

Research Report

Peer to Peer Lending Platforms as Tools for Financial Inclusion in Uruguay

**Mercedes Aguirre
Sandra Garcia-Rivadulla**

IT for Change | January 2020

This report was produced as part of the research project 'Policy frameworks for digital platforms - Moving from openness to inclusion'. The project seeks to explore and articulate institutional-legal arrangements that are adequate to a future economy that best serves the ideas of development justice. This initiative is led by IT for Change, India, and supported by the International Development Research Centre (IDRC), Canada.

Authors

Mercedes Aguirre: Independent Consultant

Sandra Garcia-Rivadulla: Independent Consultant

Research coordination team

Principal Investigator: Anita Gurumurthy

Co-investigators: Deepti Bharthur, Nandini Chami

Editorial Support: Shruti Sunderraman, Vinay Narayan

Design: Purnima Singh

© IT for Change 2020



Licensed under a Creative Commons License Attribution-NonCommercial-ShareAlike 4.0 International (CC BY-NC-SA 4)



Peer to Peer Lending Platforms as Tools for Financial Inclusion in Uruguay

Research Report

January 2020

Mercedes Aguirre

Sandra Garcia-Rivadulla

Page intentionally left blank

1. Executive Summary

In the Latin American and Caribbean region, there is strong socio-economic asymmetry in terms of financial inclusion, in particular when it comes to access to credit. Uruguay is not foreign to this reality, presenting low levels of bankarization with less than 50 percent of the adult population owning a transaction account (CINVE, 2016; IMF, 2017). Apart from resulting in a low-income population with insufficient access to credit solutions, either due to the lack of infrastructure (not having access to a close branch) or accessible credit conditions, this reality also translates into an undermined growth potential that is further being undermined by a deficient disempowerment of SMEs (OECD, 2019).

We introduce Peer-to-Peer lending platforms as one of the many solutions within the Fintech industry that are aimed at alleviating the issue of financial exclusion. These platforms provide the technology and the means to reach out to those segments of the population left unserved by the traditional financial market. They have the potential to ease access (both in terms of infrastructure and range of available products) to financial products that fit the needs of those unbanked or underbanked, lower operational costs (easing some of the burden that is translated into higher interest rates) and reach out to key segments – such as SMEs – that are of vital importance in terms of a country's sustainable economic development.

If the current regulatory environment prevents domestic Fintech growth, it might end up opening the door to multinational foreign firms (including big global players like Google, Facebook or Amazon), that have a better capacity to scale-up and thus takeover this market within Uruguay.

In Uruguay, the fintech market could prove to be beneficial for a population that is currently underserved by traditional finance institutions

2. Socio-economic Implications of a New and Promising Market

Relative to the newness of the P2PL industry in the Latin American and Caribbean region, the media coverage addressing the issue is already significant. Nevertheless, an in-depth look into specific markets and in particular into the Uruguayan market has not been undertaken. By analyzing the case of the first P2PL platform in Uruguay, we aim to shed light on the local market dynamics and the potential socio-economic impact it may have. Our goal is to emphasize the relevance of this market's development in the empowerment of SMEs and the low-income population, segments that are currently highly underserved by the traditional financial system. At the same time, we stress the need for supervision and robust regulatory entities and frameworks to foster the growth of this embryonic industry, ensure healthy industry development and leverage platform potential to improve the financial well-being of the target population.

For Uruguay, in particular, this new market could prove to be highly beneficial for a population that is currently underserved or entirely unattended by traditional finance institutions, while being especially mindful of the risks the market poses if clear guidance and legal guarantees are not provided. The study benefits from the momentum the industry is currently gaining, the local regulation spotlight has been on Fintechs and the very recent developments in terms of regulation. While the Latin American and Caribbean region could be positioned as an international FinTech innovation hub in the near future (Fintech Futures, 2018), the steps taken by the Central Bank of Uruguay (BCU) henceforth towards a formal regulation can either pave the way or completely halt the growth for this promising industry.

With this in mind, this research develops the case of the P2PL industry in Uruguay looking into the first P2PL platform that adopted, since its very beginning, a business model based on a corporate culture of collaboration and the building of an inclusive financial community.

3. Methodology

In order to analyze the Uruguayan P2PL landscape and its interrelation with financial inclusion we first detail the players and structures that define our ecosystem. The P2PL platforms constitute the main actors. These platforms target Uruguay due to its unexploited market and the potential to leverage demographic and consumer behavior trends (younger population with higher usage of mobile devices), as well as the country's well-developed Internet infrastructure. Therefore, there are two main structures supporting the P2PL platforms business model. Firstly, the high level of connectivity infrastructure and Internet access that constitute two of the platforms' key inputs. Secondly, value addition by the credit rating algorithms created by these platforms. These provide investors easy access to an innovative way to evaluate the potential credit risk of each borrower, which translates into more efficient and tailor-made borrowing rates.

