EMERGING PAYMENTS ASSOCIATION

All Aboard.

The role of the Fintech industry in solving the problems of financial exclusion

2021

FOREWORD

Does Fintech give those at risk of financial exclusion the services they want? If it does, do they know about it, and if they don't, why not? Equally, with the services that are available, can customers access and operate them in a way that addresses their needs?

That's what this report is about. Project Inclusion, at the Emerging Payments Association, wanted to ask how well financial services work for the youngest and oldest age groups, where risk of exclusion might reasonably be expected to be at its greatest. What has resulted is a wide-ranging and rich piece of work, that surveys expert views from across the sector and from customers themselves, and which goes decisively beyond its initial hypothesis to where those that participated wanted to take it.

This report will shed light on service design and usability, lesser known but important use cases, customer motivation, and convey the essence of what financial inclusion services should be about – accessibility, choice, value for money, and no compromise on service quality. We also offer pointers for further research and action, and the beginnings of a roadmap towards inclusion by design.

We hope this report adds value to your activities around financial inclusion, and we welcome your contribution to the debate. If you want to learn more and participate in our work, please join us at Project Inclusion within the Emerging Payments Association.

We look forward to hearing from you! ■

JOSH BERLE

BUSINESS DEVELOPMENT DIRECTOR, **MASTERCARD**

EXECUTIVE SUMMARY

Financial exclusion in the UK affects disparate groups of people for a wide range of reasons, depending on their circumstances.

Given the complexity of these groups and the underlying challenges excluding them financially, there is no simple solution from a single source. This report set out to focus on financial exclusion within the youngest and oldest age groups of adults.

According to the Financial Inclusion Commission, the UK has over a million individuals without a bank account. There is a much larger section of the population which is underserved and ends up paying a poverty premium. These conditions have been further aggravated in 2020 due to the pandemic. The UK entered COVID-19 with low resilience in savings, insurance, affordable credit and financial capabilities. Inequalities have increased and there is the possibility of a real credit and debt crisis post-pandemic.

Many comprehensive studies have been devoted to financial inclusion and this report does not seek to replicate them but to look at the role of Fintechs in addressing this issue. This includes consideration of the barriers to inclusion but also highlighting some examples of good practice for reflection on how every Fintech can improve how they support these deserving groups. It is, of course, not for the Fintech industry to make regulations, set standards or deliver free wifi that should improve the situation. But there are steps that Fintech and Paytech companies can take to improve the situation for these particular groups of financially excluded people.

The report was compiled from interviews with a range of stakeholders including banks and payments organisations, consulting organisations, Fintechs, independent industry bodies, social and community interest organisation and consumers.

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The discussions highlighted many barriers to accessing financial services which result in people experiencing financial exclusion. These include KYC requirements, physical restrictions, sufficient access to technology, low digital confidence, privacy and security concerns, financial literacy, knowledge and understanding of what is available and, critically, the role of cash. Underlying all these barriers is the challenge of personal circumstance and the need to make sure that financial services products are available and meet the needs of a group of highly individual consumers.

The contributors shared both their expertise and personal experiences, exploring issues, opportunities and existing good practice. This included innovative products and services, designed for specific consumer needs at affordable prices, the potential for open banking solutions and how Fintechs can offer the personal support that many of these consumers rely on. Many highlighted the important overlap between digital inclusion and financial inclusion. Another familiar theme was the value of partnerships between Fintechs and consumer-facing organisations to understand the needs of particular groups, help improve their financial capability and trust in Fintech solutions and to raise awareness of pertinent products.

Financial education is now on the national curriculum in secondary schools. However, with scant resources and a lack of teacher training, teachers lack the ability or confidence to teach the content. The result is fewer children are gaining an early understanding of the topic. The big challenges are financial capability, financial resilience and confidence in financial services. In the same way that we all need running water and electricity, everyone should have access to financial services which meet their needs and the skills and confidence to use it.

COVID-19 has forced the industry to move quickly to offer solutions where it wasn't offering enough before. Mike Cowen, Head of Products and Innovation at Mastercard, sees an opportunity to capitalise on this momentum. "It is no longer just about the business case and the commercial opportunity, but now companies are thinking How can I help? How can I be part of the solution?"

Fintech companies generally set out to address a recognised problem in an innovative way. The issue of financial inclusion remains a challenge to address and has received disproportionately little attention, possibly because those with the greatest financial challenges are not the most lucrative consumer groups. The COVID-19 pandemic has brought public attention to the inequality between consumer groups and, while the pandemic has accelerated a move to digital payments by some, many barriers still exclude those in the greatest need. This report exposes some of these and, we hope, will inspire the reader to explore the opportunities in how they can help to increase financial inclusion. ■

> "It is no longer just about the business case and the commercial opportunity, but now companies are thinking How can I help? How can I be part of the solution?"

MIKE COWEN
Head of Products and Innovation at **Mastercard**

RAVINDRA MESHRAM
CO-FOUNDER AND ADVISER
NEW START-UP VENTURES

INTRODUCTION

The 2020 Project Inclusion mission statement is as follows:

"To drive industry activity to address financial exclusion, inform and collaborate with government and third sector bodies and encourage the payments industry to develop financially inclusive products".

While the vision is far-reaching, the team decided to focus on the consumer groups at each end of the age spectrum within the UK. Young consumers are generally digitally savvy, so what hinders them from being financially included? And does a lack of digital skills or resistance to change make older consumers financially disadvantaged or are they seen as a less lucrative market, leaving them underserved? Does education have a role? Are Fintechs ignoring the needs of the target consumer groups? And above all, how has the pandemic affected the situation?

This study included 22 structured video interviews – supplemented by desk research – with industry stakeholders, subject-matter experts and consumers. The interviews explored multiple factors that contribute to financial inclusion or exclusion including digital skills, access to digital channels, access to banking, personal circumstances, low financial awareness and a lack of understanding of the needs of these consumer groups by the industry.

The project findings are a combination of insights and opinions from the mentioned stakeholders and information available in the public domain through media research. While the report discusses the multiple factors that contribute to financial inclusion, the subjects raised warrant further exploration in greater detail. The findings highlight the barriers and suggest ways that the industry can make a positive impact on the lives of the financially excluded, as well as having a positive economic impact. ■

FINANCIAL INCLUSION IN 2020

Financial inclusion is intrinsically linked to financial capability, meaning the skills, knowledge, attitudes and motivations that allow individuals to act in a financially capable way.

> **"A lack of digital skills, lack of financial skills and poverty will leave the unbanked and underserved further behind. But they can benefit by at least £500 per year if the right products are available to them."**

Financial capability means that people not only have the ability to manage their money but are empowered to prepare for the future, through savings, pensions, insurance as well as transactions and payment systems. With the rapid advancement of technology, digital skills have become a 'must have' rather than a 'good to have', and there is some correlation between digital exclusion, financial exclusion and poverty. Digital and financial inclusion cannot be viewed in isolation but must be tackled together.[1]

Technology has simplified and disrupted many things around us in a positive way. Customer centricity, convenience, user experience, gratification and personalisation are paramount for innovators developing new products and services. Smartphones have placed a lot of control into the user's hand. According to Ofcom, smartphone penetration in the UK in 2019 was 79% and household internet take-up was 87%.[2] But many may be hesitant about using a smartphone to access financial services due to concerns about security or digital capability.

Despite rapid digitisation, much of the global population are left out and left behind. In 2017, 1.7 billion individuals globally lacked an account with a bank or any mobile money provider.[3] While most of them live in developing economies, the UK has 1.3 million unbanked individuals who suffer a poverty premium.[4] They are disadvantaged when it comes to being offered deals on utility bills, mobile phone contracts, broadband and personal loans, which are available for those with banking or mobile money accounts. In 2019, the poverty premium was estimated at an average of £485 per year,[5] although this is significantly more for some consumer segments.[6] In addition to the unbanked, 13m are recognised as 'underserved'. They struggle with getting affordable credit and may end up with unaffordable loans, thereby getting trapped into the vicious cycle of ensuring income, repaying debts and defending their credit score. ▸

1 https://www.ukfinance.org.uk/system/files/UK-Finance-Financial-Inclusion-AW-web.pdf
2 Ofcom report on UK Smartphone and household internet penetration in 2019: https://www.ofcom.org.uk/__data/assets/pdf_file/0028/155278/communications-market-report-2019.pdf
3 https://globalfindex.worldbank.org/sites/globalfindex/files/chapters/2017%20Findex%20full%20report_chapter2.pdf
4 https://www.theguardian.com/money/2019/apr/22/britons-without-bank-account-pay-poverty-premium
5 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/789070/financial_inclusion_report_2018-19_web.pdf
6 http://www.bris.ac.uk/media-library/sites/geography/pfrc/pfrc1614-poverty-premium-key-findings.pdf

> “12% of adults (approximately 6 million individuals) downloaded a banking app for the first time during COVID-19.”

NEIL HARRIS
Group COO, **Global Processing Services**

The Financial Conduct Authority (FCA) found that around 4 million people use some form of high cost credit annually, at a value of over £8 billion, whereas the total value of lending from responsible finance providers in 2016-17 was £22 million to around 55,000 consumers.

The FCA's Financial Lives Survey[7] shows that groups of adults more likely to be unbanked include 18-24 year olds and the unemployed. The unbanked and the underserved make up a significant part of UK consumers which can be ignored. A lack of digital skills, lack of financial skills and poverty will leave the unbanked and underserved further behind. But they can benefit by at least £500 per year if the right products are available to them. Addressing their needs is not just a social cause but has commercial merits too. The IMF suggests that bringing them into the mainstream by addressing their needs may also have a positive impact on the economy.[8]

COVID-19 has left many with minimal savings and increased debts. A reduced number of loans and mortgages will reduce the earnings of banks. As an effect of the pandemic, the number of unbanked consumers is likely to decline, but the number of underserved may increase. The Money Advice Plus helpline reported a 65% increase in calls to their service in the initial stages of the pandemic.

