknowledge just how closely these two views reflect the typology of innovation set out by Laycock (2016). The imagery of a ‘dragon waking up’ clearly implies a threat from the dark side of mainstream finance and envisages the type of ‘status-quo innovation’ represented by further entanglement with the mainstream. In other words, FinTech is coming, and the sector is exposed due to a sense of complacency and a lack of resources compared to the mainstream players.

The idea of greater collaboration between alternative finance and the mainstream, on the other hand, positively advocates ‘disruptive innovation’ in the manner of a Trojan Horse, becoming evermore integrated into the mainstream but agitating *from within* in order to drive further innovation and change.

The second point is to question the optimism expressed by this latter view. We would raise doubts over the capacity of alternative finance to deliver on its potential to democratise finance and build economic resilience from within the mainstream, in terms of a compromise over objectives (financial vs. social / environmental benefit)

“I think the market will keep growing. We’ve obviously got to be careful as an industry, to resist people popping up that are, well, more interested in making quick money. That’s going to be bad, and it’s quite easy to do…”

(Interview 5)

But also in terms of the faith that evermore innovation is always a positive contribution to civil society.

To return to a view we expressed in Chapter 1, we suggest there is an ‘innovation fetish’ at work within financialized economies whereby the concept exists as a kind of ‘black-box’ – change and innovation are good, because current circumstances can be improved, but what precisely is

meant by innovation is seldom clear.

The injunction simply to *innovate*, as a way of overcoming allegedly slow, inefficient and overly procedural processes is an experience common to anyone working in a large and complex organisation in today's economy.

As such, innovation is not always a good thing. Put crudely, the multiple crises triggered by the events of 2007/8 are easily interpreted as the outcome of excessive and rapid financial innovation.

On the other hand, we suggest that progressive change to mainstream finance that delivers greater transparency, inclusiveness, and productive investment in the 'real economy' can be of huge benefit.

But, we also think the imbalance between the two sectors make it likely that ever greater entanglement and integration will mean that alternative finance likely ceases to provide disruptive innovation and settles for status quo innovation (Laycock, 2016).

Evermore integration with mainstream financial institutions would, we argue, make it extremely unlikely that there will be a further transformative step towards a *democratisation* of finance that empowers the public and increases direct productive investment in the 'real economy'.

Were such endeavours deemed relevant and desirable outcomes to mainstream finance, then their vast resources could have ensured delivery on these objectives long before now.

The alternative finance movement represents something of great significance to all of us – a promise that together we can build a better, fairer and more resilient financial system that meets the needs of society, and not just the economy.

It is at a crossroads, faced with either a path towards greater inclusion within the mainstream and seeking to disrupt the current financial system from within; or a path that remains independent and preserves a 'moral alternative' towards which the public can move their money in the hope of building something to the benefit of all.

As a diverse and complex sector, it is unlikely that every company will choose the same path. But in order to have a chance of making a meaningful contribution to building economic resilience – to providing a means of mobilising collective resources to meet the needs of civil society, at a time when the state and the mainstream market have fled the scene – we must hope that enough choose to strive for a more democratic finance.

4. CONCLUSIONS AND RECOMMENDATIONS

4.1 Introduction

This report has provided **the very first independent evaluation of insider perspectives within the alternative finance movement**. We have provided a unique evidence base that helps to understand the sector from the 'inside out', assessing the motivations of the people and companies involved, and developing an analysis of financial innovation and its potential contribution towards building economic resilience.

4.2 Key Findings

Aims 1 & 3 – Assessing the potential of alternative finance to make a major contribution to building economic resilience and realising the transformative step of a truly 'democratic finance'

Firstly, **the concept of resilience continues to evade accurate and helpful definition**, but has continued to influence a wide range of policy-making, research, and business practices. Like the Big Society or Austerity, the words themselves are relatively empty signifiers until social action starts to fill them out with new forms of practice.

This is why we have been careful not to reduce the set of ideas informing resilience to the narrowly economic. For us, **resilience must include the full range of social, environmental and economic resilience** in order both for it to be meaningful and for it to become a helpful concept in building a fairer, more inclusive, and democratic society.

Any new form of practice in the name of resilience needs to resist privileging economics over everything else in the human-made world we share. After all, the multiple crises of 2007/8 occurred because we allowed financial innovation to happen away from democratic oversight.

When we stopped seeing the shared social and political responsibilities of high-street banks as relevant – even, as existing – we allowed them to operate as a mechanism primarily for moving money around in their own self-interest. Alternative finance at present seems to share these ideals in offering a healthy mix of 'triple bottom line' returns on productive investment into the 'real economy'.

