TREASURY SELECT COMMITTEE
FUTURE OF FINANCIAL SERVICES INQUIRY
19 FEBRUARY 2021

The Financial Inclusion Commission welcome the Treasury Select Committee's (TSC) invitation to comment on their call for evidence on the Future of Financial Services.

Please note that the Financial Inclusion Commission has worked with Fair By Design on this submission so there will be some duplication of messages between responses.

We consent to public disclosure of this response.

For more information about this response please contact Chris Pond or Martin Coppack at Commission@ukfinclusion.org.uk

Recommendations

1. The FCA should have a cross-cutting *must have regard to* financial inclusion accompanied by a statutory duty of care on firms to act in consumers' best interests.
2. The Government should give the FCA the power to take on the enforcement of individual cases relating to financial firms' compliance with the Equality Act, in addition to the EHRC.
3. Creation of a clear, open and transparent process which consumer organisations can easily engage on issues that involve a mixture of both regulatory and social policy. An entity needs to own this process and have responsibility for this.
4. A joined-up approach between the regulator and government as to who owns the problems, how they should be addressed as well as action to bridge social and regulatory policy so adequate interventions can be put in place; a proper system that stops issues falling between regulators and the government.
5. Ring fenced funding should be made available for consumer organisations to engage on financial services regulation, especially in areas that are currently the least represented (for example insurance). This money could be sourced via the annual levy on the industry carried out by the FCA, or via allocation of money from fines placed on firms each year.
6. The appropriate section of the Financial Services and Markets Act is amended to require the Financial Services Consumer Panel to issue a formal annual consultation for consumer organisations to steer the future strategic priorities of the Panel.
7. We support representation and champions on the Financial Services Consumer Panel of people with protected characteristics, such as those related to race and disability, as well as lower socio-economic status.
8. The appropriate section of the Financial Services and Market Act is amended to require all consumer bodies designated the right to make a "super-complaint" to the Financial Conduct Authority to issue a formal annual consultation for consumer organisations. This will formally give consumer organisations the opportunity to present evidence of features of the financial services market that they believe are significantly damaging to the interests of consumers.
9. The FCA should fund the creation of an additional Consumer Panel of people with lived experience of poverty, financial exclusion and wider consumer vulnerability. This would help to ensure regulatory policies are designed to meet the needs of all consumers and that the regulatory system is designed *with* people rather than *without* them. This panel could be created in a way that allows it to be used across essential services regulators and sponsoring government departments – with funding gained from across different markets.
10. Adoption of inclusive design in the markets for financial products, via the regulators and support from the Government.
11. A Minister responsible for increasing digital inclusion, capacity and adoption.
12. The FCA should track the adoption of FinTech to help ensure digital financial services are accessed effectively.
13. The Government should lead investment in a major expansion of connectivity and the provision of both hardware and consumer education to help consumers access digital financial services with confidence.

About the Financial Inclusion Commission

The Financial Inclusion Commission (FIC) is an independent body made up of experts from financial services, businesses, the charity sector, academia and parliamentarians from all major parties https://www.financialinclusioncommission.org.uk/

Our mission is to champion financial inclusion as a policy priority for public bodies, businesses and civil society, and challenge exclusion wherever it occurs. Our vision is for a financially inclusive UK where financial services are accessible, easy to use and meet people's needs over their lifetime, and where everyone has the skills and motivation to use them.

Financial exclusion remains a significant challenge for 21st century Britain which prides itself on being a global leader in financial services.

Just over a million people in the UK do not have a bank account, one in four households lack insurance protection and one in five adults would not be able to cover more than one month of living expenses if they lost their source of income.

Financial inclusion is the means by which people can make their money work well for them, enabling them to maximise opportunities, move into employment, become more self-reliant, and enhance physical and mental wellbeing. Financial inclusion contributes to greater social mobility and levelling up, a more effective welfare system and greater national resilience from economic shocks.

This means a United Kingdom in which:

- every adult is connected to the banking system, through having access to – and the ability to make full use of – a transactional account of his or her own;
- every adult has access to affordable credit from responsible lenders;
- every adult, young person and child is encouraged and enabled to save, even in small or irregular amounts, to share in the importance of a common savings culture, to help build up resilience against financial shocks and as an additional resource for retirement;
- every adult has access to the right insurance cover for his or her needs, at a fair price;
- every adult has access to objective, affordable and understandable advice on credit, debt, savings and pensions, delivered via the channel most suited to that individual;
- every adult and child receive the financial education he or she needs, starting in primary school and carrying on throughout life and into retirement;
- the overall level of pensions provision – state plus private – in the UK, does not lag behind other developed countries, especially for the low paid;
- every adult will have a clear picture of what their income in retirement is likely to be, so they can plan and get 'no surprises'.

