

Alternative Lenders have increasingly important role to play for UK SMEs



Quotes from John Davies, Chairman of the Association of Alternative Business Finance.

Alternative Finance is a term that has rapidly established itself in the UK financial services lexicon. It was born out of the 2008 financial crisis and was the collective term for those companies that were prepared to offer an alternative to traditional bank business lending. Today they are increasingly referred to as 'Non Bank Lenders'.

Back in 2008 an alternative to traditional bank lending was extremely necessary as the traditional banks urgently needed to rebuild their capital buffers and could not fully meet the demand for finance for SMEs that wanted to invest and grow. A range of alternative lenders moved into this space using new technology and expertise to make quick and well informed lending decisions.



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In truth this was just an acceleration of a trend that has been going on for years. I've been in business for almost 40 years and I still remember the name of my first bank manager. Back in those days, they tried to put you on the right road by suggesting things for you to consider. It was all about wanting to get to know the people behind the business.

Traditional banks have largely centralised business lending and today its almost impossible to walk into a branch and to ask to see a business lending manager. It can take weeks to get a bank appointment to apply for a loan and many more weeks to get an answer. Additionally, it is simply uneconomic for Banks to deal with young businesses and relatively small loan amounts.

This is where a significant number of alternative lenders has stepped in and have recognised there is a huge amount of relevant information, often not used by traditional lenders, that is available and then invested heavily in the technology that pulls it together and allows experienced underwriters to make quick and informed decisions.

There is a tremendous variety of finance options available that fit the needs of SMEs at different stages of their development. Forms of the much valued bank overdraft, borrowing against your online payments (paying a percentage on each transaction) and a wide range of flexible and fixed loan products. Importantly, non bank lenders take the time to understand different businesses' needs and don't go for a one size fits all approach.

In the future Alternative Lenders are going to have an increasingly important role to play in supporting UK SMEs with the Banks focussing on the very large companies and big infrastructure projects. This will leave non bank lenders like our members to focus on SMEs and providing them with what they tell us they need - immediate access, service and quicker decision making. As one of our members customers summed it up neatly, saying 'You're like business banking used to be.'

CASE STUDIES



1) FLEXIMIZE - CO FOUNDER AND CEO PETER TUVEY

Fleximize is a digital lender providing unsecured and secured business loans to small- and medium-sized enterprises in the UK. The company launched its first flexible finance solution in 2014 on a mission to make funding more accessible to SMEs. To date, Fleximize has lent over £250 million to thousands of businesses across the UK via its product suite, excluding Government-backed loans.

The company first became EBIDTA positive in 2017 and has since undergone rapid transformation. After adjusting its product and service to navigate the pandemic, Fleximize is well-positioned to scale its operation with even more inclusive finance solutions. The business is forecasted to lend over £100 million in 2022 while retaining an industry-low default rate. This growth has necessitated the significant expansion of Fleximize's team to over 60 employees, an increase of 30% in the past 6 months.

The lender is best known for its Penalty-Free Promise, a pledge that means a customer will never overpay on a business loan with them. As Fleximize loans are amortizing, a business will not be penalised and can save on interest by paying ahead of schedule; on average, customers save 44% by repaying early. Fleximize also taps into the convenience factor by providing an online, fuss-free application process with funding available in as little as 24 hours.

To drive transparency in the sector, Fleximize pioneered a Rate Comparison Tool, allowing businesses to compare quotes from different lenders and across finance facilities easily. With access to free and intuitive tools, business owners can better understand the true cost of borrowing to make informed decisions about their finances.



2) NICK SMITH GROUP MANAGING DIRECTOR REWARD FINANCE GROUP

Reward Finance Group provides asset-backed short to medium term lending solutions to SME's. With a regional presence in Leeds, Manchester, Birmingham, London and Edinburgh, Reward Finance Group lends from £50k to £5m across every sector in the market from start-ups to established businesses across England, Wales and Scotland.



Instead of making companies 'jump through hoops', like some other lenders, Reward makes the process simple, and works closely with SMEs to quickly find a solution to their finance needs. We do that by being pragmatic and flexible. We meet the people running the company, get to know how the business operates, look at their track record, listen to their plans, and discuss why they need the money. It could be for a variety of reasons such as developing products, introducing new services, taking advantage of an opportunity, or just to get over a cash flow issue.

We keep the funding options simple too. Business Finance is designed to give businesses an injection of capital from just a couple of months to three years, and for any amount from £50,000 and £5 million. The loan is secured against business or personal assets, such as property, machinery, or on occasion, stock. It can then be used like a traditional overdraft with interest paid monthly, on the amount borrowed, with no capital repayment. At the end of the term the loan can be paid off or renewed under a new agreement. Asset Based Solutions enables companies to borrow against multiple assets, both on and off the balance sheet, including debtors. Again, we have kept it simple by having just one legal agreement covering all the assets and just charging one daily interest payment against what is borrowed. With a minimum of 12 months, SMEs can borrow between £100,000 to £5 million.

When working with Reward it's like dealing with a traditional bank but without the red tape, delays in decision making and underwriting restrictions. But more than that, you can also talk to a human being as each account is allocated its own portfolio manager who will work with our clients every step of the way. This no-nonsense approach has brought enormous success to Reward. With eleven years of continuous growth we have supported more than 400 SMEs, resulting in us breaking through the £150m loan book milestone.



3) LIBERIS

Liberis are a global leader in embedded finance who are helping to get the finance that small businesses deserve but struggle to get from traditional lenders. Through our innovative product and platform we enable our partners, like WorldPay and Klarna, to offer funding to small businesses in a quick and easy manner. Our cash advance product enables customers to take funding with one simple agreed up front fee with gives them certainty on the costs of the funding and by working with our partners we can offer pre-approved finance making the application journey a few simple clicks giving them more time to do what they do best, growing their business. Better yet their payments are automatically deducted from their card takings each day and so

their payments are directly linked to the revenues they create and it also means that customers don't need to worry about a big monthly payment each month.

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We were born in London in 2007 but have seen rapid growth over the past 5 years and now operate in 8 countries and have given over £0.5bn to small businesses. We know that our customer love our product as evidenced by our 92% customer satisfaction scores and the fact that 80% of customers go on to take further funding from us. More recently Barclays have made an investment of £34.5m which will help us to further power our rapid growth with Barclaycard and Klarna having recently been onboarded and more major global brands in the pipeline.



The Association of Alternative Business Finance