Marketplace Lending and Credit Unions: Where the Past and Future of Peer-to-Peer Finance Meet

by

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Author's Declaration

I hereby declare that I am the sole author of this thesis. This is a true copy of the thesis, including any required final revisions, as accepted by my examiners.

I understand that my thesis may be made electronically available to the public.

Abstract

Peer-to-peer (P2P) or marketplace lending has expanded rapidly since the 2008 global financial crisis. While the idea of pooling small amounts of money from several lenders is not new, advances in financial technology (fintech) have resulted in scalable, efficient, and global processes. Since Zopa (the world's first P2P lending platform, launched in 2005), the lending has increasingly shifted away from individual lenders working collaboratively to assess loans, and now includes automated decision-making algorithms with institutional lenders such as hedge funds and banks. Consequently, marketplace lending threatens to disrupt many activities of the financial sector. Although the industry has experienced significant growth in the UK and the USA, it is only recently, in 2016, that some Canadian regulations implemented new crowdfunding rules; these include allowing retail lenders to invest up to $10,000 annually. Similar to chartered national banks, Canada's sub-national credit unions might feel challenged by emerging fintech firms. As such, through the resource-based view (RBV) of strategic alliances, this thesis sought to answer the question, *How are Canadian credit unions entering the marketplace lending industry?* The study employed an exploratory, qualitative design where semistructured interviews were conducted with 17 participants from 12 credit unions (including one credit union central) of the Canadian Credit Union Association (CCUA), but outside of Quebec's Desjardins system of caisses populaires. In these interviews, three areas of prominent credit union business are explored: the use of marketplace lending for small- and medium-sized enterprise (SME) financing; impact investing; and the use of marketplace lending in providing alternatives to payday loan products. The study's findings revealed that out of the 12 credit union members from the sample, three have partnered with fintech firms, one is developing its own lending platform, and the majority are simply monitoring the evolution of marketplace lending in Canada. Regarding the latter, perceived risks and/or barriers include regulations, reputational risk, and difficulty attracting deposits. However, reported opportunities include using marketplace lending to enhance member retention and attraction, and lending to socially and environmentally motivated SMEs. This thesis contributes to the academic literature by providing evidence as to how Canadian credit unions are entering the marketplace lending industry. It details the reported barriers and/or risks and opportunities, and the motivating drivers to form strategic alliances with start-up fintech firms.

Key Words: Crowdfunding, credit union, cooperative, social finance, technology

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1. Introduction

1.1 Background

Advances in information and communication technology have infiltrated nearly all sectors, including finance, where multiple alternative finance models have emerged. From insurance to investing, financial technology (fintech) companies are increasingly threatening to disrupt many parts of the financial services sector by challenging the processes of traditional institutions. Through technology applications such as automated-decision making algorithms, fintech firms primarily deliver their offerings digitally through Internet-enabled platforms, and this results in lower operating costs as compared to brick-and-mortar financial institutions (Lin, 2015). Ranging from donation to equity-based models, online crowdfunding platforms process peer-to-peer (P2P) or business-to-peer (B2P) financial transactions for a variety of reasons, including seed funding to launch a business and personal debt consolidation (Schor & Fitzmaurice, 2015).

One of the models of online crowdfunding that has garnered a lot of interest in the last 10 years is P2P lending, or now commonly known as marketplace lending. The market grew by 223% globally in 2014 and represented over 68% of the global crowdfunding industry (Massolution, 2015). While the concept of pooling small amounts of capital from many investors (i.e., the crowd) is (and has been) practised informally in nearly every community, online lending platforms have facilitated its scalability and efficiency across borders. When P2P lending first surfaced, individual retail lenders worked collaboratively to assess loans, but platforms are increasingly replacing retail lenders with institutional lenders like hedge funds and banks. Moreover, the language has changed from 'peer-to-peer' to 'marketplace' lending to reflect the growing institutionalization (Aitken, 2015). While marketplace lending in the United Kingdom (UK) and the United States of America (USA) has experienced significant growth, Canadian regulations have only allowed marketplace lending since 2016, when several new crowdfunding rules were implemented, including a rule that allowed retail investors to invest up to $10,000 annually (O'Hara, 2016). Because of this, financial industry incumbents in Canada have had over a decade to observe developments in marketplace lending elsewhere and to develop strategic

responses accordingly.

To some borrowers, marketplace lending presents an alternative to traditional, for-profit banking. Its disintermediated approach allows lenders and borrowers to connect directly, creating opportunities for new borrower-lender relationships and technology-enabled regulation of financial transactions. Consumer finance has long been a heavily regulated industry and it is worth considering the alternative institutions that have been developed in its regulation. Although retail banking has been dominated by profit-driven corporations for most of the 20th century and start of the 21st century in North America, early in its development, in the 18th and 19th centuries, retail banking was characterized by heavy cooperative and mutual bank involvement. The early model provided financial stability (Hansmann, 1996), and also provided a unique set of approaches to sustainable community economic development (Geobey & Weber, 2013) that have continued to grow alongside the profit-driven, corporate retail banking sector. For instance, Canada has the highest per-capita membership in credit unions in North America, with Quebec being the largest; two out of three Quebecers are members of The Desjardins Group (Desjardins, 2018; McNish, 2011). Similar to their chartered banking counterparts, credit unions might feel challenged by emerging fintech companies. With Canada's burgeoning marketplace lending industry, an open question remains regarding how credit unions are choosing to enter the industry. As such, this thesis poses the following central research question: How are Canadian credit unions entering the marketplace lending industry?

To address the above research question, this research employed an exploratory, qualitative design and 17 semistructured interviews were conducted with members of the Canadian Credit Union Association (CCUA), but outside of Quebec's Desjardins system of caisses populaires. Three areas of business were explored in these interviews: the use of marketplace lending for small- and medium-sized enterprise (SME) financing; impact investing; and the use of marketplace lending in providing alternatives to payday loan products. These three markets were chosen as they are business areas where credit unions have demonstrated leadership in terms of organizational assets or market share.

The study utilized the resource-based view (RBV) of strategic alliances to explore how credit

unions are entering the marketplace lending industry. The RBV proposes that firms can gain a competitive advantage (i.e., value-creating strategy) by accessing another firm's resources (e.g., brand, reputation, technological capabilities, distribution channels, etc.). Evidence from more mature marketplace lending markets like the USA and UK point towards growing partnerships between banking institutions and fintech companies, and comparable outcomes might transpire in Canada. Moreover, the Canadian context offers a unique opportunity, as there is already a large cooperative financial sector.

Applying the RBV to this thesis, strategic alliances between traditional lenders and fintech companies could lead to opportunities where both parties leverage each other's expertise or knowledge. For instance, JPMorgan Chase & Co, the USA's largest bank, collaborated with OnDeck Capital to provide small-dollar loans (less than US $250,000) to their business customers (Son, 2015). To successfully enter the marketplace lending industry, credit unions must invest in resources such as technological proficiencies and skilled talent, and combine this with an organizational culture focused on agile trialling in product design. Thus, this study hypothesizes that credit unions lacking the required resources will either partner with an existing fintech firm, or not enter altogether.

The study's findings revealed that out of the 12 participating credit unions (including one credit union central), three partnered with fintech companies, one is developing its own lending platform, and the majority are aware of and simply monitoring the evolution of marketplace lending in Canada. Moreover, perceived risks and/or barriers include regulations, reputational risk, and difficulty attracting deposits. However, some perceived opportunities include using marketplace lending processes to enhance member retention and attraction, and lending to socially or environmentally motivated SMEs. Examining the interview data through an RBV lens, the analysis unveiled that fintech firms are partnering with credit unions to acquire their membership base, and also to obtain non-tradable resources like reputation and trust. Through strategic alliances, credit unions access technological capabilities and agile experimentation. Finally, future research should consider surveying marketplace lenders to analyze the RBV from a fintech perspective.

1.2 Literature Gap and Purpose of Study

As cooperatively owned financial institutions, credit unions have long been financial institutions that allow consumers to pool savings and lend to each other. Over time, this role shifted as credit unions became part of the larger national payments system, but the cooperative member ownership of credit unions remains. Marketplace lending could be perceived as a way of reviving individual-to-individual financing, or it may also be perceived as a threat to the current credit union model; neither perception is necessarily true. As such, it is crucial to investigate how credit unions are responding to the emergence of marketplace lenders.

While marketplace or P2P lending was first thought of as a way to personalize the lending experience through disintermediation and by directly connecting lenders and borrowers (i.e., peer-to-peer), there has since been a significant shift characterized by the growing participation of financial institutions (Zhang, Baeck, Ziegler, & Bone, 2016; Lin, 2015; Aitken, 2015). At the same time, traditional lenders such as credit unions are increasingly feeling pressured to connect existing financial infrastructure with emerging infrastructure, and this can be achieved by competing with or partnering with new entrants (i.e., fintech companies). Evidence from more mature markets such as the USA and UK demonstrate that traditional lenders are largely choosing to partner with new fintech companies or avoid the market altogether (Son, 2015; Irrera, 2017; Zhang et al., 2016). Because of Canada's new and burgeoning marketplace lending market, how credit unions are entering the marketplace lending industry has yet to be explored empirically. Additionally, the literature does not address the implications (whether positive or negative) which may arise for socially and environmentally motivated and cooperatively governed financial institutions (Geobey & Harji, 2014; McKillop & Wilson, 2011).

By bringing together the credit union sector and marketplace lending, the work here builds upon previous research conducted by Geobey in the 2015 report titled, *Peer-to-Peer Lending and the Future of Cooperation*, in which opportunities, challenges, and implications in peer-based lending for credit unions were analyzed. To summarize, Geobey (2015) noted the following four strategic options: 1) ignore marketplace lending; 2) become an institutional lender on a platform; 3) partner with a platform on a retail level; and 4) develop a credit union platform. Finally, by interviewing credit union leaders across Canada, one can draw comparisons between leaders'

experiences and perspectives with online financing channels to the literature on social finance, online crowdfunding, and strategic alliances.

1.3 Theoretical Perspective

Within the field of management, literature on strategic alliances can help explain how banks are choosing to engage with marketplace lending as it emerges. Strategic alliances are defined as "voluntary arrangements between firms involving exchange, sharing, or co-development of products, technologies, or services" (Gulati, 1998, p. 293). Furthermore, they can transpire as a result of several motives and goals, while occurring across vertical or horizontal boundaries. Strategic alliances take various forms, and range from one-off or short-term contracts to complete mergers or acquisitions (Amici, Fiordelisi, Masala, Ricci, & Sist, 2013).

There are various approaches or theories used to describe firms' motivations to form strategic alliances, including the RBV which is the focus of this research. The RBV emphasizes the access, exchange, or sharing of unique resources (or competencies) with other firms for the purpose of acquiring competitive advantages (Das & Teng, 2000). This can result in increased market power along with the sharing of risk and cost advantages, especially in new or uncertain markets such as marketplace lending (Day, 1995; Mowery, Oxley, & Silverman, 1996). Using the above example of JPMorgan Chase & Co and OnDeck, we can observe what competitive advantages are gained through a strategic alliance. For the bank, combining their brand and lending reputation with OnDeck's technology platform translates to same- or next-day funding approvals, while OnDeck's fee-based model benefits from a significant revenue boost, considering the bank's four million business customers (Renton, 2015). Other examples of fintech-banking alliances will be analyzed in subsequent chapters.

1.4 Research Objectives and Questions

The main research objective of this thesis is to determine how Canadian credit unions are entering the marketplace lending industry. Also, the study aims to explore the perceived and/or identified opportunities, risks and concerns, and barriers to entry for credit unions. As such, this thesis explores the following research questions:

How are Canadian credit unions entering the marketplace lending industry?

a) What are the perceived and/or identified opportunities associated with marketplace lending?
b) What are the perceived and/or identified risks and concerns associated with marketplace lending?
c) What are the perceived and/or identified barriers to entry in marketplace lending for credit unions?

1.5 Thesis Outline

This chapter presented the background, literature gap and study's purpose, theoretical perspective, and finally research objectives and questions. Next, the literature review (Chapter 2) analyzes the body of knowledge pertinent to this thesis, which incorporates themes such as the banking sector, finance and sustainability, the sharing economy, and platform governance. Chapter 3 provides the study's background through analysis of the Canadian crowdfunding industry and Geobey's 2015 research regarding P2P lending and credit unions. Moreover, this chapter includes the study's hypotheses. Chapter 4 outlines the approach to inquiry. Using a qualitative design, data was collected from semi-structured interviews with mainly credit union participants outside of Quebec's Desjardins system of caisses populaires. Also, this section details reliability and validity, and identifies the limitations of this thesis.

Chapter 5 presents the analysis of the interviews, including the three areas of business explored – SME lending, impact investing, and alternatives to payday loan services. In Chapter 6, the findings are examined based on the research questions, the RBV, and hypotheses proposed. Finally, the thesis concludes with Chapter 7 which presents recommendations, the study's limitations and opportunities for future research, and observations about the possible future of marketplace lending in Canada.

2. Literature Review

2.1 Introduction

This chapter reviews the academic and practitioner literature relevant to this thesis. The categories of sustainability and finance, the sharing economy, online crowdfunding, marketplace lending, and platform governance structures are synthesized. First, background information is provided about the functions of financial intermediation, the banking sector, and the Canadian credit union sector. Discussing the functions of financial intermediation provides context for marketplace lending, since it was first imagined as an experiment outside of traditional financial institutions. Subsequently, an overview of the banking sector, including its impacts (direct and indirect), will primarily focus on conventional, shareholder-governed banks. Later, these will be contrasted with their cooperatively governed and socially oriented banking counterparts – credit unions.

Second, the intersection of finance and sustainability is explored through social finance and impact investing. With many nations experiencing rising fiscal constraints and global climate change-related threats, a variety of stakeholders, including institutional and retail investors, are engaging in impact investing, which is characterized by socially and environmentally motivated investing practices. In Canada, impact investing has its roots in the credit union movement, which sought to help low- and middle-income individuals (especially in rural areas) access credit and financial services focused on community development.

Third, brief overview of the sharing (i.e., on-demand, gig, access-based, P2P, etc.) economy is presented, as it provides the context for online crowdfunding, which is characterized by Internet-enabled platforms disintermediating financial transactions that were previously managed within financial institutions. For instance, similar to their chartered banking counterparts, credit unions are increasingly facing the threat of alternative digital financial service providers.

Fourth, literature exploring the evolution of P2P or marketplace lending with different types of platform governance is discussed. Although it was first envisaged as an experiment outside of

mainstream financial institutions and linked private lenders and borrowers who agreed on the decision process of loan origination, the market has changed to include institutional investors and automated decision-making algorithms.

Most marketplace lending platforms, notably those that have gained mainstream international success, operate under a shareholder model where profits are maximized for investors and owners. In the literature referenced below, this is often referred to as platform capitalism, which has recently garnered ample criticism from both public and academic spheres. Oppositely, the other governance model seeks to democratize the ownership structure of digital platforms by reassigning ownership to end-users, and this is known as platform cooperativism. Finally, the theoretical perspective for this study is summarized. Here, strategic alliances, and especially the RBV, are utilized to explain how banks and credit unions are choosing to engage with marketplace lending as it emerges.

2.2 Functions of Financial Intermediation

The primary objective of financial intermediaries is to execute more efficient transactions between parties who own resources and those in search of such resources. As money became the common medium of exchange, it incited the propagation of markets and trade (Surowiecki, 2012). In the absence of financial intermediaries consolidating and reallocating capital, individuals would employ more energy in finding and transacting with one another. Lin (2015) offered the four main functions of financial intermediation. First, it is responsible for asset aggregation and serves as liquidity in the marketplace. For instance, banks accomplish this task by accepting deposits and redirecting the capital into lending or investment activities such as mortgages, loans, and securities (Hierzig & Phillips, 2017). Second, financial intermediation facilitates the building of markets by connecting supply-side and demand-side participants. Venture capital firms, for instance, offer capital along with other services such as industry expertise and joint ventures (Lin, 2015).

Third, financial intermediaries implement credit risk management activities. In fact, the ability to accurately assess and price risks is a major factor in determining a bank’s success (Weber, 2012).

Whether via underwriting, pooling, or securitization, intermediaries can improve the risk management associated with transactions (Lin, 2015). Fourth and last, financial intermediaries support the timely and reliable circulation of data, which helps alleviate the "negative implications of information asymmetries that may lead to gridlocks and misallocations in the marketplace as buyers and sellers become wary of interacting due to a lack of information" (Lin, 2015, p. 649). Moreover, the evidence collected by financial intermediaries can be used to unearth socio-economic trends like level of household debt and savings (Manulife Bank, 2017).

To summarize, financial intermediation primarily exists to make the central financial functions such as asset aggregation, market building, credit risk management, and circulation of information more effective and less risky. While the discussion has primarily focused on the positive features of intermediation, history has demonstrated that not all financial intermediaries conduct sound business. As an example, the financial actors who shifted from these core functions for riskier transactions, including short-term speculative transactions, have been under public scrutiny since the last financial crisis in 2007-2008 (Weber & Feltmate, 2016). During that time, experiments in financial disintermediation started emerging across Europe and North America with online crowdfunding platforms ranging from donation to equity-based models. With some crowdfunding platforms offering the same products and services as traditional orbrick-and-mortar financial institutions, some observers even touted their ability to disrupt the financial services industry as a whole (World Economic Forum & Deloitte, 2015). An analysis of crowdfunding, and more specifically marketplace lending, will be discussed in Chapter 2.

Having presented an overview of the core functions of financial intermediation, let us have a closer look at the banking sector and, especially, its role and direct and indirect impacts on society with respect to sustainable development. Finally, an analysis of the Canadian banking sector including credit unions is offered.

2.2.1 Overview of the Banking Sector: Role, Impacts, and Canadian Context

[1]Banks are financial intermediaries that accept deposits with the intention of generating loans to fund individuals, businesses, and organizations. Generally, the banking sector operates under the premise that the interest charged to borrowers is higher than the interest paid to depositors with savings accounts. Moreover, banks undertake the functions listed above – asset aggregation, market building, credit risk management, and circulation of information. Usually, banks offer a series of products and services through their investment, corporate, retail, commercial, and private areas of business. See Table 1 for more details concerning each area.