Since their business model became popular, the media has mostly referred to P2PL platforms as the "financial Uber". This discourse is not shared by P2PL platforms, which assert that they provide a more elaborate product since their business model is not only based on connecting the lender with the borrower but in the generation of a value add via their credit rating algorithms. Further, they expect these algorithms to enhance the risk management aspect of the industry by providing a clearer picture of the risk associated with each borrower. By doing so, the investor can access and select those lending options that align with their risk preferences, while borrowers may be able to gain access to funding rates that reflect more accurately their actual risk profile.

On the other hand, this inaccurate discourse, might have negatively impacted the view of the BCU, the second most important actor in this ecosystem. At the time Uber was introduced in Uruguay, there was a very negative view of this app from the Unions and the government, mostly because at the time Uber was not regulated and did not pay the usual tax contributions any Uruguayan business had to pay, which in their view generated unfair competition. It can be argued that this direct association made by the media between Uber and the P2PL platforms (De Leon, 2017), could have had a negative repercussion on the views of the main regulatory entity. One parallelism that could be established at that moment between Uber (during their first year of operations) and P2PL ventures, is that both were platforms working under a legal void. That is not to say, of course, that other precedent financial laws could not be applied at the time to regulate this activity (such as the Usury Law), until specific regulation was developed.

Finally, the third relevant actor in this ecosystem comprise organizations created towards fostering this new market, one of the most important being the Uruguayan FinTech Chamber, an industry initiative. Its main objective includes promoting innovation in this market, and emphasizing, among other things, the positive externalities that the development of the FinTech ecosystem may have in terms of financial inclusion. It serves as an intermediary within the Uruguayan financial system, helping in the development of new regulation, and raising awareness through initiatives such as the Montevideo Fintech Forum.

In order to obtain a clear picture of the state of the art of this, still quite uncharted, sector in Uruguay, an exploratory and qualitative approach was proposed. Empirical evidence was collected by means of publicly available documents and literature. Complementing this view, one case study was developed, analyzing one of the startups created in Uruguay. In-depth interviews as well as a survey with the four local market players were conducted in order to provide a quantitative and qualitative benchmark for the case study within the rest of the industry.

The research seeks to shed new light on:

- The reach of P2P lending platforms within the country at a time when the official regulatory framework was still far in the future.
- The main players involved.

- How the Uruguayan market is structured in terms of rights and obligations, and power distribution.
- The current policies and regulations, as well as the lack of them (including possible legal vacuums rising from data and personal information protection management, and the development of P2P lending platforms under regional commercial agreements, as well as the commercial relations with the European Union).
- How the issues of social, racial, economic and gender inclusion are addressed in theory and practice.

In terms of previous research no preceding study about the Uruguayan P2PL market and its players was found in the literature review. As this is quite a new market in Uruguay, going back only to 2015, most of the information gathered was taken from the press and primary sources.

3.1 Semi-structured Interviews

Four P2PL companies were identified as part of the Uruguayan Fintech landscape at the beginning of 2018. These are Prezzta, TuTasa, Inversionate and Socius. A semi-structured collection instrument was developed to guide the interviews. The questions had a common core focus but were customized to each player's current activities and characteristics, according to previous data found in the literature review. This methodology, while providing enough systematization for comparison, also allowed for other relevant issues to come up at the interviews. The questions were broadly divided into four areas: current market landscape and competition, regulatory and economic framework, social and inclusive initiatives, and future developments.

Although the number of players is small, it represents indeed the whole market at the time, making this a census and not a sample. Interviews were conducted in Spanish so major quotes used in this report have been translated to English by the authors.

Other qualified informants were also identified and contacted for an interview, including the then President of the Uruguayan Chamber of FinTech and an economist from the BCU. A full list of interviewees can be found in Appendix 1 and a sample interview guide in Appendix 2.

3.2 Quantitative questionnaire

In order to gather information on each business's figures and statistics, a follow-up quantitative self-administered survey was designed and sent to all interviewees.

The questionnaire was mentioned in the interview, and the interviewee was asked to complete the questions afterwards, from a link sent to their email addresses. The questionnaire was divided into three sections: statistical data about their operations, demographics and technology, with 29 questions in total (See Appendix 3).

