**Interview by Michael Bickers of Simon Featherstone, Clear Factor**

**Michael:**

Welcome! Welcome to BCR's webcasting. I'm joined today by Simon Featherstone, who is the Chairman of Clear Factor. Simon is a very experienced and well-known senior executive, shall we say, in the industry, been in the industry for many, many years. And I've known Simon for much of that time. Simon, welcome! We are talking today to Simon about embedded finance. And this will be in the run up to Receivables Finance International Convention, which will take place on the 9th and 10th of March next year. And Simon will be one of our presenters there. Simon. Just give us your opinion and sort of broad overview of how digitalisation which of course is very much part of embedded finance, how digitalisation is changing traditional invoice financing. People have been talking about digitalisation for some time, is it making a big impact? How are things changing in the sector with regard to them?

**Simon:**

So, for me, digitisation started with, frankly, fancy websites. But the real challenge has been digitising risk processes and the back end operational processes involved in factoring. That's where the really difficult tasks and thinking is had to take place. And embedded finance in that context is really about how do you give the micro and small businesses of this world access to finance at a point of need, without necessarily for them having to shop around, go to their existing bank. There is an invoice through their accounting online app, want finance there and then click and get the money. And how do you get the processes that we industry has always remembered of a salesman will call; somebody will review lots of documents you send to the client, six inches worth of paperwork, how do you get rid of that - digitise it, make it a really simple and easy process for the business owner to be able to get finance, ideally instantly, against an invoice they've just raised. And by embedding within another SME platform, if you're able to digitise the processes, what we think we've been able to do with Clear Factor, then you can take the operating cost out, you can take the sales cost out and make it crucially perhaps most importantly, make it easy for the SME to access finance. You'll remember many years ago, Michael, we were talking in Rome about the research I did as Chief Executive at Lloyds, invoice finance and all of the UK's attitudes to invoice finance, how do you help eradicate some of the old adages around that, when you make it easy, simple, cost effective for smaller businesses? I don't think embedded finance is necessarily for larger businesses that certainly at the larger end of the SME scale, but for smaller ones, it definitely steps in where traditional invoice finance struggles from a cost perspective.

**Michael:**

So speed, ease of use, getting to those small businesses, these are all targets or goals that receivables finances have been trying to achieve for a long, long time. Why is it only happening now? Is it that the technology is only available now? Why is that the case?

**Simon:**

I think certainly in technology, how do you reconcile digitally with the money accounts. We traditionally had one trust account at the factoring level all the allocation issues and so forth. The ability to be able to provide thousands of effectively trustworthy money accounts as part of the operational process is one example of how things have changed. I think also small businesses themselves have got used to using online services. So there are accounting platforms, payment processes. So the changing digitisation across a number of aspects is making people much more comfortable being able to do things end to end online. With Clear Factor, if you approach us direct on our website from application to cash, four minutes. Okay? And if we all know,

**Michael:**

As opposed to what in traditional factoring.

**Simon:**

Even if I take Lloyds or Bibby at our best when I was running our businesses, you know, we're talking days, probably, realistically a week. So, but crucially, part of the dailies it's single invoice; it's not tying them into contracts. It's not saying you will give me all of your future invoices regardless. Now that introduces those of your listeners who have got long, distinguished risk careers and had some bad debt lessons that introduces different risks. That's not to say it's without risk, of course. But what we've managed to do is using some very experienced, old school risk people from the industry, some algorithms, and automate - if x and y and z equals, yes, we will fund; no, we won't fund. Now, again, that creates our core guard rail. So we set ourselves up in Clear Factor to do what the industry would call a simple easy stuff. We're not looking to be doing kind of construction finances or specialism or anything even remotely semi contractual.

**Michael:**

Give us a real-world example of how this has been used.

**Simon:**

Yeah, a real-world example is recruitment agency applies for single invoice, or once funding against the single invoice and will provide 90% of it immediately, the other 10% when the debtor pays. We did another one where it was somebody supplying a County Council, which in itself actually had some challenges. But they are ones that came to us direct through the site. The embedded finance ones are where you would have somebody getting a backload. So a truck driver, a van driver doing a backload through a platform. Load boards are very common, as they're called in the US, but less well known here. Average invoice value is very, very low. But 150 pound across that platform, but it has hundreds of thousands of loads going through it every month. And therefore the ability for that van driver, that truck driver to be able to get access against the confirmed invoices delivered the platform providing the purchase order, the proof of delivery, and the invoice details all in the platform to provide finance against that.  You've got to be able to do it digitally because at that particular point, that's when the customer the SME, the micro business driver wants the cash. That's cost effectively operationally because you just can't do that in an old school process. The invoice value is too low, you'd have to take all of the invoice value for fees, which is cost nonsense. So it allows you to scale up on much higher volumes, lower average orders where there's good proof of debt in the industry to do all day long in normal case.