Table 1: General Banking Business Segments (Hierzig & Phillips, 2017, p. 7)

Area of banking	Role of the bank	Examples of products and/or services provided
Investment banking	Provision of various services to individuals, companies and governments; acting as the intermediary between entities that have money (generally institutional investors) and those that need it (generally companies)	Capital raising through initial public offerings (IPOs) or bond issuances, leveraged finance, financial advisory, trading platforms, research, etc.
Corporate banking	Provision of financing to companies through debt issuances, structured products, or other banking and investment products	Secured term loans, syndicated loans with multiple arrangers, structured finance-type loans, project finance, etc.
Retail banking	Provision of products and services to individual clients, rather than companies or other banks	Savings and transactional accounts, mortgages, personal loans, debit and credit cards, etc.
Commercial banking	Provision of the same products and services as in retail banking, but to companies	Savings and transactional accounts, small loans, debit and credit cards, etc.
Private banking	Also referred to as Private Wealth Management; retail banking and wealth management for high-net-worth individuals	Savings and transactional accounts, credit and debit cards, tailored lending, investment services, family governance, philanthropy services, etc.

By utilizing those business segments, banks have become indispensable financial institutions in the global economy; they enable commerce and entrepreneurship, and this, in turn, supports innovation across all industries (Hierzig & Phillips, 2017). These industries include those that are

[1] For the sake of clarity, the term ‘bank’ will be reserved for conventional chartered banks which generally operate nationally. The term ‘credit union’ will be used to define financial cooperatives which generally operate provincially or regionally.

considered high polluters such as oil, mining, and fashion companies. As such, one may inquire: Should banks be held liable for the impacts produced by their borrowers or investees? The question of the banking sector's direct and indirect impacts on communities is an ongoing and contentious debate both in industry and academia. Before presenting the debate, let us first define direct and indirect impacts through examples. As institutions that occupy physical environments, direct impacts include, but are not limited to, energy and water consumption, as well as transportation practices (Weber & Feltmate, 2016). Likewise, direct impacts can also be of a social nature, such as an employee-retention program, diversity recruitment and training, and stakeholder engagement (Weber & Feltmate, 2016). By contrast, indirect impacts "result from the financial flows of the banking business" (Weber & Feltmate, 2016, p. 88). In other words, a bank may prioritize financing low-polluting, or renewable energy businesses instead of extractive industries.

Now on to the debate concerning banks' responsibility for impacts produced by their borrowers or investees. From a general standpoint, there are two opposing views. According to the first view, a bank's primary (and sometimes only) obligation is to increase profits for its owners, the shareholders of the corporation (Weber & Feltmate, 2016). Some arguments put forward for this shareholder-based view of corporate governance include organizational efficiency and economic development. For the first argument, the pursuit of a single objective (profit maximization for shareholders) "provides a clearer goal than the pursuit of multiple objectives" (Dermine, 2013, p. 266). To achieve this, one must concurrently promote positive business relationships with stakeholders such as depositors and clients (Dermine, 2013). For the second argument, about economic development, private firms such as banks play an integral role in fostering innovation within various industries (Hierzig & Phillips, 2017), and this entails calculated risk taking. However, risk taking also means that failures will likely transpire (Dermise, 2013). In fact, "banks themselves often argue that they are not responsible for the impacts of their borrowers or investees, and that as long as they finance clients who conduct their business according to regulations and laws, they are also compliant" (Weber & Feltmate, 2016, p. 94).

According to the second view, the banking sector must be held liable for its indirect impacts because it holds a unique financial intermediary role within the economy and influences the

behaviour of actors across various industries (Hierzig & Phillips, 2017). A contrast to the pursuit of a single objective stated above is the Blended Value Proposition (BVP) framework (Emerson, 2003). Because traditional capital institutions (banks, mutual funds, etc.) have prioritized the maximization of financial return, consequently value creation was conceptualized as a trade-off between social (and/or environmental) and financial interest. Since the release of Emerson's 2003 article, we have witnessed the development of metrics and frameworks based on the integration of financial, social, and environmental practices within banking's business segments. Still, the industry as a whole is far from integrating sustainable practices and strategies into its core business mandate, and the banks that do so are considered avant-garde (Weber & Feltmate, 2016). Having presented an overview of the role and impacts of the banking sector, the Canadian context follows.

The Canadian banking sector is considered one of the safest, according to the World Economic Forum's *Global Competitiveness Survey* (Schwab & Sala-i-Martin, 2017). In fact, the country has held the top position for the past six years. Equally praised for weathering the 2008 financial crisis, Canadian banks are strictly regulated at both the federal and provincial levels, which discourages them from partaking in risky financial services and products (Weber & Feltmate, 2016). Federal regulators include the Bank of Canada, the Canadian Deposit Insurance Corporation, and the Financial Consumer Agency of Canada (Bank of Canada, 2012). Moreover, there are provincial regulators which oversee credit unions that largely operate provincially. Overall, Canada's banking sector is dominated by six banks (known colloquially as the Big Six), and combined, these organizations hold over 93% of total banking assets (Government of Canada, 2016). They are the Bank of Montreal (BMO), Bank of Nova Scotia (Scotiabank), Canadian Imperial Bank of Commerce (CIBC), National Bank of Canada, Royal Bank of Canada (RBC), and Toronto-Dominion Bank (TD).

In essence, banks act as intermediaries connecting lenders with borrowers. "Disintermediation strips banks of their pivotal role as the main conduit for these transactions, inserting a tech company in the middle of the equation" (Kiladze, 2014). With the advent of digitally based competitors, Canadian banks spent over $13 billion on technological innovations in 2013 (Jedras, 2014). Despite the emergence of new competitors, Canadian consumers are increasingly loyal to

and trust their banking institutions, and combined, these two features give banks a significant advantage and explain why they cannot be discounted (Kiladze, 2014). Finally, as crucial intermediaries, banks can support or hinder access to the capital needed to address increasingly complex global challenges. While this discussion has centered on the conventional and profit-maximization-oriented banks, an alternative business and governance model of financial cooperatives – and particularly credit unions – has been well documented.

2.2.2 The Canadian Credit Union Sector

The idea of financial cooperatives first began in Germany in the 1850s as a way to pool savings to meet future financial needs. From there, the business model was replicated and financial cooperatives expanded across Europe and North America; they are now major players in the global banking system (Birchall, 2013). Financial cooperatives are governed on a 'one-member, one-vote basis'; they "exist to attain the economic and social goals of the people who comprise their membership and surplus monies generated from business activities belong to the members" (McKillop & Wilson, 2011, p. 80). Hence, 'cooperative' does not equal 'non-profit,' but rather profits can be re-invested in the credit union's operations and paid as dividends to members. This is in contrast to conventional chartered banks that operate under a shareholder-model where profits are maximized for owners.

A key feature of the Canadian financial services sector is the size of its credit unions, with the largest 100 credit unions outside of Quebec's Desjardins Federation holding close to $190 billion in assets under management at the end of 2016 (CCUA, 2017). As cooperatively owned financial institutions, credit unions are brick-and-mortar institutions that have long provided a vehicle for consumers to pool savings and lend to each other. The early history of Canada's credit union movement can be traced back to 1900 in the church parishes of Quebec and to the establishment of the first caisse populaire (term used in Quebec and other French speaking regions) by Alphonse and Dormène Desjardins (Maiorano, Mook, & Quarter, 2016).

Shortly thereafter, credit unions sprouted up across other regions of the country to provide low- and middle-income individuals with access to banking and investment services geared towards

community development. Unlike commercial banks, which are regulated and operate nationally in Canada, credit unions largely operate and are regulated at the sub-national provincial level (Geobey & Weber, 2013). Moreover, each credit union is an independently incorporated and governed financial institution. However, there are differences worth noting between credit unions in English Canada and Quebec. For instance, in Quebec, credit unions are centrally coordinated within one central organization known as The Desjardins Group. The latter is the leading financial institution in Quebec with over 7 million members accounting for two of every three Quebecers, making it also the top cooperative financial group in Canada (Desjardins, 2018; McNish, 2011),

Outside of Quebec, credit unions' presence in relation to the population size is low, and these organizations are coordinated by regional affiliates that are in turn members of a national trade association, the CCUA (Maiorano et al., 2016). A recent study reported that with the exception of New Brunswick, credit unions are over-represented in rural areas and under-represented in large urban centres in relation to bank branches (Maiorano et al., 2016). While both banks and credit unions cater to marginalized communities, that same study indicated there is over representation of banks in communities comprised of newcomers and a visible minority population. In contrast, credit unions predominantly cater to communities that face barriers in accessing credit, which aligns closely with their founding socio-economic mission (Maiorano et al., 2016).

The credit union sector has been at the forefront of innovations in the Canadian banking sector, with many 'firsts,' such as the first financial institution to lend to women in their own names, first fully functional online banking, first social impact bond publicly launched, and first to offer loans as an alternative to payday lenders (CCUA, 2016b). Now serving over 5.6 million members outside of Quebec, credit unions contribute over $6.5 billion directly and indirectly to Canada's economic growth (CCUA, 2016b). However, with the exception of Desjardins, they remain relatively small, as there were only 36 credit unions with at least $1 billion in assets under management at the end of 2016 (CCUA, 2017). Furthermore, credit unions are recognized for the role they play in the SME market, as 25% of Canadian SMEs received debt financing from credit unions (Innovation, Science and Economic Development Canada, 2015). Lastly, it is

worth noting that credit unions are ranked the best financial institutions in member surveys conducted by the Canadian Federation of Independent Business (Wong, 2016).

Recently, the Canadian credit union sector entered the payday loan industry by positioning itself as a 'better alternative'. Essentially, "a payday loan is a small, unsecured loan due on the borrower's next payday designed to provide relief for urgent, short-term cash needs" (Dijkema & McKendry, 2016, p. 11). As payday loan interest rates on average range from 620.5% to 912.5% in Canada, opponents of this industry consider it a predatory market that only extends cycles of indebtedness (Dijkema & McKendry, 2016; Aitken, 2013). In 2014, Vancity Credit Union was the first financial institution in Canada to launch a payday loan alternative product, called Fast & Fair Loan; it has a 19% interest rate and allows borrowers to build their credit rating (Nelson, 2014). Since then, other credit unions have followed suit. In fact, during the data collection stage of this research, it was discovered that six credit unions had either recently entered or were in the process of entering the market for alternatives to payday loan services.

Though it seems credit unions have carved themselves a niche within the Canadian retail banking sector, how are they responding to the advent of new digitally based financial competitors? A recent study involving credit unions and P2P lending will be discussed in chapter 3.

2.3 Finance and Sustainability

The following subsections explore the connection between sustainable development and finance through an analysis of social finance and impact investing. First, an introduction to sustainable development is offered; it includes details of the financial industry's role in tackling the sustainable development goals set by world leaders. The second subsection offers a general overview of the global social finance landscape, including its terminology, structure, and implications for topics like entrepreneurship. This sets the foundation for the third and final subsection, which analyzes the Canadian context of impact investing, including the role played by the credit union sector.

2.3.1 Introduction to Sustainable Development

For the past 10,000 years, human civilization benefitted from a stable environmental state that permitted agricultural and technological developments which contributed to establishing modern societies (Griggs et al., 2013). This epoch of stability, named the Holocene, is now increasingly under threat. Since the Industrial Revolution, human-induced activities have been the main driver of environmental change, and this gave way to a new geological period known as the Anthropocene (Griggs et al., 2013). In fact, the consequences of human-generated activities, such as our dependency on fossil fuels, could be detrimental to the Earth's system responsible for maintaining the conditions that support human development (Rockström et al., 2009). With this in mind, nations' growth and aspirations must be assessed in relation to the Earth's thresholds.

Indeed, the conflicts between the environment and development were first recognized in the 1970s, and later in 1982, with the formation of the World Commission on Environment and Development (WCED) by the General Assembly of the United Nations. Chaired by the former Prime Minister of Norway, Gro Harlem Brundtland, it was later dubbed the Brundtland Commission and published the landmark report titled *Our Common Future*. From that report originated the standard framework for sustainability, where sustainable development is defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987, p. 41). Where sustainability encompasses three distinct spheres (environment, economy, and social), ongoing debates have focused on the interpretation of the phenomena. For instance, it can be very challenging to define a clear set of solutions because while each stakeholder has the expertise to bring forth ideas, very few can set formalized governing policies (Rittel & Webber, 1973). Over time, two views arose: 'weak' sustainability and 'strong sustainability.' The first suggests that natural resources are non-substitutable and therefore should not pass given thresholds (Kuhlman & Farrington, 2010). On the other hand, weak sustainability acknowledges that some resource thresholds may be passed if substituted by capital. For instance, the global depletion of fossil fuel reserves can be considered an issue of weak sustainability because these can be replaced with other sources of energy that can be used by future generations.

The Brundtland Report identifies the significant role the financial industry plays in achieving sustainable development goals. The focus is mainly on two major global financial institutions in

the report, the World Bank and the International Monetary Fund (IMF), and the lending conditions established by them often influences the practices adopted by other financial institutions like trade agencies and commercial banks (WCED, 1987). More recently, world leaders convened in 2015 for the United Nations Sustainable Development Summit, where 17 Sustainable Development Goals (SDGs) with 169 targets were adopted to achieve three greatly ambitious objectives: end extreme poverty; fight inequality and injustice; and fix climate change (United Nations, 2017). In the finance industry, one type of approach termed social finance will be analyzed in the subsequent section.

2.3.2 Social Finance

Many nations are facing growing fiscal constraints, and this has resulted in the implementation of austerity measures by government officials. Oftentimes these measures have a direct or indirect consequence on the provision of social and community services. With the increasing threat of climate change and the interconnectedness of societal challenges, the burden of solving such issues can no longer uniquely fall on community and social stakeholders. This has resulted in the engagement of a wider set of stakeholders and the establishment of a 'new' paradigm called social finance. It can be defined as the "deliberate, intentional application of tools, instruments, and strategies to enable capital to achieve a social, environmental, and financial return" (Harji & Jackson, 2012, p. 31).

Additionally, social finance covers a wide range of models and research topics including Islamic finance, crowdfunding, and impact investment (Daggers & Nicholls, 2016). Moore, Westley, & Nicholls (2012) state that social finance can stimulate social innovation, since this type of investment usually challenges the wisdom of the conventional investor, and doing so can result in experiments that challenge both the institutional rationalities and existing orders in resources flows. As well, social finance can support social entrepreneurship during the development, adoption, and implementation stages. Traditionally, financial practices have generally considered social innovation to be of high risk in terms of return on investment when compared with investments made in more established products, processes, or organizations (Moore et al., 2012).

Though the term social finance has been used in Europe (particularly in the UK) for well over a decade, 'impact investing' is more commonly used in North America, where it was coined by the Rockfeller Foundation in 2007 in an attempt to create momentum behind socially and environmentally positive investing practices in the US (Geobey & Harji, 2014; Daggers & Nicholls, 2016). It is worth mentioning that the definition of impact investing varies across investor groups and regions of the world, but is generally comprised of the following four key groups: asset owners; asset managers; demand-side actors; and service providers (Harji & Jackson, 2012). Prominent asset owners include high net worth individuals/families, foundations, and corporations who entrust their capital with financial institutions. The third group represents those receiving and utilizing impact investments, which include small and growing businesses, cooperatives, and microfinance institutions. Finally, service providers involve intermediaries, monitoring and evaluation experts, and various networks that facilitate the flow of capital between the supply and demand sides (Harji & Jackson, 2012).

2.3.3 Impact Investing: Canadian Context

In Canada, the origins of social finance and impact investing can be traced back to credit unions and cooperatives, particularly in the province of Quebec with its federation of caisses populaires managing over $250 billion in total assets (Geobey & Harji, 2014; Desjardins, 2018). For example, according to a report published by the Responsible Investment Association (2016), credit unions rank as the largest organizational category by impact investment assets with $3.49 billion in the sector, or 38% of the Canadian total impact investing market. Moreover, Canadian market trends signal strong opportunities and high activity in the sectors of environment and water, energy, aboriginal business, non-profits and social enterprise, and agriculture (Harji, Reynolds, Best, & Jeyaloganathan, 2014). While the social finance sector is promising, it still faces a series of challenges. A comprehensive report titled *Redefining Returns: Social Finance Awareness and Opportunities in the Canadian Financial Sector* identified the barriers to investment by the financial sector in social finance opportunities (Harji, Kjorven, Geobey, & Weisz, 2012). The following three challenges along with its recommendations will be summarized: 1) language and vocabulary; 2) high risk perception; and 3) limited product availability.

For one, past studies have revealed that there is a lack of consistency of meaning amongst terms such as ‘impact,’ ‘sustainability,’,and ‘social.’ This can be detrimental in fostering trust and partnership between the social and financial sectors. For instance, when it comes to new products, investors have expressed a lack of tolerance for ambiguity concerning product’s structure, return expectations, and exposure to risk (Harji & Jackson, 2012). Here, the recommendation brought forward is to increase the financial literacy of actors on the demand side of capital (e.g., social enterprises, not-for-profits, etc.). Secondly, social finance is perceived as ‘risky’ by many in the financial sector. Since not-for-profits have historically depended on government grants and subsidies, “there is little confidence that these organizations can successfully operate a profit maximization strategy” (Harji & Jackson, 2012, p. 21). By equipping investors and intermediaries with the proper tools needed to evaluate the risk and performance of social finance products, greater awareness can be built around the uniqueness of such products.

The last challenge concerns the limited availability of financial products, though this is changing as the sector evolves. Since social finance products are not eligible for registered savings products, this can have an impact on the legitimacy of, and overall demand for, retail-level social financing (Harji & Jackson, 2012). Internet-enabled intermediaries like Kickstarter or Kiva are already connecting the ‘everyday investor’ (i.e., at the retail-level) with socially and/or environmentally focused projects (Geobey & Harji, 2014). Finally, one of the recommendations is the development of a National Impact Investment Fund as one of the key solutions for promoting the accessibility and inclusivity of social finance products throughout mainstream financial markets.