3.3 Case study

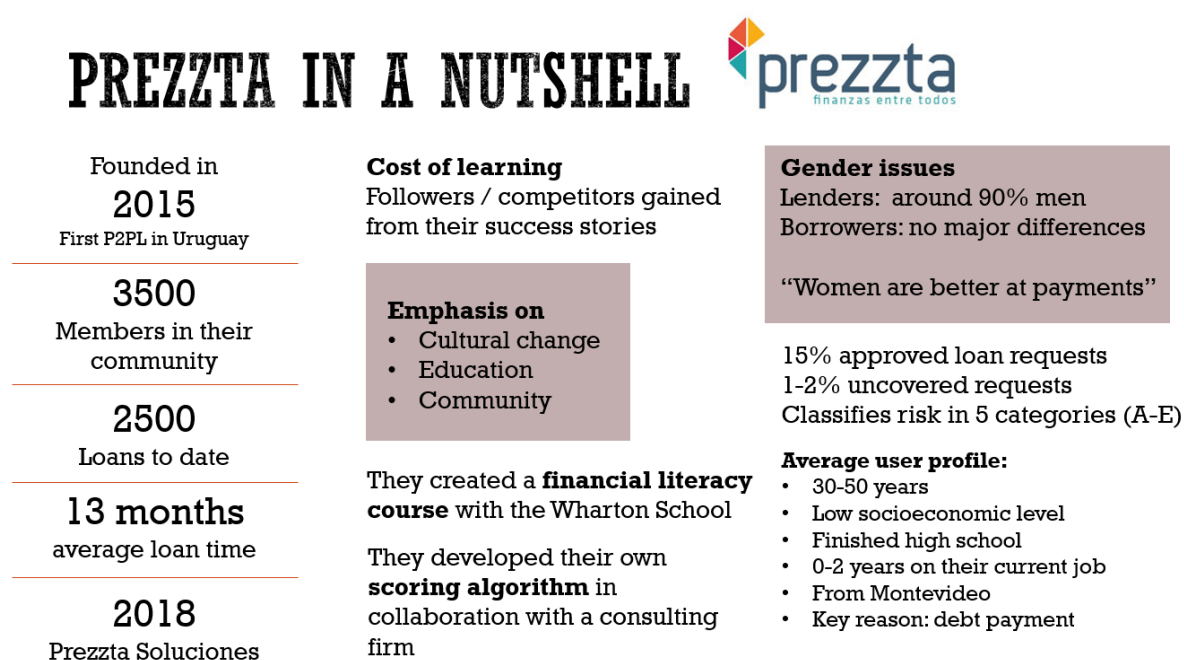
An in-depth look was undertaken into one of the P2PL platforms, analyzing its business proposition, how it developed under the current regulatory framework, activities undertaken by it and the positive socio-economic externalities it generates. Nevertheless, due to all the valuable information gathered from all the players, relevant insights are brought in throughout the report.

4. Prezzta, the local trailblazer

Prezzta was the first peer to peer lending platform founded in Uruguay. It was established by Pablo Gagliardi and Mateo Infanzozzi in 2015. Their business idea was not new to the world or even to the region, where several companies have been operating under a P2PL business model since before 2011 (Finnovista, 2017), but it was a revolutionary concept for the local market. Prezzta defines itself as a technology company that seeks to facilitate contact and connections between people who need financial aid and people willing to help. It brought in a business model that was working well in other countries for quite some years and adapted it to the Uruguayan market. Their aim was more than just to create a company, they wanted to create the first “financial community”, as they called it, in Uruguay. This meant a network of people that not only did business among themselves, but also helped each other learn and grow.

According to the founders, what drove this development was not an explicit need of the Uruguayan population for whom the idea for P2P lending was mostly foreign at the time, but the potential they saw in Uruguay, based on its high levels of Internet penetration and digital infrastructure.

Figure 1: Prezzta in a nutshell



4.1 Mission and vision

Even from the beginning, the founders were not unaware of the risks they would face – regulatory uncertainty, the resistance from a highly concentrated traditional financial sector and a target market unfamiliar to P2PL. One way to overcome these potential drawbacks was to define a strong corporate mission and vision focused on the community and the concept of “people helping people”. The potential to bring people together and bridge the gap between those having funds and willing to invest and those unbanked or under banked individuals who face highly restrictive conditions when applying for a loan. According to their website, their mission is “to create the First Financial Community in Uruguay, being a channel through which people will meet, contact and help each other.” As per the company’s vision, they

aim to “ensure that every market player can satisfy its financial needs in a simpler, more collaborative way.”

4.2 How it works

With that mission in mind, they structured a platform where an individual investor can lend funds to a loan applicant without the need for an additional intermediary party, and the subsequent fees this may entail. In fact, platforms have emphasized their role so far, as mediators that provide only the site for parties to connect and the algorithm for credit risk ratings. They do not participate in further stages of the transaction. From the applicant’s perspective, they gain access, in a more flexible and easy way, to loans under more convenient terms and with interest rates significantly lower to what they have to pay in the traditional finance market. On the other side, those providing the funds are able to access new and more profitable small-size investment options compared to what the local traditional finance market can offer, with the additional value of getting to help others.

Loan applications are managed in a responsible and conservative way, so while aiming to reach out to those left unserved by the traditional finance market, applicants that have outstanding debts (usually paying onerous interest and charges) are encouraged to cancel that debt before applying for a new loan through the platform.

For the process to start, the applicant provided certain mandatory data (such as name, ID, birth date, marital status, family group composition, source of income, number of years in their current job and the purpose of the loan) while being encouraged to provide any additional data that would help improve their risk scores (potentially lowering the interest rate they might obtain for their loan). A collateral is not required for most cases, although there are certain loans where, given their characteristics (in terms of the amount, total number of installments and purpose of the loan), the requirement of a collateral is mandatory.

