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Crowdfunding - From an Investor Perspective

How can we categorize the Norwegian investors of crowdfunding, and how do they perceive crowdfunding as an investment opportunity?

Master's thesis in Economics and Business Administration
Supervisor: Florentina Paraschiv (Main Supervisor) and Ranik Raaen Wahlstrøm (Co-supervisor)

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Norwegian University of Science and Technology
Faculty of Economics and Management
NTNU Business School



| ACKNOWLEDGEMENT

This master's thesis was written by two master students at NTNU Business School, under the Norwegian University of Science and Technology. The thesis marks the end of a 2-year master's program in Business and Administration. Our paper was written in one semester and had the scope of 30 study points. The aim of this thesis is to categorize the investors of the Norwegian Crowdfunding market and examine how the investors perceive crowdfunding as an investment opportunity. The process of this master's thesis has been very challenging and educational. We have gained in-depth insights in a very exciting topic and we have acquired valuable knowledge about the crowdfunding market. We hope that our study will contribute to an increased interest in crowdfunding and further research on this new market.

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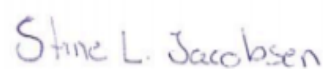
Ultimately, we would like to thank each other for a very good and collaboration with this master thesis.

The contents of this master thesis are the sole responsibility of the authors.

Trondheim, 21.mai 2019.



Marita Kummervold Olsen



Stine Lid Jacobsen

| ABSTRACT

The new market of crowdfunding, which have emerged from the FinTech industry, has revolutionized traditional banking when it comes to funding for start-up companies and small and medium-sized enterprises (SMEs). Unlike traditional financing, crowdfunding does not involve third parties, such as banks, but instead directly links private persons or firms who needs funding with investors willing to fund. Despite the market's enormous growth over the last decade, research on the investors in this market is rare. The purpose of this thesis is to create an understanding of the investors and how they perceive crowdfunding as an investment opportunity. For this purpose, we have developed the following research question;

“How can we categorize the investors that participate in the Norwegian crowdfunding market today, and how do they perceive crowdfunding as an investment opportunity?”

To answer this research question, we used a triangulation of a mixed method research design, with both a qualitative and quantitative approach. The method involves three platform interviews, five investor interviews and a survey answered by 25 investors. The survey aimed to either complement, diverge or converge the empirical findings from the interviews.

The results of this thesis show that it was possible to categorize the investors from the Norwegian crowdfunding market into four different groups; “Lotto Investors”, “Traders”, “Business Angels” and “Analytic Investors”. These categories were made on the basis of the investors' investment activity level, competence, preference for projects and what their investment decisions were based on. We also provide insights about how the investors perceive the Norwegian crowdfunding market. In this context, we developed a perception model consisting of various elements that affects the investors' perception of crowdfunding as an investment opportunity. These elements are different investor characteristics, platform quality and the market/community. In addition, the purpose of the investors' investment, their perception of risk and their motivation was added to the analysis. Thus, we have addressed several gaps in the literature, both concerning the investors' motivation and their perception. Overall, this thesis contributes with valuable knowledge about the investors that is beneficial both to managers of crowdfunding platforms and to investors of crowdfunding.

| SAMMENDRAG

Det nye markedet for crowdfunding, som oppstod fra FinTech industrien, har revolusjonert tradisjonell bankvirksomhet når det gjelder finansiering til oppstartsselskaper og små- og mellomstore bedrifter. Til forskjell fra tradisjonell ekstern finansiering, involverer ikke crowdfunding tredjeparter slik som banker, men i stedet blir privatpersoner eller selskaper som trenger finansiering direkte koblet til investorer som er villige til å investere i dem. Til tross for markedets enorme vekst i løpet av det siste tiåret, er forskning på investorer i dette markedet sjelden. Formålet med denne masteroppgaven er å skape en forståelse for hvem investorene er og hvordan de ser på crowdfunding som en investeringsmulighet. På bakgrunn av dette formålet, har vi utviklet følgende forskningsspørsmål:

«Hvordan kan vi kategorisere investorene i det norske crowdfunding markedet i dag, og hvordan ser de på crowdfunding som en investeringsmulighet?»

For å besvare problemstillingen har vi benyttet oss av et forskningsdesign som består av en triangulering av både kvalitativ og kvantitativ metode. Metoden innebærer innhenting av data gjennom tre intervjuer med ulike plattformer, fem intervju med investorer og en spørreundersøkelse besvart av 25 investorer. Spørreundersøkelsen hadde som mål å enten komplementere, divergere eller konvergere våre empiriske funn fra intervjuer med investorer.

Resultatene viser at investorer i det norske crowdfunding markedet kan deles inn i fire ulike kategorier; «Lotto Investors», «Traders», «Business Angels» og «Analytical Investors». Disse kategoriene ble etablert på bakgrunn av investorenes aktivitetsnivå, kompetanse, preferanse for prosjekter og hva deres investeringsbeslutninger var basert på. Vi gir også innsikt i hvordan investorene oppfatter det norske crowdfunding markedet. I denne sammenheng, utviklet vi en 'oppfatningsmodell' bestående av ulike elementer som påvirker investorenes oppfatning av crowdfunding som en investeringsmulighet. Disse elementene var; ulike egenskaper ved investorene, kvalitet ved plattformene og markedet/samfunnet. I tillegg ble formålet med investorenes investering, deres oppfatning av risiko og deres motivasjon drøftet i analysen. Dermed har vi dekket flere hull i litteraturen, både med tanke på investorenes motivasjon og deres oppfatninger. Samlet sett bidrar vår masteroppgave til verdifull kunnskap om investorene i crowdfunding som kan være gunstig for både ledere av crowdfundingsselskaper og andre investorer.

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1 | INTRODUCTION

After the financial crisis of 2007-2009 it became harder for entrepreneurs and early stage companies to raise funds. Traditional banks became less willing to lend (Magnuson, 2018; Best et al., 2018), which forced entrepreneurs to look elsewhere for capital. Companies may have found it expensive to access external funding in general, and, in some cases, they may not have been able to access external finance at all (Benito et al., 2010). This can be explained by the market experiencing a ‘credit supply shock’, which Barnett and Ryland (2014) claim explained most of the movements in spread and borrowing up to and after the financial crisis. During and after the financial crisis of 2007-2009, the business investment had generally been weak, which correspond to the statement of Benito et al., (2010) that the supply of capital (lending) is often affected during recessions through lower business investments.

Deciding which companies and private persons receive loans and investment to help them grow and prosper, has always been the core function of the financial industry (Magnuson, 2018). This process has traditionally been dominated by banks. However, the rise of crowdfunding worldwide has broken the monopoly that banks have had over both debt and equity financing. Crowdfunding is an internet-enabled way for individuals or firms to raise money in the form of either donations or investments from multiple investors (Best et al., 2018). The crowdfunding market emerged from the less well-known and still emerging sector of the financial world; the FinTech sector (Magnuson, 2018). This sector consists of start-ups and venture companies that use network technology to change the way that financial services could be provided. From crowdfunding to Bitcoin, financial technology firms have introduced innovations to various areas and have allowed smaller actors to enter the financial marketplace (Magnuson, 2018). This new industry provides alternative finance, which challenges the existing finance industry when it comes to fundraising for both individual and professional actors. In addition, the FinTech industry have revolutionized traditional banking and equity finance in general for start-up companies (Baeck 2014).

Before the FinTech industry emerged, start-up companies were forced to raise funds through public offerings or venture capital firms. These options were quite expensive and limited the number of investors to large institutional investors or wealthy individuals (Magnuson, 2018). Furthermore, loans to small firms has always been an uncertain and costly sector of the market. After the financial crisis of 2007-2009, many of the venture capital firms that used to invest in

start-up companies moved their investment to less risky, more mature companies (Salomon, 2015). This movement, together with the decline of bank funding for small companies, created a ‘funding gap’ in the industry. According to the US Small Business Administration, about 600,000 new businesses are started in the US each year, and the number of start-ups funded by venture capital firms were only about 300 (Rao, 2013). Crowdfunding reduces the funding gap for small firms and innovative projects, which again promotes entrepreneurship and ultimately contribute to growth and job creation (European Commission, 2013). The financial crisis of 2007-2009 also contributed to falling interest rates, forcing investors to seek alternative investment opportunities offering a potentially higher yield. In this context, the crowdfunding market also benefits the investors by creating a complementary investment opportunity where they can communicate directly with the private persons or firms that need funding.

On the basis of the rapid explosion of the crowdfunding market worldwide, this thesis will shed light on the profile of the investors in this new market, as well as their perception of crowdfunding as an investment opportunity. We will mainly look at equity-based and lending-based crowdfunding, where the investors are expected to gain a return on the investment in monetary terms. The benefit of crowdfunding includes innovation and flexibility, increased engagement between investors and the private persons or firms that seek funding, and better access to credit for small and medium-sized enterprises (SMEs) and competition to the traditional channels of financial intermediation (Oxera, 2015). Crowdfunding also reduces transaction costs, tapping new markets and utilizing technology (Magnuson, 2018). However, just like regular investments, crowdfunding investments are associated with risk.

1.1 BACKGROUND AND MOTIVATION

The crowdfunding market is an interesting and highly relevant topic because of its increasing popularity worldwide. Most of the literature on crowdfunding are based on well-established markets, such as the US and the UK. The market is currently in its initial phase in Norway (NTNU Accel, 2018), and there is generally a lack of attention to this growing market in the Nordic countries compared to other parts of the world. Despite the importance of investors in crowdfunding, several researchers point out the lack of in-depth research in this field. For example, Bretschneider et al. (2015) stresses that research lacks deeper knowledge about the investors motivation for participating in crowdfunding activities. Bretschneider et al. (2014) also highlights this issue, and currently have a research in progress regarding motivations behind investing in equity-based crowdfunding. Furthermore, we have found no qualitative

research that addresses how investors actually perceive crowdfunding as an investment opportunity, and why they consider it as an attractive investment.

On the basis of the lack of research on investors in crowdfunding, together with the rapid growth of the crowdfunding market over the last decade, this thesis will examine the Norwegian crowdfunding market by looking at it from an investor perspective. We find it interesting and highly relevant to address how the investors are perceiving crowdfunding and how they are positioning their crowdfunding investments relative to their total investment portfolio. The purpose of this thesis is to create an overall understanding of the tremendous market growth, including why investments in crowdfunding show such great growth compared to standard or high-risk investments offered by banks. With this thesis, we hope to clarify and enlighten some features about the investors' perceptions on this market that has not yet been discussed in the literature.

The elements we want to examine is *who* the investors are, the *purpose* of the investment, the investors' *perception* of the investment process and the risk aspect, and their *overall investment portfolio*. We wish to understand to what extent the risks are known by the investors by looking at their strategies and their motivation behind the investments. We expect to find various opinions and answers about these subjects. The goal is to find common descriptions of how the investors perceive the market as an investment opportunity, so that we can categorize the investors into different groups. The goal is not to generalize the population, but to find patterns or hypothesis so that concepts, typologies or theories possibly can be established.

1.2 KEY TERMS

Before we move on, we find it necessary to define some of the terms frequently used in this thesis. These terms include the stakeholders in the crowdfunding market and the relationship between them.

Project Creators Most frequently, project creators are private persons (Bretschneider et al., 2015) and companies which seek funds for a project, product, or initiative. There are different types of project creators, including small and medium-sized enterprises (SMEs), non-governmental organizations (NGOs), individuals, start-ups and real estate companies.

Project creators need different capital in different stages of their life. Crowdfunding represent one of the possibilities for external sources of finance. The reason for choosing crowdfunding over bank loans can be that they are not able to fulfill the standards of historical performance indicators, or simply because they get a better offer from a crowdfunding platform.

Platforms

Platforms can be defined as websites that allow for an exchange of ideas and money, in addition to facilitating solicitation and investments (Rechtman and O’Callaghan, 2014). They enable project creators to advertise themselves as investments opportunities and help the investors find such opportunities to invest in. In this way, the platforms operate as a match-maker that simply connects the project creators that needs funding with investors that want to invest in them. The platforms can differ in their role, as some of them also operate as intermediates. As intermediates, they are involved in the transactions between the firm or project creator and the investor through client accounts. We will further explain these differences in section 2.3.1 and 2.3.2.

The platforms charge the project creators to use their services. The arrangement fee varies, but commonly in Norway it is between 2% and 5% of the total borrowed amount (Monner 2019a; Kameo, 2019a; FundingPartner, 2019a). In addition, several platforms also charge commissions on the investors’ return. Norwegian platform that operates with this commission, usually take 1% of the outstanding amount (Monner, 2019a; FundingPartner, 2019b). However, some of the Norwegian platforms do not operate with any fee for investors (Kameo, 2019a).

Investors

Investors can be both professional and non-professional. Private persons and investment companies stand for the largest share of investors in the Norwegian crowdfunding market, but family-offices and hedge-funds account for a large share worldwide (Burton et al., 2016). Investors can scroll at various campaigns on different platforms and invest in projects

they find appealing. The return for investors in lending-based crowdfunding is typically fixed and is expected to be between 5% and 20% (Kameo, 2019b; FundingPartner, 2019b; Monner, 2019b). Equity-based crowdfunding, on the other hand, does not have a fixed return as the investors own a part of the company.

1.3 RESEARCH QUESTION

Our research question is limited to the Norwegian crowdfunding market, which means that Norwegian investors are our research object. Further, as mentioned in our introduction, our thesis will focus on investors in equity-based and lending-based crowdfunding, which provides the investors with a financial return. The reason for focusing on these two types of crowdfunding is because the investors more likely have some degree of financial motivation behind their investment compared to donation-based and reward-based crowdfunding. Crowdfunding provide an investment opportunity for most people, as the minimum investment amount often is as low as NOK 500 (Kameo, 2019c). The market thus opens up for all kinds of investors, both small and large. In order to better understand who the Norwegian investors in crowdfunding are, we define the following research question;

RQ: *“How can we categorize the investors that participate in the Norwegian crowdfunding market today, and how do they perceive crowdfunding as an investment opportunity?”*

The first part of our research question is closely linked to the second part. We already know that private persons and companies dominate the investor-side of the Norwegian crowdfunding market. We are looking to refine the profiles of these investors, and address how they invest in crowdfunding, including their strategy and the amount invested relative to other investments. To help us categorize them, we developed the second part of our research question that addresses their perception of crowdfunding as an investment opportunity.

Based on the data collected from interviews and surveys with Norwegian investors, we find various motivations and reasons behind their investments. We also find diverging opinions about the crowdfunding market in general and the associated risk. In addition, we address the investors' preferences, their overall investment portfolio and the size of the crowdfunding investment relative to other investments. By creating an in-depth understanding of these factors, we will gain knowledge about the diversity of investors in the Norwegian crowdfunding market.

1.4 CONTRIBUTION

Based on our results, we expect to contribute to the field both in theory and practice. From our literature review, we found that some of the research on the investors in crowdfunding is quite unclear and the motivation behind their investment lacks sufficient data in existing research. In addition, there is no research that addresses the overall perception of the crowdfunding market from an investor perspective. By giving answers to our research question, we create a deeper understanding of the investors in the crowdfunding market. As the market is relatively new in Norway, we emphasize the qualitative approach that provide us with an in-depth understanding from the investors' point of view, their stories and their general experiences with investing in crowdfunding.

Through the use of a qualitative methodology, including personal interviews with various investors, we provide the reader with knowledge about the investors' view of crowdfunding as an investment opportunity. This knowledge is beneficial both to managers of crowdfunding platforms and project creators as they easier can customize their platforms and their campaigns for the benefit of all. The findings from our study is also valuable for potential investors of crowdfunding as they get insights about various experiences and opinions.

1.5 STRUCTURE OF THE THESIS

This thesis is built up as follows;

Chapter 1: During the introduction chapter, we highlighted the background and motivation behind our study. We also defined key terms frequently used in this thesis. Ultimately, we presented the research question and how we expect that our findings can contribute to the existing literature.

Chapter 2: This chapter will provide the reader with an overview of the existing literature, which works as the frame of reference for this study. The chapter presents literature on Financial Technology and definition of Crowdfunding. Furthermore, we present the different crowdfunding types before we address the history of crowdfunding. In addition, we present the potential and challenges of

crowdfunding, along with the risk profile at the market. At the end, we present the literature from a project-creator and investor perspective.

Chapter 3: This chapter presents the state of the crowdfunding market. Here, we address the market worldwide, Europe and the Nordic countries all together. Furthermore, we move on to the state of the Norwegian crowdfunding market, the Norwegian regulations and the platform risks.

Chapter 4: This chapter presents our methodical choices and how these choices helped us answer our research question. The chapter describes how we collected and analyzed our data, as well as a discussion upon the research quality.

Chapter 5: In this chapter, we address our findings from both the qualitative and the quantitative collection of data about the investors. This chapter will describe their perception of the Norwegian crowdfunding market, extended by information about their investment portfolio, their various motivations, characteristics about their crowdfunding investments and their perceived risks.

Chapter 6: This chapter presents the analysis based on our empirical findings. Here, we will discuss how we can categorize the investors and how they perceive crowdfunding as an investment opportunity. We will also compare our results with the existing literature. We also introduce a perception model in our analysis.

Chapter 7: Finally, this chapter will conclude our research by answering the research question. It will also present the vulnerability of our thesis, in addition to suggestions for further research.

2 | LITERATURE REVIEW

Although crowdfunding is a relatively new phenomenon, there has been a lot of interest in the topic in the past few years. A lot of the existing research addresses the basics of crowdfunding (Mollick and Robb, 2016; Retchman and O’Callaghan, 2014; Agrawal et al., 2014) and its potential and challenges (Bretschneider et al., 2015), in order to create a better understanding. At first, we present some literature concerning financial technology and crowdfunding in general. Here we include the different types of crowdfunding and the history of the market. Furthermore, we will present the potential and challenges of crowdfunding identified by the literature, before we move on to the risk profile of crowdfunding. At the end, we will present the existing literature on crowdfunding from a project creator perspective and an investor perspective, respectively.

2.1 FINANCIAL TECHNOLOGY

The earliest use of the term FinTech may be traced back to 1972 by Mr. Abraham Leon Bettinger (Schueffel, 2016). He defined it as an acronym for Financial Technology, which combine banking with science techniques and use of the computer. The digitalization of the financial services industry has a long history which goes all the way back to 1959 when the first ATM was launched in Ohio (Puschmann, 2017), or even back to 1838 and the launch of the telegraph (Niccoletti, 2017). In the 90’s, FinTech was used as an explanation of a project done by Citibank (Arner et al., 2015).

Today, FinTech reflects the IT-induced transformation of the financial sector that takes place in today’s world (Puschmann, 2017). According to Puschmann (2017) there are several drivers of this transformation, among them are; The changing role of IT - where crowdfunding is a good example, which has developed a complementary model to the traditional banking. The second driver is; Changing consumer behavior - customers enjoy a digital perspective. Ultimately, he mentions Changing regulations - the regulations of the financial services industry became much tighter after the financial crisis of 2007-2009.

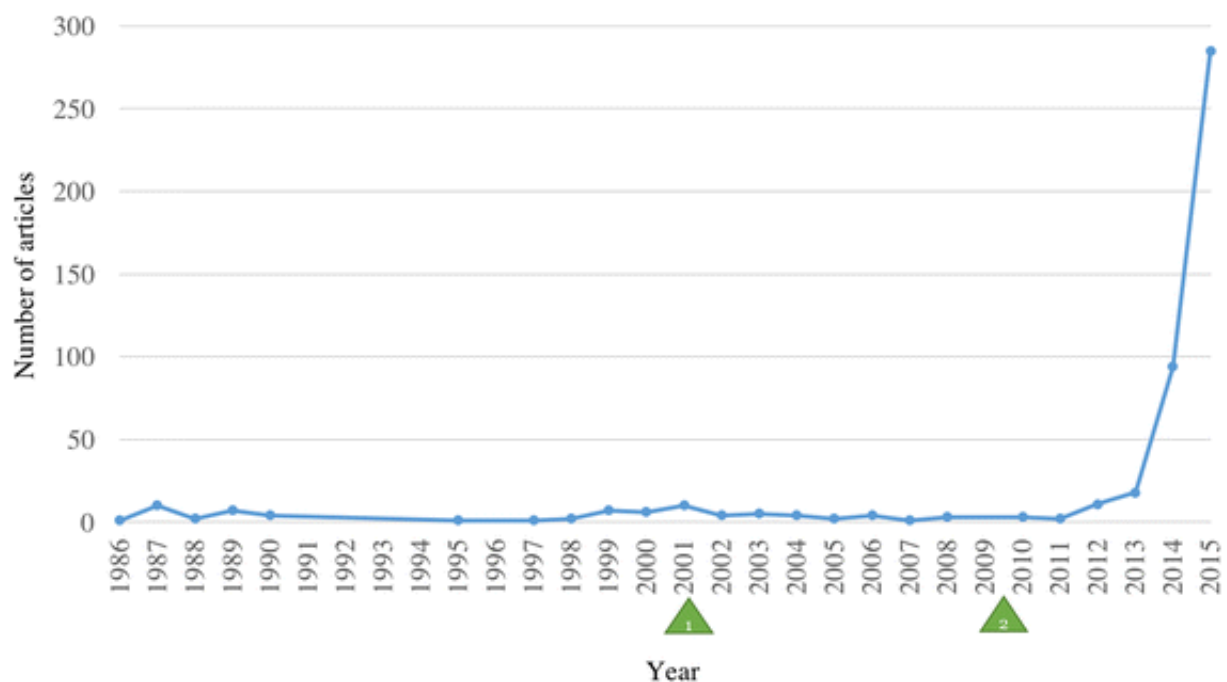


Figure 2.1 Number of Articles Published from 1986 to 2015 (Zavolkina et al., 2016).

Figure 2.1, which is developed by Zavolkina et al. (2016), illustrate the development of published articles regarding the topic ‘FinTech’. From 2010 to 2015, the publications peaked, and the highest number of published articles were in 2015 with 285 articles. Figure 2.2 illustrate how the various topics regarding FinTech changed during the period. In the period from 1986 to 2009, the articles about Fintech mostly mentioned company names. From 2010 and onwards, innovation became a popular topic among the articles. In 2012, the media came up with new definitions of Fintech which was not scientific, and the topic of investments in Fintech emerged as a general discussion. From 2013 and onwards, the numbers of topics increased. In 2015, the published articles on FinTech involved 7 different topics; company name, definition, disruption, innovation, investments, regulations and characteristics.

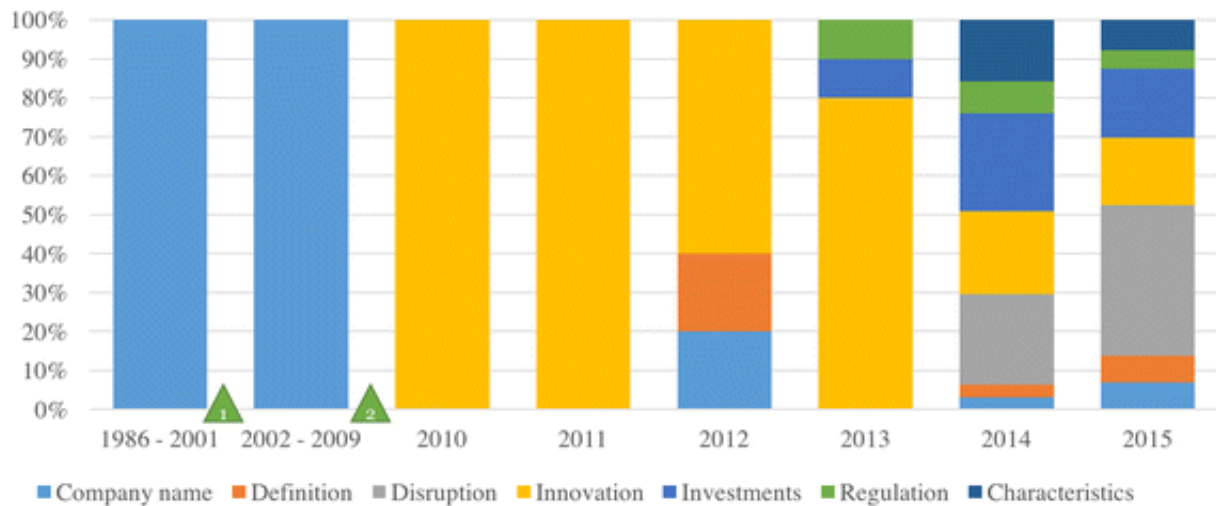


Figure 2.2 Topics in Published Articles about FinTech (Zacolkina et al., 2016).

The FinTech evolution can be divided into three stages (Niccoletti, 2017). FinTech 1.0 took place in the period from 1866 to 1967, where financial services were still an analog industry. FinTech 2.0 occurred from 1967 to 2008 and is characterized by transactions becoming more digital and global. FinTech 3.0 took place from 2008, when startups and established technology companies started to deliver financial products directly to businesses and consumers. Crowdfunding, which we will look at below, is an example of FinTech 3.0, as it is concerned with delivering financial products directly to businesses or consumers.

2.2 DEFINING CROWDFUNDING

The concept of crowdfunding comes from the broader concept of crowdsourcing, which involves using the “crowd” to acquire ideas, feedback, and solutions to develop corporate activities (Belleflamme et al., 2014). As conceptions of crowdfunding are in a state of ‘evolutionary flux’ (Mollick, 2013), an accurate definition of crowdfunding is difficult. Mollick (2013) proposes the following definition;

“Crowdfunding refers to the efforts by entrepreneurial individuals and groups – cultural, social and for-profit – to fund their ventures by drawing on relatively small contributions from a relatively large numbers of individuals using the Internet, without financial intermediates.”.

Ma and Liu (2017) further explains that crowdfunding allows a large number of individuals to collectively finance a new business venture through a technology platform. This is consistent

with De Buysere et al. (2012), which defines crowdfunding as “*a collective effort of many individuals who network and pool their resources to support efforts initiated by other people or individuals, usually via the Internet*”. Although these definitions all present precise definitions of crowdfunding, they all seem to emphasize that the funders are individuals or groups of individuals. They therefore exclude the fact that companies and institutional investors such as venture capital firms, angel investors, family-offices and funds also stand for a large share of the investor-side in crowdfunding (Burton et al., 2016). We would therefore like to propose a definition that includes both non-professional and professional investors;

“Crowdfunding refers to the collective efforts by non-professional and professional actors to fund projects initiated by other actors using the Internet, either in the form of donation or in exchange for financial or non-financial rewards”.

Projects and businesses are funded by acquiring a small amount from a crowd of investors, which allows innovators, entrepreneurs and business owners to raise capital. However, as Mollick (2013) point out; a precise definition of crowdfunding is hard to create because the market is still developing, and the term can change over time as the market changes.

2.3 CROWDFUNDING TYPES

We can divide crowdfunding into four different categories, as shown in Figure 2.3. The first category is *lending-based* crowdfunding, where project creators can borrow money from a crowd of investors instead of a bank. Lending-based crowdfunding can further be divided into business and real estate loans, and P2P/consumer loans (NTNU Accel, 2018). The platforms that operates within lending-based crowdfunding may have varying roles, such as middle-men or match-makers (De Buysere et al., 2012). The lenders will typically get paid with fixed interest rates and installments during the lending period. Installments represent a partial payment on a financial obligation. Most commonly the installment is paid to the lender once a month or once a year (*Financial Dictionary*, 2019). The second category is known as *equity-based* crowdfunding, where the investors buy shares in companies, which usually are start-ups. The investors in equity-based crowdfunding have a contractual right to receive payoffs from the company (De Buysere et al., 2012). The third category is *reward-based* crowdfunding, where project creators collect capital for a specific project and can provide non-financial rewards in return to the investors (Pelizzon et al., 2016). The reward is often a physical product,

usually an early version that is produced as a result of the funding. The last category is *donation-based* crowdfunding, where the investors donate money to good causes.

