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New Directions in Crowdfunding

SUMMARY: The fundraising campaigns realised through popular online crowdfunding platforms seem to be exhibiting unstoppable expansion, with the phenomenon reaching an increasing number of people and doubling its turnover year after year. Crowdfunding is one of the most dynamically growing segments of fintech but at the same time, the academic world is voicing justified scepticism in respect of the sustainability and operating background of the original model. For the time being, the position of banks is protected by the legislative and regulatory background, but digitally advanced users are seeking out wallet-friendly and convenient solutions for the administration of their financial affairs as well. According to certain estimates, bank revenues could drop by as much as 20% by 2023 due to the rise of the fintech sector, and one third of bank employees could lose their jobs in ten years. Equity-based crowdfunding has the potential to become an alternative to traditional corporate and project-financing techniques. The community-forming power of online fundraising platforms is strong, and certain campaigns may also serve market communication purposes.[1]

KEYWORDS: crowdfunding, fundraising, venture capital, financial innovation, start-up financing
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Today, crowdfunding has become a viable fundraising alternative for innovative entrepreneurial ideas (Schwienbacher Larralde, 2010, p. 2). Innovation, enterprises' needs for growth, technological development and the increasingly democratic capital market role of the masses enabled the emergence of a new breed of financing forms, where funders – supporters or investors – strive to gain, among other things, social benefits through the allocation of funds via internet platforms (Kuti – Madarász, 2014).

Following a theoretical introduction of a more general nature, this study will present the investment-based, returns-focused crowdfunding model. In the near future, this modern form of investment could potentially become a competitive and secure alternative to traditional fundraising options outside the United States as well. The initial hypothesis of this paper is that the original crowdfunding business model is in a state of transition, as demonstrated by the recent focus on – strictly interpreted – profit-oriented initiatives that are also sustainable in the long run. Besides helping the creator/project owner raise funds, a relevant aspect of these initiatives is to offer services similar to those provided by banks to investors. The traditional banking sector has also become aware of the gaining of ground of the so-called fintech sector[2], and technology-based – typically online – financial businesses are optimising more and more banking processes.

Domestic literature – presumably on account of the absence of successful platforms in continental Europe – has to date not examined crowdfunding in-depth. At the same

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time, one of the refreshing exceptions is the 2014 publication by the author duo *Mónika Kuti* and *Gábor Madarász,* who provide a comprehensive overview of the basic types and main driving forces of the phenomenon (Kuti – Madarász, 2014). The publication by *András Bethlendi* and *Richárd Végh*, also released in 2014, presents the most popular platforms and also analyses the regulatory background and necessity of the sector in certain key countries (Bethlendi – Végh, 2014). This paper takes the theoretical background of the Kuti – Madarász article as its basis. The topicality of the subject matter is well reflected by the fact that according to the report prepared based on data from industry players, while in 2012 crowdfunding platforms mediated a total of USD 2.7 billion, in 2015 this (audited) value was in excess of USD 34 billion, keeping with the approximately 100% rate of growth per year (Massolution LLC, 2015).

