Questions and answers from the Fair4All Finance AGM, 17 September 2020

During our AGM we had some great quality questions and we didn't get to answer them all on the call. For completeness here is a record of all the questions and answers, which we hope will add depth to your understanding of our work, focus and immediate priorities.

To help you navigate, we've broadly grouped the questions and answers around our three core beliefs

- Financial services can and should serve people in vulnerable circumstances
- Fair products and services improve people's wellbeing
- Financial inclusion is the responsibility of the whole financial services sector

And if you have any further questions, we'd love to talk to you. You can contact us at hello@fair4allfinance.org.uk

Financial services can and should serve people in vulnerable circumstances

How was the idea of the Fair for You perpetual bond developed – was it developed by Fair4All Finance?

How does the impact return relate to the financial return?

Is the result of the bond a reduction in the financing costs of Fair for You?

It was very much a collaborative effort between the team at Fair4All Finance, the existing social investors and the CEO and Chair at Fair for You in particular. We expect and hope to see similar financing mechanisms used in the future.

In short, the impact adjusted return has reduced Fair for You's financing costs. This is one of our key aims when we support an organisation, as we know borrowing money to lend to customers in vulnerable circumstances is a major cost to affordable credit providers.

We'll have more detail to share on the impact adjusted return in the next six months or so. Broadly, we set up a small committee for each of the equity investments we've made so far and drill into how we can best measure their social impact. From this we will draw out an evidence base for the value to society of the investment – quantifying both the economic benefit and the positive impact on people's health and wellbeing. This will allow us to establish a mechanism for a social value discount on the cost of capital.

We are an affordable credit provider. We started off tiny and despite a 256% increase in new members in 2019 and a 50% hike in value of loans granted, we are still small (but perfectly formed). How are you feeling about helping the smaller organisations that have great potential?

We believe that every provider is really important in the future picture of the community finance market. We recognise there's a crucial role for small, regional community-based credit unions and CDFIS that are highly specialised to their local area, have deep knowledge of it and can sustainable serve there. We would like to work with you to scale that type of provision.

The way we work with you could be different to some of the larger providers, where we aim for significant scale. It may be finding ways of consolidating by sharing assets and processes across providers, for example the model of credit union shares services. Or it may be some providers coming together. The key thing for us is sustainability.

We recognise some providers would want to consolidate and some would want to stay local, so we'll have strands of work that cater for both.

From a practical perspective, given we are already working with over 50 organisations on our current programmes, this calendar year we will be making resources available online over the next few months and in 2021 we will be looking at a more tailored support programme for smaller providers.

Affordable credit provision in England is highly fragmented and populated by numerous small and lightly capitalised businesses. There's a danger that grants defer the imperative of standalone sustainability and weaken the appetite for critical actions such as local mergers and sensible credit underwriting. What safeguards are being considered to ensure grantees demonstrate sustainability when grant support has been exhausted?

Our work in the sector is focused on proving what makes an organisation sustainable, which is a key aspect of what we're doing. When organisations apply to our programmes we look for sustainability or a plan to sustainability.

We ask organisations to provide their business plans and business model, so we can look at how to make sure they have the right customer mix to be able to deliver a cross subsidy business model. And whether they have the right product mix and identify appropriate products for people to build up their financial resilience and sustainability.

Lending is a scale business. Finding ways to help facilitate mergers or organisations sharing back office services where appropriate can help minimise costs and retain the level of coal face support customers in vulnerable circumstances need.

If we think an organisation is serving a great area but they don't have a sustainable plan, we often look if there's different support we can put in place to facilitate mergers or a path to sustainability. We don't want to lose provision altogether in those more challenged areas.

Agreed that it is now a real challenge to meet the needs of lower income households, many of whom are not poor enough to obtain grants but are now too high a risk to be lent to.

Does the understandable (pre-Covid) drive to sustainable lending models now risk increasing the size of that gap?

Do we need greater subsidy/ indemnification of risk at least in the short term?

We are looking carefully at key gaps in financial services provision for certain groups in society and exploring what might be sustainable solutions to meeting them. In the first instance we are working with HMT, Toynbee Hall and Fair by Design on the development of a No Interest Loans pilot. This is focused on those who don't qualify for grants but would be unable to afford the interest element of even an affordable loan repayment.

I know we have discussed this with you before but as Tom has just said Credit Union deposits have been rising. Therefore, have you given further consideration to how the unused savings deposits in credit unions can be pooled (or similar) to help provide the capital for more lending?

