MICROFINANCE CENTRE

THE FINTECH MARKET IN THE UK

THE CURRENT STATE OF THE FINTECH SECTOR AND ITS POTENTIAL TO CONTRIBUTE TO FINANCIAL INCLUSION AND HEALTH

2019

FINANCIAL INCLUSION AND HEALTH IN THE UK

IN THE WAKE OF THE FINANCIAL CRISIS, AND IN THE FACE OF RISING INEQUALITY AND INCREASED TECHNOLOGICAL DISRUPTION, RECENT DECADES HAVE SEEN A GROWING CONCERN OVER A LACK OF FINANCIAL INCLUSION IN THE UK, AND A CORRESPONDING NUMBER OF POLICY, REGULATORY, AND CIVIC INITIATIVES ARE FOCUSING ON THE PROBLEM. THESE INITIATIVES AIM TO PROTECT VULNERABLE PEOPLE AND FORCE BANKS TO FOCUS THEIR GROWTH AND REORGANISATION STRATEGIES ON FINANCIALLY EXCLUDED CLIENTS (BOTH INDIVIDUALS AND SMES), AS WELL AS TO ENSURE THAT TECHNOLOGICAL ADVANCES IN THE FINANCIAL SECTOR DO NOT FURTHER ENDANGER VULNERABLE CLIENTS. THE 2018 INTRODUCTION OF OPEN BANKING REGULATION, COUPLED WITH AN INCREASINGLY CASHLESS SOCIETY, ARE CREATING A NEW ECOSYSTEM RIFE WITH BOTH OPPORTUNITIES AND RISKS FOR FINANCIAL INCLUSION.

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DEFINING FINANCIAL INCLUSION AND FINANCIAL HEALTH

There are competing definitions of “financial inclusion” in use by individuals and institutions active in the sector.

The Financial Inclusion Commission[1] defines financial inclusion as: “the availability and uptake of essential financial services, at affordable costs, to every section of society. Financial inclusion ensures everyone in society has enough skills and motivation to use these services, and to benefit meaningfully from them.”[2]

The UK Government employs a more succinct, supply-focused definition, emphasising availability over uptake. “Financial inclusion means that individuals, regardless of their background or income, have access to useful and affordable financial products and services. These include products and services such as banking, credit, insurance, pensions and savings, as well as transactions and payment systems, and the use of financial technology”.[3]

Financial inclusion can also be defined as the ability to manage day-to-day financial transactions; meet expenses (both predictable and unpredictable expenses); manage a loss of earned income and; avoid or reduce problem debt. Being financially included relies on access to income, access to financial services, and access to financial advice and information. This definition is used by the University of Birmingham in a series of studies monitoring UK’s progress towards or away from financial inclusion.[4] Arguably, this framework more closely resembles the concept of financial health: an individual’s ability to have a day-to-day financial management system that helps them be resilient and pursue opportunities. This includes the ability to spend, save, borrow, and plan.[5]

In case of SMEs (small and medium enterprises) in particular, one of the challenges is the lack of a standard definition of what constitutes financial inclusion. When the European Commission talks about support for SMEs, it references its work with financial institutions to improve available funding through the provision of loans and venture capital, and sharing good policy in areas such as

1. THE FINANCIAL INCLUSION COMMISSION IS AN INDEPENDENT, NONPARTISAN BODY OF EXPERTS AND PARLIAMENTARIANS WHO WANT TO SEE AN IMPROVEMENT IN THE FINANCIAL HEALTH OF THE NATION. ESTABLISHED IN 2014, THE COMMISSION OFFERS LEADERSHIP, COORDINATION AND ACCOUNTABILITY, AND ACTS TO RAISE AWARENESS AND ADVOCATE FOR CHANGE.
2. FINANCIAL INCLUSION: IMPROVING THE FINANCIAL HEALTH OF THE NATION” FINANCIAL INCLUSION COMMISSION, MARCH 2015
3. ‘GOVERNMENT RESPONSE TO THE FINANCIAL EXCLUSION SELECT COMMITTEE’, NOVEMBER 2017
4. KAREN ROWLINGSON, STEPHEN MCKAY ‘FINANCIAL INCLUSION ANNUAL MONITORING REPORT 2017’, UNIVERSITY OF BIRMINGHAM, SCHOOL OF SOCIAL POLICY, BIRMINGHAM BUSINESS SCHOOL
5. WWW.FINANCIALHEALTHNETWORK.ORG

loans and guarantees, venture capital, business angels, growth stock markets and crowd funding. This focus on funding only is reflected in its flagship report: the "Survey on the Access to Finance of Enterprises" (SAFE), which does not take into account essentials such as access to payment services or foreign transfers, the time it takes to open a merchant account, or support for essentials such as accounts payable that are just as critical to survival and growth.[6] Similarly, the approach to SME financial health is narrowed to financial performance indicators.[7]

SCALE OF FINANCIAL EXCLUSION

By 2017, the number of "unbanked" people in the UK reached an all-time low. Nevertheless, there were still 1.23 million adults without access to a current (basic) or savings account. It should also be noted that just because someone has a bank account doesn't mean that they will use it—so usage statistics may be considerably lower than these figures suggest.

Yet despite the apparent progress made in accessing bank accounts, people were saving less of their incomes in 2017 than at any time over the past 20 years. The 2017 household saving ratio was half the level it had reached in 2009. In 2016/17, about one in eight (6.5 million) UK adults had no cash savings whatsoever. A further quarter (24 per cent) had savings of less than £1,000 (including all money held as savings in current accounts, savings accounts, cash ISAs[8] and premium bonds). Moreover, the class gap in savings appears to be growing. The average (median) saver had at least £9,000 in 2014/16, up from £7,000 in 2006/8—where as those in the top quarter of savers had at least £46,000, up from £34,100 in 2006/8. Thus, whilst fewer people are saving, those that are saving are saving more, suggesting widening wealth inequality.[9]

Furthermore, a 2017 Financial Conduct Authority report highlighted that over 4.5 million UK adults reported having been declined a financial product in the previous two years. Of those, half were unable to get the product at all, while the rest ended up paying more or being subject to different terms and conditions based on their circumstances. Of particular concern is a lack of access to affordable short-term credit, forcing people to turn to alternative lenders, such as payday lenders and loan sharks, or go without. An estimated 2–7 million UK households use high-cost credit each year.[10] Between 2014–16, nearly half (47 per cent) of the population had some form of unsecured lending (of which credit cards were the most popular, followed by formal loans, hire purchase and overdrafts). Net credit card lending to individuals is now growing at a rate of about 10 per cent per year. This rate of growth is the highest it has been in a decade, yet not as high as it was in the years leading up to the 2008 credit crunch. Net consumer credit lending (excluding credit cards and student loans) is now growing at a rate of about 9 per cent per year. This rate of growth fell slightly in 2017/18 but was at a similar level to that witnessed just before 2008 credit crunch.

In recent years, the government has focused its attention on the high cost of credit, particularly in the case of payday lending and rent-to-own products. The Financial Conduct Authority has pointed out that the cost of unarranged overdraft fees is regularly ten times higher than fees for payday loans. This is a concern in light of the fact that no fewer than 5 million people take out payday loans,[11] compared with at least 14 million using unarranged overdrafts.[12]

In terms of insurance, a 2017 Financial Inclusion Commission report found that nearly 16 million people in the UK living in rented or owner-occupied housing lacked home insurance to cover loss through fire, theft or flood. Key demand-side barriers include a real or perceived lack of affordability, poor financial habits and skills, low levels of trust, lack of digital finance skills and living in high-risk areas. Supply-side barriers include the