Introduction

The Financial Inclusion Commission welcome the Treasury Select Committee's (TSC) invitation to comment on their call for evidence on the Future of Financial Services.

We believe that people need access to products and services that meet their needs at an affordable price. For this to happen the market needs to be able to accommodate the needs of people on low incomes and with the characteristics that are often associated with low income – regularly referred to as consumer vulnerabilities. However, a catch-22 situation has emerged where those who most often have the least resources and are most vulnerable are disadvantaged by:

- not being able to afford, or having to pay extra, for appropriate products and services because they are deemed to be a higher risk/not as desirable to serve;
- not being able to access products and services that meet their needs because they are 'nonstandard';
- being excluded altogether.

There can be little doubt of the importance of financial inclusion at this time. Financial inclusion remains a significant challenge for the UK, a nation which prides itself on being a global leader in financial services. Importantly, just under one million people remain without a bank account in 2018/2019.[1] Furthermore, there are now millions more people facing economic hardship as a result of the COVID-19 pandemic. Yet, the environment was already difficult enough for many before the effects of the virus on our society took hold. The UK entered the crisis with half its population financially vulnerable - 12m categorised as financially struggling (generally on low incomes), and 13m as financially squeezed (better off but pretty highly leveraged).[2]

In addition, the poverty premium means that poor people pay more for essential goods and services compared to those on higher incomes. Poverty premiums can include lack of access to affordable credit and higher than average insurance premiums. The poverty premium affects almost every person on a low income and Bristol University's seminal work found that 99% of low income households paid at least one poverty premium.[3] Please see the response by Fair By Design for more details on the poverty premium.

We believe that there are a number of overarching barriers to meeting the needs of consumers who are poor, excluded or vulnerable. This is reflected in all essential financial services such as credit, insurance and payment services which exclude many, including those on low incomes. We believe that these services and products need to be designed inclusively to tackle financial exclusion. This needs to be tackled by both regulators and the government to achieve large scale change but there are currently a number of overarching barriers:

1. Regulators do not adequately take into account the consumer interest when considering potential regulatory changes.
2. Financial inclusion issues all too often fall into the gap which exists between social and regulatory policy.
    - This is exacerbated by a lack of ownership of affordability and exclusion issues between regulators and government – and there is no clear, transparent way to address these issues.

We are responding to the following questions from your call for evidence:

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[1] S. McKay and K. Rowlingson, (October 2020). Financial Inclusion: Annual Monitoring Report. CHASM.
[2] https://www.reuters.com/article/uk-health-coronavirus-britain-fca/12-million-people-in-britain-will-struggle-to-pay-bills-watchdog-says-idUSKBN2763C5
[3] University of Bristol (2016) Paying to be poor: Uncovering the scale and nature of the poverty premium. http://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1615-poverty-premium-report.pdf

- How should consumer interests be taken into account when considering potential regulatory changes?
- What role does Parliament have to play in influencing new financial services regulations?
- Should the mandate and statutory objectives of the financial services regulators change to include wider public policy issues?
- How can Government policy and the UK regulators facilitate the emergence of FinTech and new competition; develop new areas of growth for the financial services sector; and promote the UK as the best place to incubate new financial technologies and firms?

<u>Should the mandate and statutory objectives of the financial services regulators change to include wider public policy issues?</u>

<u>What role does Parliament have to play in influencing new financial services regulations?</u>

A stronger role for financial inclusion

We believe the regulator must have a stronger role on financial inclusion. The Financial Conduct Authority has a range of powers/statutory objectives/tools that it uses to regulate the market. These include its statutory objectives as well Treating Customers Fairly outcomes and its Public Sector Equality Duty. Despite this there is no clear statutory requirement to address financial inclusion issues at all. It also does not routinely have regard to issues of financial inclusion across all of its work, wherever it is appropriate. Without this:

- There is no clear, statutory requirement for the FCA to address financial inclusion issues.
- The FCA does not routinely have regard to issues of financial inclusion across all of its work, where it is appropriate.
- Consumer organisations are signposted from the FCA to HM Treasury (or, occasionally, the Equality and Human Rights Commission), and vice versa – usually unable to meet in the same room together. A catch 22 situation evolves where consumer representatives are unable to gain traction on issues that involve more than one organisation.
- It is difficult to gain any traction on the issues that matter most to those in the most precarious financial circumstances in the UK today.