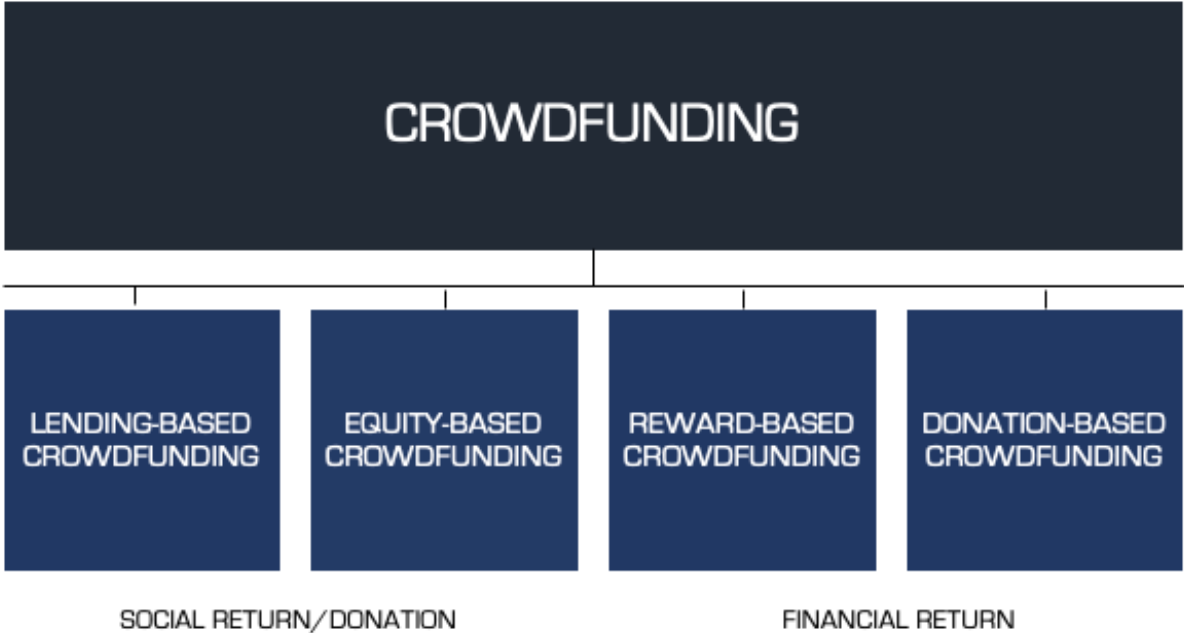


Figure 2.3 Different Types of Crowdfunding (Pelizzon et al., 2016).

As both the reward-based and donation-based crowdfunding do not provide the investors return on the capital in monetary terms, we can strongly assume that the motivation for donating money in these types of projects are mainly emotional. However, the motivation for investing in lending-based and equity-based crowdfunding can be slightly different as they can provide a financial return. We will explain both the equity-based and the lending-based crowdfunding business models below.

2.3.1 Lending-Based Crowdfunding

Lending-based crowdfunding enables investors to lend capital both to project creators without the involvement from third parties, usually banks. It is a fast-growing market all over the world (Hao et al., 2019). The increasing interest for lending-based crowdfunding from an investor perspective, can be explained by different elements. One of the reasons is that the product offered in this market often has higher yields than other fixed-income assets, such as bonds (Footit et al., 2016). In addition, the investments in lending-based crowdfunding are often less

correlated to stocks, bonds and cash return. Therefore, crowdfunding investments can be a good source of diversification.

The market mechanisms can easily be explained by supply and demand. As long as there are people who need money and people that have capital overflow that are willing to lend out money, the market will function. Traditionally, investors would deposit their savings to banks and receive interest payments. Project creators would receive loans from banks and pay loan payments and interest in return. Banks would thus act as an intermediary, as illustrated in Figure 2.4.

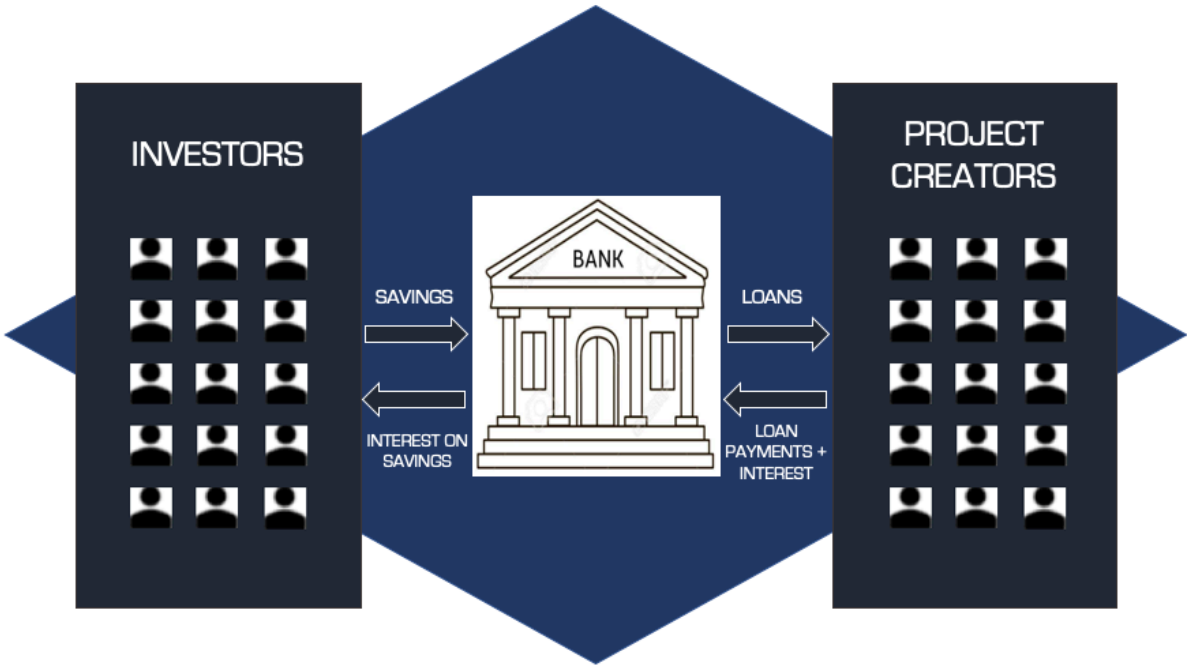


Figure 2.4 The Traditional Lending Model.

In lending-based crowdfunding however, the loan goes directly from the investors to the project creators that need loans, as illustrated in Figure 2.5. The platforms typically make a credit analysis of the project creators, which can also be done by third-party companies. The role of the platform is simply to provide the investors with information about the investment opportunities. When an investor decides to lend money to a project creator, the money goes through the platform’s client account before they are paid out. The installments and return also goes through the client account before they are paid out to the investor.

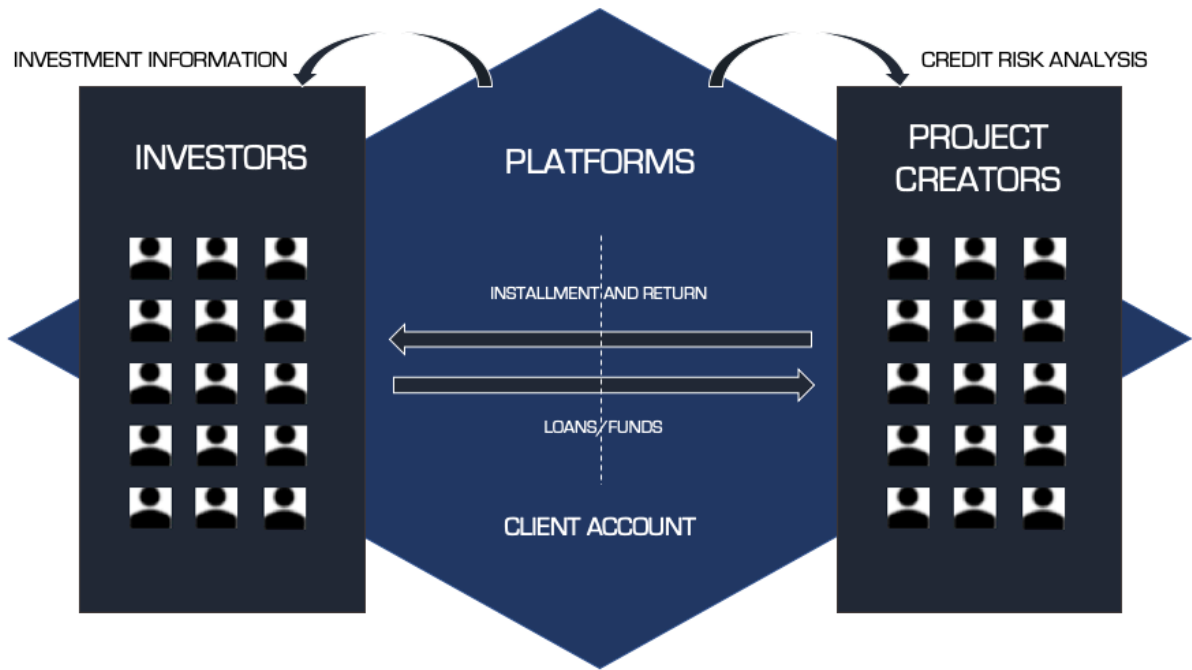


Figure 2.5 Lending-Based Crowdfunding Business Model.

2.3.2 Equity-Based Crowdfunding

Equity-based crowdfunding can be defined as investors purchasing shares issued by a firm (Hao et al., 2019), and it is an increasingly popular source of external finance for young entrepreneurial firms and start-ups (Walthoff-Borm et al., 2018). Project creators post a campaign on a platform, where a crowd of investors that believes in the project may invest. The company, on the other hand, are obligated to pay out dividends or profit from acquisition to the various investors. The platforms mainly have the role of a matchmaker between the firms that need capital and the investors. The business model of equity-based crowdfunding is illustrated in Figure 2.6.

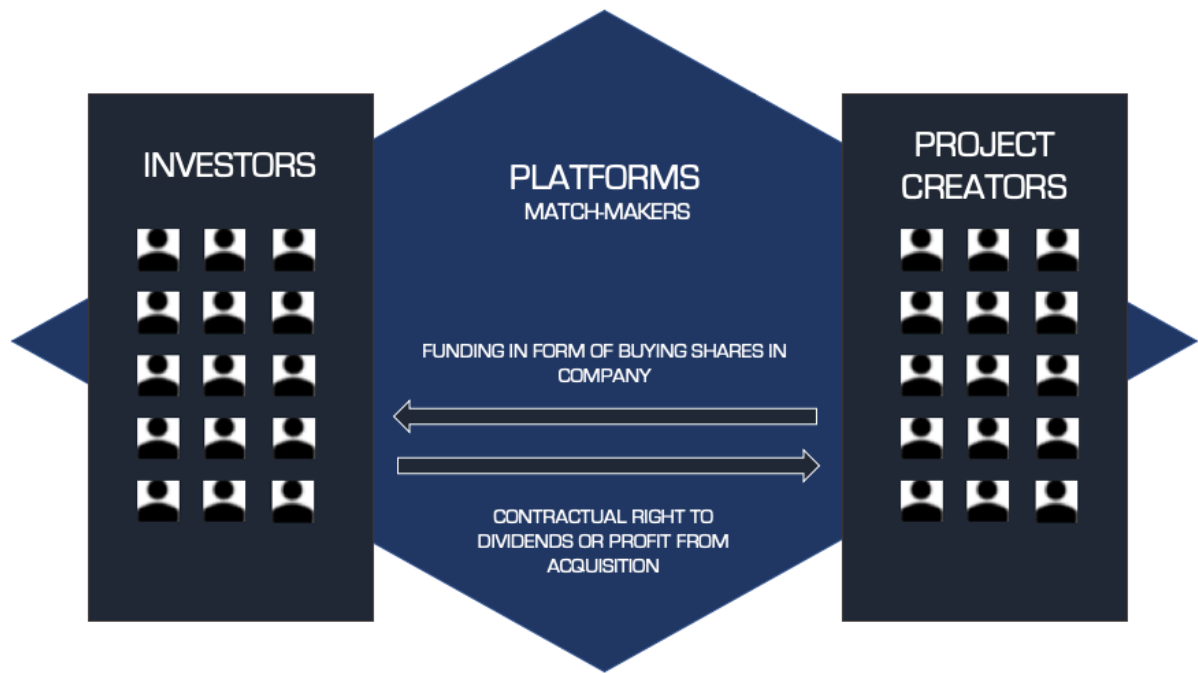


Figure 2.6 *Equity-Based Crowdfunding Business Model.*

The success of an investment in equity-based crowdfunding depends primarily on the company's profitability. More precisely, it depends on the investing public's expectations of the firm's future profitability and the perceived value of the firm to another firm that might acquire it (Freedman, 2015). If the company succeeds and is profitable, the investors may benefit from the dividends. On the other hand, if the firm fails to earn profit, the investors' return can be negative or even a total loss (Freedman, 2015). Investments in equity-based crowdfunding can be compared to investments in private equity, where shares are much less liquid than those traded on public stock exchanges. Thus, the investors might not be able to sell the shares whenever they want (Choudry, 2016).

2.4 HISTORY OF CROWDFUNDING

The term crowdfunding, as we know it today, was first settled in 2006 by Michael Sullivan on Fundavlog, to acquire capital for a video blogging project (Pelizzon et al., 2016). Originally, crowdfunding is an ancient phenomenon used by kings and religious leaders to raise funds from the population to finance various projects (Gromek, 2018). Although the concept remains the same, the term crowdfunding today involves raising funds from investors via the Internet. Crowdfunding emerged from the FinTech industry and provides a new and innovative investment opportunity, in addition to allowing project creators to fund their ideas.

The digital development of lending-based crowdfunding started in 2005 when an online marketplace opened in the United States. Individuals were able to borrow money directly from other groups of individuals over the Internet (Graziano, 2014). This was referred to as peer-to-peer lending, which was the first version of what today is known as Marketplace Lending (Graziano, 2014). The main reason behind the evolution of the term Marketplace Lending from peer-to-peer lending has two main reasons; (1) the individuals that were the main suppliers of capital in the peer-to-peer lending concept is now only a small amount of the suppliers in Marketplace Lending and, (2) new online platforms have emerged and borrowers were not only private persons, but also firms. The supply-side of the market also developed, as real estate loans, student loans and other small-balance products started being offered at the different platforms.

The precise factors leading to the rise of crowdfunding are not completely understood. One can argue that the marketplace lending model benefited from different factors, such as the growth of the internet in general, the digitalization of trust, the creation of new legislation, which increased risk aversion by traditional financial providers, and the decline of bank funding for companies after the financial crisis of 2007-2009 (Gromek and Dubois, 2018).

2.5 POTENTIAL OF CROWDFUNDING

The main potential of crowdfunding is the acquisition of capital (Bretschneider et al., 2015; Culkin et al., 2016). Furthermore, crowdfunding enables innovation and has the potential to democratize access to capital and create entirely new forms of interactions between project creators and investors (Mollick and Robb, 2016). By giving a voice to project creators who otherwise never had the chance to seek funding, let alone provide it, crowdfunding creates opportunities for new businesses and innovations, as well as a new wave of investors. Culkin et al. (2016) found that crowdfunding provides the project creators with more favorable conditions, increased processing speed, and a more effective communication interface, which attract even more project creators. In addition, equity-based crowdfunding widens the opportunity of early-stage investments significantly (Culkin et al., 2016; Agrawal et al., 2014) and may result in more early-stage companies receiving equity funding than earlier. Culkin et al. (2016) also suggest that the market is able to attract traditional angel investors in the future. In this context, crowdfunding and venture capitalism can be perceived as highly complementary (Straus, 2015). Crowdfunding has led to a transformation of the entrepreneurial business model and has blurred out the lines between finance and marketing. In the traditional model, finance

and marketing run along different channels, but in crowdfunding they run along the same channel; the crowdfunding platform.

Because crowdfunding is heavily based on social media, it simplifies the sharing of information about a project across geographical borders (Bretschneider et al., 2015; Agrawal et al., 2010). Investors and backers can easily and faster promote the projects by forwarding information to friends and other interested parties. Bretschneider et al. (2015) further mentions that crowdfunding contributes to initial testing of business ideas and feedback functions. In this context, crowdfunding can be used to test potential products, in addition to co-creation of the project along with the investors.

2.6 CHALLENGES OF CROWDFUNDING

Although the potential for crowdfunding are multifarious, Agrawal et al. (2014) point out that the market will surely experience spectacular failures. Investors will lose significant sums, not only to fraud, but also to incompetent managers, bad ideas, and bad luck. This is due to the fact that many investment decisions are based on emotionality and social motivation instead of solid financial data (Bretschneider et al., 2015). Thus, crowdfunding implies high risk and uncertainty. In addition, project creators going bankrupt and delayed payments of interest also affects the risk for investors. We will present the associated risks in detail in section 2.7.

There are also various risk factors involved with crowdfunding from the project creator perspective. Since crowdfunding often is carried out in a project's early stage, ideas and intellectual property can be stolen due to early-stage public disclosure (Agrawal et al., 2014). Researchers also mention that starting a crowdfunding campaign can be costly, especially for small firms. Agrawal et al. (2013) found that the creation of a crowdfunding campaign, in addition to sending updates and answer questions can be very time consuming.

2.7 THE RISK PROFILE OF THE MARKET

Investing in both equity and lending-based crowdfunding involves a considerable risk. As commonly known, there is a correlation between return on investments and their perceived risk. If an investor wants to achieve higher return, he or she also has to accept a higher risk (Monner, 2019c). We will now present the most significant investor risks in crowdfunding, including credit risk, liquidity risk, asymmetric information and moral hazard.

2.7.1 Credit Risk

Credit risk, issuer risk or counterparty risk, is the main risk in banking and finance. This is the risk that a customer will default on a loan (Choudry, 2016). Credit risk is described by exposure, or notional value at risk; probability of default; and loss in event of default. The most common measure of credit risk is the formal credit ratings or ratings done by the financial institutions. In order to describe the credit risk of crowdfunding, we separate this section into 'lending-based and equity-based crowdfunding.

Lending-Based Crowdfunding

For lending-based crowdfunding, the investors risk to lose both the interest and the principal payment. The investor therefore exposes his total investment to the risk of default (Monner, 2019c). The different platforms work actively both to identify and communicate risk factors involved in each project. For example, they demand that the project creators have to fill out a lot of information about themselves. The information further gets posted on the platforms website and made available for potential investors. In cooperation with third party companies, the different platforms provide classifications or ratings of the loans based on credit scores (Monner, 2019c). A credit rating is typically a quantitative measure of default probability on an obligor over the next 12 months (Choudry, 2016), and says something about the probability that the company will pay the interest and installment by due date.

Many of the platforms have agreements with debt collection agencies, in case any loan on their platform defaults. These agencies are obliged to buy the default loan for a lower price than market value. Depending on how high the credit score is, this will pay back some of the losses of the investors (Kameo, 2019c), which reduces some of the risk for the investors. In addition, some of the platform operates with guarantees in form of housing or other assets, which also contributes to a lower investor risk.

Equity-Based Crowdfunding

For equity-based crowdfunding, the credit risk also represents a significant factor. Monner, which is one of the Norwegian platforms consuming both equity-based and lending-based crowdfunding, mentions on their website that investing in crowdfunding is considered a high-risk investment. The investor risk losing the total investment amount in the case of default

(Monner, 2019d). When speaking of equity-based crowdfunding, the credit risk may be defined as the probability that the counterparty will not survive in the long run. The credit risk is therefore especially considerable if the project creators is a start-up or in a very early stage. Only 27% of the start-up companies in Norway survives and are still active after five years (SSB, 2018). However, from 2017, Norwegian investors may register investments in start-up companies with at least NOK 30,000 (Sktl. §6-53), which will provide a tax deduction. This can contribute positively by reducing the total risk for investors in equity-based crowdfunding.

2.7.2 Liquidity Risk

Liquidity risk is the risk that an asset cannot be sold or bought as and when required (Choudry, 2016). Liquidity risk may also be defined as the risk of not being able to exit the investment prior to its maturity (Oxera, 2015). There are relatively few platforms providing a secondary market on which to sell loan portfolios, while there is no secondary market for shares in start-ups (Kirby and Worner, 2014). As a result of the liquidity risk, investors may not be able to sell their shares or loans without providing a large discount (Gaynor, 2015).

2.7.3 Asymmetric Information and Moral Hazard

Operational risk is the risk of loss associated with non-financial matters such as fraud, system failure, accidents and ethics (Choudry, 2016). Both asymmetric information and moral hazard is tied to ethic, and the possibility that the other part of the transaction not operates in a good cause. Asymmetric information is likely to play a significant role in crowdfunding because the project creators will, in most cases, have considerably more information about their project and its quality, than the investors (Wessel, 2016). It may be difficult for investors to assess the risks of the business model and the competencies of the project creators (Oxera, 2015). This means that the investors need to analyze the projects themselves in order to separate a good investment from a bad one. As earlier mentioned, the platforms of lending-based crowdfunding provide a credit score of the projects that the investor use as an instrument in the decision-making. Overreliance on these credit scores and the information that the platforms provide can be risky (Kirby and Worner, 2014). Fraud can also occur on crowdfunding platforms as project creators may use asymmetric information by overstating quality or withholding information (Wessel, 2016). Although the platforms have a strict policy and perform due diligence of the project creators, the asymmetric information represents a considerable risk for investors in crowdfunding.

Another considerable investor risk is moral hazard. In crowdfunding context, Agrawal et al. (2013) defines the moral hazard as the risk of project creators behaving in an opportunistic manner and not exert the level of effort that was implied at the outset. The most extreme version of moral hazard is fraud, where the project creators does not use the funds for the intended purposes.

2.8 THE PROJECT CREATOR PERSPECTIVE

Most of the literature from a project creator perspective addresses how one can succeed with crowdfunding campaigns (Lagazio and Querci, 2018; Ahlers et al., 2012;). According to Lagazio and Querci (2018), fixed campaigns, small-sized projects and prolonged campaigns are more likely to be funded. Surprisingly, they found that the higher amount requested by the project creator, the lower the probability to hit the target. Other important factors presented was detailed textual description of the projects, English language over other languages, updated information after the launch, and external websites that are specified on the campaign page. Ahlers et al. (2012) found that financial roadmaps and risk factors were signals that helped the firm succeed with crowdfunding. Also, board experience measured by education level and number of board members were also identified as important factors that benefits the crowdfunding campaign.

2.9 INVESTOR PERSPECTIVE

While researchers usually address the investor risk of crowdfunding (Agrawal et al., 2014; Bretschneider et al., 2015), there is not a lot of existing research regarding how the investors actually perceive the crowdfunding market, their strategies and the motivation behind their investments. Kuppuswamy and Bayus (2013) studied how the support of investors varied depending on the success of the project and their timing. Furthermore, studies show that the investors' investment decision is mainly influenced by social networks (Lin et al., 2013). In addition, family and friends are often the investors in crowdfunding projects, the average distance between project creators and investors is about 3,000 miles, and local investors invest relatively early (Agrawal et al., 2011). Further this 'geography effect' occurs when investors have personal relations (family and friends) with the project creator. Lin et al. (2013) also found that friendships increase the probability of successful funding because friends can signal credit quality for the investors.

Lin et al. (2014) found that the crowdfunder community of the platform Kickstarter was not homogeneous and they present four types of investors in crowdfunding; “Active Backers”, “Altruistic Cluster”, “Trend Followers” and “The Crowd”. These types differ in their strategy of choosing projects. Active backers look for high-quality projects, altruistic cluster support projects for a good cause, trend followers target popular projects, while the crowd are still exploring the platform and do not have any strategy towards crowdfunding (Lin et al., 2014). In this context, we find it strange to categorize one group of the investors as ‘a crowd’. There must be certain characteristics that further can categorize these investors.

To the best of our knowledge, there is no research on investors of crowdfunding in Norway. However, Sørheim and Landström (2001) studied informal investors in Norway who have invested in start-up companies and entrepreneurs (ventures) and divided them into four different categories depending on their investment activity and competence. They found that informal investors can be divided into; (1) “Lotto Investors”, (2) “Traders”, (3) “Analytical Investors” and (4) “Business Angels”, as illustrated in Figure 2.7. “Lotto Investors” are characterized by a low investment activity level and a low competence. Thus, they make very few informal investments and they have limited knowledge and skills. “Traders” can be defined as investors with a high investment activity level but a low competence. They seem to have the will to invest, but they have little competence. “Analytical Investors” have a low investment activity level, but they possess a high competence. The last category, “Business Angels”, are characterized by a very high investment activity level, as well as high competence.

		Competence	
		Low	High
Investment Activity	High	<p>Group 2 TRADERS (24% of the investors)</p>	<p>Group 4 BUSINESS ANGELS (25% of the investors)</p>
	Low	<p>Group 1 LOTTO INVESTORS (24% of the investors)</p>	<p>Group 3 ANALYTICAL INVESTORS (24% of the investors)</p>

Figure 2.7: Categorization of Informal Investors (Sørheim and Landström, 2001).

Furthermore, Sørheim and Landström (2001) compares their findings to Norwegian investors in general. They found that the development of small businesses in Norway is quite similar to other countries in Europe, but the stock market in Norway were less developed. The typical Norwegian investor are presented as a male in the age of 35 to 55, with high educational achievement, as well as extensive work and management experience. Among 50% of these investors are also experienced entrepreneurs. Their study further suggests that the informal investors in Norway are relatively passive. The most involved ones are the investors with high competence, such as “Business Angels” or “Analytical Investors”. Although their research was published long before the crowdfunding market exploded in Norway, we find it highly relevant to compare to our findings.

3 | THE CROWDFUNDING MARKET

In this chapter, we will present information regarding the state of the crowdfunding market with the help of various industry reports. At first, we present the extent of the crowdfunding market worldwide, including Europe and the Nordic countries. Furthermore, we will present the state of the Norwegian crowdfunding market and address the Norwegian regulations.

3.1 THE STATE OF TODAY'S MARKET

To explain the state of today's market we rely on various industry reports on crowdfunding worldwide (KPMG, 2016; Garvey et al., 2018; Hao et al., 2019). As mentioned earlier, the crowdfunding market has shown an enormous growth over the last decade. The market is still growing, and many of today's largest crowdfunding platforms are from the US and were launched from 2005 onwards (Bretschneider, 2015). Worldwide, the top five national markets for crowdfunding measured by market volume is China, USA, United Kingdom, France and Canada. In China alone, the annual growth from 2014 to 2015 was 319%, dominating the growth of the industry (KPMG, 2016). The adoption of crowdfunding varies a lot by countries. When adjusted for volume per capita, USA led the charge in 2015, followed by China and the UK. The most crowdfunded sector globally from 2013 to 2015 was manufacturing and engineering, followed by business and professional services, real estate and housing, technology and construction (KPMG, 2016).

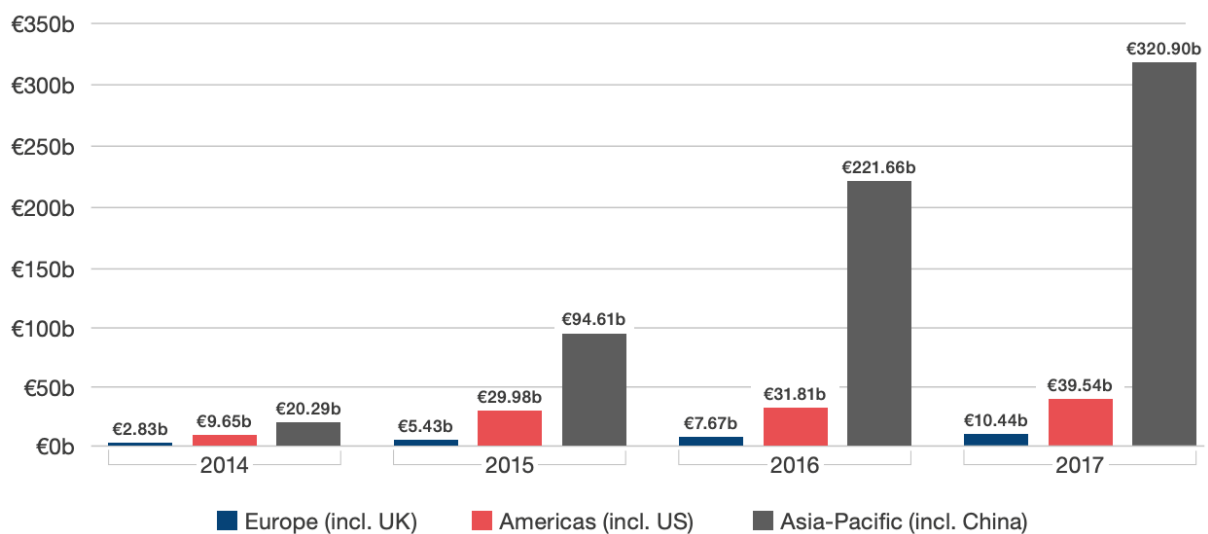


Figure 3.1 Market Volume across Europe, the Americas and the Asia-Pacific region (Hao et al., 2019).

