Dormant assets consultation

Fair4All Finance response

9 October 2022

Contents

Executive summary

We strongly agree financial inclusion should remain a cause

Financial Inclusion means that individuals regardless of their background, income or personal circumstances are aware of and have timely access to appropriate and affordable financial products and services which enable them to manage their finances day to day, build their long-term financial resilience and wellbeing and participate in society.

Some **17.5m are in financially vulnerable circumstances**. Their needs are not currently being met by the financial services industry – either due to a lack of appropriately tailored products and services or lack of provision altogether. Financial and regulatory pressures have resulted in a significant contraction of provision and there are significant market disincentives for mainstream financial services providers to enter this market at scale.

Catalytic investment is needed to rectify the situation and establish a sustainable system that enables people to access products and services that provide them with a stepping stone to financial inclusion. That in turn enables them to lead richer lives and participate fully in society.

Deploying dormant assets to financial inclusion is an efficient way to make an impact on the lives of millions of people. We have demonstrated that funds can be leveraged with **every £1 of investment creating at least £10 of value through recycling of funds and securing co-investments** to create sustained impact for 17.5m people.

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Increasing financial inclusion will drive economic growth

Tackling growing levels of financial exclusion and low financial resilience will drive wellbeing, opportunity and economic growth across England. The importance of financial inclusion can't be overstated in people's lives and for the wider economy – this is an opportunity to make a step change and solve the issue.

The number of people in financially vulnerable circumstances is increasing

- There are at **least 17.5m people in financially vulnerable circumstances** in the UK. Millions of people can't access the products they need to support their financial resilience – one in five adults has less than £100 in savings and one in four households have no home contents insurance
- The pandemic increased the number of people with low financial resilience (less than £100 in savings) by 3.5m to 14.1m – and led to **11m people building up £25bn** of personal debt
- The rising cost of living is tipping more people into financial vulnerability, and households are already borrowing more and saving less to get by

The market is failing to meet their needs

- Currently there are too many market disincentives for mainstream financial services to design and offer products tailored to people in financially vulnerable circumstances without intervention/collective action. While community finance providers deliver valuable services to this customer group, they meet a fraction of the market gap and need significant support and investment to scale
- There has been a dramatic collapse in the supply of regulated credit to people excluded from mainstream financial services, where the estimated gap in credit provision is **£2-3bn.** Without access to regulated and legal credit, there is a real risk that more people turn to dangerous illegal money lending. It's estimated that there could already be more than 1m people in debt to an illegal moneylender
- Financial products and systems are designed for people with predictable lives and incomes. Our segmentation work (set out in Appendix B) unwraps the diversity of peoples' financial lives. Everything from credit to insurance to savings need to be designed to reflect their reality so that products work for them to build financial resilience

Capital is needed to create well-functioning markets where all customers have access to the products and services they need.

Increasing financial inclusion drives economic growth

- Financial exclusion is a key barrier to wellbeing, opportunity and prosperity – there are established connections between problem debt, money worries, poor mental health and productivity
- Financial exclusion isn't evenly distributed around the country – it's concentrated in particularly

disadvantaged areas and communities

- Financial services are an engine of growth in the UK, making up 8.3% of total economic output – dormant assets funding for financial inclusion provides the opportunity to bring the estimated 17.5m financially underserved people in the UK into the system, and unlock more growth

Delivering sustained impact to 17.5m people

A portion of new dormant assets funding can deliver sustained high impact change that wouldn't be otherwise funded by government or delivered without this funding. We estimate that **£500m** of funding could be multiplied into **£2.6bn** of direct financial impact on customers – not including benefits to resilience, wellbeing and productivity, and wider social and economic benefits through reduced healthcare costs and an expanded financial services market.

Alongside deployment of this funding, we will work with industry, government and regulators to define the sustainable structures for financial products and services provision for this customer base.

New initiatives will deliver high impact change

We've collaborated with over 100 organisations to develop a Financial Inclusion Theory of Change to set out the key priority initiatives for funding to make the most impact

- Significantly expand affordable credit provision to fill the **£3bn** market gap to reach the **11m** people who struggle to access this now
- Develop affordable insurance provision and solutions to address systemic gaps in insurance provision, such as the **1 in 4** households without home contents insurance
- Deliver new systemic products and solutions to tackle the poverty premium that **affects 1 in 8 British households** and costs them an average of £430 a year. To include appliance poverty
- Improve access for people who are particularly excluded from financial services, such as people living with disabilities, care leavers, ex-prisoners, homeless people and refugees. This includes the **5 million** people who are 'invisible' to the credit system
- Drive awareness and understanding of fair and affordable products and services, embedding financial education into product and service design

We've already created significant impact since 2019

- We've deployed £30m to scale affordable credit provision, and our investments are backing business plans to triple provision of affordable credit to £900m. We have committed a further £25m to market and product transformation to begin building products that address supply gaps
- Focused Covid-19 resilience fund of £3.9m supported sustained provision from lenders delivering £150m of lending to nearly 150,000 customers
- Pilots for No Interest Loans and Consolidation Loans in progress. Our NILS pilot is already showing

evidence of sustainably increasing financial inclusion, with 87% of applicants having poor or very poor credit scores, yet so far 94% of repayments have been met

- We've built a base of evidence to provide insight into the needs of customers and what types of product and service design deliver positive outcomes and impact for people in financially vulnerable circumstances
- We've also delivered tools to enable financial inclusion and begun establishing what is possible to deliver on a sustainable basis and what needs longer term regulatory and market developments

