THE USE OF DIGITAL TECHNOLOGIES TO TACKLE FINANCIAL EXCLUSION

Roundtable Report

7th July 2016

CSJ The Centre for Social Justice

Attendees

- Lord Freud, Minister for Welfare Reform, DWP (Chair)
- Alex Stenning, Sodexo
- Nick Davies, DWP
- Charlene Lea, AGTS and the Ngena Foundation
- Carl Packman, Toynbee Hall
- Jerry During, Money A&E
- Simon Grossman, Mastercard
- Lindsay McCallum, Westminster Advisers
- Sarah Derry, Sodexo
- Jennifer Tankard, Responsible Finance
- Malcolm Gardner, Welfare Reform Club
- Virraj Jatania, Pockit
- Anthony McKernan, Community Resources
- Frankie Evans, Nutmeg
- Sean Nijenhuis, Gene Pool
- Gary Bell, Civica
- Ian Hossack, The Change Account
- Heather Grant, Lloyds Banking

BARROW CADBURY TRUST

sodexo QUALITY OF LIFE SERVICES

Introduction

A 2011 Government report estimated that 9 million people across the UK remain underserved by mainstream retail banking services.[1] 1.54 million of this group 'do not have a transactional current account'. Over a third of 'unbanked households' are in the bottom income quintile, where the majority of income is via benefit payments.[2] Such 'financial exclusion' is a hallmark symptom of low income, welfare dependency, and poverty. Financially excluded individuals and households are more likely to have low levels of financial literacy, and remain vulnerable to loan sharks, payday lenders, and incurring crippling debt.

New digital technologies are increasingly being used to tackle financial exclusion. These include the use of pre-paid cards, budgeting apps, and simplified current accounts designed for lower income and less financially stable households. The Government has also looked at how digitisation of public services can reduce financial exclusion.

The introduction of Universal Credit under the Coalition Government in October 2013 was designed to help increase financial responsibility amongst claimants. Universal Credit combines six entitlement programmes – non-contributory JSA, ESA, housing benefit, working tax credit, child tax credit, and income support – into a single monthly payment. The new single cash transfer system is administered on a new IT system, and is accessed online for claimants.

1 Social Finance, *A New Approach to Banking: Extending the use of Jam Jar Accounts in the UK*, London: Social Finance Ltd, April 2011 [accessed via: http://www.socialfinance.org.uk/wp-content/uploads/2014/07/SF_JamJarAccountReport_FULLREPORT-1.pdf]

2 Social Finance, *A New Approach to Banking: Extending the use of Jam Jar Accounts in the UK*, London: Social Finance Ltd, April 2011 [accessed via: http://www.socialfinance.org.uk/wp-content/uploads/2014/07/SF_JamJarAccountReport_FULLREPORT-1.pdf]

New technology is therefore an obvious solution to the problem of financial exclusion. Yet there is a problem: this solution is only available to those who possess the digital skills required to access it.

The increasing number of both banking and welfare services that can only be accessed online via a computer has exposed the problem of low digital skills attainment. New evidence suggests the UK is facing a digital skills crisis, with 12.6 million people reported to have poor digital skills and 5.8 million people reported not to have ever used the internet.[3]

The CSJ hosted a roundtable discussion on 7th July 2016 to discuss how digital skills and technology can help tackle the problem of financial exclusion. The following report provides a summary of that discussion as well as some concluding comments that summarise the broad recommendations that emerged from the roundtable.

3 Digital Skills Crisis: Second Report of Session 2016–17: House of Commons Science and Technology Committee. [accessed via: http://www.parliament.uk/business/committees/committees-a-z/commons-select/science-and-technology-committee/news-parliament-2015/digital-skills-crisis-report-published-16-17/]

What challenges increase the risk of financial exclusion?

Trust, capability, and consistency

Trust, capability, and consistency are three challenges widely cited as posing the biggest risk to individuals facing financial exclusion.

A lack of financial knowledge and digital skills often result in the most disadvantaged people becoming financially excluded. However, there is no 'one-size-fits-all' financial service that is best suited to helping individuals. Individuals at risk of financial exclusion thus need one-to-one personal mentoring and advice on how to become more engaged. One of the most important factors in ensuring the success of such one-to-one mentoring is trust between the mentor and client. Long-term contact and communication between a mentor and claimant also help keep individuals engaged in their finances, involved in the process and, ultimately, financially included.