Figure 3.1 shows the distribution of the market volume in Europe, America and Asia-Pacific region from 2014 to 2017 (Hao et al., 2018). The Asia-Pacific region accounts for the biggest share of the market from 2014 to 2017 and grew from €221.68 billion in 2016 to €320.90 billion in 2017. In this context, China accounts for over 99% of volume within the Asia-Pacific region. Second is the Americas, which grew from €31.81 billion in 2016 to €39.54 billion in 2017, where the US accounts for 96% of the overall volume. The European market grew from €7.67 billion in 2016 to €10.44 billion in 2017. The United Kingdom accounts for 73% of this market.

3.1.1 Europe

The growth of crowdfunding in Europe begun in 2010 (Bretschneider, 2015). However, the tremendous growth started in 2013. Although Europe is the smallest region compared to America and Asia-Pacific, the growth has been far steadier, growing 79% annually on average between 2013-2017. The total market volume in Europe is illustrated in Figure 3.2 with the annual growth in each circle. It shows that the highest growth was between 2013 and 2014 with 151%, and the growth between 2016 and 2017 was 36%. Although the United Kingdom represents the largest share of the European market, its share against the rest of Europe is shrinking (Hao et al., 2019). Furthermore, France, Germany and the Netherlands stand for the largest market share in mainland Europe.

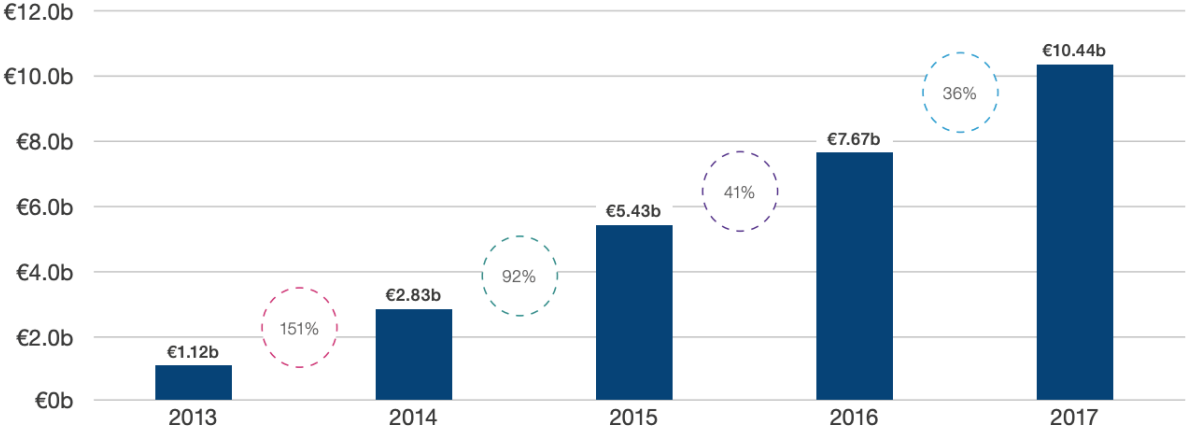


Figure 3.2 Total Market Volume in Europe (Hao et al., 2019).

For the fourth year in a row, P2P consumer lending accounted for the largest market share of crowdfunding in Europe (Hao et al., 2019). This type of crowdfunding represented 41% of all the volume, and it grew with 99.8% from 2016 to 2017. P2P consumer lending the special case of lending-based crowdfunding where the borrower is a private person. Other popular forms of

crowdfunding in this period was P2P business lending, real estate crowdfunding and equity-based crowdfunding (Hao et al., 2019).

3.1.2 The Nordic Countries

The Nordic market including Denmark, Finland, Iceland, Norway and Sweden, was ranked as the third largest market in mainland Europe in 2017. This year, the Nordic market grew with 39%, which correspond to €126 million. In the previous year, 2016, the Nordic market grew by €220 million, and accounted for 15.6% of the total European crowdfunding market (Garvey et al., 2018). The market volumes among the Nordic countries are illustrated in Figure 3.3, together with the annual growth rate. It shows that Finland had the biggest crowdfunding market among the Nordic countries from 2015 to 2017. However, Sweden was only about €1 million behind Finland in 2017, and showed a tremendous growth of 550% from 2016 to 2017.

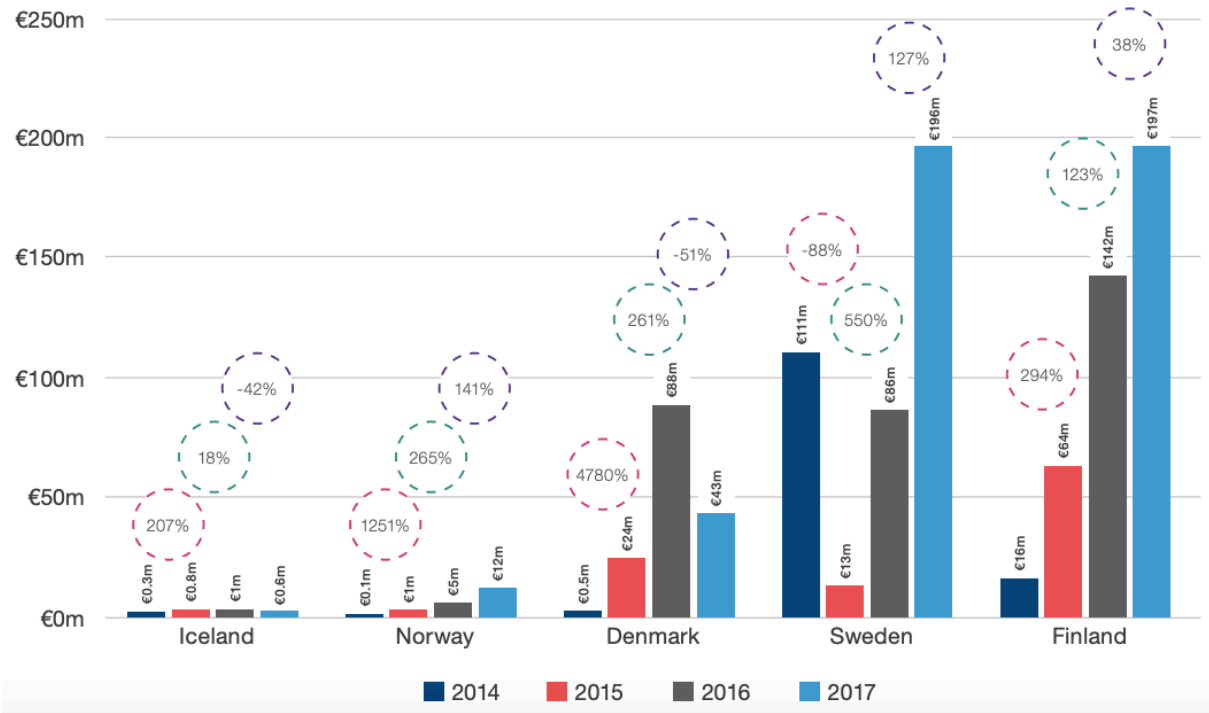


Figure 3.3 Market volume in the Nordic countries from 2013-2017 (Hao et al., 2019).

The global regulatory Basel III framework was introduced in 2013. This framework provides structure to bank capital adequacy, stress testing and market liquidity risk and helped the Nordic Banks reduce their overall Loan to Value (LTV) ratio towards the real estate sector (Gromek, 2018). Regulators introduced a range of legislative measures that indirectly resulted in the decrease of available funds to invest into specific branches of the economy, like real estate.

This decrease resulted in a significant funding gap, in which can be filled by crowdfunding companies (Gromek, 2018). In 2016, we witnessed the sudden crowdfunding of real estate in the Nordic countries with €26 million (Garvey et al., 2018). This accounts for about 11% of the total crowdfunding market, and the investments in this sector is expected to grow more rapidly over the next years. In 2017, real estate crowdfunding was up 103% from 2016, and accounted for 12% of the total market (Hao et al., 2019). The country with the biggest growth was Sweden, who accounted for about 84% of the total growth.

3.2 THE STATE OF CROWDFUNDING IN NORWAY

The Norwegian market has representative platforms from all of the four different categories of crowdfunding; lending-based, equity-based, reward-based and donation-based. In Figure 3.4, we illustrate the various Norwegian platforms based on the different crowdfunding concepts.

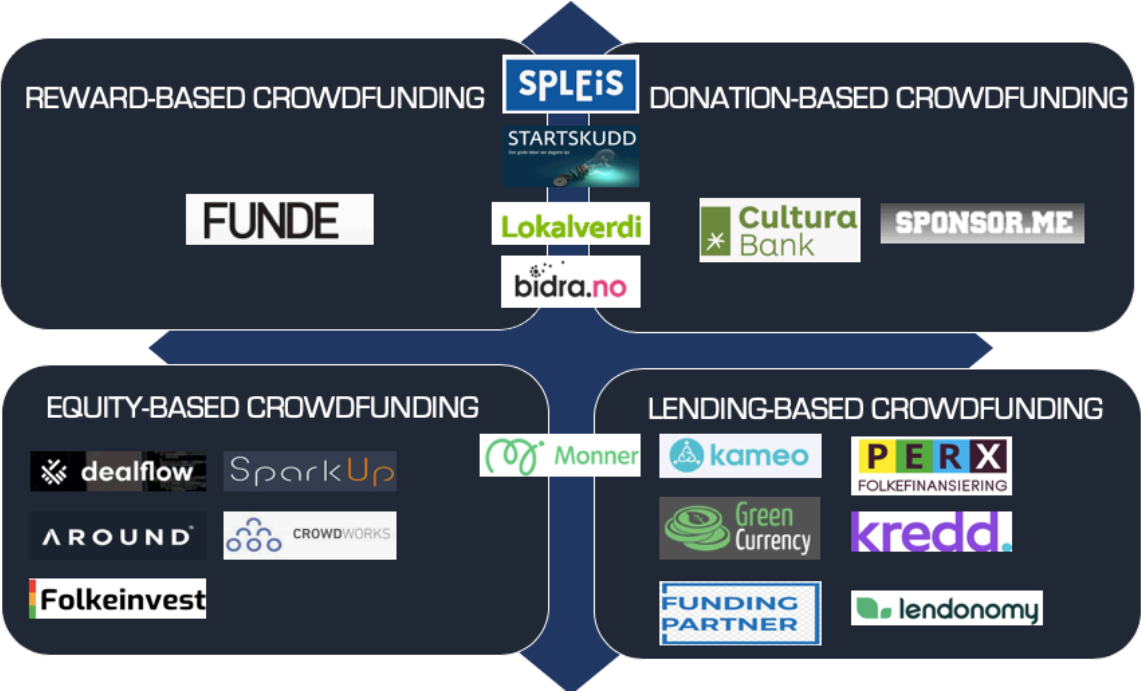


Figure 3.4 Crowdfunding Platforms in Norway.

As mentioned earlier, the crowdfunding market in Norway has shown less growth than other parts of the world. Although Norway is a highly digital country, the market volume concerning crowdfunding as an investment opportunity has not exploded like in other countries. While the European market for equity-based crowdfunding grew with more than 80% only in 2016, the market in Norway showed zero growth from 2013 to 2016 (NTNU Accel, 2018). On the other

hand, the Norwegian crowdfunding market has grown rapidly from 2017-2018, and new platforms are currently emerging (Weldeghebriel, 2019). In total, NOK 205 million circulated the market for crowdfunding in Norway in 2018 and shows the striking growth of 97% from the first half to the second half of that year. This equals an annual growth of 118% from 2017. However, the Norwegian crowdfunding market was only 10% of the total Swedish and Finish markets in 2018 (Weldeghebriel, 2019).

There was a dramatic growth especially in equity-based crowdfunding in Norway, where the first half of 2018 surpassed the previous year’s annual volumes by NOK 11 million, a growth of 79%. The results from the first half of 2018 showed that there was crowdfunded for over NOK 69 million in Norway in total, where 36% was equity-based, 15% was P2P Business Lending, 12% reward-based, 1% in consumer lending and 1.36% in donations (NTNU Accel, 2018). Figure 3.5 shows the shares of investment in the different crowdfunding categories in Norway in the first half of 2018.

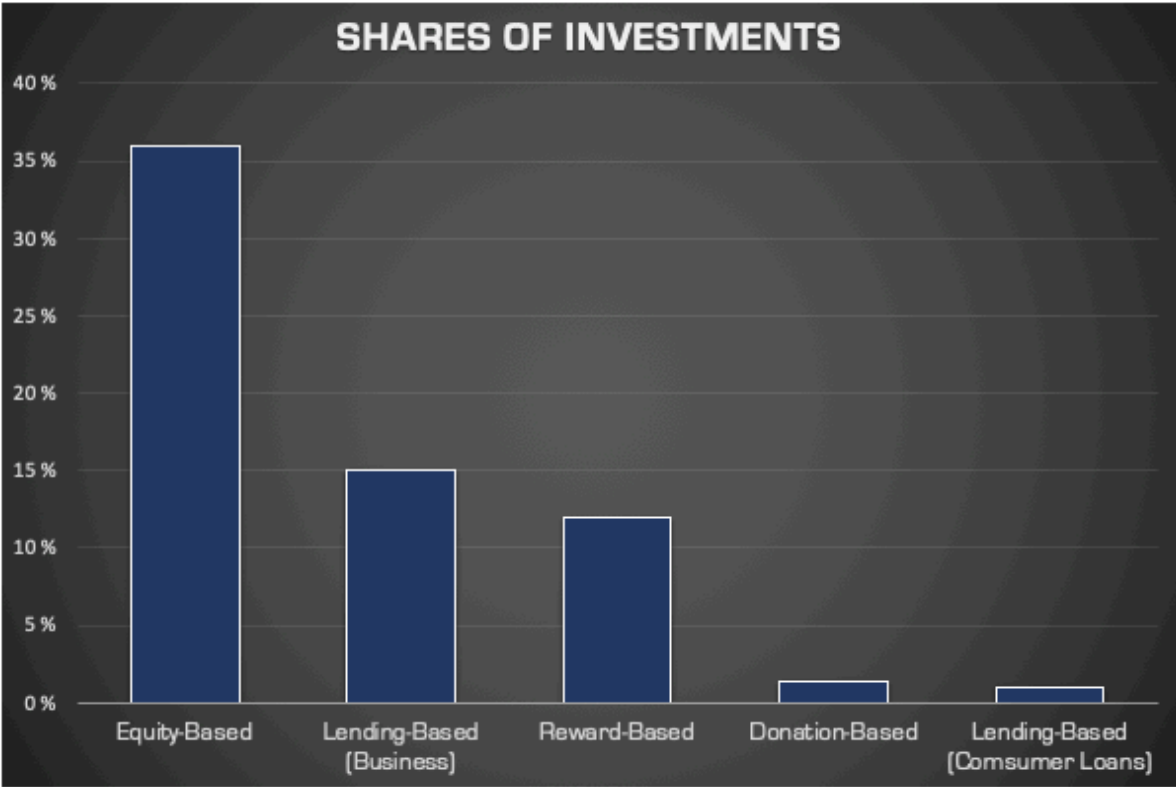


Figure 3.5 Shares of Investments the in First Half of 2018 (NTNU Accel, 2018).

Dr. Rotem Shneor, Associate Professor at University of Agder Business School, has researched crowdfunding in Norway. His main theory to why Norway is behind the other countries in

Europe when it comes to crowdfunding, is first and foremost the existence of regulatory obstacles (NTNU Accel, 2018). The regulations in Norway has not followed the development in other countries, and Shneor claims that Norway should follow examples from the UK, Finland and Denmark.

3.2.1 Regulation of Crowdfunding in Norway

The four main forms of crowdfunding involve various transactions, each of which raises various legal issues both for the platform, the project creator and the investor (Fiskvoll, 2018). According to the EU Commission's report "Crowdfunding in the EU Capital Market Union" published on May 3, 2016, the EU Commission concluded that since crowdfunding was mainly of local nature, there was yet no need for a common European legislation. The European commission did however present a proposal for a common European regulation of crowdfunding in March 2018. The result of this proposal is currently unclear. In the absence of a common European regulation, several European countries have national rules concerning financial crowdfunding, including Spain, Germany, the United Kingdom and the Netherlands. In the Nordic countries, Finland is the leading country when it comes to a development of regulations related to crowdfunding (Fiskvoll, 2018).

In Norway, there has been a lack of regulations regarding crowdfunding. On February 1, 2017, the Norwegian Financial Service Authorities (FSA) sent a letter to the Ministry of Finance and concluded that there is no need for specific regulation for crowdfunding platforms, and that the platforms, like other financial actors, must adapt their business to current regulations. Furthermore, the first concessions were granted under observation of the national authorities in 2017 (Garvey et al., 2018). However, in December 2018, the FSA sent a consultation paper to the Ministry of Finance, suggesting a law concerning crowdfunding in Norway (Finanstilsynet, 2018). This proposal advises that all platforms conducting lending-based crowdfunding must have permission, in form of a concession, from the FSA. The proposal also suggests forbidding lending-based crowdfunding involving consumer loans through crowdfunding platforms. Thus, if this consultation paper gets approved it means that the Norwegian platforms PERX, Kredd and Lendonomy have to shut down their businesses (Erichsen, 2019). The FSA also proposed a maximum limit for investments of NOK 500,000 per investor. This limitation on total lending is limited continuously, which means that it is not an annual limitation. Such a regulatory limit can damage the development of the Norwegian crowdfunding market, as it closes the opportunity for bigger investors. Wealthy investors will find it hard to monitor their investments if they are split into pieces of NOK 500,000, and it will also exclude institutional investors like

family offices and funds. Several of the Norwegian crowdfunding companies believe this limit is far too low and suggest a limit between NOK 5-10 million (Weldeghebriel, 2019).

The consultation paper also suggests that there should no longer be allowed to pursue funding conducted by a ‘crowd’ of investors. Thus, there should only be one lender per loan. The reason for this limitation, is based on the speculation if disseminating such loans requires a sort of concession. Dissemination of loans is generally regarded as a Financial Institution activity, cf. §2-1, second paragraph, letter (b) of the Financial Undertakings Act, but is exempt from the concession requirement if certain conditions and assumptions are met. However, a firm that exclusively operates within the acquisition of a loan or guarantee for a loan, is basically exempt from the obligation to obtain a concession, cf. §2-18 first paragraph of the Financial Undertakings Act. A loan intermediation company must send a notification to the FSA before the company can conduct business (Fiskvoll, 2018). The company must, together with the notification, send an operating plan describing the planned business, including a description of any online platform used in the business.

Based on the lack of regulation of crowdfunding in Norway, a number of misunderstandings have arisen because it is difficult for platforms to say whether they operate in gray areas of the law or not. There are examples of Norwegian platforms, like Folkeinvest and Kameo, that was forced to shut down their business due to the lack of concession in 2018 (Hopland, 2018; Lund 2018). In addition, it is assumed that it will take time before a common EU regulation will be completed and implemented in Norway. Currently, the regulation of crowdfunding platforms in Norway thus varies and depends on the business model, the facilities on loan brokerage, settlement, risk model and credit model (Monner, 2019e). It will be important to fix the regulation of crowdfunding for the Norwegian market because research in other countries shows that the regulation has the greatest effect on market growth (Weldeghebriel, 2019).

3.2.2 Norway-Specific Platform Risks

Garvey et al. (2018) presented the 3rd European Alternative Finance Industry Report where they presented collected data from various Norwegian crowdfunding platforms. The platforms rated their perception of risk, which is illustrated in Figure 3.6. In 2019, Hao et al. (2019) presented the 4th Alternative Finance Industry Report, with the same platform risk factors. These are illustrated in Figure 3.7. The figures thus show the same risk factors rated by the same platforms, but respectively for different years, 2018 and 2019.

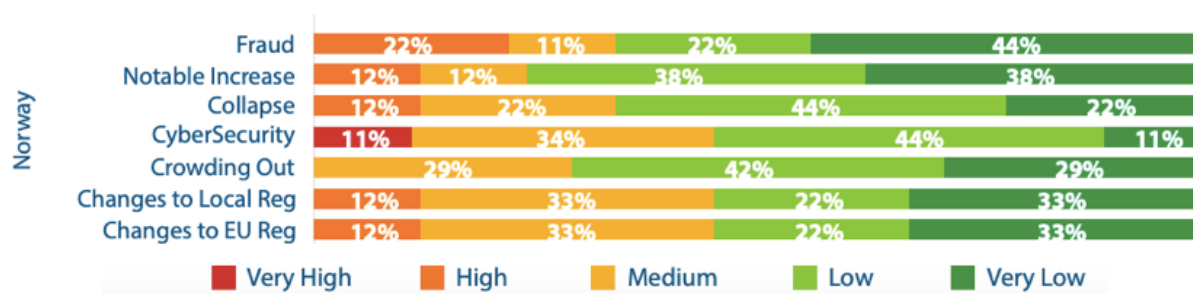


Figure 3.6 Risk Factors for Platforms – Norway (Garvey et al., 2018).

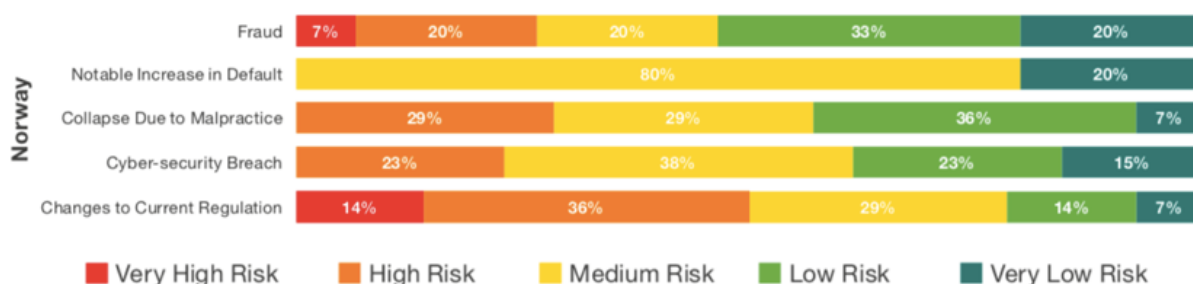


Figure 3.7 Risk Factors for Platforms – Norway (Hao et al., 2019).

From Figure 3.6, we see that the risk of ‘fraud involving high profile platforms’, which is exclusively associated with investment models of alternative finance such as debt and equity, was perceived as “high risk” by 22% of platforms in Norway in 2018. The risk of ‘notable increase in default and business failure rates’ and ‘the risk of collapse of one or more platforms due to malpractice’ was perceived as a “high risk” by 12% of the platforms. The report explains that the risk of notable increase in default is common in young industries, where the users are extra sensitive to bad news (Garvey et al., 2018). Furthermore, changes in local and EU regulation and cybersecurity was perceived as a “high” or “medium” risk by 45% of the platforms.

As we can see from Figure 3.7, the picture changes a bit from 2018 to 2019. The highest perceived risk in 2019 was changes to current regulation. This can be explained by the proposals presented in 2018, which can damage the crowdfunding market in Norway, as explained in section 3.2.1. Furthermore, fraud was perceived as a “high” or “very high” risk by 27% of the platforms. The perceived risk of ‘notable increase in default’ also changed from “very high” and “high” risk in 2018 to “medium” risk in 2019. In addition, it is interesting to see that Norwegian platforms perceive the risk of ‘cybersecurity breach’ as the only risk factor with

“very high” risk in 2018 (Garvey et al., 2018). In 2019, they still perceived it as “high risk”, but the other risk factors are perceived as riskier (Hao et al., 2019).

4 | METHODOLOGY

This chapter illustrates and justifies our methodological approach and the choices we have made in order to answer the research question. The chapter intends to describe how our data was collected and processed, as well as an analysis upon the research quality, including the validity, reliability and generality of our results.

4.1 RESEARCH APPROACH

In this thesis, we have used a mixed method research design that involves a triangulation of a qualitative and quantitative approach. The triangulation of the research approach is beneficial to this study because of the limited number of investors in Norway. Due to the geographical distance between investors and the lack of information about the investors in Norway, we were not able to reach out to a large number of investors to interview. We therefore used a survey to complement our study, which we posted on social media to reach more people. Kelle and Erzberger (2004) explains that the parallel use of the qualitative and quantitative approach in a common research design can have three different outcomes; (1) results may converge, (2) results may be complementary or (3) results may diverge. Our goal was to see if the results from our quantitative approach would converge or diverge from the results of the qualitative approach in order to determine the quality of our findings. Initially, we therefore conducted semi-structured interviews with investors before we collected additional quantitative data with the use of a survey.

In this study, our main focus remains on the qualitative approach because of the lack of existing literature on crowdfunding in Norway. Tjora (2012) describes the qualitative approach as an approach that emphasizes understanding over describing a phenomenon, data in form of text rather than numbers and an inductive over a deductive process. Kvale and Brinkmann (2009) also describes that the qualitative research approach is suitable when collecting data on human perceptions. These descriptions prove that the qualitative approach is the most appropriate methodology to use for our data collection and analysis, because we are looking to assess who the investors of the Norwegian crowdfunding market are, and how they perceive the market as an investment opportunity. Another reason for our focus on a qualitative approach is that the market in Norway currently is in the initial phase. Thus, collecting sufficient quantitative data about this new market could be very challenging. Furthermore, in order to answer the developed

research question, we are in need of a research approach that provides us with a detailed insight. The structure of the overall research design of this thesis is illustrated in Figure 4.1 below.

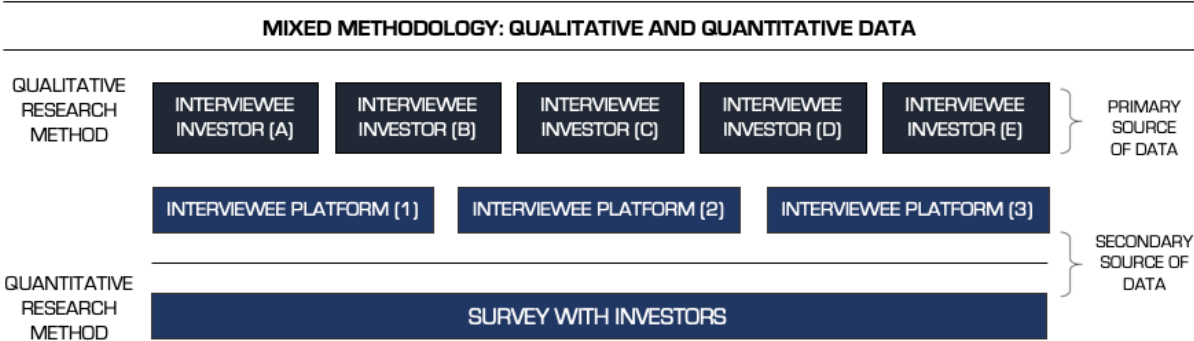


Figure 4.1 Methodical Research Design.