THEORETICAL BACKGROUND, PRESENTATION OF CROWDFUNDING

Globalisation, along with the proliferation of the Internet, gradually created a system of self-organising networks, where work is performed along principles of labour-sharing and access to information represents true value. After the military, communication and entertainment-related application of the Internet, it was inevitable that the potential in network developments will sooner or later also impact the financial and trade sectors. Based of the organisation theory approach of *Evans* and *Wurster*, meaningful communication can primarily be realised among a few players positioned close to one another in a hierarchical system, while widespread information provision is primarily realised through the indirect channels of the organisational pyramid. Based on the conclusions, a few new businesses will profit from network-based economic models, while trust and business reputation will serve as key values in the future (Evans – Wurster, 1997). The roles of users, buyers and sellers will become blurred and mixed up, resulting in a symmetric flow of information (András Nemeslaki, 2004). This is accompanied by an intense wave of technology-led innovation — a process that typically started at the beginning of the 2000s — that allowed for the satisfaction of latent consumer needs at a new and higher level of quality. The concept of innovation was introduced in economics in 1939 by *Schumpeter*, and has since formed the basis of all new innovation theories despite the fact that this initially referred to manufacturing companies. Crowdfunding is a complex product, an innovative solution where (with the help of technological development) technology and the market develop side by side, and the result has high innovation value for all players in the market. Internet companies still in their early development phase recognised consumer susceptibility to innovative financial solutions, and paired these – after a relatively brief development period – with convenient technological solutions that are easy to understand and test by users, and can be integrated into past experiences. The unique characteristic, however, of Internet technologies is that they are relatively simple to duplicate. In addition, the profit-generating capacity of businesses is also typically evidenced in a later/mature operating phase (Chikán, 2005). The market advantage attainable by companies is limited, and no business has managed to acquire a truly monopolistic position in the given market to date. Market leaders, for the most part, are also only exploiting their market communication powers, rather than relying on individual, proprietary and secret technological solutions.

Nonetheless, the swiftly rising popularity of interactive fundraising campaigns realised via the Internet cannot be disputed. Venture capital and private equity funds, along with other relevant industry players, invested more than USD 50 billion in nearly 2,500 fintech firms after 2010. These are companies that, thanks to their innovative solutions, have rethought the saving, borrowing, insurance and financial transaction habits of households (Accenture, 2016).

As a result of media interest and the promotion of well-known Web 2.0 applications, smaller or larger scale fundraising campaigns realised online are in a state of explosive expansion. At the same time, grave concerns have been raised by a number of stakeholders in respect of the sustainability and the operational background of the original model (Burtch, Ghose – Wattal, 2013, p. 16). It was in response to the dynamic growth of the market and to academic and practical experience and criticisms that the Obama Administration adopted the Jumpstart Our Business Startups Act (JOBS Act) which primarily aims to set out the secure operating background of the equity-based business model.

Crowdfunding is a fundraising process, where a private individual, a project or a company receives smaller amounts of funds from a high number if interested parties/investors – for moral reasons, for voting rights or in exchange for (in)tangible goods – typically via the Internet (Oxford Dictionary). It is assumed that the term originates from the word *crowdsourcing*, initially introduced during the first Obama campaign.

The essence of this activity is that cooperative groups organised on the Internet use the power of the community to develop a given project, and work together and participate in a value-creating process (e.g. creative design, artistic creation, charity, etc.).

In the case of crowdfunding, these are typically initiatives that in the past were informally financed by friends and family members, rather than institutional investors (Vargas, 2011, p. 2). These projects without background or track record did not pass – on account of the extreme underlying risk and unpredictability – the business plan analysis and assessment processes developed by venture capital firms, business angels and banks. Moreover, these are often not-for-profit and cultural initiatives that should actually fall into the category of patronage or donation. The success of crowdfunding sites (that have been growing increasingly popular online since the beginning of the 2000s) automatically meant that viral, grassroots initiatives could be financially and morally supported along the principles of "little streams make great rivers" and by introducing appropriate technological solutions. The uniqueness of the market is well reflected by the fact that the roles of the buyer and the seller are determined on the basis of perspective. While the platform represents the supply side, the project owner and the simple user/small investor are also part of demand. In contrast with the services offered by the traditional banking system, the driving forces behind the propagation of crowdfunding – primarily from a user/investor perspective – can be summed up as follows (Drew Hendricks, 2014):

- the transaction is convenient and easily accessible for players on both sides;
- the power of the crowd legitimises the idea and confirms market demand;
- investor risk is reduced, therefore, the project owner does not start developing/investing without funds;
- stakeholders receive instantaneous feedback as the internet allows for swift communication;
- an efficient marketing tool as promotion based on spontaneous sharing is by far the most efficient.