Account requirements include being a Uruguayan citizen, being between 26 and 75 years old, receiving a salary or pension and having a receipt to prove it. In the case of workers, they need to have at least six months in the current job, and not be listed as bad payers by the local credit scoring agency (Equifax – Clearing). They are also required to register an email account and mobile phone number. The amounts permitted for a transaction range between USD 150 to USD 1,500 approximately. Within the banking system, requirements in terms of financial soundness are more stringent, leaving other financial institutions as the only alternative for borrowers. In these institutions, requirements are substantially lower, but this is compensated by significantly higher rates charged. In this way, P2PL platforms offer a middle ground where lenders can assess if the applicant risk profile is aligned with their risk appetite and offer a more accessible rate, given the intermediary and their restrictive requirements has been removed from the transaction.

Once the application is submitted, the platform runs a check on the data provided by the applicant, through public and private databases as well as with other government and private institutions, that allows them to verify the validity of the data. In order to do so, under “Terms and Conditions” of the contract, Prezzta requires the applicants to give their consent to this procedure before moving forward. Once this stage is completed, the platform rates the loan application and facilitates the connection between the applicant and the potential investor.

The credit rating process is one of the key services provided by the platform. Based on the data provided by the applicant, Prezzta evaluates the likelihood that applicants will fulfill their obligations. Applicants are categorized in six groups, called profiles, (A+, A, B, C, D, and E), where the E category comprises all loan applications that do not comply with the minimum risk standard required by the platform and are not presented as options to potential investors. According to Prezzta, 85 percent of loan applications currently fall under the ‘E’ category and therefore do not qualify for a loan application. The qualifying applications

are made available to potential lenders with a suggested interest rate (within the maximum limit determined by the BCU) based on the risk profile of each loan application.

The platform also requires from lenders an “origin of funds statement” as well as personal references to avoid the risk of money laundering. The Prezzta team also meet in person with every one of the lenders at the time of the contract being signed. According to the platform founders, this will not present an issue when scale is achieved as it would be limited to a one-time meeting with their staff and afterwards, the transactions could be conducted online/off site.

Prezzta has a business agreement with the Uruguayan payment provider company RedPagos, which allows them to reach people all over the country. This enables users to send over documents, get payments and make withdrawals in a vast network of branches all over the country.

All in all, it can be argued that this new ecosystem created, at least in its first few years of operations, a non-rivalrous private-individual value. Applicants are able to gain access to loans that could be 30 to 35 basis points lower than what they can access through the traditional finance system. Given that platforms foster the communication and collaboration between the applicant and the investor, the former could have access to even better conditions for future loans if previous loan payments were fulfilled in due time.

There is particular value to be gained in the case of SMEs, where a borrowing market specific to their nature is almost non-existent in Uruguay. On the other side of the spectrum, also under the private-individual category, the market would open the possibilities of investment options that a small-sized investor can access. These investors are mostly around 30-year-old millennials whose investment needs are not usually met by the options provided by traditional finance institutions, i.e., usually do not own a property, and have lower levels of bank customer engagement (CSBS, 2018) and who are particularly “open” and familiarized with the digital and platform economy.

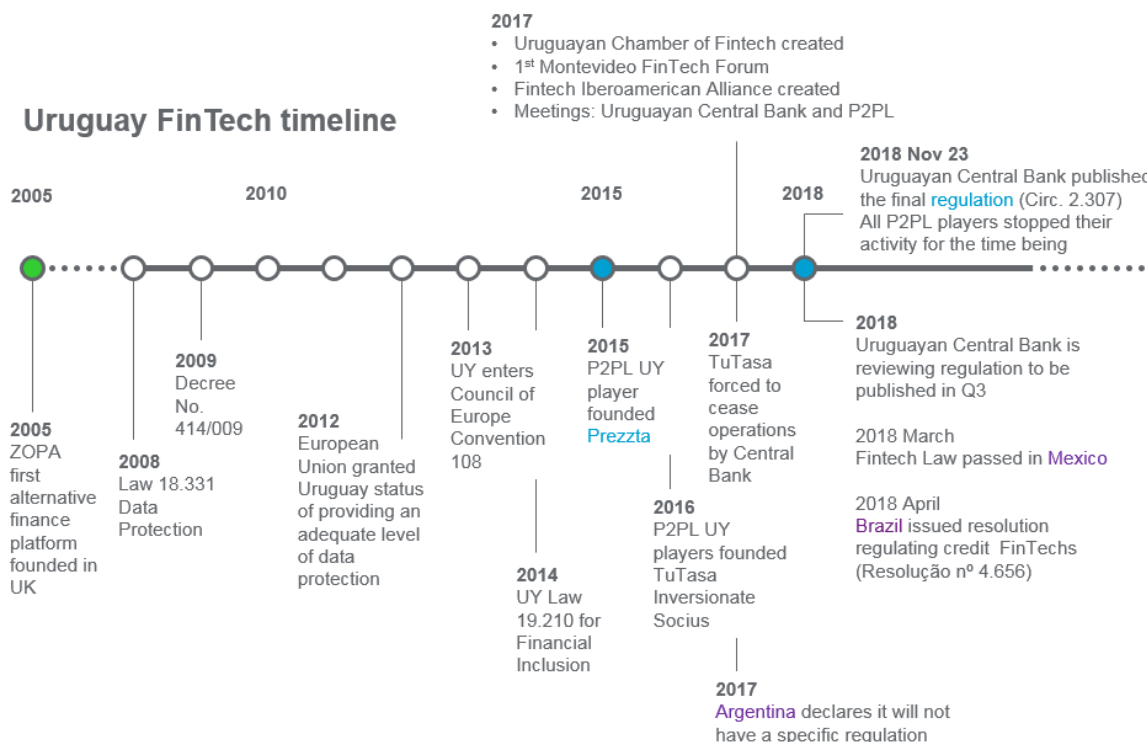
As for the first impressions on the user side, online comments about any of the four platforms are scarce, and the few that were found were also old and dated. It seems that few suspicious and potential users started by comparing them with experiences from known peers from other countries. Some comments were questions asking if anyone had any experience using this kind of platforms before and about warranties for the lender. A couple of users commented on not getting paid in time and having to alert the P2PL company about it, instead of being the other way around.

