MF
STRATEGY

The Largest European Marketplace for Micro & Small-Sized Loans

Mintos

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Mintos, a public limited company, was incorporated and registered in the Register of Enterprises of Latvia in May 2014, obtaining a permit from the Consumer Rights Protection Centre to provide consumer credit services in Latvia. Mintos is in essence a hybrid peer-to-peer lending intermediary, offering individual investors the opportunity to buy portions of loans originated by various non-bank lending companies operating in different parts of the world. Mintos uses a hybrid model which includes elements of classical lending and peer-to-peer facilities supported by advanced technologies. The platform works through assignment. Investors assign to Mintos the obligation to service the loan portions they purchased on the platform, while Mintos assigns to individual loan originators or other financial companies the obligation to service same loan portions and transfer back repaid principal and corresponding interest.

Despite the legal link between investor and end-borrower, which includes the borrower's loan guarantees, the investor does not know the identity of the borrower. To enforce a claim against owned loan receivables, an investor would need a valid assignment, which can be put at risk by either the borrower, loan servicer, local regulator, eventual platform regulator, or the platform itself. Mintos has invested a lot of effort since 2015 in strengthening the investor-borrower link, helping investors receive interest rates exceeding 10% per year on average. Investments on the platform are not risk-free and negative returns are possible.

In five years, Mintos has become a giant in the financial industry while escaping EU regulations and facing increasing pressure from mainstream lenders around the world. In November 2020, Mintos was valued at EUR 68 million. We look into the history of Mintos to identify the various elements that have supported its growth.

Online Retail Mortgage Lender in Latvia

Specialising in retail mortgage loans, the company's strategic approach was to shift operational activity online and subcontract such technical aspects as evaluation of real estate and legal support. A house or apartment owner in Latvia could complete a loan application online and in hours receive a loan offer amounting to three quarters of the market value of the real estate. If the outsourced real estate evaluator confirmed the market value of the real estate, the applicant was asked to sign the mortgage agreement at a notary and register the mortgage with the local Cadaster office before receiving the money in the designated account.

Accelerated digitalisation of public services in Latvia allowed for such online business models to be effective and competitive. The share of individuals who used the Internet to interact with public authorities in Latvia crossed the 50% mark in 2014 and reached 70% in the following years. In 2014, Latvia overcame the EU average with respect to many e-governance indicators.

At Mintos, time to loan approval was estimated at just a few hours, while time to cash was 1-2 weeks, depending almost entirely on the applicant's capacity to meet the evaluator, visit a notary, and get the mortgage registered with the Cadaster office.

Mintos received EUR 1 million in venture capital from a local company to begin operations. The first mortgage loans were issued in September 2014 and, parallel with the growth of the lending business, Mintos began to develop other modules of its IT system.

Selling Parts of Mortgage Loans to Investors

Mintos appeared on the radar of the local press in early 2015 when the company announced its success in selling parts of issued mortgage loans to private investors. The online lending tool was enhanced with a module to offer individual investors the possibility to register and buy parts of issued mortgage loans. By selling loan portions ranging from EUR 10 up to 95% of the loan amount to third-party investors, Mintos could obtain funds for additional lending without recourse to borrowing from banks or investment funds.

Mintos charged its safest mortgage borrowers a nominal interest rate of 8% per year. Riskier borrowers paid higher interest rates. These approached 20% per year net of associated fees for most risky borrowers. Investors found it appealing to buy parts of such real estate-backed loans and receive a fixed interest rate which, even if inferior to the effective interest rate paid by the borrower, was still attractive to them. For most risky loans, investors could expect 15% in annual interest rate.

In the first months of 2015, the euro area composite interest rate for new deposits with agreed maturity from households dropped below 1% per year for the first time in the history of the eurozone. The Mintos offer was irresistible for many local but also other EU investors who saw little interest in holding bank deposits in euro which paid annual interest rates approaching 1%. Hoping for better returns, such investors had to deposit euros on their virtual accounts on the Mintos platform. With this money they bought loan parts in selected mortgage loans issued by Mintos. Investors would necessarily assign to Mintos the obligation to conduct all activities related to the receipt of instalments and interest, including collection and management of defaults. Investors who needed their money before expected repayment would be allowed, for a fee, to sell their loan parts on the secondary market provided by the platform.

