



Peer-to-peer Finance Report

The report below provides background information and some analysis as part of a series of events jointly organized by NESTA and OpenBusiness.cc called [WeBank](#).

This report focuses on a number of emerging finance businesses that all utilize the internet to *dis-intermediate* traditional financial organizations and mechanisms by increasing the level of direct financial interaction of remote individuals. In other words, individuals are offered ways to act together collectively and engage in financial activities such as borrowing, lending, investing and currency exchange, without the traditional intermediary of a bank.

Both in terms of the number of businesses it covers and in the analysis it provides, this report is not exhaustive. It merely presents the start of a growing collection of business models in what has been called peer-to-peer (P2P) finance, or social or web 2.0 finance. On the internet, peer-to-peer describes a technical means of interaction in which members of a network are treated as equals, enabling fast file transfers by using and sharing computing resources collectively. In this context P2P could, of course, also stand for 'person to person' interaction.

It has to be noted that innovative online financial solutions have received an increasing level of attention from mainstream media, particularly in recent months. The Wall Street Journal, for example, published an article in December 2008 entitled 'Peer Loans Ease the Credit Crunch', and indeed they currently offer higher returns on investments than traditional banks.¹ The Harvard Business Review, meanwhile, has included P2P finance on its list of 'breakthrough ideas' for 2009.²

¹ <http://online.wsj.com/article/SB122862542958985749.html>

² <http://hbr.harvardbusiness.org/web/2009/hbr-list/forget-citibank-borrow-from-bob>

A Short History of P2P Finance

The oldest players in the P2P finance market are the UK based company Zopa and the US business Prosper. According to the P2P Banking Blog, Prosper had funded \$178 million and Zopa £32 million by the end of January 2009 and had both been in business for over 4 years.

However impressive these numbers may appear given the fact that these businesses started out of nowhere just a few years ago, their turnover is still negligible when compared with traditional financial institutions. It is also noteworthy that Prosper, which provides more direct interaction between borrowers and lenders, has run into problems with the American finance regulator and is facing numerous law suits.

At the same time, Prosper and Zopa have both acted as poster-children for a small revolution. The model of 'person-to-person-lending' via the internet was virtually untested just 4 years ago, yet there are now well over 30 companies active in this field in countries ranging from Germany, Holland, Italy, France, Sweden and Japan.

An interesting characteristic of these businesses is that they are all focussed on one national market, mirroring the fragmentation of financial regulation (in this context) into nationally confined markets. In contrast, Kiva, a P2P lender with the mission to lend money from people in the developed world to entrepreneurs in the developing world, transfers money across national borders. So far it has funded \$57.9 million worth of loans.

Whilst it is too early to draw any meaningful conclusions on whether or not the financial crisis marks an opportunity for P2P banking to grow at a faster rate and advance into the mainstream, several indicators point in this direction:

P2P finance offers higher returns

Saving accounts in banks currently provide very little return. In contrast, P2P businesses promise returns on investment of often more than 5% (ranging to more than 10%). However, these are potentially risky investments as some services offer no insurance against defaults, although Zopa and others claim to have default rates as little as 0.2%. German based P2P lender Smava recently introduced an insurance scheme making lending less risky, but increasing its costs.

P2P volumes increase

Members of the small community of entrepreneurs in the field report notable increases in uptake, however this cannot be verified as the available data is insufficient. P2P Banking Blog states that the loan growth rate for Zopa in the months November, December and January has been at £1.5 million. Also, 2008 saw new businesses open in this market at a faster rate than in any previous year.

More Experiments with P2P models

As pointed out above, the market offerings have grown from relatively small incumbents such as Zopa, Prosper and Kiva to more than 30 worldwide, varying significantly in terms of business processes. Some put borrowers and lenders into direct contact, others hold auctions and aggregate investments into bands, making the process anonymous. In addition, though philosophically related, other very different business models are being tested, such as bringing the thousands of years-old 'rotating savings and credit associations' (ROSCAs) online; enabling currency transfers by matching supply and demand between individuals; and focussing on confined communities such as MBA alumni lending to MBA students. And apart from companies offering new ways to borrow and lend money, we can also see innovation in areas such as collective investment into music and film production, as well as schemes to collectively 'buy a football club', such as MyFootballClub, which brought 50,000 people together.

