

# Transforming affordable credit in the UK



February 2020

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## **Fair4All Finance**

2nd Floor  
28 Commercial Street  
London  
E16LS

hello@fair4allfinance.org.uk

# Foreword



**Sacha Romanovitch**  
CEO

Our scale-up programme is part of our approach to meet this **“10x times challenge”**

**For the millions of people in the UK excluded from access to mainstream credit, fair and affordable lenders like credit unions and CDFIs provide a lifeline.**

Responsible credit allows borrowers to meet unexpected costs, to smooth incomes or to make essential purchases that are otherwise unaffordable upfront. Conversely, a lack of access can mean going without essential appliances like a boiler or a washing machine, or being unable to afford school uniforms or birthday presents for children. Affordable lenders operate with the care, forbearance and support that customers in vulnerable circumstances need, and can save families hundreds or thousands of pounds a year in repayments compared to the rates charged by payday or doorstep lenders.

Despite this, responsible lending makes up only a fraction of short-term lending in the UK. Each year, affordable credit providers make just £250m of loans to this group, while over the same period, high-cost short-term credit providers lend £3bn – more than ten times as much. The challenge we face is how we create a new normal – a “10x challenge” to give more people than ever before the fair and affordable alternative they need.

This will require transformational change. Work is needed on the supply side, to increase the availability and appropriateness of affordable credit. At the same time, we need to increase demand, raising awareness of alternatives to high-cost credit and making them more attractive and accessible

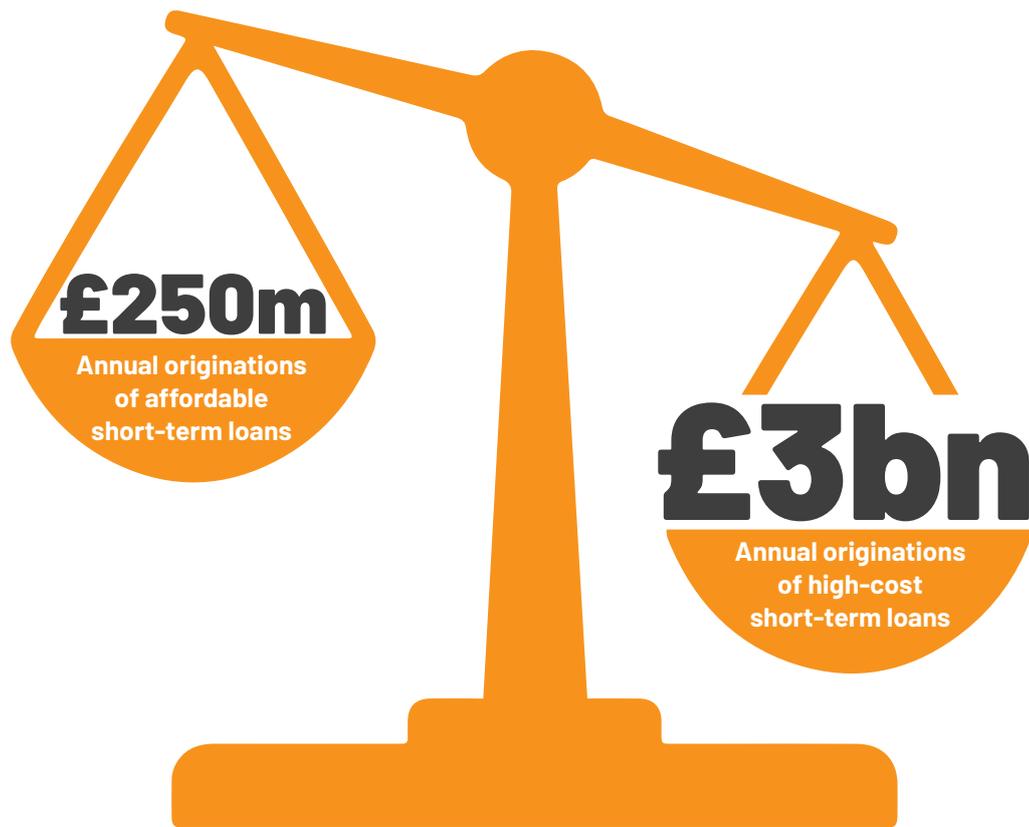
to customers. Our scale-up programme is part of our approach to meet this “10x challenge” – to work with affordable credit providers to help them meet this scale.

This report shares our early thinking across a number of areas. The Theory of Change for the affordable credit sector is intended as a living document that will be owned by organisations in the financial inclusion, financial services and wider social sectors. Our code of good practice identifies the key principles and practices that we think define what it means to be a fair and responsible lender. The findings from our pilot intend to chart a pathway to transformation across five key action areas. We welcome your input and collaboration across all these elements.

We are hugely grateful to the many partners, colleagues and organisations that have contributed time and insight to this work, in particular to our strategic partners Carnegie Trust UK and the Esmée Fairbairn Foundation, and the five organisations who participated in our pilot.

We’re looking forward to taking this exciting agenda forward to drive positive change for the people and communities that most need it.

*Sacha Romanovitch*



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We are delighted to see this work from Fair4All Finance, which shows impressive collaboration and sets a pathway to significantly scale up the provision of an important component of the social sector in the UK. As an investor in social inclusion we are pleased to have worked with Fair4All Finance on the Theory of Change and look forward to collaborating further to make their vision of a fair financial system a reality.