Our work is complementary to government policy and what's already funded

- Debt advice and financial education are already funded through government
- For these areas of policy to be effective it is critical that appropriate products and services exist to meet the needs of customers
- Our work complements the levelling up and growth agendas through our investment in organisations which serve customers in some of the most disadvantaged areas of the country, and through creating opportunity for people to get into employment or training
- We work closely with HM Treasury, the FCA and the Money and Pensions Service to define our priorities that align with policy, regulatory and other government initiatives to deliver systemic change

An existing system of delivery, governance and accountability

- We have strong foundations in place for funding to get to work delivering impact quickly
- We have partnerships in place across the financial services and financial inclusion sector, which enable fast and effective delivery of current and future work
- Our team of 30+ financial inclusion experts means we are set up to continue to deliver impact quickly, supported by an experienced board that has been in place for the duration of our lifespan and a robust oversight structure to hold us to our mission

We leverage funding and work well with uncertain funding flows

- We use our funding to catalyse contributions from others, so far over £8m has been invested alongside Fair4All Finance and future funding will be deployed alongside contributions from the private sector
- Financial inclusion suits uncertain funding flows. Over 90% of our funding is for capital investment or one off projects and large amounts are deployed as capital at long intervals, which organisations then lend out to customers who repay the capital with interest. This recycling of funding is a highly efficient use of funds

Increasing financial inclusion will drive economic growth

The number of people in financially vulnerable circumstances is increasing

Our segmentation of the population shows there are at least 17.5m people in financially vulnerable circumstances (See Appendix B for breakdown).

The pandemic increased financial vulnerability – and it hit people on the lowest incomes hardest

- There are 14.2m adults in the UK with low financial resilience, up by 30% during the pandemic
- While many people on middle and higher incomes saved during the pandemic, lots of families have seen their savings eroded and around 11m people built up some £25bn of debt

The rising cost of living is tipping more people into financial vulnerability

- At £2,500 a year, typical household energy bills will be double what they were last year
- Inflation stands at almost 10% – this means an extra £454 on annual food bills for the average family. And inflation is even higher for low income households who spend a greater proportion of their income on food and energy
- Households are already borrowing more and saving less as the crisis bites, and financial services stakeholders report that people are cancelling insurance products to cut back

Millions of people can't access the products they need to support their financial resilience

- One in five adults has less than £100 in savings
- One in four households have no home contents insurance
- 5.6 million people have one or more high cost loans, often to cover day to day expenses
- 5 million people have little or no credit history making them 'invisible' to the mainstream credit economy

The market is failing to meet people's needs

Currently there are too many market disincentives for mainstream financial services to design and offer products tailored to people in financially vulnerable circumstances without intervention/collective action. While community finance providers deliver valuable services to this customer group, they meet a fraction of the market gap and need significant support and investment to scale. Increased personalisation of risk in product design means it costs more to be poor.

The decline of regulated credit, and the lack of product focus for customers in financially vulnerable circumstances is pushing people into riskier options

- The collapse of payday and home credit providers has left a huge gap in the credit market. FCA data shows that between 2019 and 2021 there were 3.25m fewer high cost loans issued - £1bn less in lending
- The number of people borrowing from family and friends increased from 3.6m in 2017 to 5.9m in 2020
- Without access to regulated and legal credit, there is a real risk that more people turn to dangerous illegal money lending. This year the Centre for Social Justice estimated that there could be more than 1m people in debt to an illegal money lender

And customers with lower incomes and in poverty need pricing fairness and tailored products and services to meet their needs

- Lower income households pay an extra 'poverty premium' of £430 a year for essentials like energy, credit and insurance
- There is a lack of investment into understanding the diversity of customers in financially vulnerable circumstances and designing the products to give people the stepping stone into innovation and growth

Increasing financial inclusion drives economic growth and social inclusion

Financial exclusion is a key barrier to wellbeing, opportunity and prosperity

- People without a buffer provided by savings, insurance or access to affordable credit are less able to withstand life's ups and downs and have to choose between going without essentials or turning to high cost credit or illegal money lenders. This has a huge impact on people's physical and mental health, and can lead to people being trapped in long term problem debt
- There is an established connection between over indebtedness and poor mental health. People in problem debt are far more likely to experience mental health problems and can get stuck in a destructive cycle, sometimes losing employment or falling out of the labour market altogether

- Money worries at work lead to more absences and lower productivity and those in problem debt are less likely to start a business, study, retrain or change jobs. There's a connection between lower employment rates and problem debt

Financial exclusion isn't evenly distributed around the country – it's concentrated in particularly disadvantaged communities

- Certain groups are more disadvantaged than others, including women, people living with disabilities and certain black, Asian and minority ethnic communities. For example, black African and black Caribbean groups are 4x and 3.5x more likely to be denied a loan compared to white groups
- Location plays an important part too, with problems more acute in areas of the country where local economies are weakest. The Demos Good Credit Index shows that there are real geographic inequalities in need and access to credit – and analysis of the index also shows that the worst affected areas have significantly lower productivity than the UK average

Increasing financial inclusion will improve the lives of millions of people, and level up growth and opportunity across the country

- Access to fair financial products and services has a transformative effect on people's wellbeing, as well as creating wider benefits to society. An independent report into one of our investees, Fair for You, found they generated over £50m of social value since 2015, including saving over £2m from reduced use of NHS services. They positively impacted customers by reducing living costs, improving sleep, diets and mental health
- Financial services are an engine of growth in the UK, making up 8.3% of total economic output – expanding the market to serve millions of excluded customers will drive growth further
- Dormant assets funding provides the opportunity to bring the estimated 17.5m underserved customers into the system. By testing and proving new business models and products, and by investing capital to scale up fair financial services providers, we can create a sustainable market that serves everyone

Delivering sustained impact for 17.5m people

New initiatives will deliver high impact change

Fair4All Finance has worked with a wide range of partners to establish priority areas for future funding. The scale of the challenge has increased significantly and the importance of expansion of our work cannot be overstated. Working with over 100 organisations across the financial services sector, civil society and regulators we have prioritised key areas that would move the dial on financial inclusion and impact the 17.5 million customers in financially vulnerable circumstances.