Chris Pond, Chair of the Financial Inclusion Commission, raises the possibility of a real credit and debt crisis post-pandemic. He feels that the UK entered COVID-19 very poorly prepared with low resilience in savings, insurance, access to affordable credit and financial capabilities, which are all needed in times of crisis to give people the resilience to cope. The Resolution Foundation recently reported the increased gap during the COVID-19 crisis between households with negligible or no savings and those whose savings increased through reduced spend. One third of households have no savings whatsoever. Chris highlighted the sidecar savings trial by Nest[9] to enable people to build up a pot of savings. Household, medical and other insurance or protections which help give resilience against shocks in life are often unaffordable or unavailable and leave consumers exposed. And those most in need of vital credit, who needed to address the gap between living costs and their available income, cannot access credit at an affordable rate. There must be a concerted effort to make affordable credit readily available, or consumers in need may turn to illegal suppliers, offering no consumer protection.

Chris comments, “The pandemic has produced a feeling that we must support and help each other – this means that policies and approaches which might have been unacceptable previously could now be worthy of consideration.” He feels, however, that it has widened inequalities between young and old, rich and poor and between different groups and communities such as BAME or those in certain sectors who are poorly paid and whose jobs are at risk once the furlough scheme ends. ▸

7 FCA Report on financial lives of consumers across the UK, June 2018: https://www.fca.org.uk/publication/research/financial-lives-consumers-across-uk.pdf
8 https://blogs.imf.org/2020/07/01/digital-financial-inclusion-in-the-times-of-covid-19
9 https://www.nestinsight.org.uk/nest-insight-shares-early-findings-from-sidecar-savings-trial/

LINK is the UK's largest cash machine network, enabling banks and building societies across the UK to give access to cash. John Howell, CEO of LINK, feels that a significant portion of cash users who were forced to adopt mobile banking or internet banking during the pandemic liked it and got used to it. And that they will not switch back to cash.

Neil Harris, Group COO, Global Processing Services, states that during COVID-19 cash usage reduced by 50% while online shopping went up by 80%. He found it alarming, however, to see many retailers not accepting cash during the pandemic and leaving people who were entirely dependent on cash unable to pay for basic shopping as expected. Neil Johnson of Age UK, an organisation that examines the issues faced by elderly people, comments that many elderly consumers worried about getting cash, as they had no choice but to give their card and PIN to a family friend or neighbour to withdraw cash for them. Neil feels the banks really responded well to the situation by delivering cash and issuing carer cards to facilitate payments on their behalf. It was impressive to see how quickly banks were able to respond to support vulnerable customers. In an era of steady branch closures, banks were still able to suddenly develop these helpful services. Does this mean that mean they don't need branches at all?

Mastercard has pledged to bring a total of 1 billion people and 50 million micro and small businesses into the digital economy by 2025. Mike Cowen hopes that the accelerated adoption due to the current crisis will help achieve this sooner. Whilst contactless payment solutions have existed for over a decade, Mike Cowen observed the acceleration in adoption of 'contactless' and online transactions during COVID-19, which otherwise would have taken much longer. Some initiatives also took priority during this time by increasing contactless payment limits, providing carer cards and disbursements to individuals and businesses.

The current situation will also drive more innovation and adoption of new services as we head into 2021. Network tokenisation for e-commerce (Apple pay, Google pay) has been around for the last five years and the 'second wave' of this pandemic will see it reaching the merchants card on file. This will provide better visibility and more control in the hands of the consumer. But, access to technology, affordability and lack of knowledge and education are have a part to play in facilitating adoption.

"I predict that while we will see a decline in the number of unbanked consumers, we will see a significant rise in the proportion of the underserved as people come out of the pandemic in greater debt than before."

SIMON THOMAS
Senior Product Manager at **allpay**

"The Financial Conduct Authority (FCA) found that around 4 million people use some form of high cost credit annually, at a value of over £8 billion, whereas the total value of lending from responsible finance providers in 2016-17 was £ 22 million to around 55,000 consumers."

FCA

Technology is a great leveller and provides opportunities to address financial exclusion. M-PESA's mobile phone-based money transfer, payments and micro-financing service in Kenya, for example, made digital wallets a reality and provided a way for the unbanked to deal with money. However, UK consumers and their needs differ from those in sub-Saharan Africa. The UK has a significant ageing population with limited digital skills and some distrust around the privacy and security of technology. In addition, 30% of the population is reliant on cash and most of the population lacks education around money matters.[10] Despite a wealth of new payment products from Fintechs, those already excluded and underserved by high-street banks can find themselves also unable to benefit from these products due to the commercial viability of servicing them. However, Wendy Rogers, Segment Director at Barclays Bank, points out that, while there may be some commercial benefit further down the line by stemming the flow of people getting into difficulties and helping them improve their financial situation, the driver has to be helping those consumers that need support now.

Neil Harris noted that 12% of adults (approximately 6 million individuals) downloaded a banking app for the first time during COVID-19. Plus, a record 130,000 switches of current account provider took place during the initial two months of lockdown, suggesting that people were reviewing what banking services they needed in the current environment. Interestingly, Fintech banks Monzo and Starling were the biggest beneficiaries of these switches. Although, as Chris Pond points out many of the new entrant accounts are not replacing primary bank accounts but acting as additional accounts. Simon Thomas, Senior Product Manager at allpay, predicts that while we will see a decline in the number of unbanked consumers, we will see a significant rise in the proportion of the underserved as people come out of the pandemic in greater debt than before.

Yet, according to Amit Mallick at Accenture, there have been some positive developments during Covid19, citing increased technology adoption by consumers and quick responses by the Fintech industry. More and more people have adopted communication tools and other self-service tools. Now is the time to bring the larger sections of consumers into the journey by providing them with something that is fit for purpose, easy to use and trustworthy. Amit feels that the larger brands and organisations have a bigger role to play here.

10 Report on Access to cash (March 2019): https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf

> **“Unprecedented challenges are bringing unprecedented opportunities across the industry. Rapid adoption of cash alternatives suggest that consumers are willing to change their behaviours”**

Starling Bank demonstrated the agility and flexibility of Fintechs early in the pandemic, implementing their Connected Card within two weeks. This additional card provides people who can’t leave home due to health issues, disabilities, or having young children with full financial control and visibility of when and where money is being spent. allpay, a leading payments provider for the UK Public and Housing sector, also responded swiftly to support its many vulnerable customers. Simon Thomas tells us that, in response to the pandemic, allpay produced and delivered in excess of 50,000 cards to local authorities for benefits disbursements to the unbanked, with options for joint accounts, multiple cards and card usage restrictions. They also shortened the KYC process with pre-approvals and delivering cards to the users in record time. Simon says their focus is not so much on innovating new products, (although they are looking at virtual and biodegradable cards,) but on being set up to meet customer needs. “We want to further improve the speed of delivery of our cards so users can access their funds,” explains Simon. allpay saw a shift in payments, particularly amongst older age groups, from using cash at point of sale to e-Commerce, showing that quick adoption of digital payments is possible.

Unprecedented challenges are bringing unprecedented opportunities across the industry. Rapid adoption of cash alternatives suggest that consumers are willing to change their behaviours where possible. Fintechs have demonstrated their ability to act swiftly and innovatively to address pressing societal issues. ■

UNDERSTANDING CONSUMER NEEDS

Amongst the younger age groups, economic abuse (particularly for young women) and homelessness contribute to financial exclusion. Factors leading to financial exclusion among older consumers include security concerns, digital capability and cognitive decline.

While there are many factors that result in consumers being financially excluded, this report reflects particularly on the youngest and oldest age-groups, with specific case studies where financial exclusion is at its greatest.

Economic abuse

Economic abuse is where someone (usually a partner) makes it difficult for the victim to exit the relationship and financially exploits them. Economic abuse is a complex issue as there is no clear demarcation for where it begins. Whilst there are some early signs of abuse, they are often hard to see if there is no awareness of the issue. If the victim has been abused since the age of 16, a set of behaviours is already established by the abuser which seems normal to the victim and compromises their financial freedom and independence.

Surviving Economic Abuse (SEA) is an organisation that works with banks and building societies to ensure that policies, systems and procedures don't disadvantage those suffering economic abuse. Christina Govier, banking and insurance specialist at SEA, comments, "While anyone can be a victim of economic abuse, the group most at risk is young adults; it is a misconception that it is mainly older age groups." Christina says that 16-24-year old women are the most likely to experience abuse. Whereas, older victims might be isolated and unfamiliar with the internet which creates a friction barrier and leads to low engagement when trying to access online services.

"In the case of a joint account holder, the victim may not have access or permission to use the debit/ credit card, since the male partner is managing the finances."

Christina shared some typical examples of what victims may experience regarding money, such as being restricted from accessing their bank account. In the case of a joint account holder, the victim may not have access or permission to use the debit/credit card, since the male partner is managing the finances. This is financial abuse and clearly a form of exclusion. Economic abuse is much broader in terms of restrictions on resources, sabotage or exploitation. Examples include intentional damage of the victim's card or not releasing the victim from a joint mortgage account, which could damage her credit score.

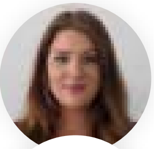
Christina comments, "The real crux of the issue for victims of economic abuse is around ID. Since they often have to flee at short notice, they don't have the proof of address or the ID sufficient to even open a basic bank account." As a result, they become financially disadvantaged and eventually excluded, without the means to receive benefits or financial help.

However, financial services have the capability of spotting unfamiliar transactions, or particular transaction behaviours, which could relate to potential abuse. This can trigger alerts to account holders and/ or the provider to raise questions and stimulate action. Support from the institution also has a vital role to play, like signposting to the National Domestic Abuse Helpline. 'Of course this does rely on the capability of staff to provide appropriate support and to know what action to take.

Young and homeless

Homeless does not just mean sleeping on the streets, it includes sofa surfing, staying in temporary accommodation and the hidden homeless, i.e. temporarily staying with friends or family.

"The real crux of the issue for victims of economic abuse is around ID. Since they often have to flee at short notice, they don't have the proof of address or the ID sufficient to even open a basic bank account." As a result, they become financially disadvantaged and eventually excluded,"



CHRISTINA GOVIER
Banking and Insurance Advocate at **Surviving Economic Abuse**

According to Marzena Farana-Sherlock from Social Bite, a charity supporting homeless people, 19,000 were homeless in Scotland from 1 Apr- 31 Dec 2019 for reasons including relationship breakdown, job losses, addiction and childhood experiences. Their typical homeless customer is male, and aged between 35 and 45 years, whilst women are generally under 24 years old. Social Bites provide free food and hot drinks for the homeless, offering them employment opportunities at their Social Bite Cafes and helping homeless clients to help themselves.