Trust: The importance of trust is underlined by the impact of personal attitudes and informal networks when it comes to making financial decisions. Evidence has shown that though individuals may technically have access to the information necessary to improve financial capability, their trust and use of this information is predominantly influenced by social opportunity – in other words, by 'how, when, where and by whom the options are presented'. Trusted community infrastructure already exists in the form of GP surgeries, local libraries, and councillors. Future programmes to expand financial inclusion could seek to use this existing infrastructure to reach people within their communities.

Capability: When individuals lack digital skills, it vastly reduces their ability to use digital technology to tackle financial exclusion – and indeed, some financial service providers have found that clients lack the necessary digital capability to access basic online services. In one case, a financial services company offering basic retail banking services to under-banked households found some call-in customers did not have an email address. Other organisations have cited clients who are unable to remember email passwords, bank account numbers, and/or are unable to provide the necessary documentation for a Know Your Client (KYC) check.

Consistency: Once an individual has access to a new digital service, the ability to stay engaged remains a barrier to tackle financial exclusion. Un-banked households will often change addresses regularly, and experience mental health problems, periods of worklessness, or other problems that increase social instability. This reduces the chance of financial or local services maintaining contact and engagement with clients. Once again, the presence of a personal mentor is an essential measure to reduce this challenge.

KYC

Another major challenge that increases the risk of financial exclusion is the associated cost of KYC (Know Your Client) regulations. KYC regulations require financial service providers to collect information and ID confirmation documents on potential clients. These may include a utility bill, driving license, passport and/or an email account. Yet for many individuals and households living below the poverty line, these demands cannot easily be met. Individuals at risk of financial exclusion will often not have a passport or driving license and move house often, therefore not necessarily having access to a valid utility bill. In many situations, poor language skills and fear among first generation immigrants reduce the willingness of many to hand over personal information.

Financial education

Financial education is a major challenge when looking to reduce financial exclusion. It was suggested during the roundtable discussion that financial education can be imparted over a 35-hour period; however, preliminary tests on 35-hour-long financial education courses for welfare claimants were unsuccessful on the basis of low take-up.

One of the alternatives proposed has been the 'gamification' of financial education. The use of 'games'[4] for this purpose has been largely untested but this could be a promising and underdeveloped option towards increasing financial awareness, experience, and understanding of the financial world.

Costs

Finally, the roundtable discussion heard many examples of how financial services companies have lowered their administrative costs in order to widen access. Had they not done this, they would have excluded lower income clients from using their services. These are costs primarily associated with KYC, sign-up fees, annual fees, and associated expenses.

4 Computer games accessible online, by PC and mobile that test skills in financial literacy, management and knowledge

What technologies are available to tackle financial exclusion?

During the roundtable discussion, participants discussed the complexity of some clients' needs and the extent to which digital technologies are available to tackle the financial exclusion problem. Methods known as 'intelligent triage' and 'signposting' were cited as ways of separating clients according to needs and complexity.

Another example includes specially-designed payment cards that could be used to transition individuals towards using banking services. Such cards function like debit cards, without requiring users to set up or maintain a bank account. Cards aid budgeting by allowing individuals to designate separate pots of money for different purposes – for example, one for rent and another for utility bills, with the balance left for general expenditure. Recipients could have access to their balance at any time through the internet, their phones or ATMs. They could be shown a breakdown of what they're spending their money on and how they're spending their money throughout the week or month. Initial tests undertaken by the DWP trials have shown that 'prepaid cards have the potential to promote financial inclusion and independence'.[5]

A 2015 report found that digital skills remain low across low income groups and older generations, but are high among the 18–44 age

5 Department for Work and Pensions, *Evaluation of the prepaid card test live*, London: DWP, July 2016 [accessed via: https://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/eval-prepaid-card-live-test.pdf

group.[6] Overall, the millennial generation are less likely to travel to a bank branch, and are more likely to access banking services online.