Moreover, from a technological perspective, everything was given for developers to adapt the community-based transactions already tried and tested by consumers to money-oriented platforms that are able to bring traditional financial products closer to laymen and make them easier to understand. It should be noted that no new financing solutions were created and there was no organisational innovation. These were only mediating websites that, for the most part, mediated existing financial products through new channels to market players with higher risk resilience (and greater yield expectations). Companies with bad credit ratings are more likely to turn to crowdfunding solutions. Banking products are less accessible to businesses with minimal collateral background. Banking activity typically becomes sluggish in the time of financial crises. In such periods, crowdfunding becomes a primary fundraising opportunity (Daniel Blaseg – Michael Koetter, 2015).

The following section presents the four basic crowdfunding models known today, according to their spreading over time (Mollick, 2014, p. 3).

The patronage model where the community supports various charitable initiatives and expects no direct return is perhaps the least interesting form from an economic perspective. This, in essence, is simple donation. An individual or a group in some part of the world requires help and the community comes to their assistance, patronising them along humanitarian principles. Perhaps the most well-known manifestation of this model is the supporting of (typically) agricultural initiatives that facilitate the day-to-day sustenance of impoverished people in the third world.

In the lending (*peer-to-peer lending*) model, private individuals lend money based on certain principles to others for a specific interest, who then repay the loan according to a pre-agreed schedule. Given the fact that in these business transactions collateral is not adequately elaborated, the patronage nature is frequently apparent. Deviating from the philanthropic model, the target audience of these platforms is not the developing world, but primarily Western civilisation, where users often borrow to buy a vehicle or a hobby tool. The service is mostly considered to be a replacement product of credit cards or smaller personal bank loans. In contrast with conventional banking operation, the benefits of Internet lending can be summed up as follows (Alistair Milne – Paul Parboteeah, 2016):

- the lender is able to generate higher yields with lower fees than, for example, by investing money in bank deposits;
- credit assessment is often more lenient, which means that people considered to be insolvent from a banking perspective also have access to funds;
- social value-creation is potentially realised during transactions, while the process also has personal elements;
- technological innovation improves the quality and speed of administration, resulting in a more convenient service for both the lender and the beneficiary.

The third model, reward-based crowdfunding, is the most prevalent form of crowdfunding today, with truly impressive and easy-to-communicate projects having been implemented as a result of these initiatives. In this approach, funders receive a tangible or intangible reward for backing a project. They are often referred to as early customers or pre-buyers as they purchase the given products before they are actually marketed (in the prototype phase), thereby supporting product development and market introduction. Based on this logic, a multitude of online developments, inventions, computer games, technological innovations and cultural-artistic creations have found millions of supporters through the mediation of the revolutionary

Kickstarter website. Venture capital firms have the most to fear from the continuing progress of these platforms, but the market of low-amount, coverage-based corporate loan products could also take a hit. Beyond the fact that the project owner does not have to release a business share to launch operations, another great competitive advantage of the model in contrast to conventional banking products is that financing is typically realised on a confidential (and not coverage) basis. One of the most important collateral instruments of such platforms is publicity.

The efficiency of the model is well reflected by the fact that, as research found, a successful fundraising campaign will very likely lead to further investments. In the case of a USD 75,000 campaign, the probability of the target company receiving another capital injection when it reaches the marginal efficiency level is 40%; in other words, from that point onwards each additional dollar attracts new investors at a smaller rate. In addition, a successful campaign can generate considerable publicity and the stakeholders are very likely to find committed employees, conclude beneficial business agreements and establish a stable clientele (Venkat Kuppuswammy – Kathy Roth, 2016).