By their very nature essential services, such as credit, payment systems and insurance are needed by everyone. However, currently poorer people pay more for products and services than those better off and products and services often do not meet people's needs. Some people are excluded altogether. This is the justification for having a social objective like financial inclusion.

This new '*must have regard'* should be accompanied by [a statutory duty of care] on firms to act in consumers' best interests (as proposed by the Financial Services Consumer Panel and others). This would create a framework where consumers of all kinds are the clear primary focus of the industry and the regulator. With our proposed new objective, the FCA will have responsibility for addressing the ways that markets often exclude those that are most vulnerable or disadvantaged. These might include:

- not being able to afford, or having to pay extra for, appropriate products and services because they are deemed to be a higher risk/not as desirable to serve;
- not being able to access products and services that meet their needs because they are 'nonstandard';
- being excluded altogether.

Recommendation: The FCA should have a cross-cutting *must have regard to* financial inclusion accompanied by a statutory duty of care on firms to act in consumers' best interests.

Responsibilities between Parliament and Regulators

As noted above, it is very difficult for consumer representatives to make progress on issues that involve a mixture of both social and regulatory policy because of:

- The lack of clarity on who owns which issues when the solutions cross regulatory and social policy.
- Lack of clear, constructive communication from HM Treasury and the FCA on how to progress such issues, each often pointing to the other as being responsible. (The Equality and Human Rights Commission also struggles with resource to engage on financial services equality matters.[4])
- The lack of an open and transparent process for dealing with these issues, in which consumer organisations can engage.

As it stands, for many external stakeholders there is a lack of clarity on where responsibility for certain issues sits. Consumer organisations are routinely signposted from the FCA to HM Treasury (or, occasionally, the Equality and Human Rights Commission or Competition and Markets Authority), and vice versa – usually unable to meet in the same room together. A catch 22 situation evolves where consumer representatives are unable to gain traction on issues that involve more than one organisation. This demonstrates a lack of clarity about who owns what among these organisations. (There is a strong argument for increased scrutiny by the TSC of all regulators whose work touches on financial services, including the FCA, the Payment Systems Regulator, the CMA and EHRC – ensuring a joined up approach to regulation.)

It is difficult to gain any traction on the issues that matter most to those in the most precarious financial circumstances in the UK today. For example, access to affordable credit and insurance, and ability to access cash easily and free of charge. There is a need for a public, transparent process for fixing the biggest issues for excluded customers which almost always lie at the perimeter of Government and regulator remits. **We believe the regulators should work closely with government in a joined-up approach to ensure that consumer needs don't fall into the black hole between market and social policy.**

Furthermore, the Equality and Human Rights Commission (EHRC) has oversight of compliance with the requirements under the Equality Act. So regulators will typically not consider that they have a mandate to actively assess firms' compliance. However, whilst the EHRC is clearly the specialist, expert agency, it faces challenges in practical supervision and enforcement, especially in the highly technical and complex markets of financial services. The EHRC has previously stated to the TSC, for example, that it does not have the relevant resources to investigate whether individual insurance firms' treatment of customers with disabilities is compliant with the Equality Act. The FCA has told the Committee it does have the expertise and resources.[5]

Recent discussions in some sectors have challenged whether the sector regulators should do more to support the EHRC and expressed concern at the degree to which fundamental and important legislation is falling through the cracks. The issue of whether regulators should take more responsibility for compliance with the Act has been considered recently by two House of Commons

[4] House of Commons Treasury Committee. (2019) Consumers' Access to Financial Services. https://publications.parliament.uk/pa/cm201719/cmselect/cmtreasy/1642/1642.pdf
[5] House of Commons Treasury Committee. (2019) Consumers' Access to Financial Services. https://publications.parliament.uk/pa/cm201719/cmselect/cmtreasy/1642/1642.pdf

Select Committees – both of whom have recommended that regulators should be given powers to secure compliance with the Act in the sector for which they are responsible. The Treasury Select Committee has recommended that: 'The Government should give the FCA the power to take on the enforcement of individual cases relating to financial firms' compliance with the Equality Act, in addition to the EHRC'.[6]

Additionally, recent consultations from the FCA point to the equalities impact process appearing to focus on avoiding negative consequences to groups with protected characteristics, on avoiding exclusion rather than actively seeking inclusion. Shifting the focus towards inclusion would support more meaningful compliance with the PSED.[7]

Recommendation: The Government should give the FCA the power to take on the enforcement of individual cases relating to financial firms' compliance with the Equality Act, in addition to the EHRC.

