

Funding Options Limited – Public Commitments

£5 Million Grant

OUR TRACK RECORD

Funding Options is a successful financial technology (FinTech) firm that supports UK SMEs with access to funding, their leading financial services challenge according to recent OECD data.

Over the last five years, Funding Options has emerged as by far the UK's leading online marketplace for SME finance, each year raising well over £100 million for thousands of SMEs, from 50+ active lenders. It achieved this position - from scratch - having spent c. £5 million in capital.

In doing so, Funding Options has also played a crucial role in stimulating the UK's thriving alternative SME finance sector that has arisen to compete with dominant high street banks. Funding Options is already the leading introducer to large swathes of the UK's online SME lending community.

As such, Funding Options is very rare in having already proven that it can enact genuine market change in SME financial services with the £5 million sum available for winners of Pool D of the Capability & Innovation Fund (CIF). A multitude of smaller players in SME financial services have failed to show enough market traction to attract meaningful investment, conversely for the small number of larger market participants, £5 million of additional capital can make little difference to their prospects.

Funding Options also has a unique track record of making a success of UK policy interventions to drive choice and availability in SME financial services. This same proven track record will be applied to making a success of Pool D of the CIF:

- Funding Options is one of just four companies given a special designation by HM Treasury to support SMEs rejected by their high street bank for finance, and has been by far the most successful, accounting for around half of all SMEs successfully funded through the scheme.
- Funding Options has also played a leading role in driving SME FinTech initiatives, it is one of only two companies to win both stages of the Open Up Challenge grant competition mandated by the CMA to stimulate SME adoption of Open Banking, a central pillar of competition policy.

OUR PUBLIC COMMITMENTS

With funds from Pool D of the CIF, Funding Options will transform UK SME financial services by powering the growth of alternative SME lenders, as well as driving business current account switching and Open Banking adoption:

COMMITMENT 1: WE WILL POWER THE ALTERNATIVE SME LENDING SEGMENT

Market challenge:

- Lending to UK SMEs is dominated by the big 4 high street banks, who represent more than 80% of the bank lending market. As bank lending has shrunk, it has limited SME access to finance. Alternative SME lenders - vital to unlocking the potential of the UK's small businesses - struggle with the cost of acquiring new customers, and with evolving SME expectations.

Commitment:

- Funding Options will fund an additional 10,000 UK SMEs with almost £0.5 billion in alternative lending by end-2022, and will deliver £100 million in new loan volumes for alternative lenders without them having to pay any cost of acquisition. In addition, Funding Options will grow the number of alternative lenders on its platform from the current 50 to 100, helping more to achieve scale to compete with the major banks. Funding Options will also deploy new free technology enabling at least 10 alternative SME lenders to adopt modern lending capabilities such as live pre-approvals and Open Banking, enabling them to better compete.

COMMITMENT 2: WE WILL CHANGE SME BEHAVIOURS, FOR THEIR BENEFIT

Market challenge:

- Unlike consumer financial services, where price comparison websites have become the dominant channel, only a tenth of SMEs research finance products online as their first port of call, creating a significant barrier to competition. As a result, online SME financial comparison services have largely struggled to raise significant investment capital for customer acquisition.

Commitment:

- Funding Options will double the number of SME visitors using its website to 1,000,000 p.a. by end-2022, in doing so transforming the number of UK SMEs that research and compare financial services providers online. Building on its current focus on alternative SME lending, Funding Options will get 30,000 SMEs to review their business current account (BCA) provider with an innovative new intelligent BCA comparison tool based on Open Banking data. Underpinning these commitments, Funding Options will grow its brand awareness to 10% of SMEs by 2022 (to be validated by a reputable external market research agency) to create a 'go to' online presence where SMEs can confidently access a diverse range of financial services providers. To support this - alongside £5 million of Pool D funding - Funding Options will raise £5 million in matched private sector capital to further stimulate UK based SME financial services competition, a fundraising strategy unanimously agreed by existing investor shareholders.

COMMITMENT 3: WE WILL FILL THE GAP FROM CLOSING BANK BRANCHES

Market challenge:

- SMEs are most likely to first go to their main bank when seeking funding, and most simply give up when rejected. In addition, cost pressures have vastly reduced the availability of branch-based bank relationship managers for SMEs, taking away a vital local funding advisory role.

Commitment:

- Funding Options will close the gap in local funding advice, by innovative new technology that will empower 1,000 accounting firms - from all corners of the UK - to act like traditional local bank managers in supporting SMEs. Funding Options will also run roadshows across the UK, to drive awareness and understanding of alternative SME finance. In addition, Funding Options will deploy a marketplace technology for banks, enabling them to offer alternative lending products to SME customers that do not fit their own lending criteria. This solution will be rolled out to banks representing one-quarter of SME banking market share.

COMMITMENT 4: WE WILL GET OPEN BANKING FOR SMEs ON TRACK

Market challenge:

- Competition in SME financial services is hampered by the stranglehold that dominant banks hold over their customers' BCA data. The Competition & Markets Authority (CMA) has mandated Open Banking as a market remedy, but its effectiveness faces significant challenges from slow adoption.

Commitment:

- By end-2022, Funding Options will use its presence to ensure that 50,000 SMEs use Open Banking data to achieve better comparison of loans, overdrafts, BCAs and other financial services products, driving crucial early market adoption of Open Banking, and putting more SMEs in control of their data. As part of delivering this commitment, by end-2022 we anticipate that more than a quarter of SMEs making a loan application through Funding Options will be using Open Banking technologies for enhanced ease, speed and personalisation.