In summary, impact investing concerns the allocation of capital to accomplish social and environmental returns as well as a financial return. Similarly, it can be a viable tool used to engage a diverse set of stakeholders in tackling climate change related issues. Nevertheless, the present market, especially in Canada, faces a series of challenges relating to language and vocabulary, perception of high risk, and finally, limited product availability.

2.4 The Sharing Economy: A Brief Overview

In an era of increasing pursuit of convenience, digital platforms facilitate the daily transactions consumers make. With the most prominent involving ride hailing, lodging, commodities, and labour services, the 'sharing economy' encompasses a wide variety of sectors and business models ranging from for-profit to cooperatively owned enterprises. Due to its all-encompassing description, this resulted in the lack of a common definition. Nevertheless, other commonly used terms include: the collaborative economy, the on-demand (gig) economy, and the access-based economy (Murphy, 2016). Schor and Fitzmaurice (2015) identified five types of sharing economy platforms and activities. The first is the most popular category associated with the term and involves providing temporary access to physical assets for free or lease (e.g., lodging and tool rental libraries). The second category includes labour and service exchange platforms such as TaskRabbit. The third category is the focus of this thesis and constitutes crowdfunding platforms like Kickstarter and Indigogo. The fourth category is closest to the second-hand economy, and comprises platforms that facilitate the recirculation of goods, whether through resale or gifting. Frenken (2017) indicated that "this type of platform occurs at the intersection of peer-to-peer exchange and circular economy trends" (p. 4). Finally, the last category is a hybrid of both labour and physical assets; it includes businesses such as Etsy, which focuses on handmade and factory-manufactured items.

Offline, the notion of sharing and pooling resources together is ubiquitous in almost all communities where goods are lent for free because of social obligation or practice rather than rented for a fee. In particular, there is an ongoing debate both in the popular press and academic literature about the suitability of the term 'sharing,' as critics contend that monetized transactions on lodging and ride-hailing platforms do not constitute resource sharing (Belk, 2014). However, as previously discussed, there are other types of non-monetized transactions, including gifting, bartering, and lending free of charge, and all are greatly Internet-facilitated. Besides the terminological debate, other current debates include labour and governance, and these will be covered in section 2.5, below, which is titled, "Possible Platform Governance Futures."

The origin of the sharing economy is frequently associated with the commercial success of mega-platforms like Airbnb and Uber, and the 2008 global financial crisis (Schor & Fitzmaurice, 2015). In terms of the latter, combined strains of mass un- and under-employment, fiscal austerity policies, rising inequality, and increasing shrinking of the middle-class workforce have led people to pursue new ways to profit from already owned assets including property, consumption goods, labor, and time (Doorn, 2017). On the other hand, some observers argue that the sharing economy's history predates the global financial crisis and can be traced to the digitalization of music (e.g., Napster), and Web 2.0, which facilitated user-generated content and sharing on a global scale (Belk, 2014; Bardhi & Eckhardt, 2012). One distinction worth noting is between P2P and B2P transactions. In the former, people provide others temporary access to goods and services via a platform which acts as an intermediary, and offers supporting services such as automatic payment, ratings, and reputational data by relying on the wisdom of the crowd (Schor, 2017; Frenken, 2017). Schor (2017) stated "This data is believed to enhance the willingness of people to transact by reducing the perceived risk of dealing with strangers. How much ratings and reputational data reduce true risk is as yet an unanswered question" (p. 268). In a B2P structure, consumers lease products from a company and the entity retains ownership; examples include car-rental companies such as Zipcar and Hertz.

The environmental effects of the sharing economy are still ambiguous. Some platforms, especially those offering ride-hailing and lodging services, have branded themselves as eco-friendly and carbon-footprint reducing (Frenken & Schor, 2017). Whether sharing, product-service, second-hand, or on-demand, Frenken (2017) noted all four models can be considered examples of sustainable consumption, as they permit consumers to avoid the purchase of new goods; this can result in weakened demand, along with a decline in energy consumption and greenhouse gas emissions. However, there is currently insufficient empirical evidence to support these claims, and one major obstacle relates to user data guarded by platforms which are citing privacy and competition concerns (Frenken & Schor, 2017). Finally, the activities of the sharing economy are especially prevalent in urban areas of advanced nations that are characterized by a shift towards greater population density. As Bardhi and Eckhardt (2012) noted, "being able to access objects that are housed elsewhere facilitates the reurbanization movement" (p. 884). Now

that an overview of the sharing economy was provided, the succeeding sections will feature crowdfunding.

2.4.1 Online Crowdfunding

Advances in information and communication technology, coupled with a dissatisfaction with traditional financial institutions, have led to the emergence of multiple alternative financing markets. As previously discussed, online crowdfunding is a subcategory of the sharing economy and utilizes Internet-enabled platforms to process P2P or B2P financial transactions (Schor & Fitzmaurice, 2015). For businesses, these platforms enable funds for new or existing ventures, with crowdfunding in particular enabling an engagement with a wider audience of stakeholders to support ventures. Alternative financing is especially crucial in the early stages of an entrepreneurial initiative, when capital is needed the most and is most challenging to attract (Royal & Windsor, 2014). As a subset of the alternative financing space, online crowdfunding has particularly powerful transformative potential because it allows online platforms to disintermediate transactions that had previously been managed within financial institutions.

Online crowdfunding platforms such as Indiegogo, Kickstarter, and Zopa directly connect funders and fundees and charge a processing fee to support the service. In addition to acting as financial intermediaries, some crowdfunding platforms assist with the marketing and promotion of entrepreneurs through multimedia content like videos, presentations, and the use of crowd-based evaluation tools (Lehner, 2015). Four broad types of crowdfunding models are noted in the academic literature: donation-based; reward-based; equity-based; and lending or debt-based funding (Meyskens & Bird, 2015). The donation model is oftentimes used by major charities and individuals seeking capital for their cause or project, and fundees do not expect a direct return for their donations. In the reward-based model, funders are offered a nonfinancial reward depending on the level of financing; this is often structured as a pre-purchase of a good or service, but also as unrelated rewards that recognize the contribution, for instance a piece of branded clothing. Together, the 2015 donation- and reward-based crowdfunding global markets were estimated at $5.5 billion (Massolution, 2015).

Equity-based crowdfunding allows funders to purchase shares in a company with the prospect of receiving dividends or a return on their initial investment (Meyskens & Bird, 2015). Equity crowdfunding remains highly regulated and despite recent regulatory changes like the Jumpstart Our Business Startups (JOBS) Act in the USA, equity crowdfunding is a relatively small but rapidly growing share of the total crowdfunding market. Finally, the debt-based crowdfunding model, initially called P2P lending, but now more commonly referred to as marketplace lending, allows funders to pool their capital to provide loans to borrowers. Debt-based crowdfunding platforms usually provide unsecured loans, particularly for consumer-lending. Overall, debt-based crowdfunding represents the largest share of the global crowdfunding industry and was estimated at $25 billion in 2015 (Massolution, 2015).

The Cambridge Centre for Alternative Finance uses the term *alternative finance* to provide a more detailed categorization of the four broad models outlined above. Through collaboration with other research partners, they have developed a working taxonomy that captures the swift transformations that have occurred across various market regions. This, in turn, allows researchers to compare and monitor the global online alternative landscape. Their taxonomy is composed of debt-based and non-debt-based lending models as illustrated below in Table 2.

Table 2: A Working Taxonomy of Online Alternative Finance Models (Wardop et al., 2016, p. 30).

Alternative Finance Model	Definition
Marketplace/P2P Consumer Lending	Individuals or institutional funders provide a loan to a consumer borrower.
Balance Sheet Consumer Lending	The platform entity provides a loan directly to a consumer borrower.
Marketplace/P2P Business Lending	Individuals or institutional funders provide a loan to a business borrower.
Balance Sheet Business Lending	The platform entity provides a loan directly to a business borrower.
Marketplace/P2P Real Estate Lending	Individuals or institutional funders provide a loan secured against a property to a consumer or business borrower.

Real Estate Crowdfunding	Individuals or institutional funders provide equity or subordinated-debt financing for real estate.
Invoice Trading	Individuals or institutional funders purchase invoices or receivable notes from a business (at a discount).
Equity-based Crowdfunding	Individuals or institutional funders purchase equity issued by a company.
Reward-based Crowdfunding	Backers provide finance to individuals, projects or companies in exchange for non-monetary rewards or products.
Donation-based Crowdfunding	Donors provide funding to individuals, projects or companies based on philanthropic or civic motivations with no expectation of monetary or material return.

2.4.2 Marketplace Lending

The idea of personal and business loans has drastically been transformed by the World Wide Web, where the mediation of financial institutions can now be eliminated and replaced with platforms that connect private lenders and borrowers who decide on the decision process of loan origination (Bachmann et al., 2011). Aitken (2015) claimed "peer-to-peer lending networks were designed as explicit experiments in relational financial arrangements, innovative attempts at financial practices outside of the mainstream world of mainstream finance" (p. 853). The world's first lending platform was launched in 2005 with Zopa, and the name stands for 'zone of possible agreement.' Since Zopa, various forms of lending platforms have followed, "each using a unique business model and financing strategy and targeting a different and increasingly specific niche" (Geobey, 2015, p. 4).

When USA-based Prosper made its data public in 2007, this inspired a surge of scientific contributions (Bachmann et al., 2011). One area that has been extensively researched is the determinants of P2P lending, which includes characteristics such as financial determinants, demographic information, and social capital. Combined, such characteristics can help mitigate information asymmetry within the online lending space. For example, Freeman and Jin (2008) argued that social networks can assist with finding quality borrowers if the borrower's listing is endorsed by a friend within the network, and this friend bids on the listing. Michels (2012), who

examined the relationship between voluntary, unverifiable disclosures (e.g., a picture, intended use of the loans, etc.) on the interest rate and bidding activity, found that supplementary, unverifiable disclosures are associated with a lower interest rate on a loan.

As the online lending market has rapidly transformed, language has moved away from ‘peer-to-peer’ towards ‘marketplace’ lending; this reflects the decreased role of individual retail lenders working collaboratively to make judgments about loans, and the increased presence of larger institutional investors and automated decision-making algorithms (Aitken, 2015). For instance, in comparison to the UK, the USA marketplace lending market involves a larger share of investments from institutional investors, with many USA platforms establishing partnerships with American banks (Milne & Parboteeah, 2016).

Nonetheless, the growing institutionalization of marketplace lending has also been occurring in the UK, where 32% of all consumer loans in 2015 were funded by institutions (Zhang et al., 2016). Aitken’s (2015) study noted that the changes were largely initiated by the P2P platforms themselves, which have been eager to mobilize capital from some of the largest institutional investors, especially hedge funds. Policymakers who want to limit the risk assumption by P2P finance participants may do so by introducing financial institutions in order to mitigate risk (Moenninghoff & Wieandt, 2013). Finally, as social loans are transformed into investable assets, one can argue that P2P lending is gradually intertwining with the traditional financial landscape it initially sought to replace (Aitken, 2015).

2.5 Possible Platform Governance Futures

Frenken (2017) outlined three possible paths the sharing economy could take. The first scenario, known as ‘platform capitalism,’ reflects the current trend of for-profit global sharing platforms. Enabled by the Internet-of-Things (IoT), this technological development embeds objects with sensors, software, and IP addresses which allow the collection and exchange of data. Together, for-profit firm models gathered the most public and academic inquiry, as they have been the first to scale rapidly across geographies (Davies, Donald, Gray, & Knox-Hayes, 2017). With notable examples including Uber, Airbnb, and TaskRabbit, critics of platform capitalism claim that it can

lead to vulnerable and volatile working conditions where low wages and lack of access to benefits and insurance dominate, and where ‘employees’ are instead called ‘independent contractors’ or ‘self-employed’ (Doorn, 2017b; Davies et al., 2017). Scholz (2016) noted “The benefits of platform capitalism for consumers, owners, and stockholders are apparent but the value added for vulnerable workers and the long-term value for consumers are unclear at best” (p. 5). Conversely, other studies revealed high levels of job satisfaction amongst some platform workers who enjoy the flexibility offered, use earnings to pay down debt, and supplement their income through novel economic opportunities (Schor, 2017; Smith, 2016). These effects are not only limited to goods and services that are IoT enabled, as platforms that disintermediate financial transactions have similar effects.

In a second scenario called ‘platform redistribution,’ governments would regulate the activities of platforms by introducing taxes on ownership, platform users, and workers (i.e., contractors, freelancers, etc.). By incorporating digital identity systems into platforms, governments would be better equipped to monitor the transactions of individual users for tax purposes and compliance. However, reconciling the interests of global platforms that largely operate from a particular country (USA), and the national interests of governments outside this territory may prove challenging (Frenken, 2017). Regarding taxation, the European Commission (2016) invites its Member States to apply comparable tax obligations to businesses that provide similar services. This can be achieved through agreements with online platforms for the collection of taxes. The increased traceability of platform activities provides an opportunity to reduce the administrative load on workers and businesses. To illustrate this, the following case is highlighted in the European Commission’s communication titled, *A European Agenda for the Collaborative Economy*:

> An example of good cooperation between tax authorities and collaborative businesses comes from Estonia. In cooperation with ride-sharing platforms, the aim is to simplify the tax declaration process for drivers. Transactions between the driver and the customer are registered by the collaborative platform, which then only sends the data that is relevant for taxation purposes to the authorities, who will then pre-fill taxpayer tax forms. The main idea is to help taxpayers fulfil their tax obligations effectively and with minimum effort. (2016, p. 14)

Frenken (2017) foresees three solutions in the platform redistribution scenario. The first involves having platforms collect income taxes and provide workers with social insurance. A second solution includes following existing labor laws in many jurisdictions and considering platform workers as platform employees. Therefore, platform owners (or employers) would need to follow established collective labor agreements. The third solution concerns shifting taxes from service labor to consumer goods, property, and earnings from capital investments. For this, Frenken (2017) noted "higher taxes on material goods create more demand for repair and maintenance services, further contributing to sustainable development" (p. 11). Finally, as governments increasingly get involved in taxing on-demand platform activities, they will collect data which could be used to conduct research on the effects of sharing and on-demand platforms on society (Frenken, 2017).

2.5.1 Platform Cooperativism

The third scenario positions itself as an alternative to the existing 'extractive investor-owned model.' Led by the cooperative movement, 'platform cooperativism' is an emerging international effort to democratize the governance and ownership of platforms by transferring those capabilities to users. Duda stated, "We need to build an economy and an Internet that works for all. How can we take lessons from the long and exciting history of cooperatives and bring them into the digital age?" (as cited in Scholz, 2016, p. 178).

Historically, cooperatives have been used to provide practically any service or product and have proven to be very successful. For instance, cooperatives have weathered downturns like the 2008 global financial crisis better than similar-sized corporations (Birchall, 2013). The concept of platform cooperativism is composed of the following three parts. First, it proposes a structural change by embracing an ownership model based on democratic values. Scholz (2016) referred to this first part as "cloning the technological heart" (p. 14). Second, platform cooperativism rests on principles of solidarity and the platforms can be governed by various types of cooperatives, like worker-owned and city-owned cooperatives. Third, platform cooperativism seeks to reframe concepts such as innovation and efficiency by generating greater returns for users as compared to the corporate model of platforms. From there, Scholz (2016) proposed 10 principles for platform coops, which are briefly summarized below.

1. *Ownership:* Involves the transition to a people-centered Internet where platforms are collectively "owned by the people who generate most of the value on those platforms" (p. 18).
2. *Decent Pay and Income Security:* In 2015, it was revealed that crowdsourcing systems such as Amazon's Mechanical Turk pay workers between two and three dollars an hour "which is a disgrace in a country as rich as the United States" (p. 18). This principle affirms that platform (and online) workers need access to fair pay and benefits.
3. *Transparency and Data Portability:* Moving beyond operational transparency (i.e., budget), this also pertains to making transparent the collection, handling, storage, usage, and even selling of data, especially the data relating to customers.
4. *Appreciation and Acknowledgement:* Workers should have the ability to communicate with platform owners and operators, particularly concerning issues regarding compensation and termination.
5. *Co-determined Work:* Advocates for workers to be involved from the initiation phase (i.e., programming) and throughout the usage of the platform. "This way, too, operators will learn much more about the workflow of workers" (p. 19).
6. *A Protective Legal Framework:* Platform coops operate under a unique governance structure, and consequently, may require supportive local regulation in order to compete with their privately-owned counterparts.
7. *Portable Worker Protections and Benefits:* As workers perform duties across diverse workplaces, they should access benefits and protections in each work scenario. Moreover, Steven Hill's proposal is brought forward. It involves assigning each worker an Individual Security Account "into which every business that hires that worker would pay a small 'safety net fee' prorated to the number of hours a worker is employed by that business" (p. 19). Subsequently, those funds could be used to pay for workers' safety nets by directing them into already existing infrastructure like health care, Social Security, unemployment insurance, and more.
8. *Protection Against Arbitrary Behavior:* Platform employers such as Uber are known for arbitrarily terminating drivers without fair warning or explanation, while other platforms have a reputation for dismissing workers who fall below a certain star rating. In these

scenarios, "consumers take on managerial powers over workers' lives, which comes with an enormous responsibility" (p. 20). Finally, workers' employment history is oftentimes hosted on the platform's centralized private server, making it challenging for workers to take advantage of their reputation, specifically when moving to another platform.

9. *Rejection of Excessive Workplace Surveillance:* Practices similar to consumer reviews can leave workers feeling anxious and trapped in a state of competition every day.
10. *The Right to Log Off:* This translates to setting clear boundaries around what constitutes work time so workers "leave time for relaxation, lifelong learning and voluntary political work" (p. 20).

Although this model is still evolving, some notable existing platform coops include Fairmondo (provides a second-hand marketplace), Up & Go (offers access to home services laborers), and ride-hailing platforms like Cotabo and Green Taxi Cooperative (Platformcoop.net). Despite being a promising countermovement, Morozov (2014) cautioned against the kind of technological solutionism that is already rampant in venture-capital backed firms. Though there is much to be gained from cooperative ownership models, especially in enhancing labor conditions, "such an investment in technical and organizational infrastructures needs to be carefully embedded in local environments and their affective, moral, and political infrastructures, all of which are deeply gendered and racialized" (Doorn, 2017b, p. 910).