4.1.2 Choice of Research Design

The research design may be described as the means of achieving the goals of the research (Flick, 2004). There are three different research designs; explorative, descriptive and causal (Gripsrud et al., 2010). Our research question was intentionally developed as explorative because we want to investigate and uncover who the investors in crowdfunding are and how they perceive crowdfunding. An explorative design is known to create insights and understanding, but the design also requires literature studies and use of secondary data (Gripsrud et al., 2010). To understand and interpret how the investors perceive crowdfunding as an investment opportunity, we collected data by conducting semi-structured interviews with five different investors. These types of interviews are known to be beneficial when the goal is to gain knowledge about personal experience and opinions of interest about the topic (Gripsrud et al., 2010). We chose to do the semi-structured interviews because it allows the respondents to point out themselves what they consider to be of importance, which gives us the opportunity to have an open-minded approach to data collection and analysis. This is in line with the explorative design, which is often relatively unstructured, and the result depends on the quality of the respondent’s contribution.

Furthermore, on the basis that we are studying the investors in equity-based and lending-based crowdfunding, we found the multiple case study as the most appropriate design to fulfil the purpose of the study. The case study is known to be suitable when the research question either asks “how” or “why” (Tjora, 2012). In line with this description, this thesis has a clear aim to explore how we can categorize the investors of the crowdfunding market and their perception.

We expect that the investors in this market are likely to perceive crowdfunding differently. Thus, the case study can be defined as a multiple case study, as the goal is not to analyze one specific investor. Instead, the goal is to find several reasons behind investing in crowdfunding and look for patterns that may be further developed into theories or models.

4.2 DATA AND DATA SOURCES

As mentioned in our introduction chapter, the research question is limited to the investors in Norway. Furthermore, our research question only deals with the investors in equity-based and lending-based crowdfunding, where they are more likely to have a financial motivation behind their investments. The data was collected through multiple channels and through multiple stages. The channels for data collection were mainly interviews, but also e-mails, phone conversations with professionals and a survey. The process of collecting data can be divided into three stages, as shown in Figure 4.2.

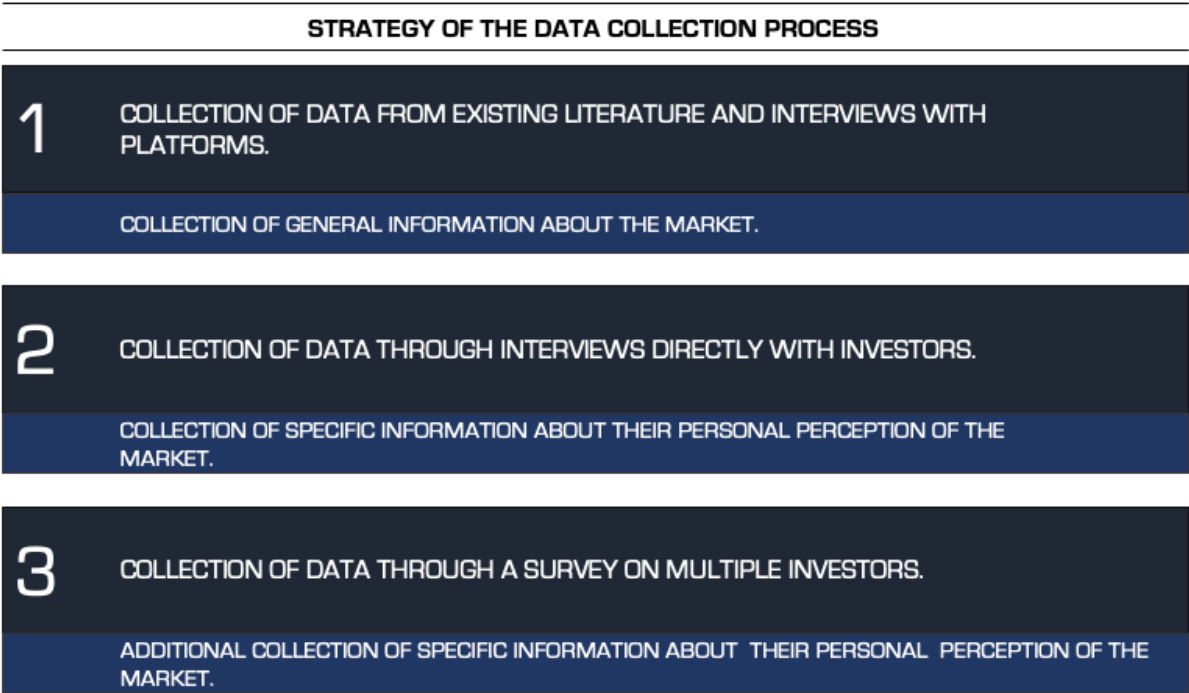


Figure 4.2 The Strategy of the Data Collection Process.

- (1) In the first stage, we collected data from existing literature and through interviews with relevant employees of various Norwegian platforms. The latter was done by interviewing employees in one equity-based and two lending-based platforms. The interviews with the two lending-based platforms were done over the phone.
- (2) In the second stage, we collected data from interviews with five different investors, who we will present more detailed in section 4.2.2. These data are this study's primary source of data. Three of the investors were interviewed over the phone, while the remaining two investors were interviewed in person.
- (3) Lastly, in the third stage, we tried to confirm or contradict the collected data that we gathered in the second stage with the use of a survey. Both the interviews in stage two and the survey in stage three covered the same theoretical topics.

4.2.1 Selection of Cases

Tjora (2012) explains that a case study is beneficial to study a phenomenon that has clear limits of who the study includes and excludes. In order to collect the relevant data necessary to answer the research question of this study, we defined clear limits of criteria for the cases:

- The investor has invested in either equity-based or lending-based crowdfunding.
- The investor has invested in Norwegian crowdfunding.
- As private investors stand for about 90% of the Norwegian market, the investor must have invested as a private person and not through a company, where multiple people may affect the investment decisions.

4.2.2 Interviews

Our primary qualitative data was collected through interviews with relevant investors of both equity-based and lending-based crowdfunding. In addition, we interviewed relevant employees of different crowdfunding platforms in Norway to get insights about their perception of the investors. The platform interviews represent our secondary data source and they contributed to a better understanding of the market and their business models. As mentioned earlier, the interviews we performed were semi-structured, which Jacobsen (2015) referred to as the open individual interview. Because our research question has an explorative character, semi-

structured interviews provided us with the individuals' own interpretation of the phenomenon. These types of interviews also allowed the respondent to present other relevant factors that may benefit our research. However, we were still able to control the interviewees if they moved far away from the topic. The process of collecting qualitative data can be illustrated by Figure 4.1 earlier in this chapter.

Introduction to the Platforms

We interviewed one equity-based crowdfunding platform, Folkeinvest, and two lending-based crowdfunding platforms, FundingPartner and Kameo.

Folkeinvest is a Norwegian-based crowdfunding platform that provides a self-service tool for companies that wants to issue shares on their own, as well as an opportunity for everyone to invest in start-up companies. The tool is an online tool offered to Norwegian companies that needs less than NOK 8 million in funding and have an overall value less than NOK 50 million at the time of the issue (Folkeinvest, 2019). In order to publish an investment-offer on the platform, the issuing company have to present required information to the investors. However, it is up to the company and the investors themselves to ensure that the information is correct, as this is not done by Folkeinvest or any third party. Folkeinvest was founded in 2015, but most of the operation did not start until 2017, when Øyvind Fries was hired as the CEO. The existence of the online platform has resulted in 18 start-ups gaining capital at the total amount of NOK 33 million. In December 2018, Folkeinvest received an order to stop the operations from the Norwegian FSA due to the lack of concession. The Norwegian authorities claimed that they operated as a 'facilitator', and thus needed a concession. They are currently applying for the concession, while they are monitoring the development of the Norwegian crowdfunding regulations (Folkeinvest, 2019).

FundingPartner is a Norwegian crowdfunding platform that operates within lending-based crowdfunding. The company have a concession as a 'loan intermediary' and they connect companies that needs loans and private persons or firms who wants to lend out money. The minimum investment amount is NOK 1,000, and the return varies from 5% to 20% depending on the risk involved. The company was founded in 2016, but they did not officially start with lending before the September 11, 2018. In addition to the role as a 'loan intermediary', they also handle the payments between lenders and borrowers. However, FundingPartner does not have any role in the loans. They only facilitate that the loan is provided and that the transactions

are made in the safest possible way. The different borrowers are carefully selected and thoroughly analyzed by FundingPartner's own analysis team, who also propose a proper interest rate (FundingPartner, 2019b).

Kameo is a lending-based crowdfunding platform that operates both in Norway, Sweden and Denmark. The company take care of the administration of the loan, creates the legal documents required and perform risk analysis of all projects before they are published on the platform (Kameo, 2019d). The minimum investment amount is NOK 500, and the return varies from 4,9% to 12,6%, depending on the risk involved. Kameo was founded in 2014 and the company was provided with a Danish concession in 2016. The company also operates in Sweden and Norway through branch offices. Both private persons and companies can invest directly in loans for real estate projects or small companies through Kameo. The first loan in Norway was published in May 2017. However, Kameo was shut down by the Norwegian FSA in May, 2018, because they had not adapted to the current Norwegian rules (Hopland, 2018). However, they are expected to relaunch their platform again very soon.

Platform Interviews

The summary of information about the interviewed employees of the platforms are illustrated in Table 1. At first, we sent an e-mail to four of the most known platforms in Norway (Appendix 1), where we presented our master thesis and explained what we wanted to achieve with our research. We got answers from every one of them, but we were only invited to conduct an interview from three of the platforms.

NAME	POSITION	PLATFORM NAME	CROWDFUNDING TYPE
Elise Landsem Øyvind Fries	CMO CEO	Folkeinvest	Equity-based
Jørund Gjesvik	CMO	FundingPartner	Lending-based
Sebastian Harung	CEO/ Co-founder	Kameo Norge	Lending-based

Table 1: Interviewee's Background Information.

The purpose of the interviews was to gain general and valuable knowledge about the market, their business models, the project creators and the Norwegian regulations. We also wanted to understand how each platform perceived the investors. The data collected from these interviews helped us develop useful insights that resulted in an effective development of good questions for our main interviews with the investors. The interviews were semi-structured, where we had defined some questions in advance about certain subject that we found necessary to address. However, the interviews were characterized as open and we let them provide us with all of the information they considered of importance for our research.

The duration of the interviews was between 35 and 80 minutes, depending on the information given from each interviewee and the number of follow-up questions. The difference in duration is often seen when using semi-structured interviews with open questions, enabling the respondent to speak freely (Kvale and Brinkmann, 2009). The interviews were recorded with the approval of each interviewee, which ensured that we collected all of the data needed. Each interview was transcribed afterwards with the use of the recordings.

Investor Interviews

It was not an easy task to get in touch with relevant Norwegian investors of crowdfunding to interview. This is because of several factors. First of all, the market in Norway is in the initial phase, which means that the volume of investors is relatively small. Many Norwegians are not aware of the market or the concept at all. In addition, the various Norwegian platforms are affected by privacy regulations, which means that they could not provide us with any personal information about the investors.

In total, we got in contact with five investors of equity-based and lending-based crowdfunding. The interviewees were recruited through multiple channels. We got the contact information of one investor with help from Jørund Gjesvik in FundingPartner. He knew the investor and asked him in advance if he were interested in participating in an interview with us. The other interviewees were recruited through social media. We posted a request in a Facebook-group called “Nordic crowdfunding” and on Kameo’s Norwegian Facebook-page (Appendix 5). In addition, we posted a request on our own LinkedIn profiles. We were then contacted by three investors through e-mail and agreed on time and place for the interviews. The two remaining investors contacted us directly through Facebook and LinkedIn. Table 2 shows the background information and the experience of the investors, which we have called Investor [A], [B], [C], [D] and [E].

INVESTOR	GENDER	PROFESSION	CROWDFUNDING TYPE	NUMBER OF INVESTMENTS
[A]	Male	IT-Consultant	Lending-based	30 loans
[B]	Male	IT-Consultant	Equity-based Lending-based	4 companies 5 loans
[C]	Male	Teacher	Equity-based	4 companies
[D]	Male	Branding	Lending-based	7 loans
[E]	Male	Business Development	Equity-based	2 companies

Table 2: Interviewee's Background Information and Experience.

We knew from our interviews with the three different platforms that most of the investors of the Norwegian crowdfunding market were non-professional private persons. Therefore, our interviewees are intentionally private persons. Furthermore, we were unfortunately not able to reach out to female investors, as the market is dominated by males.

The purpose of the investor interviews was to gain in-depth information about how they perceived crowdfunding as an investment opportunity, including the perceived risk. We also wanted to gain detailed information about their total investment portfolio and how crowdfunding fits into it, supplemented by investment amount, strategies, motivation and gained return. To the best of our knowledge, there are no previous research on this subject in Norway. Thus, we had no pre-knowledge about what the investors would weight as important factors in the interview. The semi-structured interviews helped us focus on different subjects that the interviewees themselves found relevant, which depended on the information provided. We followed an interview guide (Appendix 6) through the interviews that helped us focus on specific topics that we specifically needed answers to. However, we emphasized that the

respondents would be able to talk freely about their personal perception of crowdfunding as an investment opportunity.

The interviews were built up with opening questions that addressed their experience with investing in crowdfunding, before we moved on to the main questions that focused on strategies, portfolios, risk and regulation. As Tjora (2012) explains, the quality of the interview is dependent on the trust between the researcher and the respondent. Kvale and Brinkmann (2009) also explained that valuable information is often given as the interview is “officially over” and when the respondent feels more relaxed. Therefore, the questions that involved sensitive and private information was intentionally saved to the closing questions. These questions included the amount invested and personal relations to project creators. We therefore took our time to create an open conversation and build trust before we asked questions that would provide us with sensitive information. All of our interviewees gave us the information we requested, and we did not experience any resistance or obvious withholding of information.

Three of the interviews were conducted over the phone, while two of them were conducted face-to-face. The interviews had a duration between 23 to 60 minutes, depending on the information provided by the respondent. All of the interviews were conducted by the two of us, and we split the roles twofold in every interview; one of us had the role of asking the questions, while the other took notes and asked follow-up questions if necessary. We felt that the roles made us more observant, safe and in the moment with the respondent. To make sure that we collected all of the data, we used a tape recorder during the interviews with the approval of each interviewee. When we finished the interviews, we made sure that they understood how we would process the data. We assured them that we would let them know if we wanted to quote them in the thesis and that they had the opportunity to change or redo the quotes later on.

4.2.3 Survey

Creating the Survey

In order to create the survey, we used Survio, which is an online program that enabled us to share the survey with an online link. We were also able to design the layout and the order of questions. With the survey, we expected to get more respondents than those we interviewed because it took only a few minutes to answer it. We posted the survey in a Facebook group called “Nordic Crowdfunding”, in addition to sharing the link on our LinkedIn profiles. The survey included a total of 38 questions that all included options of answers. Some of the questions included ranging different factors with a scale from 1-5, where one was “not important” and five was “very important”. The overall survey with the respondents’ answers may be found in Appendix 7.

Responses to the Survey

In total, 25 investors responded to the survey. All of these were considered highly relevant to our study as all of the questions was answered by every one of them and included valuable information. In line with the selection of the interviewed investors, we asked if the investors that answered the survey had privately invested in either equity-based or lending-based crowdfunding through one or several Norwegian platforms.

4.3 DATA ANALYSIS

Johannessen et al. (2011) explains that the analysis of qualitative data can be challenging because of the huge amount of unstructured data material, often in form of text. In this study, our basis for the analysis were mainly notes and prints of the transcription from the different interviews. It may be overwhelming to face a comprehensive text material, and it is not easy to get an overview of all the information (Johannessen et al., 2011). We therefore started out with reducing and systemizing the material in order to analyze the data without losing important information. We used a cross-sectional and category-based classification of data, which Johannessen et al. (2011) explains as a system that labels important sentences and sections. The data material was thus split into different categories that makes it easier to find information about certain subjects later on. We coded all of the interviews into different categories using Nvivo. As a result of the coding, we developed a better overview of the overall material.

At the beginning of the analysis, we coded the data material from the platform interviews into four different categories. These categories were “information about investors”, “investor risk”,

“information about project creators” and “Norwegian regulations”. Furthermore, when coding the investor interviews, the categories were first divided in a large number of categories. In total, we developed 17 different codes. This because we wanted to make sure that we did not lose any relevant information. For example, when one interviewee stated that “I think the Norwegian crowdfunding market is going to grow much over the next years”, and another one said that “I think the Norwegian market have the potential of growing as big as in other European countries”, we coded these sentences as “Statements about the Norwegian crowdfunding market”. After working with the different codes, we observed that some of the categories were to narrow and therefore not used as much as others. As a result, we further recategorized them into more beneficial subjects for our analysis. We still kept the 17 different codes, but we categorized them in five overall categories. The result of the recategorizing is illustrated in Figure 4.3.

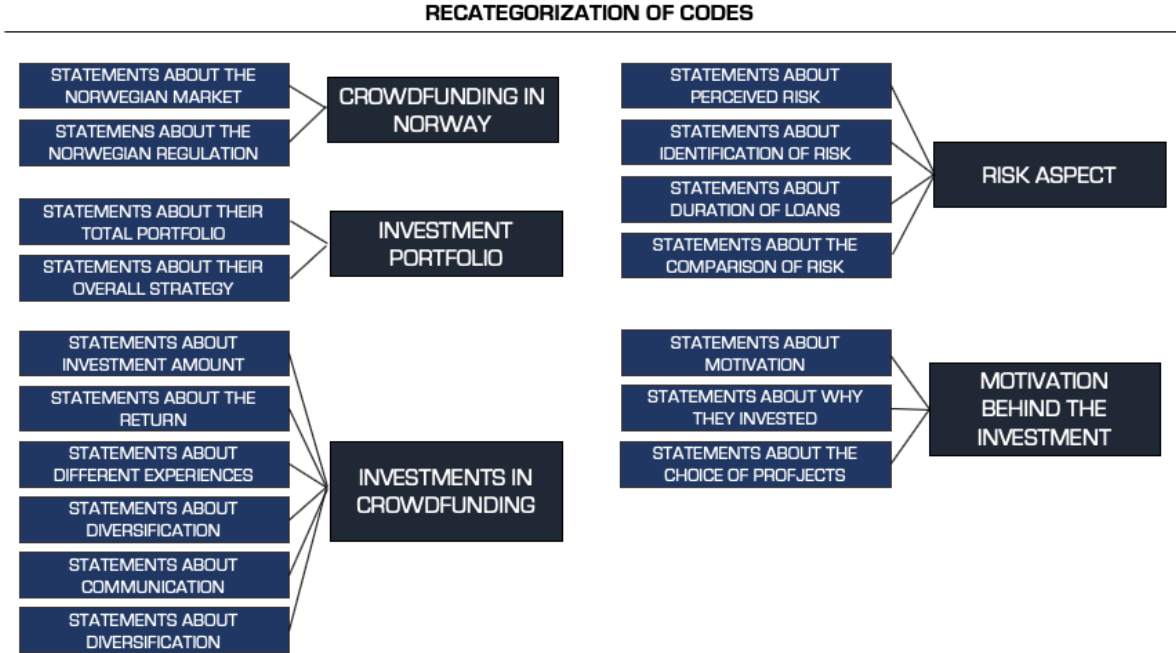


Figure 4.3: Recategorization of the developed codes.

Thus, the five overall categories of the data material from the investor interviews is “Crowdfunding in Norway”, “Investment portfolio”, “Investments in crowdfunding”, “Risk aspect”, and “Motivation behind the investments”. After analyzing both the individual and the overall categories, we linked our finding with the existing literature.

Furthermore, we used Survio to analyze the results of the survey. Here we were able to see an analysis that included statistics from all of the respondents, in addition to individual answers.

We used the overall statistics to get a good overview of the results. Furthermore, we linked the results from the survey up against the findings from the investor interviews. Since the results from the survey were our secondary data source, we did not conduct any advanced analysis that included statistical significance of the data. The results of the survey will be presented together with the findings from our investor interviews in Chapter 5.

4.4 RESEARCH QUALITY

In this section, we will address the quality of the data material and the quality of the overall research. The quality of the qualitative research is often measured by the reliability and different forms of validity (Johannessen et al., 2011). In line with Tjora (2012), we will use the variables; reliability, validity, generalizability to measure this thesis' quality.

4.4.1 Reliability

The reliability of the research is related to the accuracy of the collected data, what data is used, and how the data is collected and analyzed (Johannessen et al., 2011). Tjora (2012) also mentions the importance of having neutral and objective observers so that the data correlates with the reality and is not affected by the researcher's engagement. We therefore reflected a lot upon our current knowledge and how our engagement could affect the selection of respondents, the data collection process and our analysis. As we interviewed all of the investors that contacted us, we felt that we obtained a neutral position throughout our research. Furthermore, Tjora (2012) highlights the importance of using audio recordings during the interviews so that the data presented is in line with what they told us. We used recordings to transcribe all of our conducted interviews and the quotes are therefore reproduced correctly.

A well-known question to use for testing the reliability in qualitative studies are; "would the results be the same if another researcher did the same job?" (Tjora, 2012). This is very difficult to achieve as our results are unique and they depend on each interviewee's perception of the crowdfunding market. If we interviewed another selection of respondents, the results could be divergent because of their different background, experience and beliefs.

4.4.2 Validity

Validity can be defined as the extent of which our findings actually answer the research question (Tjora, 2012). We find that our methodical choice regarding the use of both a qualitative and a quantitative approach strengthens the study's validity. We highly believe our results is solid because of the collected data from our interviews and the fact that we collected additional data from a survey where the results either confirmed or diverged from our findings. In addition, we sent out an e-mail to all of our interviewees for a quote check so that the respondents were able to either confirm or change the provided information. Some minor changes were done due to feedback from the investors. We are confident that the collected information provides a valid description of their perception of the crowdfunding market.

4.4.3 Generalization

The last variable to control for our research quality is generalization. Tjora (2012) explains that generalization is either an explicit or implicit goal of every research project. However, when it comes to qualitative research, we need to understand the term generalization differently. The goal of our research is not to generalize our findings on to every investor in the crowdfunding market, but instead to find different concepts, typologies or theories that could be relevant for understanding how this new market is perceived. This is what Tjora (2012) calls conceptual generalization. This form of generalization looks at the perception of crowdfunding more generally in order to find results that captures key features of the information collected.

5 | EMPIRICAL FINDINGS

This chapter presents the data acquired both through the qualitative and the quantitative method. The first sections will present the collected data from the platform interviews, including information about the investors registered on their platform, the platform's perception of the investors in crowdfunding and their perception of investor risk. Furthermore, the chapter presents the data acquired from the investor interviews and the survey. We have created five main categories from these data; the investors' perception of crowdfunding in Norway, their investment portfolios, their motivation, characteristics about their investments in crowdfunding and their risk profile.

5.1 FINDINGS FROM PLATFORM INTERVIEWS

In this section, we will present the information about what type of investors that has registered themselves on the various platforms and address how the platforms perceived the investors. We will also present what the different platforms do to identify and communicate the risk to investors.

5.1.1 Who are the Investors?

As mentioned earlier, private persons dominate the investor-side of crowdfunding in Norway. As shown in Figure 5.1, 85% of the registered investors are private persons both on Folkeinvest and Kameo. Øyvind Fries from Folkeinvest specified that other Norwegian platforms that operates within equity-based crowdfunding probably had a bigger share of companies in their distribution of investors. On FundingPartner's platform, even more investors are individual actors; 93% are private persons, while 7% accounts for companies.

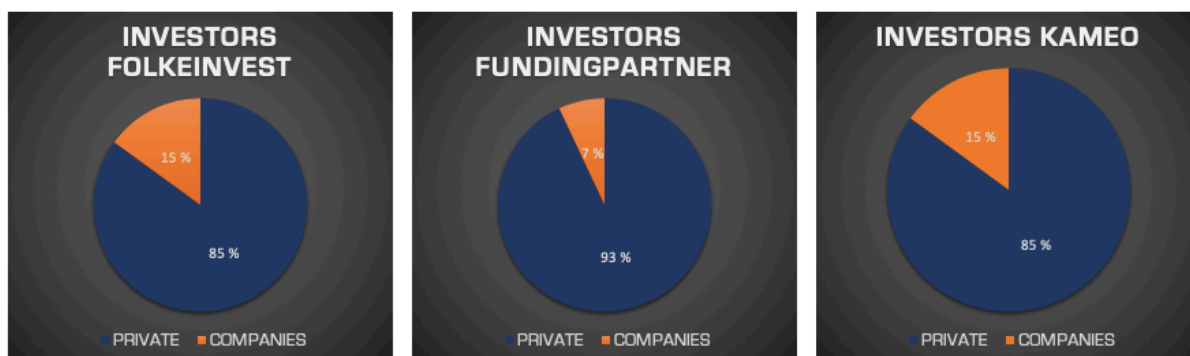


Figure 5.1: Allocation of Private Persons and Corporate Investors.

Furthermore, the private persons are often males. Øyvind Fries from Folkeinvest explained in the interview that about 70% of the private persons registered on their platform were males, while 20% of the investors were females. Sebastian Harung from Kameo further explained that among 80% of the registered investors on Kameo were males in the age between 35 and 50. The last platform, FundingPartner, did not have statistics on the investors' gender.

5.1.2 Perception about the Investors

When we asked questions about their perceptions on why people considered crowdfunding to be an attractive investment opportunity, we got various answers. Here, we find it necessary to divide their perception about investors in equity-based from lending-based crowdfunding.

Equity-Based Crowdfunding

Øyvind Fries from Folkeinvest explained that it depends on who you are talking to and that the motivation can be related to the amount invested;

“I think it depends on who you are talking to. I also believe that the motivation is related to the amount invested. If you look at the investors that have invested over NOK 10,000, it is more likely that they have invested because they are interested in a financial return. But if you ask the investors that have invested less than NOK 10,000, it is more of a support-investment. That they support the idea and throw in NOK 1,000 or more. But of course, there may be deviations that do not confirm this rule.”

He further elaborated that investing in equity-based crowdfunding can be described as a lottery ticket;

“Some buys the entire ticket book, while others buy a single ticket. Previously, the investors in start-ups often invested with the help of their own network, or they needed some type of access. It therefore excluded a huge number of investors. Equity-based crowdfunding is also characterized with high risk. Thus, people should be able to diversify their investments in multiple cases, which they now are able to through the online platforms.”

The most popular amount invested on Folkeinvest were NOK 1,100 to 1,200, and about 2/3 of the investors invests these small amounts. Only 1/3 of the investors invests big amounts, but they again stand for 2/3 of the total investments. Øyvind Fries further commented that;

“I think that symbolizes how people actually perceive NOK 1,100 to 1,200. They think of it as a smaller amount of money. Mostly it can give you an expensive dinner. People therefore do not take the time or feel the need to read a lot about the projects, they just throw a little money after it. (...) However, the average amount invested on our platform is about NOK 15,000 to 20,000.”

Thus, although the most popular investment amount is very small, some of the investors are willing to invest a great amount into the different projects. Folkeinvest had only experienced one default before they were shut down, and that project had collected NOK 600,000. However, they did not receive any complaints about the default. Øyvind Fries explained that this is because they believe that every investor understands that equity-based crowdfunding is a high-risk investment.

Lending-Based Crowdfunding

Sebastian Harung from Kameo described that there also is a variety of investors in lending-based crowdfunding. This is mainly because the market is open for everyone. The investors can both be interested in a financial return, but also find themselves appealed by the new and exciting investment opportunity. He further explains that their dream client can be described as;

“A charming guy that invests NOK 500 in each loan and get NOK 30 in return one month and are super happy about that. He has never been able to invest in start-ups before. This is the brilliant part of crowdfunding; everybody can join.”.

Jørund Gjesvik from FundingPartner also believes that they hit a nerve in the market that opens up for new investors;

“For example, in fixed income investments, it is difficult for smaller investors because the minimum amount is often NOK 1,000,000 per bond. FundingPartner has a minimum investment amount of NOK 1,000, which opens a new market for investments for smaller investors. It is a simple entry into a market that has previously been reserved for wealthier people.”.

All of the interviewees from the various platforms agreed that one of the reasons behind the growth in Norway is that the market provides a new and exciting investment opportunity. As Jørund Gjesvik from FundingPartner put it; *“I believe that the investors find it fun to try out the latest products in the market”.* He also said that most of the investors diversify their investment over several projects; *“I think they diversify with among NOK 10,000 to 15,000 in each loan. They have this kind of ‘auto-invest thinking’.”.* Sebastian Harung from Kameo also said that the investors are increasingly diversifying their investments and explained that one of their investors had invested in 60 different loans.