We use the dormant assets funding to build evidence, evidence what works best for customers at scale, and embed these product and service structures into the market to create sustainable long term impact.

Significantly expand the supply of affordable credit

Fund expansion of affordable provision from community finance and other financial services providers to meet the estimated **£3bn** gap in regulated provision of small amounts of unsecured credit.

We estimate that there are at least **11m** people who could benefit from an expanded affordable credit market: four populations from our customer segmentation: Unsteady Starters, Forgotten Families, Squeezed and Sliding, and those with Difficult Debts. Of this group our initiatives will directly impact **3m people a year**[1].

- Deliver funding to significantly **scale affordable credit** through CDFIs, credit unions and other new providers. This will include a new entrants programme and an expanded Affordable Credit Scale Up Programme, which will give providers of affordable credit the capital and capacity building they need to reach the millions of customers currently excluded from mainstream credit
- Scale the **No Interest Loan Scheme**. The No Interest Loans Scheme pilot will support up to 20,000 customers initially. A bad debt guarantee will be needed to scale this scheme by a factor of ten to address the market need. Expansion of this scheme could reach the estimated 400,000 people in 2019 currently excluded from all forms of responsible credit. Given Covid-19 and the cost of living

[1] Based on £300m of additional funding enabling £3bn of lending annually at an average loan size of £1,000

crisis we now expect the number of people who would benefit from this type of provision to be at least double. Significant leverage is possible in this area by partnering with local government and housing associations to provide capital and using dormant asset funding as a partial bad debt guarantee

- Deliver an **affordable consolidation loan scheme** to provide a reset for people struggling with multiple debts who are still able to help themselves. Debt consolidation could help hundreds of thousands of people who are burdened with multiple debts, particularly where this has built up during Covid-19, or where recent cost of living increases have made debts unmanageable. Consolidating expensive debts into a single fair and affordable loan can reduce costs and have significant wellbeing benefits for people struggling to manage. With £15m of funding we could reach an additional 65,000 people delivering an estimated £150m of savings to them

  Dormant assets funding could be used to provide the lending capital to affordable finance providers and a partial bad debt guarantee to enable this refinancing to happen. We would seek to leverage investment from the private sector in working with commercial lenders to offer this product
- Deliver **grants to local community finance providers** which reach deep into communities which are especially disadvantaged, to enable these providers to sustain and grow their provision
- Loans to **enable people to get into work or to start a micro business** to help people to put themselves on a sustainable financial footing

Develop affordable insurance provision and solutions to address systemic gaps in insurance provision

Delivering specific products around home, motor and income protection, and exploring systemic solutions to widen insurance access, such as a potential insurer of last resort scheme. This would boost financial resilience and help address issues such as the 1 in 4 households in the UK without contents insurance and the significant poverty premium paid on insurance products. Solutions will be developed with the insurance industry particularly given the industry's contribution to the new dormant assets funds.

Deliver new systemic solutions to tackle the poverty premium

One example is an affordable scheme to tackle appliance poverty. Over 2m households – 4.8m people - live in appliance poverty, where they do not own an essential white good such as a fridge, cooker or washing machine, costing them over £1,000 a year.

Dormant assets funding could be used to address appliance poverty through initially funding providers to deliver a product to get affordable appliances to those who cannot afford them in social housing and private rented accommodation. This would reduce living costs and has proven wellbeing benefits on life satisfaction, mental health and family wellbeing.

Insurance and credit also make up significant elements of the poverty premium, our work in these areas will also address this issue.

Improve access for people who are particularly excluded from financial services

By embedding accessible and inclusive features into products and services. We will build on our customer segmentation, and use lived experience to inform and support inclusive design. We will also develop an evidence base for what works for excluded groups such as those from black, Asian and minority ethnic backgrounds, those with disabilities, homeless people and refugees, and work with the financial services sector to embed appropriate product features.

Drive awareness and understanding of fair and affordable financial products and services

Evidence shows that awareness of fair and affordable products and services is low and that many customers struggle to understand the choices available to them. This area will include work to integrate financial education, savings tools such as save as you borrow, and wraparound support into customer journeys across financial services.

It will also include developing platforms to enable referrals from mainstream credit, local awareness raising of community finance and partnership development with organisations who work closely with customers in financially vulnerable circumstances, including debt advice charities, housing associations and domestic abuse charities.

Funding need

To address these areas, **we estimate that £500m funding is required**. This includes

- £300m of funding to seed the development of the affordable credit market, no interest loans and consolidation loans, where from our estimates capital can have a **10x multiplier** in the market to generate **£3bn** of provision
- £150m of funding to underwrite insurance products for customers in financially vulnerable circumstances
- £50m in funding to underwrite new financially inclusive products to address the poverty premium

Alongside deployment of this funding, we will work with industry, government and regulators to define the sustainable structure for financial products and services to serve this customer base in the long term.