While cooperative platforms present many opportunities, some observers have claimed that initiating and operating one can be challenging. For example, such platforms have greater difficulty raising venture capital and moving to research and development on their own, and this constrains their capacity to engage in innovation and software development (Frenken, 2017). Additionally, the platform's ability to remain a collective, self-governed model, all while scaling up in an increasingly globalized digital economy comprised of diverse member identities, needs, and interests will prove to be demanding to achieve (Doorn, 2017a). However, it is worth noting that transactions over sharing platforms (outside of home sharing) and online marketplaces largely remain local. Therefore, the scaling of a platform coop may not be necessary to ensure viability as long as it continues to meet the needs of the local user base (Frenken, 2017).

As the literature on platform cooperativism expands, the following gaps have been identified:

- What constitutes a platform coop? Is it one that is solely developed by a cooperative, or can it be outsourced?
- If outsourced, what are the guidelines for choosing an external partner? What role does governance play?
- Where does cooperatively owned capital (i.e., financial cooperatives) fit in the discussion?

Concerning the third gap, Scholz (2016) stated that platform coops and coops in general are advocating for a different funding scheme since they are often ineligible for traditional loans. The following question was posed: "What are financing options that broaden the financial power of the many?" (Scholz, 2016, p. 189). While the example of GOTEO (a Spanish crowdfunding platform backed by a non-profit foundation) is briefly highlighted by Scholz (2016), it is unclear how financial cooperatives such as credit unions can engage with platform cooperativism as it materializes. The latter is an opportunity for future research.

2.6 Theoretical Perspective: Strategic Alliances

This section offers an overview of the definition(s) and typology of strategic alliances, the literature's prominent perspective, drivers, potential gains, and associated challenges or risks. Next, the resources required for a traditional lender to successfully enter the marketplace lending industry are outlined. Finally, examples of existing strategic alliances between traditional lenders and fintechs will be explored.

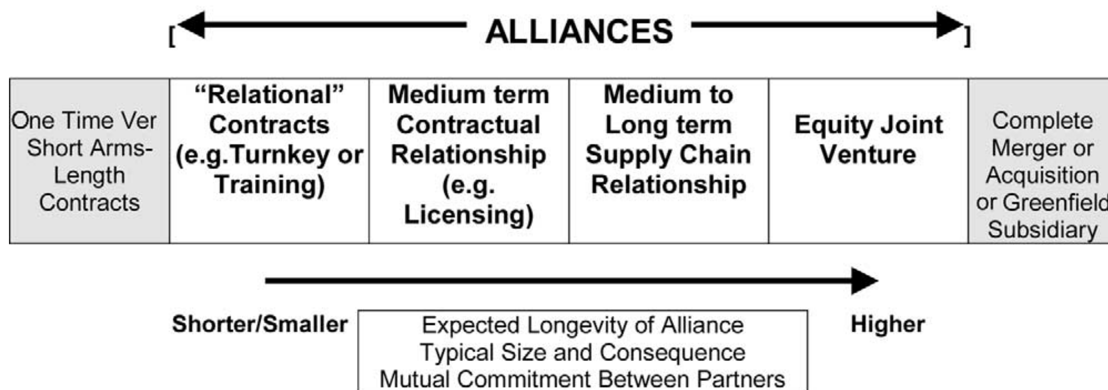
Strategic alliance is the term used to define the expansive range of voluntary arrangements or partnerships amongst firms (Gulati, 1998). While there is not one unique definition, Hilte and Mardjan (2007, p. 11-12) conducted a systematic literature review and observed the following:

- Most definitions state that an alliance can comprise two or more organisations.
- Some definitions emphasize the 'voluntary' nature.

- Some definitions highlight the economic advantage that an alliance can provide.

Rooted in the field of strategic management, common types of strategic alliances include, but are not limited to, equity joint ventures, research and development (R&D) partnerships, affiliate marketing, outsourcing, and licensing (Das & Teng, 2000). These alliances also vary from contractual to more formal ones involving equity arrangements, partial ownership in another firm, or even the creation of a new business entity by two or more parties (i.e., equity joint venture) (Amici et al., 2013). Essentially, "alliance structures can be distinguished in terms of the degree of hierarchical elements they embody and the extent to which they replicate the control and coordination features associated with organizations" (Hilte & Mardjan 2007, p. 16). This is also known as the 'loose' to 'tight' classification, with equity joint ventures being the most complex as well as the most time and cost-intensive. Figure 1 illustrates a few of the most common types of voluntary agreements based on expected longevity, typical size and consequence, and mutual commitment between partners.

Figure 1: Alliance Forms (Contractor & Lorange, 2002, p. 487).



2.6.1 Resource-based view (RBV)

Within the literature, one of the common theories used to explain why firms form alliances is the RBV. Here, resources include assets, knowledge, capabilities, attributes, organizational processes, etc. controlled by a firm that enable it to implement strategies that improve its

productivity and value (Porter, 1985; Barney, 1991). The RBV suggests that firms can gain competitive advantage by accessing other firms' resources (Das & Teng, 2000). A competitive advantage is "a value creating strategy not simultaneously being implemented by any current or potential competitors" (Barney, 1991, p. 102). To achieve it, a firm must hold the following four desirable characteristics – value, durability, rarity, and imitability (Barney, 1991). Because it is difficult to hold all four characteristics, especially in accelerating global markets with high entry costs, obtaining desired resources can be challenging, and some are non-tradable (Eisenhardt & Schoonhoven, 1996). Non-tradable resources include, but are not limited to, certain knowledge, reputation, leadership, and networks (Barney, 1991). Therefore, firms form strategic alliances when they are in need of "additional resources that cannot be purchased via market transactions but are available from partners" (Yasuda, 2005, p. 765).

According to the RBV, some of the potential performance benefits associated with alliance formation are greater resource alignment, increased market power, and risk sharing. In the literature, the term 'alignment' is commonly used to categorize resources that are either supplementary or complementary. The latter is favoured by firms for it allows them to arrive at the partnership with unique and distinctive competencies, and to compensate for each other's gaps (Day, 1995). Moreover, scholars claim that synergy may be created when different resources are brought to the alliance (Medcof, 1997). By contrast, resource alignment is considered supplementary when firms contribute similar resources. While complementary alignment is most widely acknowledged, Das and Teng (2000) argued that supplementary alignment can provide risk sharing and economies of scale in areas like R&D, production, and marketing. Moreover, resource alignment is especially relevant in new or uncertain environments. For instance, multinational companies will form joint ventures with local, established firms to acquire their resources (e.g., physical infrastructure, knowledge, and connections), and this, in turn, reduces the risks associated with operating in a new market (Beamisch, 1987).

Now onto the challenges or risks according to the RBV, which include risk of resource imitation, dependency, and inter-firm conflicts. During the alliance-building process, firms are not only interested in accessing or obtaining partners' resources, but also in protecting their own valuable

resources (Chen & Chen, 2003). Accordingly, procurement may result in resource imitation, especially for a firm-specific resource like knowledge (i.e., what the firm does, how it is done, and why it is done that way) (Curado, 2006). Furthermore, some firms risk depending on the resources of the other party, which can lead to constrained growth in the event of shared distribution channels (Gravier, Randall & Strutton, 2008). Hence, the party providing the distribution channels might end up neglecting its own development of products, becoming instead a medium for the products of others. On the other hand, the party delivering the products might not foster its own distribution channels, depending merely on the support of others that as consequence might weaken (Osborn & Baughn, 1990).

Lastly, both interest and operational conflicts can cause inter-firm conflicts, leading to poor or unsatisfactory alliance performance (Das & Teng, 2000). First, "when partner firms have different and competing interests in the alliance, their incentive and willingness to work together will be reduced" (Das & Teng, 2000, p. 52). In fact, a study about joint ventures in the electronics industry revealed that when the element of competition is present, joint ventures are more likely to fail (Park & Russo, 1996). Second, operational conflicts occur when the parties involved have divergent and incompatible organizational values; this negatively impacts the effectiveness of the alliance, as firms have to allocate significant time and energy to conflict-resolution processes (Das & Teng, 2000). While those processes can be useful, they are less likely to generate an economic advantage (Zaheer, McEvily, & Perrone, 1998).

In the context of marketplace lending, what are the required resources for credit unions to successfully enter the industry? Undoubtedly, this will impact whether credit unions enter the industry, and from there, whether they do so independently or in partnership with fintech firms. For traditional lenders (including credit unions), the following resources are required, and this is based on information gathered from mainly business and industry sources.

The first is investing in hiring skilled labour and acquiring technological proficiencies (e.g., advanced analytics) to develop marketplace lending processes. While large Canadian banks like RBC and Scotiabank have already seriously invested in tackling fintech issues and establishing digital development hubs, smaller banks (including credit unions) may not possess the required

resources to advance R&D in the fintech space (Zubairi, 2017). This is why, for instance, the American Bankers Association is supporting its members with less than $250 million in assets in securing a marketplace lending partner to speed up their digital offerings (Irrera, 2017). The second resource required is abstract, but nonetheless crucial to succeed in today's hyper-innovative economy – the ability to experiment and fail rapidly. For the most part, traditional lenders are historically slow to innovate as they have become highly structured and heavily regulated. In fact, the following passage from Kiladze's report (2014) illustrates this matter:

> Another major hurdle: Trial and error isn't in the banks' DNA. RBC chief McKay, a graduate in math and computer science from the University of Waterloo, visited Facebook's headquarters in Menlo Park, Calif., and witnessed one of its legendary "hacks" – a 48-hour cram session during which coders develop a new product or service. Being there, he quickly realized that banks don't move nearly as quickly. "Because we have big, complex organizations with integrated systems … it takes a while to build something that works," he says. To be competitive, he believes new rules must be enforced, such as killing misguided projects before they become too bloated. "We have to find a way to fail fast."

Chadi Habib, chief technology officer for Desjardins Group, expressed a similar sentiment: "In theory, we can hire the same talent they're all hiring. Where we get challenged is the culture. […] Fintechs have a lot of agility, they learn by iterating and they're focusing on areas, frankly, that are much less regulated" (Serebrin, 2016). To summarize, for credit unions, the required resources to enter the marketplace lending industry successfully are skilled talent, technological proficiencies, and an organizational shift focused on agile trialling in product design.

2.6.2 Examples of Strategic Alliances in North America's Marketplace Lending Industry

With the growing institutionalization of marketplace lending, traditional lenders are increasingly forming strategic alliances with fintech firms or startups. The following section will cover some examples from the USA and Canada, including both consumer and small-business lending partnerships.

In the USA, the very first partnership was established in 2007 between Lending Club and WebBank, a partnership that is still ongoing and where all loans are made by WebBank, a Utah-chartered bank (Renton, 2016). Since then, a host of partnerships have taken place. In 2015,

Prosper, another leading marketplace lender, partnered with Western Independent Bankers. The latter serves over 160 independent and community banks across 13 western states (Prosper, 2015). That same year, Sam's Club launched its Business Lending Center with two leading USA-based marketplace lenders, Lending Club and SmartBiz; this was an effort aimed at assisting business members experiencing barriers to accessing capital (Berthiaume, 2015). When the USA's largest bank, JPMorgan Chase & Co., partnered with OnDeck Capital for small business lending, writer Peter Renton shared the following (2015):

> What this deal does is bring partnerships with marketplace lending platforms to the top of mind for all large banks. I think in the future we will look back at this moment and see this groundbreaking deal as a turning point. Banks can no longer ignore marketplace lenders and creating partnerships is the new blueprint.

Finally, other American observers like Anna Irrera (2017) declared that "such partnerships give startups access to a large network of customers, while allowing banks to improve digital offerings overnight without having to bear the development costs".

In Canada, although the overall marketplace lending industry is fairly new, there have been a few prominent strategic alliances between banks and fintech companies. For instance, both Grow and Borrowell utilized institutional capital (i.e., deposit base) to fund consumer loans. Regarding small business lending, CIBC was one of the first major banks to partner with a fintech company when it announced a referral partnership with Thinking Capital, an SME-focused online lender (Shecter, 2015). More recently, a few credit unions have also entered the space by joining forces with fintech companies such as Grow. In fact, in 2016, Grow partnered with First West Credit Union, British Columbia's third-largest credit union with nearly $11 billion in assets, and with Conexus Credit Union, which is Saskatchewan's largest credit union with $7 billion in assets (Serebrin, 2016; First West Credit Union, 2018; Conexus Credit Union, 2016). For the online lender, partnering with a trusted and well-known credit union or financial institution "allows some credit union members to feel comfortable doing business with a company like Grow" (Serebrin, 2016).

In summary, the above examples highlight some of the emerging trends in the North American marketplace lending industry. For one, financial institutions like JPMorgan Chase & Co., CIBC, and First West Credit Union come with brand recognition, customer loyalty, experience with

complex financial regulation, and a significant deposit base. These are all resources which fintech companies currently lack because of their recent entry in the financial services sector. Nonetheless, by partnering with existing fintech companies, financial institutions could enhance their digital products in order to retain or attract new customers. According to available-but-limited industry sources, most strategic alliances thus far are based on contractual agreements between independent firms involving the exchange or distribution of operational expertise such as technical proficiencies and customer networks. However, as the overall marketplace lending industry matures, other types of strategic alliances might surface.

2.7 Chapter Summary

This chapter commenced with a discussion about the major functions of financial intermediation, which are asset aggregation, market building, credit risk management, and the circulation of information. Hence, in the absence of financial intermediaries, the per-unit cost of each business transaction could prove to be higher and riskier. Further, an overview of the banking sector, including its direct and indirect impacts on sustainability, was provided, and it concluded that the overall industry has yet to integrate social and environmental practices into its core business mandate. However, a subsector of the banking sector, credit unions, have a history of integrating social and environmental returns into business transactions. Next, the connection between finance and sustainability was explored through social finance and impact investing. Regarding the latter, socially and environmentally motivated investing practices have roots in the Canadian credit union sector.

Further, the evolution of P2P or marketplace lending was examined from its onset, when it directly connected borrowers and lenders, to now, when institutional investors are increasingly facilitating the provision of funds with the support of automated decision-making algorithms. Like their chartered banking counterparts, credit unions are also seeing increased competition from fintech companies. From a governance standpoint, the platforms that have gained international success operate under a shareholder model, and this is referred to as platform capitalism in the literature. In response to platform capitalism, the cooperative movement recently introduced platform cooperativism, which seeks to promote cooperatively-governed

platforms by transferring greater abilities to end-users. While still emerging, further research is needed to unearth how financial cooperatives such as credit unions can engage with or support platform cooperativism.

Last, the RBV of strategic alliances was used to explore how credit unions are entering the marketplace lending industry. To enter the market successfully, the researcher postulated that credit unions need to invest in skilled labour and technological proficiencies, as well as an organizational culture focused on agile experimentation. However, while it was previously stated that agile trialling is not in the banks' DNA, they can access it through partnership with fintech companies. Increasingly, there are growing alliances or partnerships between traditional lenders and fintech companies in the USA and UK, and now this is also in Canada, where there are notable cases like CIBC and Thinking Capital, as well as Grow and First West Credit Union.

3. Research Context and Hypotheses

3.1 Introduction

This chapter provides the background for this research by exploring the evolution of the Canadian crowdfunding market and, more specifically, marketplace lending and its major industry incumbents and regulatory landscape. Next, Geobey's 2015 research concerning P2P lending and credit unions is summarized, and it provides the framework for this thesis. This chapter also includes the study's hypotheses, which are based on the examined literature and the RBV of strategic alliances. Finally, the themes and relationships studied in this thesis are illustrated.

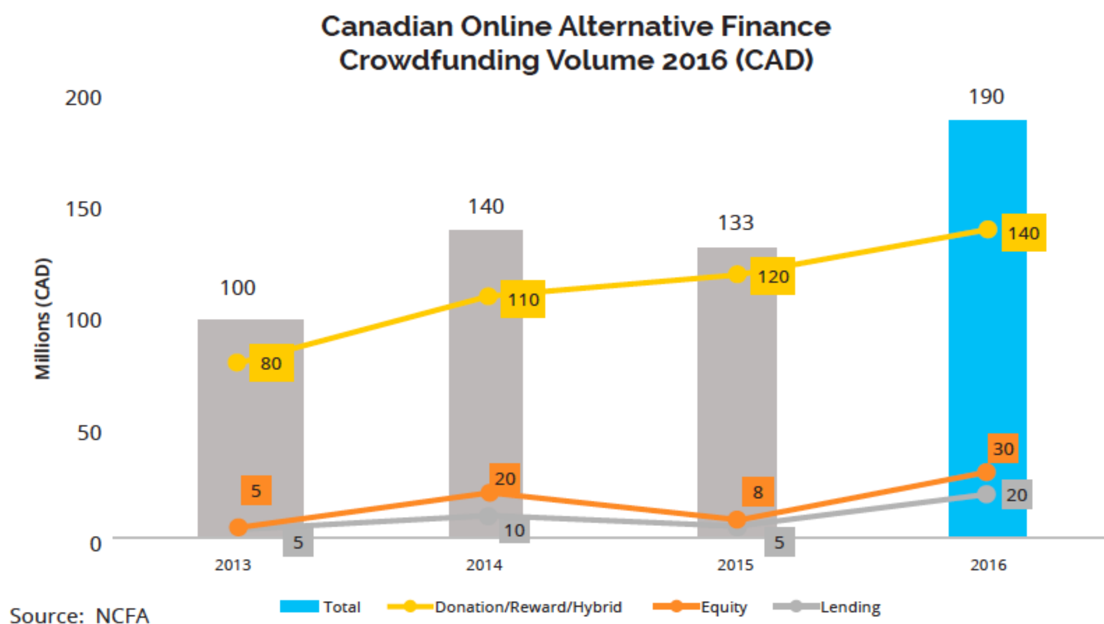
3.2 Overview of the Canadian Crowdfunding Industry: Key Players, Market Size, and Regulatory Landscape

Overall, the Canadian crowdfunding industry reached $190 million in 2016, and this indicates it is still nascent compared to more mature markets like the USA and UK (National Crowdfunding Association of Canada [NCFA], 2016). Although Canada is the world's 10th largest economy (based on nominal GDP), "its online alternative finance market is much smaller than the US market on both a per capita and total alternative finance volume basis" (Wardop et al., 2016, p. 25). This can be attributed to Canada's heavily regulated banking sector, which is also dominated by six large banks, all of which are considered fairly cautious lenders. Consumer confidence in financial institutions is also very high, with less than 10% of Canadians reportedly willing to switch banks (Kiladze, 2014). In fact, most North American consumers are wary of online-only financial services providers, and it is estimated that only 1% of banking revenue has transferred to new digital models (Boyle, 2016).