4.3 A more inclusive ecosystem

The case of Prezzta was exciting for not only being the first P2PL platform in the country, but also because it led the market at the time in terms of innovation. With its new P2PL product specifically tailored for SMEs, the platform was opening the ecosystem and adding value to a new privatized-corporate actor, one that was significantly unattended by the traditional finance market. In 2018, they also developed a new line of business providing their software to interested clients. Prezzta started a “Loan as a Service” business, which provides businesses the option to manage the complete loan life cycle, using their software independently or as a joint venture (Prezzta, 2019).

5. The Current Uruguayan Regulatory Environment

Figure 2: Uruguay's FinTech timeline



Uruguay is opening to new business models and is looking to position itself as an attractive target to national and international investors. This is reflected in the latest activity of the Parliament discussing and approving laws to accommodate these new markets. Some of the initiatives they are trying to regulate besides P2PL are crowdfunding initiatives, and the simplification of new businesses creation and all the legal registration processes in place, to encourage internal and international investment.

These initiatives have been under study since 2012 (Parliament Act No. 1678 from 2018) and they aim to provide legal certainty to investors and encourage entrepreneurs to use these alternative finance tools.

6. The response of the Central Bank of Uruguay

The BCU acts as the main regulator and supervisor of the financial industry. According to their statements, they have been carefully watching and studying the new FinTech market in Uruguay since 2013 (Cámara de Representantes, 2018). The manner in which the financial regulator has reacted to this new market has mutated along the years. In the very beginning, the market was viewed as very small with low significant socio-economic impact. After one year of operations of the second P2PL platform funded in Uruguay, which worked under a particular business model based on funds being managed by a trust fund, the BCU judged this structure to be outside the available legal framework and demanded the termination of their operations under such business model. This decision led the platform TuTasa to discontinue their operations in the local market by 2017. Since then, the BCU took a more proactive involvement in the matter and started to actively work together with the local platforms and other relevant market players, towards the formulation of a formal legal framework.

Initially, the BCU argued that from their point of view, no new type of business was being created, but rather this could be seen as a new approach to do business that has already been happening for centuries. New channels (e.g. platforms) are means to do old business, so in that sense they were already covered to an extent by current legislation. Their concerns sided mostly with the investor side, as they stated, they are the ones providing the resources and assuming the risks. In that sense, their responsibility is to provide them with the right guarantees and helping protect them and their assets.

By the end of 2017, the BCU's stand on the matter had changed considerably, which led it to propose a 10-point guideline, offering the chance to market players to provide their opinions and feedback. Overall, the proposed framework was considered to be too conservative and potentially harmful for the development of the industry. In particular, the section related to borrowing and investment limits was seen by market players as something that could work to the detriment of the entire industry.

After public consultation, the BCU met with interested parties from the P2PL domain and incorporated some of their comments into the final regulation, which was passed and made public on November 23, 2018. The main aspects of this regulation included:

1. The supervisor must receive real time data or periodic data regarding the project's financial health, default information, financial statements and annex.
2. Supervision powers to be granted both *in situ* and on line.
3. Regulation must provide definition of all illegal conducts that might take place in the business.
4. Provide a regime of both monetary and non-monetary sanctions.
5. Prohibition to the online platform to manage client's funds.
6. Prohibition of "automatic matching".
7. Counterpart identification before funds are transferred, for which counterpart data will have to be provided before the deal is closed.
8. Establishment of both borrowing and investment limits to clients.
9. Only debt-based agreements are planned to be allowed, excluding the equity-based market.
10. Prohibition of credit risk distribution among investors.

Holding customer protection as the primary goal, the regulator restricted the possibility of platforms from acting as investors or participants in the management of funds at any stage of the process and in any capacity (as in the case of TuTasa), to guarantee neutrality and a healthy alignment of incentives between platforms and applicants.

After the new regulation was made public, the response from many interested actors was not delayed. The House of Representatives called representatives from the BCU to an audience and asked them questions about the "negative effects" it had caused. A particular Representative stated that it had caused "concrete harmful effects" (such as firms leaving the country to establish businesses elsewhere), stating that "other than a regulation, this is a fumigation that made all business inviable", and "if we run out of FinTech entrepreneurs, Uruguay has no future whatsoever" and bluntly requesting the BCU to withdraw the legislation [Circ. No. 1997 of 2018].