6. THE NARROW FOCUS IS ALSO SEEN IN THE UK WHERE THE SME FINANCE MONITOR TRACKS ONLY ACCESS TO EXTERNAL FINANCING.
7. EXAMPLES OF THE REPORTS ANALYSING FINANCIAL HEALTH OF UK SMES INCLUDE: "SME FINANCE IN THE UK: PAST, PRESENT AND FUTURE" BY UK FINANCE AND "COLLABORATE UK 2017: THE CONFIDENCE AND HEALTH OF UK SMES" BY CITYSPRINT
8. INDIVIDUAL SAVINGS ACCOUNT IS A SCHEME ALLOWING INDIVIDUALS TO HOLD CASH, SHARES, AND UNIT TRUSTS FREE OF TAX ON DIVIDENDS, INTEREST, AND CAPITAL GAINS INTRODUCED IN 1999 IN THE UK AND REPLACING BOTH PERSONAL EQUITY PLANS (PEPS) AND TAX-EXEMPT SPECIAL SAVINGS ACCOUNTS (TESSAS).
9. KAREN ROWLINGSON, STEPHEN MCKAY 'FINANCIAL INCLUSION ANNUAL MONITORING BRIEFING PAPER 2018', CHASM, UNIVERSITY OF BIRMINGHAM
10. WWW.FINANCIALINCLUSIONCOMMISSION.ORG.UK/FACTS
11. WWW.MONEYWISE.CO.UK/NEWS/2019-01-25%E2%80%8C%E2%80%8C/SURGE-PAYDAY-LOANS-RAISES-CONCERNS-ABOUT-CONSUMER-DEBT
12. WWW.FCA.ORG.UK/NEWS/PRESS-RELEASES/FCA-CONFIRMS-BIGGEST-SHAKE-UP-OVERDRAFT-MARKET

complexity of product design, an over-reliance on digital channels, and increased use of big data driving client exclusion.

According to the SAFE Survey,[13] access to external financing is the main problem for only 6 per cent of SMEs, and is a concern of fewer SMEs every year. The FSB's "Voice of Small Business" survey for Q4 2018 reported that the credit availability index rose for the first time in a year to its highest level since it was introduced in 2012. Bank of England (BoE) data also indicates that credit is still affordable by historical standards, but interest rates on a range of SME loans have increased slightly since the start of the year.[14]

Increasing numbers of SMEs use external finance.[15] The SME Finance Monitor 2018/19 reported that 49 per cent of SMEs used external finance in 2Q of 2019, up from 36–38 per cent between 2014 and 2018. The increase was driven by micro and small businesses (those with 0–49 employees). The main reason for not applying for a bank loan or a credit line was sufficient internal funds.[16] However, access to external finance is not easy for every SME. Almost a quarter of SMEs claim to have lost at least one opportunity in the past 12 months because of lack of funding. The loan applications approval process is seen as being too slow, and most SMEs were not confident that they would get a loan from their current bank.[17]

Also, we find the use of personal accounts to conduct business transactions: 13 per cent of SMEs used a personal bank account for their business banking, almost all of them were the smallest ones (with zero employees). The use of personal accounts was more often seen among the SMEs which injected private funds into the business. The use of personal finance facilities was not uncommon: eight per cent of SMEs used a financing facility in their personal name, especially the self-employed and those with a lower credit rating.

STATE OF FINANCIAL HEALTH

Overall poverty rates in the UK have only dropped slightly (from 24–22 per cent) since 2000, according to a 2019 Social Metrics Commission Report.[18] This includes 8.3 million working-age adults and 1.3 million pension-age adults—meaning that simply having a bank account is no guarantee of a financially healthy life. In fact, 2014/15 data from the Understanding Society survey reveals that a fifth of households felt they were "just about managing", and a tenth were finding it "difficult to manage" in terms of their finances.

Access to a sufficient income is a key pillar of financial health, and recent decades have been a time of upheaval in the UK, as elsewhere. Overall economic growth in the UK returned to pre-financial crash levels in 2016—and unemployment, which peaked at 8.4 per cent in 2011, fell to 3.8 per cent by mid-2019. Underemployment is similarly falling, and whilst wages are growing (3.9 per cent by August 2019), inflation has reduced real wage growth rates to 1.9 per cent.[19] Given this, it is perhaps not surprising that in June 2019 the Living Wage Foundation announced that more than 5 million workers in the UK are in low-paid and insecure employment, leaving them struggling to effectively manage their family finances.

According to the Financial Inclusion Annual Monitoring Briefing Paper 2018, approximately eight million people were struggling to keep up with bills and credit commitments in 2017. Of these, only about 1.1 million people received advice. About 8 per cent of the UK adult population, or 4.1 million people, said that they had actually fallen behind with domestic bills or credit commitments in three or more of the last six months in 2017. Those on the lowest incomes are much more likely to be in arrears on utility bills and credit commitments: 16 per cent

13. SURVEY ON THE ACCESS TO FINANCE OF ENTERPRISES (SAFE). ANALYTICAL REPORT 2018. EUROPEAN COMMISSION, NOVEMBER 2018
14. SMALL BUSINESS FINANCE MARKETS 2018/2019. BRITISH BUSINESS BANK
15. IBID.
16. SME FINANCE MONITOR 2018/19
17. SME BUSINESS BANKING OPPORTUNITIES ROUNDTABLE. UNISYS, NOVEMBER 2018
18. MEASURING POVERTY 2019, JULY 2019 HTTPS://SOCIALMETRICSCOMMISSION.ORG.UK/WP-CONTENT/UPLOADS/2019/07/SMC_MEASURING-POVERTY-201908_FULL-REPORT.PDF
19. UK OFFICE OF NATIONAL STATISTICS, AUGUST 2019

of those on the lowest incomes (lowest 10 per cent of incomes) were in arrears in 2012/14 compared with only 1 per cent of those with the highest incomes (highest 10 per cent of incomes).

The Money Advice Service, together with Nationwide Bank and Open Banking for Good (OP4Good), has defined a series of categories to classify the type of people financially struggling and financially excluded. The UK Financial Capability Strategy (FCS) as set out by the Money Advice Service identified that as many as 12.7 million people could fall into the so-called "squeezed" segment. Half of them (6.4 million) are in 40s and 50s, with older children, living in a mortgaged home. However, a considerable number of the financially squeezed (3.6 million) are younger adults (singles in their 20s, without children, living in privately rented accommodation). Another sub-segment of the squeezed (2.6 million) is young families and couples in their 30s, with young children and living in a mortgaged home.[20]

Finally, there has been a rise in the number of individual insolvencies: from 20,742 in the first quarter of 2015 to 27,388 in the first quarter of 2018. In 2017, nearly 100,000 people became insolvent. The number of landlord repossessions (evictions) by county court bailiffs has declined slightly from a peak of nearly 53,000 evictions in 2015 to 36,000 in 2017. Mortgage repossessions remain relatively low, around 7,000 per year. The overall decline in landlord repossessions (evictions) is largely driven by a decline in evictions by social landlords (and some decline in accelerated evictions). The number of evictions by private landlords has remained fairly constant over the last few years.[21]

The picture of financial health of SMEs is mixed. On the one hand, financial indicators indicate that 80 per cent of firms are profitable, and hold increasing cash reserves. On the other hand, the median value of profit is low (£8,000), and for half of SMEs the value of cash reserves does not exceed 10 per cent of their turnover. Also, less than half (40 per cent) are growing in terms of value of sales.[22]

Although access to external finance is generally good (see above) many SMEs face other barriers: 44 per cent of SMEs had a worse-than-average risk rating in Q2 2019 and this was much more likely to be the case for the smallest SMEs with zero employees.[23] Additionally, SMEs are affected by delays in receiving income: in 2019, UK small firms were owed £14.9bn in late payments, with half of businesses reporting that outstanding debt slowed investment.[24] Financial planning and management is also weak, especially amongst smaller SMEs. The proportion of SMEs undertaking business planning is currently 57 per cent, with only 37 per cent producing regular management accounts and only 32 per cent having a formal written business plan. Only 25 per cent have a qualified person in charge of finances.[25]

ACTIONS OF PUBLIC STAKEHOLDERS TOWARDS FINANCIAL INCLUSION AND HEALTH

Financial inclusion first emerged on the policy scene after the 1997 election of a New Labour government. At that time, the government established the Social Exclusion Unit, mandated to investigate the issue of financial exclusion. In 1999, the Policy Action Team 14 published its "Access to Financial Services" report, which recognised the direct link between financial and social exclusion. Recommendations included the creation of a "basic bank account" to drive inclusion, and leveraging the existing Post Office network to facilitate ease of access.