Since its inception in 2013, the NCFA monitors the adoption and growth of online Canadian funding platforms. As of January 9, 2018, there were 98 platforms and service providers; the majority were donation and rewards-based (45), and the others were service providers (25), followed by equity (19) and then lending (9) (NCFA, 2018). As illustrated in Figure 1, below,

the total Canadian online alternative finance crowdfunding volume went from $100 million in 2013 to $190 million in 2016, which represents the latest data available. With only nine operating online lending portals as of January 9, 2018, it is clear that marketplace lending in Canada is still in its early phases. Nonetheless, it has quadrupled in size, as per Figure 2, which shows its volume went from $5 million in 2013 to $20 million in 2016.

Figure 2: Canadian Online Alternative Finance Crowdfunding Volume in $CAD (2013-2016) (NCFA, 2016, p. 65)



Grouplend (now Grow) was considered Canada's first marketplace lender when it launched in 2014 by exclusively utilizing capital from accredited and institutional investors to fund consumer loans in all provinces except Quebec and Nova Scotia (Geobey, 2015). Kevin Sandhu, CEO of Grow, declared the following in a press release (2014):

> Banking in Canada doesn't work for regular Canadians anymore. We're accustomed to high fees, high interest rates, and poor customer service. For years, the sector as a whole has failed to innovate. Banks are making a fortune, and they're taking it right from the pockets of everyday consumers through exorbitant fees and high interest rates on credit cards and consumer loans. Online lenders are an alternative to that. We think responsible, middle class Canadians deserve more affordable access to the money that they need to live their lives.

Here, Sandhu's words can be viewed as both a criticism and a call to action to the financial

services industry as a whole, but especially the Big Six chartered banks whose profits topped $33.27 billion in 2014 (CBC News, 2015).

In 2015, the second marketplace lender, Borrowell, was launched and similar to Grow, it operates under an accredited investor-backed model. Along with providing personal loans, Borrowell was the first to offer free credit scores and reports to Canadian consumers without them needing to apply for credit first (Galang, 2016). Moreover, the fintech offers personalized recommendations based on people's credit score, including third-party financial products in addition to their own products. Similar to Sandhu's comments, Andrew Graham, CEO of Borrowell, said that "when it comes to borrowing money, there are traditional options and expensive options, and we think it's time for an innovative option" (Borrowell, 2014). Finally, Lending Loop launched in 2016 and is considered the "first fully regulated peer-to-peer lending platform" that focuses on small business lending (Lending Loop, 2018). Currently, Lending Loop is one of the few platforms that accepts investments from non-accredited investors (i.e., retail investors), and has managed to appease regulators by offering SME loans backed by asset-based collateral (Hutchison, 2018).

When it comes to regulations, it is crucial to distinguish between financing that comes from institutionally funded entities, and financing that comes from a large pool of small-dollar contributions via an online platform. This distinction is important because regulators are unlikely to apply the same degree of regulatory scrutiny on institutionally funded entities because of the sophisticated nature of the investors and the largely private nature of their activities (Omar Madar, Geobey, & Pigeon, 2017). The same cannot be said of small-dollar funded platforms, which will draw in relatively inexperienced investors whose investments resemble deposits, but nevertheless are governed under provincial securities regulation as opposed to banking legislation.

Thus far, Canada's small-dollar, online lending platforms have come under the regulatory authority of provincial securities regulators, and consequently they "are required to follow all the same regulations and underwriting guidelines as their bank and lender counterparts that govern financial transactions with consumers" (NCFA, 2016, p. 32). Recently, in 2016, numerous

crowdfunding rules were introduced; these allowed retail investors to invest up to $10,000 annually in private capital markets (O'Hara, 2016). Moreover, to remain competitive with the rising trend of regulators adopting fintech innovation hubs (e.g., in Australia, the UK, and Singapore), some Canadian provinces have introduced initiatives to support the development and market readiness of new online lending platforms, with examples including the BC Securities Commission's Tech Team and the Ontario Securities Commission's LaunchPad (Lalonde, 2017). However, the NCFA is advocating for a national securities regulatory framework (like the Securities Exchange Commission in the USA) to improve engagement, data collection, and information sharing across the Canadian alternative lending space (NCFA, 2016). Lastly, with these regulatory changes we are able to observe that emerging marketplace lenders co-evolve with existing financial institutions, particularly credit unions who have been absent major fintech industry incumbents.

3.3 Building on Peer-to-Peer Lending and the Future of Cooperation

This research builds on the Filene Research Institute and CCUA report *Peer-to-Peer Lending and the Future of Cooperation* (Geobey, 2015), in which the opportunities in P2P lending for credit unions were analyzed. In particular, Geobey (2015) explored the following three market opportunities for credit union engagement with crowdfunding: community development; consumer lending; and small business lending. Some credit unions like Affinity Credit Union have already experimented with crowdfunding to support local enterprises that tackle social and environmental issues such as food security and clean energy. By engaging members and the larger community in directly allocating funds to community development initiatives, credit unions may benefit from member growth, member retention, and identify new, viable business opportunities. Because P2P lending processes are generally digital and do not require physical operations, they promise a lower loan cost for borrowers when compared to brick-and-mortar institutions. Geobey's (2015) study found the following:

> In practice, this means that some credit union members will prefer borrowing online or that the credit union could provide peer-to-peer loans to some borrowers at a lower interest rate than it could with a mainstream product. Over time this would allow brick-and-mortar credit union operations to focus on higher value-add services. (p. 20)

Examples of higher value-add services include financial and wealth management and mortgage

financing, to name a few. Furthermore, P2P lending offers a new source of unsecured borrowing; and unlike predatory lenders such as payday loan services, credit unions are considered better suited to support individuals in escaping from the cycle of debt (Dijkema & McKendry, 2016).

One of the existing strengths of the credit union sector lies in financing SME businesses, especially those in rural communities where a credit union provides access to financial services as the only available financial institution (CCUA, 2016b). Although the P2P business lending market is still fairly small in Canada and the USA, evidence from a mature market like the UK reveals that business owners sought P2P loans for reasons relating to speed of access, transparency, and better customer service (Baeck, Collins, & Zhang, 2014). In this alternative finance space, business owners have the opportunity to access loans that are, for instance, in-between a microloan and a traditional commercial loan, with the average reported UK P2P business loan being £73,222 (Geobey, 2015). Finally, for credit unions, the advantages of introducing P2P business lending mirror those of consumer lending. For Geobey (2015), "these benefits include lower operating costs for online loans, a renewed focus on high value-add services from brick-and-mortar operations, and the possibility of offering lower interest rates online than equivalent available off-line products" (p. 22).

After exploring the above market prospects for credit union engagement, four implications are assessed through a strengths, weaknesses, opportunities, and threats (SWOT) analysis. In summary, the four strategic options for credit unions are (Geobey, 2015, p. 22):

1. **Ignore peer-to-peer lending**. The credit union system continues operations without interacting with online peer-to-peer lending.
2. **Become an institutional lender in a peer-to-peer platform**. Individual credit unions participate as institutional lenders in one or more peer-to-peer platforms.
3. **Partner with a platform on a retail level.** Individual credit unions strike partnership deals with existing peer-to-peer lending platforms.
4. **Develop a credit union peer-to-peer platform**. One or more peer-to-peer lending platforms are developed and owned by credit unions or by the credit union system.

An entire analysis of each strategic option will not be covered in this paper. However, Geobey (2015) recommended that in the short term, most Canadian credit unions should consider either

partnering with an existing platform on a retail level or becoming an institutional lender. In the medium to long term, the development of a credit union P2P platform was suggested, but it was also asserted that this option may be out of reach for all but the largest and most technically advanced credit unions (Geobey, 2015).

Since the release of that report, there have been some changes in the Canadian marketplace lending sector. Be it regulatory changes, the entrance of new industry competitors, or the rebranding or exiting of previous ones, Chapter 6 will list some of the many changes, particularly from a credit union sector perspective. Before discussing the hypotheses, a reminder that this study's objectives are to unearth how Canadian credit unions are entering the marketplace lending industry, and to analyze the perceived and/or identified opportunities, risks, and barriers to entry.

3.4 Hypotheses

The hypotheses derive from the literature analyzed thus far regarding sustainability and finance, alternative lending models, and strategic alliances. Based on the examined literature and report titled *Peer-to-Peer Lending and the Future of Cooperation* (Geobey, 2015), the following hypotheses are generated:

Hypothesis 1: To enter the marketplace lending industry successfully, credit unions need to invest in acquiring skilled talent and technological proficiencies.

With fintech companies promising a convenient and easy application process, faster access to capital, and greater rate transparency, these digitally based competitors are offering a suite of financial products ranging from personal to business loans. While their 2016 volume of $20 million (NCFA, 2016) is negligible compared to credit unions and caisses populaires outside of Quebec, with reported combined assets of $202.5 billion (CCUA, 2016a), the fact of the matter remains that they are challenging the traditional financial institutions' dominance of the Canadian lending market. In turn, credit unions will feel pressured to respond by entering the space before these competitors acquire larger segments of the overall lending market. However,

to do so efficiently, credit unions need to invest in technological proficiencies and skilled labour to compete with fintechs' current offerings (e.g., SME and consumer small-dollar loans).

Hypothesis 2: If credit unions hold the required resources, they will enter the marketplace lending industry independently.

Credit unions have a long-rooted legacy in the Canadian financial services sector, and throughout time have built crucial resources like industry knowledge, distribution channels, a network of customers, and brand recognition. The investment bank Goldman Sachs launched its own consumer marketplace lending service, and it offers unsecured personal loans up to $30,000 (Sweet, 2016). Therefore, similar to Goldman Sachs, if credit unions hold the resources required to internally implement marketplace lending processes, they will do so independently.

Hypothesis 3: If credit unions are lacking the required resources, they will partner with an existing fintech company or not enter altogether.

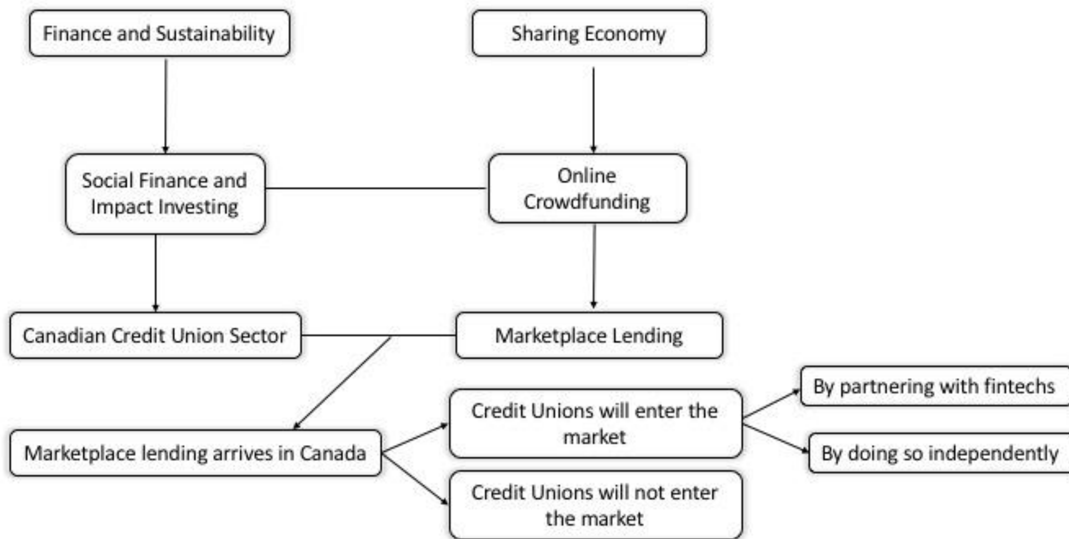
With the exception of Quebec's Desjardins Group and a few other large credit unions such as Vancity, Servus, and Meridian, Canadian credit unions remain relatively small, and consequently may not hold the capital and technological resources required to internally implement marketplace lending processes. On the one hand, partnering with marketplace lenders on a retail level provides the opportunity to participate without taking on the cost and risk of managing a lending platform. Additionally, through partnership and, more specifically, client referral, credit unions can direct members seeking unsecured loans to a partner lending platform, while the latter refers clients to credit unions for secured loans (Geobey, 2015). On the other hand, the credit unions that are lacking the required resources might not enter altogether and, for instance, opt to do so only when they are ready, depending on organizational priorities.

3.5 Chapter Summary

This chapter offered the study's background through the analysis of the Canadian crowdfunding industry, and especially marketplace lending, the volume of which quadrupled in size from 2013

to 2016; still, it is small on both a per capita and total alternative finance volume basis. Generally, this can be credited to Canada's heavily regulated banking sector that is dominated by six large banks, coupled with high consumer confidence amongst Canadian consumers. Furthermore, Geobey's 2015 report was reviewed, since it provides the context for this thesis. To recapitulate the study's literature review, Figure 3, below, shows the components being studied and the relationships that are being explored. For instance, a line links social finance to online crowdfunding because studies have demonstrated that environmentally and socially motivated entrepreneurs are increasingly accessing funding through alternative online financing channels, oftentimes as a result of traditional lenders' denial of funding. Additionally, Canadian credit unions have a long-rooted history in community development, especially in small, rural regions where they oftentimes constitute the only financial institution. Now, with the emergence of marketplace lending, credit unions have the opportunity to partake in it alone, to participate by partnering with existing industry incumbents, or to not enter altogether.

Figure 3: Components of Research



4. Methodology

4.1 Introduction

There is currently limited research on marketplace lending in Canada since it only began in 2014. Thus, this study contributes to the prior academic discussion of marketplace lending by further investigating its role in the Canadian credit union sector. By bringing together the well-established credit union sector, the up-and-coming marketplace lending market, and literature on platform cooperativism, we can observe the challenges that arise when brick-and-mortar financial cooperatives are offered opportunities to take their governance model to primarily virtual-only environments.

The following chapter covers the methodology used in this exploratory research. To reiterate, this study investigates how credit unions are entering the marketplace lending industry as it emerges in Canada. Using a qualitative approach, semi-structured interviews were conducted with participants from across Canada's credit union sector (but outside Quebec). To start, the philosophical worldview and research design are explained; this is followed by the data collection and analysis. Next, verification and validation of the research are noted. Finally, the chapter concludes with a description of the study's limitations.

4.2 Philosophical Worldview and Research Design

The philosophical worldview which influenced this research is termed constructivism. Fundamentally, the constructivist worldview is based on the principle that others hold a different worldview from ours, and "it is typically seen as an approach to qualitative research" (Creswell, 2014, p. 37). In his book, Creswell (2014) referenced the following three assumptions. For one, constructivism is predominantly concerned with the participants' views of the phenomena being studied. Through discussions and interactions, the participants (or interviewees) are encouraged to develop their own interpretations. Secondly, how we make sense of the world largely depends on one's background and social and historical perspectives. Finally, constructivist researchers

acknowledge that "basic generation of meaning is always social, arising in and out of interaction with a human community" (p. 37).

By utilizing distinct qualitative processes, the researcher makes sense of the data collected through personal interactions and gatherings. Because qualitative research may choose to centralize individuals' experiences and the meanings they assign to them, the research participant is deemed an expert, and the investigator a learner (Wilding & Whiteford, 2005). A qualitative design based on a phenomenological research was employed here. This type of design inquiry relies on the lived experiences of participants concerning a topic as narrated by the individuals in question (Creswell, 2014). For this research, since marketplace lending is an emerging phenomenon in Canada, the researcher wanted to prioritize the narratives of leaders in the credit union sector. The goal of the researcher or investigator in a phenomenological research design is to describe as truthfully as possible the phenomenon, all while acknowledging the theoretical and philosophical influences which can be embedded throughout the inquiry process (Wilding & Whiteford, 2005). Further, the role of the participant is one of co-researcher, and both parties must cooperatively engage to advance the study's objectives (Knaack, 1984). However, a participant's willingness and comfort in disclosing information can only occur when the researcher gains their trust (Knaack, 1984).

One of the most popular methods employed in qualitative research design is the interview protocol. Whether it is conducted in-person, by telephone, online, or in a group setting (i.e., focus group), interviews often provide a greater level of depth compared to other methods. While this type of inquiry is especially valuable in documenting participants' perspectives and experiences, some of its limitations include probable biased responses, which can result from the researcher's presence, and indirect information conveyed through participants' opinions (Creswell, 2014).

Generally, the following four types of interviews are frequently used in social sciences – unstructured, structured, semi-structured, and focus group (Alshenqeeti, 2014). However, only the first three will be described below. In an unstructured interview (also called open-ended), the researcher does not ask pre-determined questions, but instead relies on the interaction itself to

guide and ultimately shape the process (Turner, 2010). On the contrary, the structured format is designed around a set of pre-determined questions and sometimes a corresponding selection of answers, which can closely mirror the survey questionnaire; this leaves little room for flexibility and freedom for both the participant and researcher (Alshenqeeti, 2014).

Between the two previously cited formats is the semi-structured interview. In this style, the interviewer asks pre-constructed questions, but “flexibility takes precedence based on perceived prompts from the participants” (Turner, 2010, p. 755). For the purpose of this study, this style of interview was used, as it provided the chance to cover various issues concerning marketplace lending and credit unions. More specifically, these include impact investing, SME lending, and payday loan alternatives. Considering the majority of research previously conducted on marketplace lending applied survey results or lending platform data (Freeman & Jin, 2008; Michels, 2012; Wardop et al., 2016), interviews offer a supplementary mode of examining this understudied topic. Moreover, since the study builds upon a former study, Geobey (2015), which utilized a review of both academic and grey literature, the researcher wanted to collect the perceptions and business practices of those in the credit union sector since the release of that report.

