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Response to Quadrennial Review

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Independent review of Fair4All Finance
Our response

1 We would like to thank the Quadrennial Review team for the hard work and excellent insights they have brought to this process. Most importantly, we appreciate the time of those stakeholders in responding to the interview requests by the Quadrennial Review team and bringing honest and constructive feedback to those meetings. We are grateful that the review has given us an opportunity to hear feedback from some of our close stakeholders at a crucial time in our development as an organisation

2 Our response is focused on the key areas we will be taking forward alongside commentary on significant feedback that we felt important to note. We will build this into our work and provide regular updates on progress

Executive Summary

3 We welcome the overall summary and the recognition of the progress we have made in our short life to date, particularly given our early years have been significantly impacted by the physical restrictions and wider implications of the Covid-19 pandemic

4 It is helpful to have recognition of the complexity of the financial services system and that financial exclusion has been an issue for a long time. We agree that we can't change the system on our own and that we can and should have a catalytic role in working with others who take an active role to effect change. We also agree we can only deliver on full scale systemic change if we can secure commitments from government, regulators and mainstream financial services for structural market changes to create a sustainable financial services market that works for everyone in the country.

5 We are also pleased to have independent feedback on the strength of the relationships we have built across the sector, the value of the specific outputs we have delivered, and the importance of the research and evidence base we have built to support the case for change

6 An overarching theme that has emerged is a need for us to be clearer on what success for Fair4All Finance looks like and how the elements of what we do feed into our overall strategy. This will include our strategic priorities, transparency of how our funding will be used to deliver on them, what we learn

from our programmes, and how we assess the progress we are making through the impact/measurement of key outputs. We will continue with wide engagement into our strategy and focus; over 100 organisations have provided input into our initial affordable credit theory of change and ongoing strategy development, including our strategy refresh in 2020 and our work on a wider Financial Inclusion plan. This wider input has been invaluable in shaping our work and we will continue to consult widely at significant strategic moments

7 Alongside this, we need to improve the way that we work with the community finance sector. We're proud to have worked directly with over 40 organisations, with many more regularly joining our webinars and using tools we've produced. We've also learnt about the reality of the challenges community finance providers face and have already adapted how we work to take these into account. Yet it is clear that there is more work to do in how we listen to and collaborate with the sector, how we work with them on investments and how we are clear about what we can and can't do given our mission. Overall we'll find better ways to respect everyone's time when we work together to improve the lives of people in financially vulnerable circumstances

8 We also need to find new ways to secure the engagement and financial support at scale of mainstream financial institutions, especially our major banks. Without that support - and despite everything else that we are doing - we will not be able to bring about the step-change increase in the availability of affordable credit that we so urgently need

9 We recognise that similar engagement with the insurance industry will be needed to address the significant number of people who don't have key insurances in place to provide them with a reliable safety net

10 We accept the challenge to be bolder in using our research and evidence insights to drive change with external stakeholders, particularly with the government, regulators and mainstream financial services

11 Our response sets out an outline of what we will be doing to use the feedback going forward. Some of this work will be building deeper relationships to effect change with our close partners, investees and stakeholders. We anticipate that this will be easier now the constraints of the pandemic seem to be behind us

12 In summary, we will focus on the following areas

12.1 Improve, focus and simplify: what success looks like for us including our role as a catalyst for wider system change, our communication of our vision and strategy and how we measure our progress and impact

12.2 Continue our focus on securing commitments from government, regulators and mainstream finance to deliver change at scale

12.3 Develop deeper partnerships for change through an improved approach to our engagement with the community finance sector that better respects their challenges and improve our investment process in light of the feedback in the review

12.4 Build our influence through convening, research and setting out clear recommendations to improve the supply and delivery of products and services that deliver great outcomes

12.5 Continue to maintain focus on our organisational effectiveness and transparency, including how we are to work with as an organisation

Issue 1 Improve, focus and simplify: what success looks like for us and our role in it, our communication of our vision and strategy, and how we measure progress and impact

13 The review recognises that financial inclusion is a complex, multi-faceted issue that has been a problem in the UK for a long time. It confirms our view that Fair4All Finance cannot solve this alone yet we are an important and necessary catalyst for change

14 Systemic change programmes require a consistent focus and time to deliver their intended outcomes and impact. Few of the changes we want to see are easy to measure, and not everything that can be easily measured is a good measure of whether we are making progress. We will work with our stakeholder communities to ensure we are all clear on the change needed to address financial inclusion, the role that Fair4All Finance will play both directly and in catalysing change outside of our organisation, progress milestones and how we assess the impact and measure key outputs