5.1.3 Investor Risk

In this section, we present what each platform does to communicate the investor risk. Øyvind Fries from Folkeinvest expressed that both equity-based and lending-based crowdfunding is characterized with high risk;

“We are talking about a significant risk of losing money, but there is also a very high potential upside. The loans are basically too risky for the banks. And should we expose the people for this risk? However, what we see from the UK statistics, is that the repayment rate of crowdfunded loans is higher compared to the banks. This is because a network has lent you money, and they feel a bigger responsibility to settle the loans.

(..)

When investing in equity-based crowdfunding, you also risk losing your invested money. There are a number of companies that don't succeed. But the beauty of equity-based crowdfunding is the upside. It is not limited to a specific interest rate, but you get the whole upside with investing in the shares. (...) Equity based crowdfunding is categorized as a high-risk class when it comes to investments. It is a gamble. This means that the best and wisest investor still exposes himself for the opportunity of losing all his invested capital."

Øyvind Fries and Elise Landsem both believe that Folkeinvest are reducing the investor risk by having mandatory fields that needs to be filled out by the project creators. Therefore, the risk of being misinformed or under-informed is highly reduced compared to the unregulated state of the early risk capital market today. Generally, they focus on informing the investors that all of the investments involve a considerable risk, which they highlight on their platform.

Jørund Gjesvik from FundingPartner also explained that they focus on communicating the investor risk. They do an evaluation that is based on their own credit model, which provides the investors with a type of security. They are open about the risk factors involved in each project and they do not let 'anybody' in. As Jørund put it; *"Only 1% of the companies that applies for loans, get loans"*. Their ultimate goal is that every investor should be aware of the risk involved with the projects they invest in. Sebastian Harung from Kameo also said that the investor risk is a huge priority;

"We do a lot of work before we post the projects on our platform. We collect external credit reports, we do a lot of analysis, in addition to a valuation of the real estate. A lot of the information is collected online, but we also have consultants that goes out and check the properties. We also communicate the risk classes of each project, but we emphasize that diversification is very important."

5.2 FINDINGS FROM INVESTOR INTERVIEWS

At first, this section introduces how the different investors perceive the Norwegian crowdfunding market, including the reason behind its low growth compared to other countries, the regulation of the market and opinions about the future. Furthermore, we present the investors overall portfolios, in addition to their investment strategies. We will further address

their motivation behind the investments before we go into detail about the characteristics of their investments in crowdfunding. At the end, we will present their perception of the risk associated with investing in crowdfunding.

5.2.1 Perceptions about Crowdfunding in Norway

During our interviews, we asked the investors about their perception of the Norwegian crowdfunding market, including their opinion about the low growth in Norway compared to other European countries.

Reason Behind the Relatively Low Growth in Norway

Most of the interviewees agreed that investments in crowdfunding is a relatively new phenomenon. Thus, potential investors may not be aware of crowdfunding or that it represents an alternative investment opportunity. For example, Investor [A] commented;

“The platforms have only been available for about a year. But eventually, the market has grown when people understand it and experience that these are easy to use services, and there are no hidden risks”.

Investor [B] also commented; *“I think that... First of all, the market is quite new. So, I think that the majority of the population have no idea that it is an alternative”.* He further elaborated that another reason can be because Norwegians are generally too scared to jump into new opportunities;

“We are struggling to get people to invest in global index funds, which actually is the most boring and safe investment. Although that should be a ‘no brainer’, it seems like a little heavy for Norwegians to get it right. So, I think most people put the money that they don’t spend in the bank.”

Additionally, Investor [A] stated that the low growth can be explained by Norwegian platforms being shut down by the FSA due to lack of concession. This can result in additional skepticism among people to this new and upcoming market. Investor [D] also commented on the skepticism of crowdfunding and admitted that he had seen news stories about some platforms that looked ‘shady’. Thus, he did not trust all of the platforms. Although, he further admitted

that he had little knowledge about other platforms than the ones he had invested from. However, this indicates that potential investors may prejudge the market because it is new and unknown.

Investor [A] also mentioned that the Norwegian authorities were slow with providing a set of rules for the market, which definitely can be a factor that explains the relatively low growth in Norway. On the other hand, Investor [E] perceived the crowdfunding market as the highest growing market regarding start-ups in Norway, but he agreed that the market size is relatively small. He stated that; *“We have had the oil to lean on for quite some time”*. However, he further elaborated that it looks like the Norwegian government now understands that we need to focus on other resources that we can rely on in the future.

Based on the interviewed investors answers, we developed four statements in our survey that the investors could rank from “most important” to “less important” on a scale from 1 to 5, where 5 represented the most important reason. The average score per statement are presented in Figure 5.2.

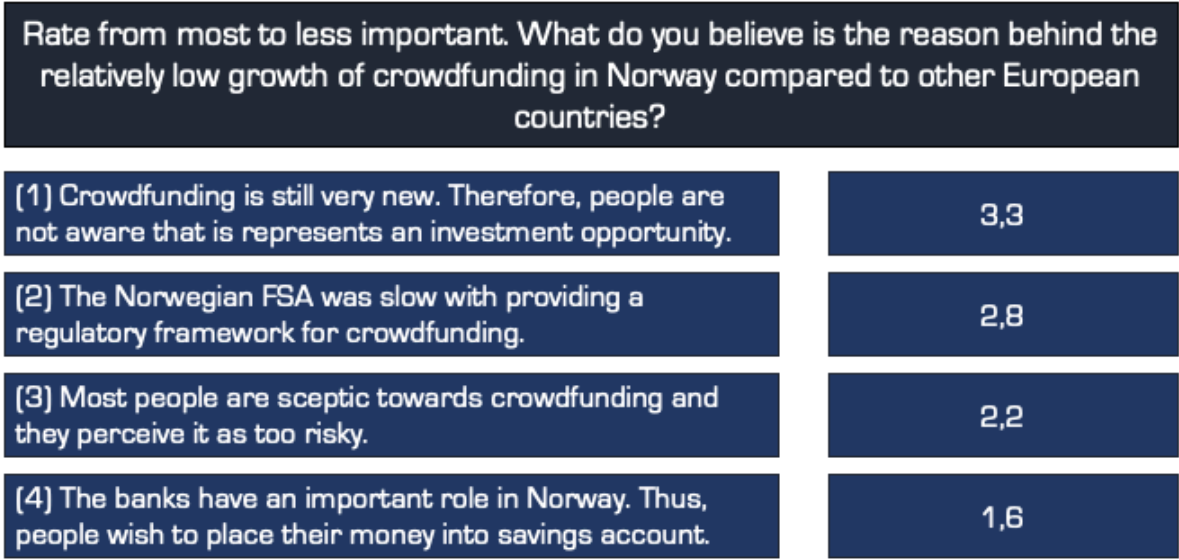


Figure 5.2 Perceptions about the Growth in Norway (From Survey).

The results show that the investors believed that the main reason for the lower growth in Norway is because crowdfunding presents a relatively new investment opportunity. The second most important reason given by the investors was the fact that the FSA was slow with the set of rules for the industry. Thirdly, they ranked that people are sceptic towards crowdfunding and

perceive it as too risky. Ultimately, the important role of banks in Norway was ranked as the less important reason for the low growth.

All of our interviewees agreed about the future of crowdfunding in Norway. They all believed that the market will grow in the coming years. Investor [D] commented; *“Norway are just a few steps behind in the development, and other countries have few years’ head start. But I believe that we will grow to regain the lead in a few years”*. Investor [C] specified; *“I think in a few years’ time. Maybe 5 years. Then there will be potential to be as big as the other countries.”*. In addition, we asked the same question in our survey, where 100% of the respondents agreed that crowdfunding would grow in the coming years. This indicates that there generally is a positivity regarding the future growth of crowdfunding in Norway.

Norwegian Regulations

In the interviews, we also asked questions that involved the regulations in Norway. We wanted to explore what the investors knew about the existing regulations, and if they were aware of the proposals for a new regulatory. Interestingly enough, we found that four out of five investors admitted that they knew very little about the regulations and almost everyone had no knowledge about the proposals. Some of them had noticed that a few of the platforms had been shut down due to lack of concession, but none of them had tried to gain deeper knowledge about the topic.

Investor [A], who had invested in lending-based crowdfunding, felt safe knowing the regulation concerning lending activities in Norway remained strict. On the other hand, he had a different view concerning equity-based crowdfunding:

“(…) If I want to buy shares in a stock issue of a small company, then I am aware that it is a high-risk investment. If I want to do this, it doesn't have to be as strictly regulated. That would make things more difficult and it can potentially be difficult for the companies involved.”

We also found that none of the investors were aware that there existed a maximum limit for investments in crowdfunding. Although this varies between platforms, some of them operates with a maximum limit of NOK 750,000 (Monner, 2019f). When investors reach this limit, the platforms will contact them to make sure that they are not practicing commercial lending activities. This finding may indicate that the investors in the Norwegian crowdfunding market

only to a small degree is aware of the regulatory and rules involved. When we let them know about the maximum limit of several platforms, some of them explained that it may affect the choices they make in the future because they have a limited amount to invest.

5.2.2 The Investment Portfolios

In this section, we will present our findings involving the investors' total investment portfolio. We wanted to find out which products they invested in, and if they had developed an overall strategy for their portfolio. The purpose of these findings was to understand more about each investor's investment patterns.

Investment Portfolios

During our interviews we found that all of the investors interviewed had invested in both stocks and equity funds in parallel with crowdfunding. In addition, Investor [B] had also invested in cryptocurrency, and expressed that this investment was mostly for fun. This indicates that the investors that invest in crowdfunding are experienced with investments. Our findings were also confirmed in our survey, where 92% of the respondents said that they invested in other investment products in parallel with crowdfunding. Figure 5.3 shows the percentage of investors invested in what other product in parallel.

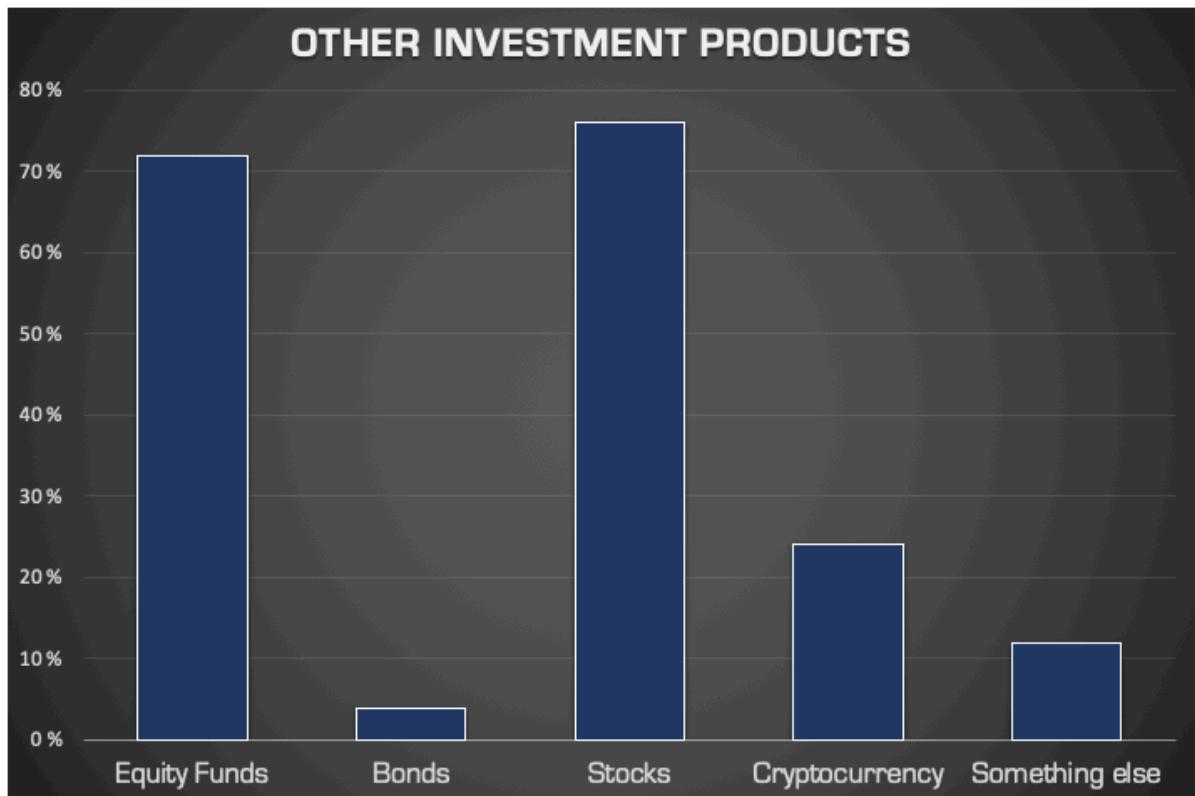


Figure 5.3 Other Investment Products (From Survey).

From the figure above, we see that 72% of the investors invested in equity funds and 76% invested in stocks. From the survey, we also discovered that 24% of the respondents invested in cryptocurrency. The percentage of investors that invested in cryptocurrency is consistent with the percentage from the interviews, where one of five investors had invested in this product. Only 4% of the respondents had invested in bonds. The respondents that answered “something else”, stated that they invested in “real estate rental” or that they did not invest in other investment products.

Investment Strategies

Surprisingly, only one of the interviewed investors had a formulated strategy for his investment portfolio. Investor [A], who had invested in lending-based crowdfunding, had formulated a strategy that consisted of 1/3 in crowdfunding, 1/3 in stocks and 1/3 in equity funds. When we asked why he had formulated such a strategy, he explained; “*That is a plan I have because I want to increase my portfolio and I want to learn more. I also want to decrease the risk in my overall portfolio by diversifying it.*”. Furthermore, he stated that he had defined a rule for himself that he never would invest more than 10% of his total investment portfolio into one single project.

The remaining four investors had not consciously developed a strategy for their overall portfolio. The reason for this may be because the investors are relatively small and most of them describe themselves as impulsive. Investor [E] explained that; “I don’t have that much money, so I have not gone to the trouble to define one”. Although some of them mentioned the fact that they diversify their investment, the strategy had not been clearly defined. Investor [C] expressed that crowdfunding accounts for 25% to 30% of his total investment portfolio. However, this distribution was not done by intention. Investor [D] gave the impression that he wants to increase his share in crowdfunding, which was also an opinion Investor [B] shared. We also provided a question in our survey regarding their strategies for their overall investment portfolio, as illustrated in Figure 5.4.



Figure 5.4 Strategy for the Investors’ Investment Portfolio (From Survey).

Surprisingly, 40% of the respondents actually claim to have formulated a strategy. This is not consistent with the result from our interviews. However, we asked a follow-up question about how the investors would describe their investment strategy. On this question we got a lot of different answers including “diversification”, “more investment in P2P-lending than in the stock market”, “a lot of small loans”, and “the best risk-adjusted expected return”. Three respondents considered diversification to be their overall strategy. If we define diversification as a strategy, we may conclude that our interviewees also had a conscious strategy behind their investments. We have chosen not to consider diversification as a formulated strategy, but instead as a way of reducing the overall risk. Therefore, the majority of investors in the survey had not formulated a strategy for their total investment portfolio, which is congruent to our findings from the interviews.

5.2.3 The Motivation Behind Investing in Crowdfunding

We found several reasons and motivations behind the investments in both equity-based and lending-based crowdfunding. In general, most of the interviewees expressed that they invested in crowdfunding because they wanted to diversify their investments. Thus, crowdfunding was perceived as an attractive investment opportunity that could benefit their overall investment portfolio. However, we found that the motivation clearly differed between the investors in equity-based crowdfunding and the investors in lending-based crowdfunding.

Investors in Equity-Based Crowdfunding

When we asked about the reason for investing in equity-based crowdfunding, the investors were not as focused on financial return as the investors in lending-based crowdfunding. They emphasized that the main reason was that they wanted to help start-ups and SMEs get easier access to financing when needed. Investor [B] expressed that;

“It feels like... There is a problem in Norway that there are too few angel investors. It feels good to be able to help someone who needs to get through the first difficult phase. That they can easier get access to funding.”

Investor [C] pointed out that he was terrified of missing out on a good opportunity. Like Investor [B], he also mentioned that it is fun to contribute with funding to a company that has an exciting idea that he believed in. He further continued;

“When you have the money to decline, it is a very easy way to participate in their journey. (...) It is way more fun to invest in something little rather than big listed companies.”

Investor [E] also shared the same view. He explained that he believed in investing in small companies and wanted to help them realize their goals when they have a good idea. All of the interviewees mentioned the importance of ‘believing in the company and the project’. When they choose projects to invest in, some of the investors described the importance of their ‘gut feeling’ and their faith in the company’s success. Although they emphasized the importance of exciting companies and their willingness to help start-ups and SMEs, it was clear that Investor [B] would not invest as pure charity.

“I will admit... I would not do it as a pure charity. After all, I invest because I expect the return to be just as good as the alternatives. And maybe a little higher risk, but... I expect the risk-adjusted return to be about the same. In addition, I feel that I did a good deed with the investment. Also, it is way more fun than investing in global index funds.”

Investor [E] also said that he expected to gain more from these investments than he could through a savings account. It is therefore clear that there exists some degree of financial motivation behind the investments. But their main motivation seems to be driven by the excitement and the fun of being involved in the overall journey.

Two of the interviewees also expressed that they have never had the opportunity to invest in start-up companies before. Investor [B] explained that Folkeinvest had a ‘catch-phrase’ on their website that he strongly related to; *“Why is it just those with a lot of money and a huge network that are able to invest in start-up companies?”*. Investor [E] also said that *“I am a relatively small investor that do not have the opportunity to get in touch with start-ups”*. This is equal to the platforms’ opinions that we presented earlier in this chapter. The crowdfunding market appeals to everyone, because the minimum investment amount is very low.

In total, we see that the main motivation is the fact that it is a new and exciting way of investing. The investors are motivated by their involvement in the investment, and they feel good when they can contribute to the development of start-up companies and SMEs. However, they still expect that the investments will provide them with a financial return in the long term. These findings were confirmed by the answers to our survey. We presented the respondents with different statements about their motivation for investing in equity-based crowdfunding, that they could rank from “most important” to “less important” (See Appendix 7, Question 8). The results show that the investors find motivation in helping start-ups that needs financing and that they have never had the opportunity to invest in start-ups before. Also, many investors stated that they have the money to declare and that crowdfunding is a good way of saving money. They also appreciate that they are more involved in the investment compared to other investment opportunities.

Investors in Lending-Based Crowdfunding

Unlike the investors in equity-based crowdfunding, the investors in lending-based crowdfunding seemed to emphasize the financial return. When we asked questions about why they chose to invest in loans, two reasons were more common than others; “good and attractive

return” and “the investment is not correlated to other markets”. For example, Investor [A] said that “*I feel that it is a safe investment and I get a decent return over a short period of time*”. Investor [B] also explained that he wanted to do something more exciting with his money that provided him with a good return. He believed that he probably would get about the same return over time if he invested in other investment products, but the return in lending-based crowdfunding fluctuates for other reasons than the stock market. Investor [D] also said;

“I find the return very attractive and I consider the risk to be low. (...) With investing in lending-based crowdfunding, you avoid the daily fluctuations of the stock market. And as long as the return is about 10%, I think it is worth it.”

We found that another reason for investing in lending-based crowdfunding was the duration of the investment. Investor [A] said that he found it hard to decide whether to invest over a short or long period of time when he talked about stocks or funds. Further, he found it difficult and time consuming to monitor the stock market. Investing in crowdfunding thus contribute to a more predictable financial return that the investor does not have to monitor every single day.

Although the motivation can to some extent be defined as highly financial, most of the investors emphasized that they invested in companies and projects that they wanted to succeed. Like the investors in equity-based crowdfunding, they mentioned that it was beneficial if they believed and had faith in the projects. However, their investment choices are highly dependent on the stated financial return and the likelihood of getting the invested money back. All other benefits are just a bonus. As Investor [B] put it;

“If I invest in loans, I need to feel safe that the investment amount is repaid with a return. I do not care if the companies are only doing OK or if they are doing very good because I do not get to be a part of the company in the future. At best, I get the interest and the repayments.”

In line with our findings, the results from our survey also indicate that the investors of lending-based crowdfunding are more focused on return. 55.6% of the investors found that the statement “It is more exciting than other investment products” very describing of why they chose to invest in lending-based crowdfunding. 38.9% said they invested because the return does not correlate with other markets, and 44.4% claimed that the return is sufficient and predictable, and that the investment is easy to implement.

5.2.4 The Investors' Investment in Crowdfunding

In addition to various motivations behind the investments, the investors' crowdfunding investments also differed in characteristics. In this section, we present the amount invested and how the investors diversify their investments in crowdfunding over multiple projects. We will also look at the gained return and various experiences. At the end, we will move on to the investors' relations and communication with the companies they had invested in.

Amount Invested and Diversification

Four out of five interviewees started with investing in crowdfunding in 2017 or 2018. The amount invested in total and in each project varied widely. The biggest difference between the investment amounts were in equity-based crowdfunding, as illustrated in Figure 5.5. Investor [B] and [E] had invested about the same amount in equity-based crowdfunding, where [B] invested NOK 80,000 and Investor [E] NOK 100,000. Investor [C] had invested NOK 550,000 in total in equity-based crowdfunding, but a lot of these investments were through his network and not through a crowdfunding platform. The investors in lending-based crowdfunding also had varied investment amounts. Investor [A], [B] and [D] had invested NOK 100,000, 300,000 and 200,000, respectively.

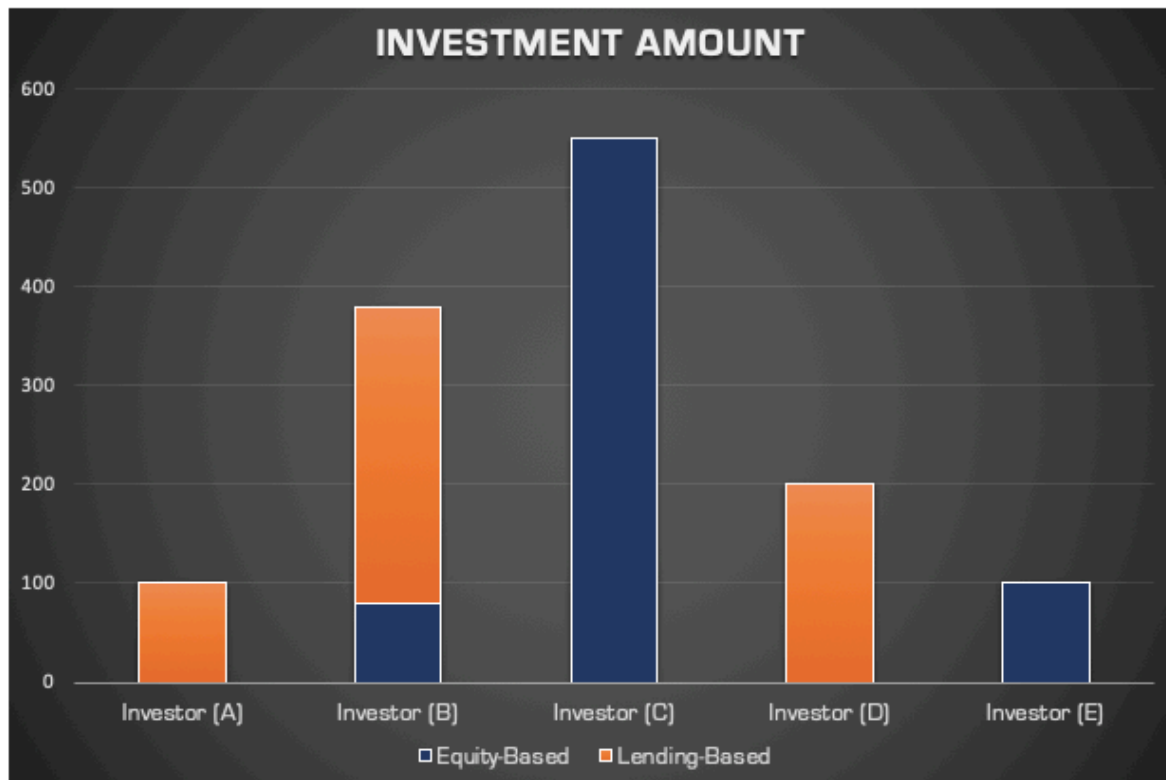


Figure 5.5 Amount invested in Equity-based and Lending-based Crowdfunding.

From our survey, we found that the many of the investors (44%) had invested between NOK 0 and 50,000 in equity-based or lending-based crowdfunding. 32% of the investors had invested between NOK 50,000 and 100,000, 16% had invested between NOK 100,000 and 200,000, while 2% had invested between NOK 200,000 and 1,000,000. These findings show that our interviewees in general had invested a higher amount than our survey respondents, which indicates that our interviewees stand out from the rest of the investors.

There are also differences in how widely the investors diversified the total investment. In general, the investors in equity-based crowdfunding had invested in a lower number of projects than investors in lending-based crowdfunding. Investor [B] had spread the investments over four projects, where he invested NOK 10,000 in two of them and NOK 30,000 in the remaining two. Investor [C] spread the crowdfunding investment over five different projects, where NOK 400,000 was invested in one project alone, and the remaining amount investment were evenly distributed over the remaining four. The last investor, Investor [E], had invested 50/50 spread into two projects.

The investors in lending-based crowdfunding spread the investment over more projects. Investor [A] had invested in 30 different loans with a low variance in the amount invested in each. Investor [B] had invested in five different loans with NOK 50,000 in each, with the exception of one project where he invested NOK 100,000. The last investor, Investor [D], had spread the investment over eight different loans with about the same amount in each project.

The results from our survey shows that all of the investors had spread the investment in crowdfunding over several projects. 72.2% of the respondents had invested in 1 to 10 projects, 16.7% had invested in 10 to 20 projects, 5.6% had invested in 20 to 30 projects and 5.6% had invested in more than 30 projects. This indicates that most of the investors have spread their investment in less than 10 projects.

Although all of the investors somehow spread the investment over multiple projects, no one deliberately spread the investments over different industries. However, due to the restricted access of projects the investors claim that their portfolios have been spread over several industries in practice. Investor [D] admits that although he had not planned for it, he had invested more in real estate than other industries. The investors all explained that they considered each project “case by case”. However, Investor [A] stated that;

“I don’t have any clear guidelines for investing in competing companies. Given the situation where a competitor to a company I have made a [lending-based] investment in, I would be highly skeptical to the idea of investing in the competing company.”

Investor [B] also claimed that he sometimes had thought; *“I have just invested in this type of company. Maybe I should invest in something else.”* This shows that some of the investors are aware of the risk of investing all of the money in one specific industry. However, they mostly consider each project individually.

The results from our survey diverge from these results. 48% of the investors claimed that they deliberately spread their investments over different industries, while 48% claimed that they did not. The remaining 1% answered “I don’t know” to this question. These results indicate that investors do think about the dangers of investing all of their money into one specific industry.

Gained Return/Losses

None of the interviewees had lost anything on their investments in crowdfunding. However, both Investor [A] and [B] had experienced that one company that they had invested in filed for or went bankrupt. They still had not lost any money because the loan either was guaranteed or because the bankruptcy was not settled yet. In total, Investor [A] claimed to have earned an average annual return of 9.88% in 2018, while Investor [B] estimated around 8% to 9% for the same period. Investor [D] allegedly had the highest average return of 10% and explained that he often chose the riskiest projects with the highest return.

None of the investors in equity-based crowdfunding had received any return on their investments yet. This is mainly because the projects are start-up companies, and it may often take several years before the return is realized. However, some of the investors had received reports showing that the value had increased, but nothing was settled at the time of the interview.

The answers from our survey indicates that most of the investors in lending-based crowdfunding (54.2%) had gained an average return between 8% and 10%. 16.7% claimed to have gained between 5% and 7%, and 4.2% between 12% and 15%. Some of these investors had not received any return on their investment yet (8.3%). 40% of the investors in equity-based crowdfunding had not received any return, while 8% had gained between 8% and 15%.