The partner organization for this study is the CCUA, a national trade association that represents individual credit unions and regional credit union central organizations outside of Quebec (CCUA, 2017). The CCUA supported this study through two means. Firstly, the CCUA is one of the industry-partner organizations (with the second being the Filene Research Institute) that financially supported this research through the Mitacs Accelerate program. Secondly, the CCUA supported via participant recruitment from their database of credit unions. The analysis and findings of this research were published in a Filene Research Institute report titled, *Canadian Credit Union Perspectives on Marketplace Lending: New Approaches from Day One* (Omar Madar et al., 2017). Finally, the researcher was involved in CCUA’s day-to-day activities via the Mitacs Accelerate internship in the Fall 2016 term, and hired permanently April 2018.

4.3 Ethics and Data collection

As the research involved human participants, in this instance, leaders from the Canadian credit union sector, an ethics clearance prior to data collection was required. The application was submitted in June 2016 to the Office of Research Ethics at the University of Waterloo. During recruiting, potential participants received an information letter and a consent form (see Appendix A) detailing the rights and responsibilities of the researcher and interviewees. For example, interviewees had to consent to the use of interview recording for transcription purposes, and to have their credit union referred to by name or not. Also, interviewees were ensured that participation was voluntary, and they could withdraw from the study at any time. The interview questions were sent to participants in advance (see Appendix B). Lastly, participants were offered contact information of both the supervisor, Dr. Sean Geobey, and the University of Waterloo's Office of Research Ethics.

The sole method of data collection for this research was interviews. More specifically, semi-structured interviews were conducted either in person or by phone with consenting interviewees between September and November 2016. The interviews ranged from 25 to 63 minutes and were recorded for transcription purposes. Moreover, notes were taken during each interview, and these served both data analysis and validation purposes; this will be discussed further in subsequent sections. Regarding sampling, interviewees were purposefully selected in conversation with staff at the CCUA about their database of credit unions. The criteria for participant selection was twofold. For one, credit unions that were looking to engage in marketplace lending or had already engaged were contacted. Secondly, the participation of credit unions which had reservations about marketplace lending, or simply wanted to share their initial thoughts, were also contacted. Participants were recruited using a combination of different methods.

The primary method of recruitment involved the distribution of information about the study through the CCUA's e-mail list to credit unions that met the selection criteria described above. From there, interested participants were invited to directly contact the researcher. A second method used was snowball recruitment, and interviewees who agreed to partake in the study were asked to recommend other individuals or credit unions to interview. Lastly, the researcher

targeted provinces (outside of Quebec) that were not yet represented in the sample. For instance, after many efforts, an interviewee from Nova Scotia was confirmed. In total, 17 interviewees or participants took part in this study, 16 from credit unions across Canada (but outside Quebec), and one interviewee from an affiliated community organization (see Table 3, below, for the breakdown of the interviewees per province and credit union). The data set includes one credit union central, which acts as the primary liquidity manager and payments processor for credit union branches.

Table 3: Interviewees Per Province and Credit Union

Province (location of headquarters)	Number of interviewees	Number of credit unions per province
Alberta	3	2
British Columbia	2	2 (includes a credit union central)
Manitoba	1	1
Nova Scotia	1	1
Ontario	7	5
Saskatchewan	3	1

4.4 Data Analysis

Data analysis for this project was a process with several steps that included notetaking, transcribing, reading through the collected data, coding, presenting, and ultimately interpreting the data. A brief description of each step follows. To begin, as briefly mentioned above, notes were taken after each interview concerning the topics discussed. These notes were used to identify initial patterns, categories, and theories that the researcher holds throughout the study's progression. The interview recordings were transcribed by hand using the Express Scribe Transcription Software, which includes features such as speed control and time stamps. Next, while reading through the transcripts, the researcher identified general patterns and themes present with the intention of immersing in the data and in order to better understand the respondents' viewpoints (Burnard, 1991).

After a second read through the transcripts, the researcher employed open coding, which entails assigning as many categories as possible to the interviews. Through this process, the codes were clustered into larger categories in order to group similar ones together (Burnard, 1991). This

latter step was revised and adjusted accordingly throughout the analysis process. The researcher was inspired by Creswell's suggestion regarding coding as falling into the following three categories (2014, p. 248):

- Codes on topics that readers would expect to find, based on the past literature and common sense.
- Codes that are surprising and that were not anticipated at the beginning of the study.
- Codes that are unusual, and that are, in and of themselves, of conceptual interest to reader.

Using the above described suggestion allowed for the opportunity to present opposing opinions and new insights unanticipated at the start of the study. Following open coding, major themes were developed to agglomerate the key features of the categories identified in the transcripts. The major themes were assessed in accordance with the research questions and objectives. Upon completion of coding, the findings were presented in a table format comprised of exemplary quotes, and the number of credit unions showing strong evidence for each category. Last, a narrative of each theme discussing the interviewees' experiences accompanied each table of findings.

4.5 Verification and Validation

Several strategies, such as member and stakeholder checking, coder cross-checking, peer debriefing, and the presentation of contradictory information were used to promote the validity of this research. After each interview, key points gathered were summarized in a document and sent to the participant to review and make necessary changes. Also referred to as member checking, this strategy allows respondents to promptly correct errors or misinterpretations, and elaborate on ideas (Thomas, 2006). Moreover, before the release of the report titled *Canadian Credit Union Perspectives on Marketplace Lending: New Approaches from Day One* (Omar Madar et al., 2017), it was distributed to the CCUA's members (i.e., credit unions and credit union centrals) to gather feedback and comments.

To assess the clarity of the major themes, the researcher engaged Dr. Geobey to cross-check the codes identified. Because in-depth, semi-structured interviews yield a great deal of raw data, "the need for knowledgeable coders is especially important […] and requires that coders have sufficient background knowledge in the subject matter of the interviews" (Campbell et al., 2013, p. 297). In this instance, Dr. Geobey possessed both the coding experience and background knowledge, and for this reason also served as the peer de-briefer. This strategy involves selecting a person whose task is to review and ask questions about the study, so it appeals to people aside from the researcher (Creswell, 2014). The last strategy employed concerned the presentation of conflicting information. While discussing the research findings, the researcher included insights that conflicted with the overall perspective of themes.

4.6 Limitations

The methodology used in this paper contains a few limitations that will be discussed below. The major one is its reliance on a single data set of key informant interviews; this did not allow the researcher to triangulate the data generated from these interviews with other sources. Because of this, the findings here should be taken as preliminary results intended to provide initial direction and to generate further research questions. Given the recent emergence of a Canadian marketplace lending sector, it is still developing, and future research will be able to better draw on multiple sources of data, including a longer track record of credit union and other financial sector forays into marketplace lending and lending data at the individual level.

In addition, the data set included only seventeen participants from twelve credit unions across Canada but outside Quebec. As there are now 623 credit unions and caisses populaires in Canada (including Quebec), this study's findings should not be used to draw national comparisons or generalizations. Further, as previously mentioned above, unlike their commercial and federally regulated banking counterparts, each credit union is an independently incorporated and governed financial institution. Finally, the exclusion of Quebec from the data set is a major limitation worth addressing in future research since the Desjardins Group constitutes the top cooperative financial group in Canada, and thus may generate unique outcomes for marketplace lending processes.

4.7 Chapter Summary

For this exploratory study, a qualitative research design based on phenomenological research was employed. More specifically, semi-structured interviews were conducted with 17 consenting participants, 16 from credit unions across Canada but outside Quebec, and one from an affiliated community organization. In the end, the data set was comprised of 12 credit unions outside of the province of Quebec.

In partnership with the CCUA, participants were recruited through the Association's database of credit unions with the support of staff members. Following the interview, the raw data was analyzed through numerous coding stages, as outlined above. Next, a few strategies including member and stakeholder checking, and coder cross-checking, were used to promote a research design that was both ethical and valid. Nonetheless, the findings constitute preliminary results about the emergence of marketplace lending within the credit union sector, and hence future research could draw from a larger sample size combined with multiple sources of data (e.g., quantitative, mixed-methods, etc.). In the next chapter, the findings of this thesis are presented, and later they are analyzed through the RBV.

5. Findings

5.1 Introduction

The purpose of this chapter is to present the findings from the interviews, including the three areas of business that were the focus: SME lending; impact investing; and alternatives to payday loan services. Through a table format, each theme is grouped under the specified category (opportunities, risks and barriers, and areas of uncertainty), and there are exemplary quotes and the number of credit unions showing strong evidence for each category. Finally, a discussion highlighting nuances follows each category.

5.2 Perceived and/or Identified Opportunities Associated with Marketplace Lending

The data analysis revealed four opportunities for credit unions in marketplace lending: attract and retain members; increase local engagement; access a new set of SMEs; and finally, provide an equitable consumer environment. This section will discuss the perceptions and attitudes of interviewees, and Table 4, below, summarizes the opportunities in marketplace lending for credit unions. A reminder that the data set includes one credit union central.

Table 4: The Opportunities in Marketplace Lending for Canadian Credit Unions

Opportunity	**Exemplary Quotes**	**Number of Credit Unions Showing Strong Evidence**
Attract and retain members	I think it really can attract certain and specific groups . . . when I say attract new members . . . there's a strong focus on millennials and I think the technology-based peer-to-peer lending platform lends itself to that. (Susan Henry, Alterna Savings, Ontario) One of those driving reasons for us is we do have members through our surveys that certainly indicate they want to see more electronic options . . . we're trying to address that need within our membership by doing this, so certainly it does have that implication of being able to expand services to existing members. (Jim Rediger, Westoba Credit Union, Manitoba)	3 Ontario 1 Manitoba 1 Nova Scotia 1 British Columbia 1 Saskatchewan
Increase local engagement	I mean deposits right now are so ridiculously low, [marketplace	1 British Columbia

	lending] could be an option for helping people make a better return by investing in their own community, like getting involved in the lending products that are taking on the community challenges for example. (Interviewee, British Columbia) If we were to get communities to participate with us on the lending side, that means that some amount of diligence would have been done by those investors in the businesses which are within the local communities . . . [it] also makes them the consumer of those local businesses because if I've invested in the business, I would want to be a customer of that business so that I can support it. (Nav Bubber, Meridian Credit Union, Ontario)	3 Ontario 1 Saskatchewan
Access to a new set of SMEs	We're seeing a lot of demand from the non-profit sector, social enterprise sector . . . and socially and environmentally responsible businesses that may have more creative or less proven business models where they're finding it harder to tell those stories in the context of traditional lending. So the idea of an online peer-to-peer lending functionality . . . is sounding very appealing to them. (Sarah Rea, Meridian Credit Union, Ontario) I think this is where you are seeing some great opportunities coming out. There are some established [marketplace lenders] that . . . have a great track record. And I think in the SME space, it probably has a higher accelerant because small business owners are by nature looking for alternatives to the big five [banks]. I think if there's ever a segment that is open to borrowing from newer institutions or taking a look at other choices, it is the small business space. (Robert Paterson, Alterna Savings, Ontario)	3 Ontario 2 British Columbia
Equitable consumer environment	So if you think of maybe the unbanked, new Canadians, and other individuals that may not have this traditional credit history that typically has been required for credit financing. This type of environment provides better opportunities for individuals that would fall under those groupings . . . In my mind, this peer-to-peer landscape can help eliminate some of the barriers. (Interviewee, Ontario) So, related to the social responsibility side of it . . . it opens up to a number of those individuals who might not necessarily have access to lending channels. (Laurel Smith, Conexus Credit Union, Saskatchewan)	2 Ontario 1 Saskatchewan

The greatest opportunity in marketplace lending identified by Canadian credit union interviewees pertained to member attraction and retention, with seven out of the 12 credit unions demonstrating strong evidence. To remain competitive in the banking industry, interviewees stressed the importance of expanding the range of products offered online, with one interviewee even describing the shift towards digital offerings as inevitable. Moreover, credit union

interviewees discussed the opportunity to attract tech-enabled members such as millennials who may have not previously considered joining a credit union.

Utilizing marketplace lending to increase local engagement is another opportunity noted by credit union interviewees, with five out of 12 credit unions demonstrating strong evidence. Strategies such as offering a competitive rate on deposits and community investment portfolios to incentivize members to invest in local enterprises and initiatives were discussed. By engaging members as retail investors, credit union interviewees believed it might motivate members to continually support the enterprises in which they invested. Similarly, several interviewees mentioned that marketplace lending offers an opportunity to access a new set of SMEs, especially those that are socially or environmentally motivated and face greater challenges to accessing capital. Here, it is worth noting that the discussions were not only limited to marketplace lending, but also involved other types of crowdfunding (e.g., donation and reward-based). For individuals who do not own assets or are considered un-bankable by traditional banking metrics, it can be challenging to raise the capital needed to jumpstart an enterprise. Here, an online P2P or marketplace lending model would create an alternative financing space for future entrepreneurs. In fact, one credit union interviewee noticed an increase in entrepreneurs using crowdfunding platforms to raise initial start-up funds, and how the success of a crowdfunding campaign can contribute to the assessment of a business loan, since it can offer insights about the demand for a given product or service.

While most of the lending provided through existing marketplace lending platforms is in the form of unsecured loans, credit union interviewees noted that it can potentially be an option for business owners seeking smaller loans up to $50,000. However, some interviewees were cautious of digitalizing the entire lending process, since business lending requires more relationship-building, and previous surveys demonstrated that business owners greatly value the relationship they have with their financial advisors. While a few interviewees believed they are already catering well to the SME market, others said that financial institutions such as credit unions could play a greater role in addressing the funding gap faced by early stage ventures, as also noted by Bruton, Khavul, Siegel, & Wright (2015).

Finally, there was a perception that marketplace lending could provide a more equitable consumer environment, because less stringent lending policies could facilitate credit granting to the 'unbanked' population and to individuals who do not possess a credit history in Canada (e.g., new immigrants). As the traditional banking experience (i.e., visiting a branch) can be intimidating for individuals from certain communities, a completely digitalized lending experience can help eliminate certain barriers associated with traditional financial institutions.

5.3 Perceived and/or Identified Risks and Barriers to Entry

This section will highlight the risks associated with marketplace lending, as well as the barriers to entry discussed by interviewees. Overall, the following six emerged: regulations; reputational risk; unstable strategic partnerships; capital attraction; prioritizing other technical modernization; and finally, market viability issue. Table 5, below, outlines the risks and barriers associated with adopting a marketplace lending strategy.

Table 5: The Risks and/or Barriers to Entry According to Canadian Credit Unions

Barrier	**Exemplary Quotes**	**Number of Credit Unions Showing Strong Evidence**
Regulations	That's how they're getting away with all the stuff right now, it's 'cause they're considered not part of the regulated side, and so . . . if regulation came in it could be dead in the water before anything gets off the ground. (Interviewee, British Columbia) These regulations need to evolve to be able to be suitable to different kinds of platforms and different kinds of backers for those platforms. (Nav Bubber, Meridian Credit Union, Ontario)	1 Saskatchewan 3 Ontario 1 British Columbia
Reputational risk	I think the advantage for them obviously is leveraging our relationship and reputation 'cause they don't have that yet, so you need to be a little bit careful about who you partner with cause you don't want them to tarnish obviously what you spent 50 . . . in	1 Ontario 1 Manitoba 1 Alberta 1 Saskatchewan

	our case, spent 50-plus years working with. (Jim Rediger, Westoba Credit Union, Manitoba) I think that if we enter this market, we have to be very careful and I think the leg up that we have as credit unions is we have trust. And our members like us. (Gail Stepanik-Keber, Servus Credit Union, Alberta)	
Unstable strategic partnerships	I think generally there's a feeling like if we partner with those kinds of start-up enterprises if we don't acquire them, they're going to eat our lunch in terms of that kind of platform ability. (Ben Janzen, Kindred Credit Union, Ontario) Many of them have their own brand and that brand [focuses] on the same core segment that we as credit unions are basically focused on which is prime members and small business. Is there some kind of validation that you know they're gonna share with me on the one hand, partner with me, and then compete with me? (Interviewee, British Columbia)	2 British Columbia 2 Ontario
Capital attraction	We're more focused on deposit taking at the moment than trying to develop more loan products. (Gail Stepanik-Keber, Servus Credit Union, Alberta) We have more problems with attracting capital than doing loans, so we don't need to put more money out in the form of loans, we need more capital in the form of deposits. (British Columbia interviewee)	1 Alberta 1 British Columbia 1 Ontario
Prioritizing other technical modernization	I mean there's just lots of other priorities right now, so we haven't sat down and actually got to the discussion. (Interviewee, Conexus Credit Union, Saskatchewan) There is a backlog of apps that we need to get on the system in order to be competitive in today's banking market. And therefore,	1 Saskatchewan 1 Alberta 1 Nova Scotia

	adding this item on at a time where we still don't have online account opening or online lending within our own system, then it becomes a prioritization and limitation challenge. (Marie Mullally, Credit Union Atlantic, Nova Scotia)	
Market viability issue	I'm anxious to see how the platforms evolve so that it does get . . . I guess, a greater level of control, and a greater level of return to the investor than what's in place today. (Interviewee, Ontario) We have not seen the financial results. So our chief financial officer studies these companies, and overall, we have not seen very positive business results from these companies and so we're skeptical about you know, is there actually business? (Gail Stepanik-Keber, Servus Credit Union, Alberta)	1 Ontario 1 Alberta 1 Nova Scotia

To begin, the regulatory framework remains a major challenge, with five out of 12 credit unions showing strong evidence. Here, the responses were mixed. Although some interviewees considered the Canadian regulations more restraining than their U.S. counterparts, others mentioned that it is the fintech companies themselves who lack the knowledge required to operate in the financial sector. It is believed that their inexperience is largely due to their beginner status compared to credit unions' long-rooted legacy as financial institutions.

Likewise, interviewees discussed the challenges that may arise from partnering with fintech companies. First, some interviewees raised the reputational risk associated with partnering with new companies who do not yet hold strong brands or lending history. This was particularly important if the partner was to leave the Canadian landscape or entirely dissolve. Second, some interviewees were cautious of the motivations of marketplace lending companies. As long as they hold their own brand, they could be seen as competing for the same customer-members with their partnering credit unions. Specifically, two interviewees noted that there is a general feeling

that if a credit union partners with a fintech start-up, the credit union should acquire it outright to avoid having it cannibalize their market share.