Second, from our qualitative research we suggest that **alternative finance closely represents a growing and dynamic social movement** sharing a set of common values and aims across a diverse set of behaviours and practices.

It exists as its own community of interest, inclusive of businesses, trade bodies and regulators, civil society organisations, academic and independent researchers, and – not to be forgotten – the investors themselves.

Like all social movements, there are frequent disagreements over strategy and not everybody shares the vision of making the transformative step into a truly 'democratic finance'. Each member of the movement seeks to realise the shared objectives in their own way.

This raises challenges. Without a commitment to the full range of benefits implied by resilience, such as investing in the 'real economy' and striving for greater democratisation, **financial innovation can be extremely harmful to people and local communities**, as we have seen through the dire consequences of austerity since the multiple crises since 2007/8.

Thirdly, **the sector is now responding to a new set of challenges** in the aftermath of 'Brexit' (June 2016) and the initial policy decisions of Prime Minister Theresa May, which have seen both Department for Business, Innovation and Skills and Department for Energy and Climate Change radically affected.

Although integration with the mainstream was already underway, this exposure to greater vulnerability in the summer of 2016 appears to signal that **growing entanglement with mainstream finance is likely to accelerate further**. In the current 'post-Brexit' climate, it is easy to accept the temptation to do this. We found a sector already responding to the idea that there would be a rise in the dependence on institutional funding from mainstream finance, and an expectation that 'retail investors' would increasingly opt for the more traditional products offered by high-street banks.

A first key recommendation of our research, in order to resist this growing reliance on institutional investment, is to hold a wide-consultation with the alternative finance movement to explore the possibility of the government guaranteeing a maximum amount of investment in the peer-to-peer market, perhaps up to £5,000 per investor.

We acknowledge that this constitutes a revolutionary step, but as it would help to protect the investor, it potentially opens up alternative finance to millions, genuinely encouraging further engagement with the sector and using regulation to drive innovation towards democratic finance. We suggest the guarantee could carry a set of progressive rules, such as insisting that any investment should be directed into the 'real economy' in a transparent and accountable way.

Finally, our research has led us to the conclusion that **there is great cause for hope across the alternative finance movement**. There is both disruptive and transformative potential, and the creativity, energy, and sense of moral mission was evident in each interview we conducted, and in every sector event we attended during the project.

As is typical with social movements, a decision over future direction now faces the sector: compromise ('FinTech', status quo innovation), reform ('AltFin', disruptive innovation), or revolution ('DemFin', transformative innovation). At the time of writing, we feel there is a real danger of settling for 'status quo' innovation and, as such, **we are still to be convinced that alternative finance in its current form can deliver transformative innovation**.

Although there may have been relatively little explicit talk of 'building resilience' as a desired outcome of their endeavours, the shared sense of delivering social, environmental, and economic benefits to people in their communities was a powerful motivating factor.

With a commitment to positive, productive investment in the 'real economy', we found a movement ready to build a better financial system that works for all people and the planet. And we suggest this as the best working definition of 'economic resilience'.

As such, **our second key recommendation from this research** is for far greater resourcing of the civil society organisations that provide considerable creative energy and imaginative thinking within the alternative finance movement.

We see these organisations as highly-significant to the process of democratising finance because they play a crucial role in protecting the moral integrity of the sector and in driving the type of fundamental systemic change that is needed to deliver the transformative innovations necessary to build resilience within and across communities. By empowering these organisations further, we conclude that the chances of realising a truly democratic financial system are considerably enhanced.

One of the ways in which this sector is already making a meaningful contribution to this process, is through advocating a better public understanding of money and finance. As we have argued, mainstream economics often works to obscure the understanding of economic life such that the population is extremely risk-averse and willing to acquiesce to the wisdom of professional experts.

As such, to focus upon including ever more 'retail investors' – the woman and man in the street – in the alternative finance sector is unlikely to eliminate power imbalances and promote equality within the financial system until there is a greater understanding of economics and finance within the wider public.

Our third recommendation is to argue that a portion of the additional resourcing for the civil society organisations should be devoted to a large and coordinated campaign for the public understanding of economics and finance, as an essential part of any attempt to build economic resilience through creating a democratic finance model for investing in the 'real economy'.

