Meeting The Demands of Institutional Funders

James Parkinson and Damian Webb of RSM,
AltFi’s professional advisors of the year 2015, 2016, 2017 and 2018

Post credit crisis we have seen the emergence and growth of an alternative finance market, driven by innovation, government support and supportive investors.

Although maturing, the UK’s alternative funders tend to operate on the periphery of mainstream funding with the UK lending market still being dominated by mainstream institutions. This is reflected in the low levels of UK alternative finance lending as compared to a mature alternative lending market such as the US.

As reflected in our long standing cultural ties with the US we anticipate the UK market will gradually replicate aspects of the US market, with alternative finance becoming increasingly mainstream within the UK. The key driver to alternative finance becoming mainstream will be accessing funding at a cheaper cost of capital.

This trend is now being evidenced within the UK with major institutional investors announcing significant investments into major UK platforms. This institutional investment and the lowering of lending costs is making alternative lenders increasingly competitive, thereby allowing them to challenge the dominance of mainstream lenders.

Accessing this capital is key to the continued development of the alternative finance sector, providing long term sustainable funding allowing alternative finance to become increasingly competitive and hence mainstream.

However, accessing institutional capital is not simplistic. Institutional investors, although keen on the returns offered by the sector, are nervous about investing outside their normal investment criteria. Consequently, when seeking institutional investment it is important that alternative funders understand the requirements of these investors to ensure they have the best chance of accessing this funding.

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Key Areas Institutional Funders focus on are:

Management
In many cases alternative lenders have been set up by entrepreneurial founders; funders understand this; however there is an expectation that this will be complimented by some “grey hair” and senior hires who are proven operators.

Origination
Accessing institutional funding will significantly increase liquidity, funders need to clearly understand a platforms ability to deploy this capital and the associated costs and risks. A clear strategy and plan to support growth ambitions is expected by funders. The Field of Dreams mantra of “if we build it they will come” does not impress investors.

Systems and Scalability
Institutional investors will naturally expect to see considerable growth in the lender as a result of a funding line being provided. If the existing systems and processes in place are unable to handle that growth and increased workload in a capable manner, or be enlarged to accommodate that growth, the institutional lender will not provide a funding line to the lender.

Fund Raising Support
Working closely with an advisor to package a proposition for funders ensures that issues can be addressed in advance of any pitches to investors. In addition, working closely with proven advisors provides reassurance to investors.

There is also an expectation amongst institutional funds that appropriate advisors are in place to provide audit, legal, compliance and standby services.

This is an exciting time for alternative finance as it becomes increasingly mainstream, however alternative funders have to be aware of the requirements of institutional funding to ensure they have the best opportunity of securing this funding.

Performance
Institutional funders will typically look to measure the underlying loan performance as against sector norms. They will focus on KPI’s notably; defaults, admin costs & cost of acquisition.

Compliance
The importance of compliance cannot be understated. An immature approach; lack of understanding of compliance or a track record of compliance breaches will rapidly undermine any fund raising process.

Standby Arrangements
Institutional funders require assurance that in the event of a non-performance by a lender or in a worst case scenario fail that they can secure and control their investment funds. Consequently, a key focus will be the standby arrangements for a platform. Funders will expect to see an established standby servicer in place with a clear accelerated invocation plan in place. Ensuring adequate standby arrangements are in place provides significant reassurance to investors.

Both Damian and James are advisory specialists forming part of RSM’s broad Financial Service Practice. They work closely with many financial services organisations and alternative finance providers, assisting with fund raising and the implementation of associated services, notably the standby service. In addition to the standby service, RSM provide audit, tax and consulting services to the financial services sector and we work closely with our clients to help them overcome the issues and challenges they are facing in the challenging economic environment.
CRM: When is the right time to invest?

Niall Brady of Salesforce

How often have you returned from a networking event with lots of new contacts, but felt completely stuck on how to use them? Or come up with brilliant ideas to engage customers and increase your pipeline of opportunities, but couldn’t quite turn those ideas into action?

Growing businesses face an almost overwhelming set of challenges each and every day. Progressing the business while keeping the lights on, increasing productivity, balancing innovation and execution.

I see customers struggling with issues like this on a daily basis. They’re not exactly new problems, but they won’t be disappearing anytime soon either. The solution to these challenges lays in successfully maintaining personal customer connections, which is admittedly tricky when you’re also trying to juggle the day-to-day and scale. This is where technology can help make a significant change.

Hidden advantages

Customer Relationship Management (CRM) tools have much to offer businesses caught up in the juggling act, but these tools somehow continue to remain a hidden advantage. Although a significant number of businesses are embracing CRM, we have found that it’s still incredibly common to see small and medium businesses relying on Excel or Word documents to manage their communications with customers and prospects.

The business owners we speak to know that this approach is far from efficient, but there is a nervousness that migrating to a cloud-based solution will not only be costly but also require disruptive downtime. Nothing could be further from the truth. These apps are cloud-based and scalable, tailor-made to be affordable to businesses of any size. They are also far easier to deploy and use than many first imagine.