Punctual, late, or anticipated repayments of principal made by the borrower would proportionally be distributed among loan part owners. Paid interest and eventual late repayment fees would be distributed in the same manner. An investor who received some money back, plus the corresponding interest rate, had the following three options, all free of charge: (1) to wire all or some money to own Single Euro Payments Area bank account; (2) to hold money on the platform; or (3) to buy other available loan parts on the primary or secondary market.

Mintos would not sell at least 5% of each loan made available for sale on the platform and would hold it as ‘skin in the game’. The default of such loans would impact individual investors, as well as Mintos proportionally to the share of the defaulted loan. In case of default, Mintos would use the already given mandate of the investor to deal with the defaulted loan. Mintos would split proportionally what could had been obtained from the sale of the mortgage or other enforcement mechanisms, minus associated collection costs. Throughout the duration of the agreement between the investor and Mintos and during eventual collection activities, the investor would be prevented from knowing the name of the borrower and would be prohibited from contacting the borrower if their name was somehow revealed. Such information as the gender and age of the borrower would be provided to potential investors. Primary loan conditions, including amount, term, repayment schedule, and description of guarantees would also be made available to potential investors to provide a basis for a more informed decision. A fixed interest rate would be offered to potential investors who could invest as little as EUR 10 or any larger available amount without the ‘skin in the game’ of the originator and eventual investments already made by other investors.

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This mechanism attracted around 400 investors in the first week it became fully operational. These investors, 30% foreign nationals, purchased parts of loans in the amount of EUR 250,000. These investments were exposed to credit risk and platform risk, although they were backed up by mortgage.

Legal Issue with Consumer Rights Protection Centre

Mintos' success in selling loan parts to individual investors was described in the local press as an ingenious fintech innovation. It did however raise the attention of the Consumer Rights Protection Centre, which had issued Mintos with a permit to issue retail loans. The Centre informed the public in February 2015 that the given permit did not entitle Mintos to accept investments from individual investors who might misjudge real risks when buying loan parts in issued mortgage loans. The Centre urged Mintos to discontinue the investment component of the platform – the required condition under which it could continue to issue loans. The national Financial and Capital Market Commission advised Mintos that investment services in Latvia are subject to licensing, which provide protection schemes for investors.

Mintos did not adhere to the warnings of the two public institutions. Its top representatives, which included lawyers, financial consultants, and the president of the Latvian Insurers' Association, argued that the national legislation covers the nature of business relations arising between individual investors (Mintos and the borrowers). Mintos conceded to improving visibility of the warnings on the platform that investments made are not insured. It also proposed that investors buy back their loan parts to allow them the opportunity to reconsider their investments. In parallel, it offered its support to public authorities for the potential establishment of a legal framework for crowdlending in Latvia or at EU level.

The early 2015 legal battle with Latvian public institutions was won by Mintos, although it did have certain consequences on the company. Mintos decided to separate the loan origination business from the platform business. Mintos Marketplace plc was incorporated and registered in the Register of Enterprises of Latvia in June 2015. The new company, which had the same shareholders as the original company, took hold of the platform mintos.com and half of the EUR 1 million the Mintos project received in venture capital in 2014. The original Mintos plc was renamed and allowed to continue to issue mortgage-backed retail loans (which were sold on the Mintos platform) under a different brand name.

In 2015, Mintos Marketplace plc decided to move its headquarters to the United Kingdom. Was this decision due to the fact that London was at the time the European capital for fintechs, or simply a reaction to the warnings from the Latvian authorities? By the end of 2015, Mintos had attracted to its platform five additional loan originators operating in Latvia and the other two Baltic states. One lender subsidiary had been issuing loans in Georgia, which also became available for sale on the platform. Risk diversification was possible through different axes: country, originator, and loan purpose. In addition to more secure mortgage loans, originators were selling car loans, unsecured personal loans, and business micro loans. The platform also introduced a buyback option that loan originators could offer to investors – when a loan was past due for 60 days, the originator would offer to buy back all loan parts from investors. All loan originators were required to have 'skin in the game' in the amount of 5-15% of each loan offered for sale on the Mintos platform.

