Affordable credit – Navigating uncertainty and growing community finance

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Affordable credit – Navigating uncertainty and growing community finance

How community finance and Fair4All Finance can work together to transform the provision of affordable credit

Foreword

In February 2020 our report Transforming Affordable Credit in the UK identified the 10x Challenge: the need to scale up affordable credit provision tenfold from around £250 million new lending a year to match the £3 billion provided by high-cost, short-term credit providers (eg payday lenders).

We developed out a Theory of Change with the sector, which mapped the whole system changes needed to meet the 10x Challenge - from inputs through to outcomes. We also published a Code of Practice that defines what it means to be a fair and responsible lender.

Strategies for a Covid world

Covid-19 makes transforming affordable credit provision more important than ever. As we start 2021, we all need to go beyond emergency responses and think about the future. A future which may be partly shaped by this year's crises and pre-existing vulnerabilities but which will also be unlike anything we have seen before.

Before the pandemic we were already seeing rapid change in the market, as high-cost short-term credit providers started to withdraw and faced financial difficulties and new entrants such as 'buy now pay later' entered the market. Covid-19 has affected the community finance sector and will continue to do so. Some lenders may not survive due to reduced income resulting from the catastrophic fall in lending in April 2020 alongside unprecedented levels of bad debt and deferred repayments. Others will need to radically transform in order to survive and thrive.

The need for community finance has never been greater

The initial economic and societal impact of the pandemic has had a disproportionate effect on people on low incomes, with many facing further reduced income, more insecure work or unemployment. This has also seen many people using up savings and taking advantage of payment holidays, reducing their future financial resilience.

We have yet to see the full economic impact. The unwinding of deferred personal, business and public debt over the coming months and years will increase, and impact upon, those in vulnerable circumstances. The impact on loan income means that just when affordable credit is most needed, community finance providers may find their own financial resilience severely tested.

Community finance – the opportunity

After the 2008 financial crash, high-cost short-term credit and illegal lending filled the gap left in the sub-prime market when mainstream financial services providers withdrew, with products and practices that proved harmful to consumers. Today we can expect new forms of finance to fill the gaps created by the pandemic.

We have an opportunity for it to be community finance that fills the gap rather than less scrupulous operators. That will require rapid transformation of the community finance sector. Ethical providers need to be the innovators and disruptors this time.

Leaders in community finance are up for this. You have told us: 'Back to normal is not an option' and 'we need to build something new for people in vulnerable circumstances'. There is widespread recognition that the transformation encapsulated in our Theory of Change for Affordable Credit needs to be faster and bigger, particularly

- Scale-up - including collaboration between providers or consolidation. Our 10x Challenge focuses on the action we will take to scale up community finance and prove sustainable delivery at scale is possible
- Innovation - new products and new ways of doing things. There is already lots of innovation in the sector and we will need even more in the future. Providing what customers need and want, when they want it. Offering more than term loans and finding different ways of reaching customers, at the point at which they need finance

There is an appetite and a need to do things very differently - including new products, new delivery models and channels to market. And new ways of working within and between organisations.

As one community finance CEO said to us and a group of other CEOs: 'How do we collectively transform financial resilience across the country – rather than some of us shrinking and some of us growing a bit?'

Collective action is imperative. We want to work with those who are hungry for this change and committed to building sustainable business models.

Practical steps to realising our shared ambitions

Making bold moves during a time of uncertainty and volatility can be scary. This guide aims to provide a toolkit and framework for community finance organisations to seize the opportunity and to enable us to best work with you. It comes in two parts

1. **Navigating uncertainty** – a scenario planning toolkit to help you plan more confidently for the future and give all your people the ability to generate insight and spot emerging futures. This draws on how we developed our own strategy since February, faced with the uncertainty of Covid-19 and increasing volatility in the sub-prime credit market
2. **How community finance and Fair4All Finance can work together**
   - what we will do and where we will focus our resources
   - what you can do – and many of you are already doing – sharing good practice and areas to explore
   - how we can work together

By working in step with each other, collaborating, sharing our learnings and helping each other along the way, we should be able to go further and faster to increase financial resilience and wellbeing in our communities during volatile times.

In that spirit, we've included some case studies of community finance organisations that are innovating different products and services to meet the ever-changing needs of their customers. You can find these at the end of the guide.

What do we mean by community finance?

Community finance embraces a broad group of organisations who provide fair and appropriate credit (often referred to in shorthand as 'affordable credit') and other financial products and services for customers who may be in vulnerable circumstances.

These organisations know systemic issues like ill health, low or unpredicatable incomes and a lack of savings can all cause financial vulnerablility. As can life events like separation, a job loss or bereavement. Or simply being part of a particular ethnic minority group. They understand their communities and customers and have responsible business practices at their core. If this includes you, then we want to work with you.

In terms of our role at Fair4All Finance, our direct investments are focused on England (in line with the remit of our own funding from dormant assets). We will therefore work most directly with organisations serving customers In England. We are committed to collaboration with agencies in Scotland, Wales and Northern Ireland and to sharing tools and best practice, and facilitating further cooperation, with community finance across the United Kingdom.

We are focused on expanding the provision of fair and affordable products and services. We know we need to work with the whole financial services sector to achieve that. Our strategy for the community finance sector is about scaling the provision of affordable credit, setting good practice standards on the way. In February 2020 we published a Code of Practice for affordable credit, setting out the principles and practices that typify good provision of fair and affordable credit.

You may be one of the 420 Credit Unions in the UK (over 140 in Northern Ireland), one of around 10 personal lending Community Development Finance Institutions (CDFIs) or a different type of organisation that provides responsible and affordable finance - such as newer technology-based credit and some social enterprises and Community Interest Companies.

We know you have different legal frameworks and constitutions and you may have a distinct ethos and community business model. And you may not exclusively provide finance for customers in vulnerable circumstances.

We would like to work with all lending organisations who conform to our Code of Practice on this journey, regardless of their organisational form.

Part One - Navigating uncertainty

A scenario planning toolkit for transformation during unpredictable times

In Part One of this guide we share

- Our assessment of the impact of Covid-19 on the financial resilience of people and communities and on the supply-side of the credit market
- The methodology we use at Fair4All Finance to develop our strategy in the face of uncertainty and to help us act with foresight by enabling everyone in the organisation to spot how the future is developing
- Some tips on how you can apply this in your organisation

We have based this guide on the process we are using at Fair4All Finance. This is based on long-established scenario planning methodologies and draws out what has worked for us and what we learned along the way, drawing on good practice.

We know there is no 'one-size-fits-all' model. Community finance organisations have done varying degrees of scenario planning, especially in the last year.

Larger organisations, with more sophisticated planning and resources, have told us this guide provides an external sense check of their work; smaller organisations may want to cherry-pick some elements of the guide, perhaps using it for a team and board workshop if you don't have the time for a more extensive process.

How scenario planning can envision possible futures and business plans

Predicting the future is impossible. When we try to do so we quickly hit a brick wall. What we can do though is prepare for different eventualities. Scenario planning allows us to envision possible alternative futures and consider how our plans could change.

For any organisation, Covid-19 creates previously unimaginable volatility, complexity and uncertainty. It is a global health crisis, creating inter-connected social and economic crises, affecting everything from mental health to use of technology. Precise forecasts and scenarios are impossible.

The crisis has particularly affected organisations who serve customers in vulnerable circumstances, with affordability squeezed for many customers at a time when their need is greater than ever. The picture is even more challenging for organisations without a strong capital base to fall back on.

The immediate shock of the pandemic and its longer-term impact come on top of pre-existing economic and social change (some driven by the 2008-10 financial crash and its aftermath as well as the technological transformation of the economy) and continued disruption and volatility in the sub-prime credit market.

Fair4All Finance faces these same challenges. Last year we used scenario planning to develop and update our strategy and plans, encouraging everyone to spot glimpses of possible futures in the day-to-day and enabling us to act with foresight across our organisation.

We're sharing the process we used in the hope that it can be a useful tool for you to inform your strategic choices and plans, and develop organisational foresight and resilience - where all your people understand possible scenarios, how they could happen and identify early signals that they are happening.

Regardless of Covid-19, scenario planning is an essential tool at a time when the environment, economy, technology and society are changing faster than ever, creating a volatile, uncertain and complex business environment.

Scenario planning can help us think ahead and build resilience. It enables us to imagine complex futures, not just pandemic transitions but also the transition to a zero-carbon economy, the continued application of technology in everything we do and the changes that take place as Britain makes its way after Brexit.

We can't predict what will happen. But we can imagine different futures – and share these so they become part of a common language.

'We felt there was no option but to use scenario planning and use that to determine our actions.

Supported by customer research, this allowed us to look beyond the immediate emergency and focus on what our community will need as it adjusts to a post-covid world.

This made us realise we needed to adapt how we will work. We accelerated investment in our remote service – in technology and people skills, began building an online advice tool to help customers more easily navigate the advice and support available to them, and are developing partnerships with other financial and support organisations to allow us to support different customer needs.'

Catrin Price, CFO, Fair Finance

And we can assess how these affect us. We can identify what will matter most. We can work out what we would need to do in specific circumstances (contingency plans) and what actions may help in most or all scenarios ('no regrets' decisions). And we can track progress to see what type of future we are moving towards.

Why our brains need scenarios

Scenario planning and storytelling can address two challenges to strategic agility

1. Our brains are wired to filter out data that doesn't make sense or doesn't seem relevant to our world right now. If you plan to buy a red car, suddenly you notice red cars everywhere; there aren't more red cars; but your brain now knows it's relevant data. When we imagine different future scenarios we reset our brain filters to notice signals of how the future may be evolving
2. Organisations often rely on a small group of leaders to do all the thinking. This narrows the input to strategic decisions and means you miss the chance to for your frontline teams to use their interactions as valuable data on what is happening. Storytelling around scenarios is a simple and engaging way for all your team to tune in to notice the signals too, multiplying your horizon scanning capacity

These are powerful ways to shift from operating with hindsight to operating with foresight.

Here's our step-by-step guide to scenario planning

Map uncertainties: What will shape your world?

What uncertainties will affect your plans?	What key uncertainties could most affect your future plans?

Develop scenarios: What might the future look like?

What could different futures look and feel like?	How could these future scenarios affect you? Risks and opportunites

Options: What is your strategy and plan?

What actions and business models will help you in different possible futures?	What needs to be true for each option? What is the impact? Which options work in all scenarios?

Tracking: Where are we now; where are we heading?

How do you harness data and your people to track what is happening and where we are heading?	What scenario are we in now; what actions should that trigger?

Review

What do we now know?

What has changed?

What has worked?

Mapping uncertainties – what's happening now?