It is particularly interesting to watch experiments such as Sellaband, which offers musicians a space to upload their music and distribute it for free and also engage directly with fans. Whilst, in this sense, Sellaband functions much like MySpace, it has combined this function with a distributed investment model. If an artist reaches \$50,000 in investment s/he will be recorded professionally while the investors (the fans) get free CD's and a slice of advertisement income in return. However, although more than 30 artists have reached this goal, it seems unclear if the financial return mechanism works, or if the entrepreneurs behind Sellaband have instead created an ingenious record label by minimizing their investment costs in an artist, whilst providing fans with an emotionally gratifying means of engaging with that artist.

Political awareness is increasing

While the companies examined here have generally been considered too small to appear on the radars of regulators and politicians, there are several indications that this is changing. The SEC in the US has started to investigate Prosper, while others are reportedly actively working with the national regulator.

In addition, and closer to home, in January 2009 the European Parliament called for a legislative framework to encourage micro-lending schemes.³ Interestingly, the EU Parliament states: 'Microcredit – the provision of small loans to very small businesses and other borrowers who might not approach the mainstream financial system – originally emerged in the developing world, but it also has a useful role to play in stimulating grass-roots economic activity in Europe.' Again, it is too early to say whether or not current regulatory set-ups hinder the emergence of finance mechanisms which could operate at lower costs compared to banks and also offer credit to consumers otherwise marginalized. It is also not clear whether P2P approaches represent an inherently lower risk than traditional financial institutions, or if they are just another form of the same risk, only with part of it transferred to the awareness of individuals.

Some Open Questions

It seems a question of how long before we see more successful adaptations of the above, and not whether P2P finance has a future. But it remains an open question whether or not we will see a traditional finance institution putting its marketing muscle behind a P2P finance business.

It is also not clear how well most of these business models scale. The problems surrounding US based Prosper (law suits etc) might indicate that even a system which is supposed to cut out the middleman needs strong regulation and new ethical frameworks. How much lending and borrowing that can be facilitated via the internet, whilst maintaining acceptable risk, and without an ever increasing army of humans checking credit worthiness remains to be seen. One can equally make the point that while the internet makes P2P lending possible, it does not necessarily make borrowing and lending cheaper, or safer. On the other hand new firms do often have the advantage of embracing new technologies more effectively than

³ http://www.europarl.europa.eu/news/expert/infopress_page/042-46576-019-01-04-907-20090119IPR46575-19-01-2009-2009-false/default_en.htm

incumbents and are more likely to explore radically different business processes, which could result in a less costly, lower risk finance environment. We simply do not know at this point what the outcome of the above will be, but the opportunity alone makes it worthwhile to keep exploring new ways of approaching finance online, catering to people's needs in a different way by allowing them to engage more directly with each other. As one participant of the WeBank event at Nesta noted: "Either P2P banking does not scale and is of no interest to banks, or it is the biggest threat to business that ever existed".

Finally, one last question to consider is how much potential there is for more radical business models to be developed in the future, models which go even further, combining the characteristics of businesses such as Zopa and Prosper (lending and borrowing), with models involving collective investment. In other words, is there scope for a highly distributed ownership of a banking system?

The only thing that seems certain is that 2009 will see more innovation in online finance. In the report below, we offer an overview of these emerging businesses and encourage the reader to contact us at info@openbusiness if they have corrections and additions.



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Company Profiles

Zopa

<http://uk.zopa.com/ZopaWeb/>



Who are they?