The traditional capital investment model differs from the aforementioned three arrangements in that it is based on strictly business foundations, the interests of investors are properly represented and the yields expected vary depending on the risk of the given project/undertaking. The founder acquires capital, while the investors receive their stake as well as related voting rights. If the project owner offers investors a certain percentage of future revenues, we talk about a royalty-based model. These models require a higher level of expertise as well as appropriate statutory regulations. In the US, only accredited investors can take part in IPOs (Initial Private Offerings) as private individuals (such issues are riskier, but promise higher returns). It was the loosening of this barrier, amongst other things, that the JOBS Act was meant to accomplish in the US, which – by reducing bureaucratic obstacles – considerably expands the fundraising opportunities of start-up businesses and also makes the route to public listing simpler. This model could bring restructuring primarily on the market of larger corporate loans and bonds; in addition, private equity investment funds operating with considerably lower yield expectations – compared to venture capital firms – will also gain new competitors.

CRITICISM OF TRADITIONAL MODELS

Given that certain crowdfunding websites can look back on ten years of operation, considerable operation-related experience has been amassed in this topic. The business model has been criticised on numerous occasions by both academic and professional circles. The issue that perhaps impacts the greatest number of stakeholders is the protection of funder interests. Very few industry opinion leaders are truly aware that in respect of the operation of crowdfunding platforms, the funder is at least as important a player as the project owner. If the website is unable to guarantee that the donor's money will go to a safe place or that the beneficiary can only use the funds for the pre-defined purpose, sustainability is thrown into doubt. A study published in 2012 examined 471 Kickstarter projects that succeeded in reaching their funding goals. Interestingly, of the 471 projects 381 had clearly identifiable outcomes before the date selected by the researchers. Of the 381 closed and assessable project launches, there were 14 initiatives that turned out to be frauds; in other words, the project owner disappeared or failed to account for the funds raised (Mollick, 2014, p. 11). Based on the report released by Kickstarter itself, the number of registered frauds or fraudulent attempts is negligible, which is impressive for a semi not-for-profit initiative, although it does raise a number of questions when compared to a bank.

On a related note, less than one third of the projects featured in the aforementioned study were completed on time; in other words, product manufacturing did not start by the undertaken deadline. It is clear that despite project owners/entrepreneurs taking their commitment very seriously, professional and organisational problems are frequently encountered during implementation. Many feel that the success of a given product launch depends more on presentational ability and luck than actual entrepreneurial and industry-specific know-how. Founders do not go through the usual entrepreneurial, creative and preparatory process; the funds more or less fall into their lap after a well-executed video presentation, but afterwards many of them fail to manage/account for the money received. Deviating from this logical analogy is the opinion which states that the launching of a project has the power to generate demand, and as such many are systematically using these sites as marketing tools, as the first step of introducing a new professional service/product to the market. In the case of classic equity investments, one of the most important characteristic of the funder is that, in addition to the necessary funds, it also provides social and knowledge capital to their partner. Due to the high number of investors involved in crowdfunding, establishing an intimate relationship is practically impossible, and this type of cooperation is decidedly impersonal.

Another interesting observation is that in traditional models, the minimum amount of own funds risked by the beneficiary cannot be regulated, and therefore, idea creators or project launchers primarily use the funds of others and risk nothing but their own time. Another justified criticism about the operation of traditional crowdfunding sites is that – due to unlimited publicity – projects offering confidential business/technology solutions are wary of raising funds online (Caldbeck, 2013). At the same time, Facebook, Twitter and other popular social media sites can make any given campaign lose credibility as tabloid-infected fundraising might scare off serious investors planning for the long-term. Finally, perhaps the most severe criticism of traditional models is that crowdfunding has become "trendy" and the realisation of ideas – generated by the truckload – is not shaped by realistic demand and supply. The segment is showing signs of the emergence of a dangerous financial bubble, allowing people to invest into projects without expertise, thereby giving financial support to others without merit (Dupree, 2013). Moreover, those familiar with the system are able to manipulate certain campaigns for profit, and companies with multiple successful campaign launches under their belt are able to accelerate processes through well-timed capital injections from their own funds, thereby bolstering the viral proliferation of projects through consciously generated, false popularity.

