How Can Financial Service Providers Collaborate to Improve the Lives of their Beneficiaries?

Financial service providers such as banks play a major role not only in peoples' ability to access money and basic utilities, but they can also have a huge impact on peoples' opportunities, wellbeing, and mental and physical health.

In response, a new locally-rooted, social impact bank for London has been established, called the Greater London Mutual. This bank has been designed to be a full-service retail bank which is fully sustainable, and which supports a full range of customer segments and markets, similarly to other retail banks. Although the bank's focus will be on provision of financial services to ordinary members, SME's and self-employed and micro-businesses, GLM has also been specifically designed to create social impact. The bank aims to achieve this by offering full inclusion for its service provision to include formerly underserved cohorts, by providing inclusive and affordable financial services that meet peoples' needs, and by providing relationship-based services that treat people as individuals. The bank is the first in the UK to offer a true co-operative governance model, which offers a number of significant potential advantages for beneficiaries, including:

- Full service current accounts for everyone – regardless of credit history or previous bad experiences
- Jam-Jar accounts and budgeting tools as standard
- Physical access to the financial system through staffed branches, as well as automated, branches with free-to-use ATMs open 24/7/365
- Genuine relationship banking
- No unauthorised overdrafts, no unauthorised overdraft charges
- No unaffordable debt products
- Profits shared with members, through better interest rates and dividends
- Working for, controlled by, and accountable to members
- Bespoke products and services for small businesses, including SEMs

Whilst the opportunities and benefits the GLM offers are promising, there already exists a broad ecosystem of social impact financial services and other providers serving similar aims, such as credit unions addressing financial inclusion, CDFIs reaching underserved markets, and service providers like Citizens Advice or Toynbee Hall working to improve financial health.

As a result, GLM has partnered with the Finance Innovation Lab and the RSA to ask: how can we collaborate with each other to most effectively improve the lives of our beneficiaries? To begin to answer these questions, a roundtable discussion was convened on the 7th December 2017. The rest of this document outlines that discussion.

Challenges and Opportunities for a Socially Impactful Bank

Generally speaking the opportunity for a pan-London mutual bank based on genuine relationships that is open to all was deemed an exciting proposal. Participants of the roundtable emphasised the growing importance of relationship-based institutions that have the time, capabilities, and desire to treat people as individuals. Participants also felt that where service providers had moved towards more relationship based services, this had led to improvements in beneficiaries' financial health, as it enables service provision that recognises and responds to the complexity and competing demands of peoples' personal and financial circumstances.

Whilst some participants were hopeful for the potential for fintech (financial technology) to alleviate some of these issues, such as budgeting apps and through enhanced choice, the group also emphasised the importance of addressing the human, emotional, and psychological barriers that prevent people from adopting such solutions, or from changing their behaviour. Digital exclusion is also a key barrier in this respect, whilst the importance of good service design and accessible communications were also heavily emphasised by participants of the roundtable. In terms of access to the financial system, participants recognised the importance of a current account as the anchor product around which to begin to build financial health. One participant pointed out that Bristol University research suggests that up to 62% of the poverty premium is associated with not having a current account.

In response to research presented by GLM on profiling the underserved, some participants warned that customer segmentation or persona profiling runs the risk of "essentialising" people, when often their needs and desires are multifaceted, dynamic, and changeable. Although the value of segmentation and profiling was recognised as a good starting point, the importance of iterating and constantly revisiting such profiling cannot be underestimated. After all, we are all at risk of financial vulnerability on some indicators, in contrast to previous generations as one participant pointed out. Consequently, there may be advantages to taking more of a "matrix" approach to issues around financial capability and exclusion, rather than fixed categories based on limited demographic or behavioural indicators.

