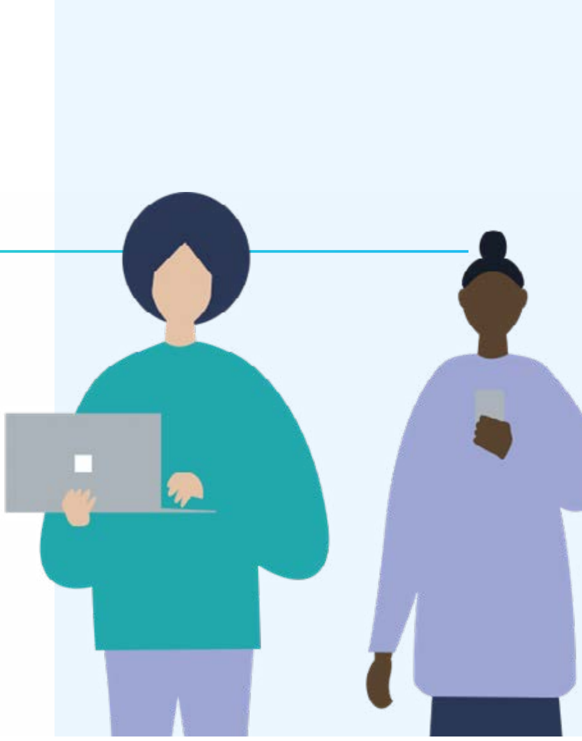
In association with

The Network Effect

Digital payments as a gateway to financial inclusion

theinclusionfoundation.org

Contents



Foreword

Last year I had the privilege of chairing the UK Finance Payments Futures Strategy Project. This involved collaboration with more than 100 practitioners from over 40 firms, the Bank of England and regulators to deliver a ten-year vision for the payments industry.

We pooled experience, expertise, and ideas to shape a dynamic, united vision for UK payments. This collaboration also revealed a universal ambition to move digital and financial inclusion to the top of the agenda. I care passionately about this and believe it is time for more action. Why?

Payments is the ideal launchpad for financial inclusion. Every financial transaction requires a payment, and as a universal customer touchpoint, the payment is the ideal place to educate, influence behaviour and do more for customers. As the industry collaborates to promote digital payments, it makes sense to identify opportunities to boost financial inclusion.

Digital and financial inclusion should be top priorities today. All UK adults should be able to access financial services that meet their daily needs, goals and aspirations. Being financially included begins with opening a bank account, which is much more than just a means to make and receive payments: it's also a gateway to credit, insurance, pensions and saving products.

Yet today, over one million UK adults are unbanked and depend on cash. And in the modern age, digital inclusion is a prerequisite for financial inclusion. The pandemic has accelerated change in the way people shop, bank and pay. Contactless payments have soared and most people welcome digital as a more convenient, secure way to pay - but those dependent on cash faced unprecedented challenges and continue to do so.

The rise of digitalisation means people who depend on cash will face further exclusion as the "digital divide" widens. As we emerge from the pandemic and now face a daunting increase in the cost of living, the time is right to tackle digital and financial inclusion. But there are other good reasons to start right now.

Bringing the unbanked and underbanked into mainstream financial services is a moral duty but also something we should do out of enlightened self-interest. In serving the needs of the currently excluded, we are cultivating the customers of tomorrow.

Marion King
Chair of the Advisory Board
Payments Association

Financial inclusion, therefore, is both a challenge to be solved and an opportunity to be seized. The real issue is how to make it a reality and to determine who should be in the driving seat. At first glance, this might seem a challenge for government and banks but in practice, it is of far wider concern. Financial inclusion should be everyone's business.

This eBook offers a summary of recent discussions with senior industry leaders who kindly offered their time, opinion and expertise. Contributors include: FutureDotNow, Pennies, The Inclusion Foundation, The Payments Association, Toynbee Hall, UK Finance and Ron Kalifa OBE, Chairman of Network International.

Together, we have identified the main sources of financial exclusion, what it really means and why it is a societal challenge. We agree there are four pillars that enable financial inclusion: technology, government and regulation, education, fraud prevention and trust.

No single government, organisation or industry can offer a roadmap to financial inclusion. It must be a strategic priority for all. Now is the time for banks - in collaboration with regulators, charities, and private companies to drive change for good.

We hope you find our eBook interesting and that it encourages you to join the debate. ■

Executive summary

Financial inclusion is hard to define, but it begins with access to mainstream financial products. Although the UK prioritised financial inclusion by introducing basic bank accounts in 2004, over one million UK adults remain unbanked and dependent on cash, and many with bank accounts barely use them, preferring to withdraw their money each week and manage it as cash.

The way people bank is changing fast and COVID-19 has forced the pace. As digital banking approaches ubiquity, the "digital divide" is widening the gap between the banked and the unbanked. As most banks continue to downsize their branch networks, face-to-face services and access to cash remain crucial. For many customers cash is all they know, so they are becoming marginalised. Most people excluded from mainstream financial services are also digitally excluded.

Today, digital inclusion is a prerequisite for financial inclusion. People who lack digital tools and network access can – and do – pay much more for essentials and face an increased risk of poverty. As we emerge from the pandemic, there is a universal desire to push for digital, but we must carry everyone with us.

Although digital exclusion is a major problem, technology can also enable. Digital services are cheaper to manufacture, distribute and manage than any others. These savings can make services more cost effective and affordable. Digitalisation also means services can be customised to meet specific needs of groups who may be unsuited to mainstream financial services. But the gaps in skills, access, motivation and infrastructure that create digital exclusion need to be closed.

Everyone benefits from being incorporated into the formal economy. As business flourishes, productivity improves, and tax receipts increase. By promoting digital – and financial – inclusion, banks are cultivating the customers of tomorrow. How do we drive change?

Financial inclusion means changing behaviour. There is a real need to have a managed transition from cash, but the incentives must be in place, and they need to be marketed. The introduction of basic bank accounts allowed people to access benefits quicker and through an ATM. So, there was a clear sustainable incentive to change, and it was very effective. Banks must make new financial products appealing, intuitive and easy to use.

Although it is easy to discuss financial inclusion in relation to banks, in practice the debate is far wider. As the number of customer channels and touchpoints expands, more parties are involved in transactions. Payments is the perfect entry point for financial inclusion, but every member of the value chain has a part to play - banks, consumers and businesses.

