

Funding Options Limited - £5M Award

These Public Commitments are based on Funding Options' Revised Business Case which was approved in June 2022. The former Public Commitments, including rationale for the changes can be viewed [here](#).

Key Achievements to Date

- **Q2 2022 - £363m of new lending to UK SMEs** - Funding Options has used BCR funding in line with our pledges to help facilitate over £363m of new lending (debt) overall to UK SMEs since the commencement of Pool D.
- **Q4 2021 - £91M in new lending at nil cost of acquisition arranged** - We continued to submit applications for new loans without any cost of acquisition to a growing number of lender partners, delivering in line with the target.
- **Q4 2021 - Launch of "Funding Cloud™ Connect"** - Funding Options continues to make great progress in empowering accountancy firms and other professional companies to provide vital support to their local SMEs. To improve our service to this segment specifically, the team launched "Funding Cloud™ Connect" - Funding Options' tailored solution for professional firms through its Advisory channel.
- **Q2 2021 - Launch of Funding Cloud™** - a technology and data-driven platform that connects businesses, lenders, and partners to facilitate fast, accurate and secure access to funding at scale. By integrating lenders into Funding Cloud™ via APIs, the platform has the power to achieve fully digitally underwritten lending decisions in real time. The shortest time frame achieved to date from a business submitting a finance application to full approval by a partner lender, is 20 seconds. The shortest time frame achieved to date from a business submitting a finance application to having the money transferred into its bank account by a partner lender, is 18 minutes. Longer-term Funding Cloud™ will enable a host of data-driven SME services to be sourced through digital journeys.
- **Q2 2020 to Q1 2022 - COVID-19 successfully navigated** - in response to the ongoing challenges presented by COVID-19, the Funding Options team has navigated the changing conditions in the SME finance sector diligently - pivoting the team's focus, when necessary, with the introduction and cessation of the different HMG schemes - to always ensure we continue to provide a competitive choice of appropriate funding options for UK SMEs.
- **Q1 2020 - Open Banking seamlessly integrated into dynamic Customer Journey** - as an early adopter of Open Banking technology, Funding Options has championed the benefits of Open Banking infrastructure for both our business customers and lender partners. Adoption rates have since been strong and at Q2 2022 over 28,000 accounts had been connected using Open Banking.
- **H2 2019 - Full £5m in matched Investment Raised** for our Pool D grant to enable us to deliver against our strategy.

Assessment Period 12 (April 1st, 2022 – June 30th, 2022)

Original Commitment:

COMMITMENT 1: WE WILL POWER THE ALTERNATIVE SME LENDING SEGMENT

Funding Options will fund up to 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.

Rationale for change:

Funding Options is still targeting Total Alternative Lending for SMEs of circa £462million by the end of 2022, with a reported figure of £272million as at the end of Q2 2022. However, as at Q2 2022, only 3,313 SMEs have been funded with alternative finance.

This is reflective of the overall challenges that SMEs are facing in accessing finance in the post pandemic world, which has seen a negative impact to the supply of funding primarily from the non-bank lenders to the market. Despite some encouraging signs, Funding Options believes that the ability of non-bank lenders to access capital and lend competitively to UK SMEs will continue to pose problems and therefore prevent the target of 10,000 funded SMEs being reached. Funding Options will continue to provide alternative lending of higher amounts to larger SMEs and will therefore still hit the volume target for lending but will not achieve the target number of SMEs.

New Commitment:

COMMITMENT 1: WE WILL POWER THE ALTERNATIVE SME LENDING SEGMENT

Funding Options will fund up to 5,000 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.

Funding Options is broadly on track to deliver this commitment, and notwithstanding the ongoing challenging environment for SME finance, the team continues to deliver strong results, achieving more than £27m in new lending volume assisted by the CIF grant funding during Q2 2022. This is again a great result for UK businesses, and we remain well positioned to facilitate almost £0.5bn in alternative lending, in line with our Public Commitment.

While the Funding Options team achieved good new lending volumes during Q2 2022, the number of additional SMEs again lagged behind the target commitment. Performance against the volume target reflects the ongoing challenges UK microbusinesses, and younger businesses in particular, face in the post pandemic world in accessing finance. With a significant proportion of lenders still reliant on the Government's Recovery Loan scheme (RLS) to lend at meaningful scale, lender risk appetites have been tightened to such an extent that such businesses are faced with far shorter supply of potential funders than during pre-covid times.

Whilst Funding Options believes the RLS has been unsuccessful as a lending scheme overall, non-bank lenders in general are still facing challenges in being unable to access capital competitively and in navigating the RLS. Although we have seen an increase in demand at the lower end of the scale and further green shoots for market-based lending, these challenges will continue to compromise the non-bank lenders' ability to provide competitive choice for UK SMEs this year. For this reason, we have agreed with the BCR to lower the commitment target specifically in relation to the number of SMEs funded.