Before we start envisioning the future, we need to take stock of what has been happening in the external environment over recent years and, more immediately, since the start of the pandemic. Even before Covid-19, this was a time of flux. In developing our future plans, we drew on the following analysis of supply and demand in the credit market.

Pre-Covid

The 10x Challenge	Inequalities
The community finance sector is the primary source of affordable credit provision. It made new loans of around £250 million a year to around 300,000 customers in vulnerable circumstances. High-cost short-term credit providers lent around £3 billion a year to around 3 million people.	Certain groups have been systemically disadvantaged: women, people living with disabilities and people from certain ethnic minority groups. Particular towns and communities have a higher concentration of people unable to access affordable credit: 'credit deserts', predominantly in the North and Midlands.

2020

Lending Capacity	Increased Need	Resilience in the Sector	High-Cost Exits and New Entrants
At the start of the pandemic, lending by community finance providers (with some exceptions) reduced as demand dropped and the affordability rating for many previous customers fell, leaving providers unable to lend to those who failed affordability checks and choosing not to lend to those who presented an increased credit risk.	Since June 2020, the number of customers in vulnerable circumstances served by community finance providers has increased. With household incomes reduced, savings spent, and debts increased, demand – and unmet demand - for credit is increasing. Low awareness of community finance providers, particularly customers previously served by the mainstream.	There has been a loss of income and an increase in bad debt provisions for some. Some providers have continued to innovate and used the opportunity to accelerate the adoption of technology. For smaller lenders the impact on income may be significant, placing some in potential difficulty.	Traditional forms of high-cost lending have declined with rent-to-own and payday lending retreating. Home collection credit has contracted. The gap appears to have been filled in part by new high-cost entrants and rapid growth of 'buy now, pay later' retail credit. Anecdotal evidence also points to an increase in loan shark activity

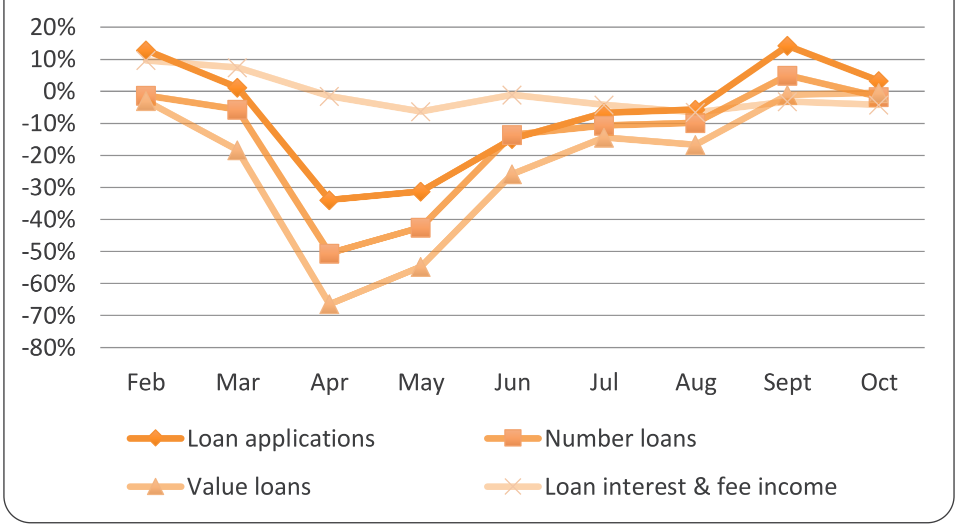
Current situation and outlook in the community finance sector

In November 2020 to January 2021, Carnegie Trust UK and the University of Salford carried out a survey and interviews with credit unions and CDFIs to assess the impact of Covid-19, revisiting a group they surveyed in May 2020. Their key findings and conclusions are set out below[1].

We know that different community finance providers have experienced different impacts of Covid. Some have increased lending this year, some with public sector customer bases have been less affected by economic recession. The following therefore sums up the experience of a group of organisations.

As of October 2020

- Lending volumes have recovered from a cliff edge fall in April. Overall, there has been some reduction in repeat loans and an increase in new customers
- Income remains down. Deferred payments are increasing: with an average increase in payment holidays of 163% in the second half of 2020. Many are reporting higher levels of arrears - half those surveyed reported an increase in arrears since the pandemic
- 78% of Credit Unions (29 out of 37) reported an increase in savings deposits, with an average increase of 20%



Year-on-year growth (%) lending and income
Feb -Oct 2019-2020

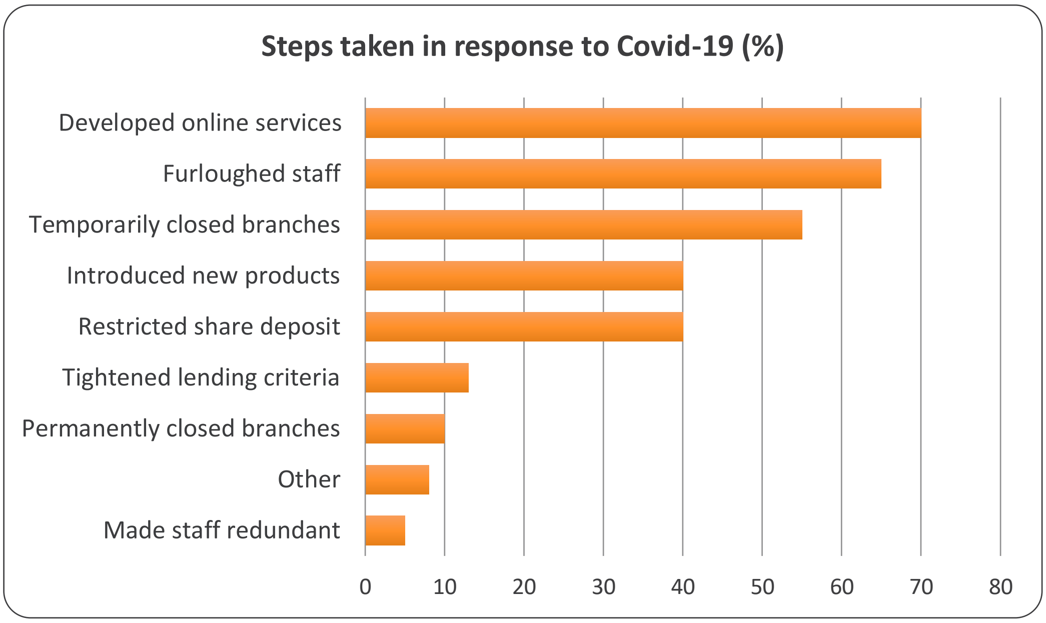
19,000 fewer loans disbursed in Apr-Aug on 2019

£34m less in lending since lockdown affecting future income

Value of loans down 25% on 2019 since first lockdown

[1] Based on data from 35 organisations (30 credit unions) responding to both surveys (representing around 30% of the total savings and loan book in the sector) and 43 organisations (36 credit unions) responding to the second survey in total.

Steps taken to manage Covid



Looking Ahead

- The severe fall in lending in April 2020 will mean reduced income over the medium term. This, together with unprecedented levels of bad debt and payment holidays, does not bode well for the next year when unemployment is predicted to rise and consumers will see payment holidays (including rent, utilities and loans) end.
- 12% of organisations are forecasting a breach in regulatory requirements (capital/asset ratio) or loan covenants in the next 6 months.
- 10% of credit unions and CDFIs believe they cannot meet short-term costs and obligations in the next 6 months without additional support.

'It's the cumulative impact [on income] in the longer term where if you look forward over the next 5 years even that's now half a million quid' - Credit union manager

'The problem is...the unknowns, isn't it? We don't know how many lockdowns there are going to be, we don't know the impact of those lockdowns and...it's still quite early to say what the impact of Covid is going to be...I think the problem is that you can draw on experience or use your knowledge to predict where the business is going to go' - Credit union manager

Step One – What uncertainties will affect you?

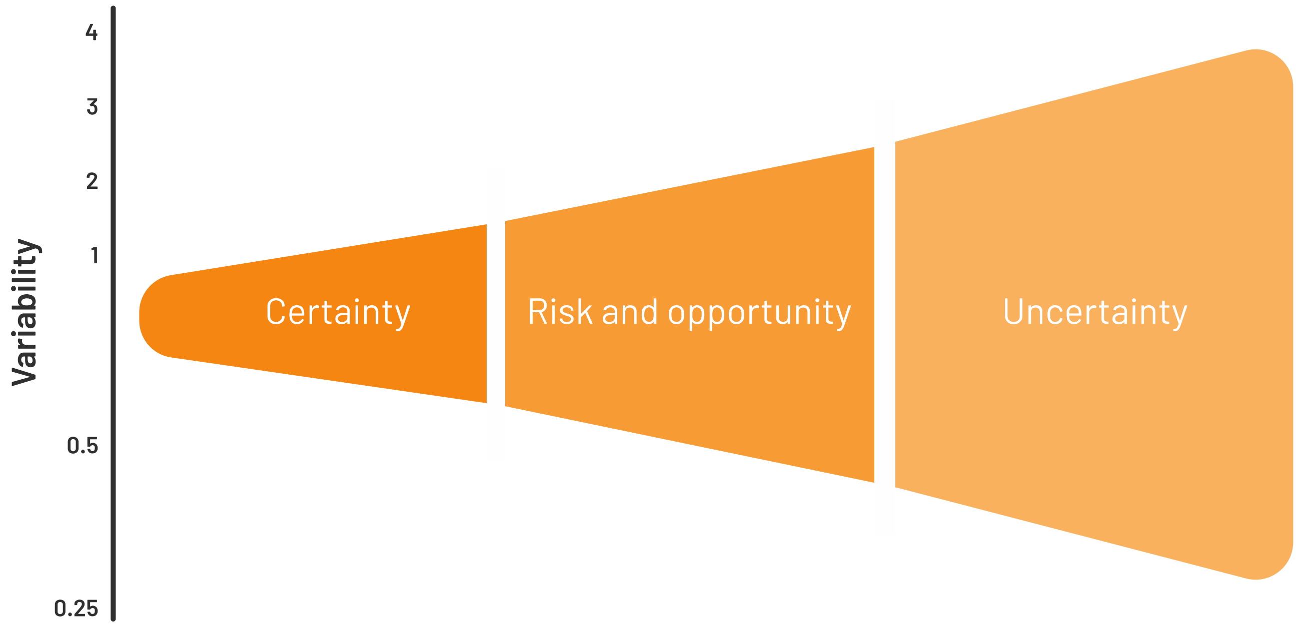
What uncertainties are you grappling with?

Which ones matter most in shaping your future for you? Test these with your team, board and stakeholders to identify the key elements.