The rise in digital is accompanied by the emerging revolution of Open Banking and new payments models. These changes will hugely expand the breadth and reach of financial services, in ways that can support efforts to improve financial inclusion. The key to improvement is to use technology and data in new ways, rather than replicate what's gone before.

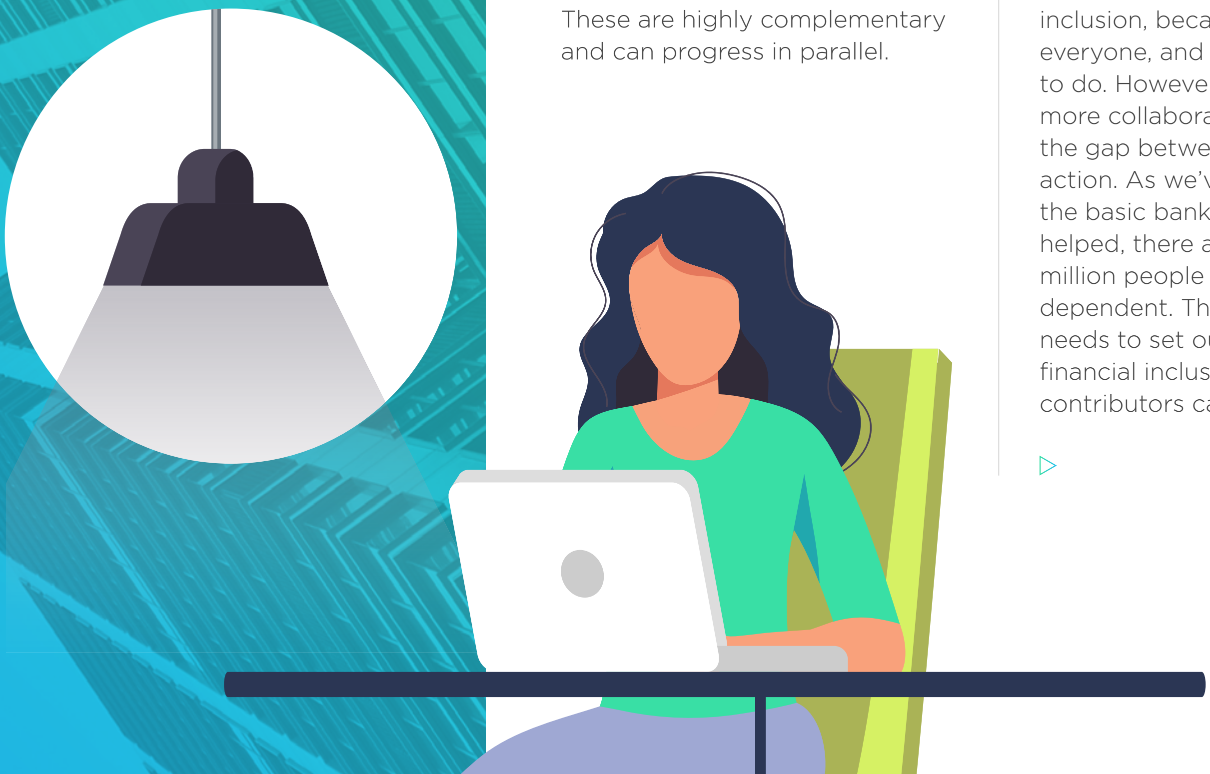
The overall view of this eBook is that digitalisation can boost financial inclusion. But collaboration is essential to drive innovation and align services closely with specific customer needs. We consider four pillars to financial inclusion: technology, government and regulation, education, and the human touch. These are highly complementary and can progress in parallel.

