**Interview by Michael Bickers of** **Ben Sher, CCO, Funding Xchange**

**Michael:**

Well, hello, everyone. I'm here with Ben Sher, who's Chief Commercial Officer, Funding Xchange. And Ben will be speaking at our Alternative Receivables Finance Conference, which is coming up in a couple of weeks. Ben, thank you very much for joining us today. And keen to talk to you about what you're doing at Funding Xchange and got some other interesting questions for you. But let's start off by talking about Funding Xchange and tell us a bit about what you're doing. And tell us a little bit also about fintechs, and SME lending since you began in 2014. How has it changed? And how has that embraced the whole digital movement in that time?

**Ben:**

Sure. Well, first of all, thank you again, for the invitation to participate. Absolutely our pleasure. So Funding Xchange as a company maybe known, you know, to many of the audience, and but we were started a few years back and originally off the the NBR programme, the referral programme. And as a business, we essentially operate an online marketplace, which at its heart, really seeks to assess in a highly automated and digital fashion, the fit of eligibility and affordability between a particular small business on one side, and a panel of lenders, funders, their respective credit, appetites, policies, product setup, etc. on the other side. Over time, we've actually developed out into a direct provider of technologies ourselves as a SaaS provider of technology into banks and lenders. In terms of the evolution of our business, and actually, I would say the broader lending market and SME lending market in particular in the UK. So for us, our focus has always been eligibility and affordability. And by necessity that is being very much a leveraging of technology of data, and I guess what I would describe as the digital ecosystem to facilitate that. And so from our perspective of our business, you know, we're putting in data from a very broad spectrum across input from the credit reference agencies, we put in open banking, online accounts, management accounts, CCDs, payment transaction history, so quite a broad input. And where we've seen that really have impact across the lending industry over the last few years is the steadily increasing appetite that lenders in particular have to consume that data and derive insights around effectively the credit worthiness, health and business performance of their customers.

**Michael:**

Yes. And this whole section is a very data rich sector. And it's always surprised me that not more has been made of that over the years. So it's great to see that a lot more has been made use of that rich data scene that there isn't in that sector. And you mentioned open banking. I want to ask you a bit more about that. I mean, I think we saw open banking coming in around 2018. And that was thought to be a great benefit in terms of opportunities for businesses, but it was rather slow to take off. I mean, why was that you think and what's happened since then?

**Ben:**

Yeah, it has been slow to take off. And I think that, you know, while there's relatively good adoption of open banking, but you know, there's still a long way to go. You know, just personal perspective on some of the challenges that we've seen in the industry over the last few years that specifically around open banking. On one side, you know, in the early days, there were concerns from certain parts of the SME market around control and privacy of their data. You know, possibly just a little bit of historical backlog in, you know, kind of the concerns around, put it well, with privacy and technology is concerned. From brokers perspective, I mean, you know, clearly the very large portion of SME lending across all product types in the UK is introduced by commercial brokers and dealers. And for many brokers' concerns, there's been concern around the ownership of customer relationship and visibility and you know, that their value proposition that they bring to the table is the guidance with the customer in terms of interpreting the strength of their financials and selecting products, lenders and funders that are the best of it. And some brokers are still to this day concerned about whether the likes of open banking and other data sources infringe on that value that they bring to the table. The other thing I would say is that the concept of open banking is great. Visibility into a customer's business account when you're thinking about lending them some money. Great. No brainer. Absolutely. But it doesn't tell the whole story. And that's that I think is part of the jigsaw puzzle that has been emerging in answering your question in terms of how things have developed that's been emerging over the last few years. And so, you know, today when we work with lenders, and you know, we actually have solutions in our technologies business, which help lenders look at the in-life portfolio, exposure, opportunity, trading performance of their customers. For example, we're putting in data from a really broad suite of sources. So you know, when you're looking at the context of their ongoing affordability for a particular customer, for whether that's in context of a new deal, origination or risk management in the context of an existing in life contract. It's not just that balance that you're interested in looking at. It's the full visibility over a longer period of time for that balance. That's one. There's also the visibility into their other business accounts as well, from a cash flow credits and debits perspective, you want to have visibility into their payment history. Do they pay other providers, not just yourself, but do they pay on time? Have they missed any payment? When? For how much? So these are all very important points in the assessment of affordability, which make up the rest of the picture that lenders would typically want to understand. And you look at open banking versus other types of data and sources around, most of much of what I've described is available, for example, within CCDs. But again, there's complexity there. It's not consented data, but it's contributed data. It's also much more difficult to interpret than open banking data. So you know, there's a number of complexities involved in this kaleidoscope of interpreting data and actually driving insight from it.

**Michael:**

I guess at the beginning, perhaps there was a little resistance in terms of businesses wanting to allow such access to what they probably may think it was confidential information. Well, it is confidential information, of course. But now maybe they can see the benefits of allowing access in terms of easier access to finance and maybe cheaper access to finance as well.