THE EQUITY-BASED CROWDFUNDING MODEL

In response to the critical observations detailed in the previous section – based on the crowdfunding report published annually by Massolution –, of the four general platforms, equity-based crowdfunding sites have the highest rate of growth. Between 2007 and 2011, the compound annual growth rate (CAGR) of campaigns launched was 114%

(Massolution LLC. 2012, p. 17). Once an appropriate global statutory background has been established, this business model will be able to take on banks as well as other institutional investors. The obstacles posed by physical distances become practically eliminated, and investors and project owners can both think within global frameworks (Wingerden – Ryan, 2011, p. 54). Thanks to community value-creation, innumerable realisations and concepts were integrated into the various projects. Last but not least, players that previously did not have the opportunity can also invest in start-up businesses (Almerico, 2013).

Equity-based crowdfunding differs from the three basic models in several respects. In most cases, the site guarantees some sort of project screening or preliminary revision. This is followed by the capital allocation process based on the 'all–or–nothing' principle, where the venture either raises the target amount within a specific funding window or the project is not realised with the site's involvement and the money is returned to investors. This is followed by the investment/implementation period, where, in an optimal situation, owners are provided information throughout the process, resulting in an interactive communication of sorts. The process is concluded by the operating period, where ownership is restructured: the company is headed by professional management, and profit-generating corporate operation is realised from a single idea (Collins – Pierrakis, 2012). The representation of investor interests in the above model can be realised in a number of ways. In an optimal case, they can influence the company's operation at a (virtual) general meeting and get involved in the operation as full-fledged shareholders. It should be noted that one of the exceedingly rare versions of the equity-based model is the royalty-based crowdfunding model, where investors acquire royalty interest in the intellectual property of the company, thereby becoming stakeholders in the given project with a different perspective and with different interests (World Bank, 2013, p. 20).

The 2016 study prepared by the European Union admits that the volume of crowdfunding is low for the time being but, at the same time, the sector has considerable potential in respect of growth and job creation (impacting the SME sector, start-ups and unlisted small businesses). The analysis also touches on potential risks and notes that their regulation is the responsibility of the countries concerned (European Commission, 2016). These risks may include the following:

- investors losing part or all of their capital or not getting the returns they expect; inability to exit investments in the absence of a secondary market;
- share dilution if the company engages in further rounds of capital raising;
- insufficient information or inability to price correctly the securities invested in, with appropriate professional control and pre-screening often missing;
- conflict and misalignment of interests between entrepreneurs, platforms and investors;
- insolvency of the platform operators resulting in deterioration of quality, and required financial guarantees are generally missing by crowdfunding firms;
- fraud (both for the investors and for the project) and related reputational risk for platforms.

The future of equity-based models is expected to be represented by initiatives similar to real estate funds (Rudarakanchana, 2013); these platforms, by nature, can manage the aforementioned risks in a more efficient manner. Real estate investment platforms are relatively safe, easy to verify, their operation requires no special expertise, and the returns they generate can be supported with a stable business plan. Several platforms offer similar services (occasionally, based on project-financing foundations) on the Internet already. The majority of these, however, are still subject to investment licences and from a geographical perspective, the projects in need of financing are also primarily restricted to the territories of Western countries.

It can also be projected that the market will become consolidated and – given the high business potential – a wave of acquisitions may commence, primarily in the case of equity-based crowdfunding sites. Since capital injection of some tens of thousands dollars is not sufficient for a start-up business, as another likely trend, the virtual space may begin to see equity investments of dollar millions thanks to the business share-based model. It is also indicative of a shift of sorts that numerous conferences have brought up the dilemma that Kickstarter, as well as its main competitor, Indiegogo[3] will both provide the means for acquiring funds through equity investment (Sawers, 2014). At the same time, the greatest innovation would be to see the market entry of a platform that would be capable of raising funds worth tens of millions of dollars for investments by operating as a bank and thinking as a large investor. In this particular case, innovation would not be a primary aspect. Due to high capital needs, the stable liquidity and positive cash flow-generating capacity of these businesses as well as an adequate collateral background would be considered more important than the aspects offered by traditional crowdfunding sites. These undertakings could become fully fledged financial institutions within a short time. Their primary objective is to successfully mediate the funds of (small) investors, and to create a profitable operating background realised through commissions, capital gain and own equity investments. Large investments realised from project-type financing are shouldered by professional operators, and they are assisted in the preparatory phase and later on, during operation by international law offices, accounting firms and marketing and technical consultants.