15 We already have an impact evaluation framework and agree that sharing this and the interim progress indicators will be helpful to all. This is built into the wider Financial Inclusion plan and associated impact reporting plans

16 The scale of the challenge is such that it can only be solved with mainstream financial services participation. With some exceptions that we record below, we have been disappointed that - despite considerable effort on our part - we have so far failed to secure any substantial commitment of funds from mainstream banks and financial institutions to scale affordable credit

17 In particular we agree with the review team that the unwillingness to date of the major banks to support initiatives such as our proposed Debt Fund - designed to bolster the ability of the community finance sector to lend at scale - has been particularly regrettable given that the scale of the resources we have been seeking from them is very small in relation to their overall financial resources

18 We will continue to work with the banks to set out why their support is so vital to our work and why it will be in their own long term interests. But we are clear that, in this respect, we do now also need the clear and specific support of the Government and regulators in seeking to engage their support and commitment

19 The engagement over the last six months on building an overall Financial Inclusion plan provides a clear framework of what is needed from actors across the landscape and where Fair4All Finance needs to concentrate its efforts.

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We will

20 Publish this overall Financial Inclusion plan, which will include the impact that we would like to see on financial inclusion in the short and medium term, and our contribution to this. We will work with The Oversight Trust on refining our progress milestones, Impact measures and reporting

21 Work with Government, regulators and the Financial Inclusion Policy Forum to gain alignment on key policy and regulatory enablers to create a sustainable market

22 Convene a Financial Inclusion Action Group, drawn from across the sector, to drive forward key actions

23 Consider the lifespan of our organisation; we acknowledge that a timeframe beyond 2027 will be required to catalyse the required changes which are required for the delivery of our mission. In early 2023 we will come to a recommendation on an updated lifespan following the decisions about the future dormant assets spend. We will also review our strategy and priorities to ensure they are sufficiently focused to reflect what can be achieved with the resources available

24 Acknowledge the need for long term subsidy to address financial inclusion, given that there needs to be a permanent stream of funding to subsidise financial products and services for customers in financially vulnerable circumstances, which the market is unable to provide

Issue 2 Focus on securing commitments from government, regulators and mainstream finance to deliver change at scale

25 We welcome the affirmation of our strategic approach to working with the mainstream financial services sector to address systemic financial exclusion. The review recognises that mainstream finance does not currently prioritise the issue of financial inclusion with resources that are proportionate to the size of the issue

26 We are pleased that the review supports our key strategies here and we welcome their suggestion to make this clearer to all. It states that closing the £3bn supply gap in affordable credit will only happen with a shift in priorities from mainstream financial services and the government. The review encourages us to continue to build the social and economic case for mainstream finance delivering affordable credit directly and indirectly through funding affordable credit organisations

27 We will continue to work with mainstream financial services to increase provision of product approaches that support customers in financially vulnerable circumstances. This will include developing partnerships to embed our customer segmentation approach and working with banks to provide affordable credit directly or fund affordable credit provision through others. We will also clarify the limits of what can be achieved if we do not get mainstream financial services support

28 A crucial actor in the change that needs to happen is the government. They must also work with us to drive this change; government has an important convening role in ensuring that the financial services system works well for the citizens who are effectively excluded from what most of us would regard as

normal financial services. A good example of this is with basic bank accounts, where government intervention ensured that customers had the access they needed

29 While we have been pleased with some of the engagement from banks so far, overall it is clear that for most of them this has not been a priority. We see an urgent need to secure commitments to work with us on the substantive measures such as our debt fund. We particularly appreciate the following contributions:

- The funding contributions of the JP Morgan Foundation to our no interest loan scheme (NILS) pilot in 2020 (£1.4m) and to our work scaling benefit calculators (£250,000)
- The adoption of benefit calculators in customer journeys in response to the cost of living crisis
- The collaboration on important research, including NatWest Group's funding contribution to our ethnic minorities research and the contributions of NatWest Group, Lloyds Banking Group, and Yorkshire Building Society to our research into best practice of banks during the Covid-19 pandemic

30 This engagement must now move to a different level to properly address the structural issues at scale

We will

31 Continue to call for significant funding contributions from banks to financial inclusion. We believe that there must be:

31.1 A regulatory requirement for banks to dedicate a portion of their capital to serving customers in financially vulnerable circumstances, alongside a funding contribution from the financial services sector to support the provision of affordable credit delivered by community finance providers. We will complete our research on effective international models for such interventions to support specific recommendations in 2023

