Beyond the High Street banks – the challengers that could help your business grow - Event Summary
Thursday 26th May 10:45 - 11:15

Speakers

1. **Moderator:** Heather Buchanan - Director of Policy at the APPG on Fair Business Banking
2. Ian Sutherland - Chief Financial Officer at Tide
3. Tim Boag - Group Managing Director of Business Finance at Aldermore

Background Information

- Challenger banks provide welcome competition to the current concentrated lending market And tend to be more technology-focused with fewer in-person branches, allowing customers to easily be in control of their account at all times. They tend to offer a wide range of services and are able to construct an account ideal for the business at hand, allowing SMEs to have an account that best fits their risk and growth appetite, encouraging growth whether appropriate.
- Recent suboptimal customer experience for SMEs dealing with banks is the perfect opportunity for challengers to show that businesses have another option.

Key themes from the session

- Many Challengers, including Aldermore and Tide, came into existence as a reaction to the post-crisis market retrenchment of big banks and their subsequent underserving and undervaluing of SMEs. As such, a key difference between the two is that Challenger Banks are geared toward SME finance.
- Challengers such as Tide are geared toward optimising user experience, saving time for small business owners who are unlikely to have a dedicated finance function.
- Challengers such as Aldermore seek to offer a greater degree of relationship banking, providing the sectoral expertise and empathy often lacking in big banks, reflecting their cost-driven nature.
- Technological advances by challenger banks will help businesses spend more time running their businesses, creating efficiencies in markets and enabling choice and savings.
- It was argued that Challenger banks actually have a cleaner reputation than traditional banks, as they don't have the legacy of the 2008 financial crash to the same degree.

Please find a full summary of the event below.

The difference between challenger and traditional banks

- Challengers are frequently marked by the closer integration with FinTechs.
- Many Challengers, including Aldermore and Tide, came into existence as a reaction to the post-crisis market retrenchment of big banks and their subsequent underserving and undervaluing of SMEs. As such, a key difference between the two is that Challenger Banks are geared toward SME finance.
- Challengers seek to offer a more bespoke experience, contrasting with the challenges larger banks face serving SMEs at scale, partly due to the heterogeneity of the sector.
- Challengers such as Tide are geared toward optimising user experience, saving time for small business owners who are unlikely to have a dedicated finance function.
- Challengers such as Aldermore seek to offer a greater degree of relationship banking, providing the sectoral expertise and empathy often lacking in big banks, reflecting their cost-driven nature.
- Dormant assets could be utilised as seed capital for regional, branch-based Mutual banks, which would differ to traditional banks in their approach to relationship-banking.

Trust and challenger safety

- Post-2008 financial crisis the banking sector as a whole has had a serious issue with trust.
- It is a fragmented market with 100s of lenders but most established challenger banks are governed by the same regulations as large banks, both financial and conduct.
- The degree of regulation for smaller banks is disproportionate – the current rules do not encourage embryonic institutions to grow.
- Tim Boag advised that consumers ensure that their lenders are FCA/PRA-regulated, that they have a Deposit Protection Scheme and that the financials are accessible.
- Challengers, with their FinTech integrations, are able to connect users to other best-in-class lenders in different verticals of lending.
- It was argued that Challenger banks actually have a cleaner reputation, as they don't have the legacy of the 2008 financial crash to the same degree.

Supporting SMEs in transitioning to net zero

- We currently risk SMEs having access to financial services withdrawn due to failure to meet reporting requirements.
- Suppliers are being asked for their ESG strategies and large companies are being pressured on their disclosures, impacting their supply chains.
- Banks will have a role in sharing both capital and knowledge or experience on reporting.
- Challengers could be able to provide time-saving data utilisation through transaction reporting, automating an otherwise potentially arduous process.

- There is no industry-standard for reporting, making it difficult for SMEs. Ian Sutherland felt that the SBTI (Science Based Targets Initiative) would come to fore over time

Opportunities and Risks

- Challenger banks played a key role throughout the pandemic as sign-posters for government schemes and this knowledge-sharing will continue to be valuable.
- Challenger banks provide good quality broker networks, which in turn will provide greater choice and a useful feedback mechanism, as well as working with SMEs on training and education.
- Challenger banks will have a key function in net zero transitions, as all sectors move in that direction, including by providing tools for small businesses to take advantage of the data they collect to determine how they can go about carbon offsets proactively.
- Technological advances will help businesses spend more time running their businesses, creating efficiencies in markets and enabling choice and savings.
- Inflation will impact the cost of goods and services, and affordable supply chain security will become really important.
- Those businesses who began looking at their supply chains earlier, potentially in response to Brexit, are in a stronger position to deal with the disruption caused by the Russia-Ukraine conflict and the pandemic.

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