**Caroline Mason**, CEO, Esmée Fairbairn Foundation

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# Fair4All Finance



## > Our vision:

A society where the long-term financial wellbeing of all people is supported by a fair and accessible financial sector.



## > Our mission:

To increase the financial resilience of people in vulnerable circumstances by increasing access to fair, affordable and appropriate financial products and services.

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We define vulnerability in the same terms as the FCA, where a vulnerable customer is someone who is especially susceptible to detriment, with the four key drivers of vulnerability being resilience, capability, life events and health.

These drivers will shape a customers' needs over the whole of their financial lives. We want to see well-designed financial products and services that better respond to these and support people's financial wellbeing.

# Executive Summary

**We believe customers in vulnerable circumstances and financial difficulty should have access to a fair and affordable credit option when appropriate to their circumstances. This option should be available from providers who charge a reasonable price based on risk and who treat customers with fairness and support to improve their situation throughout their journey with a lender.**

Scaling affordable credit providers is a key part of addressing this challenge and over the last six months we've been working to identify what is needed to help the affordable credit sector to do this. Dozens of organisations contributed their time and insights to the development of a shared theory of change to grow affordable credit provision. This identifies the activities required across every organisation responding to the challenge. It also identifies what we know are the benefits of an affordable credit product to customers over having no access to credit or using high cost credit – increased financial resilience, improved financial capability and improved mental and physical health. The activities in the theory of change – if delivered at scale – will enable these benefits to be taken to millions of customers.

To complement this, our 'Code of Good Practice' identifies some characteristics of best practice in affordable credit provision. Underlining all of it is a focus on genuinely supporting customers throughout all elements of organisational set-up, systems, processes and customer interaction. Improving outcomes for the customer and creating social impact every day is in the DNA of an affordable credit provider.

In June 2019, we launched our expression of interest for affordable credit providers to come and work with us on our scale-up programme. Over 50 organisations applied to take part, including CDFIs, Credit Unions and newer technology providers. From these, five were selected to join the process from August 2019.

This was an opportunity to work with those organisations to learn in detail about what is working in giving the right type of credit to those who need it, and what areas could be developed. To do that our team spent over twelve weeks engaging with the providers in detail, reviewing processes, interviewing the senior leadership teams and talking to customers. At the same time, the Fair4All Finance team visited other providers and worked in consultation with the wider sector to develop a Theory of Change for the affordable credit market. Taken together, this work generated a detailed picture of what it takes to offer a fair and effective affordable credit services, including key challenges and opportunities.

In addition to providing specific recommendations to those organisations, we are using the insights we have gathered to develop the next phase of the scale-up programme.

# Executive Summary (continued)

This work has identified five key opportunity areas for capability development in the affordable credit sector:



**System Change and Impact** – understanding and evidencing the benefit that affordable credit provision can make in society.



**Funding and Finance** – enabling long-term funding for the affordable credit sector.



**Markets, Customer Insight and Product Design** – enabling well designed products that support wellbeing for people in vulnerable circumstances.



**Operational Excellence** – implementing the systems and processes which create a sustainable operating model.



**Governance, Leadership and Talent** – building strong governance and a pipeline of transformational leaders and talent for the sector.

This document sets out some of our findings and areas of future enquiry in each of these areas. We are developing the next phase of the programme on the back of these and expect our approach to be finalised by our board and launched later in the spring. This support will be structured in a way that can be helpful to organisations across the affordable credit sector and will range from funding, toolkits, peer learning to detailed consultation.

Later we will be embarking on programmes for other product areas which help customers to build resilience, such as in savings and insurance. We know that credit isn't always the answer – it must be used in the right way by customers and must be part of a full package of products that support customers across their lifecycle.

We hope the insights on affordable credit in this report prove to be useful and we look forward to engaging further over the coming months.

# Pilot Process

We selected five organisations to participate in the pilot based on their track record of delivering affordable credit and our assessment of their ability to scale with the support of Fair4All Finance.

Following an open call for applications, 55 organisations applied to join the pilot, from which five were selected. Our selection criteria looked for well established organisations with a track record of serving the sector, who:

- focused on serving vulnerable groups in society, particularly those on low incomes, with lower financial resilience and little access to mainstream credit
- shared our ambition to grow the affordable credit sector
- were prepared to commit the time and resources to engage fully in a scale up programme
- were committed to a partnership-based approach in order to do this
- were committed to demonstrating the social impact of their work both through their in-house behaviour to their team, and their impact on the communities they serve





# Affordable Credit Theory of Change

# Theory of Change

Our Theory of Change has been developed alongside the Esmée Fairbairn Foundation in consultation with the affordable credit and financial inclusion sectors. It is intended to be a shared Theory of Change for every organisation that is contributing to solving the problem of a sub-scale provision of affordable credit in the UK. Fair4All Finance will work on part of this and in collaboration with others to drive systemic change.

The first part of the Theory of Change focuses on the affordable credit sector; those inputs and activities which will enable the sector to grow in scale, and those outcomes which mean the affordable credit sector is healthier and having more impact.

The second part of the Theory of Change focuses on the effects that an increased provision of products should have on customers – eventually impacting on their financial resilience, financial capability, and health and wellbeing.