Original Commitment:

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

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.

Rationale for change:

At the end of Q2 2022, the number of users of BCA Comparison tools stood at 48. As outlined in previous Public Commitment updates, the release of the Business Current Account comparison tool was delayed until Q4 2021, to prioritise delivery of the other Public Commitments. Since its release, adoption of this tool has been significantly below expectation, partly due to limited marketing investment and it not being a priority of SMEs in the current environment.

Notwithstanding the fact that we have delivered the tool and it is live, Funding Options does not intend to invest further resources into its broader adoption by UK SMEs, given the other priorities we are targeting that will deliver significantly more tangible benefit to business owners across the country.

Whilst the tool remains accessible to our customers, we have taken the conscious decision to focus the team's efforts on our other Commitments to ensure UK businesses receive the greatest possible benefit from the CIF grant funding.

New 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. Underpinning this commitment, 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.

The Funding Options team remains on track to deliver this commitment by the end of December 2022.

The business has continued its excellent progress changing SME behaviours for their benefit by increasing awareness of the financing options that are available to them through the non-bank lender community and providing them with a credible website destination to go to where they can do everything from research the different finance product types to accessing the UK's only dedicated green finance marketplace, by way of example. Off the back of achieving 98% of the increased target for website visitors in 2021, the team has started the year strongly, achieving 40% of the 2022 annual target during H1 with momentum expected to build during H2.

Original Commitment:

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

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.

Rational for change:

Despite great progress in this area and much hard work from the Advisory and Partnerships team, the target of 1,000 local accountants signed-up by the end of 2022 is a stretch. Funding Options therefore proposes to amend this target to 400 by the end of 2022 and 1,000 by the end of 2023.

Coronavirus restrictions impacted the feasibility of physical regional roadshows, and it was agreed with BCR that planned Marketing investment be directed to other areas. With the relaxing of covid restrictions, Funding Options is once again attending conferences and undertaking in person roadshows in a renewed effort to sign-up further accountants from across the UK, as well as continuing to run virtual roadshows. In fact, at as Q1 2022, Funding Options had already far-exceeded its target of 6 roadshows, having completed 16 virtual and in-persons roadshows to date.

New Commitment:

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

Funding Options will close the gap in local funding advice, by innovative new technology that will empower 400 accounting firms - from all corners of the UK - to act like traditional local bank managers in supporting SMEs by the end of 2022, and 1,000 local accounting firms in total by the end of 2023. 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.

The Funding Options team remains on track to deliver this commitment by the end of December 2023.

Funding Options continues to make great progress in empowering accountancy firms and other professional companies to provide vital support to their local SMEs. To improve our service to this segment specifically, in reporting period 10 the team launched “Funding Cloud™ Connect” - Funding Options’ tailored solution for professional firms through its Advisory channel - providing them with a dedicated digital interface directly into our core Funding Cloud™ platform.

Whilst the Commercial and Advisory teams have continued to make excellent progress onboarding new advisory partners and adoption of Funding Cloud™ Connect continues to be strong, performance during Q2 2022 had fallen well behind the headline target for onboarding new accounting partners. It has since been agreed with the BCR that we will extend our reporting for this commitment target specifically into 2023, to give the team more time to achieve the desired result.

Funding Options continues to work closely with our bank partners to support them with our digital “Alternative Yes” solution for their business customers. Traction in terms of SME customers being offered alternative lending products where our bank partners are unable to assist them with their finance applications, has increased this quarter.

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

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.

The Funding Options team remains on track to deliver this commitment by the end of December 2022.

Momentum in terms of the number of SMEs utilising Open Banking data is holding firm, with even stronger adoption of the technology innovation throughout this quarter. Notwithstanding this strong performance, we see continuing opportunity to accelerate the use of Open Banking by UK businesses even further. Customer behaviour is changing with increasing awareness and acceptance of new technology and data-driven solutions. SMEs are starting to realise they need to adapt to the changing lending landscape and utilise the new tools available to them to access the full breadth of finance products that could be relevant to them. We have been particularly encouraged by the adoption rates for finance applications that have been matched with, and sent via API to, lenders integrated with Funding Cloud™, for example, which remain consistently above 60%.

Multiple further enhancements to Funding Options’ dynamic customer journey and dashboards are in our roadmap that we believe will embed Open Banking technology even more at the heart of the application process, increasing adoption materially. While the cumulative target of customers using Open Banking technology when applying for finance with Funding Options by the end of 2022 is still a stretch, we remain confident that we will meet this target.