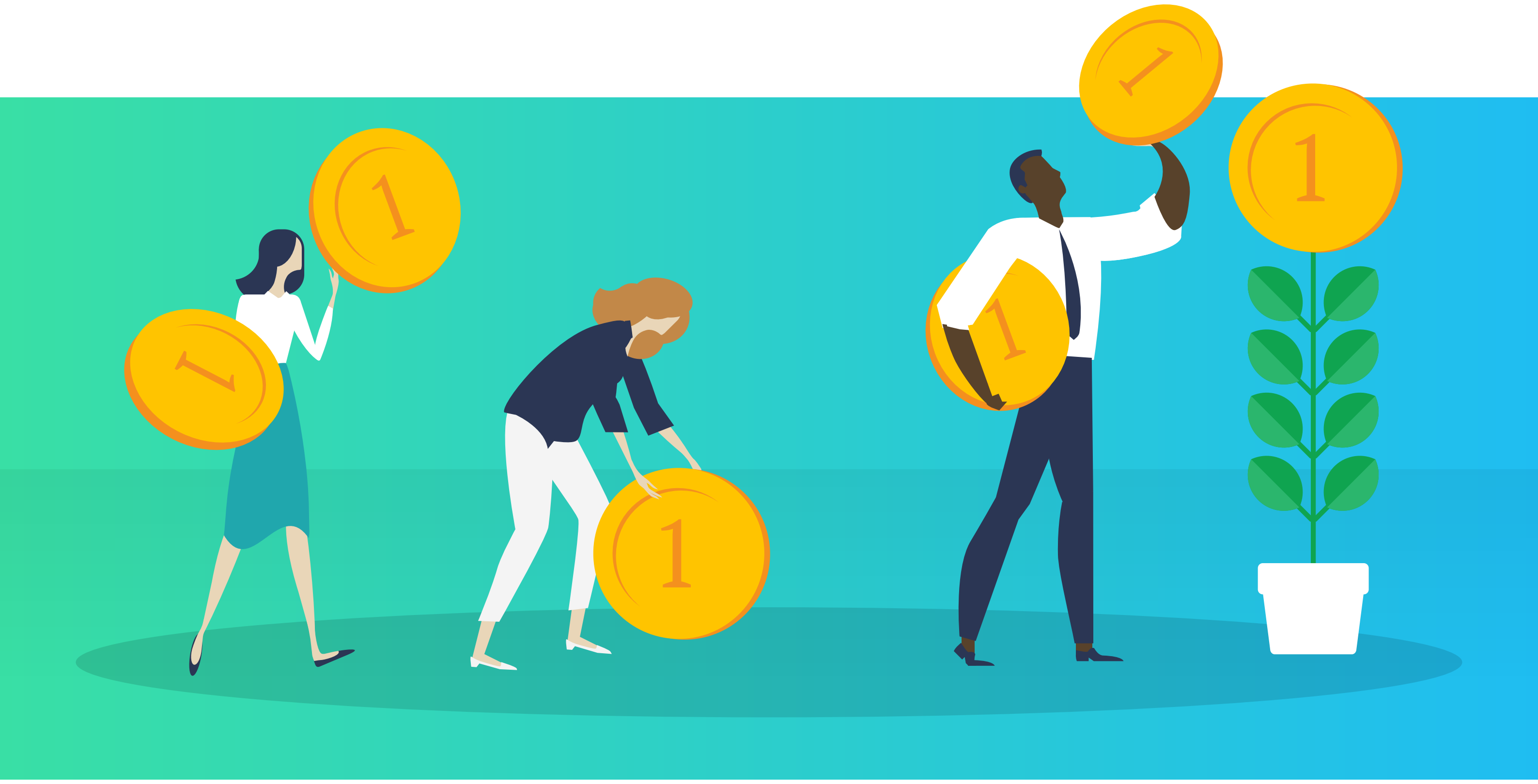
Technology

So far, Open Banking has focused on payments and information-sharing. As it morphs into open finance, there is a great opportunity to harness the power of data. Increased data sharing will transform the customer experience and help people manage their money more easily, which will drive financial inclusion. Request to Pay, for example, offers an attractive alternative to Direct Debit for those on low or irregular incomes. It gives more control to the person or organisation being asked to pay and gives the biller all the information to reconcile a payment when it arrives.

Government and regulation

All governments want financial inclusion, because it benefits everyone, and it is the right thing to do. However, the UK needs more collaboration to bridge the gap between thinktanks and action. As we've seen, although the basic bank account has helped, there are still over one million people who are cash dependent. The government needs to set out an agenda for financial inclusion so that all contributors can play their role.





Education

Digitalisation is accelerating at breath-taking speed and education is struggling to keep up. It's essential that we help the population become fit for the future. Collaboration is essential between business and providers of education to retain and upskill adults in work, and to ensure that the next generation are leaving education with the skills they need to get a good job. As the UK moves away from cash, there is a need for everyone to understand how different digital payment types work, the advantages of each and the differences, for example between real time and near real time. Many people are confused by account balances that may include pending transactions. Such basic consumer education can make a big difference.

Fraud prevention and the need for trust

Digitalisation produces a far greater attack surface for criminals but there are other factors. The growing number of transactions and speed of initiation and fulfilment make it easier for the fraudster. When a consumer is a victim of fraud, the damage to the bank's brand is unquantifiable and it becomes a cautionary tale in the headlines. But fraud prevention should not be a competitive sport, all need to work together and raise the bar to the highest level. This requires collaboration between government and across industry to keep consumers safe online. People need to have confidence in the services they use. Many people continue to hold cash because it is familiar, and this became clear when we saw a bounce back to cash after the pandemic lockdowns.

The human touch

Even though financial inclusion is heavily dependent on technology, education and financial services have a strong role to play. History shows that education and behavioural change starts with families and peers. Here, collaboration can drive change and inclusion. Digital learning is a two-way street, where parents are often educated by their children. Although much of the recent discussion has focused on digital, other channels are important, for example: post offices, the ATM network and credit unions. There is broad spectrum of stakeholders who are driving improvement, including charities such as FutureDotNow and local government agencies such as employment and benefit offices. A holistic approach is essential to maintain momentum.

Chapter 1. What is financial inclusion?

Financial inclusion is an umbrella term that takes in a broad range of issues. According to the World Bank, it is when "...individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way".[1]

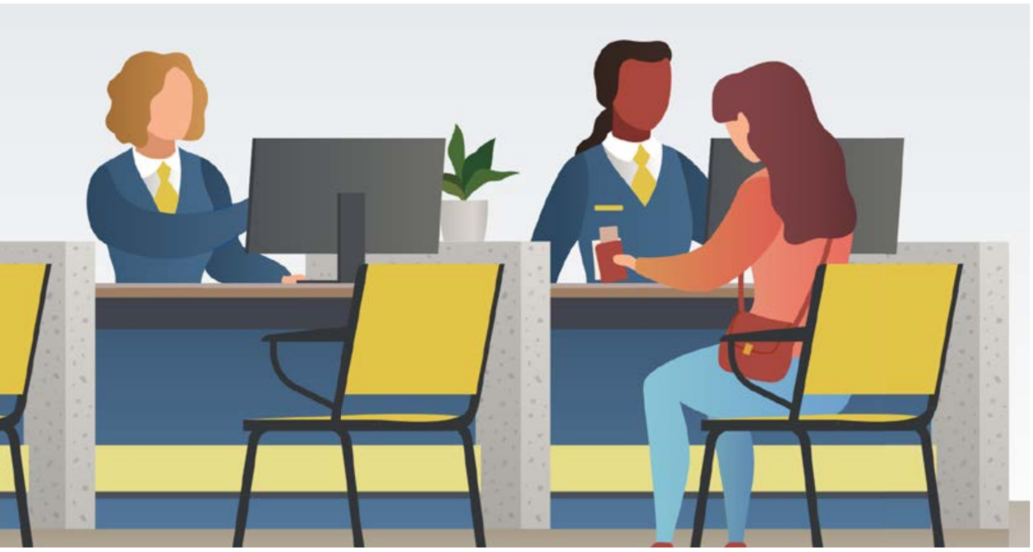
Although financial inclusion is a global imperative, the focus of this eBook is the UK. In 2004, the UK prioritised access to a bank account, a key component of financial inclusion, with the introduction of basic bank accounts. These simplified current accounts do not allow overdrafts and are therefore available for people with poor credit scores. There are now around 7.5 million basic bank accounts open, which shows good progress in less than two decades.[2]

However, around 1 million UK adults remain unbanked. And a further 12.5 million individuals do not have the skills to manage money. This is a significant challenge for government and financial institutions seeking to serve these people.[3]

In parallel, the way people bank is changing fast. Most people like the immediacy, convenience and security of digital banking and payments. In 2019, UK Finance found that 72% of adults had used online banking and 50% had used mobile banking.[4] The COVID-19 pandemic has accelerated this trend. However, because of the challenge of "digital inclusion" this is widening the gap between the banked and the unbanked.