31.2 A supportive regulatory environment for the provision of credit to low-income customers, including an appropriate affordability redress regime with the FOS, to ensure that commercial and community providers can provide affordable credit. We are pleased to be collaborating with the FCA on affordable credit 'sprints' currently

31.3 Longer term subsidy, as illustrated by our NILS pilot, to allow access to basic products and services for a wider group of citizens as a societal good

32 Build on our existing discussions with all major banks, Government and the regulator on taking this agenda forward. In 2023 we will invite all parties at a senior level to discussions on how these issues can be progressed

33 Continue to be open to feedback on how we can progress this agenda most effectively

Issue 3 Develop deeper partnerships for change through an improved approach to how we work with community finance

34 The review recognises that Fair4All Finance was set up to address financial exclusion systemically, and that community finance providers will play an important role in the solution. It recognises that Fair4All Finance has a key role in driving this change. It also highlights an expectation gap: we exist to deliver on our broad mission, rather than to specifically support particular providers, and our work with community finance providers will always be to work with them in pursuit of delivering a sustainable market for customers in financially vulnerable circumstances. As the report suggests, we will do more to clearly define and to communicate our role in working with the community finance sector

35 We've heard that, notwithstanding our engagement with credit unions and CDFIs through our direct work with 43 organisations, our webinars and engagement with ABCUL and Responsible Finance, it is clear that community finance feel we need to do more to listen to and reflect their day to day reality in our work. There are some challenges to overcome: over the last two years so much of our engagement has been online and we are aware of the power dynamic that in our surveys people may tell us what they think we want to hear due to our position as a potential funder

36 The review feedback is incredibly helpful in giving us a very clear message that we need to listen and consult more with community finance in the widest sense. It's important that we have an open dialogue as there is so much to work on together in pursuit of our mission and we would welcome further suggestions or comments from the community finance sector in addition to the steps we set out in this response. We will assess progress in this area in a year's time

37 In addition to this engagement, we know there are significant changes that need to take place in the wider system for affordable credit to scale to meet customer need. We're pleased that the review recognises this too. In particular, it's essential that more dormant assets funding is allocated to financial inclusion, and that there is a supportive regulatory regime for lending in place. The interaction of some regulators and regulation intended to protect consumers and wider banking stability has resulted in unintended market consequences that create disincentives for providers and investors

We will

38 Broaden our engagement approach with the community finance sector. We will review how we develop and share ongoing programmes to support community finance providers and how they can work with us on these. This will build on engagement for 2023 which has already been planned based on feedback and work with the sector to date, such as support for brand awareness, marketing strategy, credit risk management and leadership development

39 Continue to broaden our regular engagement approach beyond ABCUL to include all trade bodies within the credit union sector

40 Review our approach in investment conversations to consider the following

- How do we balance holding our power lightly with our responsibilities due to us having public money?

- How do we streamline the investment process to be respectful of the demands on small/less well resourced organisations?
- How do we work more effectively between the board and investment team to have alignment/consistency of approach?

41 Extend our practice of compensating community finance providers financially where they spend significant time working with us on good practice guides and sector wide tools

42 Recognise that we occupy a unique position in supporting organisations to bridge the gap to get to a sustainable place for ongoing funding. Organisations face varied external and internal challenges which means the prospect and pace of them getting to a sustainable place for funding is considerably varied. To date, the focus of our funding has been to support the development and scaling of different models that would work to build a sustainable affordable credit industry in the UK. If we are successful in receiving more Dormant Assets funding for financial inclusion we will

42.1 Work with mission-aligned community finance providers and define and expand our investments in the community finance sector. Prior to launching any funding, we will also consult the sector on our approach and directly address how we have included or not included elements of this input

42.2 Launch a specific grant fund for community credit unions to ensure that this important element of provision is maintained. This will have a deeper reach into communities than our previous funding

43 Continue to advocate for the regulatory changes that are needed to grow and sustain an affordable credit market that sufficiently meets customer needs

Issue 4 Build our influence through convening, research and setting out clear recommendations

44 The review recognises the importance of working with others to deliver systemic change and this has been at the heart of our approach from the beginning. Sometimes we have taken a convening lead, for example in bringing together over 100 stakeholders in developing our original affordable credit theory of change. On other occasions we have worked closely to support, for example in chairing two workstreams in the development of the National Financial Wellbeing Strategy led by the Money and Pensions Service