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Since its creation in March 2019 Fair4All Finance has created a comprehensive theory of change, and through its pilot it has provided a robust assessment of what best practice for the sector looks like. We are excited to work with them on the next phase of the scale-up programme to substantially expand the capacity of the whole of the CDFI affordable credit sector, to create a new and improved normal for people building their financial resilience.

**Theodora Hadjimichael**, CEO, Responsible Finance

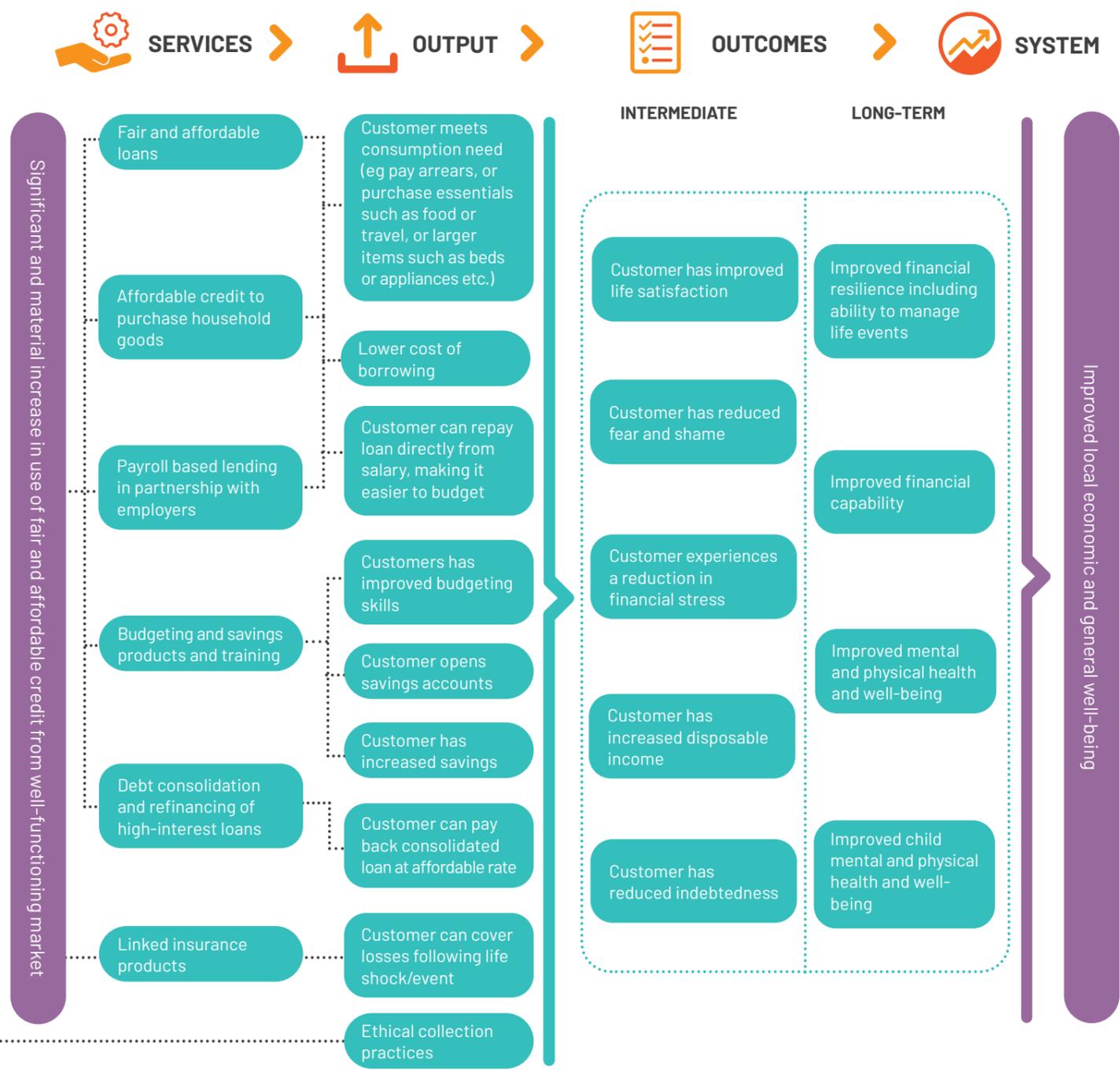
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# Affordable Credit Sector Theory of Change

## SCALING UP THE AFFORDABLE CREDIT SECTOR



## CUSTOMER BENEFIT FROM INCREASED AFFORDABLE CREDIT PROVISION





# Affordable Credit Code of Good Practice

# Affordable Credit Code of Good Practice

**Affordable credit providers are industry leading in their approach to customers, providing unique support to people underserved by mainstream financial services.**

Informed by the findings of our scale-up programme and in consultation with stakeholders, we have set down the principles and practices that we believe set good affordable credit providers apart.

This will continue to evolve as we work with more providers and identify more examples of good practice. We want the organisations we work with to strive towards following this code of practice, in order to help people in vulnerable circumstances improve their financial resilience and wellbeing.