One of the many obstacles to unbanked and homeless people wanting to access financial services and receive social benefits is the lack of a fixed address and customary identification documents. Social Bite helps by providing a temporary address, which is one of the key reasons why homeless applicants are denied bank accounts. Despite this, opening a bank account still takes weeks, as they must explain their individual circumstances and gather the documents required by the bank. Social Bites also helps with financial issues through one-to-one intervention, teaching them about bank accounts, budgeting and saving. Additionally, Social Bites partners with other organisations to help these people access smartphones and wifi so that they are not excluded digitally.

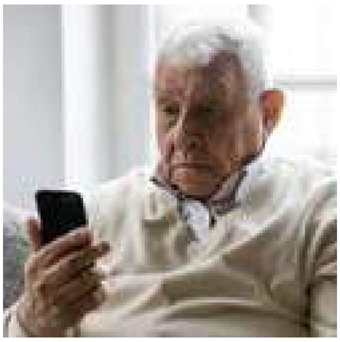
Older population

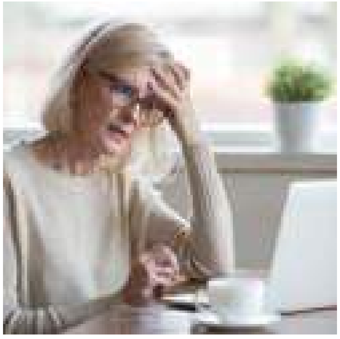
According to the Pensions Policy Institute,[11] 42.5% of the UK working age population are over 65 years old. 48% of UK adults living in rural areas are 75 or over, have health issues that affect their day-to-day activities, and do not use the internet daily.

Age UK's Policy paper on Financial Inclusion[12] states that older people are being excluded from essential financial services as a result of poor product and service design and direct age discrimination. The FCA also highlighted that, "There are risks that older consumers' financial services needs are not being fully met, resulting in exclusion, poor customer outcomes and potential harm". While some high-street banks[13] provide support for this age group, many have been particularly impacted by bank branch closures; c3,000 branches vanished between 2014 and 2018.

Neil Harris feels that older consumers generally have good financial awareness but have a very different subset of requirements. They can be excluded by lack of access to technology or digital capability, and another factor, trust. This consumer segment often prefers to speak with a trusted party to address their queries, which could be as simple as 'what's my account balance?' or 'I have lost my card'. And whilst there are Fintech providers that offer that level of service, there is a need for the Fintech community to embrace that population sector, to help them understand what their options are and to provide those levels of service which they require such as telephone banking. Lara Oyesanya, General Counsel and Chief Risk at Contis, adds, "Building products and services that are simple and transparent, providing easy access to them and building trust will go a long way to address exclusion."

> **"Older people are being excluded from essential financial services as a result of poor product and service design and direct age discrimination."**
>
> **AGE UK**



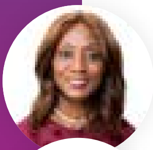


Even where elderly consumers have adopted digital ways, natural cognitive decline will still make them vulnerable and disadvantaged at some point in time. Telephone, online, door-to-door and card scams have proliferated during the pandemic, and those with cognitive decline are easy targets.

11 https://www.pensionspolicyinstitute.org.uk/research/pension-facts/table-1/

12 Policy Position Paper on Financial Inclusion by Age UK, Nov 2018: https://www.ageuk.org.uk/globalassets/age-uk/documents/policy-positions/money-matters/financial-inclusion-policy-position-nov-18-clean.pdf

13 For example, HSBC launched a 3year strategic partnership in 2016 with Alzheimer's Society and Alzheimer Scotland and offer a guide to managing money with Dementia https://www.hsbc.co.uk/content/dam/hsbc/gb/pdf/help-and-support/managing-money-with-dementia.pdf



> **“**Building products and services that are simple and transparent, providing easy access to them and building trust will go a long way to address exclusion.**”**

LARA OYESANYA
General Counsel and Chief Risk at **Contis**

The issue is not so much that this population does not trust the banking companies or their products, but they don’t necessarily trust their own abilities to spot a potential scam. Cognitive decline means that consumers may need a more supported environment for their banking services than digital banking currently offers. The decline in cognitive awareness is unpredictable and not tied to a specific age, so it is hard to identify who this will affect and when. With an aging population this is not a problem that will go away, and the right banking services will need to be there to ensure this population are not financially excluded.

There are, however, opportunities for companies to meet the needs of this consumer group, developing simple to use products, building trust and providing clear lines of help and support. A good example of this are the digital banks that have shown users how to use their services in a branch and have the option to return to the branch if they need more help. There will always be older people who will be unable to take up digital solutions, which provides a market for companies who are interested in serving it. Different products offer different ways to protect consumers and there are some great examples of banks that have ensured they cater for this vulnerable consumer group.[14] The challenge is for Fintech to ensure that their products also cater for this group, to give them trust and reassurance in digital payments.

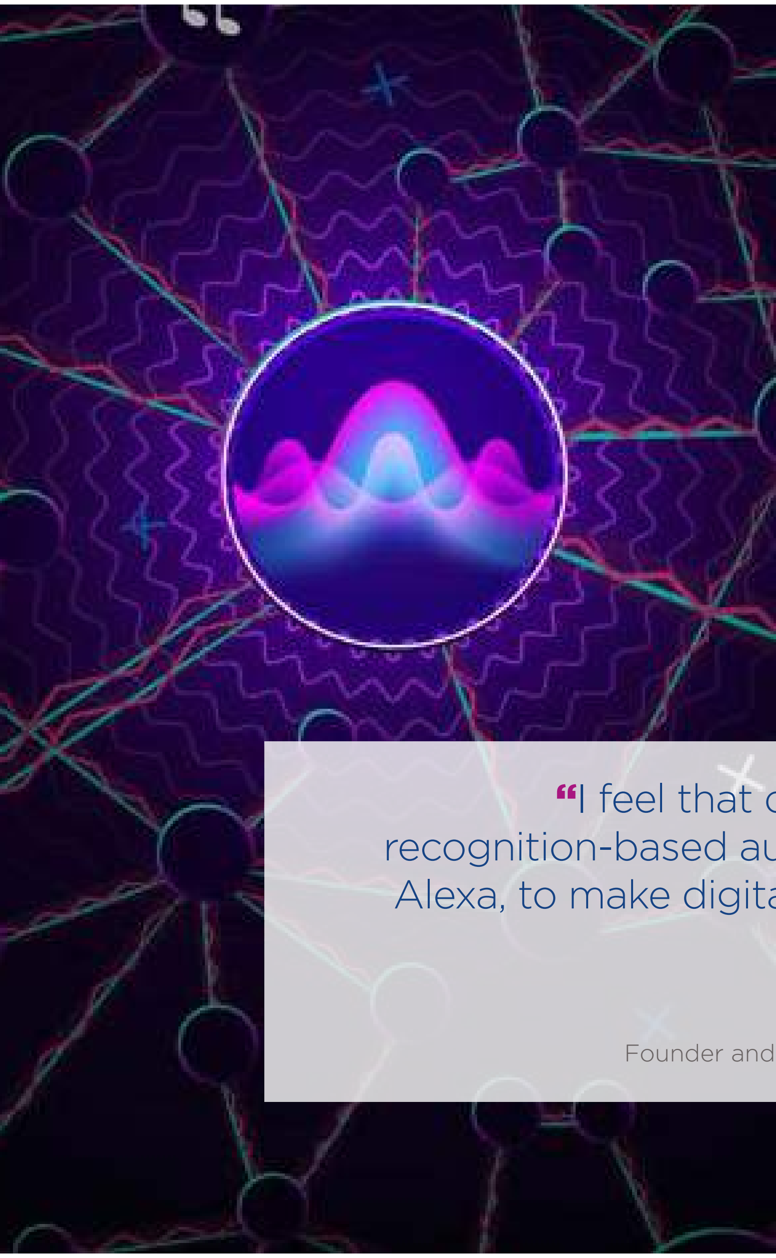
14 Age Friendly Banking, 2015 – Age UK: https://www.ageuk.org.uk/documents/en-gb/for-professionals/policy/money-matters/report_age_friendly_banking.pdf?dtrk=true

While 'carer cards', joint accounts and power of attorney, for example, can support those suffering cognitive decline, Dave Birch of Consult Hyperion feels that digital wallets could use voice recognition-based authentication, such as Siri and Alexa, to make digital services more accessible to the oldest age group. His 93 year old father, for example, struggles with his smartphone but could ask his voice interface if a utility bill had been paid. And consumers can already give permission to Siri to work with a bank or third-party payment services, i.e. to take spoken instructions from the consumer.

The Post Office Card Account (POca) provides its users, who are 75% pensioners and many aged 75-90, with a vital source of cash. However, the DWP is ending the contract and encouraging POca customers to move to a different account. Anne Pieckielon from The Inclusion Foundation suggests that, with increasingly fewer retailers accepting cash (especially during the pandemic), we should be asking these consumers what they need to do with the cash. This may provide an opportunity to help some of this group to understand and move to other safer and equally convenient methods of payment that still meet their needs and give them more sight of where their money is going. The Access to Cash Review report[15] demonstrated that this is not a solution for everyone, but it is an option for a sizeable proportion of this group.

A recent entrant to the market is the Longevity Card, a product designed with over 65s as its core audience. Hot on the heels of its Healthtech offering, targeting consumers interested in health and wellbeing, which is due to launch before the end of 2020, Sergey Balasayen, CEO of Longevity Card, discussed its Agetech financial product for launch in April 2021 targeted at people aged over 65 years old. This will offer the user a current account and debit card alongside access to discounted products and services relevant to that age group through its marketplace. Considerable attention has been given to the user experience and behavioural aspects of this age group, using focus groups to help ensure it meets their needs, particularly around digital skills and cognitive decline. As a result, the product will be very easy to use and includes video-based support to enable human interactions just like a bank branch. Voice-based controls will help people with disabilities, and connect them to a marketplace of relevant products and services. There will be a strong focus on protecting the account owner from financial exploitation, with suspicious transactions triggering an SMS message to a nominated family member for review and approval or decline.