Zopa – the Zone of Possible Agreement – was set up by many of the team who launched Egg, and is backed by Benchmark Capital (which backed eBay), Wellington Partners, Bessemer Venture Partners (the VC firm which backed Skype), Tim Draper and The Rowland Family.

What do they do?

Zopa puts lenders and borrowers directly in touch and promises better rates for both by cutting out the middleman, though in actual fact it only decreases the role of the middleman. The site acts as a facilitator for transactions and makes sure debts are repaid.

How does it work?

Borrowers

People can borrow from £1000 to £15,000 under contracts of £10 each, in multiples of £100. Borrowers must submit to being credit-checked, and to having the results made publicly available on their profile. On the basis of this and other information collected during registration, they are assigned to one of four different markets (A*, A, B, C and 'Young'). In the less 'credit-worthy' markets, borrowers will pay significantly higher interest rates, to account for the statistically greater 'bad debt' rate. The 'market rate' for each of the four classes of borrower is determined globally and not on an individual basis.

The funds are then reserved and, after more checks with credit reference agencies, Zopa approve the loan. The money is then paid directly into the borrower's bank account, often within a few days. Any defaults or late payments will affect a borrower's credit rating, as with a standard bank loan.

Lenders

Zopa lenders first transfer the amount they wish to lend into their Zopa holding account. This is a segregated account which is operated by Zopa and specified as containing money owned by Zopa members.

Zopa lenders can lend any amount from £10 to upwards of £25,000. Offers are made in amounts of £10 to each borrower, although the highest number of contracts any one borrower can have with a single lender as a result of his or her successful bids is 20. Lenders can choose their rates and loan lengths, and whether they want to lend in the A*, A, B, C or Young markets. Zopa provide information - including market data and expected levels of bad debt - to help lenders choose their terms.

Zopa estimate that lenders should make a 9.1% return per year if all the money repaid is lent out again (after fees and before bad debt).

Community

Members who have not lent or borrowed with each other are only identified on the site by their nicknames. If you have lent money, you will find out the real names (but not any of their contact details) of your borrowers on the quarterly statement. If you have borrowed money, you will see the real names (but not any of the contact details) of your lenders on your loan contract note. Zopa has endeavoured to create more of a community spirit by providing a discussion board, a blog and a 'member story'.

Typical transaction

Zopa is the most classical 'financial instrument' of the emergent P2P finance services, and the typical transactions reflect that: relatively anonymous, diversified holdings in widely ranging amounts.

Business model

Zopa makes money by charging lenders and borrowers a fee. It charges borrowers a flat fee of £94.25 and lenders a 1% annual service fee. It also earns money through selling payment protection insurance to borrowers who want it (they have a commission based deal with Pinnacle Insurance), and through introducing people who can't pass Zopa's credit checking regime to other loan providers (again on commission through 'preferred' suppliers).

Establishing trust

Everyone looking to borrow is credit-checked and risk-assessed by Equifax, and people judged not credit-worthy will be prevented from borrowing at Zopa. The rest are put into either the A*, A, B, C or Young market. This allows borrowers to 'get a rate that's right for them', and means lenders can manage their risk level. Lenders are encouraged to diversify

risk by spreading money across a range of borrowers. When a person lends £500 or more, his/her money is spread across at least 50 borrowers. Zopa also establishes trust negatively, by benefiting from people's distrust of banks.

Performance

Zopa has been successful having funded £32 million. It has seen its business increase markedly throughout the financial crisis, with banks increasingly unwilling or unable to offer loans.

Problems or limitations

Despite efforts to promote a community spirit, the primary aim remains to save lenders and borrowers money by cutting out the middleman. The forced diversification and lack of meaningful contact between lender and borrower may mean that users could feel somewhat estranged from one another.

Lenders know the 'class' of borrower (e.g. A*, B) but they cannot lend more than £200 to any one borrower. The bond is ultimately legal and not social — the devices for reclaiming money are drawn from the banking industry, such as risk evaluation and collection agencies. The potential social aspects of the service are not exploited to the same extent as they are in competing services (such as Prosper) since personal interaction is not of great importance to the model, although limiting the amount that a lender can lend to a single borrower does limit risk.