Relations with the Project Creators

We found that a minority of the investors had personal or professional relations with the projects that they invested in or the people behind it. Investor [A] explained that he was a customer of some of the companies over several years, but over 90% of the projects were totally unknown to him. Investor [B], [D] and [E] had no previous knowledge about any of the projects that they invested in. However, both Investor [B] and [D] had personal relations to employees of the platform they invested through.

Most of the investors explained that the company presentation on the platform decides whether they want to invest in the project or not. Thus, no personal or professional relation affected their investment choices. Investor [C] was the only one that had personal relations to two of the projects he invested in. Two of his friends were involved in the start-up of these companies. He explained that he had no relations to the remaining projects and claimed that *“It is a coincidence that you come across them”*.

Naturally, we found that the communication is stronger between the investor and the project creators in equity-based crowdfunding. This is mainly because the investor owns a certain part of a company and they therefore receive regular updates from them. We perceived the communication and the updates as comforting for the investors. Investor [B] explained that *“It is reassuring when they write positive things. Although, I am aware that they can write exactly what they want in these updates”*. Investor [C] also expressed that he receives updates from the companies, but the frequency varies;

“It varies. I get a lot of updates from some of them compared to others. However, one company did not send out any information over a very long period. Then you become a little skeptical, you know. When you put money into something and then you don’t hear anything.”

The results from our survey confirms these findings. 80% of the investors had no relations to any of the projects they invested in. 20% of them had relations that involved “customer relations”, “colleague”, “friends” or “network”. Furthermore, 44% of the investors said that they had communicated with the project creators after the investment, while 56% had not. When we asked about what type of communication the investors had with the project creators, most of it were through e-mail or social media. In addition, we asked if they would prefer to have more contact with the project creators. Interestingly enough, 52% of the investors answered “No” to this question, while 24% of them answered “Yes” and 24% of them answered “I don’t know”.

5.2.5 The Risk Aspect

In this section, we will go further into our findings concerning the perceived risk of investing in crowdfunding. First, we address the investors different perceptions of the risk involved. Furthermore, we take a look at how the investors view the risk of investments in crowdfunding compared to other investment opportunities such as equity funds, stocks and cryptocurrency. During this part of the thesis, we also present the findings on how the investors proceed to identify the underlying risk of the different projects. Ultimately, we will take a look at what the investors think about the duration of loans in crowdfunding.

Perceived Risk

When the interviewees were asked about the perceived risk of crowdfunding, they had different thoughts about crowdfunding itself, in addition to crowdfunding compared to other investment opportunities. Looking at crowdfunding alone, Investor [A], who had invested in lending-based crowdfunding stated that; *“I feel it is a safe investment, and I get a decent return over a shorter period.”*

Investor [B], who had invested in both lending-based and equity-based crowdfunding explained the risk of equity-based crowdfunding as follows; *“When it comes to equity-based crowdfunding, it is almost like buying a ticket. It is like, it either goes at least 10 times the original value, or it goes bankrupt.”* He further compared investment in equity-based crowdfunding with playing the lottery. Investor [C] also shared the same viewpoint and expressed the following about equity-based crowdfunding *“(…) it is like a bet, it is fun when it goes good”*. Although the investors had different opinions about the risk of investing in crowdfunding, four out of five of the investors admitted that they perceive the general risk as high.

In our survey we asked the respondents how they viewed the risk of both equity-based and lending-based crowdfunding. We also asked how the investors would describe themselves when it comes to risk. 56% of the investors described themselves as risk neutral, while 44% described themselves as risk seeking, as shown in Figure 5.6. None of the respondents think of themselves as risk averse.

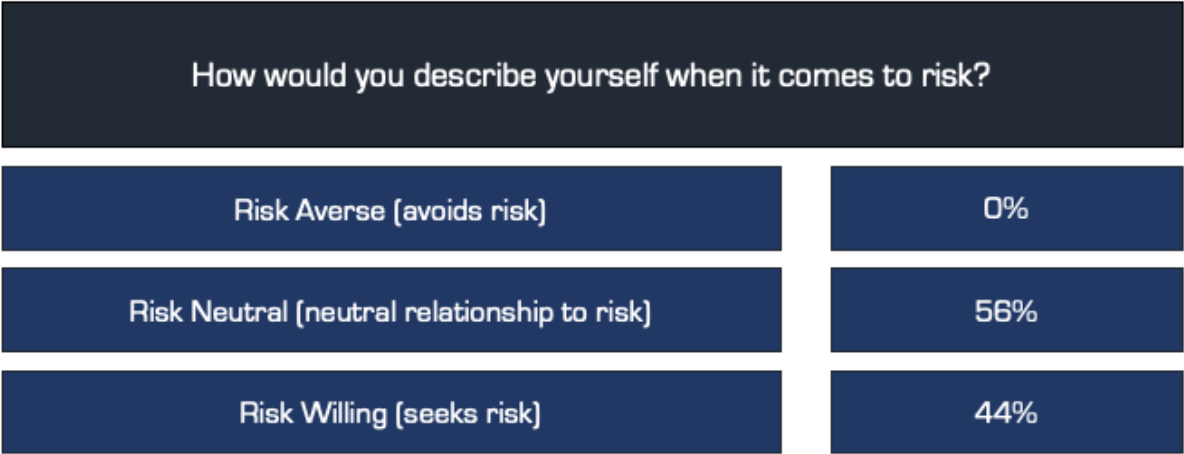


Figure: 5.6 Risk Profile of the Investors (From Survey).

In line with the perceived risk from our interviews, the investors generally viewed equity-based crowdfunding as riskier than lending-based crowdfunding. However, we got the impression that most of the interviewees that had invested in lending-based crowdfunding viewed the investment as safe. In our survey, 40% of the investors considered the risk associated with lending-based crowdfunding as ‘high’ and 40% considered the risk ‘neither high or low’. None of the respondents thought of the risk as ‘very low’, and only one of the respondents viewed the risk as ‘very high’. The results are illustrated in Figure 5.7.



Figure 5.7 Perceived Risk of Lending-Based Crowdfunding (From Survey).

When it comes to equity-based crowdfunding, the results were more consistent with the results from our interviews. 44% of the respondents perceived the risk as “very high”, and 28% as “high”. This is coherent with our interviewees that viewed equity-based crowdfunding as a ‘lottery ticket’ or a ‘bet’. These results are illustrated in Figure 5.8.



Figure 5.8 Perceived Risk of Equity-Based Crowdfunding (From Survey).

Risk Compared to Other Investments

We also asked the investors to compare the risk of crowdfunding with the risk of other investment opportunities to create a better understanding of their opinions. The investment opportunities we chose to focus on was stocks and equity funds, because all of the investors had invested in these products. The findings can be illustrated in Figure 5.9. Crowdfunding is here viewed to be both the product with lowest risk, the highest risk and in the middle.

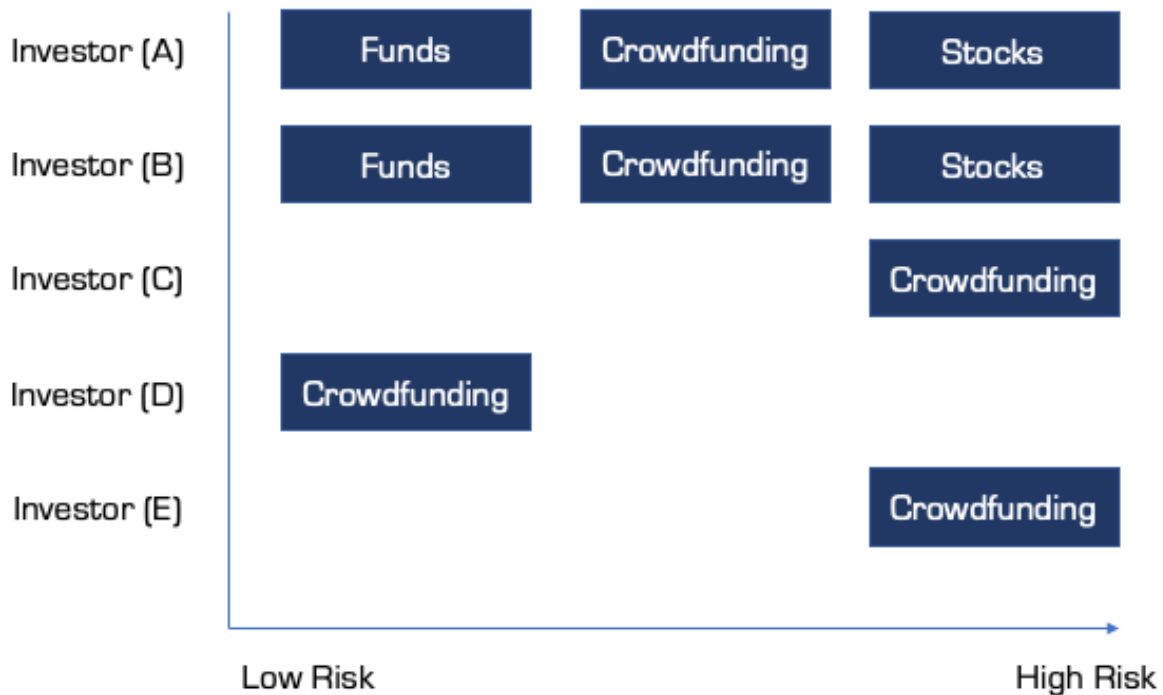


Figure 5.9 Perceived Risk of Crowdfunding Compared to other Investment Products.

While we were talking about the risk of the crowdfunding investments compared to other investments, we asked the interviewees if they thought of crowdfunding as an alternative to other investments such as stocks or equity funds. Both Investor [C] and Investor [D] explained that they viewed crowdfunding as a supplement to their already existing investment portfolio. As Investor [C] quoted: *“More like a supplement, I think. I would not only invest in these types of companies.”*. On the other hand, Investor [A] stated that he thinks of crowdfunding as an alternative to equity funds, but not as an alternative to stocks, while Investor [B] perceived crowdfunding as an addition to his overall investment portfolio.

A popular opinion among the investors, that three of the investors agreed on, is that the crowdfunding platform and the people behind it, makes the investment safer for the investors. Investor [B] stated;

“Although it is not their fault if a company goes bankrupt, it still looks bad for them if they were the ones supplying the loan that went bankrupt. I believe that in the beginning they add extra safety margins for themselves. (...) So if they choose to put it out on their platform at all, then it is probably pretty good.”

Investor [D] shared the same opinion as Investor [B] and expressed the following;

“I do not believe that Person X (Founder of a platform) and the team around him would have taken the chance of posting a bad project, because of their own reputation. I'm pretty confident that all the previous projects are good.”

In addition, we found that Investor [E] also felt that the platforms reduce the investor risk. He explained;

“I feel that having a crowdfunding platform with serious people behind, you reduce the risk. Contradicted that I should have looked at advertisements in the newspaper regarding companies looking for investors. There are being completed a lot of ‘Due Diligence’ for me.”

Overall, we found that the all of the investors have strong faith in the Norwegian platforms. Overreliance on the various platforms may be scary, as they specifically point out on their websites that the investors themselves are responsible for reading and understanding the risk involved in the projects. We also asked the respondents in our survey to compare the risk of crowdfunding with other investment opportunities. Surprisingly, 44% thought of crowdfunding as an alternative to the other investments, while 52% looked at crowdfunding as a supplement to their overall portfolio.

Identification of Risk

Furthermore, we asked the investors questions about how they identify the risk involved in each project. We found that the overall workload behind the identification of risk varied widely among the investors. We chose to focus on how the investors proceed to find information about the projects and the companies behind them, and the underlying risk. Only two of our interviewees expressed that the information published on the various platforms were not sufficient, and that they did further research. This can be beneficial because the information presented on the platform is written by the project creators themselves. Two of our interviewees also admitted that they only read the information on the platform and that they trusted the information provided. As Investor [D] stated;

“Yes, the information the platform itself publishes. I am not searching in external databases. I trust the information provided and I believe it is accurate. (...) Some of the reason for that, is that if they got taken for cheating, then the business model had been

destroyed in no time. I think they have a lot to lose on being dishonest, so I trust they are honest.”

The investors that did further research collected information in external databases such as Brønnøysundregisteret, Proff.no, LinkedIn, and other online sources. Two of our interviewees also pointed out the limited time as one of the crucial factors concerning the identification of risk. Investor [B] expressed the following; “(...) *Some of these loans have been filled up as fast as 30 minutes after the e-mail is sent out. So, you can't read it all. You just have to look quickly and be like; Yes, this looks okay.*”. Investor [A] also shared the same understanding as Investor [B] regarding the limited time. He further explained that it was not necessary to jump onto every project, because there are a lot of opportunities being launched by the platforms.

Regarding identification of the risk involved in the projects and the project creators, we chose to ask the respondents to our survey how they collected information about the projects, as illustrated in Figure 5.10. The respondents could choose multiple alternatives on this question. The results from the survey showed that the investors in general do not collect a lot of information outside the platform, which is consistent with the results from our interviews.

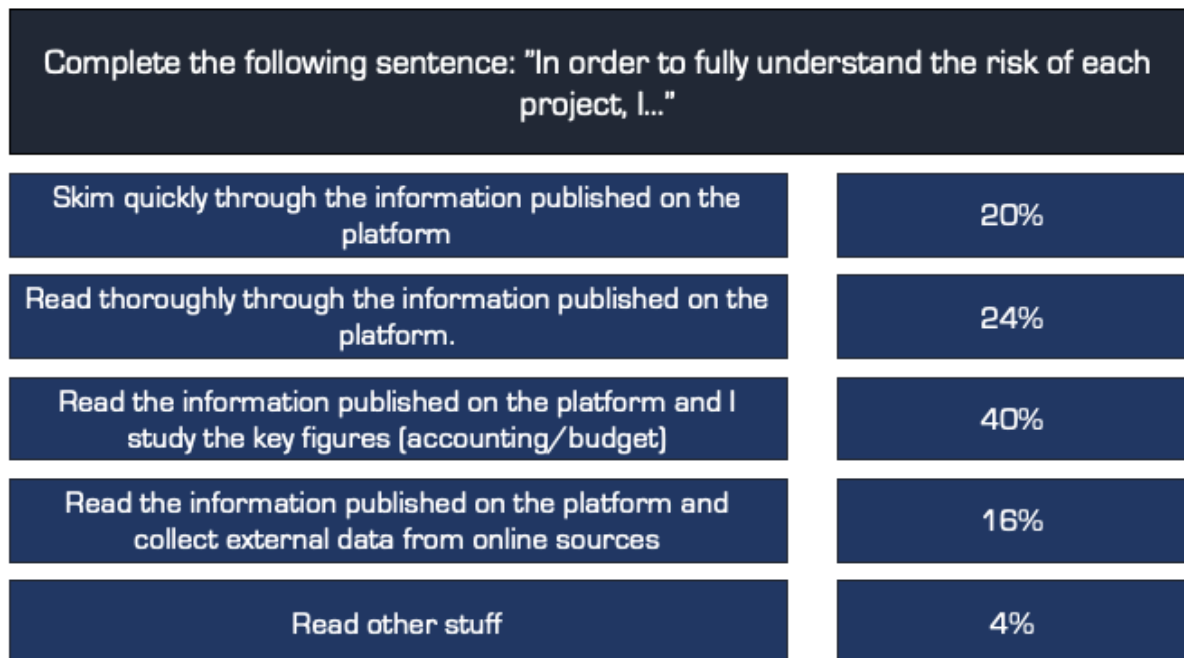


Figure 5.10 Identification of Risk (From Survey).

20% answered that they only skim the text published on the platforms. 24% reads the information published together with the key figures presented on the platform. Only 16% of the investors collect more data from external online sources.

The Duration of Loans in Crowdfunding

At the end of this chapter, we address how the investors perceive the duration of the loans in lending-based crowdfunding. As mentioned earlier, three of the interviewees had invested in lending-based crowdfunding. All of these investors agreed that the current duration was satisfying and did not prefer a longer duration of the loans. However, the reasons for not wanting a longer duration varied. Investor [A] expressed that he would rather invest his money in equity funds, where the return is expected to be better, if the duration of the loans were longer. Investor [B] said that; “(...) *Considering that businesses change over time, an investment that is perceived safe one year ahead, can suddenly become risky in three or four years*”. He further expressed that it is a burden that business loans have a short duration, but due to the risk with investing in crowdfunding he thinks it is positive so that he can refinance the invested amount more frequently. Investor [D] expressed that if the duration of loans were longer, the investors would have demanded a higher return on investment in exchange for tying up the contributed capital for a longer time.

We also asked the same question in our survey, as illustrated in Figure 5.11. Our findings confirm that the investors perceive the current duration of loans as satisfying. 68% of the investors think the duration is fine the way it is today, and only 8% would like the duration to be longer. 4% of the investors would have appreciated a shorter duration on the loans.

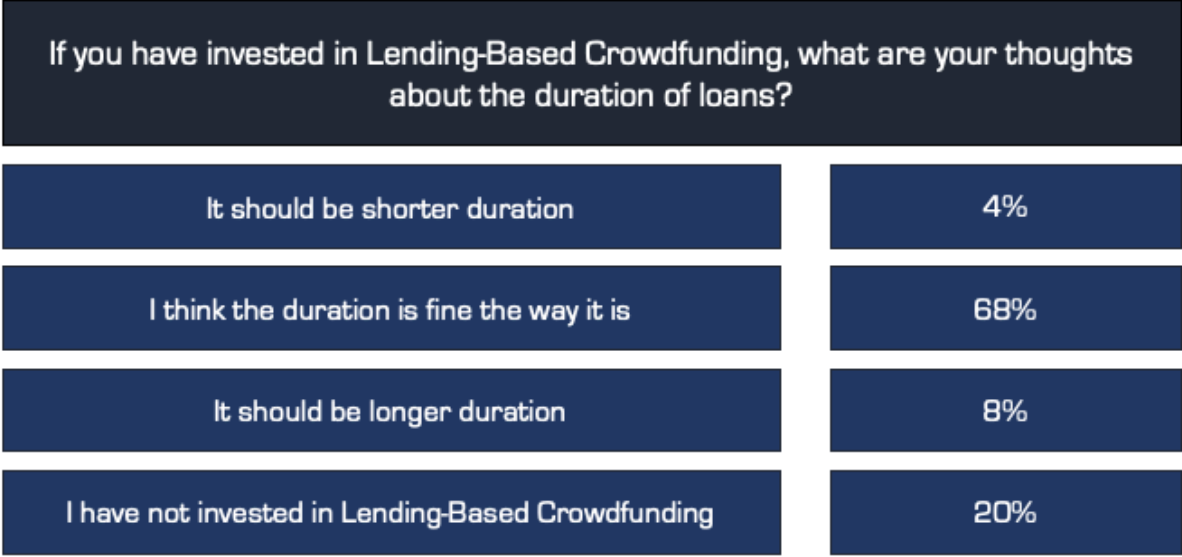


Figure 5.11 Thoughts about the Duration of Loans (From Survey).

6 | ANALYSIS

Based on our empirical findings and the existing literature, this chapter will analyze the investors of crowdfunding in Norway and their perception of the market as an investment opportunity. We start with an analysis of who the investors are, based on our findings, up against the existing literature on categorization of investors (Lin et al., 2014; Sørheim and Landström, 2010). Furthermore, we analyze the investors' perception of crowdfunding based on our findings from the investor interviews and survey, as well as the platform's view of the investors. We also present a self-developed model concerning various factors that affects the investors' perception of crowdfunding.

6.1 HOW CAN WE CATEGORIZE THE INVESTORS?

The first part of our research question asked how we can categorize the Norwegian investors of crowdfunding. In order to categorize them, we will look at the characteristics of their investments in crowdfunding, how they perceive the associated risk and what they base their investment decisions upon. We will use the research of Sørheim and Landström (2001) and Lin et al. (2014) to analyze the investors. To support the idea of using Sørheim and Landström's (2001) model on crowdfunding investors, even though it is created for venture capitalist investors, we use the research from Strausz (2015). He perceived crowdfunding and venture capitalism as highly complementary.

6.1.1 Comparison of our Empirical Findings and the Literature

Sørheim and Landström (2001) found that the typical Norwegian investor is male from the age of 35 to 55, with a high educational achievement. Our data also indicates that the majority of investors in crowdfunding are males. In addition, we can see from our interviewees and survey respondents that most of them also is highly educated. The IT-sector was the most represented profession of all the investors, whereas two of the interviewees worked as IT-consultants and 24% of the survey respondents worked within the IT-sector. Furthermore, real estate, finance, technology and teaching were also professions that were highly represented. On the other hand, our findings suggest that the age of the investors varied more widely than what Sørheim and Landström (2001) suggested. Some of the respondents to our survey were students while some of them were retiree. Based on our findings, we will not categorize the investors by age. Our findings are based on a relatively small sample size. Thus, we do not have sufficient enough data in each age group.

Furthermore, our findings indicate that the investors diversify their investments in crowdfunding over a number of projects. Four of the interviewed investors and 72.2% of the survey respondents had invested in 1 to 10 different projects. This is in line with Sørheim and Landström (2001) who suggested that Norwegian investors are relatively passive with a low investment activity level. However, one of our interviewees and 5.6% of the survey respondents had invested in 30 or more different projects, which is a high activity level. The remaining survey respondents (22.2%) had invested in 10 to 30 projects. Because crowdfunding only has been available over a short period in time in Norway, most of the investors have not invested in many projects yet. In addition, we see from our findings that the projects get funded pretty fast, which can indicate that there currently is a lot more investors than available projects. Based on our findings, we separate the activity level into; (1) low activity level, for those investors investing in 1 to 9 projects, and (2) medium/high activity level, for those investors investing in more than 9 projects.

Sørheim and Landström (2001) further categorize the Norwegian investors based on their competencies, including their knowledge and skills. Most of our interviewees and survey respondents had invested in equity-funds and stocks in parallel with crowdfunding. We therefore consider the investors as fairly experienced with investments. However, their competencies varied about crowdfunding as an investment. For example, we found that the workload behind choosing which project to invest in varied widely. Two of our interviewees only skim the information provided on each project by the platform because they trusted that the platform had done a sufficient analysis of the project. In addition, some of the interviewees explained that projects often were filled up very fast. Therefore, they were not able to analyze each project thoroughly because of the limited amount of time. In this context, important factors or signals of the project can be unnoticed. Because these investors only skim the information provided and rely heavily on the platforms, their knowledge about each project may be limited. In addition, we found differences in how the investors perceived the risk of crowdfunding compared to the actual risk, which can illustrate their knowledge about crowdfunding. Some of the investors explained that they felt the investment in crowdfunding was safe and expressed that it was 'easy money'. This is extremely in contrast to our findings from the platform interviews, whereas Øyvind Fries from Folkeinvest explained that crowdfunding involves a giant risk.

On the other hand, two of our interviewees explained that they searched for additional information about each project before they invested. Also, 16% of the survey respondents said that they collect additional external data from various online sources. Some of the investors were also aware of the risk involved with crowdfunding. 40% of the survey respondents classified lending-based crowdfunding as “high” risk and 72% of them classified equity-based crowdfunding as “very high” or “high” risk. Based on the amount of work behind an investment decision and their perception of the risk, we argue that the investors may be categorized into “high competence” and “low competence”, in line with Sørheim and Landström (2001).

6.1.2 Categorization of Investors

Based on the discussion above, we found the four categories of Sørheim and Landström (2001) appropriate to use for categorization of the Norwegian investors of equity-based and lending-based crowdfunding. However, we changed the activity level of “high” to “high/medium”, as we found the same characteristics of the investors with both a high and medium investment activity level.

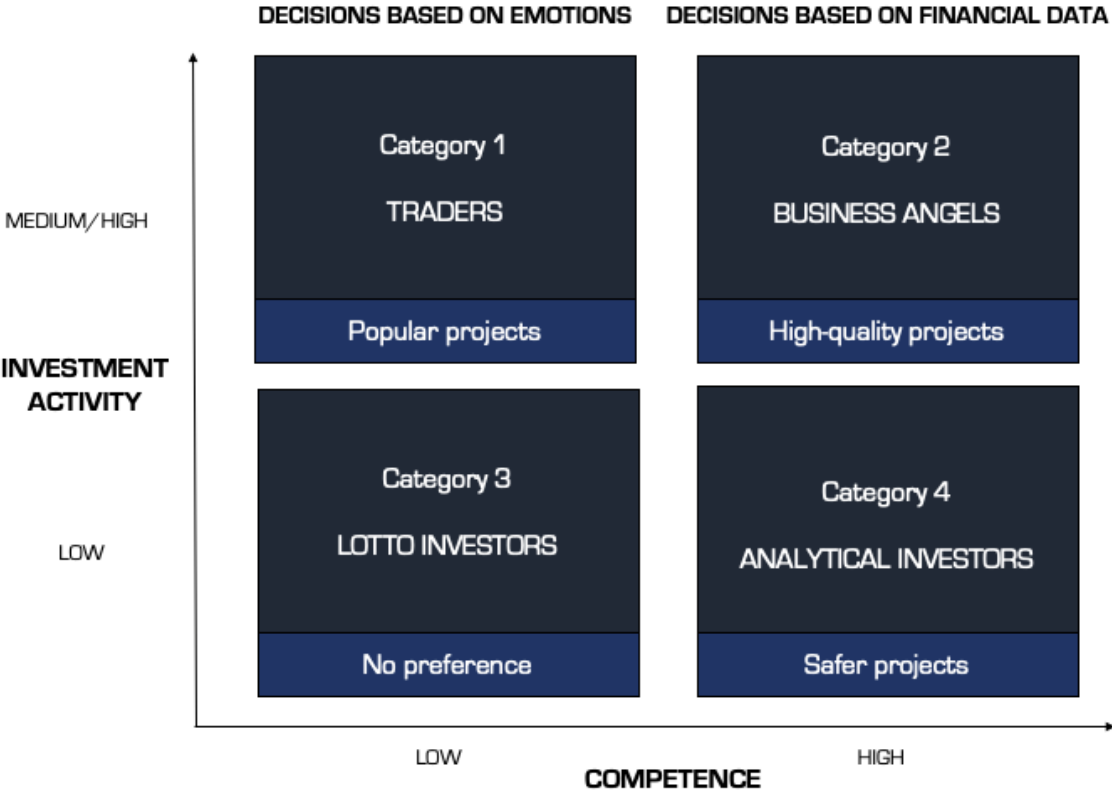


Figure 6.1 Categorization of Norwegian Investors of Crowdfunding.

In addition to categorizing the investors by characteristics such as investment activity level and competence, we found that the investors further can be characterized by project preference and what their investment decisions are based on, as illustrated in Figure 6.1. We see that “Traders” are characterized with a high activity level but have low competence. Our findings indicate that some of the investors with a high/medium activity level are affected by the limited time and the popularity of the projects, whereas they rushed into some projects because they saw that they got filled up fast. In this context, Investor [B] can be categorized into “Traders”. He explained that the loans have been filled up as fast as 30 minutes after the e-mail is sent out. Therefore, he did not read the information provided thoroughly. He just looked quickly at the information and followed his gut feeling to decide if it looked acceptable or not. We argue that these types of investors do not spend any time analyzing the projects and, thus, have limited knowledge about the project they choose to invest in. Their intuition is often dependent on the popularity of the project. The “Traders” can therefore be linked to the category “Trend Followers” by Lin et al. (2014). Furthermore, because the “Traders” follow their intuition and rushes into popular projects, we also argue that their investment decisions are based on emotionality instead of financial data.

“Business Angels” are characterized by high investment activity level and high competence. Our findings indicate that some of the investors that have invested in a big number of projects, and had sufficient knowledge and skills about crowdfunding, studied the key numbers published on the platform. They also actively searched for additional information from external sources. In this context, we can categorize Investor [A] as a “Business Angel”. He invested in 30 different projects, and, explained that he analyzed the projects with respect to the market. Also, he collected both key figures and additional information from external sources. Therefore, we argue that the “Business Angels” value high quality projects because they are willing to spend much time on analysis before making an investment decision. For these investors, it is essential that they gain an in-depth knowledge about the various projects and the associated risk before they invest. “Business Angels” can be compared to what Lin et al. (2014) describe as “Active Backers”. Because these investors have the knowledge and the skills to analyze the projects, and spend their time searching for additional information, we also argue that the investment decisions of “Business Angels” are based on financial data over emotions.