Loans with buyback obligation would yield a lower interest rate but would transfer the credit risk from borrower to originator, increasing marginally the probability of default by the originator, against which the investor had no protection.

Mintos closed 2015 with EUR 10 million in loan parts sold to investors. It made a loss of EUR 98,000, despite revenues of EUR 59,000 gained from service fees charged to loan originators; fees charged to investors who sold their loan parts on the secondary market; and interest received from loan parts that Mintos, as investor, bought occasionally on its own platform.

Mintos 2016-2019

In 2016, Mintos was involved with the Ministry of Finance for the process of drafting a legal framework for the platform in Latvia, which would allow supervision by the Financial and Capital Market Commission.

In 2016, Mintos increased the number of loan originators on its platform, attracting non-bank lending companies from such new countries as Bulgaria, Czech Republic, Denmark, and Poland. Mintos introduced the Czech koruna as a second currency option for investors to buy loan parts in loans issued in korunas. Such an option would cater to the needs of Czech nationals with revenues and savings in local currency and eventual speculators who expected that the Czech Central Bank would not renew the peg to the euro arrangement which was due to expire in early 2017.

Invoice financing loans completed the range of products available on the platform in 2016. Such loans disbursed to a business were secured by invoices issued by the same business, whose payment was due in the future. Mintos closed 2016 with a loss of EUR 239,000.

In 2017, Mintos introduced a currency exchange feature on its platform. In addition to the euro and the Czech koruna, it introduced investments in Polish zloty, Danish krone, Swedish krona, Russian rouble, Romanian leu, and Georgian lari. It also added a new income category to its portfolio – currency exchange fees. Investors could deposit, invest and withdraw funds in each available currency. Investors could also convert funds from one available currency to another by paying a fee.

In 2017, Mintos renounced charging investors for selling their loan parts on the secondary market. This decision alleviated the position of many investors who needed their money back faster than the repayment schedule would allow. The secondary market gave certain investors the opportunity to make additional revenues from using a free option. Buying bulk on the primary market, these investors would sell on the secondary market, for a premium, certain parts of loans. Such practice would have threatened the stability of the platform should a major part of the supply of loans on the primary market have been acquired by several speculators who would sell all or part of their loans on the secondary market for a premium, forcing other investors to buy from them rather than wait for a new supply of loans. Mintos responded to this threat by limiting the premium the resellers could charge and by continuing to increase the supply of loans. In 2017, Mintos introduced agricultural loans and pawnbroker loans. By the end of 2017, it had spent EUR 0.42 million in the development of the platform software. The platform was supposed to not only provide a user-friendly, perfectly functioning interface for investors, but also integrate somehow with various systems of loan originators to cut transaction cost at their end too.

In 2017, Mintos started to closely monitor 27 loan originators. Relevant information on originators' financial health, change of legislation, ownership, and strategy would be published on the blog of the platform. For the first time, in 2017, Mintos suspended transactions involving primary and secondary market operations for loan parts issued by a lender operating in Poland after receiving news that it missed repayment of some corporate bonds. In parallel, Mintos started to look for a local company that would service the remaining loan parts in the event of default by the lender. In theory, the default of the originator should not have impacted the investors because they held real claims against real borrowers. The problem was to find a company allowed to service the remaining loan parts and to be able to (legally and technically) arrange the repayment logistics.

In 2017, Mintos started to capture and display on the platform the credit risk of loans as estimated by each originator. Such risk grading was supposed to simplify assessment of the credit risk by investors and provide a basis for straightforward risk-based pricing. Unfortunately, only a few loan originators agreed to contribute the credit risk grade of offered-for-sale loans. The low success of this interesting initiative was probably due, in part, to difficulties in integrating on the platform the different assessment and risk grading techniques used by lenders. Another possible cause was that providing the credit risk grade would make many loans with higher credit risk more difficult to sell on the platform at current interest rates.