In terms of the market served, some participants pointed out that while the issue of unbanked people remains persistent, a less discussed and potentially bigger issue exists for those living perpetually in their overdraft – some 2.1 million people in the UK, according to the debt charity StepChange. For many, the idea of being debt free seems a distant dream, which can entrench negative behaviours and discourage positive action. The need to "start again" with a zero-balance account was pointed to as one strategy for addressing a perpetual overdraft. This is one area where a socially impactful bank could potentially help, particularly one that offers universal access to current accounts, and jam-jar account functionality as GLM plans.

Participants rightly pointed to customer acquisition and growth as a potential challenge for a socially impactful bank. Only 2% of current account holders switch from year to year, despite massive investment in and publicisation of the Current Account Switching Service, which as a service actually functions very well. Combined with existing inertia, complex issues around financial health, and major trust issues with the banking sector in general, these present major challenges for any social bank to scale to the size needed to be financially sustainable.

Finally, a balance must always be struck between charging rates affordable to the underserved, but that also support the financial sustainability of the institution. Participants warned of the potential for "mission drift" if such a bank were to pursue more affluent clients to help balance the books – as has been seen with some other financial service providers. Ultimately, however, a balance must be struck between the risks that a financial institution is willing to take on the one hand, and the rates it has to charge to cover those risks on the other hand. This is a potential area where different models of socially impactful financial institutions can collaborate and demonstrate coherence rather than competition – because the different risk appetites, cost bases, and funding sources will differ between different types of institutions according to their funding and governance models, and can therefore meet the needs of different areas of the market, and different underserved cohorts. Some participants also advocated specific outreach or governance mechanisms to encourage and enable lower income groups to participate in decision making that could affect them, for example to encourage the participation of the underserved at AGMs and consultations.

Models of Collaboration: Credit Unions & Social Impact Banks

There are a number of similarities between credit unions and co-operative banks committed to social impact. Both are mutual financial institutions that aim to improve financial inclusion and provide for underserved cohorts, whilst remaining financially sustainable. Both are also limited in scope, with credit unions serving those in a "common bond" (such as a local area), whilst social impact banks like GLM are geographically limited and regionally focused.

Despite these broad similarities, the specifics of how social banks and credit unions differ show that their offerings are, in fact, quite different, and complimentary. Compared to other countries the UK credit union sector is tightly regulated, and treated significantly differently to the way banks are governed and regulated. This led participants of the roundtable with expertise in the credit union sector to identify significant points of overlap and synergy, including those depicted in Figure 1.