The “Lotto Investors” are characterized with low competence and low investment activity. From our findings, we see that these investors often just started to invest in crowdfunding and does not have any preference for specific projects. In this context, we can compare the “Lotto

Investors” to “The Crowd” presented by Lin et al. (2014). Because these investors are still exploring crowdfunding, they have limited knowledge and skills. In addition, they have not invested in a high number of projects yet because they are relatively new in the market. Based on our empirical findings, we can place Investor [C] and [D] as “Lotto Investors”. They both admitted that they did not analyze the project in detail, and Investor [D] also explained that he trusted heavily that the platform did an accurate analysis. Both of these investors also expressed that they did not have any preference for specific projects or industries. As these investors do not possess any knowledge enabling them to thoroughly analyze each project, we argue that these investors make decisions based on emotions and that they emphasized the importance of believing in the projects.

The fourth category, “Analytical Investors” are characterized by low investment activity and high competence. These investors have a lot of knowledge about crowdfunding. They analyze each project based on the key figures presented on the platform and they collect additional information from other online sources. The “Analytical Investors” are more careful than the other investors. Therefore, they are characterized with low investment activity. They actively search for safe projects where they are certain that they will gain an acceptable financial return. We found this category suitable for Investor [E]. He explained that he did some research and collected external information, in addition to reading thoroughly the information provided by the platform. Because he explained that there are many projects he does not invest in because he has limited information or knowledge about the industry, we also classify him as a more careful investor.

To sum up our categorization of the investors in equity-based and lending-based crowdfunding, we illustrate their overall characteristics in Figure 6.2.

(1) TRADERS	(2) BUSINESS ANGELS	(3) LOTTO INVESTORS	(4) ANALYTICAL INVESTORS
MEDIUM/HIGH INVESTMENT ACTIVITY LEVEL	MEDIUM/HIGH INVESTMENT ACTIVITY LEVEL	LOW INVESTMENT ACTIVITY LEVEL	LOW INVESTMENT ACTIVITY LEVEL
LOW COMPETENCE	HIGH COMPETENCE	LOW COMPETENCE	HIGH COMPETENCE
PREFERENCE FOR POPULAR PROJECTS	PREFERENCE FOR HIGH-QUALITY PROJECTS	NO PREFERENCE FOR PROJECTS	PREFERENCE FOR SAFER PROJECTS
DECISION BASED ON EMOTIONS	DECISION BASED ON FINANCIAL DATA	DECISION BASED ON EMOTIONS	DECISION BASED ON FINANCIAL DATA

Figure 6.2 Categorization of Investors and their Characteristics.

Lin et al. (2014) also found a fourth category called “Altruistic Cluster” where investors support projects for a good cause. Our results do not confirm that this characteristic represents a sufficient description of a group of investors. Although many of the investors interviewed explained that they are motivated by helping start-ups and small companies, none of them would give away their money as a donation. The “Altruistic Cluster” may have been more suitable if we included both reward-based or donation-based crowdfunding. However, when speaking about the investors in equity-based and lending-based crowdfunding, our findings suggest that the investors does not invest in a project only because it represents a good cause – they expect to gain a financial return as good as any other investment product.

6.2 ANALYSIS OF THE INVESTORS’ PERCEPTION OF CROWDFUNDING

Based on our empirical findings, we found that several factors affect the investors perception of crowdfunding as an investment opportunity. In this context, we developed a perception model as shown in Figure 6.3.

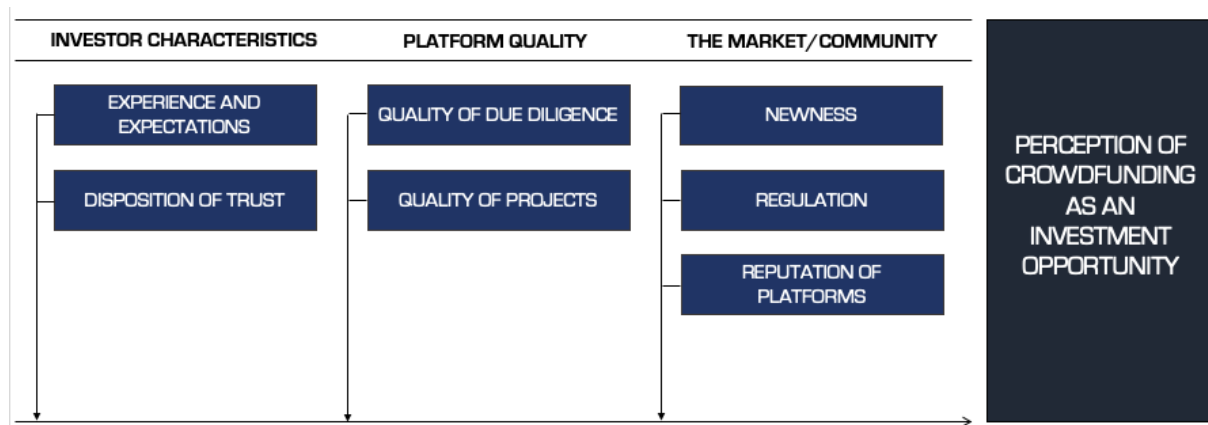


Figure 6.3 Perception Model from an Investor Perspective.

As shown in the model, there are seven factors that affects the investors perception of crowdfunding as an investment opportunity. Their perception of crowdfunding can become negative or positive with a change in platform quality and market/community. How much the perception can change will depend on the different investor characteristics.

6.2.1 Investor Characteristics

In this section, we will analyze different characteristics of investors and how these characteristics affects their perception of crowdfunding.

Experiences and Expectations

From our findings, we can argue that the investors' perception of crowdfunding depends heavily on their experiences. As crowdfunding represents a relatively new investment opportunity in Norway, we argue that the investors' experiences are to some extent limited. Our findings show that none of our interviewees had experienced any losses on their investments in crowdfunding. In addition, all of our interviewees that invested in equity-based crowdfunding had not received any financial return on their investment so far. From the literature, it was argued that the market will surely experience spectacular failures (Agrawal et al., 2014), and that investors surely will lose significant amounts (Bretschneider et al., 2015). Therefore, we argue that the lack of experience, especially involving losses, highly affects the investors' perception of crowdfunding as an investment opportunity. Although the market currently is in its initial phase in Norway, all of the investors believed that the market will grow in the coming years. The industry reports also show the trend of growth in the Norwegian crowdfunding market (KPMG, 2016; Garvey et al., 2018; Hao et al., 2019). When, and if, the market grows,

there are reasons to believe that the share of defaults also will increase. These experiences can lead to investors changing their perception of the risk involved with crowdfunding and thus change their share of crowdfunding investments relative to their overall investment portfolio.

Several of the interviewees also had relatively high expectations to their investments in crowdfunding. In addition to high expectations towards the various platforms, they also expected that they would gain the same financial return as they would gain from other investments. Contradictory, most of them did not perceive crowdfunding as an alternative to other investments like equity funds and stocks. Based on these findings, we argue that their expectations will affect how they perceive crowdfunding as an investment opportunity. At worst, their expectations may be damaging for the perception of crowdfunding if they are not fulfilled over time.

Disposition of Trust

From our findings, we noticed that most of the investors relied heavily on the crowdfunding platforms. The interviewees had faith in the people behind the platform and trusted that the published projects were of good quality. This finding was also confirmed when the interviewees explained how they invested in crowdfunding. For instance, some of the interviewees did not read thoroughly the information provided by the platform because they trusted that the platform had done a sufficient analysis of each project. According to Kirby and Worner (2014), an overreliance in platforms and the information provided may be scary. Although the platform does an analysis of the project regarding its associated risk and has mandatory fields that the company needs to fill out, the project creator creates the campaign themselves. In this context, the risk of asymmetric information and moral hazard may occur. The project creators will have more information about the project quality than the investors and fraud can arise if the project creators overstate the quality or withhold information (Wessel, 2016). For Norwegian investors, who is most likely to be non-professional investors, it is not given that they fully understand the risk aspect of their investments in crowdfunding. In the longer term we believe that this may make market more inefficient. It is harder for investors to fully evaluate the risk of investing in crowdfunding, especially compared to investments through banks, mainly because the investor has to do most of the evaluation himself.

On the other hand, two of the interviewees seemed to be aware of the risk involved with crowdfunding. They therefore collected additional information about each project and to some extent analyzed the projects themselves. Based on this finding, we cannot explicitly state that

investors in general rely too much on the platforms. However, we argue that changes in platform quality concerning due diligence and project quality can change the investors' disposition to trust. As a result, the investors may change their perception about crowdfunding and the associated risk.

6.2.2 Platform Quality

In this section, we will discuss how the due diligence and project quality of the platforms can affect the investors' perception of crowdfunding as an investment opportunity. More specifically, both of these factors affect the investors' perception of risk and quality.

Quality of Due Diligence

Some of the interviewees expressed that they valued that the platforms conducted due diligence of the project creators. Based on the investors' disposition of trust, we argue that the quality of due diligence may affect the investors' perception of crowdfunding. Our findings from the platform interviews show that also the platform managers believed that they reduced the risk of being misinformed or under-informed by having mandatory fields that the project creator need to fill out. We also found that some of the platforms are very strict, especially when it comes to loans, where FundingPartner only claim to publish about 1% of the applications on their platform. However, the risk is still present and is reflected both in the return and the information provided by the platform.

We therefore argue that the quality of the due diligence highly affects the investors' perception of crowdfunding as an investment opportunity. Due diligence lead to investor protection and good quality of due diligence can reduce the risk of asymmetric information and moral hazard. Although the investor is responsible for analyzing the projects to some degree, it is still important for the platform to have sufficient control systems. The perceived quality of due diligence can result in more trust in the platforms and it may be beneficial to the investors' overall experiences with investing in crowdfunding. As a result, the positive perception of crowdfunding as an investment opportunity may be stronger.

Quality of Projects

Tightly linked to the quality of due diligence is the quality of published projects. Some of the interviewees pointed out that even though it is not the platform's fault if a project on their

platform fails, it will still damage their reputation. We believe that a damaged reputation may lead to people perceiving crowdfunding differently, both regarding its quality and the associated risk. From our investor interviews, we found that the investors of lending-based crowdfunding emphasized loans that was secured with property mortgage. In this context, the investors will not lose all of their money if the loan defaults. We therefore argue that mortgage-backed loans signal high quality for the investors.

In addition, some of our interviewees explained that they emphasized exciting projects, especially when it comes to equity-based crowdfunding. From our findings, we noticed that the investors are highly impulsive and considered each project ‘case-by-case’. They also explained that they found it fun to be involved in the company success and that it was exciting to invest in crowdfunding. Consequently, we argue that their perception of crowdfunding as an investment opportunity depend on the quality of projects. In this context, both secured and exciting projects signals high quality for the investors. Although excitement is a subjective matter, we noticed that the majority found it more exciting to invest in small companies in general.

6.2.3 The Market/Community

As a final instance, it is important to understand how the crowdfunding market itself and the community affects the investors’ perception of crowdfunding as an investment opportunity. In this section, we will discuss how the newness and regulation of the crowdfunding market affects the investors perception of crowdfunding. At the end, we will discuss how the investors’ perception depends on the reputation of platforms.

Newness of Crowdfunding

As mentioned above, the investors’ perceived crowdfunding as a fun investment opportunity and they showed signs of impulsiveness. We found that the reason behind this perception may be that the market is new. Sebastian Harung from Kameo explained that he believed the investors are appealed by the newness of the investment opportunity. Jørund Gjesvik from FundingPartner also commented that he believed it was fun for the investors to try out the latest products in the market. In addition, when the interviewees explained their motivation behind the crowdfunding investment, they emphasized that it was fun because they had never had the opportunity to invest in start-up companies before. The crowdfunding market opens up for investors that never had the chance to provide funding to companies (Mollick and Robb, 2016).

Based on these findings, we argue that the newness of the market affects the investors' perception of crowdfunding as an investment opportunity.

Regulation of Crowdfunding

Our findings indicate that a minority of the investors were aware of the regulation of crowdfunding. Some of them had heard news regarding the new proposals for regulations of crowdfunding, but none of them had studied what these proposals included and what consequences they could have for their investment. However, when we told them about the proposals, we found that these could affect how the investors perceive crowdfunding. For instance, the proposal that involved a maximum limit of NOK 500,000 may affect the investors' investment decisions. By putting a limit on the investments, investors may become more selective and thus perceive crowdfunding differently.

As explained in Chapter 3.2.1, other proposals have also been suggested. Among other things, that there should not be allowed to pursue funding conducted by a 'crowd' of investors (Finanstilsynet, 2018). If these suggestions were to be approved, it will have consequences for how the investors perceive crowdfunding as an investment opportunity. However, we noticed that the investors to some extent valued that regulations regarding lending activities were strict. We therefore argue that the current regulation and the future regulation highly affects the investors' perception of crowdfunding as an investment opportunity.

Reputation of Platforms

Ultimately, we found that the investors' perception is affected by the reputation of platforms. From our interviews, we found that the news about some platforms being shut down by the Norwegian FSA highly affects the platforms' reputation. One of the investors believed that such stories might result in skepticism towards crowdfunding as an investment opportunity. In addition, we noticed that several of the interviewees explained that if a project failed on one platform, it will damage their reputation. Based on these findings, we argue that the investors are sensitive towards news and reputations of the crowdfunding platforms. Garvey et al. (2018) explained that the risk considering increases in default on platforms is common in young industries, where the users are extra sensitive to bad news. To what extent the reputation can change the investors' overall perception of crowdfunding will vary with their own experiences and expectations. However, we believe it is beneficial to be aware of the potential damage the reputation of each platform can have.

6.3 THE INVESTORS' PURPOSE, PERCEIVED RISK AND MOTIVATION WHEN INVESTING IN CROWDFUNDING

Based on the discussion above, we found various elements that affects the investors' perception of crowdfunding. Now we will turn to the second part of our research question, which asked how the investors actually perceive crowdfunding as an investment opportunity. From the literature, we know that there are both potentials and challenges with crowdfunding. However, it seems like our interviewees and survey respondents mostly perceive crowdfunding positively and believed that their investments in crowdfunding benefit their overall investment portfolio. In this section, we present the investors' purpose of investing in crowdfunding, the perceived risk, and their motivation.

6.3.1 The Purpose of Investing in Crowdfunding

As presented in our empirical findings, all of our interviewees perceived the crowdfunding market as an attractive investment for several reasons. Most of our interviewees and survey respondents emphasized the need of diversifying their investments. Thus, many of the investors perceived crowdfunding as an excellent way of diversifying their overall investment portfolio. We saw that all of the interviewed investors invested in other investment products in parallel with crowdfunding, such as equity funds and stocks. This was also confirmed by our results from the survey. In addition, all of the investors had spread their investments over several projects. This is in line with our findings from the platform interviews, where Jørund Gjesvik from FundingParter explained that the investors have an 'auto-invest' thinking and that they put the same amount in multiple projects. Because all of the investors are highly focused on diversifying their investments, this is perceived as one of the main reasons for why they consider crowdfunding as an attractive investment opportunity. This is coherent with Footit et al. (2016), who explains that crowdfunding is a good source of diversification because the investments often are less correlated to stocks, bonds and cash return.

Although all of the interviewed investors and the survey respondents had a portfolio consisting of multiple investment products, our findings indicate that a minority perceived crowdfunding as an alternative which can potentially replace these products. In most cases, crowdfunding was perceived as an 'addition' or a 'supplement' to their already existing investment portfolio. Our findings also show that the investors' investments in crowdfunding accounts for a small part of their overall investment, at least for most of the investors. Because the investors are highly

focused on diversification, it is natural that they are not willing to invest heavily in crowdfunding relative to other products. In addition, the investors of crowdfunding tie up their capital over a period of time, especially in equity-based crowdfunding. It can be argued that because crowdfunding opens up for a lot of small investors, they may have the need for more liquid capital or ongoing withdrawals than wealthier investors. As a result, they may not put large amounts of their money into crowdfunding because they value more liquid assets.

6.3.2 The Perception of the Risk

We found that the invested amount and the reported return varied largely among our interviewees and survey respondents. Most of the investors of lending-based crowdfunding had received an average financial return from 8% to 10%. However, most of the investors in equity-based crowdfunding had not received any financial return yet. Investments in equity-based crowdfunding are usually tied up longer than investments in lending-based crowdfunding. In this context, most of our interviewees perceived equity-based crowdfunding as riskier than lending-based crowdfunding. When interviewing the investors of lending-based crowdfunding, we found that they valued the short period of time and the predictability of the investment. Equity-based crowdfunding represent a more unpredictable investment and usually have a longer duration. Therefore, we argue that the liquidity risk is one of the main reasons why investors consider equity-based crowdfunding riskier than lending-based crowdfunding. In addition, equity-based crowdfunding more often involves start-up companies than lending-based crowdfunding. Based on the Norwegian statistics, where only 27% of start-up companies succeeds over five years (SSB, 2018), start-ups are in general perceived as a risky business.

Although many investors were aware of the high risk associated with crowdfunding, some of them still perceived it as a safe investment – especially the investors of lending-based crowdfunding. We found that the reason they considered it a safe investment was because of the role of the platform. Three of our interviewees felt that the risk was reduced because of the platform and the people behind it. This is in line with our findings from the platform interviews, where the different platforms explained that they reduce the risk by having mandatory fields that needs to be filled out by the project creator. As explained earlier, our findings indicate that the investors may rely too much on the platforms. In this context, we found that two of the investors had personal relations to at least one employee at the platform they invested in. Therefore, relying on the platforms can be explained by Lin et al. (2012), who found that friendships increase the probability of funding because it signals credit quality for the investors.

Although the investors had no personal relations to the various project creators, they believed that the project was good because it was posted on a specific platform. We argue that these expectations to the platforms can be damaging as the platform themselves do not have any legal responsibility for the projects. This can result in loss of the invested capital, as the investors do not analyze the project thoroughly and base their decisions on emotionality (Bretschneider et al., 2015).

6.3.3 The Investors' Motivation

Bretschneider et al. (2015) explains that many investors base their decisions on social motivation instead of solid financial data. Our findings indicate that the motivation is two folded, depending on what type of crowdfunding the investors have invested in. We argue that the financial motivation is higher in lending-based crowdfunding, while investors in equity-based crowdfunding show a higher degree of emotional and social motivation. The various reasons behind the investments are illustrated in Figure 6.4.

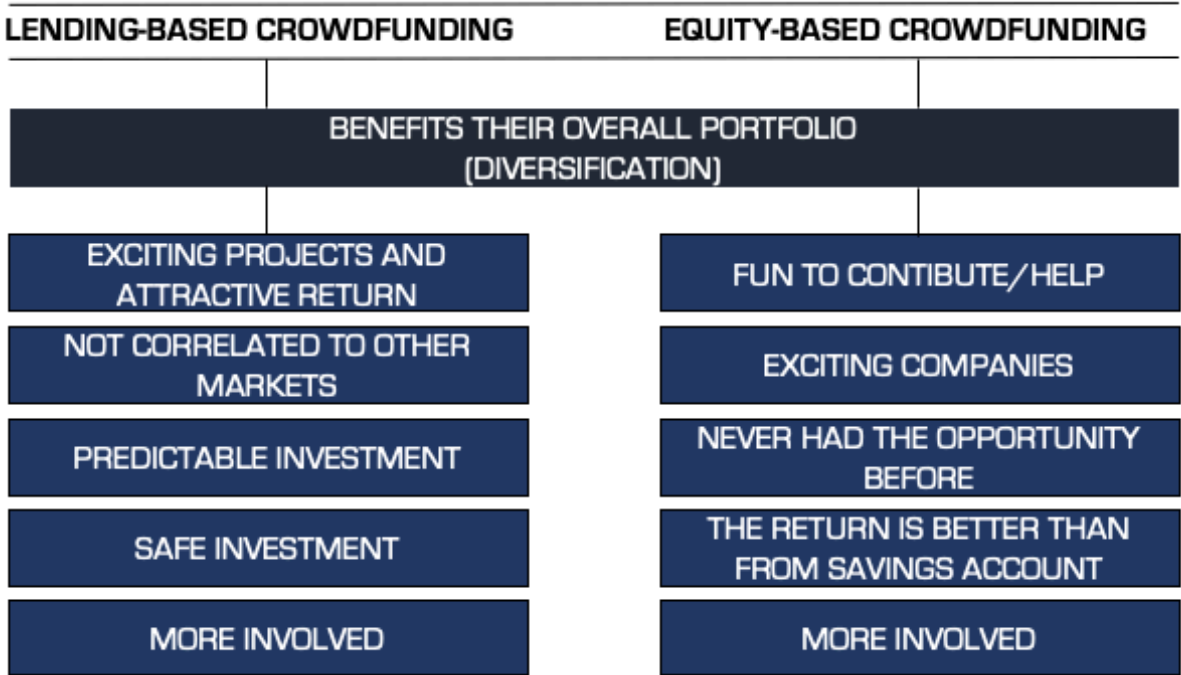


Figure 6.4 Reasons behind Investing in Crowdfunding.

Three of the main reasons of investing in crowdfunding was common among the investors in equity-based and lending-based crowdfunding. As mentioned earlier in our analysis, they all perceived crowdfunding as a great opportunity to diversify their investment portfolio.

Furthermore, two patterns appeared, which both were of emotional character; exciting projects and the feeling of involvement in the projects.

Our interviewees that had invested in lending-based crowdfunding were focused on the financial return when we asked them about the reason behind their investments. A common factor was that the investments provided them with an attractive return. As mentioned earlier, the return varies from 5% to 20% and the rate is fixed on each project (Kameo, 2019b; FundingPartner, 2019b; Monner, 2019b). Therefore, investments in crowdfunding can be more predictable compared to stocks and equity funds. This also represents one of the main reasons for investing in crowdfunding. Furthermore, some of the investors mentioned the fact that the investment is not correlated to other markets like on the stock exchange. Thus, they valued that the return fluctuates for other reasons than the stock market.

On the other hand, we found that the investors of equity-based crowdfunding had more emotional motivations for investing in crowdfunding. As shown in Figure 6.4, they explained that it was fun to help companies that needed funding. This is tightly correlated to the next reason; never had the opportunity to invest in start-ups before. Mollick and Robb (2016) explained that crowdfunding gives a voice to people who otherwise never had the chance to seek funding, let alone provide it. The market thus opens up for a new wave of investors. We argue that investors are motivated by being able to take a part in the journey of new companies, which they never had the opportunity to do before. However, although the investors show a high degree of emotional and social motivation when investing in equity-based crowdfunding, they were quite clear that they still expect to gain more from it financially than they would in regular savings accounts.

7 | CONCLUSION

Throughout this master thesis, we have complemented existing research on crowdfunding from an investor perspective. We have provided the reader with an in-depth understanding of Norwegian investors, and how we can categorize them by their investment characteristics. In addition, we have presented various perceptions of crowdfunding as an investment opportunity and developed a perception model with multiple factors that affects their perception. To conclude our research, we provide the reader with the answer to the research question based on our empirical findings. As a reminder, we repeat the research question;

RQ: *“How can we categorize the investors that participate in the Norwegian crowdfunding market today, and how do they perceive crowdfunding as an investment opportunity?”*

Our findings show that in order to categorize the investors, we can make use of the categorization of Sørheim and Landström (2001) regarding investment activity level and competence. In addition, we found that the categorization of Lin et al. (2014) also can be used to categorize the investors in project preference, with the exception from the category called “Altruistic Cluster”. Ultimately, we can also categorize the investors into what they base their investment decisions upon. Some of the investors base their decisions heavily on emotions, while others base their decisions more on financial data. The overall categorization of investors of equity-based and lending-based crowdfunding in Norway are as follows:

- (1) “Traders” are characterized with medium/high investment activity level (over 9 projects) and low competence. They have a preference for popular projects and their investment decisions are heavily based on emotionality.
- (2) “Business Angels” also have a medium/high investment activity level (over 9 projects), but they have high competence. These investors have a preference for high-quality projects and their decisions are usually based on solid financial data.
- (3) “Lotto Investors” are characterized with a low investment activity level (less than 9 projects) and they have low competence. These investors show no preference for specific projects and their investment decisions are based on emotionality.

- (4) “Analytical Investors” have low investment activity level (less than nine projects), but they have high competence. These investors prefer safer projects and their decisions are based on financial data.

In general, our results show that all of the interviewees and survey respondents viewed upon crowdfunding as an investment opportunity that benefit their overall investment portfolio. Mostly because it provides an opportunity to further diversify their investment, but also because it represents a new and exciting way of investing their money. Although most of the interviewees explained that they wanted to increase their share of investments in crowdfunding, most of them did not perceive crowdfunding as an alternative that had the potential of replacing other investment products. The majority considered crowdfunding as a supplement to their overall portfolio.

Most of the investors also perceived equity-based crowdfunding as riskier than lending-based crowdfunding. We argue that the reason behind this perception is because equity-based crowdfunding both represents an investment that is tied up longer than lending-based crowdfunding and because it often involves start-up companies. Furthermore, we believe that the investors consider equity-based crowdfunding as a risky investment because of the liquidity risk. However, lending-based crowdfunding was perceived safer. We argue that this reflects that the role of the platform reduces the associated risk and that loans either includes mortgages in property or are backed by debt-collection agencies.

Our findings also show that the investor motivation can be separated between the different types of crowdfunding. Investors in lending-based crowdfunding were more financial motivated, while investors in equity-based crowdfunding had a higher degree of emotional motivation. We have therefore addressed several gaps of the literature; on the investors’ perceptions, their expectations and experiences, and finally, the motivation behind the investments. Ultimately, there are several elements that affects the investors’ current perception of crowdfunding. These elements can also change the investors’ perception of crowdfunding in the future.

7.1 VULNERABILITY OF THE STUDY

Because our research is based on a qualitative approach, we find it necessary to reflect upon the vulnerability of our results. A qualitative study may be affected by subjective perceptions, which can influence the results and the conclusion. We reproduced most of our empirical

findings as quotes to ensure that the reader was provided with an accurate picture of the respondents' answers. In addition, we included the interview guide as an appendix (Appendix 2,3,4 and 6) to provide the reader with a better understanding of what happened during the various interviews.

The biggest limitation factor in our study is the sample size, as we interviewed only five different investors of crowdfunding. There are several reasons behind this low number of respondents. Firstly, it was challenging to get an overview of the investors. We did not know of anybody that had invested in crowdfunding, and most of the platforms could not help us with the recruitment process of investors because of privacy protection laws. Secondly, it was challenging to find investors that were willing to speak about their investments. This may be because they perceived the topic as sensitive, but also because in-depth interviews are time consuming. Ultimately, the market in Norway is currently in its initial phase. Thus, the number of Norwegian investors is limited. We created the survey, in which we got 25 respondents, to strengthen the quality of our findings.

Based on our sample size, our results and findings cannot be generalized to all of the investors in crowdfunding. However, we still believe that our thesis can contribute to existing literature about crowdfunding. By answering the research question, we hope that we have clarified some features about the investors' perceptions of crowdfunding that has not yet been discussed in the literature.

7.2 SUGGESTIONS FOR FURTHER RESEARCH

Our results can serve as a basis for further research. In order to draw more general conclusions, the sample size of investors needs to be bigger. Only then can we find out if our findings are representative for all investors in equity-based and lending-based crowdfunding. Furthermore, since the crowdfunding market in Norway is relatively new, research on this market and its participants still has a long way to go.

The investors' disposition of trust has been highlighted in our study, especially their trust in crowdfunding platforms. It would be interesting to examine this relationship closer from the perspective of both investors and platforms. We suggest to research if and how the crowdfunding platforms actually reduce the investor risk to see if this contradicts with the

investors' perception. In this context, it will be intriguing to reflect upon the danger of asymmetric information and moral hazard.