By 2003, the Basic Bank Account was created. Whilst they offer the same standard features as the average current account (e.g. cash withdrawals, direct debits, online payments), basic bank accounts are not permitted to have an overdraft facility and are fee-free for standard operations, including a failed payment. This means the basic bank account is ideal as both a starter product for those unfamiliar with mainstream

20. Source: Money Advice Service and Nationwide and Open Banking for Good
21. Karen Rowlingson, Stephen McKay 'Financial Inclusion Annual Monitoring Briefing Paper 2018', CHASM, University of Birmingham
22. SME Finance Monitor 2018/19
23. Ibid.
24. "Financial Inclusion for Europe's SMEs: Building a Circle of Trust": Banking Circle 2019
25. Ibid.

banking and for those customers who struggle with problem debt.[26]

In 2004, the Treasury department published its “Promoting Financial Inclusion” strategy, which included the formation of a Financial Inclusion Task Force (as an advisory and monitoring body to the government) and a £120 million Financial Inclusion Fund. The mission of the Taskforce (2004–11) was to increase access to banking; improve access to affordable credit, savings and insurance; and improve access to appropriate money advice. The Fund (2005-08) supported the rollout of initiatives to increase the supply of free face-to-face money advice in England and Wales, pilot new methods of money advice outreach, increase funds for lending to excluded communities, and a public information campaign to reduce barriers to financial inclusion, among others.

Between 2004 and 2011, these initiatives succeeded in halving the number of people in the UK without a bank account. The government has also put in place a strong regulatory regime to ensure that markets are working fairly, and has given the FCA a clear mandate to protect consumers and consider access to financial services within its competition objective.

Under the coalition government (2010–15), there was no overall coherent financial inclusion strategy. That notwithstanding, there were a number of useful policy measures introduced, including changes to tax-free savings accounts and auto-enrolment in workplace pension programmes. A 2014 agreement between the nine largest current account providers and the Treasury also mandates that basic bank accounts should be accessible to the most vulnerable and least affluent in society.

The Financial Inclusion Commission’s report, *Financial Inclusion: Improving the financial health of the nation*, was published in March 2015[27] before the General Election and brought together evidence the Commission gathered from around the country. The report acknowledged the absence of a national financial inclusion strategy, leading to a lack of coordination between key players. It also recognised the inability of traditional banking services to meet the needs of low-income clients, the credit gap for low-income clients, a mismatch between supply and demand of savings, the unaffordability of insurance, and a general lack of financial management skills.

It is important to recognise the critical backdrop to all of these advances in financial inclusion and financial health in the UK, namely the Conservative government austerity policy which has stripped significant amounts of funding from the welfare, tax credits, education and health services needed by ordinary people to support their wellbeing, improve their lives and plan for the future. Financial inclusion might be increasing, but so too is financial inequality.

26. HM Treasury and Department for Work and Pensions Financial Inclusion Report, March 2019
27. Financial Inclusion Commission: Financial Inclusion: Improving the Financial Health of the Nation, March 2015, www.financialinclusioncommission.org.uk/pdfs/fic_report_2015.pdf

THE UK FINTECH SECTOR

CONDITIONS FOR THE DEVELOPMENT OF THE UK FINTECH SECTOR

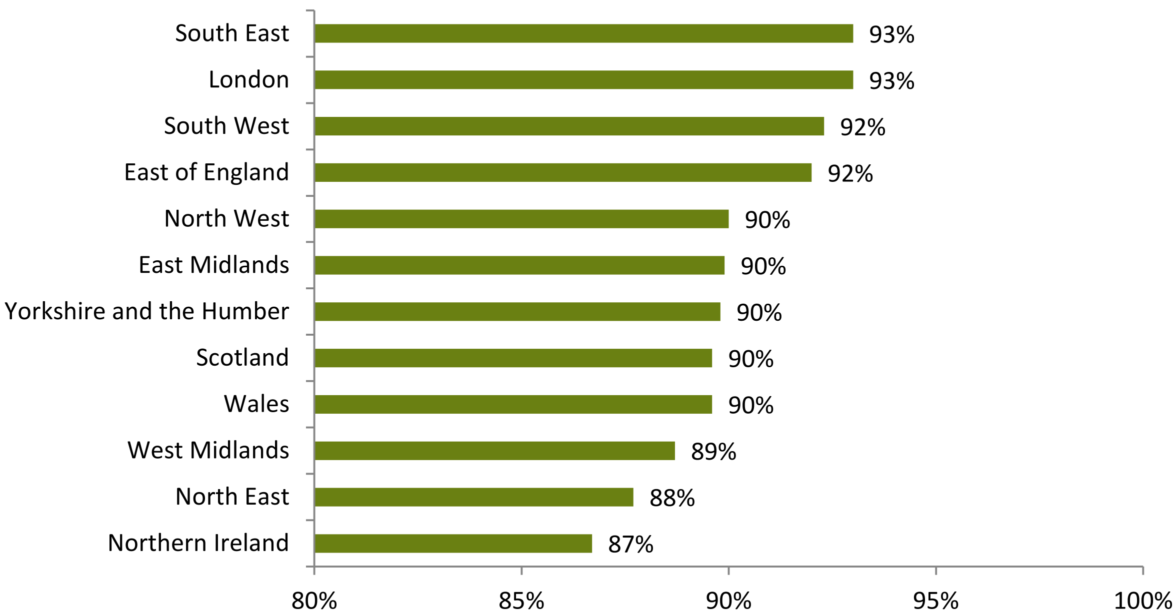
INTERNET AND MOBILE DEVICES

Data from the Office of National Statistics[28] shows that internet use in the UK is very high. In 2019, only 7.5 per cent of adults had never used the internet in the first quarter of 2019, down from 8.4 per cent the year before. The UK ranks high among EU countries in terms of recent internet use: in 2018, UK was the third highest, after Denmark and Luxembourg, with 95 per cent of adults aged 16–74 years being recent internet users.

Importantly, two key social gaps in internet use are narrowing over time. First, the generation gap: while adults aged 75 years and over are consistently less likely to use the internet overall, the recent internet use in both the 65–74 and 75+ years age groups is growing more rapidly than among younger groups. Secondly, the gender gap in recent internet use is narrowing. While the overall gap across age groups is relatively narrow (92 per cent of men and 90 per cent of women in 2019), larger differences can be seen within key age brackets: 65–74 (2 points) and 75+ (12 points), although, as with the age gap, this gender gap is swiftly narrowing.

London and the South East had the highest recent internet use (93 per cent) in 2019, while Northern Ireland was the lowest (87 per cent). Northern Ireland had the largest regional increase in recent internet use since 2011, a rise of 18 points (Figure 1).

FIGURE 1: RECENT INTERNET USE BY REGION, 2019



(SOURCE: OFFICE OF NATIONAL STATISTICS)

28. WWW.ONS.GOV.UK/BUSINESSINDUSTRYANDTRADE/ITANDINTERNETINDUSTRY/BULLETINS/INTERNETUSERS/2019

Another report[29] shows that internet use is not universal across socioeconomic groups. Whilst rates of non-use of the internet are falling overall, non-use remained higher among adults in C2DE[30] households (17 per cent) than those in ABC1 households (4 per cent). Adults aged 16–64 in DE households who used the internet spent less time online per week (23 hours) than those in non-DE households (27.1 hours). Individuals in DE households were also less likely than those in non-DE households to say they were confident 'overall as an internet user' (84 per cent vs. 92 per cent). DE households were also less likely to have access to and to use most internet-connected devices including smartphones, computers, tablets, DVRs, smart TVs, streaming media players and wearable technology.