**Ben:**

Yeah, absolutely. I mean, you know, many of the lenders and funders that we work with, certainly the more progressive who've really adopted the value that not just the data, but more importantly, the insight that you can derive from data brains, are adapting that into their pricing and risk models, which ultimately will create value for the end customers.

**Michael:**

Sure. How do you think COVID has impacted all this over the last couple of years? I mean, has that impacted the uptake of open banking? I mean, of course, government support has generally impacted the uptake of finance across the sector. But has it affected open banking in terms of encouragement of that use?

**Ben:**

We have seen an uptake, or rather an acceleration over the last two years. So, you know, I think, from a sort of a narrative perspective, the whole embracing of digital has accelerated over the last two years and, you know, businesses and small business directors who in the past maybe have resisted doing things online in favour of face to face have been, to some extent, forced to embrace digital movement. And that has led to a bleed over into conversion into increased uptake of open banking, management accounts, contribution, etc. And you know, we're seeing across some of the funders that we work with, in some cases as much as, you know, around 60% of the new deals that they're writing are actually supported by our banking data. I don't think that is representative of the wider funder and lender community, but there are definitely, you know, some firms who have heavily invested and heavily pushing it out through their channels that are really reaping the benefits now.

**Michael:**

And has this all contributed towards more of customer-centric or solutions-centric approach rather than a product pushing or product-oriented approach. Is that all part of this move forward as well?

**Ben:**

I would like to think so. Whether or not we've yet seen that outcome in the market remains to be seen. And you know, there's a really interesting kind of question or point here, which I think really it's not just about open banking per se, but it's actually around, you know, how do providers of finance need to adapt their models over time, and in particular, their engagement around customers, and you hit the nail on the head in terms of customer-centric versus product-centric. And you know, in the old way of doing things, everyone was product centric. You had your one product or two products, or four products, whatever it is, and that's what you did, and that's what you sold. But the reality is, you know, small business directors don't wake up in the morning thinking, 'You know what? I need a three-year high purchase agreement with a blue payment.' They wake up in the morning thinking, 'I need a refrigerated lorry to carry my stuff around.' And the most successful firms that we're seeing are those who are able to embrace the customer experience in the customers' perspective and actually wrap the products that they end up selling into the customer's needs rather than, you know, if you particularly look at some of the largest players in the space, in terms of their direct engagement through digital channels like their websites for example, many are working finance and lending. And I go along to some of the large bank’s websites as a small business owner, I'm not sure which department I'm supposed to speak to, what product they're trying to sell me. But I've got a need that I need fulfilling.

**Michael:**

Yeah, the typical businessperson will wake up one morning and say 'I've got a cash flow problem'. He won't wake up and think 'I need invoice finance or factoring or invoice discounting'.

**Ben:**

Exactly.

**Michael:**

Yeah. And let's talk a little bit about API's. I mean, how has that changed? That's pretty revolutionary when that first came in? And I suspect it's had enormous change on lending markets in general. Is that how you see it?

**Ben:**

Very much so, yes. So you know, the advent of the API ecosystem, as it were, has, I think, had a pretty fundamental impact on certainly the UK sector and global sector really. And from our perspective, I think one of the main outcomes of that advantages, if you like, is the outcome of immediacy. And so all of a sudden, for certain types of deals, certain types of tickets, etc, customers can get an immediate response, for customers and brokers for that, can get an immediate response. Is this deal going to be accepted? And in many cases, what exactly are the pricing and the terms associated to that? Do you want to transact right now? Yes, thank you very much. Off we go. And that has had a dramatic impact on those funders and lenders who have invested in and embraced the API ecosystem. And it's, again, it's an area that we provide for through our technologies business. And, you know, essentially the outcome that is delivered to lenders who invest here is to be able to write a quite a large volume of flow business without having to have armies of people evaluating what are in many cases relatively small ticket deals, that they do want to write. On the flip side, exact same statement, not having armies of people are having to evaluate deals that they're never going to write. And what that means is that so yes, there's efficiency, there's customer experience gains, etc, etc. But it also allows teams of, you know, underwriting and RM, sales, etc. and the funders to focus on those deals that require more of a story for process where there may be more, you know, investigative engagement with the customer, there may be more of a relationship process. And actually, there's an opportunity there that they can really drive value and USP versus other vendors in the market.

**Michael:**

And is this linked closely with the term-embedded finance? Is this kind of extension of that and what does that actually mean? What are the new developments in embedded finance? How is it used?