We've already evidenced the impact such funding delivers

Fair4All Finance has already created significant impact since 2019 with dormant assets funding

- Fair4All Finance has committed £30m to community finance providers so far, supporting over 50% of affordable lending capacity to people in some of the most disadvantaged areas in the country

- Our investments are backing business plans projected to triple the availability of affordable credit to £900m by 2025
- The No Interest Loan Scheme pilot is providing a vital financial cushion for people who are unable to access or afford existing forms of credit. We estimate that the No Interest Loan Scheme and Consolidation loans pilot will deliver a combined **£30m of value**
- Fair4All Finance is working to create long term systemic change in the financial services sector. For example, its policy recommendations on building a sustainable credit market have been reflected in the Woolard Review and it is working with banks, the regulator and others to take these forward

Our work has a nationwide impact across England and is targeted to communities who need it most

- Our investments are targeted to areas with high financial vulnerability and low access to good credit
- More than 50% of customers supported by our investment live in the most deprived 20% of areas, based on the Index of Multiple Deprivation (IMD)
- 35% are lone parents with dependent children compared to 9% within the UK
- 58% are social housing tenants compared to 17% within England

We have a robust approach to assessing impact

It's important that we have a robust way to assess if our activity is making a difference for people in vulnerable circumstances by building sustainable mechanisms (business models, know how, regulation and policy) that persist well beyond our existence as an organisation.

We're working to change both supply and demand of fair and affordable products and services. In addition, we want to improve the operation of the market as a whole. These goals lead us to the six areas in which we consider and measure our impact:

- **Systems change and impact** Are we creating the conditions for a sustainable market tailored to people in vulnerable circumstances?
- **Availability** Are we increasing provision for key groups of people? Are we increasing availability in key places?
- **Appropriateness** Are products and services meeting the needs of customers?
- **Attractiveness** Are appropriate products and services appealing to customers in vulnerable circumstances?
- **Awareness** Are people aware of the services tailored to their needs?
- **Accessibility** Are people able to access products and services? Are they directed to the right support for them?

We aim to create impact in these areas directly through our investments and partnerships, indirectly for the consumers they serve and in respect of the wider market and how it operates. We measure this impact in three distinct ways

1. Our impact reporting which measures the
   - direct impact we have on partners via our investments and targeted engagement work
   - indirect impact of our work on consumers (the customers of our partners and investees)
   - the impact our work is having on the market including our work with mainstream finance providers, policy makers and through our systems change activity
2. A consumer panel including customers from our partner (investee) companies and a control group
3. Socio-economic analysis to calculate the wider value of our interventions to improve financial inclusion across the UK. While we are not yet able to measure the impact fully in each of these areas, we are working on building our evidence base where gaps exist

Our work is complementary to government policy and what's already funded

Dormant assets funded work in financial inclusion has been carefully designed around the additionality principle

- Fair4All Finance's work has focused on improving financial inclusion – defined as improving access to fair and affordable financial products and services, particularly for people in financially vulnerable circumstances
- The definition from the Dormant Bank and Building Society Accounts Act 2008 includes reference to 'the development of individuals' ability to manage their finances' – this refers to financial capability, which is the responsibility of the Money and Pensions Service (MaPS) as set out in the Financial Guidance and Claims Act 2018
- The objectives of MaPS are to improve people's ability to make informed financial decisions, and to support the provision of information and guidance on money matters. MaPS also has statutory duties around the provision of financial education to children and young people, and the provision of debt advice in England. MaPS is funded by the levy on financial services providers and is sponsored by the Department for Work and Pensions
- Therefore, because of the additionality principle, dormant assets projects have not included financial capability or education as this is under the remit of other government policy. Fair4All Finance works closely with MaPS and other agencies to collaborate, share customer and market insights and to avoid any potential duplication of effort where work crosses over. Fair4All Finance also works closely with the FCA and HM Treasury to split our policy and delivery responsibilities for financial inclusion and work on projects jointly where appropriate

An existing system of delivery, governance and accountability

Strong foundations are in place for funding to get to work making impact quickly. No time will be wasted in setting up new organisations or governance structures. We have deep relationships across financial services and those working in financial inclusion, and a clear theory of change to define areas of focus, as well as delivery partners in place to drive initiatives forward at pace.

We already have a strong team of financial inclusion experts and delivery partners

We now have the partnerships in place to deliver impact quickly and at scale, including with the financial services sector, regulators, financial services sector and the financial inclusion sector.

We also have a lean team of financial inclusion experts across key areas needed to drive initiatives forward

1. **Systems Change and Impact** Including research, partnerships, strategy and impact, this team builds the evidence of the needs of customers in financially vulnerable circumstances. And it joins our work with the wider financial services and financial inclusion sectors to ensure that there is a coordinated approach to financial inclusion in England, and with the wider UK where possible
2. **Finance, Funding and Investment** The overall purpose of this workstream is to establish affordable long term financing for providers serving people in financially vulnerable circumstances where they are constrained by availability of funding to scale and grow
3. **Growth and Development** Working closely with industry, develops the platforms, products and services which customers most need to build financial resilience, including the no interest loans scheme. This team also works with the community finance sector to develop its capability to scale, such as through technology and marketing

We have used full public procurement to secure necessary delivery partners, securing quality, value for money and speed of delivery.

