



FUNDING XCHANGE

HELPING YOUR BUSINESS GROW

Response to CMA

Remedy 4: Introduction of a price comparison website for SME banking

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About Funding Xchange

Funding XChange (FXE) launched in February 2015 to deliver simplified access to a broad range of business funding options. FXE gives businesses access to available quotes representative of the available market in a transparent and unbiased way. Businesses complete just one application to receive offers from finance providers. By using a 'reverse auction,' finance providers compete to provide businesses with funding offers. Offers are made in one standardised format – making it simple to compare the terms offered by multiple finance providers. Business owners gain a transparent overview of available funding options and terms - giving them the ability to choose the option that's right for them.

Response to CMA provisional findings and notice of possible remedies / additional remedy suggestions

We read with interest the provisional findings and possible remedies recently published by the CMA as part of its review of the banking market. We note with particular interest your suggested remedy to increase transparency in SME banking/funding through a price comparison website (PCW).

We agree with the CMA's finding that the SME funding market currently lacks transparency, making it difficult for businesses to receive and compare funding offers from multiple providers.

In our view, PCWs could play a significant role in increasing transparency in this market segment if they successfully deliver against the expectations of users of price comparison websites:

- Save money / find the best quote
- Identify 'the right product for me/my business'
- Compare products in a way that is representative of the market
- Get a boring/difficult/complex job done quickly, easily and painlessly
- Take the hard work out of shopping around
- Provide offers in an easy to compare format
- Keep the applicant in control (and the finance provider at arms length)
- Raise awareness of new brands/providers
- Access complex information in an easy and accessible way.

To deliver against these expectations, any PCW for SME funding that seeks support from regulators or industry players should meet the following minimum performance standards to ensure customers are receiving valuable, unbiased services that they can rely on:

- 1. Provide actual offers that allow business owners to compare the terms that are available to them – rather than 'sign-posting' to finance providers without providing confirmation of the terms available to the business:** Many sites that appear to offer businesses access to funding are only 'sign-posting' businesses to potential funders rather than providing actual quotes that confirm the terms available. Sign-posting does not create transparency as the businesses is still expected to spend hours applying to several finance providers to find out the offer terms available to them. Few businesses actually invest the time to apply to multiple finance providers.

A price comparison site for business funding should;

- Provide the business with customised terms available to this business (not sign-posts)
- Allow businesses to compare offers across different products that serve the funding need of the customer (e.g., overdraft vs. line of credit vs. single invoice finance) to give a transparent picture of the most relevant options

- Make it easy to compare terms by standardising how offers are displayed
- Ensure that ‘offers’ made through the PCW actually ‘stick’ – i.e., warrant that finance providers are closing the vast majority of deals on the terms offered, and information on how many deals are closing on proposed terms is captured

2. Provide funding offers that are representative of the available market: PCW’s should ensure that finance providers are representative of the available market for the specific sub-product categories covered by the PCW. ‘Representative of the available market’ should require both depth and quality of available liquidity in specific sub-products, to ensure competition between finance providers. Equally, finance providers should be drawn from the broadest group to ensure that propositions from banks, challenger banks and alternative finance providers are covered.

Most finance providers, including banks, haven’t yet or have only just partially automated their underwriting and as a result are not able to provide automated quotes, but make ‘bespoke’ offers in response to detailed funding requests. Both automated and bespoke offers should be covered by PCWs.

A price comparison site for business funding should

- Define relevant sub-categories where finance providers are in direct competition and demonstrate that providers are representative of the market
- Ensure engagement from the broadest range of finance providers, including banks, challenger banks, alternative funders, specialist funders
- Include offers from funders who have automated their underwriting as well as funders who provide non-automated or “bespoke” offers by reviewing each request for funding

3. Provide neutral and unbiased information on funding and funding offers: PCW should be neutral and unbiased in providing access to funding options – PCW should not favour specific products or providers. At the same time, PCWs play an important role in educating customers and are a preferred source of information by many customers.

A price comparison site for business funding should

- Avoid judgement by the PCW on which finance providers can review requests, or which offers to present to applicants from a broader pool of possible offers (as is common in the broker model)
- Ensure all finance providers are treated equally to avoid any potential conflicts of interest, e.g., results and offers should be free of any commercial bias such as incentives / compensation where terms are agreed with finance providers. The PCW is not owned in whole or in part by any finance provider
- Provide neutral and unbiased information on products and performance of finance providers

4. Provide services cost-efficiently: Intermediation can add significantly to the cost of credit – in the case of finance brokers, the costs can be 4-10% of funding volume (for short-term/ working capital lending). Intermediation services can therefore add significant fees to the cost of credit – possibly negating any benefit from ‘shopping around’

A price comparison site for business funding should

- Provide services cost-efficiently, ensuring that the benefits of ‘shopping around’ accrue as fully as possible to users

Ignoring these minimum standards jeopardises fair and neutral access to funding offers and could lead to unintended consequences, including:

- **Cost of intermediation outweighs potential gains from switching suppliers:** risk of INCREASE in the cost of credit if the cost of the intermediation outweighs the benefits of switching providers
- **High costs of credit / unattractive terms as PCW fails to provide offers 'representative of the market' for sub-products:** particular risk if only a small number of finance providers are represented for particular sub-products on the PCW or providers are unable to see / bid against offers made by other parties
- **Users pick suboptimal products for their needs – poor 'matching' creates "non-advised mis-selling risk":** risk if there is a lack of education / validation of appropriate matches
- **Users are directed towards suboptimal products for their needs – poor 'matching' creates "automated-mis-selling risk":** risk if in-transparent algorithm is used to select a limited number of finance providers / products or PCW is owned by finance providers

To avoid unintended consequences, CMA should be clear about the performance standards and operating principles for PCWs in the SME funding space and ensure that only PCWs that can demonstrate their ability to consistently deliver against the expected user experience are supported by regulators and the sector overall.