Another suggestion is to go deeper into the investors' investment motivation and their decision-making process. In this context, it would be interesting to study the female investors of crowdfunding to see if their motivations and decisions differ from male investors studied in this thesis. Our results suggest that investors found the limitation of time when deciding which project to invest in as challenging. We therefore suggest focusing on the time aspect and if the limitation of time affects the risk on a bigger sample of investors.

Furthermore, we have only studied the investor side of the Norwegian crowdfunding market. Future research might want to investigate the crowdfunding market from a project creator perspective. An example of how such research might be conducted, is a qualitative study of the project creators and how they perceive crowdfunding as an opportunity for external financing. In addition, it would be interesting to study if closer relationships with investors affect the success of project creators.

Ultimately, it could be very interesting to carry out this study in a wider context, with a wider selection, to investigate whether our findings can be generalized.

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APPENDIX

Appendix 1: Request to Crowdfunding Platforms

Hi,

Our names are Marita Kummervold Olsen and Stine Jacobsen, and we are both master students at NTNU Business School in Trondheim. We are currently writing a master's thesis about crowdfunding, where we wish to identify who the investors are and what their strategies are. The background and motivation for the study is the tremendous growth of crowdfunding worldwide, and we want to address why the investors perceive crowdfunding as an attractive investment opportunity. In addition, we see that the growth in Norway is lower than our neighboring countries. Therefore, we want to see if there are any specific reason for this.

There is a lack of research on the investor-side of crowdfunding, especially in the Nordic countries. Based on this, we wish to collect data material about the investors that are registered on your platform.

What kind of data are of interest?

We want to collect data that provides us with statistics about what kind of investors are registered on your platform – institutional clients, hedge funds, family-offices, private persons or small companies – to create an understanding of the Norwegian market. We do not need any detailed information about the investors, only the type of investor and their size.

It will also be beneficial if you have some data material involving what kind of projects that the investors are interested in. We also wish to perform an interview with you or with other relevant persons at Kameo to gain insights around the thesis' topic.

Do not hesitate to contact us if you have further questions. Feel free to contact us on this e-mail or by phone [REDACTED]. We look forward to hearing from you.

Best regards,

Marita Olsen and Stine Jacobsen.

Appendix 2: Interview Guide (Folkeinvest)

The following interview guide was used to interview the platform Folkeinvest, February 6, 2019. At first, we presented ourselves and our master's thesis, including the background, motivation, research question and approach. Further, we asked if they wanted to remain anonymous if we were to quote them in our thesis or if we could use their names. Ultimately, we asked for permission to record the interview and if they had any questions before we started the interview.

Opening Questions

1. Can you explain the cooperation between *BANK* and Folkeinvest?
2. When was Folkeinvest launched?
3. What are your thoughts about the FSA shutting the business down due to the lack of concession?

Main Questions

1. Can you describe the composition of investors registered on your platform?
2. Does some of the share issues receive higher interest than others?
 - a. In that case, which projects?
3. What are your thoughts on why crowdfunding can be considered as an attractive investment opportunity?
4. Do you have any statistics showing how many projects closed down after the share issue?
5. Do you have any data considering how many investors have lost money on their investments?
6. Considering the risk aspect of equity-based crowdfunding, what do you do to communicate or reduce the investor risk?
7. Do you have any fees for the investors at your platform?
8. What is the minimum amount of money an investor can invest?
9. What happened to the completed projects when you were shut down by the FSA?
10. Do you have any policy regarding the duration of projects?

Closing Questions

Are there anything we have not discussed, that you believe is of importance to our study?

Appendix 3: Interview Guide (FundingPartner)

The following interview guide was used to interview the platform FundingPartner, February 8, 2019. We used the same procedure as with Folkeinvest to start the interviews. The questions asked are found below:

Opening Questions

1. Can you describe the collaboration between *BANK* and FundingPartner?
2. When was FundingPartner launched?
3. In your e-mail, you mentioned that crowdlending was not allowed in Norway until 2017. What do you mean with 'not allowed'?

Main Questions

1. In your e-mail, you write that there are 93% private persons and 7% investment companies that have registered themselves on your platform as investors. Do you have any statistics of the share of women/men?
2. You further wrote that you only had published 6 loans and therefore, it was difficult to say something about the demand of certain projects. What do you think is the reason behind the great demand for these investments?
3. Are there any companies that have applied for loan who have not repaid it to the investors?
 - a. Are there any companies that have gone bankrupt?
4. Do you have any statistics showing how many investors that have lost money on their investments?
5. Given the risk of losing invested funds, what do you do to communicate or reduce the investor risk?
 - a. Do you offer any standardized 'bundling' products with the intention of diversifying the risk, like LendingClub does?
6. In what way do you find that investors diversify their investments on your platform?
7. Do you have any investor fees?
 - a. What about the project creators?
8. When are the return paid out to the investors? (Annually, monthly etc.?)
9. What is the expected return for investors?
 - a. Do you have any data showing the average return so far?

Closing Questions

1. Are there anything we have not discussed, that you believe is of importance to our study?
2. Considering the proposal for regulations that you mentioned in the e-mail, what are your thoughts on this? What will it do to the market if they were to be approved?

Appendix 4: Interview Guide (Kameo)

The following interview guide was used to interview the platform Kameo, February 8, 2019. We used the same procedure to start the interview as with Folkeinvest and FundingPartner. The questions for Kameo were the following:

Opening Questions

1. When was Kameo launched?
2. What is the reason behind the shutdown of Kameo?
3. Can you describe the collaboration between *BANK* and Kameo?

Main Questions

1. Can you describe the composition of investors registered on your platform?
 - a. Share of private persons and companies?
2. Are there any types of loans that acquire more interest than others?
 - a. What types of loans?
3. Do you have any thoughts about why investing in loans can be considered as an attractive investment?
4. Are there any companies that have applied for loan who have not repaid it to the investors?
 - a. Are there any companies that have gone bankrupt?
5. Do you have any statistics showing how many investors that have lost money on their investments?
6. Do you have any minimum/maximum limit for the investors?
7. Given the risk of losing invested funds, what do you do to communicate or reduce the investor risk?
8. In what way do you find that investors diversify their investments on your platform?
9. Do you have any investor fees?
 - a. What about the project creators?
10. When are the return paid out to the investors? (Annually, monthly etc.?)
11. What is the expected return for investors?
 - a. Do you have any data showing the average return so far?

Closing Questions

1. Are there anything we have not discussed, that you believe is of importance to our study?
2. Considering the proposal for regulations today, what are your thoughts on this? What will it do to the market if they were to be approved?

Appendix 5: Request to Investors

Hi,

Me and Stine Jacobsen are currently writing a master's thesis at NTNU Business School, which deals with the investor-side of the Norwegian crowdfunding market. In this context, we are looking for investors who have invested in equity-based and lending-based crowdfunding who are willing to attend to an interview with us.

In our master's thesis, we want to address who the investors are and what their investment strategy is. The background for the study is that the crowdfunding market has grown considerably worldwide and in Norway over the past two years. Therefore, we wish to understand why the investors consider crowdfunding as an attractive investment opportunity. There is very little research that explains the investors' perception of the crowdfunding market and the associated risk, especially in the Nordic countries. Based on this, we want to obtain an in-depth knowledge about the topic from interviews with relevant investors.

Do you want to set up an interview with us? Feel free to contact us either here on Facebook or send us an e-mail at marikols@stud.ntnu.no. We can of course perform the interview over Skype or phone if you do not live in Trondheim.

We want to emphasize that the interview is strictly anonymous and no personal information will be asked for or used in our thesis. We hope to hear from you!

Appendix 6: Interview Guide Investors

The following interview guide was used to interview all of our investors. We started out all of the interviews with presenting our research question and explained what we wanted to achieve with our thesis. The following questions were asked:

Opening Questions

1. Where and when did you first hear about the opportunity to invest in crowdfunding?
 - a. How long have you invested in crowdfunding?

Main Questions

1. Why did you choose to invest in crowdfunding?
 - a. Why crowdfunding instead of other investment opportunities?
2. How would you describe your experience with investing in crowdfunding so far?
3. Do you have a viewpoint about why the market in Norway shows less growth than other countries?
4. How do you decide what projects/companies to invest in? Are there any specific elements that affects your choice?
5. What returns have you received on your investments so far?
6. Have you lost any money on your investments?
7. How do you experience the risk involved with investing in crowdfunding?
 - a. What do you do to fully understand the risk involved in the projects/companies?
8. Do you invest in other products (shares, bonds, funds etc.)?
 - a. If yes, do you invest in these products through a bank or directly from the stock exchange?
9. Do you perceive investing in crowdfunding as an alternative to investing shares, stocks, bonds etc.?
10. How would you describe the strategy behind the investments?
 - a. Do you have an overall strategy for your total investment portfolio? How does crowdfunding fit into this strategy?
11. Do you diversify your investment over multiple projects/companies?
 - a. Do you invest in various projects/companies in multiple branches/industries?
Is this an active choice?
12. In general, do you have any thoughts about the regulation concerning crowdfunding?

For those who had invested in Equity-Based Crowdfunding:

1. Do you communicate with the company you have invested in?
2. How is the performance of the company so far?

For those who had invested in Lending-Based Crowdfunding:

1. Do you intentionally choose projects in a specific risk class?
2. What are your thoughts about the duration of the loans? We have an impression that most of these loans are only one to two years. Do you think a longer horizon is too risky?

Closing Questions

1. What type of crowdfunding have you invested in (loan, equity), and through which online platform?
2. How much have you invested in crowdfunding in total, and how much in each project/company?
 - a. If loans: would you have invested more if there were no regulation that regulated the market?
3. Are you, in some way, connected to the companies you have invested in?
4. What type of industry/branch do you work in?

Appendix 7: Survey Questions and Answers

In this appendix, we present all of our survey questions and answers. We find it necessary to clarify that the respondents were able to choose multiple alternatives on some questions. Therefore, some of the percentages surpasses 100%.

[1] What type of Crowdfunding have you invested in?	
Lending-Based Crowdfunding	60%
Equity-Based Crowdfunding	16%
Both of the above	24%
Something else	0%

[2] Have you invested through foreign crowdfunding platforms?	
Yes	20%
No, only Norwegian ones	80%

(3) When did you invest in Crowdfunding for the first time?

2012	4%
2013	4%
2014	0%
2015	4%
2016	8%
2017	24%
2018	44%
2013	12%

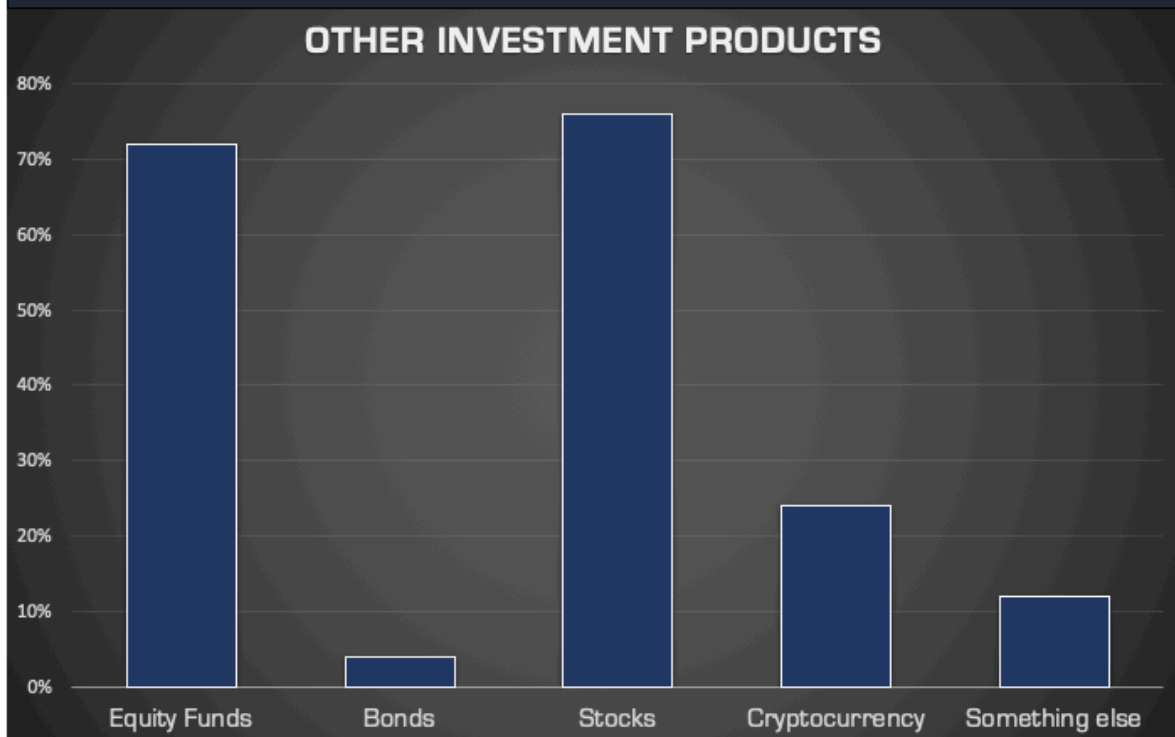
(4) What industry/branch do you work in?

Real Estate (2x)	IT Student	IT (4x)	Retired (2x)
Technology (2x)	Public Management	Teaching (2x)	Finance (2x)
Crowdfunding (2x)	Advisory	Child Welfare	Law
Public Administration	Sale of Medical Equipment	Farm Employee	Health Service

(5) Do you invest in other Investment Products?

Yes	92%
No	4%
I don't know	4%

(6) If you answered "Yes" on the previous question, what kind of products?



[7] Do you perceive Crowdfunding as an alternative to these Investment Products?

Yes	44%
No	0%
I perceive it as a supplement	52%
I don't know	4%

[7] Do you perceive Crowdfunding as an alternative to these Investment Products?

Yes	44%
No	0%
I perceive it as a supplement	52%
I don't know	4%

(8) Range from "most important" to "less important". Why did you invest in Equity-Based Crowdfunding?

Because I want to help start-ups that struggles with receiving funding.

Most Important (9.1%)	Important (22.7%)	A bit Important (50%)	Not so Important (13.6%)	Not at all Important (4.5%)
--------------------------	----------------------	--------------------------	-----------------------------	--------------------------------

Because I want to help companies get through the first difficult phase.

Most Important (6.3%)	Important (12.5%)	A bit Important (43.8%)	Not so Important (31.3%)	Not at all Important (6.3%)
--------------------------	----------------------	----------------------------	-----------------------------	--------------------------------

Because I am terrified of missing out on a great opportunity.

Most Important (6.3%)	Important (18.8%)	A bit Important (37.5%)	Not so Important (18.8%)	Not at all Important (18.8%)
--------------------------	----------------------	----------------------------	-----------------------------	---------------------------------

Because I have the money to declare.

Most Important (6.3%)	Important (31.3%)	A bit Important (31.3%)	Not so Important (18.8%)	Not at all Important (12.5%)
--------------------------	----------------------	----------------------------	-----------------------------	---------------------------------

Because it represents a good savings opportunity.

Most Important (6.3%)	Important (43.8%)	A bit Important (18.8%)	Not so Important (25%)	Not at all Important (6.3%)
--------------------------	----------------------	----------------------------	---------------------------	--------------------------------

Because I am more involved with the investments.

Most Important (6.3%)	Important (37.5%)	A bit Important (50%)	Not so Important (0%)	Not at all Important (6.3%)
--------------------------	----------------------	--------------------------	--------------------------	--------------------------------

Because I have never had the opportunity to invest in start-ups before.

Most Important (12.5%)	Important (12.5%)	A bit Important (37.5%)	Not so Important (31.5%)	Not at all Important (6.3%)
---------------------------	----------------------	----------------------------	-----------------------------	--------------------------------

Because the risk is high.

Most Important
(0%)

Important
(12.5%)

A bit Important
(31.3%)

Not so Important
(31.3%)

Not at all
Important (25%)

Because the risk is low.

Most Important
(0%)

Important
(0%)

A bit Important
(12.5%)

Not so Important
(50%)

Not at all
Important
(37.5%)

[9] Range from "most important" to "less important". Why did you invest in Lending-Based Crowdfunding?

Because it is more exciting than other investment products.

Most Important
(0%)

Important
(55.6%)

A bit Important
(11.1%)

Not so Important
(22.2%)

Not at all
Important
(11.1%)

Because it is a safe investment.

Most Important
(0%)

Important
(20%)

A bit Important
(26.7%)

Not so Important
(40%)

Not at all
Important
(13.3%)

Because I get a return that is not correlated to other assets.

Most Important
(7.1%)

Important
(50%)

A bit Important
(28.6%)

Not so Important
(7.1%)

Not at all
Important (7.1%)

Because the investment is easy to implement.

Most Important (7.1%)	Important (57.1%)	A bit Important (28.6%)	Not so Important (7.1%)	Not at all Important (0%)
--------------------------	----------------------	----------------------------	----------------------------	------------------------------

Because the return is attractive and predictable.

Most Important (14.3%)	Important (57.1%)	A bit Important (14.3%)	Not so Important (0%)	Not at all Important (14.3%)
---------------------------	----------------------	----------------------------	--------------------------	---------------------------------

Because of the high risk.

Most Important (0%)	Important (21.4%)	A bit Important (42.9%)	Not so Important (28.6%)	Not at all Important (7.1%)
------------------------	----------------------	----------------------------	-----------------------------	--------------------------------

Because of the low risk.

Most Important (0%)	Important (7.1%)	A bit Important (42.9%)	Not so Important (50%)	Not at all Important (0%)
------------------------	---------------------	----------------------------	---------------------------	------------------------------

Because Crowdfunding provides a quick return.

Most Important (7.1%)	Important (14.3%)	A bit Important (35.7%)	Not so Important (35.7%)	Not at all Important (7.1%)
--------------------------	----------------------	----------------------------	-----------------------------	--------------------------------

Because I want to help companies that needs funding.

Most Important (21.4%)	Important (21.4%)	A bit Important (42.9%)	Not so Important (14.3%)	Not at all Important (0%)
---------------------------	----------------------	----------------------------	-----------------------------	------------------------------

Because I want to diversify my overall investment portfolio.

Most Important (21.4%)	Important (57.1%)	A bit Important (14.3%)	Not so Important (0%)	Not at all Important (7.1%)
---------------------------	----------------------	----------------------------	--------------------------	--------------------------------

[10] Have you formulated a specific strategy for your overall investment portfolio?

Yes	40%
No	60%

[11] If you answered "Yes" on the previous question, how would you describe your strategy?

No Answers (18x)	Diversification of stocks, funds and crowdfunding (3x)	Invest where the risk-adjusted return is perceived the best	Many small loans (diversified) to projects I believe in
It provides me secure earnings even when the stock market goes south. I weight more in Crowdfunding than stocks if I think the stock market doesn't have much to go on.		Diversification of funds and solid dividend shares. Crowdfunding is a small and risky supplement.	

[12] How would you describe yourself when it comes to risk?

Risk Averse (avoids risk)	0%
Risk Neutral (neutral relationship to risk)	56%
Risk Willing (seeks risk)	44%

[13] How do you perceive the risk involved with Lending-Based Crowdfunding?

Very High	4%
High	40%
Neither High or Low	40%
Low	8%
Very Low	0%

[14] How do you perceive the risk involved with Equity-Based Crowdfunding?

Very High	44%
High	28%
Neither High or Low	16%
Low	4%
Very Low	0%

[15] Complete the following sentence: "In order to fully understand the risk of each project, I..."

Skim quickly through the information published on the platform	20%
Read thoroughly through the information published on the platform.	24%
Read the information published on the platform and I study the key figures (accounting/budget)	40%
Read the information published on the platform and collect external data from online sources	16%
Read other stuff	4%

[16] If you invest in Lending-Based Crowdfunding, do you only choose products after a specific risk class?

Yes	20%
No	64%
I have not invested in Lending-Based Crowdfunding	16%

[17] If you answered "Yes" on the previous question, what risk class do you choose?

A-B	57.1%
B-C	57.1%
C-D	57.1%
D-E	28.6%
E-F	14.3%
F-G	0%

(18) Range from "most important" to "less important". What factors are important when you decide to invest in a project (Lending-Based Crowdfunding)?

Solid Key Figures

Most Important (4.8%)	Important (61.9%)	A bit Important (28.6%)	Not so Important (4.8%)	Not at all Important (0%)
--------------------------	----------------------	----------------------------	----------------------------	------------------------------

Interest in the success of the project.

Most Important (29.4%)	Important (47.1%)	A bit Important (23.5%)	Not so Important (0%)	Not at all Important (0%)
---------------------------	----------------------	----------------------------	--------------------------	------------------------------

Attractive return.

Most Important (29.4%)	Important (64.7%)	A bit Important (5.9%)	Not so Important (0%)	Not at all Important (0%)
---------------------------	----------------------	---------------------------	--------------------------	------------------------------

The people behind the project need to be hard workers.

Most Important (17.6%)	Important (47.1%)	A bit Important (23.5%)	Not so Important (11.8%)	Not at all Important (0%)
---------------------------	----------------------	----------------------------	-----------------------------	------------------------------

The company must have existed over a longer period of time.

Most Important (0%)	Important (17.6%)	A bit Important (58.8%)	Not so Important (23.5%)	Not at all Important (0%)
------------------------	----------------------	----------------------------	-----------------------------	------------------------------

The return must correspond to the associated risk.

Most Important (35.3%)	Important (52.9%)	A bit Important (5.9%)	Not so Important (5.9%)	Not at all Important (0%)
---------------------------	----------------------	---------------------------	----------------------------	------------------------------

There must be a form for guarantee in the loan.

Most Important (29.4%)	Important (41.2%)	A bit Important (17.6%)	Not so Important (11.8%)	Not at all Important (0%)
---------------------------	----------------------	----------------------------	-----------------------------	------------------------------

I need to understand what can go wrong before I lose the money.

Most Important (23.5%)	Important (64.7%)	A bit Important (11.8%)	Not so Important (0%)	Not at all Important (0%)
---------------------------	----------------------	----------------------------	--------------------------	------------------------------

[19] Range from "most important" to "less important". What factors are important when you decide to invest in a project (Equity-Based Crowdfunding)?

I need to believe in the company and what they do ('gut-feeling')

Most Important (47.1%)	Important (47.1%)	A bit Important (5.9%)	Not so Important (0%)	Not at all Important (0%)
---------------------------	----------------------	---------------------------	--------------------------	------------------------------

I need to believe that I will receive a financial return over time.

Most Important (28.6%)	Important (50%)	A bit Important (21.4%)	Not so Important (0%)	Not at all Important (0%)
---------------------------	--------------------	----------------------------	--------------------------	------------------------------

The companies need to be exciting.

Most Important (14.3%)	Important (35.7%)	A bit Important (42.9%)	Not so Important (0%)	Not at all Important (7.1%)
---------------------------	----------------------	----------------------------	--------------------------	--------------------------------

I need to understand the company and their plans.

Most Important (14.3%)	Important (71.4%)	A bit Important (14.3%)	Not so Important (0%)	Not at all Important (0%)
---------------------------	----------------------	----------------------------	--------------------------	------------------------------

The company must be developed so that they already are selling their products.

Most Important (0%)	Important (35.7%)	A bit Important (42.9%)	Not so Important (21.4%)	Not at all Important (0%)
------------------------	----------------------	----------------------------	-----------------------------	------------------------------

There must be market demand for the project.

Most Important (14.3%)	Important (78.6%)	A bit Important (7.1%)	Not so Important (0%)	Not at all Important (0%)
---------------------------	----------------------	---------------------------	--------------------------	------------------------------

I need to have knowledge about the market that the company operates within.

Most Important (0%)	Important (7.1%)	A bit Important (78.6%)	Not so Important (14.3%)	Not at all Important (0%)
------------------------	---------------------	----------------------------	-----------------------------	------------------------------

(20) Rate from most to less important. What do you believe is the reason behind the relatively low growth of crowdfunding in Norway compared to other European countries?

(1) Crowdfunding is still very new. Therefore, people are not aware that it represents an investment opportunity.

3,3

(2) The Norwegian FSA was slow with providing a regulatory framework for crowdfunding.

2,8

(3) Most people are sceptic towards crowdfunding and they perceive it as too risky.

2,2

(4) The banks have an important role in Norway. Thus, people wish to place their money into savings account.

1,6

(21) Do you believe that the Crowdfunding market in Norway will grow over the coming years?

Yes

100%

No

0%

(22) Have you diversified your investments in Crowdfunding over multiple projects?

Yes

88%

No

12%

[23] If you answered "Yes" on the previous question, over how many projects?

0-10 Projects	72.2%
10-20 Projects	16.7%
20-30 Projects	5.6%
More than 30 Projects	5.6%

[24] Have you deliberately diversified your investments in Crowdfunding over multiple branches/industries?

Yes	48%
No	48%
I don't know	4%

[25] Have you invested more frequently in one industry?

Yes	52%
No	44%
I don't know	4%

[26] If you answered "Yes" on the previous question, in what industry?

No Answers (11x)	Real Estate (7x)	Real Estate Projects	Real Estate with guarantees
Luxury goods and pleasure	Real Estate, because it represents the majority of loans in Norway.	Beer Brewing	

[27] How much have you invested in Crowdfunding in total?

0-50.000 NOK	44%
50.000-100.000 NOK	32%
100.000-200.000 NOK	16%
200.000-500.000 NOK	4%
500.000-1.000.000 NOK	4%
More than 1.000.000 NOK	0%

[28] Are your investments in Crowdfunding evenly spread out over the multiple projects?

Yes	44%
No	56%
I don't know	0%

[29] How much does the Crowdfunding investment represent of your total investment portfolio?

0-10%	40%
10-20%	20%
20-30%	8%
30-40%	8%
40-50%	4%
50-60%	8%
90-100%	4%
I don't know	8%

(30) Have you experiences that any of the companies you invested in went bankrupt?

Yes	28%
No	72%
I don't know	0%

(31) If you have invested in Lending-Based Crowdfunding, what is your average return?

5-7%	16.7%
8-10%	54.2%
10-12%	0%
12-15%	4.2%
I have not received any return yet.	8.3%
I have not invested in Lending-Based Crowdfunding.	16.7%

(32) If you have invested in Equity-Based Crowdfunding, what is your average return?

5-7%	0%
8-10%	4%
10-12%	0%
12-15%	4%
I have not received any return yet.	40%
I have not invested in Lending-Based Crowdfunding.	50%

(33) After the investments, have you had any contact with the companies?

Yes	44%
No	56%
I don't know	0%

[34] If you answered "Yes" on the previous question, what type of contact?

Through Social Media

Very Often (14.3%)	Often (14.3%)	Sometimes (21.4%)	Rarely (28.6%)	Never (21.4%)
-----------------------	------------------	----------------------	----------------	---------------

I receive reports/updates

Very Often (0%)	Often (25%)	Sometimes (47.1%)	Rarely (8.3%)	Never (25%)
--------------------	----------------	----------------------	---------------	-------------

Via E-mail

Very Often (0%)	Often (9.1%)	Sometimes (36.4%)	Rarely (27.3%)	Never (27.3%)
--------------------	-----------------	----------------------	----------------	---------------

Via Phone

Very Often (0%)	Often (0%)	Sometimes (9.1%)	Rarely (18.2%)	Never (72.7%)
--------------------	---------------	---------------------	----------------	---------------

Personal Communication

Very Often (0%)	Often (0%)	Sometimes (9.1%)	Rarely (45.5%)	Never (45.5%)
--------------------	---------------	---------------------	----------------	---------------

Via the platform "Crowdworks"

Very Often (0%)	Often (0%)	Sometimes (0%)	Rarely (0%)	Never (100%)
--------------------	---------------	-------------------	-------------	--------------

[35] Would you prefer more contact with the companies?

Yes

24%

No

52%

I don't know

24%

[36] Do you have any personal relations to the companies you have invested in?

Yes	20%
No	80%
I don't know	0%

[37] If you answered "Yes" on the previous question, what kind of relation is this?

No Answers (21x)	Customer Relationship	Colleague/Network (2x)	Friends
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