**Ben:**

Yes, absolutely. I mean, the two are synonymous in a way or intrinsically related is a better description. And so again, we're very heavily involved with the embedded-finance and embedded-lending movement. And we work with a number of participants in the market in two main ways. And really so first I think is the most transformational. And that is the concept of embedded lending is really gaining momentum. Within this area of, you've got a spectrum of very large corporates, administrative bodies and associations who have quite significant footprint within the SME market through whatever medium that may be. And many of them are waking up to the potential that there's an opportunity to commercialise that footprint from the perspective of providing access to capital, debt products, grants and other types of, of financial arrangement. And it's something that we do with the likes of. So I can mention one which is public, which is our relationship with eBay. We've launched eBay Capital, which is the provision of access to capital liquidity for eBay's UK sellers. There are many others that are more sort of behind closed doors that are going on. And, you know, it's a really interesting space where you've got these very powerful, very influential corporates, who are all of a sudden realising, 'Hang on a minute, I've got relationships with X million small businesses. What would happen if I offer them access to finance through my relationship?' And I mentioned two flavours, the other side of the flavour, so you know, in the UK SME market, we've had the concept of some independence of hybrid business models for quite a while, where they are both directly selling to the market; they're taking broking, and they are all also funding from their own book. But what we're now seeing is quite a few of the very large players and in some cases, specialist players seeking to commercialise business that in yesterday they would have just declined. And in the case of, you know, very large funders, they have quite tight credit spectrums that they like to do business with. And that means that they actually have quite high decline rates, particularly for their direct traffic. And now they're waking up again to the prospect that they can actually commercialise that with an embedded-financing, embedded-lending offering where they are using firms like ours, and platforms like ours to manage that referral-out process. And in some cases, an interesting aspect here is that that's introducing new types of products to the existing customer base that may be separate to their existing product suite. And so whether that might be invoice financing, receivable type products, or asset finance, or in some cases, invoice firms who all of a sudden want to be able to offer term loans instead. And there's a really interesting dynamic going on there.

**Michael:**

And, yes, and when this all started, you know, following the banking crisis 2008/2009, we saw the emergence of fintechs sort of space that had developed and an opportunity. And I think for a while there was a bit of a gap between traditional lenders, the banks and the fintechs. But now we see a lot more collaboration going on. And I think the banks have recognised that it will take them a lot longer to get into using some of the technology that fintechs are using. And, you know, it seems to me a fairly natural development - this collaboration, but presumably comes with challenges. And just talk us through some of those kinds of challenges in working with relatively small operations with very big operations, both in the similar sort of space in terms of provision of finance. What sort of challenges have you come across in dealing with that?

**Ben:**

Yeah, so it's a great question. So I think depending on how you look at things, there are a few different challenges that firms in the space are faced with. And so when you're combining, you know, the embracing digital as we've been discussing it, there are a few different aspects - so there's the technology piece, that's the data piece and insight, and then there's just the 'how do I take those things and make something happen' piece. And, you know, from a technology perspective, there's just this plethora of stuff that people can do. So do they leverage AI and blockchain and you know, deep big data analytics. For us, the crux of it all really in terms of, you know, delivering outcome, if you like, is around leveraging real time customer analytics, that for us is something which is tangible, can be executed and provides immediate outcome value. And so, you know, within that, it's not without its challenges though. You know, we've talked about the universe of data that's out there, open banking, online account, CCDs, you know, not to mention global credit reference agencies. There are all sorts out there, which is, you know, sometimes challenging to get hold of. But really, getting hold of it is not the hard part. The hard part is what you do when you've cut off it. And so when you do have quite a few different data sources, they're all in different formats, that half of them are borderline unintelligible. And so there's this big challenge around actually, how do you consume that data, overlay a level of analytics and operating intelligence on that, to then drive actionable insights about the customer, about the deal that can be then consumed by a day to day operator in a bank or a lender, that can then take that, that action, that flag, that piece of insight and go, 'Okay, this means I need to do X'. And, and really you know, the challenge in the partnership there between the fintechs, the providers of finance, providers of technology, is in balancing what the expectation of outcome is. For me, you know, I've always been an advocate of the principle that the key to partnership is mutual benefit. As long as everyone's getting something reasonably valuable out of it, you're off to a good start. And in that theme, the key that everyone needs to get out of it is often forgotten, as in favour of the thing that we're trying to do is to get the system in place or to get a new risk model live or to launch a new product. None of that is the outcome. And so the key to the successful partnerships that you're asking about is really being outcome-focused on what is the business outcome of the initiative for the programme, the project that we're trying to do together? And as long as we're all focused on that, that's a good way to do it.

**Michael:**

Who's knocking on whose door? Are you knocking on the bank's doors? Or are they knocking on your doors? Or is it a bit of both?

**Ben:**

Bit of both, I would say. It's an interesting time for us as a business. You know, we have, as I mentioned, two quite distinct sides of our business. One is the online intermediary, and one is the provider of technology. And we work with nearly 90 lenders, banks and funders in the UK. So there's quite a lot of door knocking going on in both directions.

**Michael:**

Excellent. Ben, thank you very much for your time today. And we very much look forward to hearing more from you, as I mentioned before, at our Alternative and Receivables Finance event, which will take place on the 18th of November in London. And I look forward to seeing you there. Thank you very much.

**Ben:**

Thank you. Thanks, Michael.