How can you quantify – or describe – the best, worst and central cases for these?

Scenario planning looks at uncertainties - things that could go either way, have a high degree of variability in their impact, and fundamentally affect our plans and strategic choices. This is distinct from risks, which operate in a smaller range of variability which we can estimate, and where we can develop mitigation plans.

The cone of uncertainty in strategy



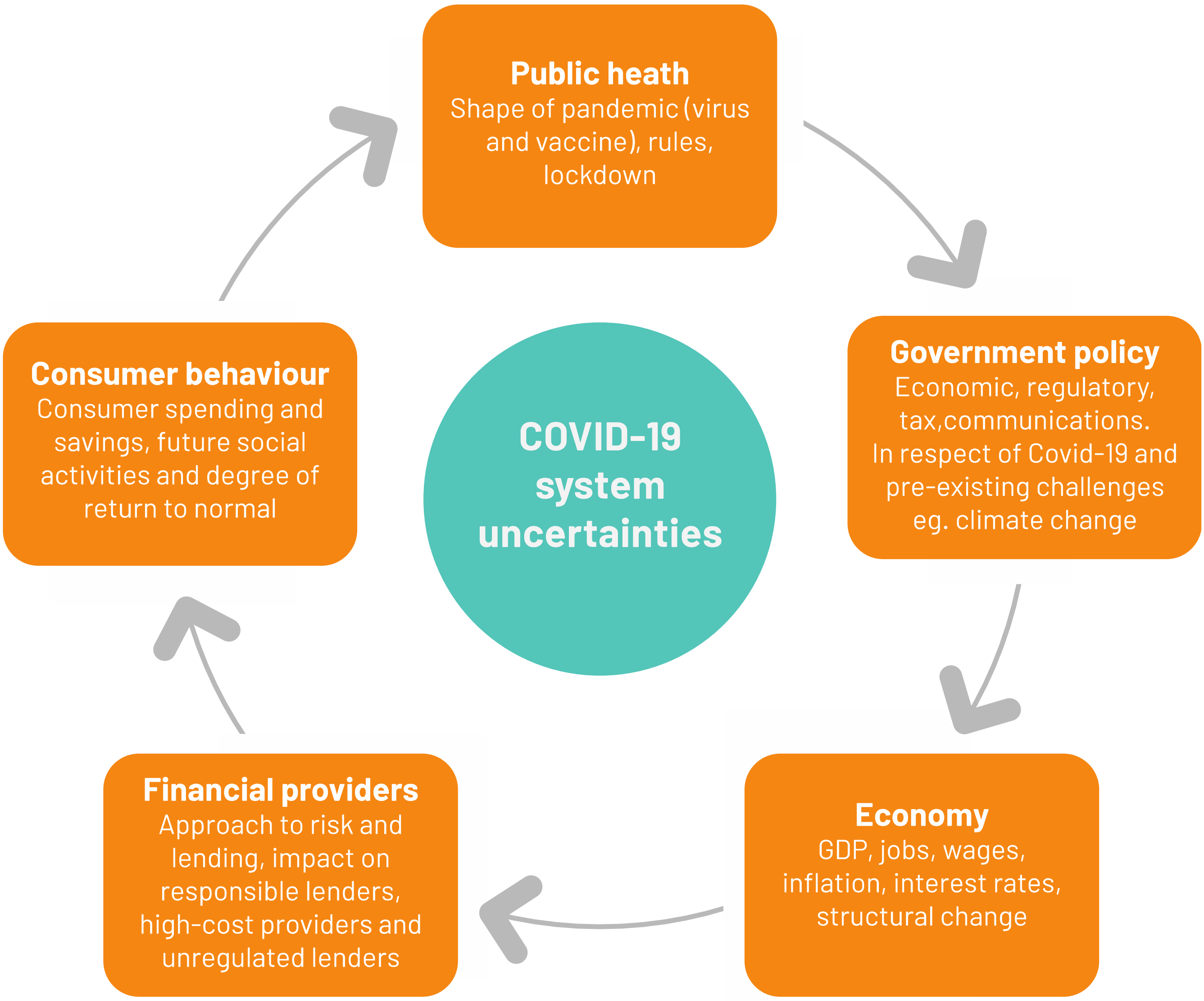
Things we know	Things we can have a pretty good guess at	Things that could go either way which could fundamentally affect our strategic options

To identify uncertainties, we used PESTEL analysis, which has traditionally been used in strategy development to analyse external factors in six areas and identify what impact they have on you. We added an 'H' for health, given the pandemic.

P	E	S	T	E	L	H
Politics and Policy	**Economy**	**Society**	**Technology**	**Environment**	**Legal and regulatory**	**Health**

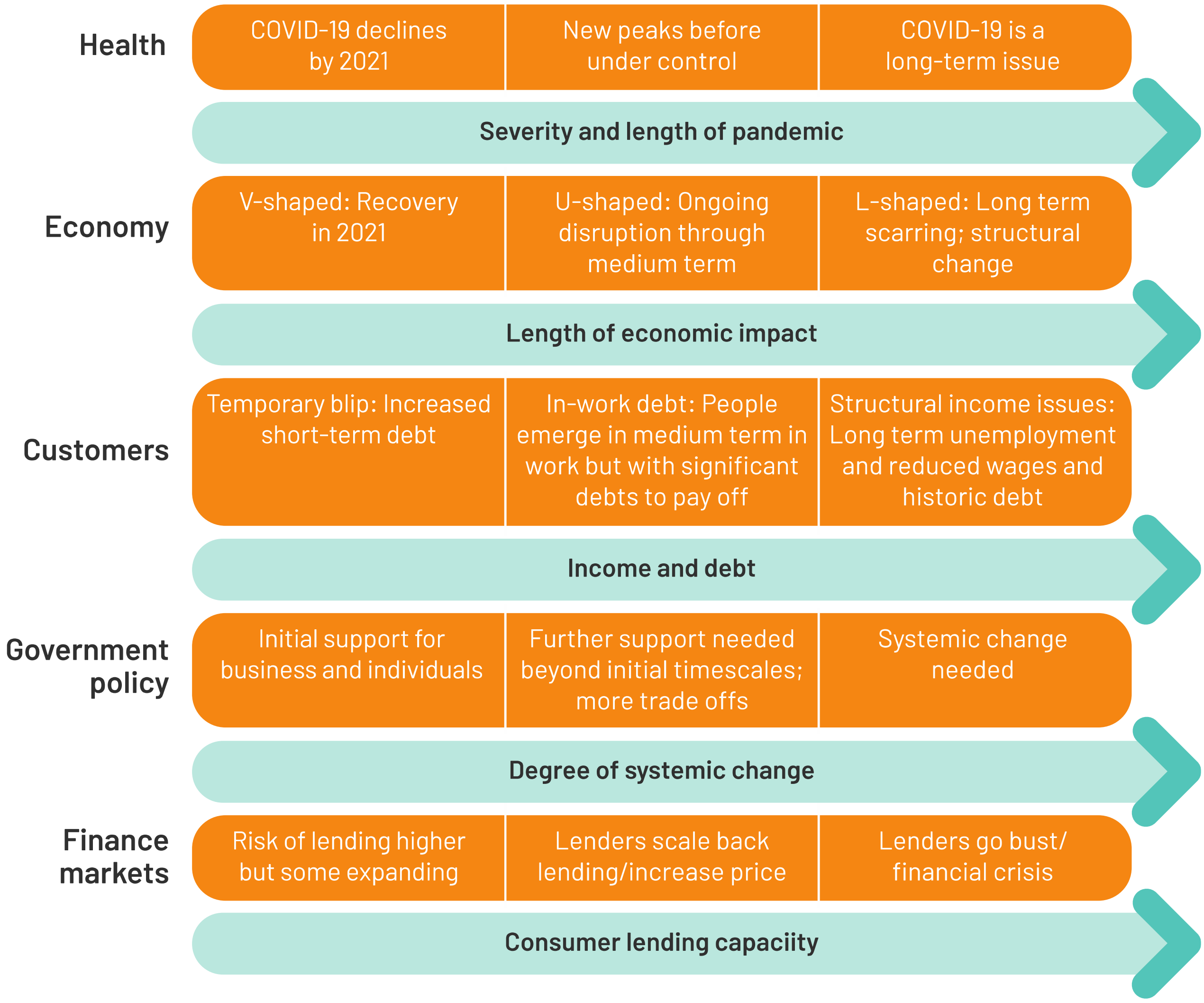
These areas are interlinked. We live in an era of systemic uncertainties – uncertainty in one area drives further uncertainty in others.

Using **PESTELH** we picked out the uncertainties that most affect our ecosystem, focused on customers in financially vulnerable circumstances. For us, the **key areas of uncertainty** were



Assessing the uncertainties

For any aspect of uncertainty, we can identify a range of outcomes, mapping possible degrees of severity, for example



Use these to develop 'worst case' outcomes, best case and a 'central case'. This may be particularly helpful for financial modelling and assessing organisational resilience. The key in scenario planning is to consider how uncertain the likely outcome is and how fundamental which direction it goes is to your organisation.

If you can, quantify the range of each uncertainty. Draw on your own data such as demand and defaults during the 2008/9 recession. For the wider economic picture, there are lots of public sources - we particularly drew on Bank of England and Office of Budget Responsibility forecasts. We have listed some useful sources at the end of this guide.

Step Two – Driving forces

What two uncertainties will most impact your future plans?

If you combine the different extremes of your two driving forces of change, what would these look like for people? What would your customers and colleagues feel and say? What would your market look like?

If you were to sum up these possible futures, what picture or image would you choose? And how would you describe it in two or three words? If it was a film or book, what would the title be?

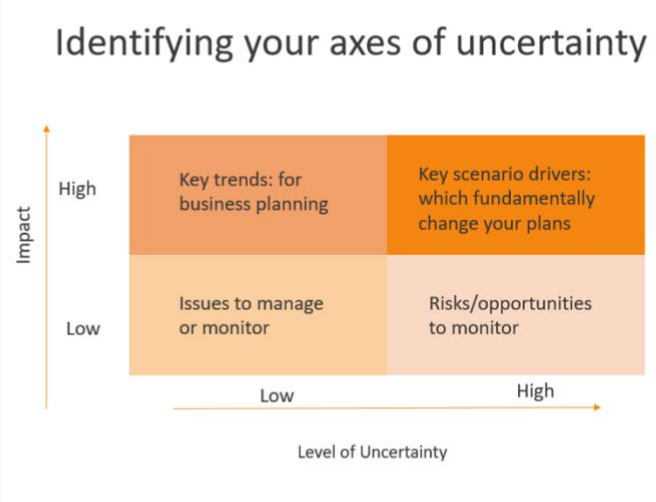
So far you have identified the uncertainties that most affect you, mapped out what these look like and done some assessment of the range of impact. This gives you a set of variables. We need to show how these variables may interact and turn these into a clearer picture of how possible futures might look and feel.