Case study

Lloyds Banking Group's 'Helping Britain Prosper' Plan

As part of the Helping Britain Prosper Plan, Lloyds Banking Group has committed to deliver 20,000 'Digital Champions' by the end of 2017 to help support people, businesses, and charities with improving their digital skills. This programme aims to help the large proportion of adults who lack the basic digital skills needed to benefit from having access to the internet. The programme is working towards ensuring that each of Lloyds' community bank branches will have at least one member of staff dedicated to helping customers improve their digital skills and financial capabilities.

Figures published by Lloyds Bank in the Consumer Digital Index indicated that 11.1m people in the UK have low digital capability meaning that they do not benefit from what digital technology can offer. For example, online banking users have more than double the average savings compared to those who do not use online banking. In addition, the more digitally advanced a person is, the more they are likely to shop around for the best online deal (therefore spending less).

Yet though having basic computer skills is one part of the solution, the other is actually being connected to the internet. Connectivity is therefore also an essential component for tackling financial inclusion. Without the capacity for high speed broadband and coverage across both urban and rural areas, the risk of financial exclusion increases.

6 Amazon and Ipsos MORI, *Basic Digital Skills: UK Report 2015* London: Amazon, October 2015 [accessed via: http://s3-eu-west-1.amazonaws.com/digitalbirmingham/resources/Basic-Digital-Skills_UK-Report-2015_131015_FINAL.pdf]

Companies are, however, finding creative ways to address these problems.

Overall, reaching clients thus requires both investment in technology and physical person-to-person infrastructure.

The Government also recently announced the testing of new 'block-chain' technology to develop an app that traces an individual's spending.[7] By tracking patterns of spending and analysing the trends, this technology would allow the Government to help claimants better manage their finances.

Advances such as these can certainly help some individuals manage their finances; however, over 65s often admit to not wanting to access banking services online or via automated machines. This excludes (or limits) the benefit they can gain from such advances. Participants at the roundtable discussion again highlighted the importance of a one-to-one mentor here for people who are personally averse to using new technology.

7 Minister for Cabinet Office Matthew Hancock MP, *National Digital Conference 2016: Building the Nations Digital DNA*, 15 June 2016 [accessed via: https://www.gov.uk/government/speeches/national-digital-conference-2016-building-the-nations-digital-dna]

What can local and central government do to tackle financial exclusion?

To make significant progress on financial inclusion, local government needs to join up many of its services (e.g. the provision of benefit support services, council tax payment support and financial education training could be delivered side-by-side). In the private sector and voluntary sector, organisations can partner up, share products, and co-direct marketing campaigns. This would help ensure that an individual's needs were fully catered for and that the risk of 'falling through the net' was minimised.

However, budget cuts have placed considerable strain on local government resources, thus restricting the ability of local councils to put in place services that promote financial inclusion.

For local government, technology is helpful – but limited – in raising awareness of programs to increase financial inclusion. This is because many people who are at risk from financial exclusion are unlikely to be able to handle the technology without help. Participants at the roundtable discussion again highlighted the importance of individual mentoring for individuals without the required ability and stressed that increased local government funding for this is needed.

During the roundtable discussion, a number of participants asked why financial inclusion was not more prominent on the national political and legislative agenda. One possible reason given for this was the overlap between the Department for Business, Innovation and Skills (now Department for Business, Energy and Industry), the

Department for Work and Pensions, and HM Treasury. It was suggested that because this issue falls between several departments, none of them feel they 'own' it and no one takes ultimate responsibility for it. It was suggested that the appointment of a 'Minister for Financial Inclusion' would be a positive step in the right direction. It is also noted that Scotland and Wales have financial inclusion strategies.

There was general consensus that more investment and a pro-active approach to testing new technologies is needed from the Government. The Department for Work and Pensions have recently completed trials on prepaid cards. The independent evaluation of this trial successfully demonstrated that prepaid cards can promote financial inclusion, provide a 'safe' financial environment for people in debt, and support users in becoming financially independent.[8]

Finally, there is a growing consensus that financial exclusion can be tackled through better education at younger ages. By inculcating basic skills in IT, managing finances, and effective budgeting, individuals are at a lower risk of financial exclusion. One model for achieving this could be the model practiced by The Money Charity.[9] The charity mainly run workshops in schools to educate children about financial matters, which ensure young people have the skills and education to make good decisions about their money. In addition to this, the charity offers guidance to university students in need of student finance advice.