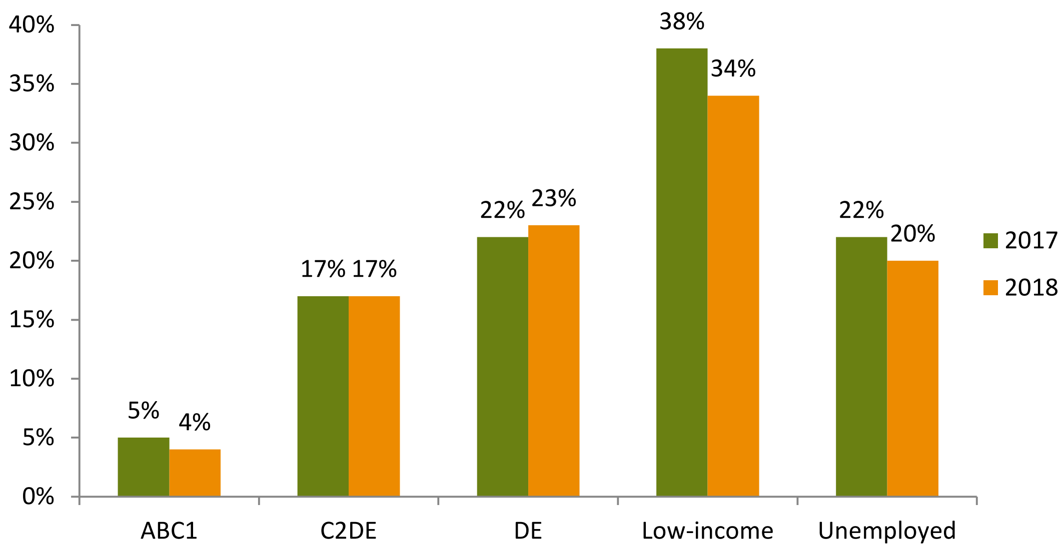
UK adults spend an average of 3 hours per day online (via desktop or mobile). In 2018, women spent more time online than men across all age groups under 55 for the first time ever. This was particularly the case for women aged 18–34, who spent on average half an hour longer online than men in the same age group. Nearly half of UK internet users in 2018 named smartphones as their most important device for accessing the internet. This was particularly true among young adults (16–34 year-olds), where 70 per cent relied on their smartphone (compared to 17 per cent of over-54s). Overall, smartphones are driving a shift away from SMS and voice calls to internet-based communications such as WhatsApp and Facebook Messenger.

INFRASTRUCTURE FOR A CASHLESS ECONOMY

The future of cash

No debate around financial inclusion and fintech can ignore the potential negative impacts of a shift towards a "cashless economy".[31] This is because the digital

FIGURE 2: INTERNET NON-USE AMONG DIFFERENT SOCIOECONOMIC GROUPS



SOURCE: UK COMMUNICATIONS MARKET REPORT 2018

29. UK COMMUNICATIONS MARKET REPORT, OFCOM 2018
30. THE NRS SOCIAL GRADES ARE A SYSTEM OF DEMOGRAPHIC CLASSIFICATION USED IN THE UNITED KINGDOM BASED ON OCCUPATION OF THE HEAD OF THE HOUSEHOLD: A - UPPER MIDDLE CLASS, B - MIDDLE CLASS, C1 - LOWER MIDDLE CLASS, C2 - SKILLED WORKING CLASS, D - WORKING CLASS, E - NON-WORKING. THE GRADES ARE OFTEN GROUPED INTO ABC1 AND C2DE, THESE ARE TAKEN TO EQUATE TO MIDDLE CLASS AND WORKING CLASS, RESPECTIVELY.
31. SEE FOR INSTANCE: WWW.WEFORUM.ORG/AGENDA/2019/05/IN-A-CASHLESS-SOCIETY-VULNERABLE-CITIZENS-MAY-END-UP-PAYING-THE-HIGHEST-PRICE/

payments landscape favours young, well-off and tech-savvy people, harming vulnerable and low-income people as the transaction costs of cash rise in relation to those of digital payments.

Overall access to cash in the UK is on the decline. While 90% of cash is withdrawn using ATMs, between 2016–2019 a total of 7,749 ATMs disappeared from the high street.[32] Of the remaining 62,541 machines, only 83 per cent are fee-free, and industry watch dog Which? has warned that this number is falling.[33] Overall, both the number and value of ATM transactions are falling, according to data from LINK (the UK's largest cash network). In 2017, volumes of digital payments outnumbered those of cash payments in the UK for the first time ever, prompting the government to announce a review of the state of cash in the UK. In July 2018, the Treasury Committee of the House of Commons announced an Access to Cash Review funded by LINK to consider to future of cash over the next 5–15 years. The report did not take sides on the relative merits of a cashless society, but rather considered how to ensure that the transition to a cashless society doesn't leave anyone behind in terms of ensuring cash infrastructure remains in place as long as it is needed, and ensuring that the digital finance revolution works for everyone, not just the better-off.

The group's research, based on interviews with thousands of stakeholders, revealed that while cash is declining in terms of transaction volume, it remains important in terms of transaction numbers—making up a third of all payments. Class gaps between use of cash and cards are evident, too: while there is a one point gap between use of debit cards between middle class and low-income groups (33 vs. 32 per cent, respectively), there is a ten percentage point gap when it comes to use of cash in the same groups (39 vs. 49 per cent, respectively). The report also highlighted that 2.2 million people in the UK are still entirely reliant on cash for all of their day-to-day transactions, and that class is a significant predictor of a reliance on cash. Specifically, 15 per cent of low-income people entirely rely on cash, whereas less than 2.5 per cent of all higher-income groups do.

Technology

The technological preconditions necessary for a transition to a digital economy are becoming increasingly prevalent in the UK. According to the Access to Cash report, 98 per cent of adults in the UK have a debit card, and the number of payments made using debits cards increased 14 per cent between 2016–17. Increasingly, banks are issuing contactless debit cards and vendors are accepting contactless payments—leading to a 99 per cent rise in the number of contactless payments in 2017. Also on the rise in the UK are:

- Mobile payments using smartphones or smartwatches
- Peer to peer payments (less than in the EU, but still present in the UK to an extent)
- Biometrics for account security
- Digital assistants such as Alexa or Siri who can make "invisible" purchases based on voice commands
- Inexpensive point of sale card readers popular among small business owners and stallholders.

Open Banking

Open Banking is a major revolution in banking. It means that banks are required to allow regulated third party providers access to their customer data. For third party providers, it means having the bank-held data needed to build new tailor-made solutions for different niches of the marketplace. For customers, it means greater control over their finances by managing different accounts from different providers via one app, and the ability to compare products based on their own criteria.

By mandating data-sharing between banks and third parties, it creates new

32. www.statista.com/statistics/291638/number-of-cash-machines-in-the-united-kingdom/
33. www.theguardian.com/money/2019/may/01/uk-free-atms-charges-which-cash-machine-fees

spaces for negotiations between the different parts of the ecosystem, and as such is a good example of how regulation and public policy can actually open new innovative and competitive spaces on the market.

And yet, the implementation of Open Banking in the UK (and Europe) has been neither as easy nor as painless as hoped, inasmuch as incumbent banks have only gradually understood that they need to collaborate in better faith and more openly with innovators and fintech startups to maximise their strategic competitive positions in the new open banking ecosystem.

That notwithstanding, Open Banking could be very beneficial for both financial inclusion and financial health. First, Open Banking could allow customers to become the rulers of their financial data for the first time. With greater control, people could more easily understand and leverage the value of their data. The increased data insights and competitive pressures that Open Banking promises, combined with new technologies that enable processes to be automated, could also potentially lead to benefits for financial inclusion and health such as:

- Clear, efficient and precise data that helps customers better understand their financial habits and the range of financial services available to improve their decision-making, and automate certain actions (e.g. transferring money to avoid overdraft costs)
- Efficient financial health assessments by service providers that help to identify and anticipate how and when customers might struggle with their finances and to allow preventative action
- Access to low cost, automated financial advice
- More affordable credit and insurance products, especially for people who currently lack low-risk profiles
- The ability for groups to pool financial resources and build their collective bargaining power for cheaper services or increased benefits.

That said, the Open Banking project also risks encouraging the rise of new forms of discrimination or exclusion that could be maximised by the preeminent use of digital technologies. In particular, these are:

- The increased collection and use of personal data facilitated by Open Banking could exacerbate existing information asymmetries. With more data, banks and other businesses can cherry-pick the most profitable customers, and greater “personalization” and price discrimination, to the exclusion of vulnerable customers
- More information can mean more confusion if consumers cannot analyse, use, and apply it
- Customers could lose control of the data once for instance they have consented for the providers to use it
- The frictionless environment could lead the customers to feel forced to take actions that could not be beneficial instead of pausing and thinking
- A shift beyond purely financial data towards other areas such as health, social situation, etc.
- The vulnerability of data to being hacked, and frauds and scams that use data to lure victims.