We need to identify two big questions which could have the biggest impact on your organisation: which two uncertainties, at their most extreme ends, would most affect you? It may help to analyse the longer list of uncertainties you identified in step one. Can you group some of these together – are they linked, as events that happen in conjunction or through cause and effect?

For our uncertainties, we grouped together the severity of economic impact and the severity of the health situation, as the economy followed the path of the pandemic.

We also decided that consumer behaviours would largely be shaped by the other uncertainties (health, economy, government, and finance providers).

And in discussion we identified there was a range of uncertainties around different organisations' behaviour – not just central government but local government, business leaders and charities; these grouped together as 'civil society'.



Now assess which two of these 'big uncertainties' have the most impact on you – which have extremes which would fundamentally change what you need to do?

These are the 'axes of uncertainty' for envisioning the future: the things that could go either way and would most affect your strategic choices.

At Fair4All Finance we focused on the two leading uncertainties that would most shape the future for our end customers - people in vulnerable circumstances - and hence our plans.

Our axes of uncertainty were

1. Severity of the health and economic crisis; the longer and more severe the pandemic, the greater the economic impact
2. Boldness of leadership. This was leadership in its widest sense - not just government (national and local) but employers, finance providers and even individuals in their behaviours and actions. It includes all of us

Identifying these driving forces will be an iterative process. They need to combine to create four very different possible future worlds where your strategic bets will look very different. We tried different versions, testing them with our board and our team before we settled on the best combination for us.

What dynamics and combination of uncertainties will most shape your future – can you boil them down to two key axes of uncertainty?

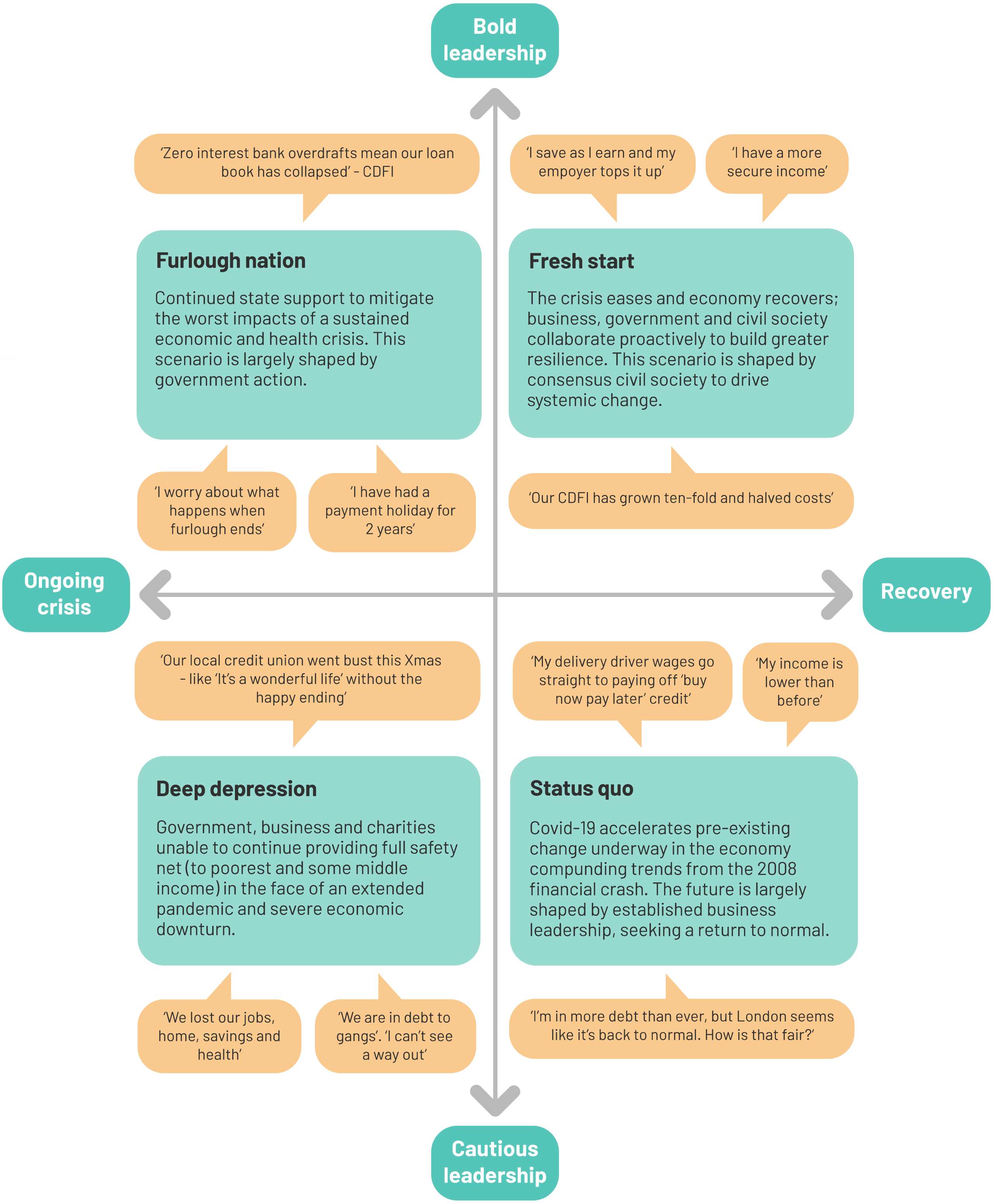
These may be complex concepts or may be as simple as 'customer behaviours and 'economic conditions'. You can make these very local or capture national and global trends that impact on your strategic choices.

Develop scenarios - what might the future look like?

Step Three – Envision the future

How will different possible futures look and feel?

Using the two driving forces as X and Y axes, we created a 2x2 grid chart, identifying four possible futures, with a description of each one. These should use the most extreme ranges of uncertainty in the driving forces for the X and Y axes.



To bring these to life, give each scenario a name, some quotes from people living in these scenarios and a picture. The more people you involve, the richer and clearer the scenarios; and the more people who can readily use them in their own work. Through discussions with our team and stakeholders we got great suggestions for quotes that brought the scenarios to life and the names became more vivid.

This is an art not a science. It is an iterative process. You may want to adjust the driving forces (X and Y axes) once you have fleshed out what the different scenarios look like. You may even find it is easier to start by describing some different futures, based on your analysis so far.

Involving others is essential in getting different perspectives and harnessing everyone's imagination and experiences. The titles, quotes and pictures in our scenarios all came from workshops with our team, stakeholders and board - using (virtual) whiteboards and post-its for people to bring the grid to life. This also means that people intrinsically understand the scenarios - having shaped them they can tell each story and they can now spot when elements of a scenario start appearing in real life.

You don't have to use four possible futures – but it is often the ideal number. You may only find three – if so, beware the risk of one of them being seen as the 'central forecast' or a 'middle scenario'. More than four becomes hard to distinguish – and loses impact (you deliberately want some very starkly different scenarios). Two possible futures may limit your options and narrow your thinking too soon.

Step Four – Consider the possible futures

How will these future scenarios affect you? Risks and opportunities

What are the key drivers of your business? These may well be things you track already – eg default rates, new customers, size of loan, routes to market and alternative providers in the market.

- How does each of your scenarios play out for these drivers?
- What do all your scenarios have in common?
- Are there any impacts unique to one or two scenarios that could have a disproportionate effect on you?
- In terms of financial impact, how do the scenarios affect: loan book value, size of loan, bad debt and income?

With scenarios giving a picture of what the world could look like you can identify top risks and opportunities, build up a picture of future revenue and costs and identify how your operating model and business plans may need to change over the longer term.

We looked at the impact of the scenarios on finance providers and on our end customers and communities. Here are two of the elements we considered

	Furlough Nation (baseline – impact as of August 2020)	**Status Quo**	**Deep depression**	**Fresh Start**
Financial Providers	Continued withdrawal of existing high-cost credit and expansion of retail and unregulated credit.	Large expansion of retail credit and unregulated lending. Accelerated withdrawal of existing high-cost credit; some new entrants.	Withdrawal of existing high-cost credit. Growth of unregulated lending.	High-cost and unregulated lending is squeezed out. Mainstream extends work to serve vulnerable communities and collaborate with community finance.
Impact on size of customer group	Reduced incomes (furlough and reduced hours) increase demand. Increase in customer groups 'Precarious', 'Stable low income' and 'Stuck in debt'. More young people.	More gradual development of Furlough Nation trends. Structural unemployment and increased zero hour contracts.	As Furlough Nation but bigger increases. Increasingly from previously higher income groups – new to market and unfamiliar with affordable lending.	'Stable low income' and 'Stuck in debt': ongoing smaller core customer group. Newly 'Precarious': some structural increase in newly unemployed.

Common themes

This enables us to identify common issues across the scenarios.

These provide the basis for identifying mitigating actions and options – what would you do in these scenarios to mitigate the adverse impact or to maximise an opportunity?

We specifically looked at the end customers we seek to impact and the impact of the pandemic on these groups

Around **11 million people** in vulnerable circumstances

Stuck in debt	**Stable low incomes**	**Precarious**
c3m	c4.5m	c4m
Multiple debts across providers which has been persistent. May be employed or on benefits. Limited affordability	On income <£17k or on benefits. Can cover essentials but not lumpy items. Reasonable affordability	May have some savings but rapidly depleting. May not have debt yet but don't have good affordability for credit

Financial needs

Low or no cost long-term loan, along with manageable consolidated debt. Gradual savings approaches eg. encouragement from 'repay and save' (rounding up credit repayments into linked savings)	Smaller, short-term affordable credit. Increasing need for more flexible products. Longer term savings mechanisms to create a buffer	Smaller short-term affordable credit to reduce short-term problem debt; consolidation or no interest loan could be applicable. Ad-hoc savings where possible and targeted insurance

Covid-19 Impact

Medium	**Lower**	**Higher**
Debt situation consistent, but potential big issues when forbearance ends	Incomes maintained but young and older workers affected. Greater loss of income in Pakistani, Bangladeshi, Black-African and Black-Caribbean households	Loss of income - young and older. North East and South West most affected. Pakistani, Bangladeshi, Black-African and Black-Caribbean households

And the external environment

Customers

Increased demand
Additional 3-5 million customers are in vulnerable circumstances. Increased need from existing customers between stuck in debt, low income and newly precarious

Increased uncertainty regarding affordability
Large number of customers are unable to access credit, including those previously served by the market

Low awareness of alternative providers by new customers
Increasing dependence on high-cost lenders and illegal lending

Market

Challenging environment
Banks and financial services providers face low interest rates, pressure on loan books and a continued commitment to FCA support measures. Many customers are in much more precarious circumstances than before

Lenders at risk
Smaller community finance providers are at heightened risk along with some high-cost credit organisations

Significant exits and some new entrants
With rent-to-own provision collapsing and some new tech disruptors appearing, and continued growth of retail credit and guarantor loans

Options – What's your strategy and plan?