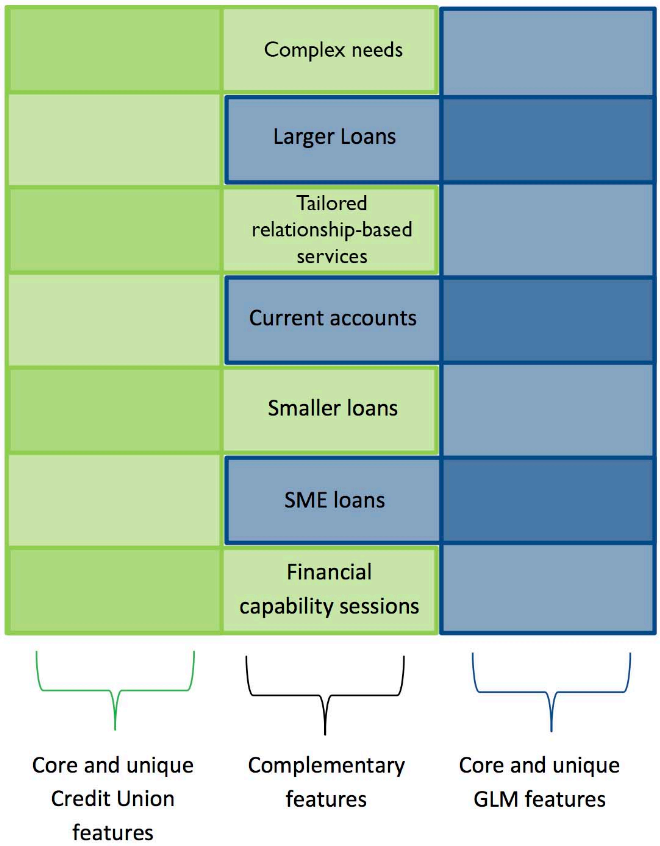

Figure 1: "Lock & Key" synergies between CUs and social banks

In practice, this means that credit unions and social banks like GLM offer different products and service propositions. For example, credit unions are better able to make smaller loans; to provide support to those with more complex needs or difficult circumstances; and to help their clients with financial literacy, as defined in the 4th object of a credit union in the 1979 Credit Union Act. At the same time, social banks are more able to provide larger loans; services for small and micro businesses, including loans and transactional accounts; and full-service current accounts, which are rarely provided by credit unions.

But in addition to these synergies, both credit unions and social banks like GLM have the imperative to collaborate because of their mutual governance structures, which encourage and enable broad collaboration between mutuals. As a result of these factors, participants felt that after careful delineation, the respective offers of credit unions and social banks did not display overlap per se, but rather a constant symbiosis where potential clients could be referred in either direction to the service that suited their needs best. This may need to include referral fees to create a business case for such referrals, as well as protections to help ensure customers continue to repay existing debts if referred on.

Furthermore, participants recognised that despite their excellent efforts and impacts, credit unions are not currently meeting the totality of need from underserved cohorts. Consequently, efforts from social banks to also meet such need should be welcomed – particularly where they are able and willing to collaborate with existing socially impactful providers, and to improve their capacity to serve those in most need (see Figure 2).