FINTECH SECTOR OVERVIEW

Financial services are a key economic sector in the UK, representing 6.5 per cent of total economic output and 3.2 per cent of all jobs in the UK in 2017–18, making it eighth in the OECD in proportion to national economic output. Fintech is rapidly becoming a key contributor to overall British competitiveness in the financial services and technology sectors.

Investment in UK fintech reached a

record high of $20.7bn (£16bn) in 2018, despite a lower number of deals and a slowdown in the second half of the year. In its biannual Pulse of Fintech report, KPMG reported that total fintech investment in the UK was almost four times higher in 2018 than it was in 2017. Furthermore, half of the top ten European fintech deals took place in the UK, cementing its status as the fintech capital of Europe. However, almost half of 2018's investment value came from just one deal: the acquisition of WorldPay for $12.8bn in the first half of the year. Between July–December 2018, UK investment dropped to just $1bn, compared to $2.8bn during the same period the previous year.

The industry body Innovate Finance reported in February 2018 that UK fintech Revolut's $250m fundraising ranked among the top 10 largest global venture capital (VC) deals of last year, while Monzo, EToro, Liberis and BitFury were also among the UK's top deals, each raising over $80m.

Challenger banks took the lion's share of VC investment at 27 per cent, while personal finance and wealth management took 19 per cent, alternative lending and financing 18 per cent and blockchain and digital currencies 10 per cent. The UK remains a competitive investment destination, with half of investment flows coming from overseas, largely North America and Europe. It is interesting to note that the sector still has diversity issues—with just six per cent of deals having a female founder, representing only three per cent of capital invested.

In 2018, UK fintech companies took a greater share of KPMG's Fintech100 than in past years, partly due to the growth of its neo banks. Twelve UK firms feature in the accountancy firm's list of fintech companies transforming financial services, compared to eight in 2017, and moved the UK from fourth to second place worldwide, behind only the US (which has 18 fintechs). In third place is China with 11 fintechs on the list.

The Fintech100 is divided into two sub-lists: the "top 50" established global fintech firms ranked based on innovation, capital raising activity, size and country; and the "emerging 50" firms of newer, innovative companies. Atom Bank was ranked most highly from the UK, at ninth place, with rival challenger banks Monzo and Starling also making their debuts in the "leading 50" segment of the list.

London is still at the heart of the fintech scene in the UK, with more than 80 per cent of VC-backed startups headquartered in the capital and claiming over 90 per cent of capital invested. KPMG predicted that 2019 would see more consolidation in the global fintech sector, particularly in mature areas such as payments and lending. Open Banking and regtech investments are also expected to rise, while traditional banks are likely to embrace digital banking.

Between 2014–17, the UK market saw increasing competition between traditional financial players and new digital players. This was particularly true in segments such as retail banking, payments and lending. Startups in these sectors sought (sometimes unrealistically) to displace and even eliminate traditional incumbents, with mixed success. The key barriers were changing consumer habits and growing consumer confidence. Traditional players, in turn, saw them as aggressive and dangerous upstarts introducing risk into the marketplace (e.g. cybersecurity, compliance, etc.).

Since then, surviving startups and new entrants have followed a more moderate approach, resulting in a fintech ecosystem that is much more collaborative. Many new players are now proposing solutions/services to banks to improve their digital infrastructures, improve and reduce costs of key systems such as "Know-your-Customers" (KYC), "Antimoney laundering" (AML) both blockchain and AI-based, and cheap easy "digital bank in a box" digital payment solutions.

Incumbent players in turn are much more ready to cooperate with startups, in particular in the context of the Open Banking initiative where they are forced to give access to customer account data. Traditional banks also find that it is more coherent and efficient to use digital players and third parties to provide new products and services, rather than developing them in-house. They have also started to financially invest and support a number of startups.

Fintech investment trends are relatively agile, but it remains to be seen if the drop in activity in the second half is due to Brexit uncertainty or the start of a wider trend–possibly the end of the current fintech cycle, presaging the next generation. Over recent months, deals and discussions (particularly among UK challenger and digital banks), have evidenced a push for further consolidation across the segment.

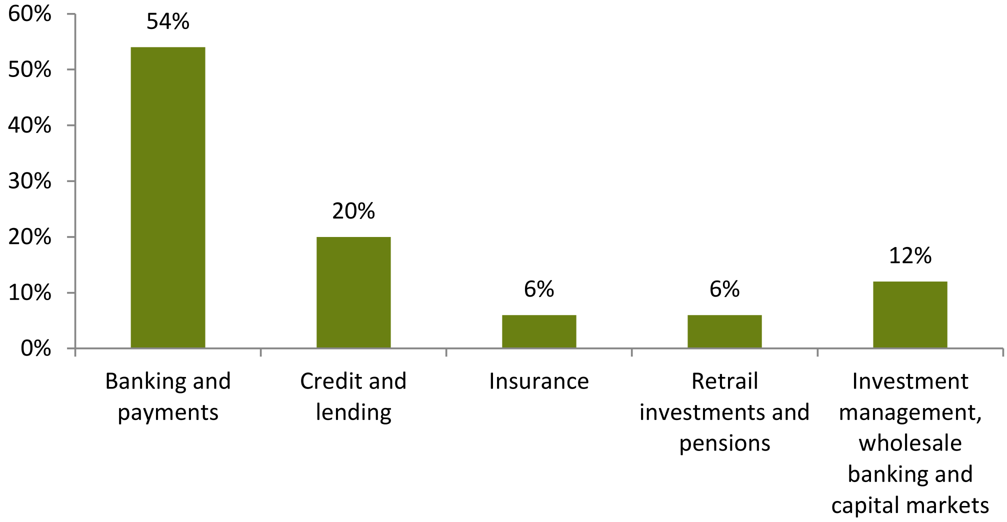
From the point of view of traditional banks, between 2015 and 2018 there were shifting attitudes towards the new fintechs. At first, their arrival was treated with something approaching disdain, inasmuch as the new comers were viewed as lacking the muscles and deep pockets needed to achieve their vision of replacing banks. Later, banks started contributing to accelerators and incubators in London such as Startupbootcamp Fintech (Lloyds Banking Group among others, Techstars (Barclays bank), etc. At the same time, banks also started creating internal departments and initiatives around digital innovation and transformation—a sort of startup within an incumbent to develop new products and services to rival the new market entrants. These internal startups, however, proved difficult and expensive to manage.

Much later, banks invested directly into startups, taking stakes between 20–30 per cent (sometimes buying them out fully). This strategy was successful when the startup was focused on improving bank infrastructure, developing and implementing technologies such as Artificial Intelligence or blockchain, or implementing new marketing/product developments. It was less successful when directly offering retail or business clients specific product offerings. Often, these startups found it difficult to adapt to the culture of a heavy, constrained, bureaucratic and big organisation. Likewise, the organisation and systems of a major bank, with its massive legacy issues around IT infrastructure, could not easily be transformed internally and be as flexible, lean and agile as a startup.

Since 2018, many banks have tried a new strategy: creating separate quasi-competing entities outside of their main technical infrastructures and developing their own startups (using methods such as Cloud services, agile methodology and others that are those generally used by startups). One of the key functions of these new separate entities is to create a totally new digital bank with either a generalist or specialised product/customer segmentation remit. It also allows incumbent banks to more efficiently compete and target the raft of new digital bank startups making headway in the UK, such as Starling Bank, Monzo, Revolut, Tide, etc. These new digital banks often are separate from the main bank both in terms of systems, use new infrastructure and technologies developed as turnkey solutions by other providers (some themselves startups), have startups-like teams and cultures, and have brands that are distinctive from those of the incumbent banks they belong to.