Branches and cash

Access to face-to-face services continues to be an important channel for many customers, particularly the financially vulnerable. But many banks continue to downsize their branch networks. And just as personal contact is a critical part of financial inclusion for many, so is cash. Many people need access to cash because it is all they know and their only way to pay, plan and budget. These are the people who most need help to participate in the digital age. Ultimately, when people are dependent on cash, they have less choice and become marginalised.



"When we talk of financial why individuals do not use mainstream financial products and services. In most cases we are probably talking about people who use cash rather than digital financial services."

Gerard Lemos, Former Chair of Payments UK

"Many people are not 'excluded' but simply 'overlooked' by financial services providers. Companies that develop and promote products that reflect their gender, age, ethnicity, faith or geography are finding consumers ready to use them because they are for people 'just like me'."

Tony Craddock, The Payments Association

1 https://www.worldbank.org/en/topic/financialinclusion
2 'Basic bank accounts July 2018 to June 2019', HM Treasury, December 2019.
3 DWP, Financial Inclusion Report 2018-19
4 'UK Payment Markets Summary', UK Finance, June 2019.

"Digital inclusion is a prerequisite for financial inclusion – one cannot progress without the other. Last year there was a 50% increase in online use, but around 4% of the UK population are still digitally underserved."

Neil Harris
The Inclusion Foundation

Inclusion and inclusivity

In practice, there is also a difference between financial inclusion and financial inclusivity. Financial inclusion is about having access to existing financial products or services, while financial inclusivity is about having products that anyone can access, regardless of their financial background or circumstances. Historically, financial services have been manufactured to suit the needs of the greatest number. And certain financial products can carry a stigma, such as cards offered to people on benefits.

"Financial inclusion is not a CSR activity. It's about helping people who face extraordinary challenges in their everyday lives. Financial inclusion is often only one part of the challenge. Many people are not themselves vulnerable but find themselves in a vulnerable situation and need support & guidance."

Neil Harris, The Inclusion Foundation

Financial exclusion affects a wide range of people at various stages in life. Those on low incomes are particularly vulnerable. Age, education, digital and income are just some of the factors that can influence the level of financial exclusion experienced by an individual.

But for the most part, we know that most people excluded from mainstream financial services are also digitally excluded. Today, financial inclusion depends on digital inclusion.

Digital inclusion: the foundation for financial inclusion

Digital inclusion is a huge challenge in the UK. It is also a social issue. People who lack digital tools and network access can pay much more for essentials, experience financial exclusion, and have an increased risk of poverty. They also lack a voice and visibility in the modern world, as government services and democracy increasingly move online. Digital skills have become essential in all walks of life and work, but here too, the UK is falling short of requirements.

"There are currently 11.8 million people in the UK workforce who don't have the basic digital skills that are essential to working effectively. That's a massive 36% of the workforce."

Holly Chate, FutureDotNow

Digital skills gap

There are huge regional differences as well as variance across industries, and many people are excluded from opportunities due to a lack of skills. As we emerge from the pandemic, there is a universal desire to push for digital. But to achieve this, the workforce must have the skills. They also need these digital skills to participate fully in society and to access financial services. If people are not connected, they are both digitally and financially excluded. The pandemic accelerated digital adoption globally at a pace that could not have been predicted. While this has delivered benefits, it has also highlighted the digital divide and compounded the challenge of financial inclusion.

"Digital inclusion is a prerequisite for financial inclusion – one cannot progress without the other. Last year there was a 50% increase in online use, but around 4% of the UK population are still digitally underserved."

Neil Harris, The Inclusion Foundation

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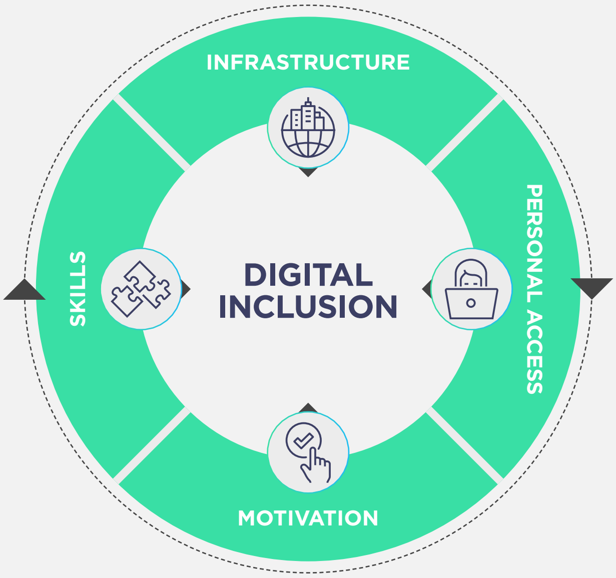
The four elements of digital inclusion



INFRASTRUCTURE
NETWORK availability and speed of connection in the local area

PERSONAL ACCESS
DEVICES to suit one's needs to go online

DATA POVERTY
CONNECTIVITY to enable internet access
AFFORDABILITY to be able to access essential sites

WILL/MOTIVATION
MOTIVATION to want to access the internet
RELEVANCE understanding why it's relavent to "me"
CALL TO ACTION knowing where to go for support

SKILLS
AWARENESS of digital fundamentals
SKILLS building digital skills and knowledge to use digital tools
CONFIDENCE in the ability to use digital tools
APPLICATION putting into practice the skills that have been learned

Source: FutureDotNow

Hidden exclusion

All of these strands are interrelated, but the skills shortage is perhaps the most alarming because of the pace of digitalisation. The shortage of digital skills is thought to be distributed across the workforce and is often hidden from sight. Research conducted by FutureDotNow suggests this "hidden middle" exists because it is widely assumed that everyone is keeping up with technology and able to pick up the digital basics without any training.[5]

The facts tell a different story. Having a smartphone does not equate to digital ability. And while many "digital natives" may be adept at online gaming and social media, many lack the skills to be productive and safe online in the workplace. People believe that lack of digital skills correlates with older age, yet 44% of those offline are under 60.[6]

"There are major gaps in the skills our nation needs to ensure that everyone gets up to the digital start line. And there are huge swathes of untapped digital expertise that can benefit society in future."
Holly Chate, FutureDotNow

Digital exclusion is both a societal and an economic challenge that is everyone's concern. During the pandemic, digital skills and services were essential but many people were excluded because they lacked one or more of the essentials for digital inclusion.