## The organisation will:

|  |  |
|--|--|
| <p><b>01.</b></p> <p><b>Organisation set-up and social purpose</b></p> | <ul style="list-style-type: none"> <li>• Have a clearly defined social purpose set out in its constitutional documents to increase the financial resilience and wellbeing of people in vulnerable circumstances               <ul style="list-style-type: none"> <li>– Affordable lenders may serve broader sections of society alongside people in vulnerable circumstances, and this can help make their lending more sustainable. However, organisations should be able to demonstrate their particular focus on people in more vulnerable circumstances. Fair4All Finance funding will be directed towards supporting these people</li> </ul> </li> <li>• Have a clearly defined policy in relation to the distribution of post-tax profits and proceeds from the sale of assets to ensure that surpluses are principally used to achieve its purpose and that the post-tax pay-outs to shareholders are capped at &lt;50% over time to ensure that there is not undue private gain from the activities of the organisation</li> <li>• Be able to demonstrate that the remuneration of its officers and employees, including salaries, benefits and all forms of distribution or other participation, is reasonable, proportionate and relative to market practice for social sector organisations generally and is disclosed</li> <li>• Ensure that all their employees earn a real living wage – or be working towards this</li> <li>• Evaluate and measure its social impact and make reports publicly available               <ul style="list-style-type: none"> <li>– Best practice: impact measurement should have a robust methodology, which goes beyond measuring activity and instead looks at customer outcomes</li> </ul> </li> <li>• Be open to undertaking an independent social impact audit</li> </ul> |
| <p><b>02.</b></p> <p><b>Approach to customers</b></p>                  | <ul style="list-style-type: none"> <li>• Have a customer-centered culture; organisations will understand the needs of their customer base, and will design products and services that suit their needs and help improve their financial resilience and wellbeing.               <ul style="list-style-type: none"> <li>– Best practice: some affordable credit providers have developed customer personas to help map the needs and behaviours of their customers, which inform product design and lending activity. These personas are understood by team members across the organisation</li> </ul> </li> <li>• Have policies and processes for supporting customers that are fully embedded across the organisation. Organisations will understand the needs of their customers in vulnerable circumstances and this will inform product design and communications with customers. Team members will be well trained in vulnerability policies and in identifying and serving customers in vulnerable circumstances</li> </ul>  |

## The organisation will:

|   |   |
|---|---|
| <p><b>03.</b></p> <p><b>Lending</b></p>                                   | <ul style="list-style-type: none"> <li>• Before providing credit, make a detailed assessment of a customer's income and expenditure to determine that the loan is affordable and will not push customers into financial difficulty             <ul style="list-style-type: none"> <li>– When determining affordability, organisations should consider leaving customers with enough income after repayment to cover unforeseen expenses. For example, one affordable credit provider requires customers to have a £50 a month 'buffer' left over after repayments</li> </ul> </li> <li>• Communicate clearly and transparently with customers, ensuring they have understood how the loan will affect their financial situation. Customers should be provided with tools to understand the costs of repayment over different time periods, including comparison of the total cost of the loan</li> <li>• Charge an APR and an underlying interest rate that is not excessive, taking into consideration risk and social impact objectives             <ul style="list-style-type: none"> <li>– APR is likely to reflect the high cost of lending to customers who are excluded from mainstream credit, and may cover the costs of administering the loan and running the organisation sustainably. However, as set out in section 1, organisations will not seek to make undue private gain from lending, particularly from those in the most vulnerable circumstances</li> </ul> </li> </ul> |
| <p><b>04.</b></p> <p><b>Repayment and recovery</b></p>                    | <ul style="list-style-type: none"> <li>• Allow customers to repay their loan early without incurring a fee or charge. Organisations should encourage customers to repay loans early, where this is affordable</li> <li>• Take an empathetic approach to arrears and debt recovery, centered on agreeing an affordable and sustainable repayment plan with the customer. Customers in financial difficulty will be treated fairly and provided with appropriate support             <ul style="list-style-type: none"> <li>– Best practice should include:                 <ul style="list-style-type: none"> <li>– Not charging arrears fees or charges</li> <li>– Providing payment holidays on request</li> <li>– Freezing or cancelling interest for customers in financial difficulty</li> <li>– Sufficiently considering the mental wellbeing of customers through all recovery communications</li> <li>– Avoiding the outsourcing of debt collection where possible. Where a third-party debt collection agency is used, organisations must ensure it operates in line with their own recovery policies</li> <li>– Never putting the debt in the hands of bailiffs either directly or through a third party</li> </ul> </li> </ul> </li> </ul>  |
| <p><b>05.</b></p> <p><b>Customer support and wrap-around services</b></p> | <ul style="list-style-type: none"> <li>• Provide support for customers to build their financial resilience, either in house or through partnerships or referrals to a third party. This should include encouraging savings behaviour, building financial capability and helping customers access their full entitlement to grants and benefits             <ul style="list-style-type: none"> <li>– Best practice: organisations should consider partnering with or referring to other financial services providers to offer additional products that can improve customer financial resilience, such as basic bank accounts, savings account or insurance. Some affordable lenders encourage customers to make payments towards a linked savings account or contents insurance policy alongside their loan repayments, building their financial resilience and encouraging good money management habits</li> </ul> </li> <li>• Provide customers who are declined for credit with information about why the decision has been taken, alongside signposting to relevant guidance or support</li> <li>• Work in partnership with free debt advice providers, maintaining an active channel to refer customers to when they are in financial difficulty at either the application stage or whilst they are a customer</li> </ul>  |



# Scale-up Programme Action Areas

# System Change and Impact

Real impact reporting enables an evidenced understanding of the benefit of affordable credit to an organisation's customers, along with providing the detailed case to investors, policy professionals and the wider stakeholder community that affordable credit has a benefit on people's lives. This area will influence and evidence the impact of systemic change in affordable credit provision to society, using standard impact reporting tools and tiered approaches to implementation.