The buying power of wealthy individuals in this age group makes it too lucrative to ignore, and start-ups such as the Longevity Card have the chance to provide relevant and profitable products for these consumers. However, this is not a one size fits all solution, as those with the least buying power often have the greatest needs. ■



"I feel that digital wallets could use voice recognition-based authentication, such as Siri and Alexa, to make digital services more accessible to the oldest age group"

DAVE BIRCH
Founder and Global Ambassador, **Consult Hyperion**

15 https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf

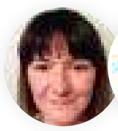
STICKING POINTS TO ACHIEVING FINANCIAL INCLUSION

Customer-centric banking

Banking is an essential service, like water, power and communications. The traditional banking model has changed significantly in recent years with traditional high street banks, which enjoy the trust of a large consumer base, cutting costs and boosting profits by reducing branch-based services as more services become available online. As society demands the adoption of new technologies, legacy systems cannot keep up. Meanwhile, Fintech start-ups are leveraging technology to offer a rich user experience and innovative services. This provides a perfect storm for the unbanked and underbanked who may be hampered by lack of internet access, digital skills, the right identification documents or other barriers, where the legacy banks become less accessible but the newer digital banks do not cater to their needs.[16]

Yet, the number of the unbanked has fallen over time, from 2.85m in 2005/6 to a record low of just below 1 million in 2018-19. Since early 2016, UK banks have been obliged to provide fee-free basic accounts to any customer, following an agreement between the banking sector and HM Treasury,[17] and 7.5m basic bank accounts have been opened since June 2018. These accounts allow users to deposit and withdraw funds, as well as set up direct debits and automatic payments free of charge. It is worth noting too, as Wendy Rogers comments, "basic bank account users have gradually moved up to having a regular current account and gained access to other financial products".[18]

> **"Basic bank account users have gradually moved up to having a regular current account and gained access to other financial products"**
>
> **WENDY ROGERS**
> Segment Director
> (inc. Customer Vulnerability),
> **Barclays**



However, according to Chris Pond, the number of unbanked is not a good measure of inclusion or exclusion. "Many of those who have decided that they don't want or don't need a bank account, just need a way of making payments", explains Chris. "The current financial provision doesn't meet the need for the way they lead their lives. And they don't trust it in many cases".

16 https://www.fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf

17 https://www.gov.uk/government/news/fee-free-bank-accounts-launched

18 Banks will review their basic accounts and may move a customer (with at least two months written notice) on to a more appropriate current account if their financial circumstances change. https://www.moneyadviceservice.org.uk/en/articles/basic-bank-accounts#managing-your-basic-bank-account - https://www.which.co.uk/money/banking/bank-accounts/best-bank-accounts/best-basic-bank-accounts-axdj05l1236r

"Flex customers drive the design and development of the product through its member-owned community. By linking feedback directly to the bottom-line, gaining customer data and customer feedback, Flex is better able to understand what an individual wants to do with their money and how to achieve that."

flex

JOS HENSEN GRIC
Founder of **Flex Money**

Dave Birch agrees, "We don't have the financial services that the people who don't have bank accounts want. They may want something that is cheaper, simpler and something where KYC doesn't present a problem".

There are already some innovative products and services trying to meet the needs of these consumers. Contis offers an end-to-end platform and alternative payments technology to enable companies to build their own payments solutions. They believe this could be an alternative to a bank account. The platform offers a ready-to-use back-end payments infrastructure, leaving its Fintech clients to focus on consumer needs. One of their clients serves agricultural workers, for example, who receive their wages in cash and need to make payments such as rent.

Flex Money is part of a new wave of Fintech start-ups, designing products and services for underserved customers. Flex customers drive the design and development of the product through its member-owned community. By linking feedback directly to the bottom-line, gaining customer data and customer feedback, Flex is better able to understand what an individual wants to do with their money and how to achieve that. An initial use case is helping people who struggle to access affordable credit. Flex overcomes the data deficiencies in traditional credit scores and enables access to lower cost loans. Customers are given a voice, enabling a form of collective bargaining with retailers to secure discounts or cashback rewards. Flex also communicates in a very personalised way to different consumer groups such as those living with disabilities and older consumers (e.g. providing a larger font size or using less financial jargon). Jos Henson Gric comments, "We are a profit for purpose company because we know that the best way to acquire and keep customers is to serve them better."

One segment of the financially underserved are those who suffer the lack of faith-based financial products. Fizel Nejabat and Zeiad Idris from algbra claim to be the first Islamic digital banking solution. According to Pew Research Centre[19] and the World Bank's Financial Inclusion Database,[20] of the 1.8 billion plus Muslim population globally, 800 million are unbanked. This population forms the majority or a significant minority population of 12 of the 15 most unbanked countries in the world. There are 25 million Muslims in Europe and 4.2 million in the UK. It is also worth noting that within muslim populations, women are the most financially excluded. Although there is access to financial services products, muslims voluntarily exclude themselves due to faith-based reasons. algbra aims to address the needs of this community who prefer to bank with a bank which complies with the principles of Islamic finance.

Another question worth posing is whether the unbanked need a bank account at all. Dave Birch feels they do not. "Unbanked isn't a problem and a bank account isn't the solution". Banks are obliged to offer basic bank accounts, which are money-losing products.

19 https://www.pewforum.org/2017/04/05/the-changing-global-religious-landscape/#global-population-projections-2015-to-2060

20 https://datacatalog.worldbank.org/dataset/global-financial-inclusion-global-findex-database

Many unbanked consumers do not need a bank account and others are excluded anyway by not having proof of identity and address as prescribed. The solution to financial exclusion is not making people have a bank account. The real solution is making sure we have the financial services that cater to the needs of the unbanked, that they know about them and can access them.

Designing products and services that meet consumer needs is the most reliable way of supporting financially vulnerable people. Considerations will include how they are able to access it, the level of personalisation they require, whether they have KYC challenges, what type of support they need and most importantly what they want it to enable them to do. And, having developed the most relevant products and services, making sure they know about them and building trust in financial technology are vital in their adoption.

Impact of cashless society

A large proportion of UK consumers rely upon cash, as it gives them a degree of control which digital payments don't. As a result, they miss out on the benefits of digital financial products and end up paying a poverty premium. Cash usage is not correlated to age, but it is linked to poverty and low income. The quieter, lower footfall and poorer areas tend to be those that lose the cash infrastructure first.

Ten years ago, six out of every ten transactions were in cash.[21] Last year It was predicted that by 2035 this will have decreased to one in ten. This was achieved, however, in 2020 due to COVID-19, and it is unlikely to return to the earlier level of usage. But even if the 20% of the pre-pandemic cash-using population declines to 5% (5-10% continued to use cash in the pandemic despite cash hygiene concerns) it is still substantial enough to be ignored and not catered to. With the steady decline in cash usage, plus the reduced number of ATMs, the the infrastructure of cash becomes increasingly unsustainable, which will leave these consumers unsupported.

"According to Pew Research Centre and the World Bank's Financial Inclusion Database, of the 1.8 billion plus Muslim population globally, 800 million are unbanked."

LINK maintains access to free cash withdrawals and ensures the availability of cash through ATMs and other channels such as the Post Office, PayPoint in retailers and other schemes. Operational resilience and inclusion are LINK's key priorities, according to John Howell. LINK continue to work with the UK Government on a fully inclusive digital payments infrastructure, maintaining inclusion with cash and digital.

Australia is expecting to go entirely cashless by 2023 but Neil Harris thinks the UK will not achieve this before 2025. Insights from Sweden and China demonstrated that the decline in cash acceptance by merchants and retailers, as the UK experienced during the pandemic, was more likely to drive the demise of cash rather than issues around access. Sweden had to reverse this trend with emergency legislation when services such as hospitals refused to accept cash. The UK Government along with the Bank of England, Payments System Regulator and FCA have undertaken timely consultations towards achieving an orderly transition to digital, including one on central bank digital currency.[22]

Emma Stone, Director of Design and Research at the Good Things Foundation, the UK's leading digital inclusion charity, agrees that cash is important and will remain so.

"Unbanked isn't a problem and a bank account isn't the solution"

DAVE BIRCH
Founder and Global Ambassador, **Consult Hyperion**

21 https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf
22 https://www.bankofengland.co.uk/news/2020/october/central-banks-and-bis-publish-first-cbdc-report-laying-out-key-requirements

But there is a risk in moving too quickly to the new (cashless) world as it will increase inequality. And including the consumer in this journey requires education as well as the infrastructure.

John Howell believes that digital currency will become a reality in a decade or so. RTGS (Real Time Gross Settlement) money transfers is already a form of digital currency. Meanwhile use of cash[23] went up 3% in August 2020 over July with the easing of lockdown. The non-traditional banks are mostly digital and have no branches. However, from an inclusion perspective, access to banking (branch) and multi-channel is equally important as compared to a digital-only banking experience.

Dave Birch highlights the need to create cash alternatives, digital cash that the consumer could store in their phone, laptop, TV, accessed and authorised by voice interface. Financial services designed on these principles can reduce dependency on cash. Dave finishes, "If we have cash alternatives, or money with an API, people will build all sorts of cool and useful services. And it's been suggested that it would give us a much-needed 3% boost to our GDP".

Tom Clementson, Group Head of Fintech at Vacuumlabs thinks that cash will never go away entirely, although it may exist in other forms and that people will still find ways to trade. "We are still using cheques which were supposed to disappear years ago."