Another concern was with the BCU making a public speech that contradicted their actual stand and new regulations. Many newspapers divulged, for instance, the statements of the Uruguayan Chamber of Fintech's President that affirmed, "with this regulation, operations are not viable".

The most critical points raised by the P2PL players and the industry were:

- The prohibition on the platforms from handle the funds (which would constitute financial intermediation), which they consider essential to simplify the connection between those in need of the funds and those willing to lend them.

- Not allowing for automatic match under pre-approved rules. That is, once an applicant holds all aspects that are desired by the investor (risk, interest rate, loan amount, etc.), the operation cannot be automatically closed. One of the benefits of the platform was to ease the process and shorten the timelines, a benefit that is being removed by the regulation.
- Loan limits set by the regulator are considered too low for platforms to create scalability and be economically sustainable.
- Finally, there is the confidentiality issue. Under the current regulation both parties need to know all personal specificities before closing the operation. This, among other things, could pose unwanted biases, such as gender-based discrimination.

Another issue was posed by the restriction to platforms to act as investors themselves, in particular this is a problem for certain platforms that have already regional reach and work under this business model. As we have mentioned, this model is widely implemented in many countries around the world.

On the other hand, the BCU argued it was important to be careful when analyzing risks, such as money laundering, terrorism financing, cybersecurity, information security and plain fraud. They also emphasized the grave repercussions, for a central bank to lose its credibility and users' trust. If they fail to protect citizens, it would be not easy to recover from that and gain public trust again. They also stated that their Superintendence of Financial Services department regulates financial activity, not technologies. If any platform wishes to do financial intermediation they are free to do so, registering under the corresponding figure of law, which would imply much higher operational costs.

The regulator also stated that the sandbox concept was not a good option for Uruguay, affirming that if something "bad" were to happen it would be very difficult to revert it. The regulatory sandbox concept is widely used in the digital economy arena, especially around Fintech. It serves as a closed testing arena that allows for safe experimentation, so both startups and regulators can learn from each other. This also allows the regulator to be on top of technological challenges and take a proactive stance. They were also against lending to multinational companies or non-resident citizens, as this would go against their principles of wanting to help financial inclusion locally.

In Uruguay, a collaborative stand between traditional banks and P2P platforms is still in its early stages

They have been studying other countries' regulation and environments, like Spain and Argentina, and they concluded that Fintech regulation is a challenge worldwide and that there is no one size fits all solution, but rather each country should consider which parameters and focus to use.

7. Concluding Policy Recommendations

FinTechs are disruptive but also a reality that are here to stay. They are posed to challenge and potentially enhance traditional financial activity. Although Fintech companies began with the intention to mobilize the financial services market and changed consumers' habits, they have still to reach their full growth potential. Trust in the overall platform-based market at the consumer level is strengthening rapidly thanks to the popularization of other platforms (e.g. Uber, Paganza [online payments], PedidosYa [food delivery]). Users are more aware than ever of the benefits offered by these technologies, having more power in their hands to materialize their demand in other ways than traditional channels.

In Uruguay, the change from a “competition and threat” to a “collaborative” stand between traditional banks and P2P platforms, as seen in more developed economies and even in countries in the region, is still in its early stages. As most banks are subsidiaries from bigger banks in other countries, the approach they take regarding their relationship with P2P platforms and Fintech companies in general, will be determined mainly by their HQ policies.

The BCU, similar to any other established government institution, has to follow process and bureaucracy in order to get regulations in place, this includes many control steps along the road. Their role is to respond to increasing technological advancements, measure their risk and benefits and reflect on their regulatory frameworks, while preserving financial stability of the country. The speed of regulatory response varies, as any changes need to go through several revisions, and consultation stages, while facing new and not-well-understood business models, lack of data and sufficient resources (Berkmen, P. et al., 2019).

Regulators must balance consumer protection, potential risks and the fostering of innovation, when shaping up the market’s regulation. Although the initial P2P lending market size was unlikely to pose a threat to financial stability, the regulator seemed to be aware of its potential. For which the implementation of a formal regulation has been top of its agenda. Simultaneously, there was a marked consensus within startups that there is no potential for healthy innovation without a proper regulatory framework.

Prezzta, as well as the other P2PL, had at the time a strategy that was focused on long term growth and expansion achievable through education and good regulation, and plans to expand regionally.

Currently, Uruguay has reached a stand still point in matters of Fintech regulation. After the passing of its final resolutions by the BCU in November 2018, all P2PL platforms have ceased operations in the country, keeping active only the current loans already accredited. Nevertheless, some of them continued to move forward and started operating in other countries, like TuTasa in the UK and Argentina and Prezzta also in the latter.

8. Future Directions for Inclusive Policy and Regulation Development

Although framing a regulation where risks are mitigated and at the same time innovation is fostered, is far from easy, both considerations need to be on the table from the get-go. But the authorities’ first steps did not seem to point in that direction, especially when they initially regarded P2PL not as a new type of activity, but as a different way to carry out financial activities that were already in place in the traditional financial market, thus disregarding its trans-frontier nature. By doing so, considerations on innovation were not being taken properly at that moment.