## Our Insights

- Affordable credit products and organisations have real benefits to a customers which can be better articulated, including on the benefits to the overall household financial resilience of a client, along with their health, mental health and general wellbeing
- There is little annual impact reporting currently, and when it does exist it tends to focus on the activity of the organisation (eg number of loans issued and cost saving), rather than outcomes on customers lives beyond credit provision
- The standard technology offerings to affordable credit providers do not facilitate the collection of data which measures impact

## Outcomes

- Evidence of the systemic change that affordable credit provision can make in society
- A consistency to reporting on impact across the affordable credit sectors, that enables learning about what works best for customers and the development of a compelling story across the sector
- Impact reporting which is based on customer outcomes and robust measurement and data collection
- Collaboration across regulators, government and stakeholders to focus and evidence change programmes and drive supportive policy change

## Sector tools and resources

- Standard set of outcomes for affordable credit impact
- Implementation toolkit for outcomes, including measurement methodology

# Funding and Finance

This area will aim to enable long term funding for providers in the affordable credit sector. Under this, Fair4All Finance are setting up a debt and an equity fund to help to scale provision alongside grant funding provision. Detailed support will focus on the financial model and balance sheet of organisations, to work towards a set-up which enables them to obtain lending and growth capital from social or commercial sources at affordable rates comparable to those available by mainstream

## Our Insights

- There is a pressing need for the right capital in the sector, in particular long-term, patient capital which enables investment in scale and creates secure balance sheets. Alongside this, debt financing is required to lend directly to customers
- Whilst financial management is a strength across the affordable credit sector, further investment in tools and models would strengthen finance functions to the degree that commercial finance providers would be able to make investment decisions. Currently, the financial models in the sector lack the robustness of assumptions and mechanics to gain the confidence of investment from commercial providers
- Growth projections and past performance sometimes rely significantly on subsidy in the form of grant funding. A model which creates a pathway to sustainability with real equity capital is required to significantly grow an affordable lending business

## Outcomes

- Providers have strong balance sheets, a track record of profitability, robust financial modelling and systems and a clear growth strategy
- There is a substantial equity fund set up, and a debt fund available from the commercial markets which is designed specifically for the needs of affordable credit organisations
- Affordable credit organisations are able to access capital rates which enable a sustainable operation

## Sector tools and resources

- Access to a dedicated affordable credit equity fund through Fair4All and a debt fund through commercial providers
- Access to grant funding where appropriate to build capability
- Pro forma financial models which have the approval of a wide investor group

# Markets, Customer Insight and Product Design

This area will focus on enabling well designed products that support wellbeing among groups of customers in vulnerable circumstances. It will identify what the need is for customers at a national level, using data from a range of sources including debt advice agencies, government and other civil society organisations. This data will be used to inform product design, leading to shared product and customer analysis tools across the sector. Marketing strategy support will ensure that these products reach the right customers.

## Our Insights

- Their focus on vulnerability sets affordable credit organisations apart from most traditional lenders, as there are industry leading examples of understanding customers needs in detail and designing products around them. The best way to understand customers is to map their needs and typical behaviours with personas, then ensure that these personas are understood across the organisation
- There are opportunities to evolve affordable credit product offerings with the benefit of in-depth customer insight, such as exploring increased product flexibility, such as products that also offer a revolving as well as a fixed facility and a linked savings account. Market penetration across the affordable credit sector is low
- Marketing could be made more effective by being brought into a coherent strategy with appropriate KPIs attached. Currently approaches have tended to focus on marketing tactics executed outside of an overarching strategy. Many organisations have deposits which could be lent out with improved marketing

## Outcomes

- Strong insight into markets, channels and targeting; good segmentation of consumers and their needs; consumer centred design of sustainable products, which includes design and referral for those that are in the most challenging situations
- Increased market reach to customers who would benefit from affordable credit

## Sector tools and resources

- Collective approach to customer persona analysis
- Shared dataset for affordable credit customer analysis and behavioural insights toolkit
- Toolkit with approaches to new product analysis
- Shared approaches to enable further penetration into employers
- Codification of a good practice approach to marketing strategy
- Insights into the impact of benefits and employer-linked lending

# Operational Excellence

This area will focus on the systems and processes which enable customers to be served and loans to be made, targeting a sustainable operating model for a provider. It includes having well documented processes which support the customer throughout their journey, and the right technology to bring efficiencies and maximise the time of lending officers. This area will focus on all aspects of the customer journey from loan decisions to the processes of collections and recovery to ensure that they are optimised to both serve the business and customers.