Prosper

<http://www.prosper.com/>



Who are they?

Prosper's CEO and co-founder, Chris Larsen, was formerly the CEO, Chairman and Founder of E-LOAN, an online consumer lender "dedicated to providing consumers with a fast, transparent, and low cost way to obtain mortgage, auto and home equity loans." Prosper is backed by Accel Partners, Benchmark Capital, DAG Ventures, Fidelity Ventures, Meritech Capital Partners, and Omidyar Network, and in 2008 it aligned with Web Bank.

What do they do?

Prosper bills itself as the 'eBay of personal finance'. With emphasis placed on personal interactions and community lending, potential borrowers set a maximum interest rate they will be willing to pay on a loan, then other people 'bid down' for the privilege of lending it. Prosper aims to make sure everything is safe, fair and easy.

How does it work?

Borrowers

Prospective borrowers register with the site and allow the company to review their credit history. Then they post a loan request of up to \$25,000, along with an upper limit for the amount of interest they are willing to pay. Loans are not secured by collateral and are paid off over three years at a fixed rate, with no prepayment penalty. Once the bidding is complete, and if enough lenders bid enough money to finance the loan at a single rate acceptable to the borrower, Prosper transfers the money to the borrower's account and establishes a monthly repayment system that withdraws money from the borrower's checking account. Should a borrower default, Prosper hires a collection company on the lender's behalf and alerts credit bureaus.

Lenders

All of Prosper's loans are 3-year fully amortised, unsecured loans. People who want to lend set the minimum interest rate they are willing to earn and bid in increments of \$50 to \$25,000 on loan listings they select. People who lend can easily diversify using 'standing

orders', which automatically make many small loans to different borrowers. Lenders essentially deposit their money with Prosper, which holds it in an interest-bearing account with Wells Fargo, and either review the loan requests individually or fill out a form permitting Prosper to allocate money to borrowers who meet certain criteria. Chief among those criteria is the borrower's rating from the credit reporting bureau Experian, but borrowers can also join or create groups with defined interests or characteristics that, they hope, will make them more attractive to some lenders.

Community

Unlike Zopa, there is a greater emphasis on personally selecting and lending to particular borrowers. Loans can be fully funded by one person, so it is possible to lend an individual up to \$25,000 (in Zopa the limit is just £200.) As a result there is much more interaction between lenders and borrowers. Members can join an appropriate 'group', based on various social and cultural lines. These are 'a way for tightly affiliated communities to help their members through person to person lending.'

Prosper's group leaders receive a commission on the group's lending and borrowing activities, which they sometimes share among the group. When you join a responsible group with a good payment history, you get a good reputation by association, and lenders are more likely to offer good interest rates. But, belonging to a good group puts some pressure on you, too. If you stop making your loan payments, you not only tarnish your own reputation, but the group's as well. If you're part of a group, the theory is that you'll perform better as a borrower than if it was an impersonal bank or credit card company.

Business model

Prosper generates revenue by collecting from borrowers a one-time closing fee on funded loans (either 2-3% depending on credit grade, or \$75 – whichever is the greater). Lenders pay a 1% annual servicing fee. In addition, borrowers pay a \$15 failed payment fee as well as a late payment fee, while lenders pay a collection agency recovery fee.

Establishing trust

Prosper obtains the borrower's Experian credit score, and assigns one of seven credit grades, from AA to HR (high risk). Borrower credit grades are posted with their listing to help lenders plan their bidding. Further information is also provided, such as delinquencies, number of credit lines, debt-to-income ratio and debit or credit card utilisation. Additional data, which is self-reported by most borrowers when registering, includes occupation and income. This information combines with the personal and group interactions that Prosper enables, to give lenders and borrowers a credible sense of risk and trust in other people, and to make the service seem less like just another financial instrument. In addition, Prosper publishes its performance statistics on the website, helping users to make informed decisions.