Recommendation: Creation of a clear, open and transparent process which consumer organisations can easily engage on issues that involve a mixture of both regulatory and social policy. An entity needs to own this process and have responsibility for this.

Recommendation: A joined-up approach between the regulator and government as to who owns the problems, how they should be addressed as well as action to bridge social and regulatory policy so adequate interventions can be put in place; a proper system that stops issues falling between regulators and the government.

[6] House of Commons Treasury Committee. (2019) Consumers' Access to Financial Services. https://publications.parliament.uk/pa/cm201719/cmselect/cmtreasy/1642/1642.pdf

[7] Fair By Design & Money Advice Trust. Inclusive design in essential services. Publication forthcoming.

How should consumer interests be taken into account when considering potential regulatory changes?

Improvements to stakeholder engagement

We believe that one of the foremost barriers to each of the above questions is the failure of the industry and regulators to take into account the needs of consumers who may be impacted by regulation, especially low income consumers. We do acknowledge that currently there is a process in place for external engagement by policymakers. For example, there are requirements for the financial services regulators to seek input from external stakeholders. There are also opportunities before final rules from regulators are set, to give an explanation on how stakeholders have been given a meaningful opportunity to feed into the development of policy. But improvements still need to be made to address what constitutes meaningful engagement. For example, the regulator should provide evidence for how it understands consumer issues at a regional level. Since regulatory interventions will have different impacts for different consumers across the UK, it is right that the FCA demonstrates it has properly considered these differences.

The regulator should also increase its engagement with consumer organisations on enforcement and monitoring specifically. Currently through the FCA's supervisory work, firms are asked to demonstrate how their culture, policies, and processes ensure the fair treatment of all consumers, including those who are vulnerable. But closer work with consumer organisations will help the FCA's work on what questions to ask, what skills and capabilities should be required of firms, and what good outcomes should be for consumers.

'Accountability' is one of the Government's six Principles for Economic Regulation. It stresses the importance of regulatory decisions being taken by bodies that have "the legitimacy, expertise and capability to arbitrate between the required trade-offs".[8] However, for this to occur regulators need to be able to engage all stakeholders, and to ensure those with little resource are appropriately engaged and their concerns are of equal measure to those with greater resource.

Due to the amount of resource regulated businesses are able to (and do) invest in working with and influencing their regulators it is essential that this imbalance in representation is addressed. This is especially the case when industry and regulatory professionals working within a similar space (financial services) are able to frame issues in a similarly understood way.

If regulators do not fully understand the needs, wants and behaviour of the consumers on whose behalf they regulate, their work risks becoming disconnected from the real world. In an environment where many people share a similar professional background and mindset it is necessary to proactively engage with the full spectrum of consumers to avoid regulation becoming an academic and myopic activity.[9] This situation exacerbates the disconnect that exists between policymakers/regulators and people's lived experiences of poverty and exclusion. Regulatory policy making is not inclusive and does not use inclusive design processes to supplement current measures – which are currently built around limited engagement with poorly resourced consumer organisations and commissioned consumer research. (Commissioned consumer research is usually created to fit around the remit of an organisation (FCA) rather than the needs of the consumer.)

[8] UKRN Consumer Working Group.(2014) Involving consumers in the development of regulatory policy https://www.ukrn.org.uk/wp-content/uploads/2018/06/20140728-InvolvingConsumersInRegPolicy.pdf

[9] https://www.ukrn.org.uk/wp-content/uploads/2018/06/20140728-InvolvingConsumersInRegPolicy.pdf

Financial Inclusion Commission

The ability of consumer representative organisations to engage on complex financial services issues is severely restricted due to resource constraints. And there are certain subjects, such as insurance, which struggle to gain much consumer representation at all, as charities dedicate what little resource they have to matters usually involving credit and debt. It can be difficult for regulators to receive many consumer organisation responses, despite there being clear implications for consumers. The FCA has created a range of engagement methods, including the creation of a consumer network for meetings and a limited number of strategic secondments. However, this falls well short of the measures needed to *balance* representation between firms and consumers.