Step Five – Test ideas

What actions and business models will help you in different scenarios?

What actions are relevant to you and your customers? Consider the different elements of your business

- **Finance:** what do you need to do to strengthen your balance sheet? Or to access capital for lending?
- **Customers:** do you need to serve new customer groups? Does a change in the mix of customers help support your goals?
- **Products:** do you have the right mix of products to meet your customer needs and provide balance sheet resilience? Do you have up to date customer insights?
- **Routes to market**: how do your customers want to be able to access services? How can you best reach those in need?
- **Your operations**: do you need to develop financial, HR, or IT systems and processes? Can you improve efficiency through shared services?
- **Leadership and skills**: what capability do you need in future scenarios? This may include non-executive as well as executive roles.
- **Consolidation:** would your customers and your organisational resilience benefit from a merger or collaboration with other providers?

You can use your future scenarios plus your assessment of what is happening now and next, to develop plans over three time horizons and business cycles

Now

- Managing 'business as usual' - ensuring existing operations and plans run effectively, making the most of your existing products and serving your customers. This is about good management of the business
- In a Covid-19 context, this may mean focusing on a recovery plan to ensure business continuity and meet customers' current needs

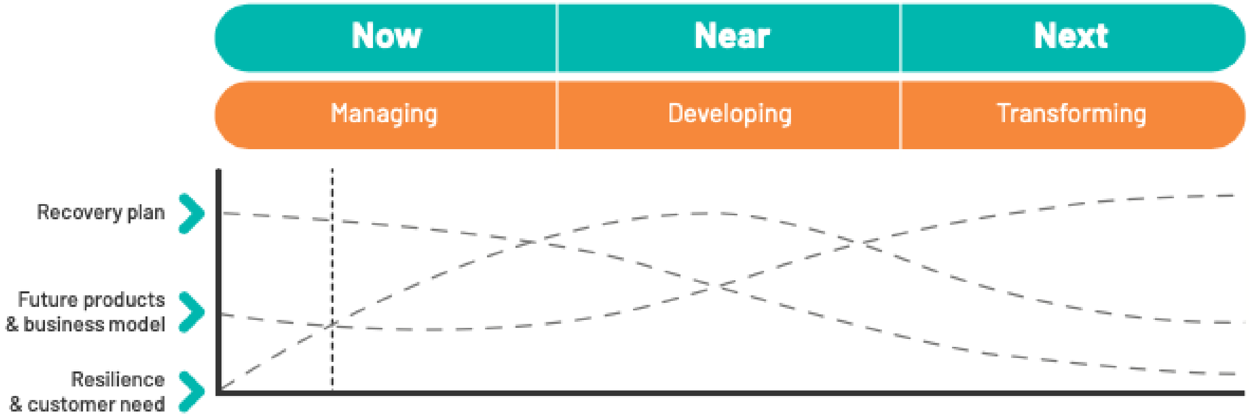
Near

- Developing your business - rolling out operational and product improvements or innovations that you have had planned for some time and are now at the implementation phase. These may be more 'incremental' in nature
- In a Covid-19 context, this may include strengthening your balance sheet and resilience and adapting to customer needs

Next

- Transforming your business - creating the business model and products of the future, that provide for sustainable long-term growth and impact. Anticipating the competitive environment and customer needs and expectations of the future
- Envisioning a different world - and growing something that at present is just a seed - rather than doing the same better. In 1992 Sony developed the mini-disk - on the basis that making the CD smaller would be the future. This was phased out by 2013. In 2000 Apple launched the iPod, on the basis that the emerging illegal music download market was a glimpse of the future

These three cycles work in sync - the managerial cycle provides the foundations for development and transformation phases, which in turn will become business as usual. Managerial insights and data inform development and transformation plans. And transformation options can be tested or piloted in the now or near timescales, before longer-term wholesale adoption.



We gathered ideas for solutions that tackled the common issues. We discussed each scenario with our team and asked them what we should do in response. We discussed common themes across scenarios and what action we might take. This gave us a list of possible solutions.

We tested these back against the scenarios to check their relevance – do they address key issues in each one?

		Scenarios			
		Furlough nation	**Status Quo**	**Deep depression**	**Fresh start**
Strategic Options	**Capital for Community Finance**	✓	✓	✓	✓
		With increased demand in all scenarios, there is a need for capital to increase lending capacity (in CDFIs) or strengthen balance sheets to support sustainable growth			
	Develop growth capability	✓	✓	✓	✓
		Business models will need to change in all scenarios to respond to new conditions and organisations and leaders will need to be agile and efficient			
	Develop routes to market	✓	✓	✓	✓
		Partnership with housing associations, employers and others will be important ways of reaching an increasing number of people in financially vulnerable circumstances			

It's also important to identify critical issues in one or two scenarios that would require mitigation, enabling contingency plans to be made to prepare for the worst. For example, anticipating an impact on cashflow and face-to-face services, we introduced a specific Covid-19 Resilience Fund to preserve lending capacity and enable immediate adaptation to business models in response to the initial lockdown.

Step Six – Planning and prioritisation

What needs to be true for each option?

What's the impact of each option?

What are the 'no regrets' decisions: which options work in all scenarios?

To prioritise your list of actions, assess each option in terms of what would make the biggest difference and how hard would this be to achieve:

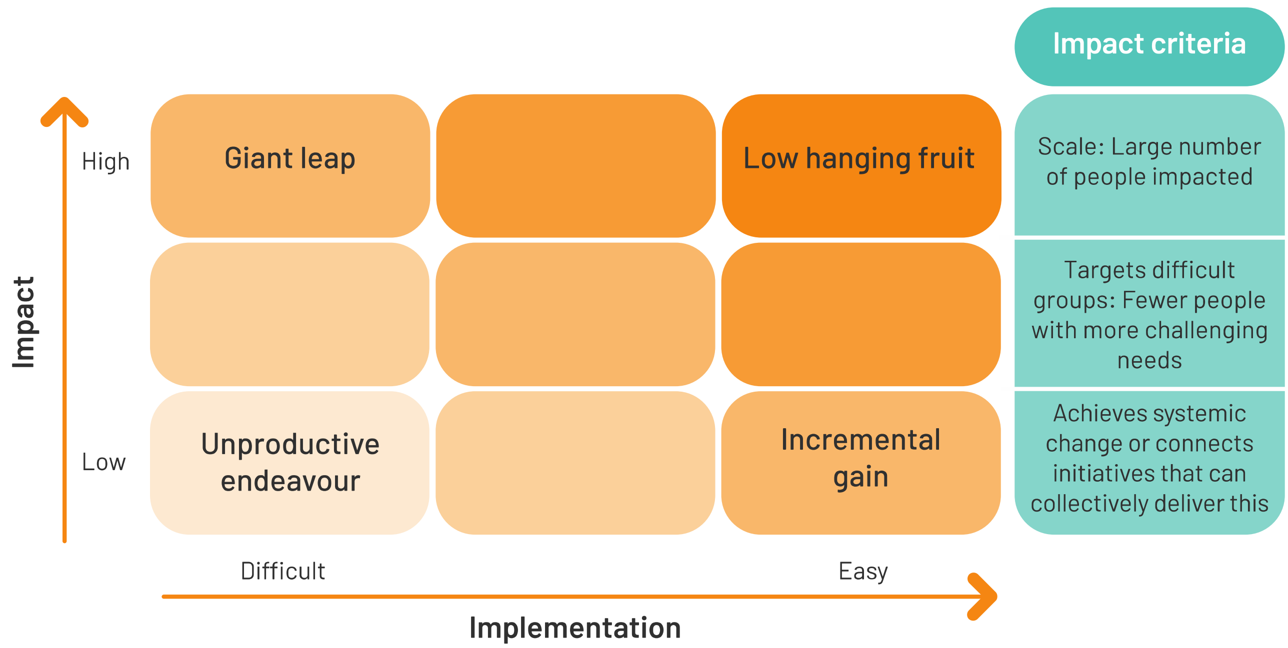
1. Impact eg number of people affected, revenue, whether an action provides lasting effect or short-term relief
2. Ease of implementation eg cost/resources needed, complexity of different systems or organisations involved, time it will take

A good test of ease of implementation is to ask 'What would need to be true to deliver this option?'

What would need to be true in terms of

Customers	Competitors	Finance	Operations	Suppliers and partners

You can plot options on a grid



Big impact, easy to implement actions provide the low hanging fruit – things to get on and do. Big impact but difficult implementation ('Giant leap') may need a further business case and a decision on whether the impact – particularly long term – means the effort is worthwhile. Anything that is low impact and hard to do should be put to one side (maybe the circumstances will change in the future).

Tracking

Step Seven - Harnessing Insights

What data or insights would give you the best picture of how your business environment is changing?

How can you share and capture insights in your organisation?

In a fast-moving world, you will want real-time data to see what is happening in the external environment. This will enable you to see which scenario we are in and/or moving towards as well as identifying other issues that may create new risks or opportunities.

We developed a dashboard for monitoring the external environment, which is regularly updated and reviewed. We use this to check that our action plan matches the direction we are travelling, to identify any new issues and to trigger any contingency plans.

Here's our dashboard[2]

Theme	Indicators			
Background	Health alert level			
Lead indicators	**Household incomes for bottom quintile**	**Unemployment**	**Self-Employment & zero hours**	**Utility bill arrears**
Government policies	Introduction or end of specific support (qualitative)			
Providers	Lending levels for **Payday lending, Rent-to-Own, Buy Now Pay Later**	**Community Finance lending volume**	**Mainstream lending** incl. credit card debt and overdraft debt	**Informal and illegal lending** levels
	Market Trends: Exits and entrants, innovation; capitalisation (qualitative)			
Customers	**Resilience – Savings** in poorest quintile; people with <£50	**Capability**: what advice sought from whom? (qual)	**Capability:** consumer spending	**Health:** mental health linked to financial worries
	Resilience: Av. household debt in lowest quintile	Number of **people in problem debt**	Number of **IVAs**	**Debt payments being made** – level, type
Products demand in lowest quintile	**High Cost credit applications rejected**	**Responsible lender applications rejected**	**Types of credit and advice sought**	**What people are borrowing for**
BAME and regions	**Regions:** regional trends		**BAME:** specific developments from data	

You can use your regular data on operational and financial performance and your customers and market. You may want to supplement this with local or national data - some quantifiable and some may be qualitative. You may want to add a survey of your customers.