Interestingly, it seems that incumbent banks use this strategy to reach markets that are traditionally more excluded than most; this is particularly true of small business customers. Royal Bank of Scotland, for instance, created a digital bank led by its former COO Mark Bailie. Bò was first unveiled in 2018. In January 2019, it took 25 per cent and invested £5 million into startup Loot, a digital account app with budget management functions and others aimed at the millennial, youth and student market with almost 200,000 open accounts. After Loot entered into administration in June 2019, Bò recruited 32 per cent of Loot's very young team including Ollie Purdue, its Founder and CEO who will become Bò's Chief Product

FIGURE 3: SHARE OF FINTECH FIRMS BY SUBSECTOR



Officer. Bò will offer savings and deposits products to retail clients. RBS/NatWest aim to migrate one million Natwest customers to the new mobile platform once launched. For payments, Bò will be using Starling's Payments-as-a-Service offering. For its core banking tech, it has turned to Mambu and its flagship back office system, supplied on a hosted (cloud) basis. It is cooperating with Starling Bank for the payments services through the Platform-as-a-Service developed by Starling.

Unveiled by RBS subsidiary NatWest as a pilot in November, Mettle is set for a full launch within the next couple of months in the SME market. Mettle is developed in partnership with 11:FS and Capco. Mettle will allow customers to open a business current account in minutes, forecast their business performance, create invoices from their mobile phone and provide reminders for chasing payments. All of these features will be wrapped in a single mobile app with a debit card.

Since 2018, HSBC has been working on a digital initiative (separate from the main bank) that will focus on small businesses; here again it seems it will collaborate with Starling Bank.

Santander is purportedly preparing to launch a standalone digital unit that will target small and medium-sized enterprises. The new unit will offer smaller firms not only loans but help with payroll and pensions.

JP Morgan Chase, a US bank, is said to be working on an early-stage project to create a digital bank in the UK. Running completely separately as a startup from the rest of the bank, it is rumoured to be an ambitious cloud-based banking platform on which numerous products could be launched. That would be more akin to a core banking software-as-a-service (SaaS) platform or a Platform-as-a-Service (PaaS) or an "Amazon Web Services for Banking," along the lines of Starling's core banking product, or Germany's SolarisBank or London's 11:FS Foundry, for instance.

TYPES OF FINTECH INSTITUTIONS, EXAMPLES OF SERVICES

In 2017, the UK Fintech Census identified 1,600 unique fintechs in the UK.[34] Over half of fintechs are banking- and payments-focused, with a further 20 per cent focused on credit and lending. Investment, however, is skewed towards the latter group, which partly reflects the UK's position in peer-to-peer (P2P) lending, where it accounted for about 75 per cent of European volumes in 2014.

Investment on the banking and payments sector accounted for 46 per cent of total UK investment, reflecting the overall level of activity in that sector. Despite the UK's strong position in the insurance sector, both activity and investment have been relatively subdued; however, indications are that greater activity is beginning to emerge.[35]

34. "UK FINTECH CENSUS 2017. THE VOICE OF FINTECH" HM TREASURY, EY AND INNOVATE FINANCE
35. "UK FINTECH: ON THE CUTTING EDGE": HM TREASURY AND EY

The various types of fintechs present in the UK market are detailed below:

DIGITAL BANKS AND BANKING/ACCOUNTING SOLUTIONS FOR SMES, MICRO BUSINESSES AND ENTREPRENEURS

This includes helping SMEs to easily open digital bank accounts and integrate accounting software (such as Xero) and accounting/financial management suites. A number of startups are also developing new models that are bridging the incompatibility between fintech and cash. CashWay is a French company offering Software as a Service (SaaS) paid for by customer banks and at zero cost for the SMEs, micro merchants, etc. It offers "virtual bank branches" with payment and business management solutions integrated. Soldo Business is a "spend control and management platform" bringing together banking, admin and accounting features that allow the business owner to keep an eye on your employees' expenses. New players like Anna Money (aka Absolutely No Nonsense Admin) is an online business current account and digital assistant for small and medium-sized enterprises (SMEs), Coconut (a business current account offering support for tax and expense reports, and a tool for tracking business finances) is trying to provide high-quality tools for financial management focusing on SMEs, self-employed people and micro-businesses.

MONEY TRANSFER AND PAYMENTS

This includes online digital-only banks without branches, online foreign exchange, overseas remittances, mobile phone payments at checkouts, non-banks to transfer money, payments via cryptocurrency and payout management tools. Notable examples (including Monese, Tandem Bank and Curve) reach a general client market although bigger challenger banks (Starling Bank, Revolut and Monzo) focus on savvy and younger retail customers as well as business customers and SMEs. Starling has 550,000 individual and 60,000 SME accounts in 2019.[36] Osper and GoHenry are digital card accounts focusing on the children and youth markets, providing payment solutions (prepaid debit card) with specific controls reserved for parents.

INSURANCE

Fintechs engage in car insurance using telematics (black box) to monitor driver behaviour, manage insurance premium comparison sites or offer peer-to-peer (P2P) or microinsurance platforms. For instance, FloodFlash offers customers a new way to insure flood risk. The company has developed a tech-led approach that makes flood insurance available to everyone, even those in high-risk areas. Wrisk offers insurance connected to our personal lives and devices, aiming to making it as simple as possible, for as many people as possible, all within single app. The company recently signed a partnership with BMW to become the sole supplier of BMW and MINI car insurance in the UK. Bought by Many uses insurance search data, consumer feedback and expert market analysis to identify specific insurance needs that are poorly served by incumbents. Canopy, on the other hand, offers a solution to landlords and renters called Deposit Free, which eliminates the need for expensive security deposits by providing insurance against arrears and damage.

BORROWING

Fintechs provide short-term loans to individuals using fully digital processes. Payday lenders such as Wonga, Cashfloat, Everydayloans, Lendable offer short-term, high-cost credit for retail customers. Services for entrepreneurs and SMEs focus on helping businesses that are facing major issues to obtain loans from banks. For instance, iwoca (the name stands for 'instant working capital') offers finance for businesses for various purposes ranging from bridging short-term cashflow gaps to investing in stock opportunities. Where banks are reluctant to engage in such lending, the government bypassed banks by supporting P2P and digital lending platforms by channelling public funding to

36. WWW.WHICH.CO.UK/MONEY/BANKING/BANK-ACCOUNTS/CHALLENGER-AND-MOBILE-BANKS-AJOMJ7W688R5

them. Companies such as Funding Circle, Crowdcube, RateSetter and Zopa and others have been very successful in this respect.

FINANCIAL PLANNING

The focus here is on developing online budgeting and financial planning tools, as well as tools to analyse expenses and compare financial products. Advisory and management apps often use data and AI, and allow individuals to understand their outgoings, avoid useless costs, improve their finances and ultimately save money. Companies like Cleo are particularly successful in the UK (and US and Canada), reaching more than a million individuals. They are not only very important for financial inclusion but also to improve financial health and education of individuals. Amongst other successful players here are MoneyHub and Money Dashboard.

SAVING APPS

Moneybox rounds up user purchases to the nearest pound and invests the extra cash into a Stocks and Shares ISA as well into a broad range of companies through Moneybox's tracker funds. Moneybox wants to make investing more accessible, while giving customers the opportunity to grow their money. Likewise, Squirrel is a budgeting app that encourages saving. It was created for non-savers, in particular young people. It's not the first app of its kind, but its personalised approach to helping a person save is innovative, because it discourages spending and incentivises saving. Instead of a "one size fits all" system used by its competitors, Squirrel is tailored to the person's lifestyle and savings targets, creating a plan specifically for them. It ring-fences savings money and expenses, and releases the spending money to the normal bank account.

INVESTMENT

Investment fintechs include P2P platforms for high-interest investments, equity crowdfunding platforms and rewards platforms, online investment advice and investment management, online stockbroking services, top-up savings or investments and online spread-betting. For example, LendInvest operates an online marketplace for property lending and investing. Its online marketplace platform lets everyday investors access different types of asset classes; and underwrites and pre-funds various investments. Investbound is a group of seasoned portfolio managers and research analysts at institutional money managers. Companies such as Nutmeg have been instrumental in developing this market segment in the UK. Nutmeg's wealth and investment management services have experienced substantial growth recently, leaping from 40,000 customers to over 50,000 in the last year, At its core, Nutmeg uses technology to allow people to invest their money. The difference is that the company does this through their team, rather than with algorithms, and users can define their targets and even choose how much risk they are willing to take before Nutmeg presents them with portfolio options.