Performance

Prosper has over 830,000 members and \$178 million in loans to date. Their open API has spawned dozens of websites focused on Prosper users, and these communities and Prosper groups are very active. Prosper has raised approximately \$40 million in investment for further expansion.

However, as of August 2008, approximately 18.5% of all money loaned on Prosper from its inception through to June 2008 is in some form of delinquency. Also, more than 35% of all loans that originated in February 2007 are in some form of delinquency.

Prosper is currently registering promissory notes with securities authorities and has entered a 'quiet period' in which it is not accepting new lender registrations or new commitments from existing lenders. After a peak in May 2008 of nearly \$10 million in new monthly loan originations, business has dropped significantly.

Problems or limitations

Like Zopa, Prosper's contractual and enforcement structure is founded on specific territorial laws. Growing the network transnationally is impracticable due to regulatory considerations. Given the size of the US banking market this is not a fundamental problem, but it is necessarily a brake on growth, especially given the geographically dispersed nature of many online communities and affinity groups.

A more pressing problem concerns Prosper's run-in with the regulator, which highlights the inherent risks involved in uninhibited peer-to-peer financing.

Kubera Money

<http://www.kuberamoney.com>



Who are they?

Kubera is in the process of preparing for launch in the UK. The founders are London based and are undergoing registration with the FSA.

What do they do?

Kubera Money is a platform enabling users to empower themselves by creating their own 'mini-bank', putting them directly in control of generating a return on their savings and the rate at which they borrow. By selecting others that they know and trust to join their 'mini-bank', users are able to create a community that can sustain itself, meeting all its financial needs.

This model is an adaptation of Rotational Savings and Credit Associations (ROSCAs). A ROSCA is an informal microfinance group of individuals who save and borrow together. During the life of the ROSCA, each member makes a regular contribution of the same amount. At an agreed interval, one member then takes the whole sum once. As a result, each member is able to access a larger sum of money during the life of the ROSCA, and use it for whatever purpose she or he wishes.

Business model

Not having launched as yet, the people behind Kubera are reluctant to share the details of their business model.

Kiva

<http://www.kiva.org/>



Who are they?

The team behind Kiva worked at TiVo, PayPal and Google before developing the service in late 2004. Kiva partners with many existing microfinance institutions (MFIs), which work on the ground in developing countries.

What do they do?

Kiva lets individuals connect with and loan money to unique small businesses in the developing world. Lenders choose a business to sponsor, then microfinance institutions (Kiva's Field Partners) distribute the loan and provide expert training and support. Throughout the course of the loan (usually 6-12 months), lenders receive email journal updates from the business they've sponsored. As loans are repaid, they get their loan money back.

How does it work?

Borrowers

Before an entrepreneur appears on Kiva, they are vetted by a Field Partner. Each of Kiva's Field Partners use their own application procedure, which Kiva has reviewed and approved. This ensures that loan funds are actually going to genuine entrepreneurs who will use the loan for the purpose they specified.

Kiva does not send loan funds directly to the entrepreneurs. Instead, the loan is managed by the Field Partner. The full value of the loan goes to the entrepreneur, but the Field Partners do charge interest. However, Kiva requires Field Partners to fully disclose their interest rates, and doesn't partner with organisations that charge exorbitant rates. Kiva claims that allowing microfinance institutions to charge interest enables them to bear transaction costs and currency risk, and achieve self-sustainability. Kiva is also the first organisation PayPal is supporting by providing free payment processing, reducing the transaction costs significantly.

Lenders (update)

Kiva's loans do not provide a financial return on investment, but lenders do get the investment back at the end of the loan period. There are no tax implications because there is no possibility of earning interest. For lenders, it's a sustainable, high impact, high engagement way to get involved with just a little amount of money, and carries minimal financial risk.