Not only was the fostering of innovation to be considered, but also the promotion of these startups and SMEs as key engines to growth and financial inclusion. There is the risk, and it is not so far-fetched, that while the current regulatory environment hinders or even impedes their growth, it might be leaving an open field for bigger foreign firms (including big global players like Google, Facebook or Amazon) with more capacity of scalability, to tap the market. We have bigger platforms such as Mercado Libre (via Mercado Pago) that are in a way providing consumer with indirect credit by allowing them to pay in installments.

There are other many considerations the regulator needs to take into account when evaluating the impact of the regulatory framework to be set:

- Fostering startups and SMEs, such as P2PL platforms, has a direct repercussion on talent. If the sector gains traction, it is posed to have an effect on the amount of talent captured by technology-oriented careers. This is key given the role these professionals are playing in economic and social development.

- This new market is poised to increase competition which is likely to translate into a more transparent market with a wider set of options for the consumer.
- Under the premise that the regulator watches for consumer protection, the development of this market can only add to the government's initiative for financial inclusion.

Additionally, something that must not be overlooked in the consumer protection agenda should regulate any kind of bias, including bias in the credit scoring algorithm, information asymmetry, protection of users' personal information.

Overall some broad guidelines could be considered in terms of the design of a regulatory framework that can both ensure consumer protection and foster innovation:

- Ensure regulatory certainty for all aspects of the P2PL market.
- Set the basis for a proper and healthy competition between platforms and traditional financial institutions.
- Set the framework as to consider issues of money laundering, cyber security and data privacy as main risks to address.
- Provide a flexible and safe but at the same time controlled and supervised work framework for start-ups to be able to develop and reach a level of sustainability that could eventually comply with a more stringent regulatory framework. This is often addressed via the implementation of a sandbox.
- Capital requirements that reach an equilibrium that ensure responsibility on behalf of the platform but at the same time do not hinder innovation.
- Establish disclosure guidelines:
 - For the platforms to provide accurate and updated financial information.
 - Disclosure of conflict of interests
 - Provision of all relevant information related to the investor
 - A risk evaluation and risk management report
- Set a clear framework in terms of supervision and sanctions.

There is no denial that some differences and difficulties arise from the technology side, not the least important the diffusion of national borders and legislations of trans-frontier activities. But then again, Uruguay should learn from other experiences in the region, as well as more successfully implemented strategies in the world.

References

- Berkmen, P. et al. 2019. Fintech in Latin America and the Caribbean: Stocktaking. IMF Working Paper WP/19/71, March 2019.
- Cámara de Representantes. 2018. Plataformas de Préstamos entre Personas, Promoción de Emprendimientos. <https://legislativo.parlamento.gub.uy/temporales/1598425.PDF>
- CINVE. 2016. <http://www.cinve.org.uy/wp-content/uploads/2016/09/AC-2016-092.pdf>
- CSBS. 2018. [Gallup Poll on Millennials and Their Banking Habits](https://www.csbs.org/gallup-poll-millennials-and-their-banking-habits) <https://www.csbs.org/gallup-poll-millennials-and-their-banking-habits>
- De León, M. 2017. El País. [BCU le baja el pulgar a una modalidad de "Uber financiero"](https://negocios.elpais.com.uy/noticias/bcu-le-baja-pulgar-modalidad-uber-financiero.html) <https://negocios.elpais.com.uy/noticias/bcu-le-baja-pulgar-modalidad-uber-financiero.html>
- Finnovista. 2017. Fintech: Innovations you may not know were from Latin America and the Caribbean. Inter-American Development Bank, 2017.
- FinTech Futures. 2018. [How Latin America's fintech market could exceed \\$150bn by 2021](https://www.bankingtech.com/2018/07/how-latin-americas-fintech-market-could-exceed-150bn-by-2021/) <https://www.bankingtech.com/2018/07/how-latin-americas-fintech-market-could-exceed-150bn-by-2021/>
- IMF. 2017. [Global Financial Inclusion Index](https://databank.worldbank.org/source/global-financial-inclusion#). <https://databank.worldbank.org/source/global-financial-inclusion#>
- OECD. 2019. SME Policy Index: [Latin America and the Caribbean 2019 Policies for Competitive SMEs in the Pacific Alliance and Participating South American countries](http://www.oecd.org/latin-america/SME-Policy-Index-LAC-Key-Messages-Brochure.pdf). <http://www.oecd.org/latin-america/SME-Policy-Index-LAC-Key-Messages-Brochure.pdf>
- Prezzta, 2019.

