

Alt-Lenders: You Don't Have to Think Like a Bank to Be One

Once alternative lenders were the financial world's teen rebels, intent on kicking down the walls of the venerable high street banks. Now, many want to be one.

More and more alternative finance providers, serving consumers and small businesses, are applying for banking licences. Monzo, Tandem and Starling and a host of others including Zopa, Revolut, CashPlus and Together Money have become, or are becoming, banks.

Why? Because they think the established banks aren't doing a very good job at giving their customers what they want. They sense opportunities to attract more customers by being able to compete in areas such as current accounts, credit cards, mortgage lending, and even low-credit-rated loans that traditional banks will only serve at a significant price. A banking licence can also give them access to greater investment capital and a better understanding of how customers use their money, helping inform their credit policies.

But becoming a bank isn't easy. For one thing, it can mean some of the energy they like to put into innovation goes into regulation. Savers want to know their money's safe. Borrowers want to know their bank can provide finance when they need it. And getting that essential banking licence from the FCA typically takes more than a year, up to two – a long time for a growth-focused challenger. That delay can mean more than lost opportunity; if the submission is rejected it could even mean reputational damage.

Part of the difficulty for these businesses is that, as market disruptors, they haven't needed to prioritise the in-depth regulatory knowledge that have long characterized high street banks. They might want to be banks, but they don't really think like them. They hire more for innovation and entrepreneurial skills, for people who can spot an opportunity rather than for familiarity with the regulatory framework and a safe pair of hands.

But by hiring an independent consultant who has cut his or her teeth on the tougher aspects of the regulatory environment you can have both. You can set your business up for banking status without diluting your innovative culture or losing your fast growth focus. An interim specialist with a long track record of working with the FCA can anticipate the potential pitfalls and navigate your company smoothly through the process to the new opportunity. And because such consultants are a flexible resource, you can keep them on for as short or long a period as you need, even on a part-time contract if necessary.

Our consultants are helping many alternative finance providers move into the traditional banking space, and in a variety of ways. For example, one of our clients, which provides a lending platform, wanted to start taking deposits and offering current accounts so needed FCA approval. Another wanted to set up a special purpose vehicle (SPV) as bankruptcy protection, so they could securitize the loans they issue. We provided independent consultants to both businesses – one to put together the FCA submission and another to set up the securitization business from scratch.

We have a network of independent consultants with in-depth knowledge of banking regulation who come from senior positions at some of the country's largest banks. These consultants are increasingly working with start-up and established alternative finance providers, giving them a valuable steer on the challenges and opportunities of a banking licence, if that's the route they decide to pursue.

We're seeing rising demand in this space, because the companies fighting to grow their customer base know the opportunity won't last forever. Some may want to join the competitive banking landscape, but don't let that fool you. These disruptors are really prospectors in a race to grow their customer base. We can worry about profitability and exit strategies later...



Key Points:

- Alternative Lenders increasingly looking to diversify their product
- No longer focussed only on lending to low-credit rated consumers
- Independent Consultants can be an effective resource for banking license applications and other scenarios requiring expertise not already available



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