Unless you're extremely rich, an accredited investor, or a big institution, you can't really invest in microfinance institutions, so lenders and charitable donors are limited to giving to organisations that already have a lot of money. The smaller organisations that are working hard to serve their communities and to loan money to people are typically capital-poor. Kiva allows individuals to access a long tail of organisations and individuals, which can potentially be more rewarding and efficient for lenders.

Community

Sponsorship has always been a high overhead business. Kiva creates a similar interpersonal connection at much lower costs due to the instant, inexpensive nature of internet delivery. The individual nature of Kiva's loans and the feedback that lenders receive all the way through the course of their loan makes for more personal and social transactions.

Lenders can now form 'teams' in which members continue lending as individuals, but with each loan they make adding towards the overall impact of the team.

Typical transaction

Varies widely between \$200 - \$1200. The majority of loans are a smaller range of \$800 - £1000. The average individual loan amount is \$430.

Business model

Kiva is a non-profit social venture which currently has financial support from a number of angel investors, including Silicon Valley donors, and a number of corporate sponsors including Microsoft Research.

Establishing trust

Kiva partners with existing microfinance institutions. In this way, they gain access to outstanding entrepreneurs from impoverished communities world-wide. The partners are experts in choosing qualified borrowers, and usually have many more promising projects

than funds. Through Kiva, the partners upload their borrower profiles directly to the site so that users can lend to them. Profiles of the Field Partners themselves are also available on the website.

The one-to-one connections engendered between borrowers and lenders create greater transparency regarding money flows.

Performance

More than 400,000 lenders have provided over 80,000 loans through Kiva, at total value of just under \$60 million. The current repayment rate is 97.5%.

Kiva currently has over 100 Field Partners around the world and has experienced an average month-to-month growth rate of over 30%.

Problems or limitations

Kiva doesn't fully cut out the middleman – it does bring investors and recipients closer together but there is another layer of interest-collecting microfinance institutions on the ground. However this is not necessarily a drawback. Part of the aim of Kiva is to help not only borrowers but the institutions as well, since it enables its Field Partners to raise debt capital directly from social investors.

Sellaband

<http://www.sellaband.com/>



Who are they?

Sellaband was set up in 2006 Dutch entrepreneur Pim Betist (ex-Shell), and has been managed by Johan Vosmeijer, a former Sony BMG executive. In 2007, it partnered with Amazon UK. It also has investment from Prime Technology Ventures.

What do they do?

Sellaband.com is a music business based on profit sharing and bringing together artists and music lovers directly. Artists upload their profiles, then fans can become 'believers' in the artist by paying \$10 for a 'part' (2 parts makes them a 'promoter', 5 parts = 'publisher', and so on). Once an artist has reached the goal of \$50,000 (5,000 parts), Sellaband uses this money to record a CD, providing the artist with a studio, an A&R manager and a producer. 'Believers' receive a copy of the CD and an album download, as well as 0.01% of any sales revenue for a period of five years.

How does it work?

Musicians

The money reaches bands indirectly. Until the necessary 5000 parts are sold, the money is held in an escrow account managed by a third party and any interest accrued during this period is kept by Sellaband. Once \$50,000 is raised, the funds are committed to the artist and the escrow agent transfers the funds to a Sellaband account, as a budget for the band to spend 'as they like'. Sellaband has a stable of A&R reps, recording studios and CD pressing plants, which the musicians are encouraged to utilise. After the recording of the album, the artist becomes the owner of the master.

Believers

Investing in bands allows fans the chance to 'be in business' with bands they like. The more tangible return is a special edition of the CD that is sent to all believers once produced. Additionally, believers share in a one-thirds split of the advertising revenues from the website. The amount received depends on the market share their band has on Sellaband's

download portal. In addition, believers will share 50% of the net profits from so-called 'regular versions' of CDs that are sold at gigs.