In a rapidly changing environment, a single set of quantitative data has limitations. Frequently there is a time lag - public statistics and surveys show a snapshot of the past not the present. Longitudinal time series showing trends - and providing perspective - can be informative. Technology is enabling more real-time analytics, with open banking enabling analysis of consumer behaviours.

Scenario planning will also unlock another source of real-time data and foresight in your organisation - your people. They will spot when their customers are changing behaviour or see new competitor activity. They will know what is happening in the business and the market from their conversations. They will spot articles or research that is relevant. They will be the first to spot issues and risks eg early warnings of bad debt or

[2] Sources we drew upon included Bank of Engand reports, ONS surveys and data, our own surveys, and work by Carnegie/Salford, Resolution Foundation and by Standard Life Foundation as well as anecdotal evidence from discussion with stakeholders

reduced quality of applications. Tapping into these can give you valuable insight - and enabling people to share information and to capture this will give you a 360-degree view.

This is where we realise the full benefits of scenario planning - because people have tuned their brains into a set of 'alternative futures', they are better able to spot what is happening. And by harnessing the collective insight of our teams, the whole organisation acts with greater foresight.

Step Eight - Where are we now and where are we heading?

Is there any data which would trigger the activation of your contingency plans or signpost that you have moved from one scenario to another?

How often should you update your dashboard, and your board review it?

How can all your people use your data, insights and future scenarios to bring foresight to their work and feedback and share their own insights?

Gathering insight and data can enable you to take a view on how your future scenarios may be coming to life - what glimpses of the future do they show, what tips of the iceberg may be appearing?

Scenarios are not predictions but a tool for envisioning different futures. The reality may be very different. Real life may chart a middle course between two scenarios or meander between them. It is possible to have elements of more than one scenario at any one time – reality will probably be a combination. It is also possible that different parts of the country will experience different scenarios at the same time.

Bringing together your scenario planning with your data and insights can enable you to take a view on where we are now and where we may be heading. If It shows a clear pattern, this may need to be the prompt to trigger particular contingency plans or options you have identified.

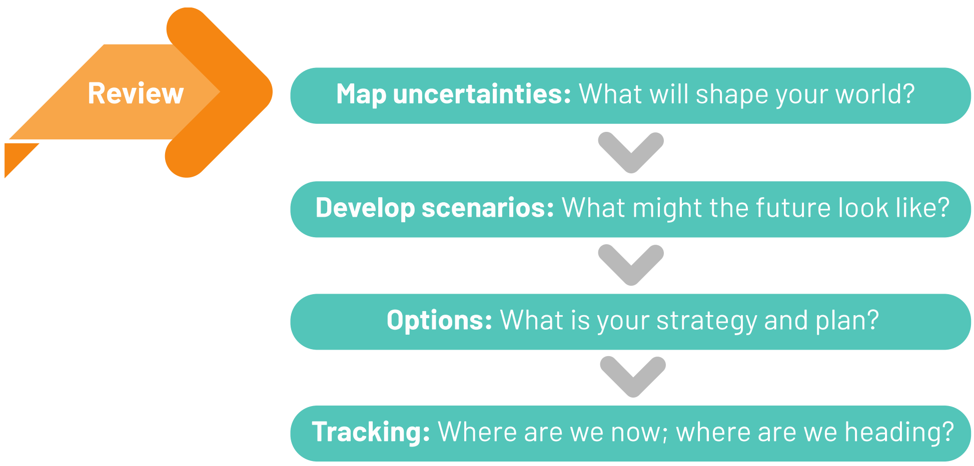
Key questions to ask regularly with your people, board and stakeholders are

- What elements of our scenarios are we seeing now?
- Where do we think this takes us next?
- What's our response - what plans need to be activated, accelerated, paused, or ramped up? Or what change would trigger us to do so?

Review

Finally, regularly review the external environment – retracing your steps to test the assumptions and elements of your scenario planning and making any tweaks or modifications to scenarios and actions plans.

Does anything change the validity of our transformational strategy? Or does it change the path we take to get there?



Part Two – How we can work together to grow community finance

In Part Two of this guide we look at

- What we'll do at Fair4All Finance to scale grow community finance and where we will focus our resources
- What you can do in the community finance sector – and many of you are already doing – to support your own sustainable growth
- How we can work together to scale the provision of affordable credit

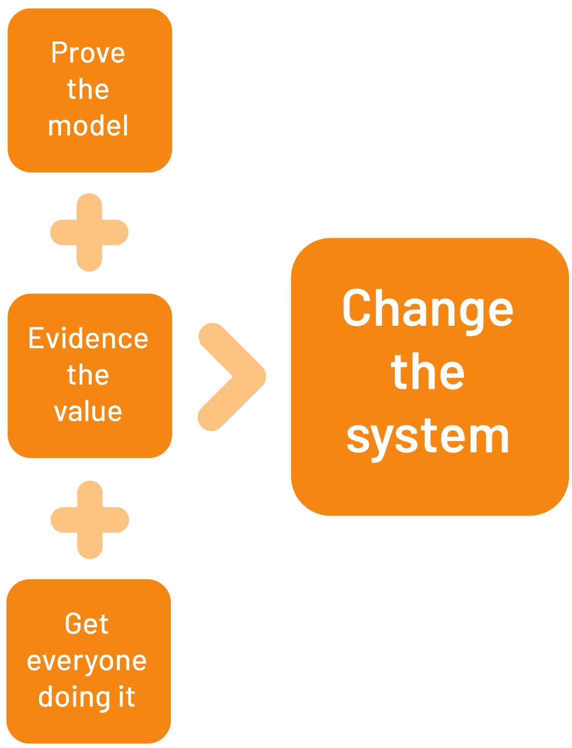
Fair4All Finance – our role

Fair4All Finance is here to increase the financial resilience and wellbeing of people in vulnerable circumstances through improving availability of fair and accessible financial products and services.

Our job is to work with the whole financial services sector to understand how to serve people well when they are in vulnerable circumstances

To ensure that well designed products and services are available at scale, that people are aware of the choices and that financial services organisations are able to develop sustainable business models to enable them to serve this customer group.

All our work is focused on changing the system for the better - to achieve sustainable, transformational results.



Our strategic prorities

As a result of our own scenario planning work and discussions with many of you, we have identified **three strategic priorities** - the areas where we'll focus our time and efforts.

1 **Expand the provision of affordable credit** through a scaled community finance sector – setting best practice standards on the way

2 **Partner with banks and financial services providers** to support the delivery of products and services for customers in vulnerable circumstances

3 **New product and market development** - develop and scale financial products and services to address market gaps

Deliver capital in the form of
- Equity
- Debt
- Grants

Develop growth capability in sector including leadership, marketing, operational excellence and technology

Develop routes to market for affordable credit through communities, workplace and housing associations

Our priorities for community finance

Our strategic aim for community finance is to expand the provision of **affordable credit** through a scaled community finance sector - setting best practice standards along the way.

There are three main areas - priorities for our investment and action - where we believe we can make the biggest difference working with you

1 Capital
2 Growth capability
3 Routes to market

Through each of these areas our role is to empower you, the community finance sector, to grow - inspiring the confidence to change, investing in sustainable scale-up, connecting organisations and collaborators and sharing know-how and insights.

To achieve this, we have three strategic goals for our work with community finance:

- **Scale** - our goal for 2025 is for the provision of affordable credit to be approaching ten times higher than its current level, providing £2 billion of new finance to 3 million customers in vulnerable circumstances
- **Sustainability** - everything we do will have sustainability in mind – building future capacity and capability and implementing systemic change that will ensure a vibrant, commercially viable community finance sector long after our investment and activities cease
- **Meeting customer needs** - Fair4All Finance was established to impact people in financially vulnerable circumstances, not individual credit providers. We will look at things from the customer perspective – what are their needs and demands, how do they access advice and products and what products and services do they need

To achieve sustainable change at scale will also call for a particular focus on transformation through

- **Collaboration** - sharing services, costs and ideas within the sector and with other organisations and finance providers including mainstream lenders
- **Consolidation** - creating organisations with scale through mergers or acquisitions
- **Best practice** - sharing knowledge and ideas across the sector

How we can work together to grow community finance

For each of the three priority areas we have identified some issues we all need to tackle - the actions Fair4All Finance will take, including where we will make investment, encourage collaboration and share good practice and some ideas that you may be able to apply in your organisation, or you may already be doing.

We will provide grant funding only where it will support the development and piloting of tools and approaches that can create value for wider system change across community finance providers. And only to organisations we believe have a sustainable business model.

Priority One - Capital

What are the issues and opportunities?

- **Cost** - CDFIs and alternative community finance providers are unable to access long-term debt at low rates. CDFIs typically access social investment at 6.5-10% interest, a significant cost of finance. As problematic is the short-term nature of this investment - typically 1-3 years
- **Scale** - the volume of capital for the community finance sector is limited and won't support our 10x scale-up aim as it restricts lending capacity for providers
- **Risk and regulatory requirements** - for credit unions, the issue may be more about how to lend more capital from members' deposits, in ways that manage risk and meet capital adequacy requirements

What Fair4All Finance will do next

- **Launch a significant Debt Fund** with mainstream finance funding commitments. This will provide low-cost, long-term debt finance for community finance providers to increase their lending capacity
- **Capacity building** through our expanded Affordable Credit Scale Up programme and Covid-19 Resilience Fund. We will invest patient capital to strengthen balance sheets and enable organisations to scale their lending by leveraging commercial debt. We will also develop sector capacity to lend at scale and improved efficiency to reduce retail cost per loan. We are also planning a programme for smaller credit unions later in 2021

2021	2021-2023	2023-2025
Debt Fund - publish fund prospectus and secure investment from mainstream lenders. Initial loans agreed.	Ongoing evaluation of fund, with **common impact reporting framework established**.	Draw on expertise of first debt fund to develop **further sources of affordable and appropriate investment**, widening mainstream investors.

For providers

How can you ensure a robust, resilient, appropriately capitalised balance sheet?

- Product and customer diversification, bad debt management, improved efficiency and external finance can all play a part in building resilience in your balance sheet
- If you want to support more customers in vulnerable circumstances, and need to strengthen resilience against bad debt, can you diversify your lending to lower risk groups as well?
- For credit unions with significant surplus capital from savers' deposits, can you increase lending to generate further income for members, reduce the unit cost of making a loan and serve more customers in vulnerable circumstances?
- The new PRA capital regime helps to remove barriers to growth for credit unions, by removing 'cliff edge' capital requirements. If you want to scale up lending, long-term equity-like subordinated debt may provide the increased regulatory capital

Do you need more low-cost capital to enable you to lend more (including to those in vulnerable circumstances)?

