

When a merchant needs money



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Fintechs offer an alternative source for business loans

BY ANDREW DON

ANICCA DIGITAL, a Leicester-based specialist search and digital marketing agency, faced a worrying fortnight last Christmas. An unprecedented number of clients owed money to the £750,000-annual-turnover company. The directors' immediate thoughts were to enter an invoice financing arrangement with a conventional bank, but Ann Stanley, the company's founder and chief executive, called another business contact she knew for advice.

"I hadn't realised that although the interest rates charged by the high-street banks are competitive, the hidden fees are horrendous," Stanley says. "[I learned] about set-up costs, monthly charges and minimum-use charges and so the list went on." The charges amounted to many thousands of pounds a year, and Stanley would also need to provide a personal guarantee, her business contact explained.

Instead, her business contact advised Stanley to approach Verus360 (verus360.com), one of the burgeoning new alternative finance services for businesses, a field known as financial technology, or fintech. Fintech companies use new software to create alternative and innovative financial services. Stanley's reservations vanished when Verus360 quoted the same interest rate as Anicca Digital's (anicca.co.uk) high-street bank, but without any other costs. Plus, she was told her business

would pay interest only for the days it accessed the money. "We no longer have to worry about late payers, as we know we can access the money when we need it," she says. "It takes a huge pressure off the business, but without the costs normally associated with this type of service."

Born out of bedlam

London is the fintech capital of the world, and Verus360 is one of a new generation of fintechs that emerged out of the last financial crisis, when small and medium-sized enterprises (SMEs) lost trust in conventional lenders and the government had to bail out Royal Bank of Scotland and Lloyds/Halifax/Bank of Scotland.

Fintechs encompass a wide range of financing models, including peer-to-peer lending and crowdfunding, payments and money transfer, currency exchange and investment. Janos Barberis, co-editor of *The FINTECH Book: The Financial Technology Handbook for Investors, Entrepreneurs and Visionaries* (Economia, 2016), explains that fintechs are companies that apply technology to deliver financial products or services more effectively than conventional banks and help their users save money. They offer a narrow product focus that enables them to run leaner and pass the savings to customers.

Up-and-coming fintech companies include TransferWise (transferwise.com) for money transfers; Square (squareup.com) for mobile payments; Kickstarter (kickstarter.com), Crowdcube (crowdcube.com) and SmartAngels (smartangels.fr) for crowdfunding; and LendingClub (lendingclub.com) and Zopa

(zopa.com) for peer-to-peer lending.

"The new fintech companies can offer SMEs more than just money," says Tim Morgan, chief executive of Verus360. "Crowdfunding can be used as a marketing tool and for engaging suppliers." But, he adds, companies need more help and education in understanding fintech and alternative finance.

A new frontier

Fintech's relative newness poses a potential risk. Lack of historical data and established process might, occasionally, create hiccups in terms of service continuity or support at some fintechs. "The fact that the sector is growing fast will also mean that, going forward, there will be a concentration of the industry, and thus certain companies won't be here anymore," Barberis says.

Tom Blomfield, chief executive and founder of fintech bank startup Monzo (monzo.com, formerly Mondo), says fintechs are using technology in new ways to challenge the status quo in an industry that has been stagnant for decades. "There are millions of people who don't like or trust their current bank service, and it's up to us to offer something different," he says.

In the future, as millennials establish and grow their businesses, financial experts expect the fintech revolution to gather pace. Meanwhile, companies like Anicca Digital are enjoying new financial options via fintech companies. **C**

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