Once a year the totals are added up and any returns are deposited in the believers' Sellaband account. Users can withdraw money from this account or use the funds to buy parts in other musicians. Believers can also withdraw their investment from an artist before the 5000 parts are sold, and their money is credited to their Sellaband account to be invested in another artist.

Community

Believers can maintain a blog, upload photos and videos and post messages to network with other believers and artists. These community aspects are limited to users who have bought at least one part. Musicians have similar options, and it seems to be a prerequisite of success for bands to engage heavily with the Sellaband community. It is up to the artists to promote themselves through regularly updating their profiles.

Business model

The advertising revenues generated are split evenly between the artist, the believers and Sellaband. The publishing income of the songs that artists record with Sellaband are divided between the artist, Sellaband, producer and A&R manager, in the following way: Artist 60%, Sellaband 30%, Producer 5%, A&R manager 5%. Sellaband doesn't touch any of the \$50,000 that is given, but does receive the interest while the money is accruing.

Establishing trust

Sellaband retains controls of the funds pledged by believers and provides these as a 'budget' for bands to use as they see fit, within certain parameters. A sense of participation that is more than purely financial is provided, as bands are expected to blog and engage with their believers. However, believers have no input into the recording of artists' music, and have no say over the end result.

Performance

As of late 2008, 29 bands from 12 different countries have succeeded in raising the necessary \$50,000 to record a CD since the site's launch in August 2006. 17 albums have been released. A total of over \$2.2 million has been invested in unsigned artists.

In April 2008, Sellaband raised \$5 million in venture funding.

Problems or limitations

The mechanism for splitting profits from CD sales is somewhat ill-defined. This is probably because of the need to avoid legal regulations, but could create problems as the service scales.

Another criticism is that the structure of the site tends, at this point at least, to favour bands with a mainstream sound. This might change as Sellaband grows and is able to connect niche musicians with enough believers of like-minded tastes. But the constraints that Sellaband puts on bands, by offering rather generic industry tools, studios and producers, might not appeal to more experimental or innovative artists who want to do their own production or who are purely electronic musicians.

MyFootballClub <http://www.myfootballclub.co.uk/>



Who are they?

MyFootballClub is a website set up in 2007 by former sports journalist Will Brooks.

What do they do?

MyFootballClub originally scouted for interest among fans to sign up as members of the website and collectively purchase a football club. After a member vote, it purchased non-league side Ebbsfleet United FC in 2008. It continues to sell membership to the club.

How does it work?

Membership allows participants to vote on all decisions regarding team selection and player transfers, as well as business decisions such as kit supplier, ticket sales and the make-up of the board. Internet voting takes place before each match, in which members can back the coaching staff's judgement, or choose to pick the team and formation themselves. There are also less frequent votes on decisions such as playing budget. For example, the current season's weekly budget has been set at £10,000. The club recently made its first voter-sanctioned player signing, purchasing Darius Charles from Brentford for £25,000.

Community

Its 30,000+ members come from all over Europe, and beyond. The website has forums and chatrooms for members to exchange opinions.

Business model

Individual membership costs £35 per year. MyFootballClub has also secured investment from video game manufacturer EA Sports. Otherwise, its business model is the same as a traditionally run football club, with profits coming from ticket sales and sponsorship.

Establishing trust

Members are empowered by the democratic voting process. In the same way that Zopa and others have gained support as an alternative to the traditional banking system, Myfootballclub has attracted members simply by not being a traditionally run club. It has taken advantage of the increasing disillusionment and estrangement felt by many football fans towards their club/corporation and the big money controlling the game at the top.

Performance

In its first season of ownership by MyFootballClub, Ebbsfleet won the FA Trophy for the first time in its history. It is currently mid-table in the Blue Square Premier Division.

As a concept, MyFootballClub's success has encouraged similar ventures such as myBUFC, The People's Club and MyScotFC in the UK, and many more throughout the world.