- Do you need equity to strengthen your balance sheet and enable access to lower cost debt finance? If you are a credit union looking to increase lending capacity, how can you increase savings deposits?
- Is there scope to pool capital with other community finance providers? Could you pilot this, testing practical and regulatory processes?

Have you reviewed how you manage your relationship with investors?

- What can you do to improve transparency, and build trust? Do they have the same information as your board? Regulatory reporting requirements for credit unions also provide a model for transparency

Priority Two – Growth capability

What are the issues and opportunities?

- **Shared services and consolidation** – a sustainable community finance sector will bring together resources from across the diverse range of providers to create economics of scale in operations and the pursuit of long-term funding
- **Operational excellence** - lack of investment and skills in systems and technology is impacting efficiency, decisioning and ability to attract customers through digital channels. In our recent technology survey, funding and capability were seen by community finance organisations as the biggest barriers to optimising use of technology. Efficiencies can be created through strategic technology investment
- **Leadership and talent** - there are some inspiring leaders in the sector - scaling up affordable credit means attracting even more talent to leadership roles and strengthening non-executive support
- **Customer insight and product design** – further drawing on insights from a range of partners, such as front-line charities and debt advice organisations, products can be tailored to specific vulnerability needs. For example, the credit approach for those with a long-term illness and on universal credit might necessarily be different to someone who has been in full time employment but has just experienced an expenditure shock

What Fair4All Finance will do next

- **Work with providers who are seeking to consolidate or develop shared services** to work towards delivery models which reduce cost to serve and increase efficiency
- **Develop a technology toolkit** to help lenders use technology to support their business goals, enhancing their digital customer journeys and increasing the level of automation and efficiency in back-office delivery
- **Launch high-growth capability tools and programmes** including a Talent Bank to provide a source of people with great skills and experience for executive and non-executive roles, a Leadership Development Programme and toolkits for tailored product design
- **Impact reporting and lending analytics** - developing best-in-class frameworks to support board decision making, to demonstrate the powerful impact of community finance provision and to drive operational improvements

2021	2021-2023	2023-2025
Next stage **Scale Up Programme** investments announced. **Technology toolkit** and initial customer and product insights published. **Consolidation plans supported**.	**Operating models** developed with providers. **Talent bank and leadership development programme** launched.	**Future institutional models developed** – identifying organisation structures and legal forms needed to support growth.

For providers

Can technology support your growth?

- 95% of community finance businesses in the Fair4All Finance technology survey expect to substantially increase their use of technology in the next five years and 73% said technology would be pivotal to their success as a business. Only 50% have an up-to-date strategy for achieving this. Do you need to take action to put yourself in control of your technology evolution and budget?
- In early 2021 Fair4All Finance will be launching a technology toolkit that will help you navigate the world of technology in community finance, giving you insight into the technology supplier market and frameworks you can use to shape your technology future

What skills and leadership do you need for sustainable growth?

- Do you have the capacity (time) and capability (your leadership team and other advisers) to develop your plans for sustainable growth, as opposed to 'business as usual'
- What additional skills and capability do you need in your team to achieve your goals and meet future challenges? Do you have the skills you need in areas such as finance, digital, marketing, operations, risk and product design? How can you develop skills, access expertise and do you need to create any new roles?

Is your governance geared for transformation?

- Does your board have the right balance of skills and experience, aligned to your values, to support your growth? Does your board focus on the right things (eg strategy, capability and risk) or do they get too involved in detailed operations?
- Does the board have the right information? How can you improve the information you and your board use to assess performance and risk and support decision making?
- Impact reporting: Fair4All Finance is currently developing a framework to help community finance providers to analyse their impact in a more standardised way. This should be available for you to use in early 2021
- Information and analysis on how your loan book is performing can support better risk assessment and enable growth in lending. Can you learn from mainstream or business CDFI approaches to lending analytics? Can an IT provider offer an effective solution?

Priority Three – Routes to market

As well as creating extra capacity in the affordable market, we must make sure people know it's there.

What are the issues and opportunities?

- **Accessibility** - research by the Carnegie Trust UK suggests that most scale-up growth is likely to come through remote (digital + phone) lending channels. This will be more important as COVID-19 creates additional finance needs among younger people. Recent research showed 1 In 5 of those struggling to make ends meet want to know where they can get help [3]
- **Visibility and awareness** - the FCA has shown that a key factor in people taking out high-cost credit is lack of awareness of other options. This will be more acute for those newly impacted by COVID-19. Affordable providers spend less than a third on marketing compared to high-cost credit
- **Housing associations, workplaces and 'bricks and mortar'** - premises in communities can increase access and awareness. Best practice models are needed to make this widespread and may also help to demonstrate to housing associations and employers the validity of community finance and credit as appropriate solutions for those in vulnerable circumstances
- **Products and services** - a variety of products, and advisory services, are needed to build financial resilience, from no interest loans for those in greatest need, finance for specific purchases like household goods or home improvement, to insurance and savings to prepare for future events

What Fair4All Finance will do next

- **Develop models of employer and housing association engagement** that can be replicated elsewhere, building on work in the Scale Up programme pilots
- **Place** - we will work with others to maintain up-to-date data on geographic supply and demand, identifying areas most in need, and explore how a 'hub and spoke' model can best support premises embedded in these communities
- We will develop customer insights and share these to promote **development of customer routes to market and identify customer needs which could be met with new products.** We will explore ideas and analysis around a digital platform or app that could help people navigate the market and increase access to appropriate advice and services. We have committed to support new product pilots (including no interest loans and consolidation loans), plus gaps in the market with fair and affordable alternatives and develop savings and insurance products

2021	2021-2023	2023-2025
Develop brand awareness, market and customer insights which will support development of routes to market and branding. **Assess whether some form of digital aggregator**, bringing together advice and finance, is needed to enable customers to navigate the market.	Build on Scale Up pilot projects on housing association and employer models to develop **best practice toolkits** for providers, housing associations and employers to work together.	**Build on a consolidated national provision** to ensure accessible and appropriate provision in areas of particular need.

[3] 'Covid-19 and the low paid: Early analysis of Labour Force Survey' by Institute for Employment Studies, July 2020

For providers

How can you make sure customers, including people in newly vulnerable circumstances, know how you can help?

- Can digital, bricks and mortar or partnership approaches help to better reach your potential customers?

What do your customers want and need?

- Do you have the consumer insights you need to best provide what your customers need, in the ways they want to access them? What additional customer research would help you, and how can you use national customer insight being developed by Fair4All Finance?
- What new products does your insight suggest you need? Options could be around a no interest loans proposition, revolving credit, consolidation loans or loans linked to specific essential purchases

How could you work with employers or housing associations in your community?

- Partnerships with employers and social housing have enabled Leeds Credit Union to become one of the largest credit unions in Britain. We are working with Leeds to develop an employer partner toolkit to increase the reach and penetration of credit unions' links with employers
- Our Affordable Credit Scale Up Pilot Programme is supporting research into lending connected to payroll deductions and benefits payments. Could this help you?

Joining up - creating a sector that is greater than the sum of its parts

A successful scaled-up community finance sector, which can meet customer needs and disrupt less principled providers, needs to work together and with others.

Collaboration - achieving efficiency and effectiveness improvements through close working with other providers, including shared services with others in the sector and partnership with mainstream lenders and even some high-cost providers (such as home collection). This can include shared technology platforms, finance systems, shared call centers, joint procurement, common products, marketing, agreeing geographical distribution of operation and shared delinquency management functions. Collaboration can also include partnerships with charities (such as housing associations), employers and public services.

Sharing best practice - community finance providers share a common purpose, have scope to grow their market without competing and lack resource to invest in significant innovation. This means it is essential that knowledge and ideas are fully shared and good practice can be adopted by everyone across the sector. We will share all our analysis and research with everyone in the sector and develop toolkits that everyone can use. When we invest in providers we will make transferable knowledge and toolkits part of the output. We are also kicking off a series of 'think-ins' for the community finance sector, to create a community of practice and mutual support.

A model for consolidation

There is a paradox in the supply of small amounts of unsecured credit: lending small amounts of credit needs to be at scale to have a sustainable business model and yet small and local is often how you get deep reach into the most underserved communities. How do we get the best of both worlds?

Both larger regional and smaller local providers are essential to achieving scaled community finance provision that can serve diverse customer needs We know a one size fits all approach doesn't work so we will be working with the sector to develop a 'hub and spoke' concept - a way to leverage the back office systems and processes of scale whilst retaining local delivery and community engagement.

While not for every organisation, there will be cases where a desire to scale or operational necessity mean that consolidation is an appropriate solution. This is at an early stage of thinking and we'd welcome providers who would be interested to work with us on its development.

Consolidation of organisations can take the form of merger of providers to create a larger and more diverse loan book or the consolidation of specific functions (shared marketing, financial system, HR or debt collection). In places, consolidation could play a significant part in financial sustainability by reducing cost variables

- **Cost of service** - with economies of scale in back office, middle management and head office costs
- **Cost of capital** - efficiencies leading to greater profitability reduce the risk, and therefore price, of capital
- **Cost of bad debt** - with more diverse portfolio and / or more efficient debt management and collection practices
- **Cost of customer acquisition** - with common product design and marketing

For providers

Have you considered merger or consolidation to strengthen your resilience?

- What feasibility analysis is required to go about a potential consolidation decision?

How can collective action enable transformation?

- Collective buying power: Are there significant areas of spend where shared procurement with other organisations would give you more clout?
- What do you do best - and what do others do best? What assets, systems or capability can you provide to others or would you benefit from accessing?
- Could you support others as a regional hub or benefit as a regional spoke? Would you take part in a pilot?

What other types of collaboration would support your plans?

- Who else might you collaborate with to improve your efficiency, accessibility or services? – for example in mainstream finance, suppliers or other industries or organisations?
- What expertise or experience can you share with others?

Partnership with others

We can only achieve our strategic aim of a scaled community finance sector by working in partnership with the sector. We also want to work with a wider group of organisations and stakeholders who all have an important role to play in this transformation.

We will work directly with any providers who subscribe to the Affordable Credit Sector Theory of Change, sign up to the Affordable Credit Code of Practice and have the ambition and potential to make a significant difference. That can include established providers and new entrants - not-for-profit and for-profit organisations. We are keen to build on the experience of the Pilot Scale Up programme to create a community of practice and a powerful network of transformational leaders.