FUTURE OUTLOOK, EXPECTED MARKET TRENDS

Despite its brief existence, the crowdfunding market organised through the Internet is in transition already. New players and hybrid business models have appeared and continue to spring up constantly. The international publications released to date are projecting optimistic outlooks. Within crowdfunding, profit-based *peer-to-peer* lending and equity-based platforms are expected to spread most swiftly. The model operating on the basis of the reward system has been criticised, justifiably so, by numerous experts. This crowdfunding *vogue* is expected to depreciate in proportion to the success of the other two or three platforms.

From a technological perspective, the most credible companies with the most user-friendly interfaces will remain standing among the platforms competing with one another. Another important challenge is to create an opportunity for share trading/mediating through the given platform in order to ease the exit of investors. It is expected in the near future that the various platforms will become separated from one another according to thematic systems, allowing strictly business based enterprises to be featured on different lists than those containing artistic and less profitable projects. Owing to the digital revolution, applications offering financial services are winning over users at an increasing rate, and thanks to their flexible operating model, they are more efficient in tracking market processes than traditional banks.

The wariness shown by banks is also projecting the sector's success. According to a study prepared by Citigroup, banks stand to lose 17 per cent of their revenues by 2023, and within the next ten years they will be forced to let a third of their employees go on account of the expansion of fintech firms (Citigroup, 2016). The vast majority of conventional bank branches will be closed down in the near future, while the customer-buyer relationship will be typically conducted online in an increasingly impersonal environment. Moreover, new payment solutions will appear, the training routine of bank employees will change, and the risk management techniques of crowdfunding will presumably improve. We can also assume that statutory regulation will be adapted to market practice, and that larger banking houses will acquire numerous fintech start-ups and various financial innovation solutions. Market trends also point to the appearance of a website that will, in addition to providing crowdfunding solutions, integrate the services of the fintech sector, becoming a major player of the international banking sector once the appropriate regulatory background has been put in place.

HUNGARIAN EXPERIENCES

Spurred by the phenomenon's international success, the first Hungarian-focused crowdfunding platforms appeared around 2011. Following a short period of trial-and-error, it became clear that – as opposed to numerous other foreign online business models – these websites (Creative Selector, indulj.be, kezdheted.hu, adjukossze.hu, etc.) are either failing or stagnating. The reason is that in many respects, the Hungarian market is immature and too small to profitably operate such websites. Experiences show that Hungarian project owners tend to opt for the services of international sites. In the recent period, many successful Hungarian firms and private individuals have raised fairly substantial start-up capital for their respective businesses or ideas. At the same time, however, as a successful campaign launch requires immense effort and a high rate of equity investment from project owners as well, the number of those making the attempt is limited (Enikő Piti, 2015). The situation is not ideal on the investor side either, mainly because the disposable income of enlightened Hungarian Internet users is a mere fraction of the income of their Western counterparts. In addition, Hungary is still lacking an entrepreneurial-friendly environment, and young people are not at all motivated to turn their ideas into a reality. Based on an article published in 2014 by *Beáta Bakó*, the reasons for the limited popularity of crowdfunding in Hungary can be summed up as follows (Beáta Bakó, 2014):

- the market is too small, and the number of project owners and investors/donors is limited;
- the financial literacy and education of Hungarians is low, there are still very few people managing their finances online;
- the statutory regulation of crowdfunding and the fintech sector in general is non-existent, and the sector is unregulated from a taxation perspective as well.