Mintos closed 2017 with its first profits, which did not cover the losses made in the first two years of operation, but clearly indicated the viability of the business model.

In 2018, Mintos concentrated on growing the platform and promoting diversification as the single most important investment strategy. By the end of the year, 58 loan originators operating in 28 countries were using the Mintos platform. Investors could buy parts of loans issued in Eastern and Western Europe, the Caucasus, Central Asia, East and Southeast Asia, as well as Africa, and Latin America. To support operations in these countries and to comply with diverging but more restrictive national legislation, Mintos required ten additional support companies registered in eight jurisdictions, in addition to the company operating the platform and the holding company that managed the overall structure. The consolidated income of the Mintos holding reached EUR 4.7 million in 2018. Expenses were greater than income that year and Mintos made a loss of EUR 274,000.

As loans with buyback guarantee became popular on the platform, the credit risk of the borrower basically became the credit risk of the originator. In 2018, Mintos started rating its loan originators with grades A+ to C-. The rating methodology relied on the initial due diligence conducted by Mintos at the premises of the lender and would be adjusted annually based on the monitoring of the performance of the lending company. The rating would also capture the changes in the legal framework in the country and external elements that could have affected the repayment capacity of the lender or the guarantee provider. Many loan originators belonging to international holdings started to offer buyback guarantees from the parent company, which was supposed to be more reliable and thus more appealing to investors than the guarantee issued by the national lender.

To cover losses and provide the holding with growth capital, Mintos increased the share capital and share premium from the original EUR 1 million to EUR 2 million. These seed funds were pledged in 2016 by the venture capital firm that provided the initial EUR 1 million to Mintos when it started as a retail mortgage lender.

In 2018, Mintos became the largest platform for investments in loans in Europe. The company reported that an additional EUR 5 million had been promised to the Mintos holding by the same venture capital investor to support the initiative of providing investors with individual bank accounts and payment cards. This initiative implied the transformation of Mintos to a regulated financial institution.

In 2019, Mintos reached EUR 9.2 million in income through loan operations involving approximately 70 loan originators based in 32 countries. It also tripled the number of employees of the holding to 180 people. Although the holding incorporated the 11th support company in a new country to sustain operations, it made a loss of close to EUR 1 million, with the cumulated loss reaching EUR 2 million in 2019. The holding had to further increase the share capital and share premium to EUR 3.6 million at the end of 2019.

In 2019, Mintos focused on improving and optimising the methodology used to assess, select, onboard, connect, and continuously monitor loan originators and their products. It also put emphasis on loan guarantees. For originators belonging to a group of companies, Mintos worked to obtain the buyback guarantee of the group rather than that of the local lender. A few small business lenders were able to secure the guarantee of the European Investment Fund under an EU scheme to support lending to small businesses in member states. Their loans were sold on the platform with the guarantee of the European Investment Fund.

Despite significant effort made to monitor and prevent adverse selection tendencies, which is an unavoidable consequence of extensive growth strategies, bad news started to appear in the second half of 2019. In August a lending company from Poland defaulted on its payments to Mintos. First and last time such an event happened was in 2017. It has not been fully resolved by mid-2019 and was creating discontent in the community of investors. Mintos could not solve the problem of transferring the loan claims to another company to collect from borrowers the due amounts which had to be repaid to investors. The buyback guarantee offered by the loan originator din not help investors recuperate invested funds. To avoid such incidents, Mintos started to suspend on the platform loan originators with degrading financial indicators and increased the frequency of review of their ratings.

In October 2019, a lender operating in Spain defaulted on its payments to Mintos. In November the Central Bank of the Russian Federation excluded from the State Register of Microfinance Organizations a loan originator operating on the platform. In December the Central Bank of Kosovo revoked the licenses of two loan originators operating on the platform. This trend continued in 2020 when in February the National Bank of Romania revoked the license of a loan originator operating on the platform. In March the Central Bank of Armenia revoked the license of a lending company operating on the Mintos platform. Also, in March, a lending company operating in the UK was obliged to discontinue its lending due to a change in the legislation.