Our work is subject to the highest level of transparency and accountability

We have robust governance and enterprise risk frameworks in place. We

- have an **experienced and established non executive board** comprised of eleven senior members of the financial services industry and the social sector. We recently conducted an external review of board effectiveness to ensure that our governance continues to be as robust as possible, which found that performance is on track, there is a good balance between support and challenge and a strong alignment between the board and team
- are overseen by the Oversight Trust, which ensures that we stay on mission by fulfilling our objectives, maintaining sound governance and demonstrating impact as we pursue our goals
- have robust existing mechanisms for funding allocation, drawdown and accountability through The National Lottery and Communities Fund, and The Oversight Trust provides **clear transparency and accountability** for the use of dormant assets funding
- commission **external audit and evaluations** of our programme spend and effectiveness
- benefit from **independent reviews** on at least a quadrennial basis to examine the effectiveness in delivering against our mission

We have collaborated to define a combined theory of change to further coordinate financial inclusion across the UK

This theory of change frames the issue, identifies the gap and key activities required over the next 5 to 10 years that will move the dial on financial inclusion.

Fair4All Finance and the money allocated from the dormant assets scheme will be catalytic to instigate and drive change in the system and to support concerted action and sustained commitment from mainstream finance, government, community finance and civil society.

The theory of change has been completed as part of our dormant assets engagement and response; the work has informed the entire response and is shown in Appendix A. Fair4All Finance will maintain this theory of change and adapt it to reflect progress and new priorities. We will drive activity with the support of a Financial Inclusion Action Group drawn from across the industry with specific focus groups on Affordable Credit and Insurance.

We leverage funding and work well with uncertain funding flows

For each £1 we deploy we work to deliver at least £10 of value. We do this by using funding to stimulate further investment and to recycle where possible. The use of guarantee mechanisms is an effective way to spread risk to enable providers to put their own capital into programmes. In this way the funding is multiplied several times. The recycling of capital helps us reach more people and also helps the organisations grow because of the interest they earn on the money being lent. Over 90% of funding is either project or repayable capital based rather than supporting operational activities which lends itself well to uneven and uncertain funding flows.

Long term systemic change delivered through a structured approach

Fair4All Finance has a structured approach to drive long term systems change and amplify the impact of dormant assets funding

- **Test and prove new business models** and products to be taken up sustainably by the wider financial services market - for example investing in a pilot of fair and affordable debt consolidation loans
- **Build an evidence base and share best practice** on how to fairly and sustainably serve customers in vulnerable circumstances – for example, by setting standards in our Affordable Credit Code of Good Practice
- Set up long term regulatory or legislative changes that will **create a sustainable market** - for example, working with the FCA to address the barriers that currently exist for organisations trying to fund or deliver affordable credit

Investment in financial inclusion has a multiplying impact

- Access to fair and affordable credit is transformative for individuals, letting them weather financial shocks and putting them back on the path towards financial resilience. This has **huge**

wider social and economic benefits around people's health, wellbeing and productivity, for example it was estimated that social lender Fair for You had created at least £2m in cost savings for the NHS through helping customers. **Greater financial resilience also enables participation in work and education**

- Responsibly lent credit is repaid by borrowers, allowing it to be sustainably relent and reinvested in others; this means that dormant assets money is recycled to help customers multiple times. At the same time this creates stronger more resilient lenders as they build up their reserves
- Additionally, relatively small investments in capability development around marketing, technology and operational efficiency can transform the reach of community finance providers

Market failures in the provision of fair and affordable financial products and services require catalytic capital to drive change

The risk profile of investing in providing products and services to people in financially vulnerable circumstances places a significant constraint on growth and innovation funding. Catalytic capital can take several forms that spreads risk and unlocks other investment into the area

- The £30m that Fair4All Finance has deployed so far into affordable credit is the only such capital available for scaling this market in the UK, particularly given that commercial investors have not been willing to invest in this space and it is significantly sub scale. Our investment provides the risk capital needed to secure and leverage wider funding from banks, social investors and other funders
- Partial debt guarantees for NILS and consolidation loans provide a mechanism to enable providers to extend their services to customers outside of their risk profile

We leverage additional funding to increase the impact of our work

Fair4All Finance's investment and support for community finance providers has helped influence social investors to extend or increase their investment in the sector, with c£20m currently committed.

Using our funding and wider convening work we have been able to directly leverage £8m of contributions from partner organisations to support research and market development, notably:

- £7m in funding from JPMorgan, HMT and Scotland, Wales, Northern Ireland devolved administrations for a pilot of a No Interest Loan Scheme
- NatWest Group funding for research into the financial exclusion of people from ethnic minorities
- Esmée Fairbairn Foundation funding for a Theory of Change for affordable credit provision which was the blueprint for Fair4All Finance's initial strategy