45 Our approach has been founded on a belief that building research and evidence for what works is the most effective basis on which to make recommendations. The research agenda we set has been threefold: to understand market dynamics (such as the Illegal Moneylending research, due for release early in 2023), to evidence social and economic value of investment in financial inclusion (such as funding the Fair for You impact report) and testing what delivers the best customer outcomes across the customer journey

46 The review recognises that we have been careful to remain impartial. This enables us to play a unique

role in making recommendations to government on policy development based on evidence rather than acting as a lobbying organisation. We will continue to remain evidence based and consult to enable us to form recommendations whilst taking on the feedback. We will be bolder in setting these out and to take an even more active role in convening for change

47 We would like more change to happen in financial inclusion policy where all parties are aligned that there is a right course of action. If we are to be successful in delivering on our mission, we think that there needs to be a significant regulatory and legislative change over the next few years – we will set out more on this in 2023

48 We agree with the recommendations in the review around how we can build on the foundations we've built to create even greater impact.

We will

49 Convene the Financial Inclusion Action Group to agree and take forward actions

50 Set our key policy positions in an impactful way to enable their use across the community finance and wider financial inclusion and financial services industry

51 Demonstrate and evidence the very substantial positive social and economic benefits that arise from solving financial inclusion challenges

52 Set out our wider research programme, outputs and key recommendations in a more accessible way

53 Share more best practice on delivering products to customers in vulnerable circumstances, including lessons learnt from the no interest loans scheme and how these could be applied to the wider provision of affordable credit

54 Continue to build our bank of data on customer needs – including updating our segmentation on a regular basis – and sharing this with actors across financial services to support serving customers in vulnerable circumstances

55 Consider what further support we need to effectively engage across government and wider policy stakeholders

Issue 5 Continue to improve our organisational effectiveness and transparency

56 We are grateful that the report acknowledges the strong team we have put in place to address financial exclusion. At the same time we recognise the work we need to do to communicate who we are and the many facets of what we do. We have a blend of specialists with experience in specific subject areas such as investments and product, and those with experience in specific sectors such as insurance and community finance. We also have key programme delivery resources who move between programmes, reflecting our broad remit and the need for our team to remain agile and able to rapidly reprioritise work as we have done with our responses to Covid-19 and to the cost of living crisis

57 Our team is drawn from the social sector, the community finance sector and the commercial sector, including from banking and insurance. The breadth of experience on the board is designed to complement this. We realise that three tensions are present that determine both the shape of our team and what it can feel like to work with us:

57.1 Our role is often working with organisations to be ready for commercial investment. This means how we approach investment structures, business assessment and reporting are with this end in mind

57.2 As custodians of public money, we have specific requirements on us regarding procurement and subsidy rules that demand process and procedures that can feel heavy for small organisations

57.3 We appreciate that not all organisations have capacity to take on the coordination, design and management of partnerships to deliver significant programmes such as no interest loans. We have hired colleagues with significant experience of contracting with multiple delivery partners, including government, to enable the delivery of this important work

58 We are also aware that stakeholders experience different parts of what we do – and we need to be much better at sharing the whole of what we do in a simple way

59 We acknowledge that our communication about different areas of our work needs simplifying and also needs more depth

60 We are very conscious that we are spending public money and therefore we need to control our cost base carefully while balancing the resourcing to meet our goals

We will

61 Continue to ensure that our team setup and approach are appropriate to addressing this complex, multi-faceted issue. We take the input that we can do better in the way we use our position as an organisation with resources whilst others are stretched, and that we have on occasion been unrealistic in our expectations of working with smaller organisations than ourselves

62 Co-design processes where we will work in depth with particular organisations or sectors

63 Ensure that we simplify how we communicate the whole of our work including more clarity about our team and resource allocation

64 Continue to consider the focus of work across the team as part of our 2023 budget process; this review is helpful in factoring the following into our approaches

64.1 How we can improve how we engage with Community Finance

64.2 How we can develop our work with mainstream banks

64.3 How we can improve our investment processes

64.4 What else we need to deliver a more significant policy and convening agenda

65 Be transparent about our team and resource allocation, and learn from the feedback from others

about what it's like to work with us

66 Consider how we can more skilfully manage the tensions that come from the constraints within which we work so that it becomes easier and more accessible for smaller organisations to work with us. To address the issue we are tasked with we need to bring a balance of commercial and social focus. We will consult with and listen to our stakeholders to help us develop our culture and engagement to give a better experience of working with us overall

67 Consider our board composition and develop a succession plan for key roles to reflect the feedback in the review