The onset of the 2020 global pandemic interrupted the chain of license revocations of loan originators on the Mintos platform. The pandemic-related crisis brought a global wave of delinquencies which impacted the loan companies and the investors on the platform. The first to default was a lender from Ukraine which missed few payments to Mintos in late March 2020. In April, another 5 lenders defaulted on their payments to Mintos.

Mintos Today

As of the end of 2020, Mintos remains a global online marketplace for loans – the largest marketplace in Europe. The company remains outside the supervision of any financial services regulator, having not relocated to London. In fact, UK but also US citizens, residents and taxpayers cannot use the platform. All other nationals/entities with a banking account in the EU (or any other country not included in the European Commission list of third countries with weak anti-money laundering and terrorist financing regimes) are in theory allowed to invest on the platform. Close to 360,000 investors from 63 countries use the platform, which facilitated close to EUR 6 billion in investments from January 2015.

At the end of November, Mintos raised EUR 7.2 million in equity using a UK-based crowdfunding platform. Around 7,400 investors from more than 90 countries bought shares in Mintos. The valuation of Mintos displayed on the crowdfunding platform before the campaign was EUR 68 million. Mintos representatives declared that they needed the money to obtaining the license of investment firm and become an EU e-money institution, which would allow Mintos to issue payment cards and IBAN accounts to investors, but also support the company's growth ambitions.

Mintos Tomorrow

Converting to a regulated investment firm would require the introduction of appropriateness and suitability tests for investors, to ensure that they understand the risks involved and investment strategies that best fit individual profiles. This conversion also requires a change in concept, which should not however disrupt the main principles of investing on the platform. Investment firms do not offer direct investments in loans, but investments in financial instruments backed by loans. Mintos calls its future financial instruments 'notes', which should be the equivalent of a loan without skin in the game from the originator. Selling parts of these notes on the primary, and especially secondary, markets would be more challenging because legislation requires that they are sold with the accumulated interest, which has not been paid to the holder of part of the note. Buyers will have to buy part of the note with or without bonusses and discounts, but necessarily with the interest rate the note part produced since the last payment of the interest.

Risks of the Mintos Model

As of the end of 2020, the value of loan parts held on the Mintos platform's virtual accounts totalled EUR 627 million. Since there were no write-offs, part of this amount included loans without buyback guarantee that defaulted, as well as loans of lenders that were either suspended or in liquidation. Loans outstanding from active lending companies totalled EUR 524 million net of defaulted loans sold without a buyback obligation.

Throughout its history, close to 130 lending companies from 34 countries interacted with the Mintos platform. As of the last days of 2020, out of all lending companies, 85 had a valid credit rating assigned by Mintos, meaning that they were able to sell loan parts on the platform. Of all inactive lending companies, 17 had loans outstanding with Mintos investors amounting to EUR 102 million. Many such inactive lenders continue to service the loans they originated.

Following the money from the account of an individual investor to the end-borrower, we note the following potential risks:

- Risks related to the bank that receives the money sent to Mintos or any other intermediary bank (no such issue reported since Mintos' incorporation).

  If the money fails to reach the accounts of Mintos due to issues with the bank of the investor or an intermediary bank, this will be a problem for the investor.

  Mintos receives the money sent by investors on accounts of EU banks. Uninvested funds, funds to be sent to investors, other funds needed for current needs, and some reserves are held on these or similar accounts. The default of an EU bank entitles Mintos to guaranteed compensation in the amount of EUR 100,000 per account. Dealing with the default of a bank in which Mintos holds larger amounts is Mintos' responsibility, but in such cases the company's very survival might be at risk.

Mintos is held responsible for funds sent by an investor from a virtual account on the platform to the point when the funds reach the account of the investor in the investor's bank.

- Risks related to issues with the platform (no such issue reported since Mintos' incorporation).

  If Mintos defaults, funds that have not been transferred to loan originators are at risk. Similarly, if investors' funds are stolen from the bank accounts of Mintos. Funds to be invested in loan parts should be safe, provided Mintos or the entity that will take over the management of investments does not misuse them when they are repaid by the lenders. So, money that is not held by Mintos should be safe in case Mintos defaults.