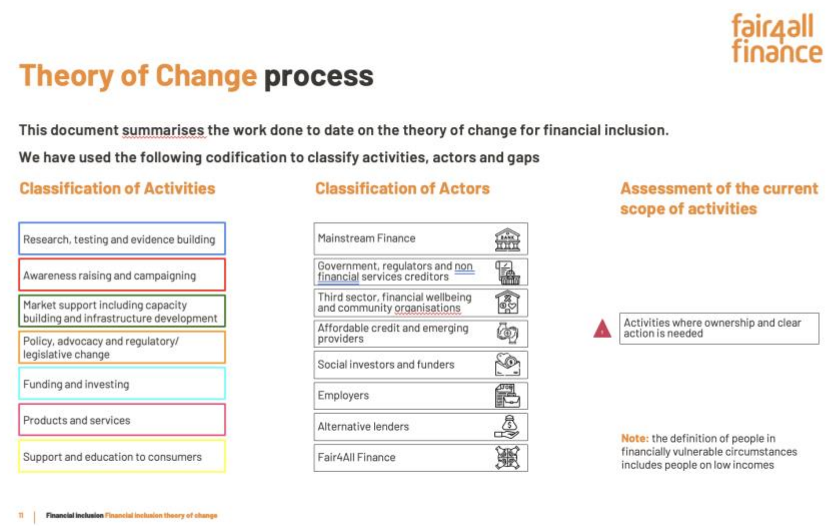
Appendices

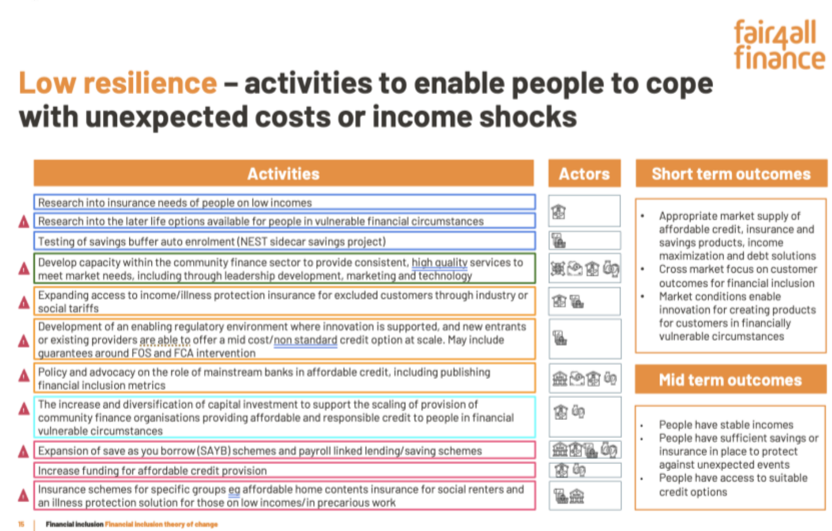
Appendix A: Financial inclusion theory of change

We have established a strong network across policy makers, researchers, regulators and financial services providers who are coordinating their work to ensure that dormant assets funding is used to fill gaps and deliver maximum value for money. This is critical to avoid duplication of effort and to deliver of systemic change.

Working with this group, we have created a combined theory of change to focus the areas where dormant assets are best applied. We will take forward our programme of work with stakeholders.

The theory of change will be published in full later in 2022.





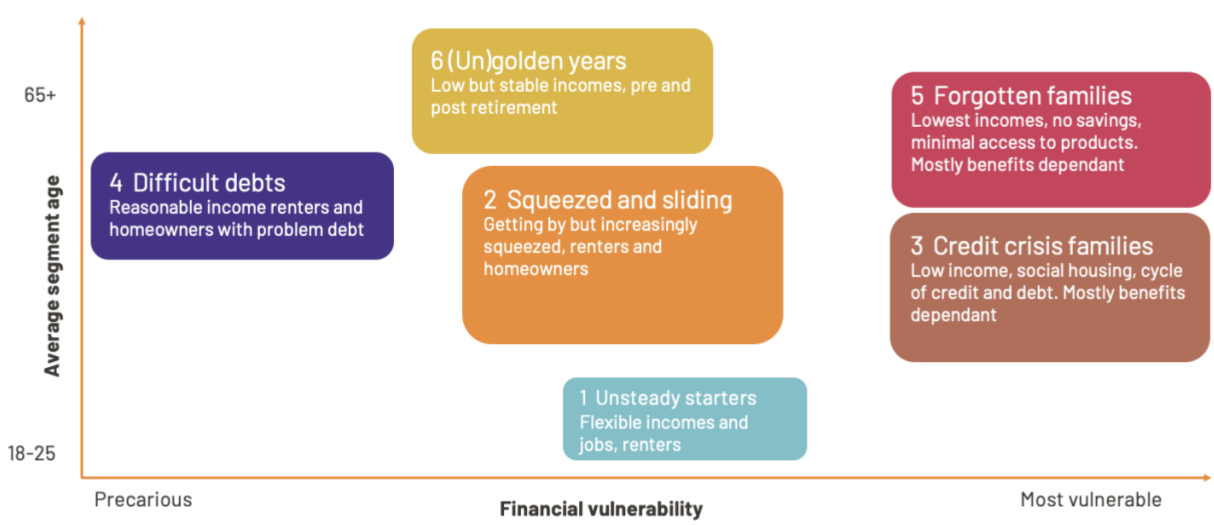
Appendix B

Segmentation of customers in financially vulnerable circumstances

In October 2022 we published a segmentation of people in financially vulnerable circumstances. This is to support customer centric proposition development across financial services, and to help community finance providers design and deliver growth strategies that serve a wider audience, beyond the people they are serving today.

This included a survey of 3,400 people in vulnerable circumstances (online and offline), as well as qualitative interviews to better understand customer need. The image below shows the six segments by age and level of vulnerability, as well as the representative size of each group.

Fair4All Finance will use the segmentation insights as part of our own strategy and prioritisation – for example, we already know that the no interest loans scheme is most likely to cater to Credit crisis families and Forgotten families, as well as some Unsteady starters, while our work on consolidation lending will span across Difficult debts, Squeezed and sliding and the two most vulnerable segments.