MONEY MANAGEMENT

A range of new players are entering the market (such as Emma) that provide savings and money management services, hybrid services (such as Dozens) that offer both a current account, money management and wealth planning. With developing digital technologies creating opportunities to now address specifically the market for financially excluded people in a more viable and profitable way, market players have been developing strategies to maintain and develop their positions.

THE ROLE OF FINTECHS IN PROMOTING FINANCIAL INCLUSION AND FINANCIAL HEALTH

In April 2019, we interviewed key stakeholders across the UK, including startups, companies and organisations with an interest or understanding of the financial exclusion markets. Although the startups we interviewed differ in size, nature and maturity—a few common threads emerged:

- All address market segments that traditional players can but don't (either in terms of the product or segment)
- They are more flexible than traditional players in their customer approach, more transparent in both their relations and the terms and conditions
- They strive to place the customer at the core of their operations and develop intricate customer relations processes and operations
- They understood that the SME and self-employed segment was either abandoned or underserved by banks and therefore a growth market. Several understood the barriers to entry: namely that customers won't adopt their products if they weren't free. Therefore, they find other ways to monetise their products and create revenue streams (fee on transactions; remuneration by partners; remuneration from fee on added services, etc.)

Although many begin with a single product, or by focusing on a single market segment, they launch with the intention of growing their product offering over time—for instance, by adding payments to a money management app, or savings to a digital account with a payment instrument, etc. Savings products seem to be high on the priority list for many we spoke to. For startups, future growth can be achieved either on their own or through partnerships with other startups or even banks. That said, the fintechs we spoke to had mixed feelings regarding partnerships with banks. Most refused to rule it out, but acknowledge the difficulties in working with banks because their inflexible structures and legacy issues around technology.

All interviewees acknowledge that total financial exclusion is a rarity in the UK, yet many people are either squeezed or struggling even if they are working. In total, these segments (excluded, squeezed, struggling, indebted, etc.) account for a sizeable proportion of the population (probably around 14–15 per cent). What's more, banks aren't serving these people with relevant and appropriate solutions.

OPEN BANKING FOR GOOD INITIATIVE

Open Banking is an important development that could facilitate better services for vulnerable clients, because it creates a space for new tools to help people understand and take control of their financial lives in new ways.

Open Banking for Good (OB4G) is Nationwide Building Society's initiative to use Open Banking in new ways to help what it calls the UK's 12.7 million "financially squeezed" people. The OB4G project came out of Nationwide's relationship with the Inclusive Economy Partnership, a collaboration between business, civil society and government departments. Nationwide teamed up with 17 charities and organisations to identify the three most important challenges to improving financial inclusion: income and expenditure, income smoothing, and money management.

Nationwide has made £3m available to fund the delivery of these solutions. Working with four key charities (Money Advice Trust, Citizens Advice, The Money Charity and Money & Mental Health), seven startups have been selected in 20918 to participate in the challenge: OpenWrks, Ducit.ai, Trezeo, Flow (Rai), Toucan, Squad, and Tully.

This initiative is particularly important because it is providing an acceleration framework with a guaranteed set of commercial pilots and resources, and access to Nationwide's customers. It therefore resolves one of the key problems that startups face: the difficulty in finding funding (particularly at seed stage) and negotiating commercial pilots with banks. It also focuses on practical solutions to help financially excluded people. It also provides a good model for future partnerships between government, commercial banks and charities.

FINTECHS AND FINANCIAL INCLUSION

It is significant that among the more than 51 digital banks created by startups since 2015, more than 15 focus explicitly on financially excluded customers, and that (at the outset, at least) many of the biggest digital bank startups were created to address specific difficulties in opening, accessing and using traditional bank accounts—demonstrating that the financial inclusion market is a growing and viable one. Startups often try to differentiate themselves in terms of:

- Addressing underserved or excluded customers
- Giving access to otherwise-unattainable financial products alongside additional services that provide customers with better information and to better manage their finances
- Being simpler to use
- Being more transparent.

Interestingly, fintechs are increasingly integrating multiple services and/or addressing multiple functions, an indication that there is a room to expand their offering, either on their own or through collaboration between startups.

TABLE 1: EXAMPLES OF FINTECHS ENGAGED IN IMPROVING FINANCIAL INCLUSION

	Individuals	Enterprises (SMEs)
Financial services for unbanked, underbanked		
Prepaid cards for the unbanked	Dopay	
Bank account	Neobanks (Monese, Tandem Bank, Pockit), Greater London Mutual	Tide
Non-bank current account	Loot, Dozens	
	CashPlus	CashPlus
P2P credit/investment	Zopa, RateSetter	Crowd2fund, CrowdCube, Funding Circle
P2P/invoice trading		Finverity
Working Capital loans		PayPal Working Capital, iwoca
P2P overdraft		Growth Street
Insurance	Sosure	Nimbla
Facilitation of access to financial services		
Presenting the offer of financial institutions	Choose Wisely	Funding Options
Product optimiser	Brolly	
Improving accessibility of financial services		
Alternative credit scoring	CreditKudos, aire, Credscope	CreditKudos, aire, Credscope
	Friendly Score	Hatch
	NestEgg	
Quality of financial services		
International transfers	Azimo, TransferWise	SettleGo

Table 1 details fintechs that contribute to the improvement of financial inclusion by targeting excluded segments of the population and businesses—providing quality financial services, facilitating access to services of the incumbents or other fintechs. Startups marked in yellow were interviewed during the project to understand their approach to financial inclusion.

FINANCIAL SERVICES FOR THE UNBANKED AND UNDERBANKED

Loot[37] provides an easy-to-open and easily accessible current account with a debit card. The account is accessible through a mobile app allowing smartphone users to transact anytime and anywhere. Additional tools for monitoring spending and budgeting help users optimise account and money use.

U Account, similarly to Loot, offers a bank account with a debit card and a budgeting tool. A typical customer is 24–45 years old, male, mainly in the C2DE social category (working class or unemployed). The majority of U Account customers do not have any other account.

SoSure offers social insurance of mobile phones for groups of friends. It insures mobile against damage, theft or loss. In the event of there being no claims within the group for the whole year then SoSure refunds 80 per cent of the cost of the insurance.

Finverity is a P2P investing platform offering SMEs in developing markets liquidity against invoices by linking them with investors in developed markets. In this way, it offers affordable liquidity to SMEs in markets which lack appropriate scoring systems and infrastructure for SME credit.

FACILITATION OF ACCESS TO FINANCIAL SERVICES

Funding Options is a marketplace (aggregator) for SME lenders, a broker for commercial finance and lead generator. It matches a potential SME borrower with over 50 credit providers. Using Open Banking data, Funding Options automatically reviews the applicant's bank

37. Since our interview, Loot has entered into administration. Bò, RBS subsidiary creating a new digital bank that was supposed to develop a partnership with Loot and took 25 per cent for £5m in January, recruited Ollie Purdue as Chief Product Officer as well as 17 team members from Loot.

statements, conducts underwriting and presents to the lender a pre-approved client. This speeds up the underwriting process.

IMPROVING ACCESSIBILITY OF FINANCIAL SERVICES

NestEgg empowers individuals to take control of their own financial identities using data relevant to their circumstances. Transparent matching algorithms make it easy for individuals to apply for credit, and make it cost-effective for responsible lenders to assess an applicant's credit-worthiness. It focuses on how individuals can improve if they are declined credit. By using red and green colours to indicate various situations, an individual can easily see what keeps them in the red and get advice on what to do to get to green.

QUALITY OF FINANCIAL SERVICES

SettleGo connects SMEs to the digital economy and helps them collect, convert and pay money globally. It provides an efficient and transparent tool to manage all types of payments. It provides businesses with a one-stop solution to send and receive international payments, and a virtual IBAN to collect funds from suppliers or card users and connect them to a global payment network.