And so any pooled funds are also protected for credit unions and possible providing a rate of return for some form of pooling mechanism?

This is something we are giving further consideration to as we seek to support credit unions and other affordable credit providers to scale provision sustainably, using a low cost of capital.

High cost credit is reducing (see home credit), under pressure (Amigo, NSF), in administration (RTO, Brighthouse) and shifting income levels higher (outside bottom quintile, see PwC report). To ensure access to alternative, fair credit (the need will not go away) do you stick to principles (as per Nigel's remarks) of driving toward operational sustainability or Damon's (increase underwrite / subsidy)?

Our overall goal is to establish what it takes for a market serving this customer group to operate and scale to improve people's financial wellbeing. Our hypothesis is that with the right support for scaling, it is possible to have a market that operates sustainably. We are also, through our impact work, building an evidence base for the social value of provision, as there may well be some elements of provision that will require longer term subsidy for which it is necessary to establish the cost/benefit of doing so.

Do you have any thoughts on the level of APR interest rates charged on low value loans?

It can be a very contested issue in sectors throughout the UK?

What is fair when it comes to APR rates charged? Sustainability in delivery is often linked to charging higher rates.

For small, short term loans we think APR is unhelpful and misleading as a metric and we feel that looking at £ interest per £100 of loan is a more appropriate measure. From a practical perspective the interest cost must cover the costs of servicing that loan – from origination, cost of finance, administration costs and costs of default. Unfortunately where the cost of default is higher, interest rates will also be higher. We are working with organisations to look at how costs in each of those areas can be minimised to reduce interest costs for customers.

Fair products and services improve people's wellbeing

How can we help other responsible lenders to measure, gather and report on their respective impact so we can track that for the sector?

Lots of great work has been done already but we see opportunities for more across the whole of financial services.

Impact measurement is an important way for CDFIs and credit unions to demonstrate their benefit to policymakers, government and the wider financial services sector. We'd like to see it reported at the level of impact on the health and wellbeing of customers – important things like improved sleep, less visits to health services and increases in children's attainment and school attendance.

Over the next six months we'll be developing assets and tools to help the whole community finance sector to get to a point of impact measurement we think is in line with the Fair for You work. We're developing an impact framework which we see as a good standardised approach and we'll share that with you.

You were set up to deal with financial exclusion as a whole. You've talked a lot about affordable credit but can you say a little bit more about what you're doing on that broader theme? What about insurance and savings? When are going to get around to talking about that?

We took a steer from government and DCMS to prioritise access to affordable credit as the first area we should work on. That's due to the harm that's caused to customers when they're with certain high-cost providers, have to go without or rely on illegal money lending.

When working with affordable credit providers we are looking at their holistic financial services provision and will share best practice and support development of new product and services in the work with our programme participants.

Having a savings buffer is another key preventative – yet we know there's 12 million people in the UK without £50 in savings. We're already working with Moneyline and a few other providers to build savings approaches to credit, for example a few pounds back into a savings product when someone pays off a loan.

We'd like to do more of that and also work with other savings approaches. Maybe things like expanding the government's Help to Save and doing what we can in terms of the private sector to expand that out. So savings and insurance are very much part of our agenda and within the next year we'll be developing specific programmes in those areas.

Insurance is an important way to prevent harm before it arises. We'd like to help more customers in say a social housing environment have the right insurance for their goods, to avoid a crisis point that is often a cause of financial hardship.

Specific work on developing programmes of work focused on insurance and savings is in our route map for later in 2021/early 2022.

If system change for affordable credit is a primary outcome, what are the key data points you will look for to affect a scalable and sustainable change?

The primary outcome for us is a wider system change, where we improve the financial wellbeing of people in vulnerable circumstances through access to fair and affordable financial products and services.

At a high level we have set ourselves some key impact questions to guide our work. That includes evidencing whether we are creating the conditions for a sustainable market tailored to people in vulnerable circumstances, whether we are increasing availability of provision, whether products and services are improving peoples' financial resilience, whether the products/services are attractive to people (over products that might be less beneficial for their financial wellbeing), whether they are aware of the services tailored to their needs and finally whether product acceptance criteria is designed to allow the people they are intended for to access them.

We have a range of data points, quantitative and qualitative, that we are measuring to assess our progress and would welcome input on what you might like to see in the mix.

Financial inclusion is the responsibility of the whole financial services sector

Technology is clearly moving very quickly, particularly in the context of Covid. How are we working to share the technology and innovation between this fragmented market?