The gap between where we are now and when the U.K will be able to be 100% cashless is huge. Reforms on universal credit, benefit and pensions disbursements need to be in place first, with relevant accessible alternatives to POca that meet the needs of those consumers. ▸

BREAKING NEWS: LINK AND PAYPOINT PILOT FREE CASH WITHDRAWALS

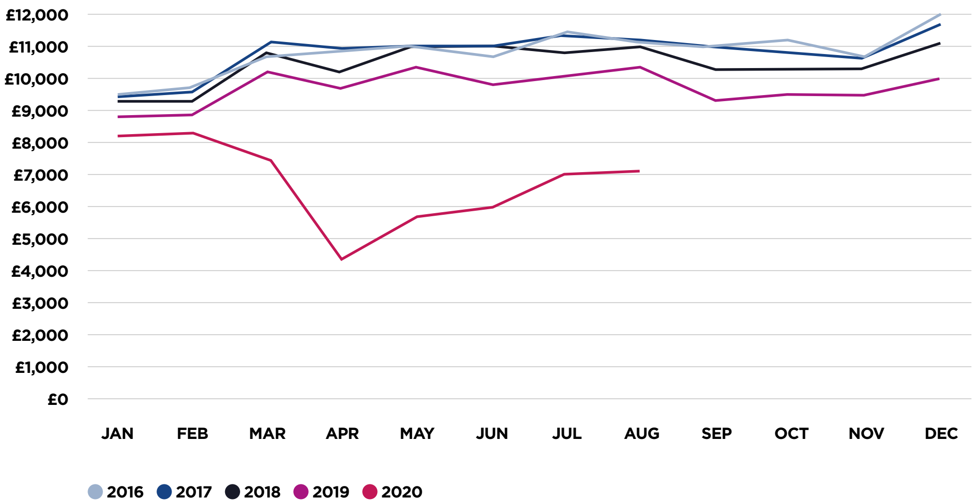
LINK and PayPoint, the in-store payment services and ATM provider, are piloting free cash withdrawals and balance enquiries in 13 shops as part of the Community Access to Cash Pilots. Over 700 withdrawals have already taken place for an average amount of £26.80. Consumers can withdraw precise amounts, helping people on tight budgets or those with insufficient funds in their account to use an ATM.

Adrian Roberts, CCO, LINK comments, "As we use less cash, solutions such as this become more important as ways of providing free access to cash in all communities." Nick Wiles, CEO, PayPoint adds, "It's great to see this pilot receiving strong local engagement in some of the UK communities that have traditionally faced restrictions over free access to cash."

Cashback without purchase is one of the proposed solutions in the current Government consultation on protecting cash access. Rolling the pilot out nationally, if successful, would require modification of existing legislation.

Link Transactions Values (£Millions)

LINK TRANSACTIONS VALUES (£MILLIONS)			
MONTH	2018	2019	2020
JAN	£9,289	£8,788	£8,182
FEB	£9,294	£8859	£8,258
MAR	£10,831	£10,211	£7,450
APR	£10,158	£9,701	£4,399
MAY	£11,023	£10,354	£5,664
JUN	£11,006	£9,837	£5,972
JUL	£10,801	£10,070	£7,076
AUG	£10,954	£10,271	£7,105
SEP	£10,297	£9,336	
OCT	£10,346	£9,512	
NOV	£10,308	£9,494	
DEC	£11,065	£9,985	
TOTAL	£125,372	£116,417	£54,107



23 LINK statistics on cash usage: https://www.link.co.uk/about/statistics-and-trends/

Chris Pond neatly summarises "We need to find an alternative to cash which still gives people that sense of control and trust. Innovative financial mechanisms can address that issue. And we need to make sure in the meantime that those who do rely on cash can still access it."

Digital capability

As we head towards digital financial services and a cashless society, digital inclusion and financial inclusion are inextricably linked. Contributing factors to digital exclusion include poor internet connectivity and coverage, affordability of devices and connectivity, poverty, low digital literacy and English proficiency.

The latest ONS survey[24] reports that 4% of the UK population still lacks an internet connection (mostly in households with at least one adult aged over 65). Recent data shows that only 7% of over 70s are likely to have the capability to shop and manage their money online. And 77% of this age group have very low digital engagement.[25] However, whilst age remains the biggest indicator of whether an individual is online, 44% of those who are offline (those who have no digital engagement) are actually under the age of 60 according to the digital consumer index[26]. Therefore, this is not simply an issue for the older population.

Amit Mallick comments that while technologies such as open banking and situations like COVID-19 provide an opportunity for accelerated adoption, it will also create a divide and exclusion for the ones who are left behind, without access to the insights, tools, better products and services those who adopted digital will benefit from.

Emma Stone tells us that Good Things Foundation have reached out to 3 million people in the last 10 years to build digital skills through their free learning platform.[27] The foundation also enables their network of independent community organisations that help people get online and build their digital confidence in a ace-to-face setting. They have noticed an increase during the pandemic and lockdown of people who have some digital skills but recognise that they need to develop this more. Emma comments, "We need to talk about digital financial inclusion or digital financial literacy. In the world we are living in now, being financially literate also means being digitally literate and able to use online financial products and services."

One-time passcodes sent to a phone is a standard for identity verification, a required element of Secure Customer Authentication. Campaign group Which? reported that 13% of respondents had a poor mobile signal at home and 4% did not own a phone. Since not all banks will send the code via a landline, this could be another way financially vulnerable customers find themselves unintentionally excluded.

allpay doesn't yet have a virtual card but Simon Thomas says this may make it quicker to get people set up with accounts.

> "There is a risk in moving too quickly to the new (cashless) world as it will increase inequality. And including the consumer in this journey requires education as well as the infrastructure."

EMMA STONE
Director of Design and Research at the **Good Things Foundation**

24 https://www.ons.gov.uk/peoplepopulationandcommunity/householdcharacteristics/homeinternetandsocialmediausage/bulletins/internetaccesshouseholdsandindividuals/2020
25 https://www.lloydsbank.com/banking-with-us/whats-happening/consumer-digital-index.html
26 https://www.lloydsbank.com/assets/media/pdfs/banking_with_us/whats-happening/lb-consumer-digital-index-2020-report.pdf
27 https://www.goodthingsfoundation.org/learn-my-way

“We need to find an alternative to cash which still gives people that sense of control and trust. Innovative financial mechanisms can address that issue. And we need to make sure in the meantime that those who do rely on cash can still get access to it.”

CHRIS POND
Chairman at **Financial Inclusion Commission**

But he warns that a virtual card would not be right for everyone as it would require the user to have the right type of phone and to be familiar with using a payment card.

Christina Govier shared a recent example of an older woman who was about to be taken into arrears, not because she didn't wish to pay, but because she didn't have the facility to access the online payment platform. She found it intimidating and was scared, having heard a lot about scams and problems on the internet. After she received face-to-face help, she was able to build the confidence to make payments online. This represents a familiar picture for Christina; her customers respond well when they have someone to guide them through the process before making that first step. Although this is very labour intensive, this is what Christina's customers often require.

Barclays, through their 'Digital Eagles' initiative, helps consumers lacking in digital skills bridge the gap by training 85,000 people to offer assistance within Barclays branches or by phone. Wendy Rogers describes the issue, predominantly among older customers as 'digital nervousness' and the intiative moves people to a place of 'digital comfort'. Customers either contact these trained employees directly or are spotted through customer contact channels. The issues that arise may be something impeding their online banking although not directly related to it, such as helping an online banking customer in her mid-80s update her mobile phone operating system in order to download the banking app.

Neil Johnson feels that while the pandemic encouraged many older consumers to adopt digital financial services, many will remain excluded because of connectivity issues in rural locations, the affordability of devices such as smartphones or desktops and, most significantly cognitive decline. This does not just effect people already suffering cognitive decline but will affect current users of digital banking as they too grow old. There will always be older people who will never be able to take up digital solutions or have to move back to offline services – this provides a market for companies who are interested in serving it with simple relevant products that can find a way to offer 'face to face' support.

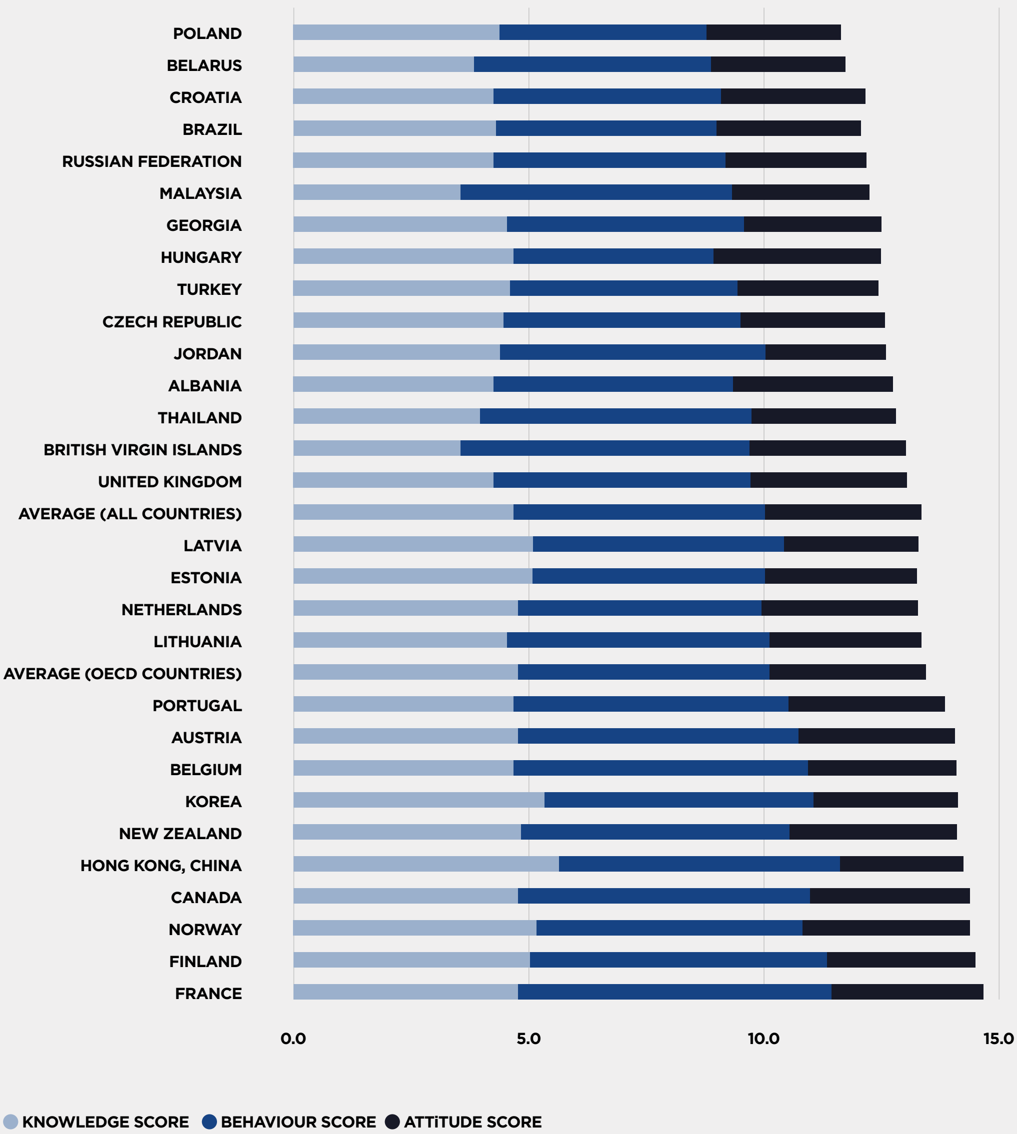
Financial capability

Poor financial skills impact consumers in terms of their savings, spending patterns and how they choose suitable financial products. A pre-pandemic report characterises UK consumers as “prudent spenders”[28] but a lack of financial education across the age groups could also be a factor. Education is vital to developing the ability to manage personal finances. Education is particularly important for those entirely dependent on cash to know their options and to know where to go to access those options.