The statutory Financial Services Consumer Panel is a welcome resource and should continue. However, this cannot be relied upon to be the main consumer voice. (There are other panels representing industry too, so this is an appropriate minimum.) However, there exists a real issue around plurality of consumer voices, as well as representation of people with lived experience of issues such as poverty, exclusion and wider consumer vulnerabilities.

To start to address this we support representation and champions on the Panel of people with protected characteristics, such as race and disability, as well as lower socio-economic status which is a cross-cutting issue for all types of consumers.

In the future we would like to see the Consumer Panel engage with other consumer organisations on a statutory basis through a formal annual consultation. This would give consumer organisations the opportunity to steer the Panel's strategic priorities. This could be carried out at the start of the year. Funding made available for consumer organisations to engage with the Consumer Panel and the FCA – and bodies such as HM Treasury – would allow for a range of voices being heard.

Recommendation: Ring fenced funding should be made available for consumer organisations to engage on financial services regulation, especially in areas that are currently the least represented (for example insurance). This money could be sourced via the annual levy on the industry carried out by the FCA or via allocation of money from fines placed on firms each year.

Recommendation: The appropriate section of the Financial Services and Markets Act is amended to require the Financial Services Consumer Panel to issue a formal annual consultation for consumer organisations to steer the future strategic priorities of the Panel.

Recommendation: We support representation and champions on the Financial Services Consumer Panel of people with protected characteristics, such as those related to race and disability, as well as lower socio-economic status.

Recommendation: The appropriate section of the Financial Services and Market Act is amended to require all consumer bodies designated the right to make a "super-complaint" to the Financial Conduct Authority to issue a formal annual consultation for consumer organisations. This will formally give consumer organisations the opportunity to present evidence of features of the financial services market that they believe are significantly damaging to the interests of consumers.

Recommendation: The FCA should fund the creation of an additional Consumer Panel of people with lived experience of poverty, financial exclusion and wider consumer vulnerability. This would help to ensure regulatory policies are designed to meet the needs of all consumers and that the regulatory system is designed *with* people rather than *without* them. (See below for more detail on how this can work.) This panel could be created in a way that allows it to be used across essential services regulators and sponsoring government departments – with funding gained from across different markets.

Inclusive design

We believe that people need access to products and services that meet their needs at an affordable price. By their very nature, essential services, like energy, credit and insurance are needed by everyone. However, the market has been designed to discriminate and exclude. The poverty premium means that poor people pay more for essential goods and services compared to those not in poverty. Poverty premiums can include lack of access to affordable credit and higher than average insurance premiums. The poverty premium affects almost every person on a low income and costs the average low income household £490 a year.[10]

The most vulnerable in society should be included in the design of essential services – so they don't cost more when you are poor and everyone should have access. We believe in essential services markets that are designed inclusively. For this to happen the market needs to be able to accommodate the needs of people on low incomes and with the characteristics that are often associated with low income – regularly referred to as consumer vulnerabilities. However, a catch-22 situation has emerged where those who most often have the least resources and are most vulnerable are disadvantaged by:

- not being able to afford, or having to pay extra, for appropriate products and services because they are deemed to be a higher risk/not as desirable to serve;
- not being able to access products and services that meet their needs because they are 'nonstandard';
- being excluded altogether.

Over recent years regulators, including the FCA, have made significant progress in the treatment of consumers in vulnerable circumstances and regulators have also recognised the advantages of products and services being designed inclusively.[11] However, the financial services market is competition-driven so leads to products and services that are the most commercially attracted for firms. This leads to some consumers not being served well, or even at all.

[10] University of Bristol (2016) Paying to be poor: Uncovering the scale and nature of the poverty premium. http://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1615-poverty-premium-report.pdf
[11] https://fairbydesign.com/wp-content/uploads/2019/08/CMA-Consumer-vulnerability-challenges-and-potential-solutions.pdf
https://www.fca.org.uk/publications/guidance-consultations/gc20-3-guidance-firms-fair-treatment-vulnerable-customers
https://www.ofgem.gov.uk/publications-and-updates/consumer-vulnerability-strategy-2025

Progress has been made in inclusive design within policy making[12], however there is not, a well-developed, shared understanding of what inclusive design means in the specific context of financial services, and other essential services. Nor is there a current understanding of how it relates to current regulation and UK law, or how it should be incorporated into the strategies of regulators. The work by Fair By Design with the Money Advice Trust aims to fill this gap, and they have recently published a practical toolkit[13], as well as mapping inclusive design to regulators' objectives and their obligations under the Public Sector Equality Duty.