8 Department for Work and Pensions, *Evaluation of the prepaid card test live*, London: DWP, July 2016 [accessed via: https://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/eval-prepaid-card-live-test.pdf]

9 The Money Charity [accessed via: http://themoneycharity.org.uk/work/young-people/]

Case study

Supporting financially excluded people with a range of needs through a flexible voucher solution

Sodexo has worked with 300 local authorities in France to provide emergency support to disadvantaged people since 1994.

Local authorities order vouchers from Sodexo which enable recipients to purchase food or clothing and pay transport, energy, or accommodation bills.

The local authority specifies what the voucher can be spent on, according to the needs of the recipient. It can fund day-to-day needs, such as food, but it can also be used to purchase school supplies, house furniture and small appliances, and support with funeral costs.

The vouchers can be set up and distributed quickly, making them ideal for providing ad hoc support to vulnerable people. They can only be spent with specified affiliates, ensuring they're used for the intended purpose and preventing fraud.

* Sodexo Benefits and Rewards Services designs, manages and delivers customised services to address the needs of 30.2 million people in 34 countries.

How should success be measured?

One of the problems in adopting a financial inclusion policy was the ability to set goals, benchmark performance, and measure success.

The roundtable discussion heard a number of suggestions for 'financial exclusion measurements'. As with any problem, the first step to solving it is measuring it. Some of the suggested metrics included questioning respondents on the number of electronic transactions they had made in the previous week or month, or whether an individual had sound financial support from a non-regulated source of financial advice. This would reveal, for example, whether respondents have access to adequate advice or whether more is required.

Another point raised was whether or not the phrase 'financial exclusion' is even widely understood, and – if not – whether it needs to be defined more clearly before it can be measured. While no definitive description was agreed, participants suggested that the ability to think about financial exclusion broadly was important i.e. to go 'beyond cash'.

Conclusion and recommendations

The growth in both new digital technologies and individual financial exclusion has raised the question of whether people are being left behind as a result of the new technology being used for financial management. Access to many basic financial services is now primarily online, which is fine for those who can use online technology but highly restrictive for those who do not have the digital skills required to access these technologies. One suggested outcome of this was that financial exclusion could risk driving people to payday lenders, loan sharks, and the vicious cycle of severe indebtedness.

However, the Centre for Social Justice believes that digital technologies can help provide a boost to digital inclusion. There have been great improvements in both digital skills and broadband coverage in recent years, which has in turn boosted digital skills and has increased access to new technologies.

Several policy recommendations emerged from the roundtable that will be crucial in helping to achieve an end to financial exclusion. Each policy recommendation sits alongside the problem it is seeking to address:

- Problem: A lack of trust, capability, and capacity prevent individuals from engaging with technology that prevents financial exclusion.
- Recommendation: The introduction of one-to-one mentoring at a local authority level will help to address and reduce these issues.

- Problem: Some groups lack the technological skills to access online financial services.

- Recommendation: Financial service providers should introduce programmes that target these groups and teaches them basic skills for online engagement.

- Problem: Some financial services are prohibitive due to the cost of access.
- Recommendation: Financial institutions should lower their costs as much as possible to reduce barriers to entry for low income individuals and households.

- Problem: KYC (Know Your Customer) regulations often inhibit the work of financial services companies reaching potential customers.
- Recommendation: These regulations should be reduced to as minimum level as possible. For example, some banks require a proof of address, however individuals at risk from financial exclusion may often live in temporary accommodation and live transient existences.

- Problem: The variety of financial services available to individuals can be overwhelming and off-putting.
- Recommendation: Joining-up different services from across the spectrum (current account, debt, credit cards, welfare payments, planning, rent related payments etc.) is essential for tackling financial exclusion.

- Problem: Financial exclusion is not a high enough priority within central government.
- Recommendation: The government should appoint a minister responsible for financial exclusion and put into practice a financial exclusion strategy.

- Problem: Financial exclusion is not well-defined and not well measured.
- Recommendation: A metric should be devised to measure financial exclusion based in part on the extent to which an individual has sought financial support recently.

Putting social justice at the heart of British politics

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