**FINANCE** **EXPERT REACTION**

# Covid is accelerating the digital lending revolution

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**Real estate finance is being disrupted**


Some areas of traditional financial services have never recovered since the crash of 2008. Still hampered by regulation and capital adequacy ratios, figures released by Oxford Economics in 2019 revealed that a decade on, small business lending was still only making up 2% of banks' balance sheets.

In 2020 figures were distorted by the Coronavirus Business Interruption Loan Scheme, with SME lending in the first three quarters of the year more than double the 2019 total, proving it has taken a government-backed scheme to force banks to lend to SMEs.

It is unlikely that banks' risk appetites will return post pandemic and perhaps more importantly, once SMEs were forced to look for alternative solutions, they also started demanding better service levels and bespoke solutions to their lending requirements that banks failed to meet.

The disruptors were ready to seize the opportunities on offer; government statistics state there were six million SMEs in the UK in 2020 and that micro businesses and SMEs make up an overwhelming 99% of private companies in the UK and 51% of private sector turnover with £1.9tn.

Unsurprisingly, we have seen a wave of fintech focus on this rapidly growing sector, with a significant rise in alternative lenders, challenger banks and fintech providers that are able to offer the convenience, lower fees and far more adaptive risk models to SMEs looking for capital.

This has been a rapid evolution and the alternatives have truly challenged the status quo, continuing to become more mainstream during the last few years of stock market volatility and Brexit uncertainty which locked up banks' lending even further.

However, the ultimate catalyst has been the Covid pandemic. The necessity of working from home has fuelled a far greater acceptance of digitalisation as we have all been forced online. Our new at home online existence has resulted in a boom in automated online trading platforms during lockdowns, with people making huge profits on "autotrade" functions that use algorithms to trade on customers' behalf – a true reflection of the change in attitude towards investing online.

## Innovate or die

Lending is becoming increasingly digitalised

Businesses have also had to develop fast to remain competitive and be able to continue to sell. Banks' lack of online functionality became even further exposed. Yet both traditional and high growth companies have made the quantum leap enabled by Covid opportunities, such as the advances we've seen in life sciences, med-tech, fintech, online delivery of goods and adaptive supply chains.

There will be many lasting changes to a number of sectors, of which digitalisation will be significant and, there will be a knock-on effect of these changes, into sectors such as commercial real estate where we are seeing a resurgence of newly resilient asset classes, including warehousing and laboratories.

Here we are seeing another revolution, in terms of the accessibility of these alternative assets as investment opportunities via the debt market. A combination of technology and creative business models has enabled companies to provide products previously inaccessible to individuals, and offer higher returns, greater transparency and more choice.

Exciting and lucrative opportunities get picked up by smaller, nimbler alternative lenders given their niche expertise. Those with fintech capabilities too are providing platforms allowing easy access to a variety of property debt products across a range of appealing sectors such as distressed retail, office, logistics warehousing, student and build to rent.

At ASK for example, our investors can pick and choose which of our loans they want to invest in via an online platform which provides access to new opportunities and a real-time portal to track investment statuses and returns. Couple this ease of access with the appeal of secured lending against real estate assets with excellent risk-adjusted returns, and the combination is hard to beat.

I think this market evolution will continue with both alternative lenders and investment products becoming more mainstream and new niche players coming to the fore. Britain has now amassed a 10% share of global fintech with firms generating £11bn in revenues and the chancellor has pledged to retain this crown. Recent announcements include a fast-track visa to enable fintech firms to bring in highly-skilled labour from abroad.

Digital acceptance is likely to be a lasting change post-Covid, giving fintech companies a further competitive edge. The traditional fund model that doesn't allow self-selection, or individual deal transparency and incurs high costs is likely to be slowly eroded from the market as investors demand a greater slice of the returns pie alongside digital access.

Clearly, we are still facing uncertain market conditions, yet I believe agile, technology-enabled and diligent lenders will continue to thrive in this landscape, bolstered by an absence of traditional competition. The next big leap will be providing liquidity to previously illiquid debt products.

This is probably the single factor holding the alternative asset market from exploding. By shortening investment cycles and allowing flexibility, you automatically broaden your investor base and the appetite is certainly there. Secondary market exchanges are already common for equity products and it is something ASK is looking to launch on its investor platform later this year.