"People also needed infrastructure, access to data and devices. Those who did not have this before, did not get much help during the pandemic. Business can do more to provide free access to Wi-Fi in local communities at little or no cost."
Sian Williams, Toynbee Hall

People need to have a reason to acquire digital skills, it's important to understand what motivates people, and help individuals to see how building essential digital skills can unlock new benefits to them in life and work. There are many good incentives to get online but people are not always aware of them. In terms of skills, it takes time and perseverance to get people online. It is not always possible to teach people how to complete transactions online without doing it for real.

5,6 FutureDotNow.uk, The Hidden Middle, Unlocking the essential digital skills opportunity

“There are major gaps in the skills our nation needs to ensure that everyone gets up to the digital start line. And there are huge swathes of untapped digital expertise that can benefit society in future.”

Holly Chate
FutureDotNow

Fear of digital

Many people who are new to digital services have a real fear of them due to a lack of confidence or understanding:

Financial jeopardy

If people move to online payments, they may worry that, if it goes wrong, they will lose their money and there's no fallback.

Fear of online

Many people have a real fear that online payments give third parties the right to withdraw money from their bank account.

Some continuous payment mechanisms allow for third-party withdrawal. Although the Direct Debit Scheme is usually the cheapest way to pay, it does empower a third party to withdraw an unspecified amount on an unspecified date. So, for example, an energy company can change the amount of a payment with no consultation. And there is often confusion around weekends.

“Direct Debits are not as reassuring to people on tight margins and low incomes as many people think.”

Sian Williams, Toynbee Hall

An advantage that everyone needs

As cash use and acceptance declines, the digital advantages become clearer. For most people, it is easier and more economical to run a digital life rather than to use physical cash. Although it seems unlikely that cash will disappear completely, it will continue to reduce in volume. If (or when) the Bank of England introduces a central bank digital currency (CBDC) cash reduction will inevitably accelerate further. Those without digital skills will remain dependent on cash and will fall even further behind.

“The UK is sleep walking into becoming a cashless society, and what's absolutely certain is that we will see more people and households in financially vulnerable situations, with already 1.23 m adults in the UK today without a bank account and totally cash dependant. All at a time where there is a huge economic shift on employment, with 12 million people in the UK having low financial resilience and 31% of households experiencing a decrease in household income. Cash is the ultimate budgeting tool, and although there are many benefits to cashless, it is crucial to ensure that everyone is with us regardless of age, race, faith & social class.”

Neil Harris, The Inclusion Foundation

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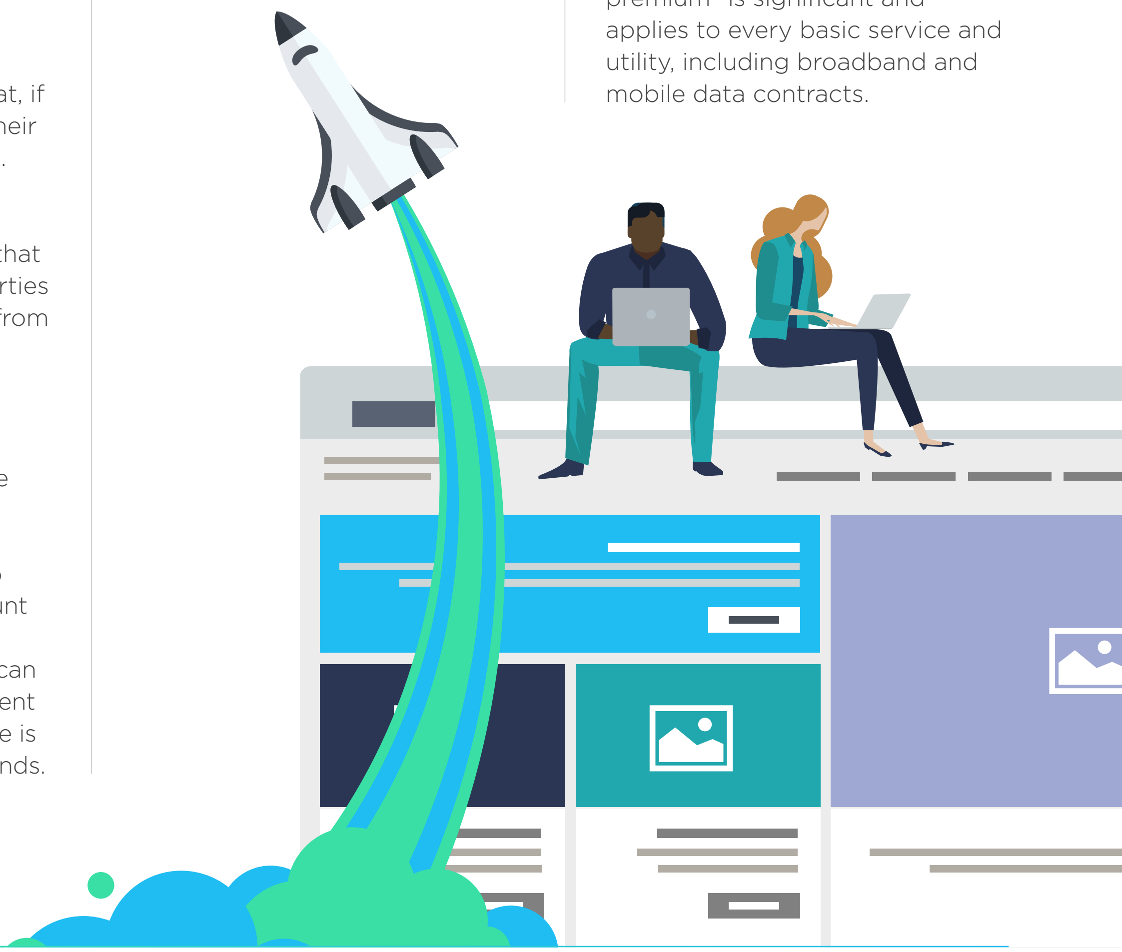
People who are digitally excluded are denied access to information that is fundamental to an informed choice about potential purchases. For many, the “poverty premium” is significant and applies to every basic service and utility, including broadband and mobile data contracts.