Aim 2 - identifying principles that could start to shape a code of best practice for the sector

A recent report identifying 'standards in FinTech' was published during the preparation of this report (Finextra Research, 2016). It highlights various recommendations for the adoption of technical standards – such as, data protection, client verification compliance – with the aim of facilitating greater integration with mainstream finance.

A fourth key recommendation of our research, is that the alternative finance sector should work together to produce its own 'Standards of AltFin' report, but with precisely the opposite aim – to facilitate further distancing from mainstream finance.

It would go against the spirit of co-production and collegiality that we observed across the alternative finance movement for our research to insist 'from the outside' what such a code of practice might include. Nevertheless, as a result of our research, we would strongly encourage the development of such a standards document, and suggest that as a minimum requirement it should:

- Prioritise direct productive investment in the 'real economy';
- Deliver more inclusive governance structures to give fuller control to the public over the flow of resources to meet community needs;
- Continue to influence the mainstream from inside and outside the financial system, making the case for progressive and transformative innovation towards a truly democratic finance.

We would welcome any invitation to contribute to the co-production of such a report.

4.3 Future Developments

On the final morning of preparing this report, no less a mind than Stephen Hawking (2016) called for a fundamental review of our understanding of money, finance and wealth, and its intimate connections to our social and political life.

We share Professor Hawking's belief in the urgency of this agenda. In order to develop a robust evidence base for this fundamental review of money, finance and wealth in society, we propose that subsequent research leading out of our report should prioritise:

A. Researching Mainstream Finance

a. There is a sense throughout this report that ‘mainstream finance’ is the villain of the piece, and yet it remains relatively under-defined here. This reflects the views of our interviewees, where ‘mainstream finance’ was a catch-all term for those beyond the alternative finance movement whose professional practice was to be resisted.

b. We propose that future research needs to conduct a similarly qualitatively-led study of *insider* perspectives within ‘mainstream finance’, in order to access and assess the motivations of people working in and across this vast sector.

c. In particular, we suggest that the focus needs to be on the vast array of financial intermediaries within the mainstream system – e.g. wealth managers, financial advisors, etc. – who are key players in establishing how and where people move their money. Understanding their motivations, and assessing their perspective on the alternative finance sector, would be extremely valuable in establishing the barriers and opportunities for the movement to transform the financial system.

B. Researching Investor Motivations Further

a. It was not possible within this project to gain direct access to the people who are currently investing in the diverse range of alternative finance platforms. Our focus here was on seeing the sector from the ‘inside out’ through interviews with senior members of the companies.

b. We propose that future research needs to work closely with the alternative finance companies to find out who is investing, and crucially why they are investing. In evaluating current investor motivations further, we would be in a better position to identify the barriers and opportunities to further investment amongst this group, as well as those challenges for driving greater inclusivity as part of the process of democratising finance.

C. Researching Industry Trade Bodies

a. We offer insight into regulation and reputation in this report, but there was not the opportunity to interview the various trade bodies that exist to provide representation and signal standards across the financial system. There are considerable differences between UKCFA, P2PFA, and Innovate Finance in terms of outlook, professional practice, and membership.

b. We propose that future research needs to establish these differences from within the trade bodies, and understanding the motivations and outcomes for alternative finance companies seeking to join these organisations.

D. Researching Financial Innovation in the North

a. We have reported that there continues to exist a significant London and South-East/West bias within the alternative finance movement. And yet, given the broad policy agenda of the *Northern Powerhouse* and significant financial innovations in community banking, local currencies, and ethical investments across the North of England and Scotland, we propose that future research needs to investigate these developments to offer a fuller picture of financial innovation across the United Kingdom.

b. This research would provide the basis for a far larger-scale project that provides intelligence and evaluation of financial innovation across Europe and beyond, in order to learn from best practice and make further recommendations for progressive change.

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APPENDICES

Glossary of Key Terms

We offer the following as a guide to the 'insider language' employed by our interviewees. Although we hope they would recognise these definitions as accurate, they have been prepared without their involvement, but reflect how these terms have been understood and utilised in this report.

Alternative Finance (AltFin): An umbrella term that is applied to a very diverse range of organisations and business models that depart in some way from traditional financial systems. For the purposes of this report, alternative finance is used to capture a variety of non-traditional forms of financial activity, including online crowdfunding, community shares, and peer-to-peer lending. These forms of finance are 'alternative' in that they operate primarily online, have been developed principally in the last 20 years, and are not currently controlled by pre-existing large financial institutions such as global banks. In this sense, they frequently communicate their industry as a 'moral alternative' to mainstream finance by facilitating productive investments in the 'real economy'.