FINTECHS AND FINANCIAL HEALTH

A number of fintechs provide services to individuals and enterprises that help them maintain or improve their financial health. Services can be grouped around the following areas: managing income and expenses, maintaining resilience to weather financial ups and downs, and improving long-term outlook. Table 2 presents the examples of fintechs active in these areas.

MANAGING INCOME AND EXPENSES

Elifinty is a financial app driven by artificial intelligence. Thanks to Open Banking, the app predicts the financial challenges that people will face, and uses advanced algorithms to identify an appropriate financial solution. Elifinty currently cooperates with a charity in East London which provides emergency grants to help people reduce debt and make savings.

TABLE 2: EXAMPLES OF FINTECHS ENGAGED IN IMPROVING FINANCIAL HEALTH

	Individuals	Enterprises (MSMEs)
	Managing income and expenses	
Day-to-day financial matters	Loot, Elifinty, Harmoney	ANNA Money
	Cleo AI, Squirrel, Oval Money, Flux, Plum Fintech, Money Dashboard	Soldo Business, Receipt Bank, Coconut, fluidly, Debtcase, Gocardess, Solna, Multiply AI, Albert
	Resilience to weather financial ups and downs	
Access to credit products	Loqbox	
Saving behavior	Dozens	
	Clear Score	
Access to insurance products	Brolly	
Debt repayment	Salary Finance	
Insurance	HealthyHealth	
	Long-term outlook	
Planning long-term finance	Nutmeg	

Harmoney is a money management chatbot linked to Facebook messenger that helps people managing money in three moments: day-to-day matters managed weekly (e.g. shopping), monthly bills, and lumpy annual expenditures. The bot uses information on bank account transactions to categorise current spending, forecast upcoming spending, track available funds, and advise how to optimise spending and how to save. Harmoney targets young parents with small children and 18 years olds starting adult life.

ANNA Money (Absolutely No Nonsense Admin) is a mobile business current account, a card and digital admin assistant for invoicing and tax support. It targets freelancers and SMEs (typically with 2–5 employees) in creative industries; startup enterprises that want to try something new, those rejected by a bank's KYC policy, and business owners who don't have time for admin.

RESILIENCE TO WEATHER FINANCIAL UPS AND DOWNS

Loqbox builds credit histories for people who never used credit before (due to age or migration). The aim is to get people into the financial system because otherwise they have to pay an exclusion premium (similar to the poverty premium), for instance a pay-as-you-go electricity meter instead of monthly bills or an inability to get a contract with a mobile operator. Loqbox addresses three issues: lack of opportunities, lack of capability and lack of resilience. Loqbox is also an incubator for those who were declined, helping them get back into the system. Users buy a Loqbox worth the equivalent of their yearly savings, but instead of paying upfront they use an interest-free loan. Monthly savings are recorded as loan repayments showing the lenders that the user can responsibly manage finance. Loqbox was launched in July 2017, which now has 10,000 users per month and rising.

Dozens brings together spending, saving and investment, allowing users to stay in control. Its mobile app is a current account that tracks spending and helps the user to save. It is also a tool for putting money aside and rewards the user for good financial behaviour (users can earn 5 per cent per annum with their fixed interest bonds and become investment-ready with a simplified investing tool). Users can create smart saving rules and automate putting aside money.

HealthyHealth enables access to insurance. Through a developed mobile application physical activity is measured and risk calculations are performed. If the user agrees to share the data recorded by the app with the insurer, the user can access to insurance more quickly and cheaply. In addition to the risk calculation, the application also offers a personalised plan to improve the customer's health.

OPPORTUNITIES FOR FINTECHS IN IMPROVING FINANCIAL INCLUSION AND HEALTH IN THE UK

Overall, in the UK we see a very strong presence of highly diversified fintech providers, proactive public policies and a broad coalition of stakeholders working towards better inclusion and health—yet uptake by, and impact upon, consumers remains unclear. It is too early to determine whether new providers engage unserved and underserved segments, or simply replace existing forms of financial services with new products and distribution channels. It is important to note that there is a strong public recognition that technology and fintechs may have a positive impact improving financial inclusion and health, but also that some forms of digital services may themselves cause exclusion and deterioration of financial health.

FINANCIAL INCLUSION AND HEALTH

Despite marked progress in curbing financial exclusion, a substantial number of people in the UK still do not have a bank account—and a much larger number underutilize financial services, are denied access to or cannot find a product that meets their needs, meaning they resort to high-cost lenders or second-best products. In the UK, pure financial exclusion (not having a bank account) has fallen in recent years thanks to public policy and the emergence of fintech startups.

Data related to financial health is more telling than data on financial inclusion—and paints a more alarming picture of the financial standing of UK households (and to some degree SMEs). Eight million people were struggling to keep their financial commitments in 2017, and as many as 12.7m people could fall into the so-called “squeezed” (just about managing) segment, which shows that financial inclusion is an imperfect measure of financial well-being. Having a bank account, while useful and beneficial in today’s economy, does not necessarily correlate with good health of an individual or a small firm.

Increasing technological disruption, the disappearance of the traditional banking services and the introduction of Open Banking regulation – coupled with an increasingly cashless society – are creating a new ecosystem rife with both opportunities and risks for financial inclusion. The government and other stakeholders are keenly interested and engaged in deepening financial inclusion and improving financial health, even though we see competing definitions of inclusion and a still-underdeveloped understanding of financial health–especially when it comes to SMEs, where the major focus is on access to credit rather than other aspects of financial health.

SUPPLY

The UK is home to the largest number of fintechs in Europe. There are about 1,600 fintech organizations offering a wide range of financial services, including money management and advice. A number of them target low-end consumers and SMEs with novel solutions and tailored services for underserved segments.

Fintechs have demonstrated their ability to efficiently produce innovative solutions addressing the specific needs of financially excluded people. While fintech and Open Banking provide real opportunities to address this vulnerable segment, the move towards a cashless society raises new concerns. Cash continues to play an important role in the lives of low-income and vulnerable individuals.

The important and relevant aspect of fintech developing for financial inclusion and health is the fact that a significant number of the new start-ups deliberately entered the financial services market to target the unserved and underserved (low-end) market. Other common themes that emerging in the UK are that fintechs:

- Address market segments that traditional players can but don't (either in terms of the product or segment)
- Are more flexible than traditional players in their customer approach, more transparent in their customer relations and their terms and conditions
- Strive to place the customer at the core of their operations and develop intricate customer relations processes and operations
- Understand that SMEs and self-employed people are abandoned (or underserved) by banks and therefore a growth market
- Understand the barriers to entry: namely that customers won't adopt their products if they aren't free. Therefore, they find other ways to monetise their products and create revenue streams such as transaction fees; remuneration by partners; fees on added services, etc.

POLICY

The UK is one the first countries in Europe to have focused on financial inclusion and financial health of individuals and small firms. This is reflected in key government policies and initiatives to ensure that financial service providers do not exclude consumers, and to educate and nudge the population to responsibly use financial services. These initiatives aim to protect vulnerable people and force banks to focus their growth and reorganisation strategies on financially excluded clients (both individuals and SMEs), as well as to ensure that technological advances in the financial sector do not further endanger vulnerable clients.

CONCLUSIONS

The well-developed fintech sector in the UK, and the relatively high level of financial inclusion, offer an interesting test case around whether financial technology can close the inclusion gap and improve the financial health of individuals and businesses. It offers numerous opportunities for other counties to learn from these market experiences. It also offers a significant opportunity to research the relationship between financial inclusion and financial health, the role of enabling policies and the importance of public awareness about new forms of financial services. Education in particular is of key importance: without it, when faced with an overload of choice between providers (offering often unfamiliar products and services) consumers may be unable to compare their options and choose wisely—which can potentially lead them to refrain from using such services altogether, giving rise to greater exclusion and worsening their financial health.

MICROFINANCE CENTRE

MetLife Foundation

THE MICROFINANCE CENTRE IS A SOCIAL FINANCE NETWORK THAT PROMOTES FAIRNESS, INCLUSION, EQUALITY AND RESPONSIBLE SERVICE.

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Our mission is to empower individuals and sustain communities through innovative social finance and microfinance.

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