A partnership also raises the issue of who ultimately owns the member's lending experience. This issue was of concern for two interviewees who noted that sharing data and members' confidential information with an external organization can present risks such as leaks and breaches of information, especially if it is housed in cloud storage outside of the country. Finally, the question of the profitability potential of a partnership with a marketplace lender was raised, with one interviewee mentioning that "splitting thin margins is not ideal."

For three credit unions, prioritizing other technical modernization needs was deemed more pressing than adopting a marketplace lending strategy. Furthermore, others considered the Canadian online lending market still in its early stages, and consequently decided to postpone their participation until awareness develops within Canadian consumers. Lastly, the issue concerning capital attraction surfaced. For instance, three interviewees expressed that their credit union's challenge lies in attracting deposit capital, not in finding lending opportunities. Without excess capital available for lending at this time, the value in becoming an institutional lender in a marketplace platform is absent.

5.4 Continued Uncertainty

This section will highlight the three areas of strategic uncertainty that the data revealed: maintaining traditional credit union values; complexity of payday loan alternatives; and the relationship between impact investing and marketplace lending. Table 6, below, outlines these three areas.

Table 6: The Areas of Strategic Uncertainty for Canadian Credit Unions

Area	**Exemplary Quotes**	**Number of Credit Unions Showing Strong Evidence**
Maintaining traditional credit union values	There's significant benefit for traditional financial institutions to get more involved in the payday loan space because of the education piece that could be provided where the intent is to help break the cycle	1 Manitoba 2 Ontario 1 Alberta 1 Nova Scotia 1 Saskatchewan 1 British Columbia

	that these individuals that rely on payday loans get into. (Interviewee, Ontario) In the larger scheme, I think we have to be concerned about indebting other people with more than they need. When we are talking about online lending, I do like the efficiency, I do like the ease, but I think in the back of our heads we need to be concerned about that. (Susan Henry, Alterna Savings, Ontario)	
Complexity of payday loan alternatives	We have done an assessment of a payday loan product . . . and our conclusion, based on being a small credit union – and that's an important element – the cost would outweigh the benefit relative to financial operation, service delivery impact on the company, and our existing members. (Marie Mullally, Credit Union Atlantic, Nova Scotia) For the community need we will then engage people that we never have before and we don't know who they are. We don't know how their credit histories are. It's a bigger risk. Is there a need for it? Absolutely. Are we the financial [institution] to do it? I don't know. (Ben Janzen, Kindred Credit Union, Ontario)	3 Ontario 1 Manitoba 1 Alberta 1 Nova Scotia
Relationship between impact investing and marketplace lending	So, in my view, I think peer-to-peer lending is just another form of lending. So, in other words, it doesn't create a particular platform for impact investing. I don't see the correlation any different than the correlation if you were to use it for our regular financing. (Marie Mullally, Credit Union Atlantic, Nova Scotia) I guess I see a connection, it may not necessarily in this particular time be a direct connection, but it's maybe more of an indirect connection. (Jim Rediger, Westoba Credit Union, Manitoba)	1 Nova Scotia 1 Manitoba 1 Ontario

Overall, the interviews revealed that the credit union sector recognizes the value in offering alternatives to payday loan services; many individual credit unions are already offering such services or are in the process of developing them. However, the complexity of 'small dollar programs' (i.e., short period of time and involving smaller loans), and how it can be a major initiative and cost prohibitive to institute in an in-branch environment was discussed. There is also a perception of that payday-loan users are high-risk borrowers who may not have previously considered banking with a credit union. For many, this translated into a tension between the members' needs and community needs. In other words, would a payday loan alternative product primarily benefit the credit union's members, or the broader community in which the credit union operates?

In addition to developing alternative products to traditional payday loan outlets, a few interviewees mentioned that these should be accompanied by a financial literacy strategy to mitigate the need for short-term payday loan services (i.e., break the cycle). In fact, this was identified as a gap in the current Canadian marketplace lending market, and interviewees believed there is a greater role that financial institutions such as credit unions can play to address this gap.

Since credit unions are member driven, the interviewees identified some issues that could be inconsistent with their respective values. For one, the overall level of indebtedness of borrowers who use online lending services was raised. For instance, one interviewee revealed that their credit union did not pursue a partnership with a marketplace lender because of the risk associated with "pushing debt onto populations that maybe don't need it." Secondly, to reiterate, some credit unions are wary of digitalizing the entire business lending process because they value the offline personal connection developed with members. And last, for the credit unions that are focused on improving the financial wellness of their members, the added value of marketplace lending remains unclear.

Moreover, the relationship between marketplace lending and impact investing is unclear at the moment, with interviewees stating that marketplace lending may or may not have the potential to

support the development of impact investing. Despite this, a few interviewees believe there is an increasing demand for investment opportunities in socially or environmentally motivated initiatives within their community.

5.5 Chapter Summary

This chapter presented the findings of this study, including the three areas of business explored: the use of marketplace lending for SME financing; impact investing; and the use of marketplace lending in providing alternatives to payday loan services. Some of the perceived and/or identified opportunities are using marketplace lending processes to enhance member retention and attraction, and access to a new set of SMEs. Yet, the credit unions interviewed also discussed the risks and barriers like regulations and difficulty attracting capital (i.e., deposits).

Further, the findings revealed that uncertainties (and sometimes tensions) remain about the relationship between impact investing and marketplace lending, introducing payday loan alternative products, and maintaining credit unions' values. As an emerging trend that has disruptive potential, credit unions keep following the development of marketplace lending, but so far various risks and areas of uncertainty are clouding the market, and many credit unions appear to be waiting until the case for engagement becomes clearer. In the next chapter, a discussion of the findings is provided by looking through the literature of strategic alliance, and more specifically the RBV.

6. Discussion

[2]Part of this chapter has been published

6.1 Introduction

This chapter examines the study's findings by answering the central research question: How are Canadian credit unions entering the marketplace lending industry? To answer, a summary of participating credit unions is provided, followed by an in-depth discussion. Ultimately, the majority of the study's credit unions are simply monitoring the evolution of marketplace lending. Furthermore, the findings are analyzed through the lens of the RBV, and the hypotheses postulated.

6.2 How Are Credit Unions Entering Marketplace Lending?

Out of the 12 participating credit unions, the following is the count of how they are entering marketplace lending:

- Three have partnered with fintech companies;
- One is developing its own lending platform;
- Two were solicited by fintech companies, but the offer was either not formalized or rejected altogether. Consequently, they are now monitoring its evolution.
- Six are simply monitoring its evolution.

The majority of credit unions interviewed are monitoring the evolution of marketplace lending in Canada, though not all see an immediate case for engaging directly in the marketplace lending space. They are following its development as an emerging trend that has disruptive potential, but are not convinced there is a compelling opportunity or defensive case for entering this market.

[2] Part of this section was culled from Omar Madar, I., Geobey, S., & Pigeon, M-A. (2017). *Canadian Credit Union Perspectives on Marketplace Lending: New Approaches from Day One* (Filene Research Institute Report, Publication #436). Madison, Wisconsin: Filene Research Institute. The report was published in August 2017.

The wiser strategy for many credit unions appears to be in waiting until the case for engagement becomes clearer.

While one credit union interviewed said that becoming an institutional lender on existing marketplace lending platforms was a possible short-term solution, none of the credit unions interviewed saw this as a compelling long-term strategy. Notably, the challenges associated with becoming an institutional lender, especially on the administrative back-end, are sufficiently difficult to make this approach nonviable. Interviewees believed that this strategy would necessitate a costly process of due diligence similar to know-your-client rules for a mutual fund. Moreover, there does not appear to be a compelling case for making these investments at this time. The challenge for many credit unions is in attracting deposits, not in finding lending opportunities. With competing demands on fund deployment, the value in becoming an institutional lender in a marketplace platform is minimal. Furthermore, from a regulatory standpoint, some participants were unclear if a credit union marketplace lending platform would constitute a closed environment for lending to members only, or if they could serve non-members as well.

Since the report *Peer-to-Peer Lending and the Future of Cooperation* (Geobey, 2015), the Canadian marketplace lending industry has seen some notable market changes. For one, Grow, which originally launched as a marketplace platform, has since pivoted its strategy to become a software service provider. According to interviewees, this change is due to Grow needing to partner with credit unions to gain access to their strong member base. While originally the intention was to have Grow and the credit unions use each other as client pipelines, Grow's reliance on the credit unions for recruitment made the shift to specializing in providing services to the credit union system a more effective approach. For instance, Westoba Credit Union recently partnered with Grow to offer online lending products to its members, with Westoba receiving a commission on approved loans. A portal is housed on Westoba's website where interested members are redirected to Grow's website to gain further insights about the loan process. According to CEO Jim Rediger, the larger benefit for his credit union is the opportunity to build relationships with those members and offer other financial services such as mortgages and wealth management.

For many, partnering with existing marketplace lenders offers the opportunity to quickly enter the consumer marketplace lending space, provide existing members with access to more financial products online, and potentially attract future credit union members. For example, the traditional banking system is often viewed as intimidating by some potential clients or credit union members, and this has driven many people to use services such as payday lenders or to overuse credit cards. Marketplace lending is emerging as a new channel to access financing that appears to be more accessible to some currently underserved community members.

Overall, the development of a credit union marketplace lending platform is considered a long-term objective of many credit unions. Although it is resource intensive, this strategy fits well with the collaborative nature of the credit union system. However, there are other higher-priority items that some credit unions have identified, such as remote check depositing, mobile banking applications, and socially responsible investing projects. For those wanting to be early adopters in marketplace lending, a common sentiment is that they simply cannot wait for the development of a credit union platform; they felt it was best to pursue partnerships with existing marketplace lenders. Others wondered what the integration with individual credit unions would look like if they were, for the most part, to operate on different banking systems. Lastly, should marketplace lending platforms develop within the credit union system, credit unions have noted the critical role a credit union central like Central 1 could play. Indeed, during the interviews conducted for this study, Central 1 was developing a platform specific to the credit union system and a series of marketplace lending solutions.

6.3 Strategic Alliances and Looking Through the RBV Lens

The RBV, as defined above, is a managerial framework used to determine the strategic resources that can yield competitive advantage for a firm. More specifically, this theory suggests that firms can achieve competitive advantage by accessing other firms' resources (e.g., physical, technological, material, marketing, etc.). They can also include abstract resources like reputation, credibility, and networks (Barney, 1991). Regarding the latter, the interviews demonstrated that

it is the fintechs themselves that want establish partnerships with credit unions to leverage their reputation and credibility within the financial services sector. A participant from Conexus highlighted this:

> One of the things we find is that they actually, in a lot of ways, need us because of the awareness and trust that we've built up as a financial institution, particularly in Saskatchewan, that Grow wouldn't have that when they go to market. So that was a benefit for them that they can partner with us.

Jim Rediger from Westoba, as shown in Table 5, expressed a similar sentiment: "I think the advantage for them obviously is leveraging our relationship and reputation 'cause they don't have that yet." Because non-tradable resources like reputation, awareness, and trust cannot be purchased via market transactions and are rather developed over the long-term (Yasuda, 2005), fintech companies are accessing such resources through strategic alliances with credit unions. Conversely, there is evidence that credit unions are leveraging their agility when it comes to R&D. For Robert Paterson of Alterna Savings, an advantage of partnering with fintech companies is their ability to question how the financial services sector has operated, and hence "come in with a fresh perspective." As previously mentioned, agile testing is not part of traditional lenders' organizational culture (Kiladze, 2014; Serebrin, 2016), so one way of accessing that is via strategic alliance.

Moreover, for the credit unions that entered the marketplace lending industry by partnering with a fintech firm, there is some evidence of resource alignment. In the literature, complementary resource alignment translates to each party arriving at the alliance with different resources to offset their scarcity; supplementary resource alignment occurs when firms contribute similar resources (Day, 1995). The following statement from Robert Paterson of Alterna Savings highlights an instance of both complementary and supplementary resource alignment:

> [Alex] started to share some of what they were building, developing, how they were […] trying to build a truly digital experience, and we kind of, you know, had this brain thought of well […] why don't we work together? Right…you're trying to solve the problem that we need to solve, why don't we jointly share resources and combine our resources so that we can build something really unique in the marketplace? We can take a young fintech startup, that has youth and ambition, and a new way of looking at things in a creative sense, and an organization that's been around since 1908 that gets the regulatory compliance, cybersecurity, and those type of things.

Through discussions with the online lender (Lendful), the credit union (Alterna Savings) realized that it was looking to solve the same problem as their fintech counterpart, but rather than competing with Lendful by building its own platform, Alterna Savings favoured to form a strategic alliance in the form of an equity investment of $15 million (Alois, 2016). According to past studies involving the RBV, resource alignment is particularly critical in uncertain environments, and allows risk sharing and potential economies of scale when similar resources are pooled (Das & Teng, 2000).

In comparison, some participants mentioned that they already offer the products and services advertised by digitally based financial companies, and marketplace lending simply remains 'another mechanism'. Concerning SME lending, Marie Mullally from Credit Union Atlantic said:

> We also are lending to our small and medium-sized businesses. And in fact, I'd say we're really good at that because we go the extra mile to help them get financing when in many cases the banks are not paying attention to the particularly small business segment.

Relatedly, an Ontario-based credit union participant voiced that marketplace lending is not any different from what credit unions are currently doing (regarding consumer and business lending), and the only difference is the introduction of a platform that may increase efficiency because, unlike brick-and-mortar or traditional lenders, fintech firms do not have a comparable operating cost.

From a credit union perspective, if fintech companies are offering similar products and services, and are still lacking trust and credibility, there may not yet be a compelling business case to form a strategic alliance. However, traditional lenders' competitive advantage in the financial services sector does not imply that it will last forever. Rather, unexpected changes in an industry "may make what was, at one time, a source of sustained competitive advantage, no longer valuable for a firm, and thus not a source of any competitive advantage" (Barney, 1991, p. 103). For instance, one can postulate that traditional lenders would see increased competition from fintech companies if crowdfunding regulations were relaxed to allow issuers to raise more capital, if

retail investors were allowed to invest more than $10,000 (current annual cap in most provinces), and if restrictions around advertising were lifted (NCFA, 2016).

The data set included one credit union central (Central 1), which acts as the primary liquidity manager and payments processor for credit union branches. In fact, during the data collection phase of this study, Central 1 was developing its own lending platform for its members (i.e., credit unions in British Columbia and Ontario). For Central 1, as mentioned in interview, it means being "proactive […] to make sure credit unions can continue to be successful and can compete technically in that space." Furthermore, the participant from Central 1 mentioned that internalization provides opportunities such as a new line of business and cultivating expertise and capabilities to better serve members. In relation to the RBV, one of the risks of a strategic alliance is resource dependency, potentially resulting in constrained product development (Gravier et al., 2008). In this instance, rather than depending on the product offering of an external supplier or partner, the credit union central opted to internally adopt and implement marketplace lending processes.

Lastly, other types of perceived risks resulting from a partnership with an online lending platform include competition and diverging organizational values, as showcased in Tables 5 and 6, and discussed earlier. For example, an Ontario-based credit union participant stated: "It's interesting to get a feel for what their motivations are. How those motivations either complement or compete with the credit union's motivations. […] partnering has potential, but at the same time, I think there's some risk in there." Accordingly, when partnering firms have differing and competing interests in the alliance, they are less likely to work together from the start (Das & Teng, 2000).

The findings of this study are consistent with the proposed hypotheses that credit unions lacking the required resources will either partner with an existing fintech firm, or not enter altogether. As per the breakdown above, three of the 12 participating credit unions have formed partnerships to provide greater digital products to members, or to quickly enter the marketplace lending space, and potentially attract new customer-members. Nevertheless, most credit unions (8 out of 12) are

monitoring its progression in Canada, especially from a market viability and regulatory standpoint.

6.4 Chapter Summary

This chapter answered the study's central research question, and analyzed the findings through the RBV of strategic alliances. The analysis suggested that fintech companies are partnering with credit unions to access critical yet non-tradable resources like reputation and trust, while the credit unions benefit from the fintechs tech-enabled approach and agile trialling. However, some perceived risks in forming an alliance include competition and differing organizational values. Lastly, the findings showed that the majority of credit unions interviewed are aware and merely following marketplace lending's progression.

7. Contributions, Recommendations, and Conclusions

[3]Part of this chapter has been published

7.1 Introduction

This chapter begins with a discussion of the study's contributions to the academic literature, and this is followed by recommendations based on the different stakeholders in the credit union system. Furthermore, the limitations of the study are provided, along with opportunities for future research. Finally, the chapter concludes with some insights concerning the future of marketplace lending in Canada.

7.2 Contributions of Research

First, this research provides the academic literature with a study of how Canadian credit unions are entering the marketplace lending industry. Since the industry is fairly new to Canada, this research is amongst the first to empirically analyze credit unions' participation in marketplace lending. Through the application of the RBV, the study identified why established firms (i.e., credit unions) partner with start-up enterprises (i.e., fintechs). The findings demonstrated that credit unions are choosing to partner with fintechs to access technological capabilities and agile trialling – resources that are generally not associated with banks.

Second, this research identified the literature gaps in platform cooperativism, particularly relating to the formation of strategic alliances with non-cooperative firms. While the field is emerging, it is unclear what constitutes a platform coop. As previously stated, is it a platform that is developed by a cooperative, or can it be outsourced? If it is the latter, what role does governance play in choosing a firm partner? In this instance, since the majority of marketplace

[3] Part of this section was culled from Omar Madar, I., Geobey, S., & Pigeon, M-A. (2017). *Canadian Credit Union Perspectives on Marketplace Lending: New Approaches from Day One* (Filene Research Institute Report, Publication #436). Madison, Wisconsin: Filene Research Institute. The report was published in August 2017.

lending platforms operate under the shareholder value model, this limits the supply of potential firm partners if platform cooperativism commands that a partnering firm must be a cooperative.

Third and final contribution is highlighting the risks and opportunities of marketplace lending for financial cooperatives. For instance, the findings revealed that the greatest opportunity for credit unions utilizing marketplace lending practices is increased member retention and attraction, especially for consumers under 35. However, credit unions that feel burdened by regulations perceive that fintechs are not being appropriately regulated, and that this consequently poses risks such as leaks and breaches of member information. Taken together, the study's contributions provide some foundation for future research opportunities in marketplace lending and credit unions.