## Our Insights

- There is an opportunity to disseminate best practice in operations across the affordable credit sector, through leaders who have brought innovative and successful approaches to achieve operational excellence in their own organisations. For example, ethical collections processes are often bespoke but could be replicated across providers
- From the pilot process, it is clear that many organisations grapple with the same questions of operational efficiency which could duplicate effort across the sector unnecessarily
- There are opportunities to automate some processes where face-to-face contact is less beneficial which would help to reduce cost and rapidly scale.
- Few providers have developed cohesive technology roadmaps and most lack in-house technology skills or experience, which together result in ad-hoc procurement decisions and dependence on legacy technologies that inhibit innovations and access to fintechs

- Sometimes the profitability of loan products is not understood, and a better understanding of cost base and revenue by product line would enable better strategic decisions

## Outcomes

- The level of operational unit costs enables the organisation to make a surplus on loans offered at an affordable rate
- The customer journey is smooth, fast, enabled by technology (eg Open Banking) and fair, using data ethically, and is comparable with that of mainstream lenders
- Bad debt rates are low and customers return to the organisation following an arrears experience.
- More joined up marketing activity, supported by high quality specialist providers

## Sector tools and resources

- Shared services across the sector for common processes such as collections or underwriting, with the possibility of extending to full loan management services
- Codification of a standard approach to technology strategy
- Possible access to aggregated purchasing through scale economies across the sector
- A pricing analytics tool which enables analysis of profitability per loan based on unit cost and revenue

# Governance, Leadership and Talent

This area will aim to build strong governance and a pipeline of transformational leaders and talent for the sector. It will develop a framework to bring senior talent into affordable lenders, both through coaching and leadership development, and through developing pathways for skilled professionals from outside the sector.

## Our Insights

- Many affordable credit organisations have strong and experienced leadership teams and boards who have extensive experience in the sector. Yet the sector needs more transformational leaders on boards and at the exec level to get to significant scale. The relationship between the mindset of a CEO and board regarding growth orientation and organisations' preparedness to grow is acknowledged as important
- To get to the next stage of growth, leadership coaching and governance support will help to set up more organisations for success in scaling up. Board remuneration has been seen to be an effective driver of good governance and board participation in the business. Resourcing roadmaps across the organisation must reflect growth targets
- There are organisations from outside the sector who want to play a part in helping it to grow, for example mainstream financial services providers. This could be leveraged to bring in the right outside talent where it is needed

## Outcomes

- Building great calibre boards with a diverse range of skills to support development of strategic growth plan and governance of delivery
- Building leadership teams with the breadth and depth of capability to develop and deliver a strategic plan across key capabilities from strategy and finance to technology
- Ensuring that providers can attract, develop and retain talented people and have access to outsourced resources across core areas to enable sustainable growth

## Sector tools and resources

- Sector leadership development programme
- Talent secondments from outside the sector

# Next Steps

# Support Approach and What Next

The work on the Theory of Change and the pilot has confirmed that two levels of support are needed: capability building and funding of the affordable credit sector. We therefore intend to develop our programme of support as follows. We are finalising details of this to launch the next phase in the spring.

## Our offer:

### Capability building

For each of these five areas, Fair4All Finance intends to bring together a group of leaders from inside and outside the sector to advise on the implementation and to create shared assets. Available to all will be open source tools and guidance along with peer learning sessions; for those that meet specific criteria a more in depth programme of support will be available. We are seeking collaborations as we design the next phase of the programme on these five action areas.

#### Capability focused Centres of Excellence and sector-wide assets

- System Change & Impact
- Funding & Finance
- Markets, Customer Insights & Product Design
- Operational Excellence
- Governance, Leadership & Talent

#### Affordable Credit Providers



Grant funding support to enable providers to invest in implementation and critical infrastructure

## Our offer:

### Scale-up funding

The capability building programme will support the critical infrastructure that enables sustainability in each of these five areas, with grant funding as appropriate. Following this, organisations can seek equity and debt investment from the affordable credit fund which will aim to bring significant scale to sector provision, working towards our 10x challenge.

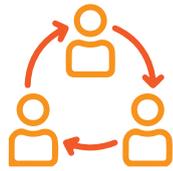


**Scale-up** Capability building to develop the enabling capabilities to scaling



**Affordable Credit Fund** Equity and debt funding to reach significantly more customers

# Route for engagement



**Collaboration** we want to partner with organisations who are already doing great work on our five target areas; to develop the Centres of Excellence and to ensure that the programmes utilise the best of what is already out there. If you have existing work in these areas and think that we should collaborate please reach out to us at [hello@fair4allfinance.org.uk](mailto:hello@fair4allfinance.org.uk).



**Funding** we are currently raising investment into our debt and equity funds and are seeking interest from organisations who may want to co-fund the sector along with us. If you would like to find out more information about this please let us know.



**Affordable Credit Providers** we are looking to launch an expression of interest process in the Spring for affordable credit providers to work with us on the next phase of our programme, to scale their organisations and to deliver great outcomes for customers. Please stay tuned for more information on this, which will be communicated through our newsletter.

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ABCUL wish to commend the work of Fair4All Finance since its inception. The open, transparent and robust engagement methodology utilised so far has been really encouraging as we identify the key opportunities and business challenges around the development and significant expansion of the affordable credit market across the country. We look forward to continuing to positively engage in the months ahead to deliver real and transformational change for credit unions and consumers alike.