Segment number and name	Brief description of the segment	Population estimate (millions)
Unsteady starters	Younger people with flexible incomes establishing their home, work and financial lives. They often use shorter term credit in smaller amounts	**1.3**
Squeezed and sliding	People with less certainty around their finances and becoming squeezed. Most are just about managing their debts but some are using savings or borrowing more to make ends meet	**3.9**
Credit crisis families	Families who are in a cycle of juggling and struggling with everyday bills and debts; finding as much credit as they can in all forms	**3.5**
Difficult debts	Reasonable income, renting families. They are burdened with repayments on higher, longer term debt levels from multiple sources	**2.2**
Forgotten families	People with very low income and low savings, with many living in poverty. They have lower levels of debt potentially explained by fewer options to access credit, or attitudes to credit	**3.6**
(Un)golden years	Older people, many with health issues. They have better financial circumstances than other groups but having limited ability to earn means they are worried about the future	**3.1**
Total		**17.5**

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Appendix C

Case studies

No Interest Loan Scheme (NILS) pilot, South Manchester Credit Union

Working closely with HM Treasury, Fair4All Finance is delivering a No Interest Loan Scheme (NILS) pilot, the first of its scale across the UK, with £3.8m in funding from HM Treasury and up to £1m of lending capital from each devolved administration, matched in England by Fair4All Finance.

The loans will provide a vital financial cushion for people unable to access or afford existing forms of credit, but who can afford to repay small sums, by offering a way to spread essential or emergency costs.

- Erzsebet is a 21 year old single parent of two young children. She was unemployed until very recently and she is due to start her new job within the next couple of weeks. As a result of this employment, she needed to place her children into a nursery. The nursery requires upfront payment, which Erzsebet didn't have funds for.
- She did research and identified a government scheme where she was eligible to get reimbursed for the nursery fees but had to pay the fees up front first. She is an existing member of South Manchester Credit Union and wasn't eligible for any further interest-bearing products due to her existing loan balances. We were able to offer a £350 Stepping Stone Loan to cover the fees and she is back to work.

Affordable Credit Scale Up Programme – Fair for You

- 'It was nice to know there was someone that actually cared about your situation.' When times were tough previously, Erica (not her real name) had borrowed money from another company who she describes as 'Absolutely awful, ridiculously expensive. If you had money problems they'd be hounding you, banging on your door – it was frightening.'
- She first used Fair for You in 2017 to buy a tumble dryer – her autistic son had a lot of accidents and before this she was forced to dry some clothes with a hairdryer. Erica has since used Fair for You to buy kitchen appliances and a bed for her son, who previously slept in her bed. 'He loves his new bed – he has actually slept through the night. He seems a lot happier – it's better for him and for us as a family as well.'
- Erica remembers that Fair for You were 'so understanding' when money problems arose recently, giving her a short payment holiday for no extra charge. 'It was nice to know that there was someone that actually cared about your situation,' she says, adding that knowing she can use Fair for You gives a sense of security: 'If my washing machine was to break or something like that, I know that I have that option.'
- Erica was recently able to start her own small business and has become active in her community, setting up a mutual aid group in her neighbourhood to help vulnerable or older residents get food,

medicines or other supplies during the Covid-19 outbreak. 'I feel nice that I'm doing something for somebody else and it's making a difference to people's lives' she says

Affordable Credit Scale Up Programme – Moneyline

- Lee was diagnosed with bowel cancer three years ago. Suddenly unable to work and reliant on benefits for his income he found it hard to get a loan for a cooker when his broke during lockdown. Moneyline were able to help
- 'Even though I'd been with my bank a long time, unless you're working it's very difficult to get a loan. Going into lockdown, if I would not have been able to buy a cooker, I would have had to wait and maybe not pay other bills to get the money together to buy one. That on my mental health would have been horrendous.'
- Lee is rebuilding his life after making a recovery and his new cooker helps him eat healthily. Being able to choose a fortnightly loan repayment with Moneyline is helping him manage his money and recently his mental health has 'been in a better place than ever.'

Covid-19 Resilience Fund – Westcountry Savings and Loans

- Portishead based Westcountry Savings and Loans support many low income customers in vulnerable circumstances, with many of their loans under £500. We provided them with a £52k grant for financial and technical support from our Covid-19 Resilience Fund. They operate in an otherwise poorly served region of Somerset, Devon and Cornwall and have good links and partnerships with housing associations and local authorities
- With its dependence on tourism, agriculture and seasonal work, the Southwest was particularly impacted financially by the Covid-19 emergency. According to the Office for National Statistics (ONS), during April 2020, 146,000 people claimed Universal Credit or Job Seekers Allowance in the Southwest, nearly double the figure in March, and a much higher increase than the national average
- As a result, Westcountry Savings and Loans faced significantly higher requests for loan rescheduling and a large number of late payments or defaults, impacting their ability to serve existing customers and grow
- The funding they received has enabled them to weather the short term storm and get their growth plans back on track, preventing the region of Somerset, Devon and Cornwall becoming a 'credit desert'