In 2016, the Organisation for Economic Co-operation and Development (OECD)[29] conducted research on financial knowledge, behaviour and attitudes of the adult populations of OECD member countries. It found that 38% of people in the UK didn't understand inflation and 69% didn't carefully consider purchases. ▸

28 https://zinklar.com/the-good-and-the-bad-spending-habits-in-the-uk/
29 OECD Report on Adult Financial Literacy competencies: https://www.oecd.org/daf/fin/financial-education/OECD-INFE-International-Survey-of-Adult-FInancial-Literacy-Competencies.pdf

Financial Knowledge, Behaviour and Attitude Score



"We need to talk about digital financial inclusion or digital financial literacy. In the world we are living in now, being financially literate means also digitally literate and able to use online financial products and services."

EMMA STONE
Director of Design and Research at the **Good Things Foundation**

"I feel that while the pandemic encouraged many older consumers to adopt digital financial services, many will remain excluded because of connectivity issues in rural locations, the affordability of devices such as smartphones or desktops and, most significantly cognitive decline."

NEIL JOHNSON
Former Director of Finance & Income Generation at **AgeUK**

The study ranked the UK 15 out of 29 countries in teaching financial literacy.

However, there are important steps being taken by institutions to address this inertia and resistance to financial education by some consumer groups. The Financial Wellbeing Strategy[30] from the Money and Pensions Service aims to achieve an increase of 2 million savers among working-age financially 'struggling' and 'squeezed' people. Fintech products such as "round-up" services, nudging the consumer to save a few pence from each transaction, support this and help drive behaviour change.

Chris Pond says, "It's about activity, awareness and adoption. Despite the volume of initiatives by government, the third sector and the industry, it is not being taken up in the way we would hope." And it is not enough to provide the optimal product and assume the audience will come – they need to know about it and trust the provider to give the services they need. Adoption will be a real challenge with barriers both from digital skills and from the confidence to carry out financial transactions online.

Wendy Rogers shared the success of Barclays "LifeSkills" programme, which offers direct support and trains educators to support adults in many areas including financial capabilities. 11.2 million individuals have participated so far, and 95,000 educators have been trained. 78% felt that they improved their understanding on how to manage money.

Marzena Farana-Sherlock of Social Bite suggests that social organisations can play a role in educating consumers. Apart from providing employment to homeless individuals at their café outlets and assisting with opening basic bank accounts, they also help them with budgeting and expense planning, savings and debt management.

Jos Henson Gric explains Flex's approach to financial education uses the "just-in-time" approach of a car assembly line. "Everyone's educational needs are different so we will proactively nudge but will not spoon-feed users. We enable the customer to build their own customer profile so they can tell us what they want."

Of course, financial literacy must also be introduced to younger age groups and children can now learn about money through newly-developed games.[31] This is something they will get from Money and Me, the recently-launched primary school teaching resource from the Bank of England, TES Global and Beano.

30 https://www.moneyandpensionsservice.org.uk/uk-strategy-for-financial-wellbeing/?cn-reloaded=1
31 https://www.bankofengland.co.uk/news/2020/july/learning-about-money-and-financial-literacy-needs-jokes-and-games-say-children

And since schools have limited curriculum time and parents are not always able to teach this, perhaps gamification, the application of game-design elements and game principles in non-game contexts,[32] offers an alternative way to learn about money and basic economics. Just as Duolingo, for example, gamifies language learning and Fitbit gamifies exercise, gamification offers a means to improve financial literacy among an online audience and particularly for children. Yet, there is more to be done. The principles of opening a bank account, budgeting and saving are similar everywhere, but few of the financial literacy online games offered by organisations with no overt commercial affiliation to a bank have a UK focus and therefore don't adequately prepare the player for the UK financial system.[33] While many UK banks offer online resources for financial education, these are largely support material.[34]

Principles and characteristics of gamification are used by banks and Fintechs to transform traditionally dull activities into more interesting, exciting and enjoyable ones, improving the user experience and increasing customer loyalty.[35] Tom Clementson, does, however, express the concern that "the gamification in some investment and peer to peer apps, could encourage people to make unwise spending decisions."

This must be considered by Fintechs when adding game-design elements of their products and services

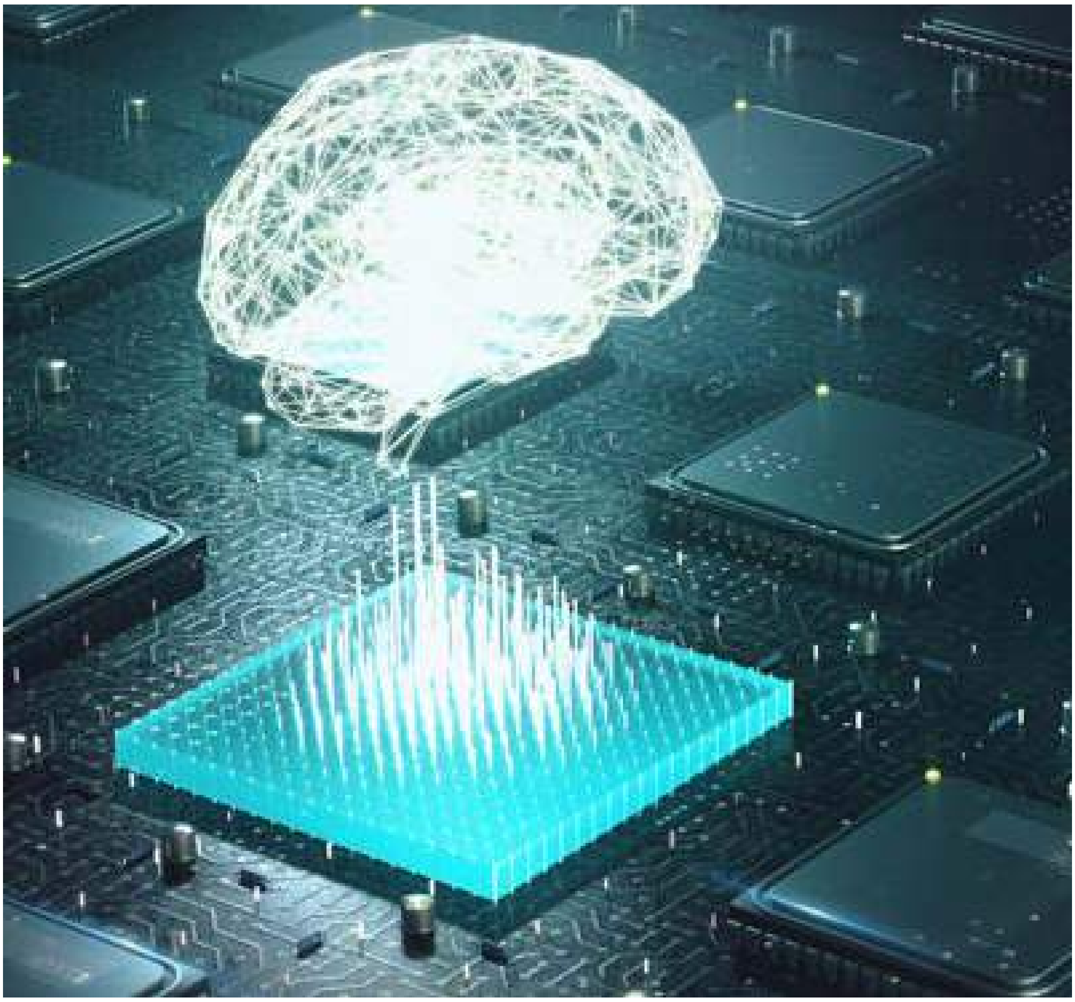
Flex Money uses gamification in its app which helps people solve their financial problems by managing their finances effectively and incentivising their saving and spending decisions. This keeps a positive relationship with the customer and plays to their aspirations (purchases) and delayed gratification (saving). While users are saving towards personal goals, Flex will use gamification characteristics to keep them engaged and to connect them with special deals on purchases through wish list alerts and reward people with prizes.

Christina Govier thinks digital financial products could react to behaviours of users by prompting them to reflect on their transactions. "They might comment on the amount of money they are regularly transferring to one other person's account, checking this is what they want to do and offering advice of where they can get support if required."

It seems Fintechs could make a huge difference in providing financial education through gamification on money management.

Digital financial confidence

It is often easy for those who are well-versed in the fintech industry to disregard the 'consumer fear' spread through the mainstream media.