The SME sector is supported by the state and the European Union through numerous instruments; consequently, smaller firms have become lazy, with no pressure to resort to alternative (crowdfunding-like, market-based) fundraising channels.

As a result, there is no indication as yet that a new stable player would be able to cement itself in the Hungarian market. The appearance of a cross-border, legitimate platform with an international background and recognition seems most likely. According to András

Bethlendi and Richárd Végh, "the success of a portal depends on numerous factors: in order to attract a critical mass, the portal must become a "brand" – a stable, neutral, independent institution that is fully compliant with the criteria of investor protection. The presence of prestigious owners behind the portal at its inception may also facilitate success. The establishment of a secure and supporting IT background is of key importance. And, last but not least, crowdfunding portals must be supported by a safe settlement system." (András Bethlendi – Richárd Végh, 2014).

SUMMARY

After the global economic crisis, the banking sector's willingness to place assets dropped, and the fundraising opportunities of smaller companies – operating without appropriate collateral background and sufficient own funds – became very restricted. At the same time, with the development of the Internet and the growing prominence of fintech solutions, platforms specialising in crowdfunding have grown increasingly popular in recent years.

Benefits for investors are numerous: risk becomes diversified, they can gain quick access to innovation, the given idea/company goes through a multi-player pre-screening process and, over and above, administrative burdens are reduced to a minimum. The project owner, on the other hand, is able to efficiently test the product and the market, receives a high number of consumer feedback, and typically gains access to low-cost capital without putting up collateral.

The prerequisite of a successful project launch is the use of the appropriate marketing tools. Presentations (typically used in such projects) often push the given product/idea itself into the background and – instead of rational arguments, – attempt to appeal to consumer sentiments. Crowdfunding may also serve purposes other than fundraising: in the case of successful projects a self-generating marketing effect is a direct consequence of the process, which in turn could lead the target company to further rounds of investment.

The websites in question, for the most part, provide users with existing, traditional financial products offered by banks through new channels, and the innovation is in essence the technological solution of how funds are managed, how the sites communicate with users and how they make their operation more efficient. Sensing the explosive popularity of fintech, banks started developing their own systems and acquiring smaller or larger online financial service providers and solutions.

Among crowdfunding models, the equity-based concept could prove to be most viable in the long run, and once appropriate regulations have been established, these platforms could potentially become true competitors of the traditional banking system. The unique feature of the model is that the close link and direct interaction between the project owner and the funder, as well as the spirit of community create a colourful product (which also serves marketing purposes) from essentially impersonal financial instruments.

There are still numerous uncertainty factors in relation to the equity-based model as well. A number of questions still remain: how can hundreds of owners be represented and informed at the same time, who has what rights and, as the case may be, how will market exits be handled. A share-trading platform that is organised entirely online and is capable of documenting online managed IPOs in a flexible and legally compliant fashion may, in part, offer satisfactory answers to these questions.

There are numerous reasons why the Hungarian market is still unsuitable for the propagation of crowdfunding. Owing to the EU grants given to the SME sector, project owners have become lazy, with no pressure to resort to alternative fundraising channels. It can be stated in general, that adequate statutory regulation would serve the development of the online market. For the time being, the lack of investor confidence as well as transparent and prudent business operations is a common problem in relation to crowdfunding platforms.

Notes

[1] The background to this study is the paper by the author featured in the 2014 conference publication entitled Tavaszi szél (Spring Wind) as published by the Association of Hungarian PhD and DLA Students. The paper in question has been considerably reworked and updated, and also presents and analyses more recent trends.

[2] The term fintech originally referred to the IT background administration systems used in traditional banking systems. Today, the term refers to a multitude of online and mobile communication-based financial innovations and business applications.

[3] Indiegogo is a San Francisco-based website specialising in crowdfunding, founded in 2008 by Danae Ringelmann, Slava Rubin and Eric Schell. The platform has an international user base, with users from more than 200 countries and an average monthly visitor count of 15 million.

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