Appendix 1

Key players interviewed:

Mateo Infantozzi, Founder of Prezzta

Marcelo Barreneche, Founder of TuTasa

Daniel Vianna & Lucia Miguez, Founders of Inversionate

Sofia Lanza & Nazaria Segundo, Founders of Socius

Sebastián Olivera, President of the Uruguayan Chamber of Fintech

Patricia Tudisco, Financial Regulation Expert

Appendix 2

Guidelines for interview with Prezzta

Market and competition

1. What services/products can P2PL platforms offer that aren't or can't be currently offered by traditional finance institutions (TFI)?
2. What are the main advantages your platform presents relative to your direct (local) competitors?
3. Do you consider that in Uruguay this business model has been implemented as a response to an explicit need of the population (i.e. strata not currently covered by TFI) or rather as an innovative idea taken from other countries and that is being tested in the local market?
4. Up to what extent do you consider the P2PL market is being covered by current market players? What is your current estimation on market penetration and how far is it from your target market penetration?
5. Is there a niche – within the P2PL market – that you are specifically targeting but haven't been able to address as expected?
6. How many members currently comprises your community?
7. What do you think are the drivers behind your higher growth rates (in terms of total number of users) considering the last year's growth (2017) relative to the two previous years of operations?
8. As states in your site, "solidarity" and "individuality" are two characteristics defining your business model and your relationship with borrowers. How do you foresee your future business strategy in the case your transactions volume growth substantially (massive loan provision vs individual – one on one – relationships)?
9. What are the three main risks faced by your business? Do you perceive reputational risk (generated i.e. by high default levels or data breach events) as a significant risk to your organization?
10. Was your marketing strategy designed for a specific target market? (i.e. types of investors/borrowers)

Social

11. In your marketing/business strategy, do you have any particular approach in order to reach the "at risk" strata of the local population?
12. Is there a gender bias (either between investors or borrowers)? How could P2PL platforms work in order to reduce loan/investment gender bias?
13. Is the platform's growth contingent to the level of financial education of local population? If so, have you built your strategy considering this? (Mention Wharton: their financial education mode, loans to those that have defaulted in the past)

Regulatory and economic framework

14. Are there any synergies between your business model and the implementation of the financial inclusion law? Has the Law had any impact on your business so far?
15. Under which regulatory framework did you start your operations? Has this framework changed recently?
16. Which are the main current regulatory deficiencies/roadblocks? Do you consider the “regulatory risk” as a “high impact” risk for your business?
17. Do you have a “reference” regulatory framework in the region? (one you consider the local market could look up to and take as guideline)
18. Given the announcement of the Uruguayan Central Bank (UCB) regarding the proposal for a regulatory framework oriented to FinTechs, what are your expectations for this framework and the potential impact it might have on your business (i.e. operational cost, compliance costs)?
19. Do you consider there are measures that could be implemented to foster the industry’s growth?
20. As stated in your site, you are compliant with Law 18.331 of personal data protection, do you regard the Uruguayan market as an updated market in terms of data protection regulation?? (EU General Data Protection Regulation)

The road ahead/new ideas

21. Has your participation in the Campus Exchange LATAM Fintech (Google) provided any innovative idea suitable to be applied in the local market?

22. What are your expectations for the Uruguayan P2PL market in the next 5 years?

(Offer to comment on the latest Fintech initiatives, i.e. the 1st Montevideo Fintech Forum, Fintech Radar organized by the Uruguayan Fintech Association (created in March 2017) with Finnovista, the Fintech Iberoamerican Alliance (as well as the association with the research institute ANII), that aims to develop an International Regulatory Committee; the agreement between Uruguay XXI and the Uruguayan FinTech Association for the support and promotion of the local FinTech industry, etc.)

23. Do you think the collaboration between P2PL platforms and TFI is something feasible? How would P2PL platforms function under a collaborative scheme?

Appendix 3

Peer to peer lending platforms as tools for financial inclusion – Quantitative questionnaire

1. Company name
2. Since when is your company operational?
3. Which is the current average lending rate?
4. What has been the trend of this lending rate (upward, stable or downward)?
5. Are there well-defined rate tranches based on the type of loans?
6. How many loans have been provided so far?
7. What is the yearly average loan amount?
8. What is the loan growth rate?
9. What is the total amount borrowed?
10. What is the average borrowing term (in months)?
11. What is the most commonly chosen borrowing period?
12. What is the estimated annual return for the investor?
13. What is the percentage of loan applications that are left unattended?
14. What is the average risk profile of your loan portfolio (low, medium, high)?
15. Is your current average risk profile lower or higher than the one you expected?
16. Which is the predominant gender in loan applications?

17. Which is the predominant age range of the applicants?
18. Which is the predominant economic level of the applicants (low, medium, high)?
19. Which is the average level of education of the applicants (primary, secondary, higher education)?
20. How many years (in average) have the applicants worked on their current job?
21. What is the predominant geographical profile of the applicants? (Capital city vs. rest of the country)
22. Which are the three most common reasons borrowers providing for their loan application?
23. Do you have institutional investors?
24. Is your users' personal information database compliant with Law 18.331 of data protection?
25. Has the development of your platform been outsourced?
26. Was the development of your scoring algorithm done in-house or in partnership with a traditional financial institution?
27. Has your scoring/screening process changed since your started operations? If so, how?
28. Has your platform developed additional mobile services/apps?
29. Do you have any established protocols or security measures in case of a cyber-attack?