**Michael:**

But in this sector, we know that single invoice financing is fairly high-risk financing. So okay, so the data has to confirm before the invoice is financed. But what if, you know, you're very familiar, Simon, with what happens in receivables finance fraud, what if the seller and buyer are working together in terms of defrauding the financier? So the purchaser would confirm the invoice and approve the invoice, but he might be working in cahoots with the supplier. So how do you get around that kind of situation?

**Simon:**

You can't eliminate that risk entirely. I don't need the traditional industry. Well, it certainly hasn't eliminated that risk. You have to build in again part of your risk algorithms are invoice values that are exceptional by size, frequency. And when you're part of platforms, you've got a much better history. Of course we're also using open banking, so we're able to go and check countries, things like that, within seconds, using access to open banking. So there are different routes. Don't get me wrong, I don't think for one moment being embedded on a platform removes risk entirely. There are different risks. And you have to take that into account. On all of this, I think the difference is, if you do a whole turnover, let's say a half a million-pound haulage business. On a whole turnover basis, people go, 'Well, I've got all of the turnover coming through. If there's a problem with one of the invoices, I'll get it back through the volume coming through elsewhere reserved.' All the usual things. People on your call understand. In this scenario, you have thousands of clients, hundreds of debtors, you will get the odd person who tries to collude. But within the platforms, particularly the ones we're working with, where the purchase order, the proof of delivery, and the invoice and the confirmation are all in there, then I'm sure, it won't stop fraud entirely, but I think it reduces the risk of it or the likelihood of it significantly.

**Michael:**

What's the cost in these transactions?

**Simon:**

So it's typically a fee of around 3%. We have some minimums in there because the average order value is relatively small. And then you've got an interest cost of between 10 and 17-18%, depending upon the risk profile as we judge it. So we have different risk profiles in there. And depending upon the nature of the platform that we're embedded with, some of them the risk profile, top load boards is much better than one or two others. But recruitment is another one where digitised gig economy recruitment business is working with us as well, then the price will depend on our perceptual fee, pretty much stays the same. But the interest cost for the 45 days will be dependent upon our view of the risk across five particular buckets. And it's a collection of SME data and process. So how good is the process from a confirmation, proof etc as well.

**Michael:**

Sure. Do you see this business remaining a FinTech type business, or can you see the banks coming into the space?

**Simon:**

And I've made a couple of UK's clearing banks recently, literally in the last week, and they would love to be able to try and do something like this. The challenge for them is the scale of the investment that takes on the time period. Having worked in those large institutions myself, over the years, then trying to make change happen, effectively, given the internal politics and processes, extremely expensive, but crucially, just time consuming. And stakeholders’ changes and investment priorities changes - I know all too well. And that's why kind of doing it properly ourselves. I could see as licencing the software potentially to some of those banks at some point down the line or white labelling it for them. But yeah, it's just a real challenge for them to get the investment to do the process entirely digitally.

**Michael:**

And who else is out there and doing these? Is it just Clear Factor?

**Simon:**

We believe we are the only (one) - there are others that are attempting to do something similar, probably Satagp would be the one that I would call out market finance or invoice fund, market invoice finance as we all recall, it just hasn't got there with the digitisation in the same way we have end to end. Xero have got the accounting software, have got an embedded invoice finance proposition. But again, I don't believe to the best of my knowledge, they've embedded all of the backend pieces that we have as well. There's an offer in there, but there's manual process somewhere in the background.

**Michael:**

So yeah, this is clearly something which is likely to take off and could be very big. I mean, you know, ease of use. Okay, you can't say low cost, but speed and ease of use is so much in demand, especially with the kind of, you know, very small businesses that you've mentioned. So it sounds pretty exciting stuff. Are there any regulatory hurdles that need to be overcome on this?

**Simon:**

Really good point, Michael. So, as Clear Factor itself is authorised with our e money provider that effectively the virtual bank account, so we have to go through lots of hurdles for penetration testing because effectively you have access to the UK clearing system. So, yes, you have to be authorised by the FCA, not in the context of doing factoring, but in the context of open banking access, moving money around and so forth as an e money provider in that context. So those are the reg hurdles. I think, if anything in my career has taught me to be respectful of the treating customers fairly, the smaller end - the micro-SME and bit, whilst technically they are businesses, in my opinion, they are more like consumers. And therefore, you should always be respectful of the sort of a TCF and principles that our regulators want us to adhere to. There is as well the transparency of charges, and making your terms and conditions clear and so forth. I think one of the advantages again of having a process digital in Clear Factor is - it's really easy to display, the terms, your pricing and so forth, very transparently. There'll be none of the quote hidden fees that we would have remembered in a unfortunate way from the industry traditionally from 10-15 years ago.

**Michael:**

And Simon Featherstone, thank you very much for your time today. And we very much look forward to hearing more about embedded finance in March, as I mentioned earlier, at Receivables Finance International. Thank you very much.

**Simon:**

Thanks, Michael.