While we don't have the bandwidth to work with every community finance provider in England, we will share all our best practice tools, ensure that any infrastructure we create is open to all and work with larger players to develop ways of working with smaller organisations to make a sustainable, networked system.

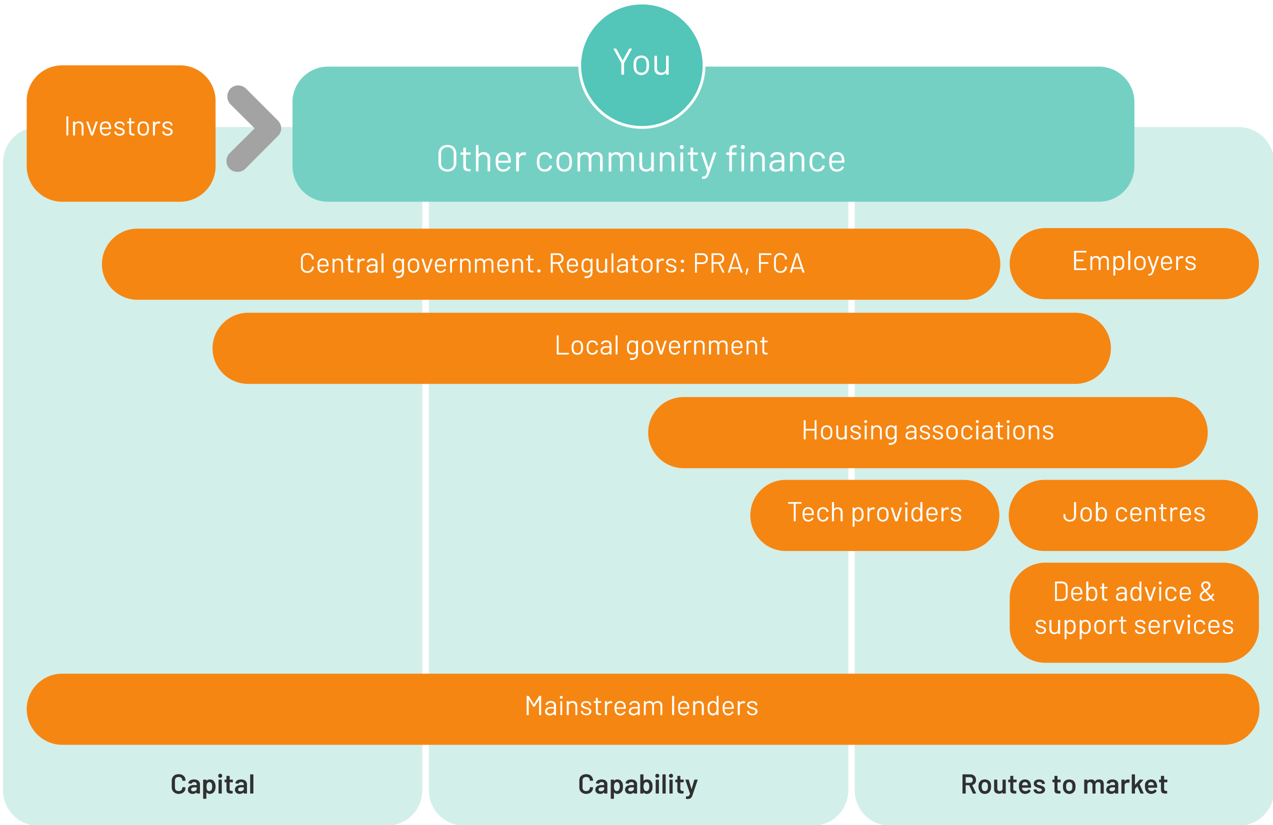
You can play your part in different ways

- Developing and implementing your individual plans for growth
- Joining up with others to support mutual growth – helping others and helping yourself
- Working with us - if you have bold transformational plans, we are keen to hear from you and support your ambitions. And if you have best practice, we are keen to help share and amplify it

The wider ecosystem

Our focus is on increasing the provision of affordable credit for customer in vulnerable circumstances – a broader remit than just helping to grow the community finance sector. We want to engage with all parts of the ecosystem that will enable and sustain this transformation.

We encourage others to get involved and support the transformation of community finance. As a community finance organisation you may want to consider how best to engage with this wider ecosystem.



For providers

Partnership pathways

- What are the areas of mutual interest?
- What are the commercial drivers for the partner which make this worthwhile?
- What can we do to position ourselves to better work with these partners?

Opportunities from our wider strategy

In this document we have focused on growing the provision of affordable credit in the community finance sector. This is one of the three priorities in our refreshed strategy. The other priorities are part of a wider landscape in which we would like to work with the community finance sector

Innovation

We will look at new products, such as No Interest Loan Schemes and consolidation loans, working with organisations on pilot programmes.

We are also looking at filling the gaps emerging in the market as high-cost lenders and rent-to-own providers exit; our market transformation fund will help plug those gaps with fair and affordable alternatives.

We will also develop new programmes to expand savings and insurance products and we will develop market research to better inform product and service design

Partnering with mainstream banks and financial services providers

Banks and financial services providers have perhaps the biggest role in driving financial inclusion and wellbeing for customers in vulnerable circumstances.

We have set out how we want to create partnerships with them, to support customers in the community finance sector, for example through referrals to other providers and partnering to leverage the important physical infrastructure that banks have and the community finance sector needs.

Contact us

If you have any questions, thoughts or ideas on anything we've covered in this guide we'd love to hear from you.

Our team email is hello@fair4allfinance.org.uk. If you'd like to reach a particular member of the team we use firstname@fair4allfinance.org.uk as our email format.

Case studies

Some examples of innovative approaches from community finance organisations

As the world changes, so do the needs of customers in vulnerable circumstances. Through our work with our Scale Up Pilot organisations, and from our engagement with the wider sector as part of our strategy refresh, we've seen lots of great innovations from community finance providers.

We've included some examples of these below and will continue to highlight and share new ideas and approaches as we discover them. We'd love to hear any examples you have from your organisation too. In the meantime, we hope you find these useful inspiration.

Street (UK) Homes home improvement lending

Since 2010 Street (UK) Homes (Street UK) has worked with local authorities to enable low-income homeowners to access affordable credit for essential home improvements, bringing their properties up to the Government's Decent Homes Standard.

This enables homeowners who are unable to access mainstream finance to pay for improvements such as tackling safety hazards and improving energy efficiency.

Local authority Home Improvement Agencies make customer referrals to Street UK, who then manage the mortgage process, drawdown to contractors and administration of the loan.

Products include equity, capital and interest and interest-only loans. Local authorities provide the capital for lending and often work with Street UK to create a fund that recycles loan repayments.

Over ten years, Street UK has helped over 3,500 homeowners invest £31 million in their homes, improving health outcomes and reducing energy costs.

Moneyline product development and partnership

The issue

Moneyline want to extend their product offer, to serve unmet financial resilience needs amongst their customers. But developing new products can be expensive, particularly in terms of ensuing regulatory compliance for new products, product design and delivery.

What they did

- **Customer research** - to identify where their customers are under-served and what they are looking for. For example, they found that 80% of their customers do not have home contents or gadget insurance cover. This means that customers struggle to replace things when something goes wrong, or they often take out a loan to replace it. Customer research showed that this called for insurance with a single price, a single cover amount, no excess, and payment holidays

[continued]

- **Partnering with a mainstream provider** - Moneyline has partnered with mainstream financial providers on a number of projects to develop new products. This enables them to plug into existing processes, expertise and capital
- **Piloting new products in the FCA 'innovation sandbox'** - testing the regulatory issues by offering a pilot product to customers over a six-month period. This was critical in developing the product and enabled them to refine their product design; for example, the claims experience on an insurance pilot identified the need for caps on repeat claims in any year and excluding mobile phones from general cover

Lessons learnt

In working with mainstream providers on a number of projects, Moneyline have learnt:

- **Be ready to go live in the FCA sandbox** - once approved, the FCA expect rapid participation. Work on the assumption that your application will be accepted, with resources in place to go live quickly
- **Prioritise customer needs** - trying to meet all customer needs in the first iteration of a product may introduce too many risk variants for a mainstream partner. Be clear about top customer needs and identify where both parties may need to compromise product design
- **Understand your mainstream partner's internal processes** - make sure you know your partner's internal approvals governance and what matters in these. Share your approaches to risk – a community finance organisation often has more scope to think differently about risk compared to a large mainstream provider – and how you will engage with the corporate risk functions
- **Get business buy-in** - often collaboration discussions may start with Corporate Social Responsibility teams and this needs to be widened out to ensure that there is also senior commercial leadership support for the product

Useful sources of Information

We found the following sources of information helpful in developing our scenario planning and strategy, and in updating our dashboard

Scenario Planning

'Scenario Planning' by Gill Ringland is the definitive guide by the top expert (ISBN 0-470-01881-X)

Introduction to Scenario Planning Video – MIT Center for Transportation and Logistics

Four plausible futures: 2050 scenarios – video from Arup

Economic indicators

Labour market overview, UK - Office for National Statistics (ons.gov.uk)

Labour market in the regions of the UK - Office for National Statistics

Coronavirus and the latest indicators for the UK economy and society - Office for National Statistics (ons.gov.uk)

HMRC Coronavirus Job Retention Scheme statistics (www.gov.uk)

People in employment on zero hours contracts - Office for National Statistics (ons.gov.uk)

Economic forecasts

The Office for Budget Responsibility

Monetary Policy Report - Bank of England

People in vulnerable circumstances

StepChange report 'Tackling the Coronavirus personal debt crisis'

Caught-in-a-Covid-trap.pdf (resolutionfoundation.org)

Spending-and-saving-during-the-COVID-19-crisis-evidence-from-bank-account-data (ifs.org.uk)

Individual Insolvency Statistics Releases - GOV.UK (www.gov.uk)

Coronavirus and depression in adults, Great Britain - Office for National Statistics (ons.gov.uk)

The_impact_ of_COVID-19_on_low-income_households.pdf (employment-studies.co.uk)

How has Covid affected household savings? | Bank of England

Are some ethnic groups more vulnerable to COVID-19 than others? | Inequality: the IFS Deaton Review

Credit market and community finance

Scaling up the UK personal lending CDFI sector: From £20m to £200m in lending by 2027 – report by Community Finance Solutions, University of Salford for the Carnegie UK Trust

'More shoppers turn to Buy Now Pay Later schemes' – survey by Compare the Market

Fear and Loaning - The Impact of Covid-19 on affordable credit providers serving financially vulnerable customers (carnegieuktrust.org.uk)

Banks and card issuers commit to ongoing support for consumer credit customers | UK Finance