"People who are not online are likely to pay £200 - £300 per year extra for utilities. At the beginning of lockdown some families were paying up to £50 per week for pay as you go data to be able to educate their children online."

Holly Chate, FutureDotNow

Why digital inclusion concerns everyone

As we've seen, there are many people who cannot participate fully in society because they do not have the tech or skills. For many, digital exclusion is a major problem. But technology is of course an enabler. Digital financial services are far cheaper to manufacture, distribute and manage than any others. These savings can be passed on to customers in the form of lower prices. Digitalisation also means services can be customised to meet specific needs.

"Digitalisation is largely about becoming more customer centric. There is a great opportunity for banks to begin with a communal core and then build on it to offer services tailored to the needs of groups. With digital services this is eminently doable."

Tony Craddock, The Payments Association

The inescapable truth is that digital is here to stay. The Kalifa Review confirms, "Fintech is not a niche within financial services. Nor is it a sub-sector. It is a permanent, technological revolution, that is changing the way we do finance."[7]

"Within 20 years, 90% of jobs are expected to require some degree of digital skills. In 2020, about 400,000 tech jobs were advertised in the UK, which is an increase of around 40% on the previous year, despite the pandemic. Yet unemployment remains high. The real challenge is that supply cannot meet demand because of the skills shortage."

Ron Kalifa OBE
Chairman of Network International

However, there is a clear digital divide in the country that is harming those who are left behind. It is also holding the economy back. For new digital financial services to serve the population and profit the firms that create them, the gaps in skills, access, money and infrastructure that create digital exclusion need to be closed.

7 Kalifa Review of UK Fintech

Chapter 2. Why does financial inclusion matter?

Everyone benefits from being incorporated into the formal economy: underserved individuals, entrepreneurs, and SME business owners. Reciprocally, banks and government benefit from incorporating the underserved into the mainstream economy. As business flourishes, productivity improves and tax receipts increase.

The digital age creates a new market dynamic. With the decline of cash, people need more convenient and secure ways to accumulate, hold, and transfer value. Banks are looking to grow and serve future markets, which are larger and more inclusive. Scale matters for banks, and growing the business and market means developing products and services for more segments of the economy.

There are two parts to this. First, banks and business need to understand the needs of specific groups at a granular level. Then perhaps the bigger challenge is to change consumer behaviour, which is also a societal issue. Many people continue to use and hold cash even if it is not in their best interests, but the first task is to understand why.

"Any business that wants to drive improvement must first understand the real challenges people face. For example, access to cash is a real challenge. Although people should be within 1km of a free cash machine there can be real challenges getting there, so people opt to pay a fee instead. Recently, NatWest and Barclays interviewed vulnerable people who regularly use fee-charging cash machines out of necessity. They heard the stories and understood the real human challenges. It was like a light bulb came on."

Sian Williams, Toynbee Hall

The financial services industry has an incentive to promote financial inclusion out of enlightened self-interest. By promoting digital – and financial – inclusion, banks are cultivating the customers of tomorrow. But there is much more to do.

"We are not doing enough to drive financial inclusion. No one company or organisation can drive this agenda – it's all about collaboration and communities."

Alison Hutchinson CBE, Pennies

Old habits die hard

Financial inclusion means changing behaviour. Physical money has been around for over 3,000 years and old habits die hard. In the digital space, the right incentives may not always have been in place or adequately promoted. There is a real need to have a managed transition from cash, but the incentives must be in place and they need to be marketed.

"Banks need to get ahead of this and think of ways to change behaviour, so people will choose mainstream financial services over cash."

Gerard Lemos, Former Chair of Payments UK

"If we look at the 10p levy for plastic bag in supermarkets, overall use dropped by about 90% quickly and permanently. This shows how incentives can work and have a lasting effect."
Gerard Lemos, Former Chair of Payments UK

When basic bank accounts were launched in the UK, around 2 million people signed up in quite a short period. The introduction of basic bank accounts allowed people to access benefits quicker and through an ATM. So there was a clear sustainable incentive to change, and it was very effective.

However, it is also crucial that account opening is made as simple as possible. For some people, it remains a challenge. Many cannot readily provide acceptable ID in the form of a passport or driving licence. This is a problem that repeats itself across the banking sector. When many people experience the same difficulty, the problem most likely lies with the service, suggesting a need for action.

"We must recognise that in going digital we can rip up the problems of the past and build something better. A digital ID is much more credible than a paper ID and shows how digital can empower."
Sian Williams, Toynbee Hall

More than banks

Although much of the discussion around financial inclusion has revolved around banking, the debate is far wider. As the number of customer channels and touchpoints expands, more parties are involved in transactions and each can play a part. Almost every life event has a financial consequence and banks are increasingly designing customer journeys that mirror life events. This creates an opportunity to engage with people and change behaviour.

"Payments is the perfect entry point for financial inclusion. All financial transactions begin and end with a payment. Everyone makes payments so it's a great place to influence behaviour. There is something fundamental about payments – people will change their behaviour if the incentive is right."
Gerard Lemos, Former Chair of Payments UK

Financial inclusion is a societal challenge. Every member of the value chain has a part to play: banks, consumers and retailers. As cash use declines, the cost of managing it increases because of the lack of scale. Access to cash is essential but people must be made aware of alternatives and incentivised to make the change. ■

Chapter 3.
Why is now the moment to address financial inclusion?

COVID-19 forced people to change how they shop, bank and pay. Even before the pandemic, cash was in decline, but it now represents only around 17% of total transactions.

During the pandemic, digital payments soared and 12% of UK adults downloaded a mobile banking app for the first time. New habits were formed, and many will not return to their old ways.

"The flywheel of digitalisation is turning and it's important we maintain momentum, but we must carry everyone with us."
Alison Hutchinson CBE, Pennies

The UK is digitalising fast and this affects everyone. Platform companies like Uber show how widespread digital disruption has become in all sectors. Digital services will only prevail if they offer an improvement on what went before, and in many cases they do. It is essential to plan for a digital future by having a digitally skilled workforce.

The rise in digital has been accompanied by the revolution in retail finance being brought about by Open Banking and new payments models. These changes will hugely expand the breadth and reach of financial services, in ways that can support efforts to improve financial inclusion.