7.3 Recommendations

Overall, the Canadian credit union sector has an important role to play in the emerging marketplace lending space. However, different stakeholders will have different roles in the complex credit union ecosystem. As such, recommendations are organized based on the following: small credit unions; large credit unions and credit union centrals; and policymakers.

Small credit unions

Smaller credit unions are unlikely to have the resources to engage in extensive research and development. Instead, they will likely be partners with or clients of marketplace lenders, larger credit unions, or use services provided by a credit union central. However, their focus on a smaller membership with more tightly defined needs means they can engage in a wider range of strategies on the whole, and each adapt to the emergence of marketplace lending with their own membership niche in mind.

- Prepare for the entry of new competitors for your existing products and services. Even if this does not involve providing marketplace lending products or partnering with marketplace lending providers, it should involve conversations with the board, staff, and members about 'what if' scenarios.

- Engage with your current and prospective membership in designing how the next ideal version of their credit union would look. For example, if you wish to bring in newer, younger members, do not assume that new millennial members are only interested in connecting with you online. The community-building mandate of many credit unions is often underutilized, but many of your members are open to high-touch engagement, often intergenerational, with other members for things like financial and career planning. Tap into your members as an asset in engaging in member-centred design.
- Pick up the phone! Your colleagues at credit unions and centrals around the country have thought about and engaged with marketplace lending from a variety of angles. Your credit union and the regulatory structure of your jurisdiction might be different from theirs, but the experience and strategic insights your colleagues in the credit union system can offer will certainly provide you with valuable insights.

Large credit unions and credit union centrals

With the resources to engage in research and development programs or to fully acquire marketplace lending platforms, large credit unions and credit union centrals can play leading roles in advancing the credit union system. This is particularly important as the Canadian marketplace lending space is developing alongside the emergence of hybrid online-offline strategies in jurisdictions with more established marketplace lending spaces.

- Connect with regulators, securities side and with the credit union and banking regulators, to clarify the current regulatory environment and where they see it heading. There may be opportunities for the credit union sector to influence policy development. This is because we are entering a new regulatory environment that is new to Canada, and because hybrid models are coupled with an emerging market environment that does not have precedents anywhere else in the world.
- When offering marketplace lending or related services, personalize these to your membership. In the US, SoFi has used existing university networks in compelling ways by having offline activities such as singles events, alumni mentoring programs, and the like. If you provide marketplace lending services, use them as part of a broader member-engagement strategy.

- The credit union sector is strong in SME lending, but do not rest on those laurels. SMEs, especially start-ups, socially motivated enterprises, and your cooperative cousins, face challenges accessing credit. Marketplace lenders will continue to operate in this space and seek to fill this gap, and without legacy systems, they can offer products that may be difficult for traditional financial institutions to provide, such as loans that are in-between traditional SME loans and personal loans in size.
- Rethink risk. New products require new ways of thinking about risk. For example, SME loans that are slightly larger than personal loans may need to be evaluated using a mixture of personal and SME lending analytical tools. Marketplace lending and big data analytics will generate new information that can be used for this, but will require new tools to incorporate into decision-making.
- Keep your finger on the pulse of the broad fintech space, not just marketplace lending. Continue to research emerging trends, speak with thinkers and companies operating in the space, attend start-up pitch competitions, and visit tech incubators. Remain part of their conversation so that you can keep pace or even move ahead.

Policymakers

The provincial and federal regulators that manage securities, banking, and the credit union system are still early in the development of the regulatory framework surrounding the marketplace lending space.

- Listen to the variety of existing financial institutions that are entering the marketplace lending sector, including credit unions, when designing marketplace lending regulatory frameworks. This is not to protect existing service providers, but instead to look to them as potential partners in system governance. Existing financial institutions have existing brands and investments that would be put at risk if they do not engage in marketplace lending responsibly, which means they have a different risk calculus than marketplace lenders with few existing assets at stake.
- Credit unions have a long history of creating and piloting financial products while also protecting consumer interests before regulators have understood how they operate when they reach maturity in the markets. Because the credit union governance structure has

member interests at its core, it can be leveraged to generate information about new products and services without putting their member-consumers at unreasonable risk.

- Marketplace lending products, particularly those delivered by the credit union sector, can be used to help achieve broader policy mandates. Providing alternatives to predatory consumer lending and enabling investment in SMEs can promote community resilience and growth. Apply these lenses to the marketplace lending regulatory environment, especially with hybrid online marketplace lending and brick-and-mortar strategies. The track record of existing financial institutions in community building will be important.
- The lack of transparency behind marketplace lending algorithms not only presents a new source of risk, but might also lead to old risks re-emerging. For example, policymakers have long sought to reduce discriminatory lending, but algorithmic decision-making using big data sets can easily incorporate metrics that are direct or indirect proxies for race, age, or other variables, and this can lead to systematic discrimination in lending. Beware of opaque decision-making tools as they may lead to the emergence of new negative financial sector practices.
- Take a "Sandbox Lite" approach to easing entry into the federal regulatory framework. This might look like setting some baseline expectations for new entrants around capital and liquidity, recognizing that the failure of a new entrant of this kind does not pose any kind of systemic risk. Alternatively or in complementary fashion, this approach could set capital guide paths and calibrate liquidity expectations accordingly. This approach would require minimal institutional change initially, can set transparent expectations that are easy to understand, and can easily be calibrated as necessary. While government officials have expressed strong reservations about this kind of approach in the past, the policy environment may have shifted of late with the new attention on fintechs.

7.4 Limitations of Study and Opportunities for Future Research

For one, further research should consider expanding the data set to include more credit unions representing the country's regions, especially from Eastern Canada, as this study included only one (Credit Union Atlantic). With over 600 credit unions in Canada (including Quebec), future assessment has to be region specific, since some interviewees revealed that factors such as the

demography, economy, and socio-historical context in which the credit union operates can vary greatly.

Secondly, as this research relied on a single data set of key informant interviews, the upcoming growth and overall maturity of marketplace lending will provide opportunities to utilize multiple sources of data, including quantitative measures. For the few credit unions that partnered with marketplace lenders, interviewees revealed that it was too early to report on the results and determine whether it could be deemed a success or not. Therefore, future research could revisit those partnerships from both a qualitative and quantitative standpoint, and even compare metrics such as portfolio size and membership rate before and after undertaking marketplace lending processes. Moreover, an important stakeholder was absent from this study – the fintech companies/online lenders. Hence, it is crucial to interrogate what their motivations are for partnering with traditional lenders. Through the RBV, this study explored the resources required for credit unions to enter the marketplace lending industry. However, future research is needed to unearth the resources required from a fintech firm perspective.

While some literature about US-based fintechs claimed that platform owners are entering partnership deals to access banks' large network of customers, it is unclear how they themselves see their role within the financial services industry. Are they competitors, or rather complementing the offerings of existing financial service providers? Another gap in the literature concerns with whom and how fintechs choose potential partners. For instance, when asked how the partnership between Alterna Savings Credit Union and Lendful originated, Robert Paterson said, "[By] connecting through LinkedIn. I was looking for fintech companies that can help complement Alterna Savings and Alterna Bank . . . so found Alex through LinkedIn and started to meet with him to understand a bit about what they were doing and the team they were assembling." While this response highlights a haphazard approach to finding a partner, future studies could explore whether financial firms favor their counterparts' opinions and past experiences, for instance.

Thirdly, there is an opportunity for future research to develop a working taxonomy of the various types of strategic alliances between traditional lenders and fintechs. While the findings in this

study showed that most partnerships are one-off or short-term contractual agreements, as the overall marketplace lending industry matures, other forms of strategic alliances might surface. This could provide the chance to realize comparative analyses using transaction cost theory and the RBV. Finally, future studies could explore the aftermath of a strategic alliance. For instance, did it lead to more formal arrangements, such as joint ventures, mergers, or acquisitions?

7.5 Concluding Remarks

What does the future hold for the Canadian and global marketplace lending industry? The following passage highlights some of the potential issues. For one, if Canada imitates the evolution seen in the USA and the UK, one can anticipate the entry of more marketplace lenders in the upcoming years (Hutchison, 2018). Moreover, as previously noted, if regulations are relaxed to allow marketplace lenders to raise more capital and advertising restrictions are lifted, the industry could experience significant exposure and growth. However, those same opportunities could result in increased competition from American online lenders. For example, OnDeck expanded its small business lending to Canada in 2015, and may also cater to retail investors as the overall industry matures (O'Hara, 2016).

Lastly, another effect facing the overall global industry is whether 'to be or not to be a bank'. If marketplace lenders choose to morph into the institutions they initially sought to disrupt, this could have greater implications for regulatory bodies and consumer confidence. Currently, there is evidence of this with Zopa, world's first P2P lending platform, which announced the launch of a digital bank (Suter, 2016). The upcoming initiative is intended to complement existing P2P lending offerings and include additional products such as deposit-insured accounts, car financing, and credit cards. While Zopa has decided to embark on a banking venture, the same cannot be said of other marketplace lenders who enjoy operating in the alternative lending market. For instance, Funding Circle said, 'no thanks to becoming a bank' as the UK alternative SME lending market has grown significantly, resulting from a decline in bank funding to SMEs (AltFi, 2017). Furthermore, José Rego, who manages the Portuguese-based P2P firm Raize,

shares a similar belief: “Becoming a bank is an extremely complex and very expensive strategic decision . . . Only a select number of platforms are likely to have the opportunity to become banks (if they wish so). . . . I don’t think it should be something we’re thinking about within the industry” (Weeks, 2017). In a rapidly evolving industry such as this one, it is difficult to predict where it will be in five years, but one thing is for certain, credit unions should continue to actively monitor its progression.

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Appendix A – Interview Guideline

University of Waterloo

Date

Dear ***(insert participant's name):***

This letter is an invitation to consider participating in a study I am conducting as part of my Master's degree in the School of Environment, Enterprise and Development (SEED) at the University of Waterloo under the supervision of Professor Sean Geobey. I would like to provide you with more information about this project and what your involvement would entail if you decide to take part.

Marketplace lending is growing at an exponential rate in North America. New internet enabled financial firms and platforms, often called fintech companies, threaten to disrupt many parts of the financial industry. While marketplace lending in the UK and the United States have experienced significant growth, tighter regulatory requirements in Canada have meant that this sector has only recently started its growth spurt. Of particular interest here is the connection between peer-to-peer (P2P) lending and impact investing. Impact investing seeks to generate positive social-ecological impact as well as financial returns, and while it has largely been the domain of institutional investors and high net worth individuals, peer-to-peer lending offers the possibility of expanding impact investing to retail customers. As the source of much Canadian impact investing innovation, the credit union sector is a natural partner for this work. By bringing together the credit union sector, impact investing and peer-to-peer lending, the work here will be building upon previous research conducted by the Filene Institute and the Canadian Credit Union Association in their report *Peer-to-Peer Lending and the Future of Cooperation* (Geobey, 2015).

The Canadian Credit Union Association (CCUA) is the partner organization and the research will explore fintech business models in the credit union sector. Here the particular emphasis will be on marketplace lending to support small- and medium-sized enterprise development, and as a possible component in providing alternatives to payday loan services.

It is anticipated that this work will be used in the development of new partnerships, products and services in the Canadian credit union sector. The data collected throughout this study will be published in my Master's thesis in the Sustainability Management program. The thesis will be shared with all interview participants. I hope this thesis and other publications to come from this research will help foster knowledge sharing, support, and collaboration within the credit union system.

I would like to include an interview with you as one of 20-30 interviews involved in my study. I believe that because you are actively involved as ***(insert role)*** within ***(name of the credit union)***, you are well suited to speak to the various issues and have good insights to share.

Participation in this study is voluntary. It will involve an interview of approximately 45-60 minutes in length and can take place by telephone, electronically or in a mutually agreed upon location. You may decline to answer any of the interview questions if you so wish. Further, you may decide to withdraw from this study at any time without any negative consequences by writing to me. With your permission, the interview will be audio recorded to facilitate collection of information, and later transcribed for analysis. After the interview has been completed, I will send you a copy of the transcript to give you an opportunity to confirm the accuracy of our conversation and to add or clarify any points that you wish.

I cannot promise absolute confidentiality. While you have control over how you and your organization appear in the final report, it is possible that given the small national community, a motivated individual will attempt to discern your identity. Data collected during this study will be retained for five years and stored securely in password-protected files. Only myself and my supervisor, Sean Geobey, will have access to the full transcripts. There are no other known or anticipated risks to you as a participant in this study.

If you have any questions regarding this study, or would like additional information to assist you in reaching a decision about participation, please contact me at 613-204-2648 or by email at iomarmad@uwaterloo.ca. You can also contact my supervisor, Sean Geobey at 519-888-4567 ext. 38680 or email sean.geobey@uwaterloo.ca.

I would like to assure you that this study has been reviewed and received ethics clearance through a University of Waterloo Research Ethics Committee. However, the final decision about participation is yours. If you have any comments or concerns resulting from your participation in this study, please contact Dr. Maureen Nummelin in the Office of Research Ethics at 1-519-888-4567, Ext. 36005 or maureen.nummelin@uwaterloo.ca.

I hope that the results of my study will be beneficial to the credit unions directly involved in the study, as well as to the broader research community. By providing a strategic overview and operational recommendations for these individual credit unions, this research will provide information that will contribute to their strategic product and member development strategies.

I very much look forward to speaking with you and thank you in advance for your assistance in this project.

Yours Sincerely,

Indi Omar Madar.

CONSENT FORM

By signing this consent form, you are not waiving your legal rights or releasing the investigator(s) or involved institution(s) from their legal and professional responsibilities.

I have read the information presented in the information letter about a study being conducted by Indi Omar Madar of the School of Environment, Enterprise and Development at the University of Waterloo. I have had the opportunity to ask any questions related to this study, to receive satisfactory answers to my questions, and any additional details I wanted.

I am aware that I have the option of allowing my interview to be audio recorded to ensure an accurate recording of my responses.

I am also aware that excerpts from the interview may be included in the thesis and/or publications to come from this research, and that I have the right to chose whether my quotations would be anonymous or attributed to me.

I was informed that I might withdraw my consent at any time without penalty by advising the researcher.

This project has been reviewed by, and received ethics clearance through a University of Waterloo Research Ethics Committee. I was informed that if I have any comments or concerns resulting from my participation in this study, I may contact the Director, Office of Research Ethics at 519-888-4567 ext. 36005.

With full knowledge of all foregoing, I agree, of my own free will, to participate in this study.

☐YES ☐NO

I agree to have my interview audio recorded for data transcription purposes.

☐YES ☐NO

I agree to the use of quotations in the Master's thesis or any publication that comes of this research.

☐YES, by name ☐YES, anonymously ☐ NO

I agree to have our credit union referred to by name in the thesis or any publication that comes of this research.

☐YES ☐NO

I agree to have the work of our credit union publicly highlighted by the Filene Institute and the CCUA.

☐YES, by name ☐NO

Participant Name: ____________________________ (Please print)

Participant Signature: ____________________________

Witness Name: ________________________________ (Please print)

Witness Signature: ______________________________

Date: ____________________________

Appendix B – Interview Questions

1. What do you see as the most relevant trends in peer-to-peer lending?
    - When did you first hear about peer-to-peer lending?
    - Are there any platforms you find particularly interesting?

    Background information: The Filene Institute and the CCUA released in 2015 a report titled *Peer-to-Peer Lending and the Future of Cooperation* (Geobey) where the following four strategic options for credit unions are outlined:
    - Ignore peer-to-peer lending
    - Become an institutional lender in a peer-to-peer platform (i.e. individual credit unions provide lendable funds through one or more peer-to-peer platforms)
    - Strike partnership deals with one or more existing peer-to-peer lending platforms
    - Develop a credit union peer-to-peer platform

2. Has your credit union pursued or considered one or more of the four strategies mentioned above?
    - If so, which ones?
    - If not, why?
    - Have you spoken to your Prudential Regulators about getting involved in the peer-to-peer market? If so, can you tell me more about this?
    - Have they flagged anything that is of concern? If so, how have you addressed it?
    - What are the challenges that arise from choosing not be involved with peer-to-peer lending?
    - What are the challenges that arise from becoming an institutional lender in a peer-to-peer platform?
    - What are the challenges that arise from striking partnership deals with one or more existing peer-to-peer lending platforms?
    - What are the challenges that arise from developing a credit union peer-to-peer platform?

3. Are there opportunitie**s** that peer-to-peer lending platforms can provide your members?
    - Do you think they can help attract non-traditional credit union members? Why or why not?
    - How do you see peer-to-peer lending integrating with your existing products and services?

4. What challenges do you see in a peer-to-peer lending strategy for your credit union?
    - What resources could you use within the credit union system to address these challenges?
    - What resources would be useful for you in advancing a peer-to-peer lending strategy?
    - Which organization or organizations do you believe could best create these resources? What role can they play?

5. Does your credit union have a strategy for investments that produce positive social or environmental change, as well as generating financial returns (also called impact investing)?
    - Do you believe peer-to-peer lending can support the development of impact investing? How?

6. Do you believe peer-to-peer lending can play a role in small and medium-sized enterprise development?
    - Do you foresee any challenges?
    - In regards to SME development, would a peer-to-peer lending strategy primarily benefit your current members or in attracting new members?
    - Do you see a role for peer-to-peer lending in promoting cooperative enterprises?

7. What products and services do you currently offer that can be used as alternatives to payday loan services?
    - Do you believe there is a need for alternatives to payday loan services?
    - Do you have any plans for payday loan alternatives?
    - If not, who do you believe should provide them?
    - Overall, how are those products and services performing?
    - Do you see these products and services being primarily for the benefit of your current members or in attracting new members?
    - Challenges do/would launching payday loan alternatives present for your credit union?
    - What role do you see for peer-to-peer lending in providing alternatives to payday loan services, if any?
    - Have you noticed a particular demographic of clients using these products and services? Has this changed?

8. Concluding remarks:
    - Can you recommend additional resources that would be beneficial to this work?
    - Can you recommend other individuals or credit unions to interview?
    - Do you have any further questions for me before we conclude?