32 https://en.wikipedia.org/wiki/Gamification

33 bMoneywize offers a financial education game to play in a classroom setting, for example and is developing a bMoneywize app to offer the same digitally. https://www.bmoneywize.co.uk/. There are a number of financial literacy apps in the US aimed at children. https://qcashfinancial.com/financial-literacy-for-kids-and-teens/

34 https://natwest.mymoneysense.com/home/, https://www.lloydsbankacademy.co.uk/financial-skills/, https://barclayslifeskills.com/

35 How gamification can influence the web design and the customer to use the e-banking systems, by Rodrigues et al. https://core.ac.uk/reader/38120516

“Fintechs could make a huge difference in providing financial education through gamification on money management, and providing access to mock sandboxes.”

Fears over the security of personal data and money, propped up by a distrust of financial institutions, present a real barrier to digital engagement for many.

Brian, an ex-barrister who is now a pensioner and in his mid-70s, spoke to us about his relationship with financial services. He has a bank account in the U.K. but resists banking online as he feels it adds nothing and is not secure. He has refused a contactless card to date for fear of it being skimmed[36]. And he does not believe it when he is told online banking is perfectly secure. His concerns are common amongst his peers. Brian always knows what he has spent and how much money he has available. He predicts branch closures and assumes he will have to accept digital banking when there is no other option, despite his misgivings. As a customer, he strongly feels that any product or website developments are done ‘to him’ rather than ‘for him’. Neil Johnson comments on the need to keep this consumer group engaged, as they can feel disenfranchised when websites or apps suddenly look different due to an upgrade.

Whilst open banking has a lot of potential to engage the unbanked and elderly consumer groups, Tom Clementson feels that a lack of consumer trust could dampen its adoption amongst these demographics. Assuming they have a connected device and can download an app, they are required to give away personal information and connect to a bank account online (without having walked into a bank branch and speaking to someone).

Mike Cowen, reflected that people who did not grow up with digital technology can feel a deep sense of unease, fuelled by media stories of online bank accounts being emptied, and that we need to give these people the facts and understanding of how to stay safe online. “We need to avoid a polarised situation where someone’s fear of tech stops them engaging with that tech at all. We want everyone to have the means to participate. This needs a combination of education, knowledge and giving them the controls so that when they are engaging with the tech, and the knowledge that they know they are not exposing themselves to risks that they are not comfortable with.” ■

“We need to avoid a polarised situation where someone’s fear of tech stops them engaging with that tech at all. We want everyone to have the means to participate.”

MIKE COWEN
Head of Product and Innovation, **MasterCard**

36 The practice involves using a small device to capture and store the details on the card’s magnetic stripe – this includes the card number, expiration date and the card holder’s full name. https://www.which.co.uk/news/2019/12/card-skimming-fraud-doubles-five-ways-to-keep-safe-at-an-atm/ - Which?

THE CRUCIAL ROLE OF FINTECHS

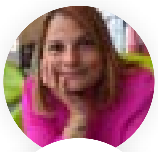
Relevant solutions

Fintechs have thrived on digital technologies and open banking regulations that have created many opportunities. It enables them to challenge the status quo of the existing banking model and come up with incremental and disruptive innovations. However, the question must be posed - are they catering to the needs of the financially excluded and underserved consumers, or are they merely targeting digitally native consumers?

Chris Pond feels that the Fintech sector can partly address financial inclusion by designing services that meets the needs of the underserved and, by making them affordable.

In June 2020, The Emerging Payments Association and The Inclusion Foundation undertook a survey on the role of Fintechs in tackling financial exclusion, particularly during the initial phase of pandemic.[37] The findings revealed existing efforts, particularly in providing access to digital payments for consumers no longer able to access cash and a wide range of partnerships on delivering new solutions to support financial inclusion.

Janine Hirt, COO of Innovate Finance, commented that 2019 saw $4.9 billion investment into the UK Fintech industry.



INNOVATE | FINANCE

"2019 saw $ 4.9 billion investment into the UK Fintech industry. These Fintechs support financial inclusion by improving access to banking through KYC services and through the data services which enable companies to offer consumers the right products at the most relevant time for them."

JANINE HIRT
COO of **Innovate Finance**

37 https://www.emergingpayments.org/whitepaper/epa-covid-19-Fintech-and-financial-inclusion/

“46% of adults in the UK show one or more characteristics of vulnerability”

These Fintechs support financial inclusion by improving access to banking through KYC services and through the data services which enable companies to offer consumers the right products at the most relevant time for them.

Neil Johnson feels that, in order to make products age-friendly, Fintechs should keep their product simple, address trust issues and provide help and support for their products and services. If one can provide good service for its oldest customers, it can provide excellent service for all. This could become a good reference point while designing products.

The control features on cards including enabling the freezing and unfreezing of cards, blocking gambling, ecommerce, transactions at named merchants and even ATM withdrawals has given significant control to the consumer. While Fintechs can roll these features out within a matter of hours, it is a far lengthier process for the traditional banks, which have most of the user base.

But this will become the level of capability expected by the user. And there is the potential for other brands trusted by the consumer – credit unions, other lending facilities or even brands such as telcos – to add an ‘Outside-the-box’ financial services arm to existing business which includes these features.

Also, a few trusted commodities such as gold have seen values rocket during the pandemic. Fintechs such as GlintPay have democratised the purchase of gold, even in very small volumes, which enables savings or investment in a traditional and trusted commodity that might feel more comfortable to some consumers than in something like crypto currencies.

Innovate Finance is contributing to the current UK Fintech Strategy, which includes the theme of financial inclusion with the intention of creating more democratic financial services. In its recent growth capital report,[38] recommendations included a joined-up approach to support scale-ups and accelerating the unlocking of institutional and corporate funding. This will help create innovative products and services and will promote diversity and inclusion, as well as providing the necessary boost to the economy.

Vacuumlabs builds products for Fintech clients. They are involved in the design process, particularly understanding consumer personas and user experience and factoring in the needs of both young and elderly people. Tom Clementson says, “On one side we are building apps for youngsters with cool features such as splitting the food bill amongst friends. On the other side, there could be an elderly person, such as his own mother, living in a village with no access to a bank or ATM or a post office”.

The demand is there for ethical, green and low carbon financial products, but Tom has not seen many products being designed to cater to the needs of the elderly, despite phone companies now making devices that older people will find easier to use. The challenge, and perhaps the biggest opportunity, is for Fintech-powered solutions to encourage financial inclusion by developing commercially viable and consumer-led products and services at fair and affordable prices.

Wendy Rogers of Barclays feels that those in the industry designing products and services could consider how they can use the new FCA guidance regarding vulnerable customers.[39]

38 Growth Capital Report, Aug 2020: https://secureservercdn.net/160.153.138.71/g8r.bcb.myftpupload.com/wp-content/uploads/2020/08/The-Future-of-Growth-Capital-August-2020-1-1.pdf

39 https://www.fca.org.uk/publications/guidance-consultations/gc20-3-guidance-firms-fair-treatment-vulnerable-customers#revisions

46% of adults in the UK show one or more characteristics of vulnerability and, while we can't design the product or service that will meet the need of every individual, it would certainly be a good step to consider the guidance.

Collaborative approach

All those interviewed for this report and others across government, regulatory bodies, telecom and utility companies, are committed to addressing financial exclusion and many have been part of initiatives in this area. Yet, very few organisations have this as their primary focus. Continued and broader collaboration can make these efforts more effective.

Janine Hirt is optimistic about levels of collaboration that can be achieved by organisations to encourage financial inclusion. Innovate Finance recently launched 'Fintechs for schools', with Deloitte, Revolut and Facebook to educate younger people on the role of finance. Janine feels COVID-19 has provided an opportunity for digital inclusivity. She comments, "We have seen a large uptake on digital services recently. Collaboration amongst various organisations such as government, policy makers, regulators and Fintechs is critical to take the underserved groups in the direction of adapting to the change".

Barclays works with consumer groups, both signposting to places like debt advice organisations, and working with organisations like Which and Citizens Advice to better understand and respond to customer needs.

Tom Clementson feels that the government and the private sector could collaborate on targeting excluded communities, especially when the POca disappears, he predicts an ongoing need for a product for things like benefits disbursement. This would require a network of corner shops, post offices and social organisations, providing options for both cash as well as digital. Credit unions and community banks could also be part of the solution. This arrangement may have to be subsidised if it is not commercially viable in its own right.

Partnerships offer a great way to introduce relevant products to niche audiences. Because potential beneficiaries may not have access to the internet, The Inclusion Foundation works with intermediaries such as Housing Associations and the DWP who support customers in understanding the services available to them.

Social organisations, who are much closer to the disadvantaged individuals, can play an important role in collaboration with larger corporates towards providing basic education on card payments, overdrafts, budgeting and savings. Emma Stone comments, "We have a hyper-local community infrastructure poised and ready to support digital inclusion; all it needs is some investment."

There is a huge value chain of collaboration already in the Fintech community which enables them to be more agile than traditional banks. Providers could collaborate to address financial exclusion, with providers contributing input from different perspectives. And the Emerging Payments Association could contribute by bringing the ecosystem together to collaborate. ▸

"We have seen a large uptake on digital services recently. Collaboration amongst various organisations such as government, policy makers, regulators and Fintechs is critical to take the underserved groups in the direction of adapting to the change".

> **While we await the outcome of the government consultation and the development of a reliable digital identity infrastructure, there is no reason why payments companies should not shine a light on how to improve customer confidence on the privacy of their data, transparency about how it can be used and supporting those who would currently struggle to get a digital identity.**

Secure digital identities

The lack of secure digital identity system in the U.K. causes issues which have only been exacerbated by the COVID-19 pandemic. And, in fact, the pandemic has accelerated the drive towards workable digital identity solutions. Now, people not only have to shop and bank online, but must figure out how to work, learn, visit the doctor, vote, and access government services online. Most of these require a digital identity to access, something which people can often take for granted. At the same time identity fraud is on the rise, as evidenced through the volume of online claimants for the Self-Employment Income Support Scheme.[40] To address these two problems, barriers to creating a secure digital identity need to be removed while providing sufficient safeguards against identity fraud.

