

# Transforming the alternative finance landscape



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**A**s we navigate 2025, the alternative finance landscape is poised for significant growth and transformation. The year will be one of opportunity and uncertainty – two things we do not often see go hand in hand.

We are seeing small to medium-sized enterprises (SMEs) increasingly seek flexible and convenient funding options that they cannot get from traditional lenders and banks. Berkshire Hathaway's 'Business Wire' recently reported that the sector is expected to hit a compound annual growth rate of 9.2% between 2024 and 2028.

As ever more businesses opportunistically enter the alternative lending space, SMEs seeking this service will need to prioritise experience, understanding and trust.

## Growth on the horizon

The UK economy is projected to grow in 2025, with the Organisation for Economic Cooperation and Development (OECD) upgrading its expectations for 2025's GDP increase from 1.2% to 1.7%. However, this was the result of increased Government spending announced in last year's autumn Budget. In line with this, the OECD is also predicting higher inflation, averaging at around 2.7% across the year, which would be the highest among the G7 nations.

With this, we see both opportunity and challenges for SMEs across the UK, and while the growth prospects are encouraging, businesses must be aware of – and prepare for – the complexities that come with rising costs and inflationary pressures.

In line with the pressures outlined above, businesses will need to be

prepared for potential cashflow issues throughout the year.

With the increases to minimum wage and to employers' National Insurance (NI) contributions, businesses will have to shell out a lot more money every month.

For smaller businesses that might already be struggling with the environment of rising costs and narrow profit margins over recent years, we anticipate that there will be a greater need for additional working capital to manage the increased strain.

Looking towards the global market, the past few years have seen a relative return to stability after the shock of the Covid-19 pandemic. In 2025, higher process and volatility could become the new status quo.

The Trump administration has signalled a shift away from globalisation with the new import tariffs, and while this is unlikely to have a huge direct impact on British SMEs given that the vast majority of UK to US exports are services rather than products, it is something to keep in mind.

The reactions and retaliations from affected companies could impact the wider global economy, hindering growth and leading to inflation – it could also be compounded by political uncertainty across Europe.

## Advancing intelligence

Artificial intelligence (AI), as we have seen across every industry, is set to impact the lending sector in 2025.

With its ability to quickly process large amounts of data, the value of AI cannot be denied when it comes to automating admin tasks; however, it is important to note that this technology can only truly be used in addition to the people-first ethos that is vital to the lending industry.

Alongside new businesses looking to cash in on the AI goldrush, traditional banks and lenders are also touting AI platforms as a way to serve the customers that they have historically ignored.

However, SMEs seeking finance should exercise caution with these fully automated systems that flatten the nuances of their businesses and offer unfavourable terms. Unlike lenders simply looking to capitalise on AI, at Reward Funding, we never outsource our decision-making or use robots. You deal directly with humans in the relevant team.

## Two sides to the story

Overall, 2025 presents significant challenges for SMEs, driven by rising costs, inflation and global uncertainties. Economic pressures, such as higher employer contributions and wage increases, will strain cashflow for many small businesses.

Global volatility, including geopolitical shifts and regulatory changes, will add further complexity. Despite these headwinds, opportunities for growth remain.

For the alternative lending sector, this environment presents positive opportunities, but we must not fall into complacency.

By fostering trust and adapting to changing market needs, the alternative lending industry is well-positioned to support SMEs through turbulent times. ●