A CRM solution worth its salt will propel businesses forward almost instantly, with minimum fuss required. In essence, they are a “secret sauce” for business growth. On a positive note, some businesses are already realising the benefits, with a growing number of SMBs reporting CRM as the top-reported technology budget priority.

Supercharges sales with actionable insights

Spreadsheets like Excel are great for capturing large amounts of static data, but they cannot keep up with the dynamic nature of both your customers and your business. A CRM solution ensures all your customer data is captured and automatically stored in one central place. This means that the data only gets richer over time, and can be quickly and easily analysed to get real-time actionable insights. For example, you can instantly see which marketing and sales tactics are working, and where you might need to course-correct. You can also make changes to your product roadmap to ensure your offering matches exactly what your customers want.

Placing the customer at the centre

Selling your product is just the first step. It’s providing ongoing, personalised and excellent service that forges deep customer relationships and loyalty. According to recent research from Salesforce, 80% of customers say that the experience a company provides is as important if not more important than its products or services.

One of the biggest reasons customers choose growing businesses over bigger rivals is because they’re looking for a personal experience. It’s vital to get this right.

A strong CRM solution empowers people across an organisation - whether it’s marketing, sales or the service team - with timely, relevant insights that make every customer feel like a VIP.

For entrepreneurs and leaders at fast growing businesses, each day can feel like a battle to put out fires and sprint just to keep up. But to set yourself up for the future, having the right technology that can grow with you is not something to delay - it’s something to embrace.

Of all the investments ambitious businesses can make to inspire the growth they crave, implementing CRM is truly one of the smartest they can make. Not only in terms of managing customer relationships and people, but also for securing the long-term success of their business.

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Niall Brady is Head of UK SMB business at Salesforce
How best can alternative lenders tap into Open Banking?

Emma Steeley, CEO, AccountScore

Just open the pages of a business or technology media outlet and the topic of Open Banking is unlikely to be hard to find. The industry-changing government programme is hugely discussed by stakeholders around the financial services and consumer sectors. Much is made of the consumer opportunities, and rightly so. Price comparison, financial inclusion and consumer empowerment are all hugely worthy causes that all sectors should celebrate. That said, the programme brings unparalleled opportunities the alternative lending sector that are perhaps less widely discussed.

The issues for business to contain

There are, however, numerous barriers involved for businesses when integrating the raw Open Banking framework. First of all, you need to be regulated to do so by the FCA (as an Account Information Services Provider). This in itself is enough to put off many lenders who do not wish to take on the cost involved by taking on a further regulatory burden. Then there is, of course, the issue around maintaining the API integrations with all of the different banking providers and keeping on top of all the changes each individual institution makes. Teams of people are needed for this aspect alone and the technology burden is significant. Finally, there is the most difficult aspect – the issue of what to do once you have the data.

Open Banking API produced data is raw, unstructured and impossible to use in a digital fashion without any adding robust analytics in the form of income identification, categorisation and recurrence modelling. However, in order to produce a set of analytics fit for the market, participants have to have access to vast (millions) data sets of raw transaction information. In order to get that data, they need to pull via the APIs. But without being able to understand the data and use it in the first place, how can a business pull raw data into their lending decision in the first instance? Catch twenty two.

Finally, there is the issue of the consent. In an era where we are used to data breaches and GDPR is prominent, securing and tracking consumer consents when it comes to data has never been more important. This is certainly prevalent in the Open Banking market where consumers will be sharing their transaction data with third parties.

Partnering for instant success

Thankfully for industry participants, there is the attractive opportunity to partner with third party data and technology service providers in order to access Open Banking transaction data. All issues with relation to API access and maintenance – both from a licensing and technological perspective – can be outsourced to companies that are experts in the area. Critically, the same is possible from an analytical perspective.

AccountScore

AccountScore has been in the market serving clients for over two years. Its AISP platform consents.online, was registered on January 13th 2018 when PSD2 and Open Banking came in to force and we have since been successfully pulling large volumes data from all the available Open Banking APIs for our clients. Our consents management platform, consents.online provides lenders with the consent management platform that is needed for Open Banking allowing consumers to share their data with complete confidence and security.

Most importantly, AccountScore’s analytical engine, which boasts a categorisation engine modelled on over 70 million transaction rows containing 600 million keywords, gives lenders the ability to instantly understand a consumer’s transaction data and drive value right away. Whether its instant income verification, a breakdown of financial services such as loans within the account or an understanding of disposable income, AccountScore provides the ability for lenders to gain insight into a consumer instantly meaning that lenders can start to incorporate and drive revenue, value and operational enhancements from the Open Banking programme right away.

Emma is CEO of AccountScore having previously spent 15 years working in senior executive positions in the alternative lending sector. She is one of the global leading contributors on the topic of Open Banking.
To make confident decisions about the future, an entrepreneurial, growing business needs a different kind of adviser. One who starts by understanding where you want to go and then brings the ideas and insights of an experienced global team to help get you there.

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