At the heart of inclusive design is the premise that policies start with consumers. It is about giving staff the permission and guidance to build skills in inclusive design and to co-design and test solutions with the people who will need to access and use essential services. It is about placing lived experience of people at the centre of decisions and exposing decision makers to people 'not like them'. Fair By Design and Toynbee Hall, currently facilitate this process for both firms operating in the essential services market[14], as well as regulators. For example, they have held one lived experience session with the Payment Systems Regulator on access to cash. However, it is rare for regulators (especially senior decision-makers) to engage directly with people living in poverty in this way. They would be delighted to talk to you more about this model and inclusive design more generally.

There needs to be inclusive design in the markets, via regulators and support from the Government. Where inclusive design cannot solve issues the government and regulators should work together to bridge the policy divide – so markets work for everyone. However, we cannot expect regulators to take these decisions when the current remit is unclear. This must go alongside a joined-up approach between regulators and the government to who owns the problem. We recognise that increased parliamentary oversight would perhaps help clarify this, however there is also a need to maintain some regulatory stability. It will be important to get this balance right.

[12] See https://openpolicy.blog.gov.uk/category/policy-lab/ and https://www.designcouncil.org.uk/sites/default/files/asset/document/the-principles-of-inclusive-design.pdf
[13] Fair By Design and Money Advice Trust, Inclusive Design in Essential Services
[14] See page 33 Young Foundation (2020) Nothing about us without us. https://youngfoundation.org/wp-content/uploads/2020/02/Nothing-About-Us-Without-Us-Report-2020.pdf

Recommendation: Essential services should be designed so they are as inclusive as possible.

1. The Competition and Markets Authority, and regulators of essential services, including the FCA, should adopt inclusive design to:
    - help set their priorities;
    - develop and implement interventions;
    - assess their effectiveness; and
    - guide their expectations of business.
2. Where inclusive design cannot solve issues, the government and regulators must work together to bridge the policy divide – so markets work for everyone.
3. There is a single body/open process responsible for addressing issues that fall between regulators and their sponsoring departments that is public and to which organisations can take such issues.

How can Government policy and the UK regulators facilitate the emergence of FinTech and new competition; develop new areas of growth for the financial services sector; and promote the UK as the best place to incubate new financial technologies and firms?

We believe that the FinTech sector can make a significant contribution in addressing the very real problem of financial exclusion. This is because, unlike many legacy financial services, their products and services can be tailored to the way that many people lead their lives today. In particular, the development of technology around alternative credit scoring and payment technologies has the power to reach those who are currently underserved by existing products and services. A recent report from the IMF demonstrated that digital finance is increasing financial inclusion.[15]

We welcome the recent FinTech Review led by Ron Kalifa which will be important in identifying how to support the sector. The Commission are, however, concerned that there remain barriers that inhibit progress in this regard. In particular, there is a very real overlap between digital and financial exclusion. Internet connection is essential to carry out financial transactions, particularly in the new environment brought about by Covid-19, providing the key to accessing cash, banking and financial services, funding through Local Authority schemes, business advice, transport and skills. A lack of access to any of, or a combination of any of, these could result in financial exclusion.

Although 90 per cent of UK adults use the internet, this figure drops among many of the groups much more likely to be financially excluded. ONS data shows that women and people aged over 65 are less likely to use the internet.[16] Ofcom data shows that while 90% of UK adults used the internet

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[15] R. Sahay, U. Eriksson von Allmen, A. Lahreche, P. Khera, S. Ogawa, M. Bazarbash, and K. Beaton, (2020). The Promise of Fintech: Financial Inclusion in the Post Covid-19 Era. IMF.
[16] ONS, *Internet banking by age group*, September 2018. Available at; https://www.ons.gov.uk/peoplepopulationandcommunity/householdcharacteristics/homeinternetandsocialmediausage/adhocs/009078internetbankingbyagegroup2018

in 2018, this falls to 67% among people with a disability.[17] This is also a problem for SMEs. In a survey of Business Debtline clients, a quarter (26%) said they use mobile apps including banking apps and a quarter (25%) said they use e-banking, with 10% using online accounting. However, over half didn't use any of these (53%). Of those who didn't use digital technologies, 1 in 5 (18%) said they lacked the skills to use them. There is a need for further support for SME's to ensure digital access, beyond the infrastructure.