**Robert Kelly**, ABCUL CEO: January 2020

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# Appendix

# Affordable Credit Models going into Scale-up

Affordable credit providers are typically locally based, small in size and operate very close to the mark of breaking even. Providers must determine the right model of financing and invest in their capability prior to embarking on a high growth plan.

|                           | CDFIs  | Credit Unions  | Alternative Socially Orientated Providers  |
|---------------------------|--|--|--|
| <b>Description</b>        | Locally founded community lenders in a non-profit structure, typically Community Interest Companies or Community Benefit Societies | Regulated mutuals with the Prudential Regulation Authority, long established community deposit takers and lenders  | New providers such as payroll lending and salary advance mechanisms, and other affordable lending mechanisms enabled by technology |
| <b>Market size</b>        | 12 organisations, c£30 million in annual lending   | 300 organisations in GB, c£230m in annual lending to our target groups   | c10 organisations  |
| <b>Customer base</b>      | Traditionally the lowest income borrowers on the edge of financial resilience  | A range of customers, some borrowing for bigger items such as household repairs, but a significant element of lower income borrowers. Serve customers based on a local or employer common bond | Majority of customers are employed, and have a range of need and incomes   |
| <b>Scale-up challenge</b> | Access to capital to grow; systems and processes at the point where significant scale-up can be achieved                           | Identifying the appropriate cross subsidy model to serve the affordable sector, investing in capability to scale   | Proving the model and its level of service and impact to vulnerable customers in vulnerable circumstances                          |

# Affordable Credit Operating Good Practice

Our work across these business areas with our pilot organisations has highlighted good practice for the operation of affordable credit organisations.

| Business Area                                     | What great looks like  | Areas to explore for affordable credit leaders  |
|---|--|---|
| <b>Strategy</b>                                   | <ul style="list-style-type: none"> <li>• <b>Business planning</b> the business plan is well documented and sets out compelling ambition evidenced by data and informed by market knowledge. There is a clear pathway to commercial sustainability outside of grant funding revenue and contingencies are well considered and hedged in the business plan. The strategy is aligned with the impact that organisation wants to create and there is a mechanism to monitor whether the business model and impact goals are aligned</li> <li>• <b>Vision</b> there is a consistent vision and purpose which is understood across the organisation</li> </ul> | <ul style="list-style-type: none"> <li>• Does the strategy demonstrate significant ambition to grow the business, with the right consideration of operational model and readiness?</li> <li>• Does the organisation capitalise fully on strategy relationships, such as with employers or housing associations as channels?</li> </ul>                                |
| <b>Governance, Leadership, People and Culture</b> | <ul style="list-style-type: none"> <li>• <b>Management and Board</b> there is a well-resourced management team that has each member operating as specialist lead with roles clearly delineated. This is supported and governed by an engaged board which gives appropriate challenge through ongoing commitment and board meeting attendance</li> <li>• <b>People and Culture</b> the organisation is well resourced and a resource plan reflects the business plan. There is a clear identifiable culture in the organisation which supports achieving its vision and growth plan</li> </ul>  | <ul style="list-style-type: none"> <li>• Are other skills and profiles needed in the management team to deliver a high growth plan?</li> <li>• Is the board set up to take the organisation through a scale-up phase?</li> </ul>  |
| <b>Customers and Products</b>                     | <ul style="list-style-type: none"> <li>• <b>Product</b> customers have a good range of clear product choices that meet their needs for simplicity, flexibility, speed and cost via the channels that they need. The customers are 'sticky' and support the organisation through advocating in online reviews and in person</li> <li>• <b>Customer</b> there is clear evidence of detailed customer personas, credit choices and behaviours and these are used to influence product decisions and lending activity</li> <li>• <b>Impact</b> the organisation understands its social impact and measures this with a robust methodology</li> </ul>         | <ul style="list-style-type: none"> <li>• To what extent does the product fit with the customer need? Could the introduction of structures such as a revolving credit product better meet customer needs?</li> <li>• Impact measurement which goes beyond activity into customer outcomes, such as improved financial resilience and mental health metrics?</li> </ul> |