Autobid: A facility on some P2P platforms that allocates funds automatically, based on a few parameters set by funders: e.g. desired rate of return, or level of risk of default. It simplifies and speeds up the lending process for lenders, but removes some of their power to decide exactly who and what they lend money to.

Community Shares: A distinct form of equity crowdfunding available only to Cooperatives and Community Benefit Societies (a 'Society'). Community shares cannot be transferred or sold on to third parties; they can only be sold back to the issuing Society for the same price they were bought ('at par'). Holders of community shares are entitled to vote on the affairs of the Society, but each shareholder only gets one vote, regardless of how many shares they hold. The official Community Shares Standard Mark is administered by the Community Shares Unit of Cooperatives UK.

Crowdfunding: This is sometimes used as a generic term covering any form of online finance where funds are raised from lots of different funders ('the crowd'). However it is now more commonly used just for online finance based on donations, rewards or shares. Crowdfunded online loans are called 'peer-to-peer lending'.

Democratic Finance (DemFin): A form of alternative finance that has the potential to redefine the purpose of finance and shift power relationships across the system. It includes, for example, crowdfunding that takes an explicit value position on the world it wants to create (such as crowdfunding for renewables or community ownership); personal loan businesses that see their purpose as supporting, rather than exploiting, financially vulnerable households; community currencies that exist to support the local economy; or mutuals with democratic business structures that put ordinary people in charge. It's potentially the most exciting form of alternative finance for those wishing to see progressive and transformative social change.

Donation-based Crowdfunding: A form of crowdfunding where funders contribute money with no expectation of any personal financial gain.

Equity Crowdfunding: A form of crowdfunding where funders receive shares in a company or organisation in return for their money. These shares may pay a dividend, or they may be traded if buyers can be found. This is typical of more traditional investment behaviour.
Financial Technology (FinTech): Better known in its abbreviated form, this covers a wide range of technological innovations in finance. Alternative finance companies are becoming seen by some as part of a 'FinTech sector', largely because the innovation space has started to attract significant interest from pre-existing large financial institutions such as global banks who are looking to harness the power of alternative finance for traditional economic gain. The term is also used to cover wider shifts in the digital economy, for example contactless payment technology and other innovations in data processing for finance.

Fundraiser: Any individual or organisation seeking to raise funds – whether that is through borrowing, selling shares, booking advance sales, or appealing for donations.

Funder: Any individual or organisation transferring money to another, on whatever terms: as a loan, purchase of shares, advance purchase of goods or services, or donation.

Institutional Investor: An organisation that puts funds into some form of finance. Often used to refer to existing financial institutions such as banks, pension funds and funds management companies, etc.
Issuer: An organisation that issues shares or debt (i.e. takes out a loan). See also 'fundraiser'.

Mini-Bonds: A type of corporate bond typically issued by small or new companies, who are not ready for large scale bond issues. They are non-tradeable, but often pay high interest rates – and sometimes come with novelty features such as an in-kind "reward", such as a sample of the company's products, to be "paid" alongside interest.

Peer-to-Peer (P2P): Online lending, where fundraisers ask for a loan, and many funders combine money to provide that loan. Platforms take a percentage fee for acting as intermediary. Originally it involved online 'loan auctions' where fundraisers and funders negotiated the interest rate for each loan; some platforms are now using 'autobid' functions that require less work on behalf of individual funders. Important differences between bank lending and P2P lending are that in the latter a) funders can choose

where their money goes, and b) their money remains legally theirs. In other words, the loan is between funder and fundraiser: the platform is merely an intermediary. In principle, this means that even if a platform closed down, the outstanding loans would be unaffected. Modelled on the idea of 'eBay for money', it is often seen as a mechanism for circumnavigating traditional lenders, such as high-street banks.

Peer-to-Business (P2B): An online lender that arranges loans between individuals and businesses.

Peer-to-Consumer (P2C): An online lender that arranges loans between individuals and other individuals (consumers).

Peer-to-Peer Investing: This is different to 'peer 2 peer lending', which is a loan. P2P investing is investment in regulated securities (i.e. debentures) for companies that are building tangible, material outcomes, such as renewable energy infrastructure. It is not an exchange of funds between individuals, more typically directing flows of money into productive areas of the 'real economy'.
Platform: An online finance company. Such companies are said to provide a platform – i.e. a website – where funders and fundraisers can meet.

