APPG on FinTech: Financial Inclusion & Driving Accessible Finance Briefing

What is financial exclusion?

Broadly defined financial exclusion is the inability, difficulty or reluctance of particular groups to access mainstream financial services. This can range from those who have no access to a bank account, to SMEs without appropriate access to finance, as well as individuals seeking to improve their financial well-being by better managing their savings and financial commitments.

It is against this backdrop that FinTech (Financial Technology) has the capacity to help foster financial inclusion, facilitating access to banking and other financial products for a diverse cross section of society.

Who is affected by financial exclusion?

Financial exclusion affects a wide range of stakeholders, but tends to disproportionately impact individuals with low or unsustainable incomes. It is important to note, however, that FinTech is not just about targeting those at the base of the pyramid but rather making financial access available to everyone, everywhere.

Indeed according to the World Bank the number of people without any access to banking services known as the 'unbanked' - number almost two billion (or 38% of adults in the world) whilst according to the Financial Inclusion Commission in the UK alone there are nearly two million such individuals.

What is being done to drive financial inclusion?

There are a number of ways companies are using FinTech to drive financial inclusion:

<u>Alternative finance for SMEs</u>

According to a recent report by Nesta, the alterative finance industry (which seeks to expand access to finance through peer-to-peer lending and crowdfunding etc.) provided over £1 billion worth of business finance to over 7000 SMEs in 2014. There is however room for growth, given that this figure is equivalent to only 2 per cent of bank lending to SMEs in the UK.

A wave of alternative finance providers such as Funding Circle have proliferated in this space, having facilitated £200m in lending to small businesses over the last quarter alone. Moreover according to recent research by GLI Finance & The Cambridge Centre for Alternative Finance- increased access to peer-to-peer lending resulted in 53% of (536) surveyed businesses reporting an increase in employment, and 71% reporting an increase in turnover.

<u>Better financial management</u>

At the heart of financial inclusion is the ability to secure one's financial freedom. This is where individuals are better able to save, manage and budget for their future. Companies such as Squirrel provide financial resilience by working with businesses here in the UK to enable employees to save money directly from their payroll.

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Similarly Dopay seeks to target the two billion people worldwide who are unbanked- with a particular focus on the 250 million workers across Africa that have jobs but no bank accounts. Their solution is three fold, and includes: providing an enterprise platform which enables employers to manage the entire payroll process- from calculating salaries to making payments; offering a Dopay account which comes with a debit card; and providing a full-suite mobile banking app- to monitor bills, send money and buy airtime.

Remittances

Going abroad to earn a living and support one's family back home is a reality faced by much of the UKs population. Indeed according to the World Bank the global remittance market is valued at ½ trillion dollars per year, or three times more money than the total global aid budget.

However fees of up to 30% are still being charged on money transfers between countries, with an average transfer fee of approximately 8%. It is in this context that FinTech companies such as Azimo are creating real and lasting impact. Their services allow people to transfer money ubiquitously around the world (to 195 countries) at a comparatively smaller fee- typically between 1% and 2%.

It is estimated the impact of lowering this transmission cost of remittances, from an average of 10% to 5% could unlock $15 billion globally.

Digital exclusion

A recent report by the digital skills charity Go On UK, found that 12.6 million adults, 1.2 million small businesses and over half of all charities lack the basic digital skills needed to succeed in the digital age. Indeed the London School of Economics and Political Science mentioned that the lack of basic digital skills and access in already disadvantaged areas is likely to lead to an increase in inequality of opportunity around the UK.

Accordingly financial institutions such as Lloyds Banking Group aim to tackle this digital skills gap by recruiting 20,000 digital champions by the end of 2017 to help people better understand the benefits of being online. Lloyds have also committed to providing employees with a digital skills training course providing access to 22 tailored modules designed to embed digitally focussed thinking across the organisation.

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