- Risks related to issues with loan originators.

  Around 20 loan originators who appeared on the platform experienced serious issues. At the end of 2020, 17 suspended loan originators had loans outstanding owned by Mintos investors. If we divide this outstanding amount by the total volume of loans issued on the platform, we get a ratio of 1.7%. We could extrapolate and conclude that the portfolio of investors at risk of being lost is close to 1.7% even if it is entirely secured by buyback obligations. In theory, almost the entire portfolio at risk can be recuperated as long as concerned end borrowers do not default or guarantees used to secure their loans are valid and can be executed. In practice, things are more complicated, especially intervening effectively and efficiently in remote jurisdictions. It is expected that Mintos will write off close to EUR 2 million in loan parts that could not be collected by the end of 2020.

  The fact that Mintos introduced the buyback obligation for almost all loans, makes the default of a loan originator the most important credit risk on the platform. Under the buyback obligation, the default of a borrower has virtually no impact on the investor. Choosing to buy parts in a riskier loan brings increased revenue. The only downside is a more unpredictable repayment schedule.

  If only riskier loans guaranteed by a buyback obligation sell well on the platform, originators might be tempted to issue only riskier loans endangering the health of the lending company. In such circumstances, the strategy of investors will be to invest in riskier loans from loan originators they trust or who have a Mintos rating above a certain threshold.

  Recently, Mintos started to use numbers (instead of letters) to rate loan originators. Numbers range from 1 (worst) to 10 (best). In fact, loan originators that fall below 4 are suspended from the platform. The highest grade on the platform was 8 (at year-end 2020).

  Mintos assesses four broad elements when assigning a rating to a loan originator: loan portfolio performance, with a weight of 40%; loan servicer efficiency, with a weight of 25%; buyback strength, with a weight of 25%; and cooperation structure, with a weight of 10%.

  Despite an elaborated rating methodology, the increasing burden of the adverse selection of loan originators will add pressure on Mintos in terms of monitoring the financial health of loan originators. Cases of massive fraud by loan originators have not been reported, but this risk does exist and will become more important as the platform expands further.

Diversification across many healthy loan originators seems the most appropriate strategy to reduce credit risk. However, many loan originators on Mintos belong to the same parent company, which usually provides the buyback guarantee, which is supposed to be stronger than the guarantee of individual lenders. As of the end of 2020, more than 20% of the outstanding portfolio on Mintos was serviced by a Latvian holding which operates 16 originators in 14 countries. Second by concentration, with 12%, was another Latvian holding which has 6 originators in 6 countries. More than half of the outstanding portfolio on Mintos is serviced by four groups. This situation complicates the diversification strategy. The group should be more robust than any individual affiliated lender, but also more robust than non-affiliated lenders. However, additional risks are associated with groups and these risks need to be considered when adopting a diversification strategy.

- Risks related to issues with the end-borrower.

  EUR 0.77 million in portfolio not covered by the buyback obligation was in default at the end of 2020.

  This is the most significant risk for loans sold without buyback obligation. Mintos has declared that less than 1% of loans on the primary market are sold without a buyback obligation.

- Systemic risks.

  Most clients served by the loan originators who use the Mintos platform are sub-prime borrowers. However, the risks that led to the US sub-prime mortgage crisis are not widespread on the platform. Mortgage loans represent only 1.2% of the loan outstanding. Around three quarters of the loan outstanding consist of personal loans. 20% are car loans. The 2020 global crisis, which disproportionately affected the poorer segments of the population, will continue to put financial pressure on loan originators. On the other hand, loan originators and their clients are more flexible, and might be quicker in adapting to new realities than banks.

Revenues for Investors

At the end of 2020, the weighted average annual interest rate of all outstanding loans was 12.9%, according to Mintos calculations. Obviously, this figure does not consider the idle time when money is in transit and thus does not produce any interest. One to several business days are required to get the money deposited on the Mintos account. Same amount of time to get the money back. Mintos will eliminate this idle time when it is able to issue IBAN accounts with assigned payment cards.