Positive Investing: The practice of investing in activities or organisations that embody certain positive moral principles. This gestures towards the criteria established above for 'democratic finance', where the generation of social value is seen as being of equal or greater importance than economic return on investment.
Property Technology (PropTech): Better known in its abbreviated form, this growing sector includes alternative finance companies specialising in mortgages for 'buy-to-let' rental property purchase and development, but also other IT and online innovations in property marketing, financing and management.

'Real Economy': The term is used to denote the active manufacture of goods and delivery of public services, building local infrastructure, and supporting small and medium-sized enterprises in providing businesses specifically to meet local needs in such a way that generates social and environmental benefits as well as a financial return. The 'real economy' stands in opposition to those speculative practices conducted through investment in financial vehicles or property assets in the pursuit of profit, as is the case with traditional mainstream finance, rather than making productive investments in the actual building of things for civil society.

Retail Investor: An individual who puts funds into some form of finance, but does not have professional experience in investing or expect to make a living from it.

Rewards-based Crowdfunding:
While this simply means the practice of raising funds through the offer of some non-financial return as a 'reward', in practice the range of rewards can be split into two: goods or services that the funder is effectively buying in advance, or largely symbolic rewards offered as a 'thankyou' for giving money. The former model is associated with the arts and technology sectors that pioneered crowdfunding, and large US-based platforms such as Kickstarter, where funders would give money upfront and later receive first copies of a music CD or new product. The latter has a large overlap with donation-based crowdfunding, where donors may be offered a T-shirt, or invitation to a launch event, in return for particularly generous donations.

FEATURED ORGANISATIONS

Abundance
www.abundanceinvestment.com

AllStreet
www.allstreet.org/allstreetplatform

Bauman Institute, University of Leeds
http://baumaninstitute.leeds.ac.uk/research

BnktotheFuture
https://bnktothefuture.com

British Business Bank
http://british-business-bank.co.uk

Cambridge Centre for Alternative Finance (CCAF)
www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/

ChoiceLoans
www.choicebusinessloans.co.uk

Community Shares Unit -
http://communityshares.org.uk

Crowdfunder
www.crowdfunder.co.uk

CrowdingIn
www.crowdingin.com

CrowdJustice
www.crowdjustice.co.uk

CrowdRating
www.crowdrating.co.uk

CrowdSurfer
www.crowdsurfer.com/info/

Ethex
www.ethex.org.uk

Finance Innovation Lab
http://financeinnovationlab.org

Financial Conduct Authority
www.fca.org.uk

FindSMEFinance
www.findsmefinance.co.uk

Folk2Folk
www.folk2folk.com

Friends Provident Foundation
www.friendsprovidentfoundation.org

Funding Circle
www.fundingcircle.com/uk/

Kickstarter
www.kickstarter.com

LendInvest
www.lendinvest.com

NESTA
www.nesta.org.uk

New Economics Foundation
http://neweconomics.org

Move Your Money
http://moveyourmoney.org.uk

P2PMoney
www.p2pmoney.co.uk

Peer-to-Peer Finance Association (P2PFA)
http://p2pfa.info

Positive Money
http://positivemoney.org

PropertyMoose
https://propertymoose.co.uk

QuidCycle
www.quidcycle.com

Ratesetter
www.ratesetter.com

Seedrs
www.seedrs.com

Share Action
https://shareaction.org

SpaceHive
www.spacehive.com

UK Business Angels Association (UKBAA)
www.ukbusinessangelsassociation.org.uk

UK Crowdfunding Association (UKCFA)
www.ukcfa.org.uk

Zopa
www.zopa.com

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The Bauman Institute is an international research and teaching centre dedicated to analysing major social change around the world. Since 2010, we have led research in the following four areas: Money, Debt and Financial Futures; Government, Power and Resistance; Modernities; and Democracy, Participation and Public Life. We also run the MA Social and Political Thought programme at Leeds.

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About Friends Provident Foundation

Friends Provident Foundation is an independent grant-making charity working to support greater economic resilience through building knowledge and taking action at the strategic and local levels. We are particularly interested in supporting the development of economic and financial systems that are designed to include those who are most vulnerable to market failure.

We want to help build a just and sustainable world where everybody can live meaningful lives, with respect and care for ourselves, each other and the planet. We believe that the purpose of money and the economy is to enable and serve human flourishing and a healthy environment, and that currently they do not. We work through grants, investments and our own activities, seeking to create a fairer economy that serves us all.

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http://baumaninstitute.leeds.ac.uk/research/fitter/report

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