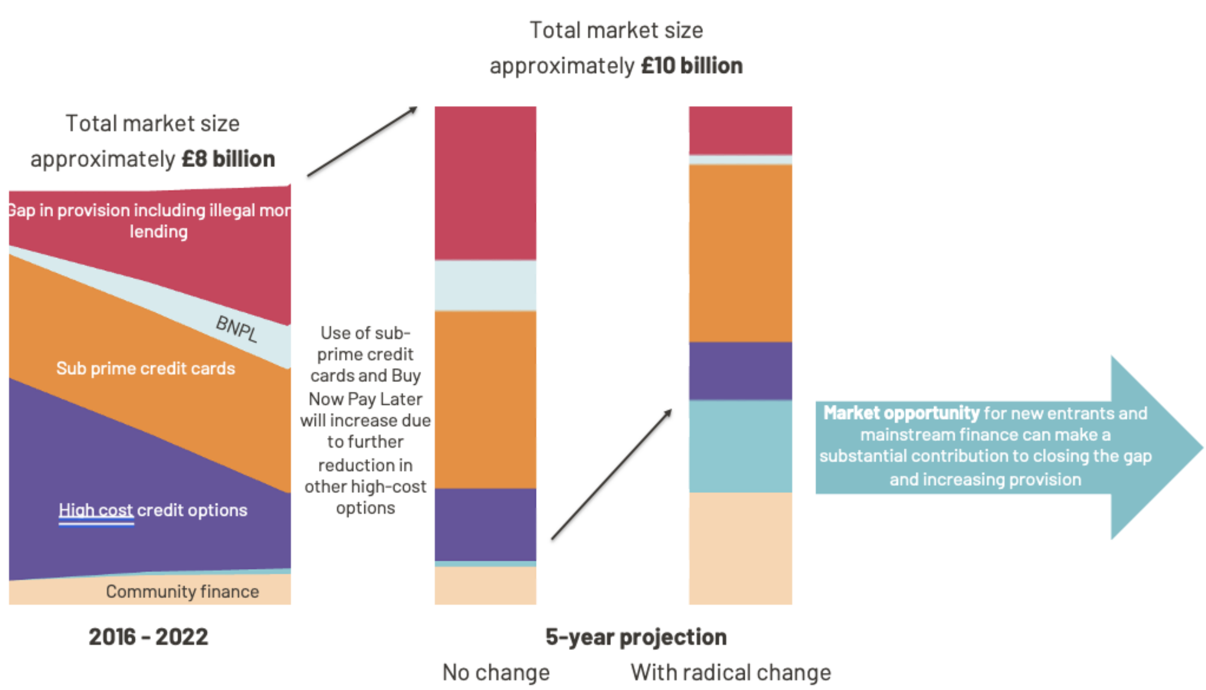
Appendix D

Summary of the affordable credit gap for customers in vulnerable circumstances

What's the scale of the need?

We estimated the current state of the market, the need and how it could scale to within the current legislative and regulatory framework and the potential with more catalytic system changes.

The overall gap in regulated credit provision was estimated to be £1bn - £1.5bn in 2020 (source: FCA, 2020). With an estimated 1.1m people now using illegal money lending (Centre for Social Justice, 2022) and considering the impact of the cost of living crisis on people's credit risk, Fair4All Finance estimate this gap has potentially doubled to £2bn - £3bn.



The assumptions and data behind the estimated scale of the market

Where data or market projections were not available, Fair4All Finance made assumptions based on existing trends and market knowledge to arrive at a realistic representation of two possible scenarios (no change and radical change)

Key assumptions and data

Community finance

- Credit unions c£1.4bn loans outstanding 2016, increase to c£1.7bn 2021; around half of this in England, the remaining in Scotland, Wales and Northern Ireland (YE Sept 2021, Bank of England). Fair4All Finance estimate that annual loan originations are two thirds of loan book, and that currently less than half of lending is financially vulnerable groups. Potential for high growth
- CDFI lending very targeted, £30m provision last year (source: Fair4All Finance), growing rapidly to potentially £50m 2022

High cost short term credit

- £1.1bn 2016 declined to c£0.2bn 2021 (FCA, 2022)

Other forms of high cost credit have declined significantly over the same period

- Catalogue c£0.8bn of originations in 2016 (approx 40% of £4bn market outstanding debt estimated to be subprime)
- Home collected credit £1.3bn 2016 to £0.3bn 2021 (FCA, 2022), given the exit of all (bar one) major players, we expect this to be near zero going forward
- Guarantor loans: c£0.4bn 2016 (FCA), rapid growth and then significant decline. No new entrants in past three years
- Rent-to-own £0.6bn 2016 (FCA), decline and market exit by most players

Sub-prime credit cards

- £2.3bn 2016, we expect this has remained broadly static since then (FCA)
- Following pattern of sub-prime credit cards in other financial downturns, and noting the new monthly record spending on credit cards in February 2022 (Bank of England), we expect this to increase (estimated by 50%)

Buy Now Pay Later

- Rapid growth over past few years, now a very large though uncertain market, likely <10% provided to people in vulnerable financial circumstances (based on forthcoming Fair4All Finance customer segmentation research)

Other forms of unsecured credit have not been included

- Other forms of unsecured credit including running account, pawnbroking not included
- Liabilities on utility, rental, council, other bills not included

Appendix E

Evidence of impact on our partner organisations

- In May 2022, Fair4All Finance sent out a pulse survey of affordable credit providers and partners in our network. The aim of the survey was to understand the impact that our funding has had on their organisations and their customers
- The survey was sent to 42 partner organisations who have received funding, expertise, participated in research or attended webinars run by Fair4All Finance. We received a 33% response and on average **respondents reported that their confidence in achieving their strategic priorities increased by 23% after their engagement with Fair4All Finance**
- Respondents reported that marketing and customer acquisition, technology implementation and transformation and the provision of capital as their top priorities. We found that the biggest impact on consumers was that **funding from Fair4All Finance had increased providers' ability to continue lending and lend to more people during Covid through additional capital but also because of marketing support and technology and business transformation to improve engagement with customers**
- At an organisational level, Fair4All Finance have had the most impact in **developing a strategy and growth mindset, running useful webinars, providing general support and being a focal point for raising awareness of and growing the affordable credit sector**

The survey also provided input on where Fair4All Finance should develop their offering and has provided us input into how new dormant assets funding could be deployed. Our community reported that a greater focus could be placed on building partnerships and in coordinating the sector, to provide catalytic funding to get mainstream investment into the sector and continue to act as a focal point to raise the needs and issues of community finance with government and the wider financial services sector.