Important idle time passes from the time the company that services the loan sends the money to Mintos, until it is available on the investor's account. This period of time, in which funds do not produce interest, is not factored into the Mintos calculation of the interest rate.

Automatic investment strategies can be customised to reinvest repaid funds, but these require at least EUR 10 (or close equivalent in other currencies) for each operation on the primary market. Amounts below EUR 10 will always be left idle on the account of the investor. The investor must also check that the auto-investment tool is active and is finding new loans, otherwise more idle funds will accumulate on the investor's account.

Calculations performed with real repayment data for single loan parts show that the effective interest rate of funds on the Mintos account is lower than the nominal interest rate calculated by the platform.

This difference can reach several percentage points in case of short-term loans issued by originators whose payments require several business days to reach the Mintos accounts.

Conclusions

Mintos combines the functions of a formal financial intermediary with that of a platform business. Financial intermediaries perform three key functions: maturity transformation; risk transformation; and convenience denomination. Platform businesses on the other hand (a) provide functionality; (b) facilitate matchmaking; and (c) enforce set rules.

Maturity transformation refers to converting short-term deposits into longer-term loans. Risk transformation refers to diluting individual credit risk into large, diversified portfolios with predictable default rate. Convenience denomination refers to compiling large loans using small deposits, or the other way round.

With the advent of new digital technologies such as blockchain, many experts predicted the slow disappearance of financial intermediaries. The business of Mintos relies on not one, but two layers of intermediaries: the loan originator, and the platform. This business model, which is powered by the same digital technologies, appears successful despite it going against such predictions. This is because the functions of the platform reinforce the functions of financial intermediaries and, in the case of Mintos, help them compensate for their inability to attract deposits. Figure 1 presents a matrix that shows how the functions of the platform reinforce the functions of a financial intermediary. On one axis we have the key functions of the financial intermediaries, whose classical representative is the universal bank. On the second axis we have the main functions of a platform business. The cells of the matrix include the elements that make the new business model able to compete with established institutions.

Figure 1: Platform Serves to Reinforce Financial Intermediary

	Maturity transformation	**Risk transformation**	**Convenience denomination**
Functionality	Auto-invest mechanism. Secondary market with possibility to sell parts of loan parts at premium or at discount.	Safe environment to deposit, invest, monitor, and sell on the secondary market; receive payments and withdrawal funds.	Possibility to divide loan into small loan parts of EUR 10 and then further sell on the secondary market parts of loan parts as small as EUR 0.01.
Matchmaking	Possibility to select loans with repayment schedule which best suit the future financial needs of investors.	Possibility to diversify across borrowers, loan originators, countries, currencies, and groups.	Large pool of investors can finance large loans via small contributions.
Enforce rules	Limits on premiums on the secondary market and increased supply of	Rating, monitoring, buyback obligation,	

	new loans to limit speculation.	and skin in the game for loan originators.	

We note that at least one element is missing from the matrix. This element relates to enforced diversification. Enforced diversification can be performed through maximum-allowed exposure towards one loan, one originator, or one group of originators. An investor might invest all funds in one loan or with one loan originator who provides attractive interest rates. If the loan has no buyback guarantee and defaults, or if the loans with one originator have a buyback guarantee but the originator defaults, the investor will lose money. The platform does not impose diversification, although diversification is encouraged through the blog and other messages on the platform.

Identified Mintos success factors include:

- Human capital – core team of executives remained behind the project in both good and bad times
- Venture capital – such an ambitious project required funding which was provided in time by the funders
- Local environment – conducive to the development and implementation of digital technologies
- Scaling – many lending groups in the Baltics adopted the platform
- Control of internally developed core software – Mintos invested close to EUR 2 million in the development of its core system
- Legal aspect – Mintos had the courage and tenacity to withstand initial legal threats

Investors on the Mintos platform can only hope that the transformation of the company into an EU-regulated investment firm, which is due in 2021, will bring additional benefits without significantly reducing the functionality, flexibility, and revenues of the platform.

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