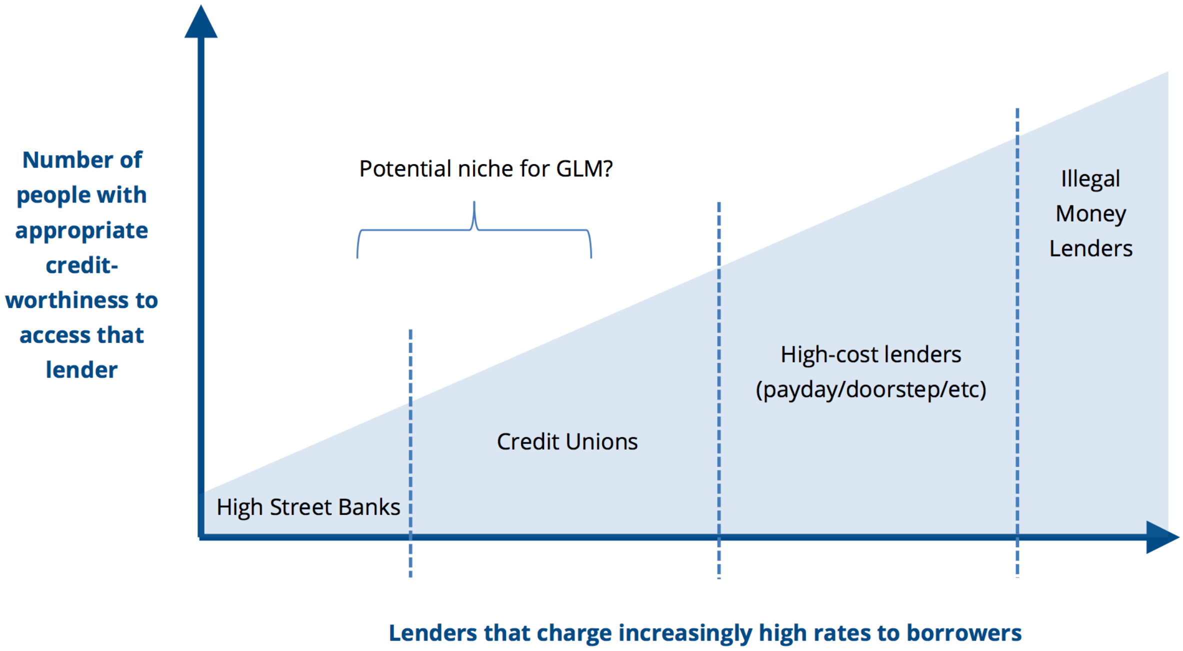

Figure 2: Cohorts for different financial service providers

Models of Collaboration: Service Providers & Social Impact Banks

In addition to financial institutions themselves, a whole range of other service providers are also stakeholders in the financial health of their beneficiaries, including debt advice charities, housing associations, local authorities, homelessness services, and many others. For a social bank like GLM, such organisations present a great opportunity to learn from service providers' expertise on the needs and lived experiences of their beneficiaries, as well as to be introduced to these organisations' service users to test and iterate the bank's processes and products. When operational, such relationships could also develop into referral schemes where service providers pass potential customers onto the bank – though this would have to be done in accordance with relevant laws and regulations to abide by stringent new data protection frameworks and to avoid conflicts of interest.

Vice versa, such a relationship could be potentially beneficial for service providers too. Participants stressed the significant advantages that could be derived from helping a new bank establish relevant and beneficial processes, products and services that help their beneficiaries "upstream", helping to reduce demand on their services which are already stretched in a context of austerity, stagnant real wages, and rising need. To this end, participants of the roundtable were keen to partner with social banks to co-design these services and supports.

However, they were equally keen to stress that referral to crisis services would be less attractive, given that demand for such services was already outstripping capacity for supply. Some participants suggested that if a social bank were to refer its customers to crisis service providers, it should consider providing a fee or solidarity payment to them given that the bank would, at some point, aim to generate revenue from those people that it refers.

In general, participants representing service providers were keen to collaborate with social banks like GLM. Several participants spoke of the "shared challenges" facing their organisations, as well as the potential for collaborating to benefit each other's value chains. Concrete examples of how this could be achieved included co-designing services, consultation between local providers on the best way to achieve impact in their area, convening and facilitating focus groups, and data sharing agreements. On the latter point, participants discussed how data sharing in both directions could help to build "early warning" systems that could help to intervene "upstream" to prevent poor financial health. This could help to ease demand on stretched services, but could also help to provide the evidence base for how and why service providers can move more concretely into preventative rather than reactive services, including assisting with creating a business case for doing so.

As well as data privacy and security, such an approach would have to be carefully administered so as to be used in beneficiaries' interests, rather than as a mechanism for blacklisting. One suggestion for how this might be achieved was to share this data and "early warnings" with the service users and bank customers themselves, along with referrals to support services or advice on how to use existing tools, such as the jam jar accounts and budgeting tools offered by the bank, or the advice and financial literacy services offered by other providers.

In such a collaborative model, participants were keen to stress that this should be done in a way that has no negative effect on the service user's credit rating. Existing projects and service providers like Credscope and the partnership between Big Issue Invest and Experian called Rental Exchange shows that this can be achieved. In the spirit of collaborative innovation, the lessons of such initiatives should be built upon so as to advance progress and avoid duplication. The opportunity for a social bank to use these alternative scoring systems, and to actually implement them into decisions about financial products and services, promises an exciting opportunity for service providers to evidence their impact, as well as for beneficiaries to improve their lives and material circumstances.

Next Steps for Collaborative Innovation

As the conveners of this roundtable, the Greater London Mutual, The Finance Innovation Lab, and the RSA recognise the huge value of ongoing collaborative innovation to support financial health, and would like to thank all the participants for their generosity in providing their time, expertise, and contributions to this important and timely issue.

Equally, we recognise that this is only the beginning of such conversations, rather than the end. In particular, we recognise that other stakeholders such as CDFIs, building societies and other service providers were under-represented in this opening roundtable. We encourage anyone and everyone who is keen to collaborate on these issues to get in touch with us with their thoughts, reflections, and ideas for collaboration, and can do so by contacting:

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Finally, we would like to thank again the participants for their time and generosity.

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