Whilst we believe digital finance can complement traditional services, there is a danger that unequal access to digital infrastructure and existing and future exclusive designs may continue to drive financial exclusion and lead to a new form of exclusion, for example the design and use of algorithms. There is an overlap between digital and financial exclusion for both individuals and small businesses. Yet, we have no publicly available robust data about people's experiences of shifting online. For example, 6 million people downloaded a banking app in the first month of the pandemic alone, but we have no idea how it's working for them[18]. The FCA should be tracking this and helping to ensure that digital financial services are accessed effectively. Furthermore, as part of this we need an industry wide code of conduct for Open Banking and Open Finance.

This is particularly pertinent in terms of access to cash, where an increase in the use of digital payment technology is driving a reduction in cash. This has been made apparent during the Covid-19 crisis; a survey by Which? found that one in ten respondents were refused by shops when trying to pay with cash at a time when only shops selling essential goods were open.[19] Digital payments do not work for everyone, and digital products and services need to be inclusively designed. This is particularly clear as Which? found that almost three quarters of people on low incomes are concerned about the impact financial technology will have on their spending.[20]

As the IMF recognise, development of these technologies must go hand in hand with investment in digital infrastructure and financial literacy.[21]Yet, there is a limit to what the financial services sector can achieve in this respect on its own, without a major expansion of connectivity and the provision of both hardware and consumer education to help consumers access digital financial services with confidence.

In addition, although well designed products will help some people, they will not solve the deep entrenched social issues which can lead to exclusion. As the Finance Innovation Lab point out, there are a number of ways Fintech can exacerbate and create new risks in finance. In particular, one of our key concerns is that the business models fintech empowers and the way technology is employed, risk exacerbating poverty and inequality, discrimination, and marginalisation. For example, as the Finance Innovation Lab illustrate, 'personalisation undermines the principle of

[17] Ofcom, *Access and inclusion in 2018: Consumers experiences in communications markets*, January 2019. Available at; https://www.ofcom.org.uk/__data/assets/pdf_file/0018/132912/Access-and-Inclusion-report-2018.pdf
[18] https://fintech-alliance.com/news-insights/article/nucoro-research-six-million-people-download-their-bank-s-app-for-the-first-time-during-coronavirus-lockdown
[19] S. McFaul (June 2020). 'Coronavirus cash crisis leaving vulnerable people with no way to pay', Which?. Available at; https://www.which.co.uk/news/2020/06/coronavirus-cash-crisis-puts-millions-of-people-at-risk/
[20] S. McFaul (June 2020). 'Coronavirus cash crisis leaving vulnerable people with no way to pay', Which?. Available at; https://www.which.co.uk/news/2020/06/coronavirus-cash-crisis-puts-millions-of-people-at-risk/
[21] R. Sahay, U. Eriksson von Allmen, A. Lahreche, P. Khera, S. Ogawa, M. Bazarbash, and K. Beaton, (2020). The Promise of Fintech: Financial Inclusion in the Post Covid-19 Era. IMF.

mutual aid, and risks making insurance inaccessible to the most vulnerable. There is evidence that machine learning models can entrench racism in the mortgage market compared to more traditional models.'[22]

However, it does not have to be this way and instead of entrenching and creating new problems with finance Fintech can also help make a positive impact in tackling financial exclusion. For example, NestEgg supplies responsible lenders with software to help improve their lending decisions to reach more people. In enabling credit unions to draw on a wider set of data they are able to provide a more holistic view of members.[23]

Recommendation: We need a Minister responsible for increasing digital inclusion, capacity and adoption.

Recommendation: The FCA should track the adoption of FinTech to help ensure digital financial services are accessed effectively.

Recommendation: The Government should lead investment in a major expansion of connectivity and the provision of both hardware and consumer education to help consumers access digital financial services with confidence.

[22] The Finance Innovation Lab, (2020). Lifting the Lid on Fintech: What does new technology mean for a financial system that serves people and planet? Available at; https://financeinnovationlab.org/wp-content/uploads/2020/11/Lifting-the-Lid-on-Fintech-Finance-Innovation-Lab.pdf
[23] Ibid.