Ultimately, financial services will become more customer-centric. There is a great opportunity for banks to begin with a communal core then build on it to offer services tailored to the needs of specific groups that are often beyond the scope of traditional services. For banks and retail customers alike, digital has the potential to be a new world of opportunity The key to improvement is to use technology and data in new ways, rather than replicate what's gone before.

4.1 Technology

Digitalisation

We have discussed the potential of technology to address digital inclusion in depth. Ultimately, it reduces the cost of providing financial services and that can drive financial inclusion. But collaboration is essential to drive innovation and align services closely with specific customer needs. Fintechs can reduce the cost of servicing groups that are currently beyond the reach of financial services, while at the same time boosting innovation.

Open Banking and data

Open Banking has forced a fundamental rethink of the banking business model, empowering customers to make better financial decisions and choices. Historically, many people have been pushed into sub-optimal financial products or they have been completely excluded because the data does not stack in their favour. Open Banking creates a unique opportunity to do different things and to do things differently.

There are more than 3 million consumers and businesses using open banking in the UK. It is important to maintain momentum because it catalyses innovation.

"Open Banking provides an opportunity for banks to gain a deeper understanding of their customers and potential customers."

Ron Kalifa OBE, Chairman of Network International

But Open Banking also drives financial inclusion in several ways.

Building a credit profile. By using digital payments and data, the underbanked population can begin to build a financial profile and a transaction history. This history can then support their transactions with other banks, fintechs or other financial institutions. Open Banking also creates new ways to use data to build credit profiles, for example by combining data across companies or online footprint data.

Improving the financial health of the vulnerable. Banks, fintechs and other ecosystem participants can offer mobile-based applications that help people plan and manage their income better and improve financial literacy. People can also be given nudges to save and to manage their income better.

Supporting small businesses and the gig economy. Most financial services are designed on a one-size-fits-all basis. But in the digital age, one size fits nobody. There are many small businesses and independent workers who are inadvertently excluded or underbanked. Open Banking can help small companies and 'gig workers' access more personalised and affordable financial products, such as digital accounts, wallets and digital payment instruments.

"Open banking will inevitably improve financial inclusion."

Ron Kalifa OBE, Chairman of Network International

Open Banking has focused largely on payments and information-sharing. The next stage will be to enable greater data integration. As Open Banking morphs into open finance, there is a great opportunity to harness the power of data. Increased data sharing will transform the customer experience and help people manage their money more easily.

As more companies join the Open Banking ecosystem, there is a real opportunity to drive innovation and improvement. This transformation is already happening, but collaboration is crucial.

"One digital bank is considering how its customers are paying for energy. If they are not paying by Direct Debit – which is the cheapest way to pay – they get in touch and find out why. They can then work with the customer to drive improvements. Open Banking can drive improvement, but utility companies will have to drive it."

Sian Williams, Toynbee Hall

Open Banking empowers banks to make customer journeys easier, smoother and more convenient. Over time, this can help drive financial inclusion.

Payments innovation

Innovations such as Request to Pay, offer an attractive alternative to Direct Debit for those on low or irregular incomes. As a "push" payment mechanism that operates on existing infrastructure, it offers a flexible way to pay and manage bills. For each request message, the payer will be able to pay in full, pay in part, ask for more time or decline to pay and begin a dialogue with the requester.

Request to Pay gives more control to the person or organisation being asked to pay and gives the biller all the information to reconcile a payment when it arrives. The new framework creates an open community of payment service providers, fintechs and corporate will be able to develop services that interoperate with each other to deliver Request to Pay to their customers.

"Direct Debits were designed for salaried people in the 1960s, they are inappropriate for many people in the 2020s. Request to Pay is a direct response to the shortcomings of Direct Debits. It is ideal for those, for example, on pay-as-you-go utilities."

Sian Williams, Toynbee Hall

With Request to Pay, a payer can build a dialogue with a service provider, which is unique. It is a good example of using digital technology in new ways to deliver improvement rather than simply replicating what has worked in the past.

4.2 Government and regulation

The UK government is committed to financial inclusion. Much progress has been made over the last two decades since the introduction of basic bank accounts in 2004. There is a minister responsible for delivering financial inclusion in the UK and a joint financial inclusion forum, which shows a sustained governmental commitment to financial inclusion.

All governments want financial inclusion because it benefits everyone. The government is uniquely placed to regulate and maintain momentum throughout the transition to digital.

Sian Williams
Toynbee Hall

"Direct Debits were designed for salaried people in the 1960s, they are inappropriate for many people in the 2020s. Request to Pay is a direct response to the shortcomings of Direct Debits. It is ideal for those, for example, on pay-as-you-go utilities."

"Government and regulators must create a framework to promote financial inclusion, then they must get out of the way. Providing the right services and the incentive to use them must happen at the individual company level."

Tony Craddock, The Payments Association

The UK needs more collaboration to bridge the gap between thinktanks and action. As we've seen, although the basic bank account has been a success, there are still over one million people who are cash dependent. The challenge is to understand why.

"People often don't think that the unbanked are part of UK society. There is need to raise awareness of those who are both digitally and financially excluded. The government can set the agenda and measure progress."

Alison Hutchinson CBE, Pennies

The government needs to set out an agenda for going cashless so people can prepare. But there is a cohort of people who will resist because they have no choice. Financial inclusion is far broader than financial services but there has to be collaboration with a purpose: we know why people are excluded and no one bank or service provider can solve this problem.

The answer to financial inclusion lies in pooled resource and collaboration to deliver appropriate solutions to specific challenges. And the incentives must be right for all to benefit.

"Banking costs money to provide. Banks must be able to make money somewhere to make all services viable."

Neil Harris, The Inclusion Foundation

There is a role for government to control credit availability, but there can be problems when regulation is too prescriptive.

"The effect of increased regulation is often clumsy and results in delay and increased costs for all. However, the regulator must intervene where there is market failure, for example where the poor are charged a premium for utilities."

Gerard Lemos, Former Chair of Payments UK

Fraud prevention and the need for trust

Generally, regulators should help to set the scene for financial inclusion then leave the innovation to the institutions. However, fraud prevention is an important area that needs careful consideration.