Huge backlogs in the recent pandemic-related surge in applications for Universal Credit illustrate the importance of a reliable digital identification infrastructure and that www.gov.verify does not fit the bill. Dave Birch feels that if we can solve the problem of digital identity, then a lot of the problems related to payments, money and inclusion go away, with a strong and sophisticated infrastructure on which Fintechs can build relevant products and services. He says, "it is a very short step from Apple Pay to Apple ID, where revocable identification tokens are loaded into the tamper-resistant hardware".[41] "You see homeless people with smartphones, so they are clearly capable of using them, but with no address they can't have a bank account, so they keep money in cash, and remain excluded from financial services"

The UK Government has now (Sep 2020)[42] initiated a consultation on developing legislation for consumer protection relating to digital identity, specific rights for individuals, an ability to seek redress if something goes wrong, and set out where the responsibility for oversight should lie.

40 https://www.gov.uk/government/news/next-steps-outlined-for-uks-use-of-digital-identity

41 Forbes Article by Dave Birch Apple Pay Was Not Disruptive, But Apple ID Will Be (29 Aug2020): https://www.forbes.com/sites/davidbirch/2020/08/29/apple-pay-was-not-disruptive-but-apple-id-will-be/?utm_campaign=OBWC&utm_medium=email&_hsmi=94332883&_hsenc=p2ANqtz--V3X3h1ttBaWroKZTIme2EVNgDwD0QX2Aj4E6Mtjk3fXOfCY6ejtg6fMHLo8o4gd2yIGZyhzaWAhxzwX7LJqqp0Lg2hYHCCxvpmRw2icXUttj3UMY&utm_content=94332883&utm_source=hs_email#3026f05c4d0f

42 Government aims to change laws around digital identities. UK Authority news on 2nd Sep 2020: https://www.ukauthority.com/articles/government-aims-to-change-laws-around-digital-identities/?utm_campaign=OBWC&utm_medium=email&_hsmi=94417192&_hsenc=p2ANqtz-9_WN5T7bHyJHJyWI5vDZBjilXyhwxv7QnxP0zrYYRTYEOkH7tGGviOmwpOyrABc6BrReqFJEU14Rf_YZSdBlcZTooBsi2FEdmi47glehPCiPzAul&utm_content=94417192&utm_source=hs_email

It will also consult on the appropriate privacy and technical standards for administering and processing secure digital identities. The six underpinning principles are Privacy, Transparency, Inclusivity, Interoperability, Proportionality and Good Governance.

While we await the outcome of the government consultation and the development of a reliable digital identity infrastructure, there is no reason why payments companies should not shine a light on how to improve customer confidence on the privacy of their data, transparency about how it can be used and supporting those who would currently struggle to get a digital identity.

Financial service providers vary in their ability to accommodate non-standard identification documents. This can be more challenging when the KYC process is online with minimal human intervention. While working towards developing secure digital identity, we must not overlook the consumer who is struggling to prove their identity without being online and needs face-to-face contact.

Open Banking

In June 2019, the government launched the Smart Data Review[43] to consult on expanding Smart Data beyond banking. In September 2020, the Government announced New Smart Data laws[15] that will allow consumers and small businesses to benefit from better deals and savings. Smart Data enables businesses to provide consumers with more intuitive, easy-to-use services. This includes better account and bill management, switching services for savings, and targeted support for vulnerable consumers, by allowing businesses to share customer data with authorised third-party providers in an easy and secure way. Dave Birch feels that the real step forward will be when applications enable the consumer to see all their data in one place – accounts, credit cards, mortgages. Open banking could enable the development of services that could transform financial services for the consumer, nudging them to make wise decisions, based on visibility of their spending patterns.

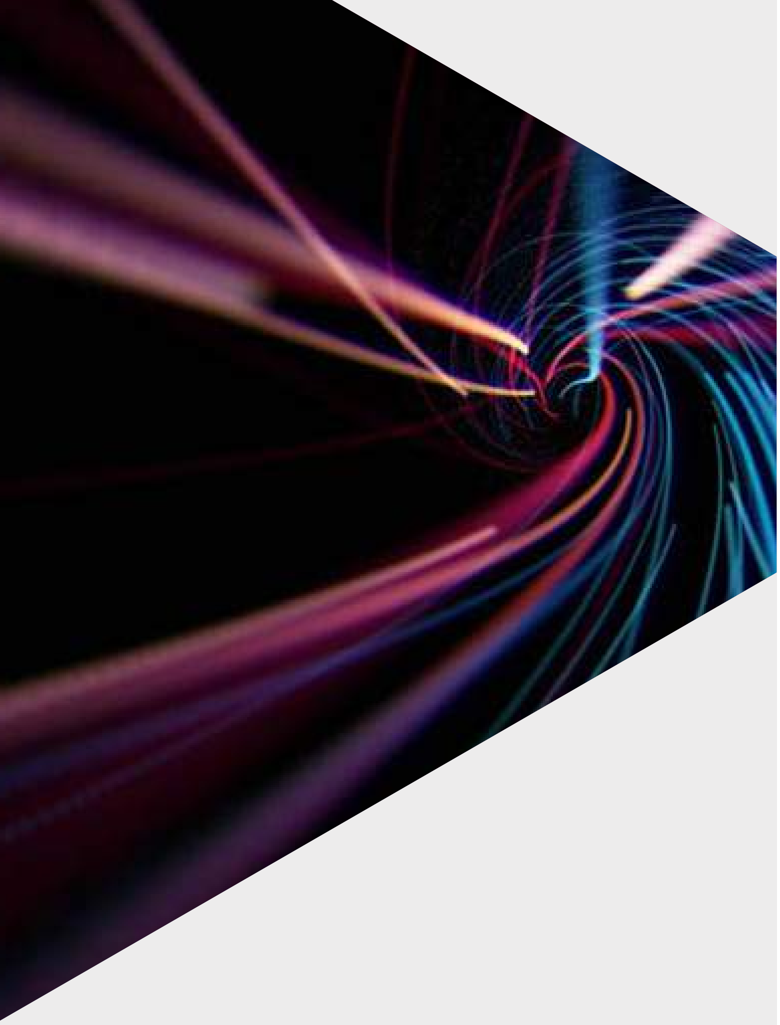
Accenture, through their 'open banking for good' initiative, and in partnership with Nationwide and Nesta,[44] undertook a study of the 'financially squeezed' (underserved) consumer groups, who are without a regular source of income and who, therefore, experience spikes in their income and expenditure.

> "Older people can have a fear that if they press the wrong button, all their money will be siphoned off to a scammer or they will buy something they don't want."

NEIL JOHNSON
Former Director of Finance & Income Generation at **AgeUK**

43 New Smart Data laws will allow consumers and small business to benefit from better deals and savings: https://www.gov.uk/government/news/consumers-and-businesses-to-be-given-more-control-of-data-under-new-laws?utm_campaign=OBWC&utm_medium=email&_hsmi=94953449&_hsenc=p2ANqtz-952U5144DRuUMJ5pYgrvfnT9u4KW8Plx59VwA7QDubKXPLvP-h0Fyyja3eeZDj5yOyB-aHwQGn_pAe970HbWMnBF5HiFw8bSfkiiMDE31YGa_rK2I&utm_content=94953449&utm_source=hs_email

44 Open Banking for Good: Moving the Dial? https://static1.squarespace.com/static/5b3b35d95b409b6cfd1c9ad6/t/5dfb93a26bc56420bffec1d8/1576768422751/Moving-the-dial+PFRC+evaluation.pdf



"Open banking is enabling companies to start building services on top of the existing infrastructure to provide innovative solutions for consumer problems. Multi-generation mortgages are now on offer, so why not multigenerational bank accounts so families can save together and look out for each other?"

DAVE BIRCH
Founder and Global Ambassador
Consult Hyperion

Accenture explored how open banking could help develop an understanding of this through income smoothing, money management and advisory services. Accenture foresees a touchless society becoming the new normal as a consequence of COVID-19, enabled through tools and initiatives such as open banking, open APIs, artificial intelligence and better data management.

One of the target outcomes in the FCA's 2020/21 business plan[45] is that vulnerable consumers are not exploited or targeted with poor value products and services, and access to key products and services is fair. Initiatives such as open banking and smart data can improve markets and help those who are financially vulnerable get better deals, lessening their vulnerability.

By gaining access to the data from customers' bank accounts, merchants and retailers will be better able to understand a customer. By assessing their financial standing and their spending, merchants could avoid risks and consumers could avoid falling into arrears. This surety of payment should drive prices down to the benefit of consumers, whether from suppliers of vital utilities or a satellite TV provider.

But to enable this, consumers need to understand the value of open banking. Neil Johnson feels that open banking companies will have a challenge in building trust among older people to counteract the fear of losing control and not knowing what is happening to their money. "Older people can have a fear that if they press the wrong button, all their money will be siphoned off to a scammer or they will buy something you don't want." Neil predicts that establishing consent and ongoing consent, a vital component of open banking, may be challenging with older people as well as this demographic contending with other barriers like further online passwords and security questions.

Dave Birch comments, "Open banking is enabling companies to start building services on top of the existing infrastructure to provide innovative solutions for consumer problems. Multi-generation mortgages are now on offer, so why not multigenerational bank accounts so families can save together and look out for each other? Financial inclusion has not always been at the top of everyone's agenda. But now we have the tools to do things differently, and with some thought, develop entirely new products and services that people want and need." ■

45 https://www.fca.org.uk/publications/corporate-documents/our-business-plan-2020-21

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Consumers

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This report is not a conclusion on findings but rather the continuation of an important conversation to address the very real issue of managing one's finances effectively and helping those who need an extra hand.

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About the EPA

The Emerging Payments Association (EPA), established in 2008, connects the payments ecosystem, encourages innovation and drives profitable business growth for payment companies. Its goals are to strengthen and expand the payments industry to benefit all stakeholders.

It achieves this by delivering a comprehensive programme of activities for members with help from an Independent Advisory Board, which addresses key issues impacting the industry.

These activities include:

- A programme of 70 events annually
- Annual Black-Tie award ceremony
- Leading industry change projects
- Lobbying activities
- Training and development
- Research, reports and white papers

The EPA has over 150 members and is growing at 30% annually. Its members come from across the payments value chain; including payment schemes, banks and issuers, merchant acquirers, PSPs, merchants and more. These companies have come together, from across the UK and internationally, to join our association, collaborate, and speak with a unified voice.