Problems or limitations

A possible limitation is the voting process itself. There may be more potential for development of the crowd-sourcing model if MyFootballClub were to enable its members to offer more than just an opinion and to actually bring their various skills to the enterprise.

A Swarm of Angels <http://aswarmofangels.com/>



Who are they?

A Swarm of Angels was set up by film producer and author, Matt Hanson. Its advisors include writer Cory Doctorow, graphic novelist Warren Ellis and digital film producer Tommy Pallotta.

What do they do?

A Swarm of Angels is a collaborative open source movie-making project ('cinama 2.0'), a new way of funding and making feature films. It plans to create a £1 million film and make it freely downloadable under a Creative Commons licence to an online community of over 1 million people.

How does it work?

It recruits an online community of members to vote on production and development decisions, collaborate on the project, and/or join the crew.

The concept envisages five phases of development, with a growing number of members allowed into each one. The first, with 100 members, involved 'developing an online presence', while the second, open to 1000 members, involved early development of 2 scripts ('The Unfold' and 'The Ravages'). With the project now in phase 3, the scripts will be finalised and trailers produced. In phase 4, one of the scripts will be chosen by a member vote and put into pre-production. Finally, open to a membership of 50,000 people, phase 5 will involve filming, post-production and distribution.

Community

As part of the 'swarm', members communicate primarily through a forum ('The Nine Orders') and through wikis. There are also plans to develop a separate 'script wiki'.

Business model

Full membership to A Swarm of Angels costs £25. Alternatively, it costs £5 to be a supporter, without posting or voting rights. The project is non-profit distributing, with profits funding the next production.

Establishing trust

The voting system allows members to have an equal say in the creative process.

Performance

As part of phase 3 of the development process, a trailer, of sorts, is now available on the website for 'The Unfold' called 'Worlds Will Shatter', although it does not contain any information on the plot of the film. With only around 1000 members at present, it is still well short of the 50,000 required to start filming.

Problems or limitations

Unlike MyFootballClub, A Swarm of Angels does make provisions for involving its members in a more hands-on way, as people could potentially be directly involved in production. The main problem, however, has been getting things done in the first place. After four years, its members have yet to reach an agreement on the script, thus forestalling subsequent development.

Midpoint & Transfer <http://www.midpoint.com/>



Who are they?

The founders of Midpoint & Transfer come from financial services and software development backgrounds. CEO Todd Veri has run a retail foreign exchange in Canada.

What do they do?

Midpoint & Transfer is an Online International Money Transfer Business with proprietary software. It targets businesses around the globe that require the transfer or conversion of a foreign currency. It is currently looking for further investment before launching the site.

How does it work?

Users will be able to place currency orders of up to £250k. The order will then be matched against one or more users with the reciprocal currency requirement. All users will receive the same exchange rate, the Midpoint of the real-time interbank rate, at the time of the match. They will then receive notification of the details, and fund their order into a domestic bank account. Once both sides of the match have been funded the monies will be transferred to the appropriate Payees.

Typical transaction

A typical transaction will involve a user in Britain, for example, looking to convert his £10,000 Sterling into Euros. This request will then be matched with enough users looking to offload their Euros for the exchange to then take place.

Business model

Money transfer businesses traditionally earn a profit from charging a spread between the price they pay for a currency and the price they sell it for. Midpoint & Transfer will instead charge a single transaction fee of £30 on all exchanges, regardless of value.

Establishing trust

With a flat fee of £30, the service is cheaper than a retail bank for any sized foreign exchange order. To begin with, however, Midpoint & Transfer plans to offer the service for free in order to generate enough support to ensure long-term sustainability.

Problems or limitations

Midpoint's most significant limitation concerns the number of transactions necessary for the company to break even. Having pledged to guarantee all incomplete exchanges at the end of each day (if, for example, a user looking to sell their currency backs out unexpectedly), it has been acknowledged that in the early stages at least, while it searches for support and drums up business, it will lose money. It remains to be seen whether or not Midpoint can deliver on its guarantee and still survive.



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