Although there are many drivers of the growth in financial crime, increasing transaction volumes and a growing number of complex financial offerings create new opportunities for criminals, who are also growing in sophistication. Digitalisation produces a far great attack surface for criminals but there are other factors. The growing number of transactions and speed of initiation and fulfilment make it difficult for a bank to monitor all combinations. Cybercriminals and advanced persistent threats look to exploit vulnerabilities in physical, network or IT structure. And social media offers an easy means for fraudsters to exploit people's vulnerabilities.

Fraud is the most commonly experienced crime in the UK. During the pandemic, online fraud spiked as people relied more on the internet for everyday tasks. Cases of fraud reported to the UK police unit Action Fraud rose by a third in 2020 and consumers lost £2.3bn. Regulators, internet companies and banks must collaborate to stay one-step ahead of the fraudsters.[8]

When a bank is a victim of fraud, the damage to its brand is unquantifiable and it becomes a cautionary tale in the headlines. But fraud prevention is not a competitive advantage, so there is great potential for collaboration between government and across industry to keep people safe online.

People need to have confidence in the services they use. Part of the financial inclusion challenge is to educate people how to stay safe online and to show that digital payment is more secure than physical money. Many people continue to hold cash because it is familiar and this became clear during the pandemic.

8 https://www.ft.com/content/e820cc8a-090c-4632-95f3-cb295d3d31ad

"The core message around fraud prevention must be to think twice. People must use electronic payments with care."
Gerard Lemos, Former Chair of Payments UK

"During the pandemic people have held on to cash because they trust it and can depend on it. We have to think about the broader constituents, including the elderly, vulnerable and those who are not technically versatile."
Ron Kalifa OBE, Chairman of Network International

4.3 Education

Digitalisation is accelerating at breath-taking speed, and education is struggling to keep up.

It's essential that we help the working population become fit for the future. Collaboration is essential between business and providers of education to retain and upskill adults in work, and to ensure that the next generation are leaving education with the skills they need to get a good job.

Many businesses are looking closely at the digital skills deficit and there are some solid success stories. Many companies are looking at ways to help people with programmes, but more progress is needed.

"It took radio 38 years to reach 50 million people. It took Facebook 10 months. The rate of change is accelerating but training needs to keep up."
Alison Hutchinson CBE, Pennies

The skills shortage is not confined to older adults – there is a need for training and upskilling across the workforce. But many people work for small companies and cannot take time out to go on courses. We must use technology to design courses that are widely available.

During the pandemic, some big companies collaborated to provide essential high-quality on-demand courses.

As the UK moves towards digital payments, there is a need for everyone to understand how different payment types work, the advantages of each and the differences, for example between real time and near real time. Many people are confused by account balances that may include pending transactions. Such basic consumer education can make a big difference.

"For the most part, people don't want a handout, they want a hand up. People want to be able to manage this money and, for many, cash is the best tool for manage their finances. Digital technology can help people manage money better, but they need to be included and shown how."
Neil Harris, The Inclusion Foundation

With the seismic shift towards digital across all sectors, boundaries between industries are blurring and digital skills become transferrable. Education is a sound investment.

"A real benefit of digital is its ability to help people reinvent themselves. With basic digital skills, people can repurpose themselves and have multiple careers. Once people get on the digital ladder they can build on it."
Alison Hutchinson CBE, Pennies

"A real benefit of digital is its ability to help people reinvent themselves. With basic digital skills, people can repurpose themselves and have multiple careers. Once people get on the digital ladder they can build on it."

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Pennies

4.4 The human touch

Even though financial inclusion is heavily dependent on technology today, other routes to help, education and financial services have a strong role to play.

Inclusion starts at home

History shows that education and behavioural change starts with families and peers. Here, collaboration can drive change and inclusion. As part of an education programme, people could be encouraged to form financial family education groups, for example on WhatsApp and other digital channels. Digital learning is a two-way street, where parents are often educated by their children.

> *"In the digital age, many older people will enjoy being educated by their children or grandchildren. In most cases, financial education must begin at home."*
>
> **Tony Craddock,** The Payments Association

Physical and traditional channels

Although much of the recent discussion has focused on digital, other channels are important, for example: post offices, ATM network and credit unions. There are around 240 credit unions in Britain, serving around 1.5 million customers. Many of these are run by volunteers and play a crucial role in helping people get out of financial difficulties.

> *"The credit unions are great flag-wavers for financial inclusion, providing financial education while keeping people away from payday lenders who often charging extremely high interest rates."*
>
> **Tony Craddock,** The Payments Association

In the UK, credit unions have their own regulatory framework. So, when we talk about the financially excluded, we must consider a broad spectrum of stakeholders who are driving improvement, including charities such as Pennies, Fair4All Finance and local government agencies such as employment and benefit offices. A holistic approach is essential to drive real change.

Community banking hubs - a success story

As bank branches close, there is a need to ensure people have access to banking facilities within a reasonable distance. Recent trials of two community banking hubs have proved successful – an estimated 12,000 people have used the hubs for basic banking needs. The premises, managed by the Post Office, include counter services, ATMs and, crucially, the opportunity for local businesses to deposit cash.[9]

Banks are in discussion over many of these projects, including shared hubs, as the government plans to legislate on access to community banking as bank branches close.

> *"We're seeing great innovation in certain areas. Community banking hubs are improving access. There is growing evidence that community hubs are driving improvement. People need support to do things and can only learn with help."*
>
> **Sian Williams,** Toynbee Hall

Conclusion

The UK leads the world in financial services. In the context of fintech, we have around 10% market share and the level of investment exceeds the next four European nations. We continue to lead the way in financial innovation, for example with Open Banking. The UK also leads the way in adoption - 71% of the UK's digitally active adults use the service of at least one fintech app or company. But there is much more to do.[10]

With so many UK adults unbanked, financial inclusion remains a major challenge that has been brought to light by the pandemic. While there is no single solution to this challenge, a new, optimistic conversation has begun. There is universal agreement that financial inclusion is a societal challenge – but also that it is fixable.

Innovation and digital technology must play a crucial role in adapting financial service to meet the needs of those currently excluded. But there is also a need for collaboration across industries and throughout society.

We hope you are encouraged to join this crucial discussion. ■

9 https://www.bbc.co.uk/news/business-58245844

10 Statistics sourced from the Kalifa Review of UK Fintech

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