| Business Area                | What great looks like   | Areas to explore for affordable credit leaders   |
|------------------------------|---|--|
| <b>Sales and Marketing</b>   | <ul style="list-style-type: none"> <li>• <b>Marketing</b> the organisation has a marketing strategy which has appropriate KPIs that are used to adapt the tactical use of channels</li> <li>• <b>Social Media</b> full activity plan which has adequate measurement and understanding of conversions and ROI</li> </ul>   | <ul style="list-style-type: none"> <li>• Using specialist outsourced providers where it wouldn't be effective to build in-house capability</li> <li>• Is there an effective process to ensure that in customers in vulnerable circumstances are sought in marketing activity?</li> </ul>   |
| <b>Operations</b>            | <ul style="list-style-type: none"> <li>• <b>Documentation</b> There is an integrated operations manual bringing together process clarity, systems and standards for customer experience</li> <li>• <b>Credit Assessment</b> an automated decision platform with integrated credit risk assessment uses a blend of historical data with open banking and CRA data. The automated decision platform frees up the allocation of resources for complex cases. There is historical evidence of changes to the credit risk approach which have driven down the bad debt rate</li> <li>• <b>Collections</b> process utilises automation and enables sensible rescheduling of repayments to encourage borrowers to get back on track with appropriate escalation procedures and outsourcing of actions as appropriate</li> <li>• <b>Provisioning</b> policy documented and reviewed on regular cycle to accommodate learning and write-off processes are enacted consistently</li> </ul>  | <ul style="list-style-type: none"> <li>• Is there an appropriate degree of automation for a lending business that competes with high speed, online models?</li> <li>• Does the unit cost of a loan enable profitability at higher volumes?</li> <li>• Is human 'high touch' appropriately used in the customer journey?</li> </ul> |
| <b>IT and Infrastructure</b> | <ul style="list-style-type: none"> <li>• <b>Roadmap and Organisation</b> IT strategy and roadmap developed for the next three to five years, with change programmes identified, costed and resourced. There is clear responsibility for IT strategy and operations assigned to senior individual. High degree of board sponsorship and engagement in the IT strategy. Developers on site to integrate applications, manage internet/mobile changes and develop bespoke technologies</li> <li>• <b>Core Software</b> integrated applications, incorporating automation, and manual interventions only for exception processing or specialist underwriting. Mobile app and strong online capability and presence. Best of breed applications used to serve specific functionality. Use of modern technology standards including API management. Flexible and scalable platform</li> <li>• <b>IT costs</b> - represent good value for money in terms of size of organisation, quality, quantity and extent of IT services</li> </ul> | <ul style="list-style-type: none"> <li>• How significant is the role that IT plays in the back office of the organisation? Is this well balanced and does it set the organisation up for growth?</li> <li>• Are the platforms used modern and flexible to changing business and customer demands?</li> </ul>                       |
| <b>Finance</b>               | <ul style="list-style-type: none"> <li>• <b>Models</b> - Balance sheet and profit and loss are fully integrated and in workable excel models. A clear understanding of customer profitability informs price. A sustainable business model showing ability to meet costs. A strong balance sheet able to withstand growth and shocks</li> </ul>  | <ul style="list-style-type: none"> <li>• Would the financial model be suitable for commercial investors to assess the business through?</li> <li>• Does the model enable medium term planning with realistic accuracy?</li> </ul>  |

# Acknowledgements

We would like to particularly acknowledge our strategic partners Carnegie Trust UK and the Esmée Fairbairn Foundation for their contributions to the development of our programme. This work also wouldn't be possible without the energy and commitment that our five pilot organisations have put into the programme: Enterprise Credit Union, Fair for You, Five Lamps, Leeds Credit Union and Moneyline. In addition, many organisations have been incredibly generous with their time as we have consulted and learnt about the affordable credit ecosystem and the issues that customers face day to day. Thank you to all those who have contributed, including:

- 1st Alliance Ayrshire Credit Union
- The Association of British Credit Unions
- Barrow Cadbury Trust
- Behavioural Insights Team
- Big Issue Invest
- Big Society Capital
- Bristol Credit Union
- Carnegie Trust
- Capital Credit Union
- Centre for Responsible Credit
- Citizens Advice
- Clockwise Credit Union
- East Kilbride Credit Union
- East Sussex Credit Union
- Enterprise Credit Union
- The Esmée Fairbairn Foundation
- Demos
- Department for Digital, Culture, Media and Sport
- The Financial Conduct Authority
- Fair by Design
- Fair Money Advice
- Fair Finance
- Fair For You
- The Fairbanking Foundation
- Financial Inclusion Commission
- Five Lamps / Conduit
- Grant Thornton
- Glasgow Credit Union
- The Inclusive Economy Partnership
- Insuring Women's Futures
- Joseph Rowntree Foundation
- Leeds Credit Union
- London Mutual Credit Union
- Liverpool John Moores University
- Lloyds Banking Group
- Money A&E
- Money and Mental Health Policy Institute
- Money and Pensions Service
- Moneyline
- The National Lottery Community Fund
- National Numeracy
- Nationwide Building Society
- Nesta
- Personal Finance Research Centre, University of Bristol
- Pro Bono Economics
- Responsible Finance
- Right Way Credit Union
- Salford University
- Scottish League of Credit Unions
- Small Change
- Social Investment Scotland
- StepChange
- Toynbee Hall
- Tudor Trust
- UK Finance
- Unity Bank
- HM Treasury

# Fair4All Finance Team



## Permanent team:

**Sacha Romanovitch**  
CEO

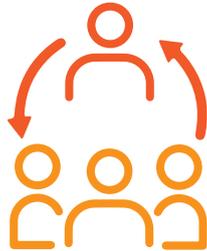
**Becky Claydon**  
Director of Operations

**Tom Lake**  
Head of Policy & Strategy

**Fionn Sharpe**  
Policy & Strategy Advisor

**Hanadi Al-Saidi**  
Social Researcher & Advisor

**Temi Odesanya**  
Executive Assistant,  
Office & Marketing Coordinator



## Specialist Consultants:

**Leonie Jarrett**  
Communications

**Jonathan Turner**  
Head of Technology

**Kate Pender**  
Growth Programme Manager

**Niall Alexander**  
Affordable Credit Associate



## Board:

**Richard Collier-Keywood**  
Chair

**Linda Stevens**  
Company Secretary

**Sir Leigh Lewis**  
Non-Executive Director

**Joanna Elson OBE**  
Non-Executive Director

**Faith Reynolds**  
Non-Executive Director

**James Invine**  
Non-Executive Director

**Ingrid Kukuljan**  
Non-Executive Director