Has it changed our plans for our potential engagement with fintechs and the venture community? Big Society Capital have seen an increased interest in that area, but perhaps we could help to bring a greater understanding to that area?

How do we balance our work here with the many that face tech exclusion?

Covid-19 hasn't really changed the way we thought about technology, but it's certainly accelerated our thinking. There's an increased urgency for some lenders to be able to offer a digital customer journey for acquiring and servicing loans and savings, engaging with people in the same way as mainstream financial services.

We're working with the technology providers currently servicing these sectors to help them develop appropriate products that are well communicated to the market. We're also engaging mainstream fintechs, to explain what technology currently looks like in the affordable credit market along with some of the nuances they'll need to deal with.

Our message to lenders is to think about the need for a four or five year plan for where you're going to be taking technology - so that it's a strategic, thought through approach.

It's important to balance this work with people who face technology exclusion. The last thing we want to do is encourage a market that's solely technology led, leaving people who are already in vulnerable circumstances in an even more excluded environment.

So technology and digital customers journeys need to be a part of the solution, but we fully acknowledge that face-to-face branch engagement is still going to be an important part of the market.

This year will be remembered for Covid but it will also be remembered for Black Lives Matter. Can you say a bit more about how you see the interaction of your work with racial justice and making sure that everything you do takes account of that and that you do manage to reach out to all ethnicities?

This is a critical question. Fundamentally we're an organisation that's here to address inequality in society. To do that brilliantly well we need to understand systemic inequality, not just how it might present on the surface.

We've committed as a team to firstly shining a light on that inequality to get a good insight into how it plays out in financial services and financial exclusion. From our data there are already some scary insights that confirm there's certainly an issue to be looked at.

For example, one in five of the financial fraud claims banks turn down are from people from black or other ethnic minority groups – who only represent 10% of the population and 10% of claims. We can't say for sure what that means yet, but it certainly provokes the question of why that might be.

We want any providers we're working to collect data like this so we can understand whether they're reaching into communities and if there are any inequalities in terms of people rejected for services. This will help us understand if there is inherent bias in the system and how we can protect against that in the delivery of financial services.

Our board have also started working on our own anti-racism training to make sure that we fully understand the systemic nature of the challenges. We'll then build out our full diversity, equity and inclusion strategy. Focusing on this as part of driving an equality agenda means we're always asking the right questions at each stage in who we're working with, who we're employing and who we're providing investment to.

We're at early stages of the journey but equally we would really welcome anybody who has further insights and wants to join us on that challenge – it would be fantastic to have you involved.

My question relates to your systemic change and impact focus with prevention in mind - it would be great to hear your thoughts on any cross-pollination work you might be exploring say between affordable credit and making legal services affordable to create systemic change with equity e.g. reducing legal costs for women fleeing domestic violence, often with little or no access to finances for life-threatening legal interventions without ending up with a large legal bill.

There is a pioneering charity that has setup an in-house legal service with a gender-lens approach to address this (http://www.affordablejustice.co.uk/) and it would be great to discuss the potential of scaling-up/replicating across the country so other vulnerable women can also benefit from this equitable approach.

A great question and while it's not a specific area that we have considered yet, we are looking at the holistic support around financial services to deliver sustainable improvements in peoples' lives and collaborating closely with other agencies wherever possible to draw things like this together.

Completely agree that our work must harness the power of innovation. This is especially useful in the financial services market. This is true during Covid-19, and beyond it. But sometimes innovation moves quicker than regulators or government can keep up. It also moves faster than civil society organisations trying to understand it, especially those without much resource.

How do we get the balance right of encouraging innovation, for helping people's financial wellbeing, and advocating policies and regulation to ensure that innovation doesn't lead to unintended consequences?

We are keeping a close track on new and emerging products and services, particularly in the unregulated arena. We listen closely to insights coming through social listening and front-line support organisations for potential hazards for people in vulnerable circumstances - from them as well as the opportunities. We share these insights with regulators and government to help inform agile development of policy responses.

With respect to paths to growth and the pressures faced by traditional high cost lenders, have you looked at options for inorganic growth through bringing parts of those businesses into the ethical finance arena?

If so, what are your thoughts on potential and barriers for this route to growth?

We are actively looking at all options to increase the provision of affordable credit so that it is an attractive and accessible to customers currently using high cost credit. Our engagement is across the whole of financial services and we will explore all opportunities to create more impact to our customer group.